

MRCB *Quill* REIT



ANNUAL REPORT
2019



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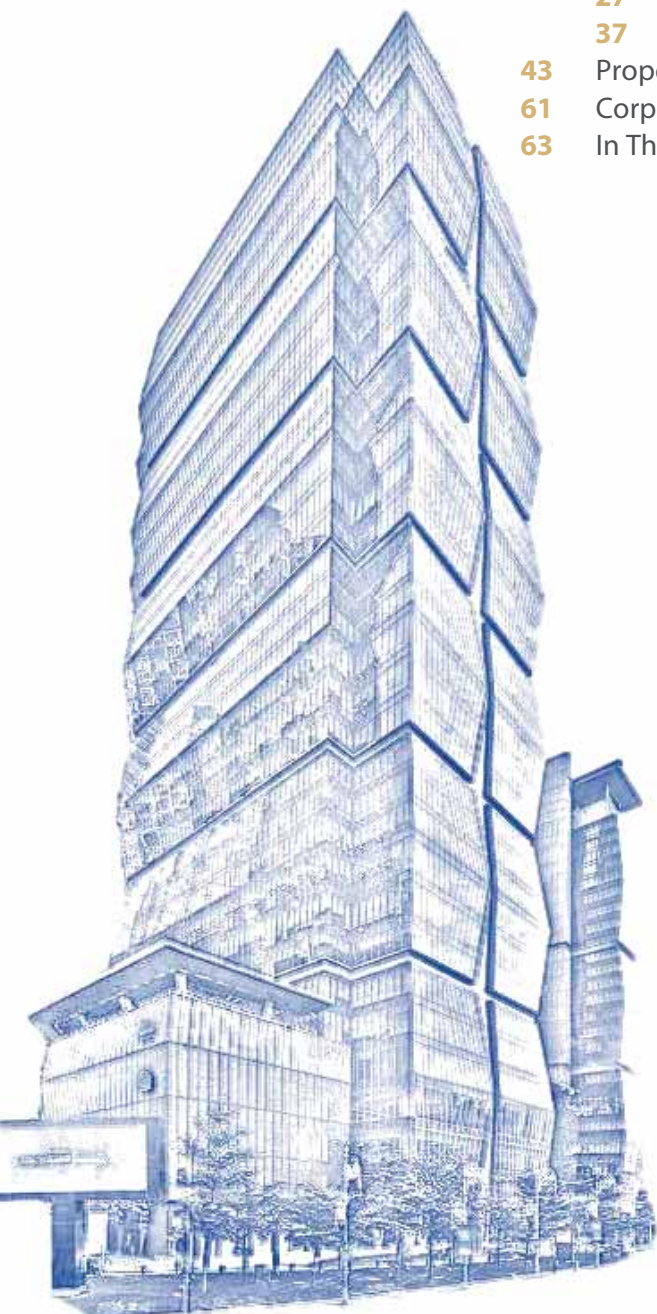
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CORPORATE INFORMATION

MANAGER

MRCB Quill Management Sdn. Bhd.
Company No. 200601017500 (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 0098

BOARD OF DIRECTORS OF THE MANAGER

Non-Independent Non-Executive Directors

Tan Sri Saw Choo Boon (*Chairman*)
Dato' Dr. Low Moi Ing, J.P.
Dato' Michael Ong Leng Chun
Ann Wan Tee
Kwan Joon Hoe

Independent Non-Executive Directors

Datuk Dr. Roslan Bin A. Ghaffar
Datuk Kamalul Arifin Bin Othman
Foong Soo Hah

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

Boardroom Share Registrars Sdn. Bhd.
(Formerly known as Symphony Share
Registrars Sdn. Bhd.)
11th Floor, Menara Symphony,
No. 5, Jalan Prof. Khoo Kay Kim,
Seksyen 13 46200 Petaling Jaya,
Selangor Darul Ehsan, Malaysia.

Telephone No. : 603-7890 4700
Facsimile No. : 603-7890 4670

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 Restated Deed of Trust dated 2 December 2019; 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 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 net asset value per unit of MQREIT
Distribution Policy	Semi-annual distribution
Manager's Fee	<ul style="list-style-type: none"> • Base fee: 0.4% per annum of the total asset value ("TAV") • 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 TAV and 0.02% per annum on the TAV 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

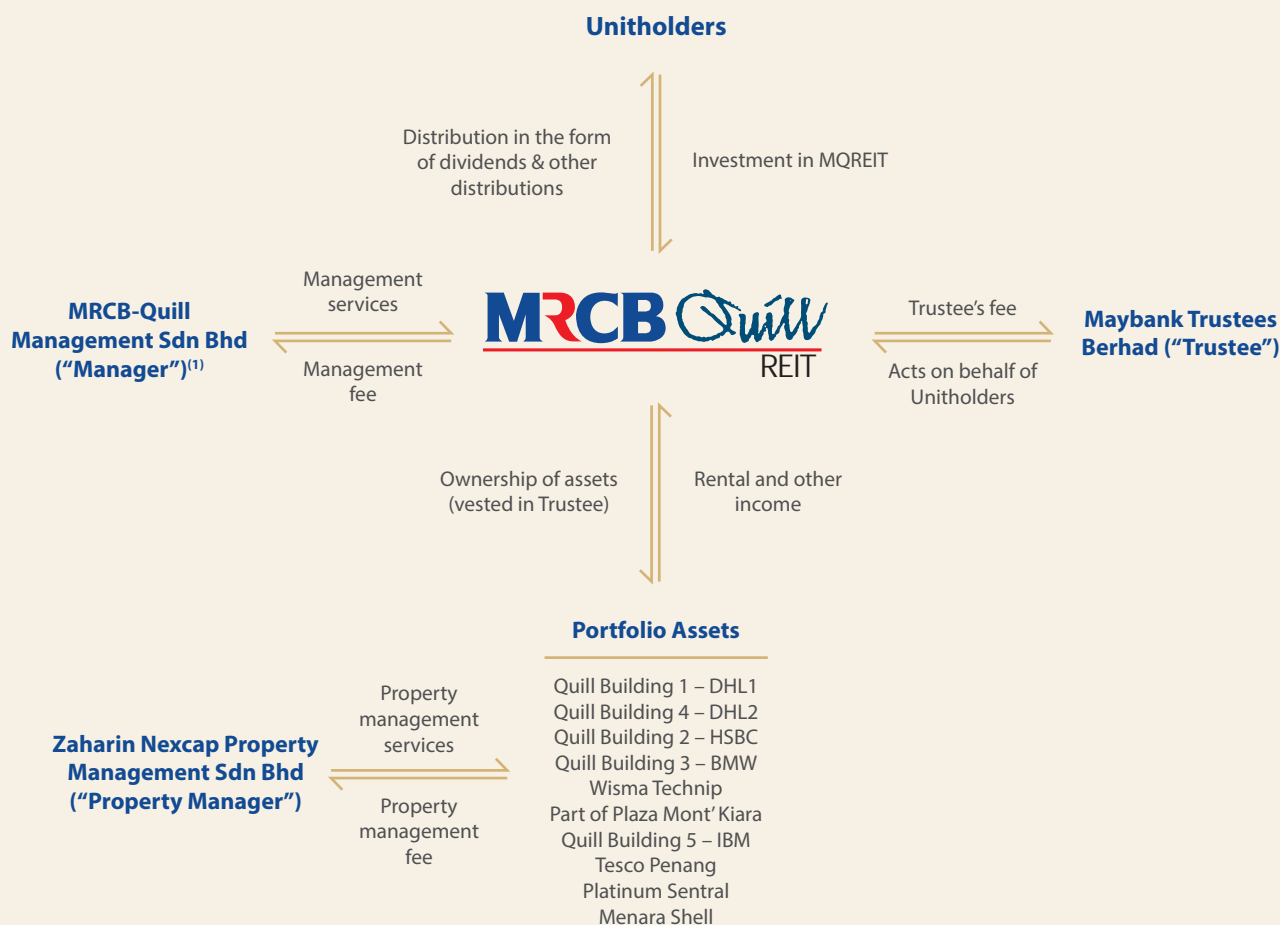
TRUST STRUCTURE

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

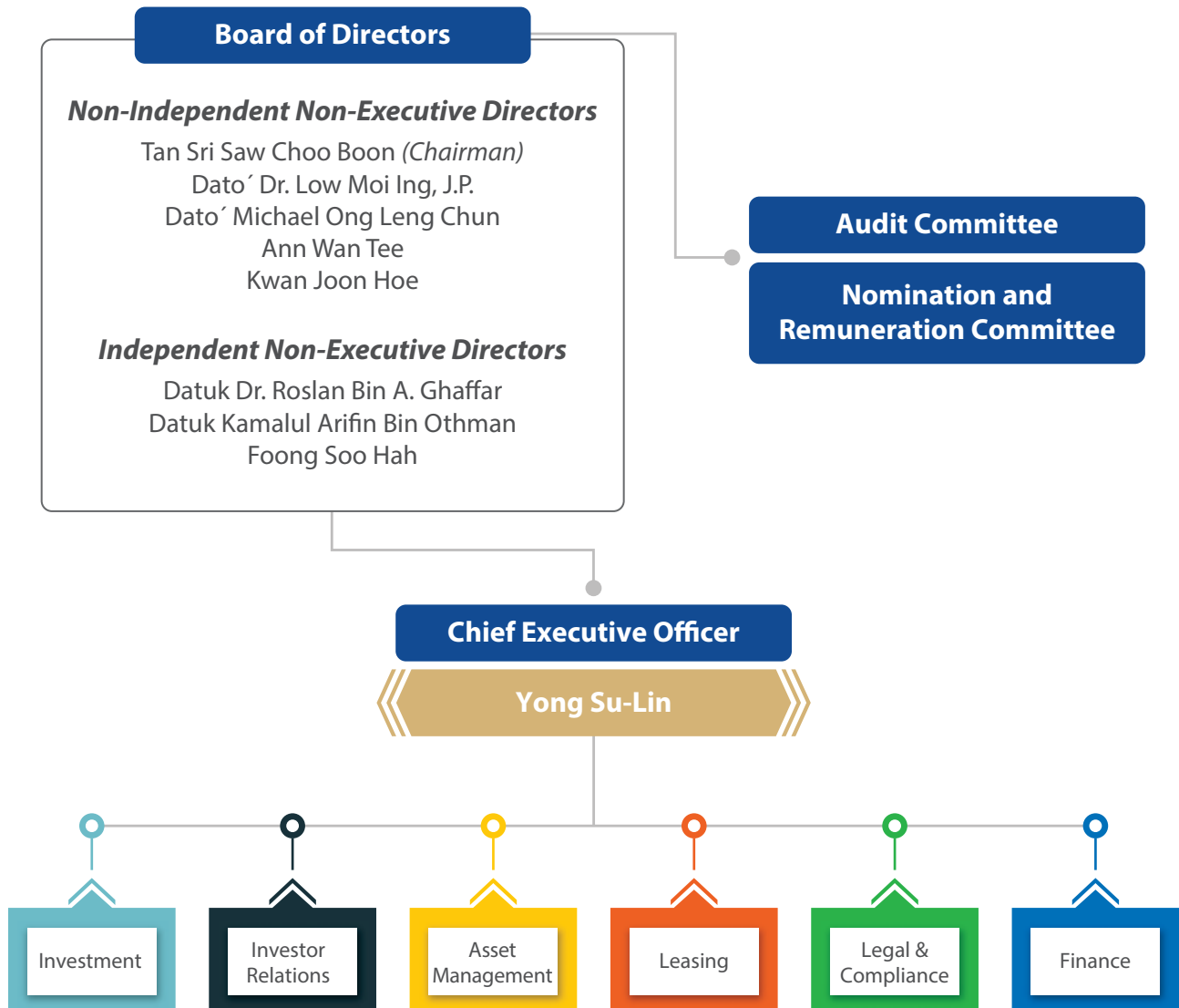
To acquire and invest in commercial properties primarily in Malaysia with a view to provide long-term growth and sustainable distribution of income to unitholders to achieve long-term growth in the net asset value ("NAV") per Unit.



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/74/Male

Date Appointed to the Board

22 January 2016

Board Committee Membership

Nil

No. of Board Meetings Attended in 2019

6/6

Academic/Professional Qualification/Professional Membership

Bachelor of Science (Chemistry), University of Malaya (1969)

Present Directorships

- 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 MD of Shell MDS (Malaysia) Sendirian Berhad.

From 1998 until 1999, he was MD for Oil Products (Downstream) Shell Malaysia and MD of Shell Refining Company (Federation of Malaya) Berhad. In 1999, with the globalisation of the Shell Oil Products business, he was appointed the Vice President (VP) of the commercial business in the Asia-Pacific region and in 2004 he became the President of Shell Oil Product East. In 2005, he was appointed VP Global Marine Products. On 18 May 2006, he was appointed as Chairman of Shell Malaysia, and on 1 January 2010 as Senior Advisor, positions he held till his retirement on 30 June 2010.



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

Non-Independent Non-Executive Director

Nationality/Age/Gender

Malaysian/59/Female

Date Appointed to the Board

12 June 2006

Board Committee Membership

Member of the Audit Committee

No. of Board Meetings Attended in 2019

5/6

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 Directorships

Quill Group of Companies ("Quill Group")

Working Experience:

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

Dato' Dr Low is a director and substantial shareholder of Quill Land Sdn Bhd ("QLSB") and Quill Resources Holding Sdn Bhd ("QRHSB"). QLSB 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/64/Male

Date Appointed to the Board

12 June 2006

Board Committee Membership

Nil

No. of Board Meetings Attended in 2019

6/6

Academic/Professional Qualification/Professional Membership

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

Present Directorships

Quill Group

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 QLSB and QRHSB. QLSB and QRHSB collectively hold substantial units in MQREIT and QRHSB is a substantial shareholder of MQM.



ANN WAN TEE

Non-Independent Non-Executive Director

Nationality/Age/Gender

Malaysian/49/Male

Date Appointed to the Board

31 March 2015

Board Committee Membership

Member of the Audit Committee

No. of Board Meetings Attended in 2019

6/6

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 Directorships

- MRCB Southern Link Berhad
- MRCB Group of Companies

Working Experience:

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

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

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

PROFILE OF DIRECTORS OF THE MANAGER

(cont'd)



KWAN JOON HOE

Non-Independent Non-Executive Director

Nationality/Age/Gender

Malaysian/38/Male

Date Appointed to the Board

31 March 2015

Board Committee Membership

Nil

No. of Board Meetings Attended in 2019

6/6

Academic/Professional Qualification/Professional Membership

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

Present Directorships

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 MRCB Groups' 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 Gapurna'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.



DATUK DR. ROSLAN A. GHAFAR

Independent Non-Executive Director

Nationality/Age/Gender

Malaysian/68/Male

Date Appointed to the Board

16 June 2015

Board Committee Membership

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

No. of Board Meetings Attended in 2019

6/6

Academic/Professional Qualification/Professional Membership

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

Present Directorships

- Box-Pak (Malaysia) Berhad
- Priceworth International Berhad
- Straits International Education Group
- Kwasa Land Sdn Bhd
- Mieco Chipboard Berhad

Working Experience:

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

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

PROFILE OF DIRECTORS OF THE MANAGER

(cont'd)



DATUK KAMALUL ARIFIN BIN OTHMAN
Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/60/Male

Date Appointed to the Board
8 March 2019

Board Committee Membership

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

No. of Board Meetings Attended in 2019
5/5

Academic/Professional Qualification/Professional Membership

- Bachelor of Estate Management (Honours) from Universiti Teknologi MARA
- Masters degree in Business Administration from Ohio University, Athens, United States of America
- Fellow of the Royal Institution of Chartered Surveyors, United Kingdom
- Fellow of the Royal Institution of Surveyors Malaysia
- Leadership education at the Wharton School of the University of Pennsylvania, Harvard University and the SAID Business School, University of Oxford

Present Directorships

- Perbadanan PR1MA Malaysia
- UiTM Holdings Sdn Bhd
- Penang Sentral Sdn Bhd
- Kingsley Advisory & Strategic Initiatives Sdn Bhd

Other Memberships/Appointments/Involvements
Property Advisor with Perbadanan Usahawan Nasional Berhad

Working Experience:
Datuk Kamalul Arifin is a Chartered Surveyor by training with more than 30 years of experience in the real estate sector. He was the Group Managing Director/Chief Executive Officer of Pelaburan Hartanah Berhad since its inception in 2006 until 2018.

He started his career in 1985 with Rahim & Co. Chartered Surveyors Sdn Bhd before moving on to Permodalan Nasional Berhad in 1988. He then joined Arab-Malaysian Merchant Bank Berhad (now Ambank Group) in 1991 and remained with the Group for 16 years with his last position as the Chief Executive Officer of AmProperty Trust Management Berhad which managed the first listed property trust in the country.

Datuk Kamalul Arifin is the first President of the Malaysian Institute of Property and Facility Managers and was also an Adjunct Professor with the Faculty of Built Environment, University of Malaya. He has participated in many conferences as Speaker and Moderator and has written various articles related to the property industry for professional journals and publications.



FOONG SOO HAH
Independent Non-Executive Director

Nationality/Age/Gender
Malaysian/70/Male

Date Appointed to the Board
11 April 2013

No. of Board Meetings Attended in 2019
6/6

Board Committee Membership

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

Academic/Professional Qualification/Professional Membership

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

Present Directorships

- 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.

ADDITIONAL INFORMATION:

1. Save as disclosed, none of the Directors have any family relationship with any Directors 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



Seated from left to right :

Stephanie Tang Pit Yen
Yong Su-Lin
Joyce Loh Mun Ching

General Manager, Investment and Asset Management
Chief Executive Officer
General Manager, Investment and Investor Relations

Standing from left to right :

Chan Fong Hin
Alice Yap Soh Ping
Jean Wong Wen Looi
Christie Pun Nyuk Len
Shirley Tam Soot Lee
Tracy Wong
Phuah Ngah Yuin
Leong Foong Yin
Alex Low Kam Seng

General Manager, Asset Management
Manager, Lease Administration
Manager, Legal
Senior Manager, Lease Administration
General Manager, Finance
Senior Executive, Finance
Senior Executive, Finance
Senior Executive, Finance
Manager, Asset Management

THE MANAGEMENT TEAM OF THE MANAGER

(cont'd)

YONG SU-LIN

46 years old, Female
Chief Executive Officer
Malaysian

Date of appointment as Chief Executive Officer:

9 July 2015

Length of service as CEO:

4 year and 7 months

Academic/Professional Qualification/Professional Membership:

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

Present Directorship:

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 2019, she holds 3,000 MQREIT units.

MANAGEMENT DISCUSSION AND ANALYSIS

- FINANCIAL HIGHLIGHTS

Fund Performance	2019	2018	2017	2016	2015
Total Asset Value (RM)	2,213,704,358	2,271,385,292	2,288,392,194	2,297,341,586	1,625,307,072
Net Asset Value ("NAV") (RM)					
- Before income distribution	1,323,489,418	1,372,289,531	1,384,724,570	1,359,698,627	903,854,859
- After income distribution	1,287,370,331	1,331,025,885	1,340,295,770	1,332,251,315	874,952,509
Units in circulation	1,071,783,000	1,071,783,000	1,068,000,000	1,068,000,000	661,381,000
NAV per unit (RM)	1.2348	1.2804	1.2966	1.2988	1.3666
Highest NAV per unit (RM)	1.2801	1.3018	1.3281	1.3758	1.3952
Lowest NAV per unit (RM)	1.2348	1.2612	1.2799	1.2731	1.3136
Highest traded price per unit (RM)	1.12	1.25	1.35	1.36	1.29
Lowest traded price per unit (RM)	0.99	1.00	1.22	1.06	1.01
Distribution Per Unit ("DPU") (sen)	6.80	8.08	8.39	8.38	8.47
- Interim	3.43	4.23	4.23	4.23	1.88
- 2nd Interim	-	-	-	-	2.22
- Final	3.37	3.85	4.16	4.15	4.37
Dates of Distribution					
- Interim	23-Sep-19	19-Sep-18	18-Sep-17	8-Sep-16	15-Apr-15
- 2nd Interim	-	-	-	-	28-Aug-15
- Final	28-Feb-20	28-Feb-19	28-Feb-18	13-Jan-17	29-Feb-16
Effect of Income Distribution on NAV per unit					
- Before Distribution (RM)	1.2348	1.2804	1.2966	1.2988	1.3666
- After Distribution (RM)	1.2011	1.2419	1.2550	1.2731	1.3229
Closing price on the last trading day	1.00	1.06	1.25	1.20	1.08
Distribution yield (per annum) ^(a)	6.80%	7.62%	6.71%	6.98%	7.84%
MER ^(b)	1.06%	1.09%	1.07%	1.33%	1.19%
Average Total Returns				^(e)	
-for 1 year ^{(c)(i)}	5.83%	6.85%	7.14%	4.80%	7.19%
-3 financial years ^{(c)(ii)}	19.83%	18.80%	19.14%	20.29%	23.88%
-5 financial years ^{(c)(iii)}	31.82%	34.28%	35.82%	37.05%	40.58%
Annual Total Returns ^(d) (RM)	72,107,547	84,653,758	88,006,515	59,155,963	54,020,625
Proposed final income distribution	36,119,087	41,263,646	44,428,800	27,447,312	28,902,350

(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 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 2019 divided by the weighted average unitholders capital for the financial year ended 2019.
- (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 Menara 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 2019, MQREIT's investment comprised ten (10) commercial buildings with five (5) located in Cyberjaya, four (4) in Kuala Lumpur and one (1) in Penang. The details of MQREIT's properties are as follows.



QUILL BUILDING 1 – DHL 1

- 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, 17 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 feet ("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 2019 : RM133,300,000*
- Name of Valuer : Knight Frank Malaysia Sdn. Bhd.
- Occupancy as at 31 December 2019 : 100%
- Tenant : DHL Information Services (Asia-Pacific) Sdn. Bhd.
- Tenancy Period : 5+5 years from 1 January 2016
- Trade Sector Analysis :
 - By Percentage of Occupied 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 : RM676,783

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 RM133,300,000.

MANAGEMENT DISCUSSION AND ANALYSIS

- PORTFOLIO OVERVIEW

(cont'd)



QUILL BUILDING 4 – DHL 2

- 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, 13 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 2019 : RM133,300,000*
- Name of Valuer : Knight Frank Malaysia Sdn. Bhd.
- Occupancy as at 31 December 2019 : 100%
- Tenant : DHL Information Services (Asia-Pacific) Sdn. Bhd.
- Tenancy Period : 5+5 years from 1 January 2016
- Trade Sector Analysis :
 - By Percentage of Occupied 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 : RM739,815

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 RM133,300,000.

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, 16 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 2019 : RM123,000,000
- Name of Valuer : CH Williams Talhar & Wong Sdn. Bhd.
- Occupancy as at 31 December 2019 : 100%
- Tenant : HSBC Electronic Data Processing (Malaysia) Sdn. Bhd.
- Tenancy Period : 5+3+3 years from 10 November 2014
- Trade Sector Analysis :
 - By Percentage of Occupied 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 : RM2,107,310

MANAGEMENT DISCUSSION AND ANALYSIS

- PORTFOLIO OVERVIEW

(cont'd)



QUILL BUILDING 3 – BMW

- 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, 15 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 2019 : RM78,000,000
 - Name of Valuer : CH Williams Talhar & Wong Sdn. Bhd.
 - Occupancy as at 31 December 2019 : 91%
- 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

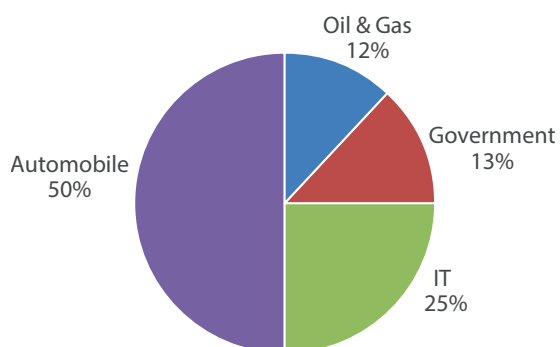
- PORTFOLIO OVERVIEW

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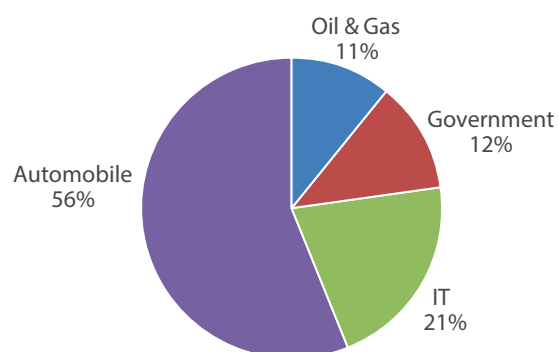


QUILL BUILDING 3 – BMW

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



- By Percentage of Gross Rental



- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM4,712,779

MANAGEMENT DISCUSSION AND ANALYSIS

- PORTFOLIO OVERVIEW

(cont'd)



WISMA TECHNIP

- 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, 26 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 2019 : RM173,200,000
- Name of Valuer : Nawawi Tie Leung Property Consultants Sdn. Bhd.
- Occupancy as at 31 December 2019 : 90%
- Tenants : Technip Geoproduction (M) Sdn. Bhd.
- Tenancy Period : 5+3 years from 1 January 2014 and 1+1 year from 1 November 2019
- Trade Sector Analysis :
 - By Percentage of Occupied 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 : RM4,152,789

MANAGEMENT DISCUSSION AND ANALYSIS

- PORTFOLIO OVERVIEW

(cont'd)



PART OF PLAZA MONT' KIARA

- 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, 17 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 2019 : RM118,500,000
- Name of Valuer : Nawawi Tie Leung Property Consultants Sdn. Bhd.
- Occupancy as at 31 December 2019 : 88%
- 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

MANAGEMENT DISCUSSION AND ANALYSIS

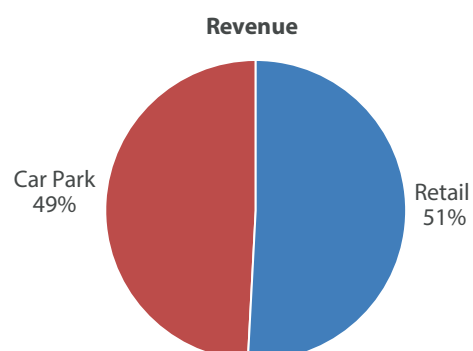
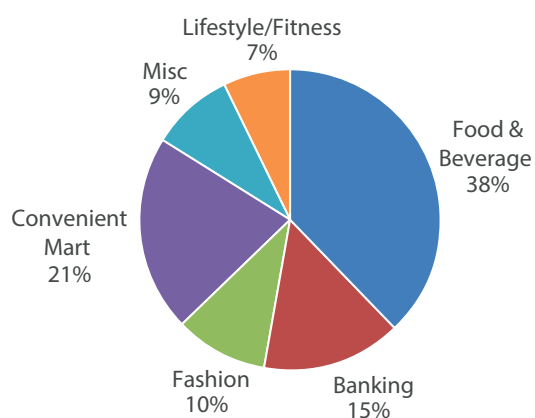
- PORTFOLIO OVERVIEW

(cont'd)



PART OF PLAZA MONT' KIARA

- Trade Sector Analysis :
 - By Percentage of Occupied Net Lettable Area (excluding car parks)
 - By Percentage of Revenue (car park vs retail tenancy)



- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM3,248,020

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, 12 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 : 304 lots
- Date of Acquisition : 14 March 2008
- Acquisition Price : RM43,000,000
- Market Value as at 31 December 2019 : RM40,000,000
- Name of Valuer : Knight Frank Malaysia Sdn. Bhd.
- Occupancy as at 31 December 2019 : Vacant
- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM1,061,016

MANAGEMENT DISCUSSION AND ANALYSIS

- PORTFOLIO OVERVIEW

(cont'd)



TESCO BUILDING, PENANG

- Address / Location : 1, Lebuhraya 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, 15 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 : 1,050 lots
- Date of Acquisition : 7 November 2008
- Acquisition Price : RM132,000,000
- Market Value as at 31 December 2019 : RM140,000,000
- Name of Valuer : CH Williams Talhar & Wong Sdn. Bhd.
- Occupancy as at 31 December 2019 : 100%
- Tenant : Tesco Stores (Malaysia) Sdn. Bhd.
- Tenancy Period : 29 October 2004 to 31 August 2032
- Trade Sector Analysis :
 - By Percentage of Occupied 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 : RM575,262

MANAGEMENT DISCUSSION AND ANALYSIS

- PORTFOLIO OVERVIEW

(cont'd)



PLATINUM SENTRAL

- 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, 8 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 2019 : RM686,000,000
- Name of Valuer : Nawawi Tie Leung Property Consultants Sdn. Bhd.
- Occupancy as at 31 December 2019 : 84%
- 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	:	Platinum KLS Centre (MYS) Sdn Bhd
Tenancy Period	:	9+3 years from 18 July 2019 and 3+3+3 years from 27 Aug 2019
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

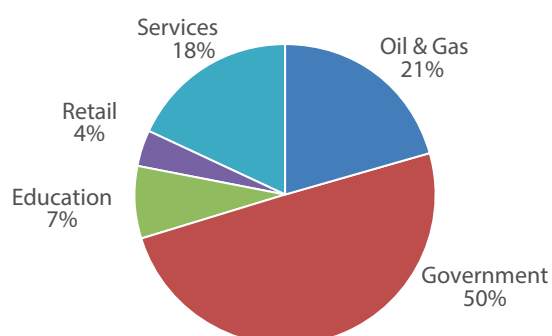
- PORTFOLIO OVERVIEW

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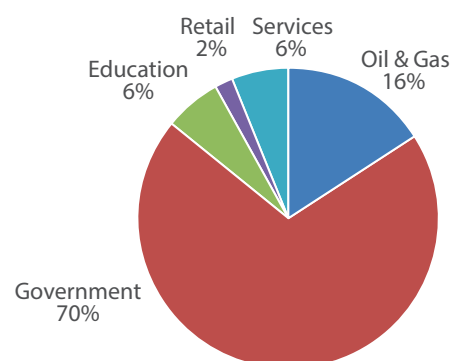


PLATINUM SENTRAL

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



- By Percentage of Gross Rental



- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM9,817,606

MANAGEMENT DISCUSSION AND ANALYSIS

- PORTFOLIO OVERVIEW

(cont'd)



MENARA SHELL

- 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, 6 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 2019 : RM651,000,000
- Name of Valuer : Nawawi Tie Leung Property Consultants Sdn. Bhd.
- Occupancy as at 31 December 2019 : 95%
- 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	: Google Services Malaysia Sdn. Bhd.
Tenancy Period	: 3+3+3+3+3 years from 1 June 2019
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+1 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

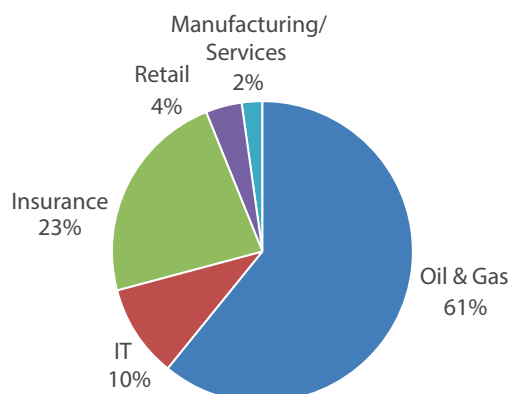
- PORTFOLIO OVERVIEW

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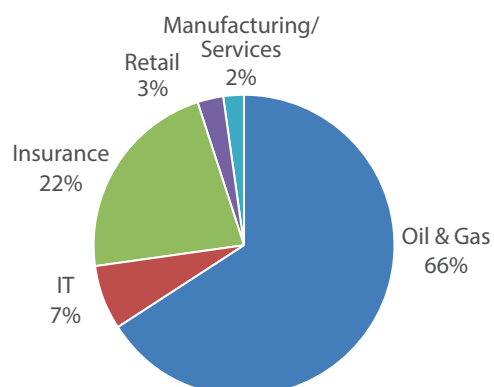


MENARA SHELL

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



- By Percentage of Gross Rental



- Property Manager : Zaharin Nexcap Property Management Sdn. Bhd.
- Maintenance cost and capital expenditure for the year : RM14,283,737

MANAGEMENT DISCUSSION AND ANALYSIS

- OPERATIONAL REVIEW

OVERVIEW – OPERATING ENVIRONMENT

Global growth is anticipated to remain lackluster driven by the on-going trade tensions. The US-China trade war shows few signs of abating and with the recent Wuhan virus outbreak in China, the resulting uncertainties as well as its impact on global business sentiment will continue to weigh in on global growth. According to the International Monetary Fund, global growth is expected to grow at a slower pace of 3.2% in 2019 before improving to 3.5% in 2020. This growth will be supported by the emerging and developing economies. Growth from advanced economies is expected to be at a slower pace save for the US, where growth is projected to be robust in 2019 before slowing down in 2020 due to the winding down of its fiscal stimulus and on-going inward trade policies.

On the domestic front, Malaysia's economic held up well, albeit on a moderated pace. This is due to weaker global demand amidst the protracted trade tension which weighed in on the country's exports. Domestic demand continues to drive Malaysia's growth with more expansionary fiscal spending and an improvement in private investment. Meanwhile private consumption was resilient underpinned by a stable labour market, manageable inflation, reduced borrowing costs, the continuation of government policies and social assistance.

Malaysia has overall recorded stable key macroeconomic numbers for 2019. Although Malaysia's economy growth moderated to 3.6% in the fourth quarter, its annual 2019 gross domestic product ("GDP") growth was 4.3%, which is within the range of Bank Negara Malaysia's ("BNM") target of between 4.3% and 4.8% (2018: 4.7%).

Moving ahead to 2020, the Malaysian economic is expected to rebound marginally to 4.8% p.a. with the anticipation of improvement in global trade activities and recovery in global demand for electronics. While improvement in these external factors are still uncertain and poses downside risk, the initiatives under the 2020 Budget announced on 11 October 2019 targets at mitigating the impact of external risk on the domestic economy.

The 2020 Budget announced by the Government focuses on several areas including economic opportunities specifically for high technology and high value added industries, human capital development particularly for reskilling and up skilling, inclusivity to reduce income inequality between rural and urban areas, and the revitalization of public institutions and finances.

BNM's had in its latest decision in January 2020 cut the Overnight Policy Rate ("OPR") by 25 basis points to 2.75% as a proactive move in anticipation of an improvement in the economic momentum, although it remains cautious on the global economic outlook due to uncertainties coming from prolonged trade disputes. It is also expected that Malaysia's monetary policy will continue to remain supportive of economic growth.

(Sources: Malaysian Ministry of Finance Economic Outlook 2020, Bank Negara Malaysia updates)

The domestic capital markets are expected to continue to be resilient supported by stable domestic economic activities, the revival of various strategic projects and having well-developed infrastructure and instruments. Nevertheless, the possibility of external factors weighing on the performance remains. Investor sentiment was subdued in 2019 on account of these various external uncertainties that have clouded the outlook of the equity market. The escalating trade war between China and the US, the Wuhan virus outbreak and current environment of tightening monetary policy globally continues to be reasons for capital flight from the emerging markets, including Malaysia. In addition, subdued local businesses with 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 equity market. This has resulted in a turbulent year for the FTSE Bursa Malaysia Kuala Lumpur Composite Index ("FBM KLCI") with a downtrend since May 2019 after hitting its record high in 2018 and ended 6.0% lower than the previous year (31 Dec 2019: 1,588.76 points). While the domestic equity market is expected to remain stable in 2020, prevailing headwinds such as trade tensions, Wuhan virus outbreak, capital outflows from emerging markets, currency pressures and a slower global economy will continue to be factors influencing the domestic equity market.

Despite the above, the Malaysian Real Estate Investment Trust ("M-REIT") sector was stable with some positive developments in 2019. The M-REIT investment landscape remained fairly active this year with several M-REITs predominantly from the industrial sector announcing their respective investment activities and corresponding equity funding exercises. In addition, some M-REIT players have embarked on property development activities with the introduction of the new Securities Commission Guidelines on Listed Real Estate Investment Trust ("SC REIT Guidelines") (effective 9 April 2018) which permits M-REITs to undertake property development activities.

Under the 2020 Budget, the Government has extended the tax treatment for non-corporate investors including resident and non-resident individuals as well as foreign institutional investors receiving profit distribution from M-REITs listed on Bursa Malaysia Securities Berhad ("Bursa Securities") to be subjected to a final 10% withholding tax for an additional 6 years from year of assessment 2020 until 2025. We applaud the Government's decision to extend this tax concession

MANAGEMENT DISCUSSION AND ANALYSIS

- OPERATIONAL REVIEW

(cont'd)

in aim of further promoting the development of REITs in Malaysia. Moving forward, we hope further liberalization of the withholding tax incentives can be considered via the reduction of the withholding tax rates for individual unitholders to zero. We view such liberalisation necessary to drive competitiveness in the M-REITs industry and to be on par with its peers from the other regional REIT markets.

Despite the laggard domestic equity market, the M-REIT sector has demonstrated to be an attractive sector and a suitable investment option for investors seeking defensive exposure with various M-REITs players recording average distribution yields of above ~6%. M-REIT unit prices have also been well supported following the recent downtrend in 10-year Malaysian Government Securities ("MGS") yields. The Bursa REIT Index which was introduced in October 2017 outperformed the FBM KLCI by ending the year at 962.81 points, 4.1% higher than the 924.87 points recorded at the end of December 2018. In anticipation of further OPR cut by BNM, coupled with continued muted earnings growth, stocks with resilient yield and have capital preservation characteristics will continued to be favored by investors. Therefore, we believe that M-REIT will remain attractive to investors in this current market environment and will encourage fund flows into the sector from investors looking for safe havens for investments. In addition, with the increased emphasis on strong corporate governance as important investment consideration, 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.

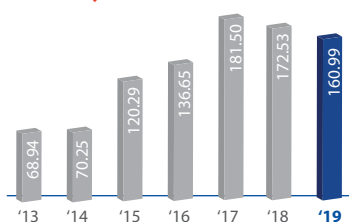
In 2019, the Klang Valley office market continued to be subdued due to the imbalance in the supply and demand of office space. As at 3Q 2019, Klang Valley was estimated to have an existing stock of 111.93 million sq. ft., with concentration of supply in Central Kuala Lumpur ("CKL") and Metropolitan Kuala Lumpur ("MKL") of 42.3% and 43.5%, respectively. The volume of future office supply in Klang Valley remains high with 10.23 million sq. ft. under construction, bringing total supply to 122.16 million sq. ft. by 2022. Klang Valley occupancy rates were stable with an average of 80.4% as at 3Q 2019. In the Golden Triangle area in CKL and West of MKL (comprising KL Sentral, Mid Valley and Bangsar), the average occupancy rates are slightly higher, ranging between 81.4% and 81.6%. Meanwhile, occupancy rates in Cyberjaya / Putrajaya averaged at 62.2% (Cyberjaya: 72.9%, Putrajaya: 51.4%). Given the impending supply and the expected increase in vacancy rate to 21.5% by 2022, the Klang Valley average occupancy rate is anticipated to trend downwards, from the current 80.4% as at 3Q 2019. While improving business and consumer sentiments could be positive for the real estate sector, the oversupply of available space in the market is currently still a looming concern, with the office and retail markets facing greater risk. New purposed built office buildings with quality specifications that meet tenant's requirements, located in established commercial areas with proximity to public transportations will likely secure better take-up rates upon completion.

(Source: Property Market Commentary on Purpose-Built Office Sector in Klang Valley and Purpose Built Retail Sector in Klang Valley and Penang dated December 2019 prepared by C H Williams Talhar & Wong Sdn. Bhd.)

FINANCIAL PERFORMANCE

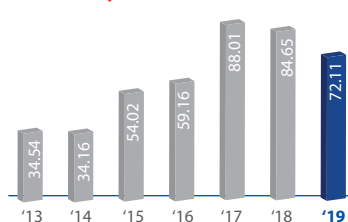
Gross Revenue (RM million)

Decreased by
-6.7%



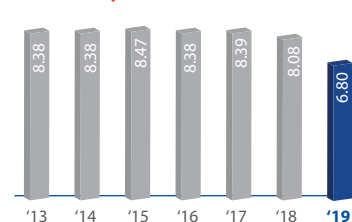
Realised Net Income (RM million)

Decreased by
-14.8%

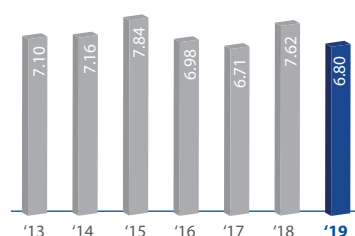


Distribution Per Unit (Sen)

Decreased by
-15.8%

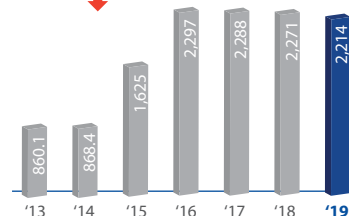


Distribution Yield (%)



Total Asset Value (RM million)

Decreased by
-2.6%



MANAGEMENT DISCUSSION AND ANALYSIS

- OPERATIONAL REVIEW

(cont'd)

FINANCIAL PERFORMANCE (cont'd)

For financial year ended 31 December 2019 ("FY 2019"), MQREIT recorded a realised gross revenue of RM162.07 million, representing a decrease of 6.5% as compared to RM173.38 million recorded in the preceding financial year ended 31 December 2018 ("FY 2018"). Correspondingly, it recorded a net property income of RM121.75 million for FY 2019, representing a decrease of 8.3% as compared to RM132.80 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 5 due to the early departure of the anchor tenant, IBM Malaysia Sdn Bhd, despite recording a 1.2% decrease in property operating expenses compared to the preceding financial year.

MQREIT recorded a total realised income of RM72.11 million for FY 2019, a decrease of 14.8% from the total realised income of RM84.65 million for FY 2018. 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 realized Earnings Per Unit ("EPU") for FY 2019 is 6.73 sen, which is approximately 14.9% lower than the EPU of 7.91 sen for FY 2018. After taking into consideration the non-cash adjustment for amounts previously not distributed of RM0.9 million, MQREIT achieved a distributable income for FY 2019 of RM73.01 million.

Taking into consideration the on-going uncertainties and challenging operating landscape, MQREIT's FY 2019 overall performance was satisfactory and in line with market consensus. The FY 2019 result was underpinned by its stable portfolio occupancy rate and the ability of the Manager to manage operational cost effectively. The Manager has remained focused in deploying its planned marketing and asset management strategies in 2019 which is to concentrate on tenant retention, resulting in healthy weighted average lease expiry profile ("WALE") of 4.9 years recorded as at 31 December 2019.

Distribution to Unitholders

In line with the Restated Trust Deed dated 2 December 2019, MQREIT has maintained its policy of distributing at least 90% of its distributable income at least semi-annually.

On 17 January 2020, the Board had declared a final Distribution Per Unit ("DPU") of 3.37 sen for the period from 1 July 2019 to 31 December 2019, which is paid out to unitholders of MQREIT on Friday, 28 February 2020. This final DPU of 3.37 sen, together with the interim distribution of 3.43 sen per unit for the period from 1 January 2019 to 30 June 2019, which was paid on 23 September 2019, amounted to a FY 2019 DPU of 6.80 sen. The Trustee of MQREIT and the Board of the Manager did not recommend any further distribution for the FY 2019.

On a year-on-year comparison, FY 2019 DPU of 6.80 sen is 15.8% lower than the FY 2018 DPU of 8.08 sen and translates to a distribution yield of 6.8% based on the closing price of RM1.00 per unit as at 31 December 2019.

Overall, with the commitment of delivering sustainable distribution and growth in total return to unitholders, the Management has delivered a total DPU of 103.24 sen since June 2007 until December 2019.

MQREIT's unit price trading performance during the year was within a healthy range with the unit price opening at RM1.07 in the beginning of the year and with a high of RM1.12 recorded in the first half of 2019 before retreating to RM1.00 at the end of 2019. Since early August 2019, MQREIT's unit price experienced some pressure, despite the Bursa REIT Index rising since March 2019 due to the expectation of OPR cuts by BNM. Due to the decline in its unit price, MQREIT recorded a negative total return of 0.6%, contributed by a depreciation in unit price of 7.4% and distribution yield of 6.8%.

BUSINESS PERFORMANCE

(A) Portfolio Highlights

As at 31 December 2019, 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. There were no acquisitions and/or disposal during the financial year.

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 2019.

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 2018 (RM'000)	Fair value as at 31 Dec 2019 (RM'000)	% of Investment
Quill Building 1-DHL 1 and Quill Building 4-DHL 2	133,000	133,300	6.2
Quill Building 2-HSBC	122,000	123,000	5.7
Quill Building 3-BMW	79,000	78,000	3.6
Wisma Technip	172,400	173,200	8.1
Part of Plaza Mont' Kiara	118,200	118,500	5.5
Quill Building 5-IBM	39,000	40,000	1.9
Tesco Building Penang	140,000	140,000	6.5
Platinum Sentral	724,000	686,000	32.0
Menara Shell	650,000	651,000	30.4
Total Investment Properties	2,177,600	2,143,000	100.0

An annual valuation of MQREIT's portfolio of properties was conducted at the close of FY 2019. MQREIT's total portfolio registered a portfolio value of RM2.143 billion* for FY 2019 compared to RM2.18 billion recorded in FY 2018, translating to a revaluation loss of RM36.37 million. The portfolio revaluation loss was mainly due to the devaluation of Platinum Sentral and Quill Building 3 - BMW.

The total net asset value ("NAV") and NAV per unit (after income distribution) are RM1.32 billion and RM1.2011 per unit, respectively (FY 2018 total NAV and NAV per unit (after income distribution) is RM1.37 billion and RM1.2419 per unit respectively). The changes are due to the net change in fair values of investment properties, i.e. a revaluation loss of RM36.37million, 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.

Note:

* After taking into account the accrued rental income of RM17.82 million as required under MFRS 140, paragraph 50, the investment properties amount as shown in the Statement of Financial Position is RM2.13 billion.

Portfolio details	FY 2019	FY 2018
No of Assets – Commercial Real Estates ⁽¹⁾	10	10
Valuation of Investment Properties (RM'000)	2,143,000 ⁽³⁾	2,177,600 ⁽²⁾
Net Letterable Area ("NLA") (sq. ft.)	2,254,797	2,254,797
Portfolio Occupancy rate (%)	90.0	93.0
Weighted Average Lease Expiry (years)	4.90	5.04
Renewal Rate (%)	92.0	75.0

Notes:

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

(2) 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.

(3) After taking into account the accrued rental income of RM17.82 million as required under MFRS 140, paragraph 50, the investment properties amount as shown in the Statement of Financial Position is RM2.13 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

- OPERATIONAL REVIEW

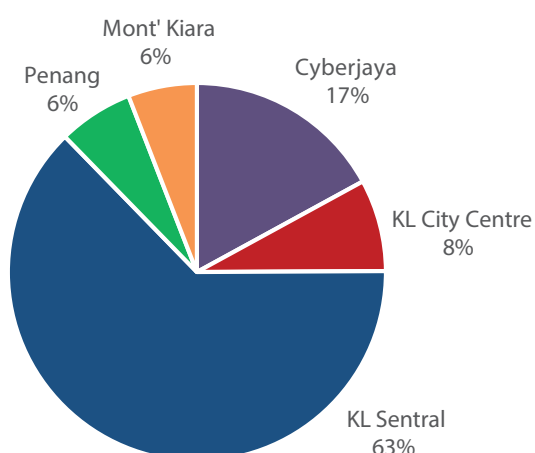
(cont'd)

BUSINESS PERFORMANCE (cont'd)

(A) Portfolio Highlights (cont'd)

Geographical Diversification (by Valuation)

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

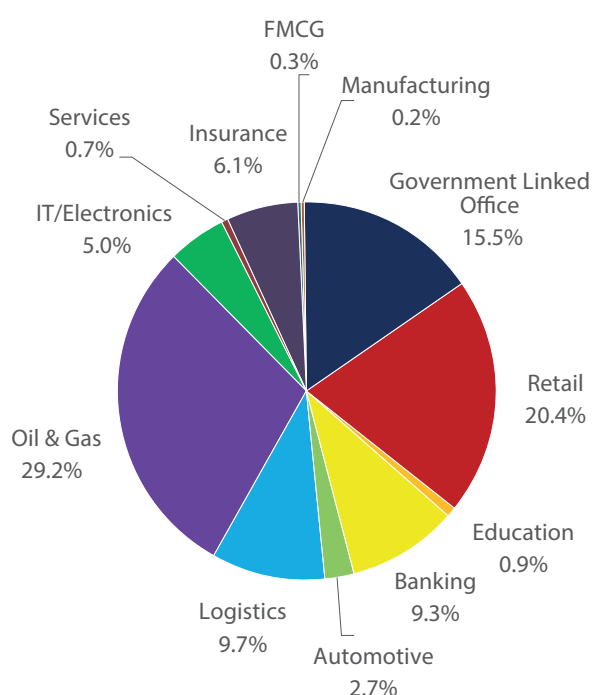


Klang Valley	77%
Cyberjaya	17%
Penang	6%

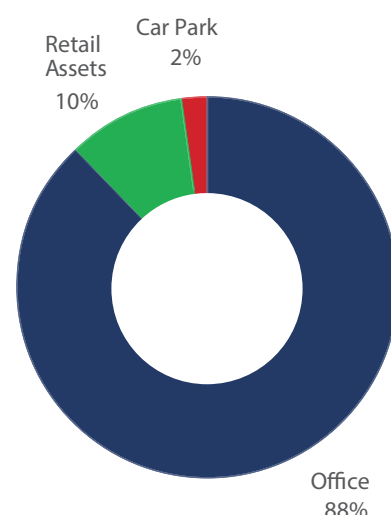
Note:

(1) Based on valuation dated 31 December 2019

A Well Balance Tenancy Mix (By Net Lettable Area)



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 2019

(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 Main Market Listing Requirements of Bursa Securities ("Listing Requirements"). 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 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 as the Manager will continue to adopt them in the coming year.

(C) Review of Operation Activities

With the slower economic growth this year, MQREIT continues to experience a challenging and demanding operating environment. New building completions continue to overtake net absorption rates, as tenants remain cautious in its rental commitments amid the subdued business sentiment.

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 fastidious in ensuring that planned strategies are well executed. In response to mitigating the challenges of the oversupply environment in the Klang Valley office market, we have during year concentrated our leasing efforts in improving MQREIT's tenant retention rate, maintaining a high WALE and stabilizing of its portfolio's occupancy rate.

In 2019, we commenced early negotiations for the lease renewals of key tenants such as HSBC Electronic Data Processing (Malaysia) Sdn Bhd in Quill Building 2 – HSBC to ensure successful tenant retention. In anticipation of the exodus of several government sector tenants, early marketing efforts were initiated to bring in new tenants to stabilise the occupancy in Platinum Sentral. In addition, we had focused our marketing efforts to widen the building's tenant base to include tenants from other industries namely from service related sectors such as the service office/co-working and the oil & gas sectors. The introduction of a service office/co-working operator in Platinum Sentral is expected to augur well for the building in view of the increasing demand for co-working spaces from a wide range of businesses spanning from reputable multinational corporates to early stage start-ups.

MANAGEMENT DISCUSSION AND ANALYSIS

- OPERATIONAL REVIEW

(cont'd)

BUSINESS PERFORMANCE (cont'd)

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

MQREIT had approximately 369,000 sq. ft. or 19% of its total leased net lettable area due for renewal in 2019. The Manager's active leasing and asset management strategy throughout the year has ensured successful take-up rate of approximately 337,000 sq. ft. of NLA or 92% of the leases due in 2019.

NLA for Renewal 2019	sq. ft.	%
Renewed	260,000	71%
Not renewed (replaced with new lease)	77,000	21%
Not renewed (vacant)	32,000	8%
Total	369,000	

Correspondingly, MQREIT recorded an average occupancy rate of 90% as at 31 December 2019 (2018: 93%) in terms of NLA and above the Klang Valley office market average occupancy rate of 80.4%* in 2019.

Note:

* *Property Market Commentary on Purpose-Built Office Sector in Klang Valley and Purpose Built Retail Sector in Klang Valley and Penang dated December 2019 prepared by C H Williams Talhar & Wong Sdn. Bhd.*

Moving forward, we expect competition in the Kuala Lumpur office market to remain intense in a midst of a prolonged oversupply condition. With the positive leasing outcomes achieved in 2019, we will continue to pursue the current marketing programmes and leasing strategies deployed with the aim of maintaining a stable portfolio occupancy rate throughout 2020. Similar to the previous year, strong tenant management and high tenant retention will continue to be the key focus in our leasing strategies in 2020. 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"), oil & gas, e-commerce, serviced office and shared services sectors.

We believe that the consistent quality and service of our portfolio of properties is crucial. This requires a combination of strategies to be deployed namely, a proactive approach to asset and portfolio management. We are constantly working on ways to enhance the value proposition of MQREIT's properties which will correspond to meeting the tenants' requirement and ensure that our assets remain relevant, competitive and continue to appeal to existing and new tenants. On a yearly basis, we will embark on refurbishments and asset

enhancement works mainly aimed at promoting a conducive work environment for tenants. This will also include providing a safer and greener/sustainable environment which can also assist the tenants to achieve their health, safety and environment ("HSE") and sustainability goals.

Most of 2019 enhancement works were carried out at Platinum Sentral, Menara Shell and Wisma Technip. The enhancements in Platinum Sentral were in respect of common area washrooms upgrading and water proofing for all blocks while in Menara Shell, upgrading of card access management and security systems had been completed this year. For Wisma Technip, car park painting/upgrading was completed and a common surau was constructed.

As for 2020, improvement works will be initiated for several properties, namely Quill Building 1 – DHL1 and Quill Building 4 – DHL2, Platinum Sentral and Menara Shell. All the above mentioned buildings will undergo upgrading of tenant area washrooms and main lobby entrances. For Platinum Sentral, building safety will also be prioritized with the upgrade of the outdoor courtyard wood deck areas which could be a potential safety hazard for tenants if upgrading works are not done to reinforce the wood decks. In addition, enhancement of the lighting system to provide better visibility at dark secluded areas at Levels 2 and 3 of Platinum Sentral will also be part of the safety enhancement for the building. Meanwhile, the implementation of an integrated building management system and installation of the perimeter fencing to improve security at the property will also be explored for Quill Building 1 – DHL1 and Quill Building 4 – DHL2.

(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.

MANAGEMENT DISCUSSION AND ANALYSIS

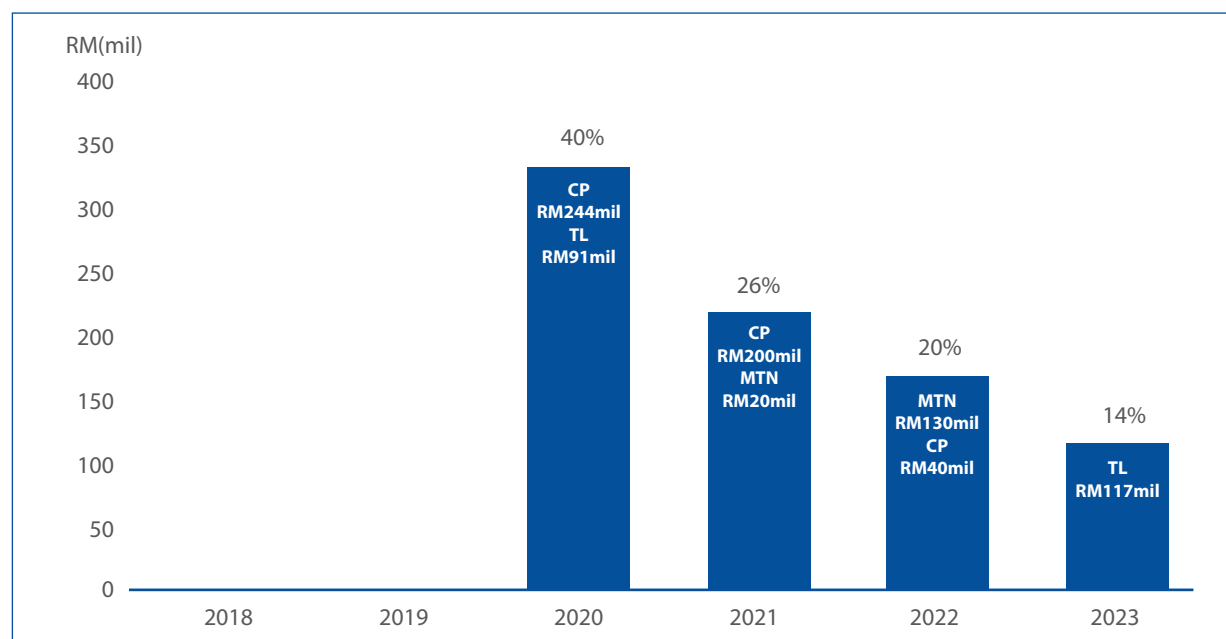
- OPERATIONAL REVIEW

(cont'd)

BUSINESS PERFORMANCE (cont'd)

(D) Capital Management (cont'd)

There was no refinancing exercise during the financial year. The next refinancing requirement would be in respect of MQREIT's RM335 million borrowings which is due in March 2020. The summary of MQREIT's Debt Expiry Profile as at 31 December 2019 is as follows:



Note:

CP – Commercial Papers

MTN – Medium Term Notes

TL – Term Loan

Details of MQREIT's borrowing as at 31 December 2019 are as follows:

Details	FY2019	FY2018
Borrowings (RM)	835,716,382	853,704,352
Gearing Ratio (%)	37.8	37.6
Average Cost of Debt (%)	4.5	4.5
Ratio of Fixed : Floating Borrowing (%)	76% : 24%	76% : 24%
Average Term to Maturity (years)	1.57	2.47
Interest Coverage (times)	2.94x	3.09x

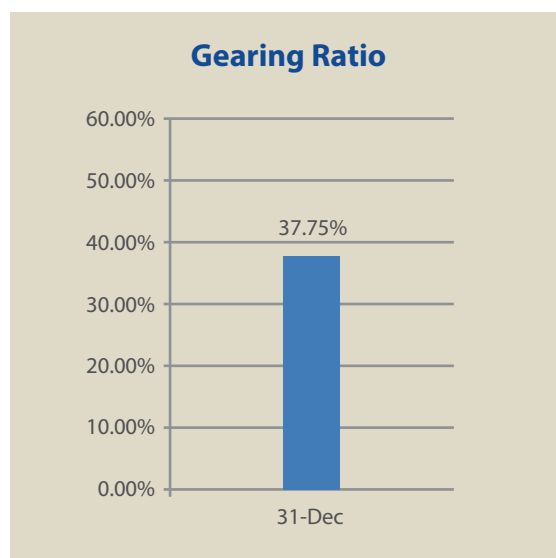
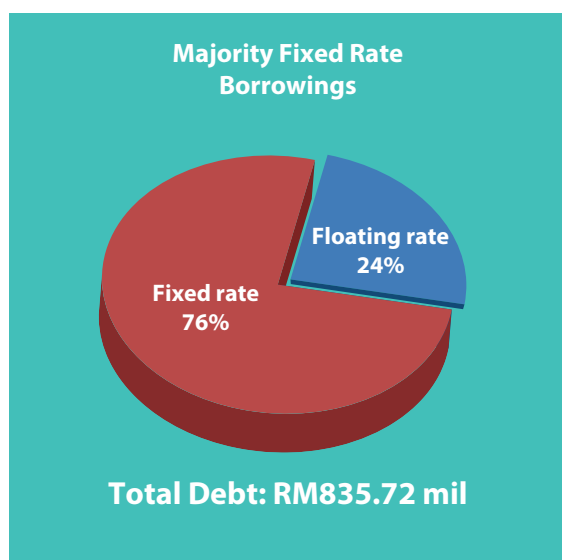
MANAGEMENT DISCUSSION AND ANALYSIS

- OPERATIONAL REVIEW

(cont'd)

BUSINESS PERFORMANCE (cont'd)

(D) Capital Management (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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

- OPERATIONAL REVIEW

(cont'd)

BUSINESS PERFORMANCE (cont'd)

(E) Risk Management (cont'd)

Interest Rate Risk (cont'd)

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 Listing Requirements, 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 had in 2018 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.

OUTLOOK AND PROSPECTS

In terms of sector outlook, the growth momentum for construction sector in 2020 is expected to expand by 4.7% bolstered by activities in the civil engineering segment cushioning the subdued performance of the residential and commercial property segments. The performance of the commercial property subsector is expected to remain subdued following the slow down on new mega commercial projects.

(Sources: Malaysian Ministry of Finance Economic Outlook 2020)

The slower domestic economic growth is expected to dampen business sentiment with businesses maintaining their cautious outlook on business expansion strategies. Amid the cautious market sentiment, we expect the Kuala Lumpur office market down cycle to persist in the coming year with future supply of office space coming into the market coupled with weaker absorption rates. We note that with the changing business landscape, there is a shift in demand from the banking and oil & gas sectors which have traditionally bolstered the demand for the Klang Valley office space, to other sectors namely the

services sector, serviced offices, shared service operations, IT and technology based sectors and start-ups. The increased demand for serviced offices has been supported by businesses moving away from the longer term fixed lease contracts to opt for flexibility so that they can directly correlate their headcount to rental costs. In addition, the new accounting standards requirements requiring businesses to disclose their lease obligations for their long term leases and other major assets has also been as an impetus to this shift. Some multinational corporations have streamlined their operations and cut down their fixed office space requirements on traditional long-term leases and rely on flexible workspace operators to provide them the flexibility to manage temporary business expansions or consolidations requirements. In terms of location, the completion of Mass Rapid Transit ("MRT") lines are expected to create a natural demand for offices in established and upcoming decentralised office locations with public transportation facilities. Office developments within the fringes of Central Kuala Lumpur such as KL Sentral, Mid Valley and Bangsar South currently enjoy favorable demand and hence, leasing activities in these areas are expected to remain buoyant. These localities are strategic, have high concentration of office developments, and are supported by good public transportation and accessibility. In addition, Cyberjaya which is a MSC cyber city, is expected to continue to be an important office location in view of the healthy demand for MSC status buildings by businesses from various sectors.

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 which will provide ample choice for tenants. 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 sustain these challenges 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 based on a prudent acquisition strategy.

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; and
- Building and facilities specifications.

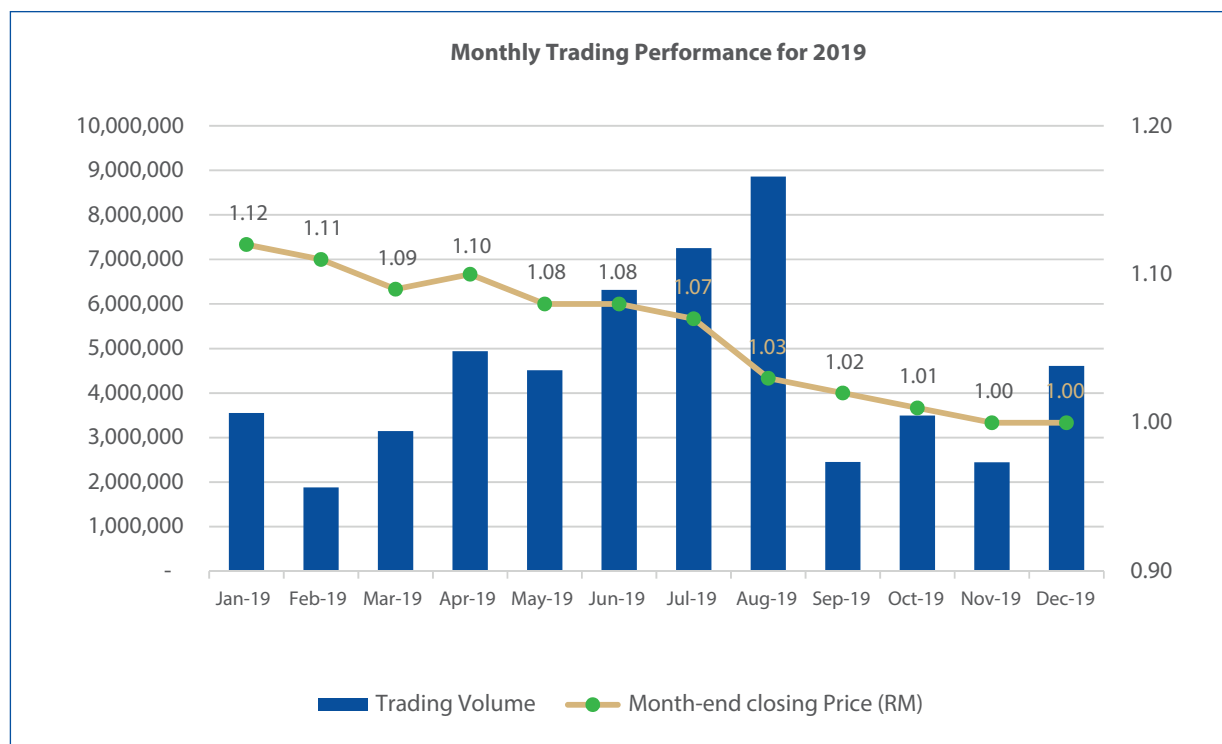
MANAGEMENT DISCUSSION AND ANALYSIS

- TRADING PERFORMANCE AND INVESTOR RELATION

(A) TRADING PERFORMANCE

Unit Price Performance

MQREIT's Monthly Trading Performance for 2019



	Trading Volume	Month-end closing Price (RM)
Jan-19	3,551,900	1.12
Feb-19	1,879,700	1.11
Mar-19	3,145,300	1.09
Apr-19	4,937,400	1.10
May-19	4,513,700	1.08
Jun-19	6,314,900	1.08
Jul-19	7,253,400	1.07
Aug-19	8,858,900	1.03
Sep-19	2,455,700	1.02
Oct-19	3,497,200	1.01
Nov-19	2,446,200	1.00
Dec-19	4,609,700	1.00

MANAGEMENT DISCUSSION AND ANALYSIS

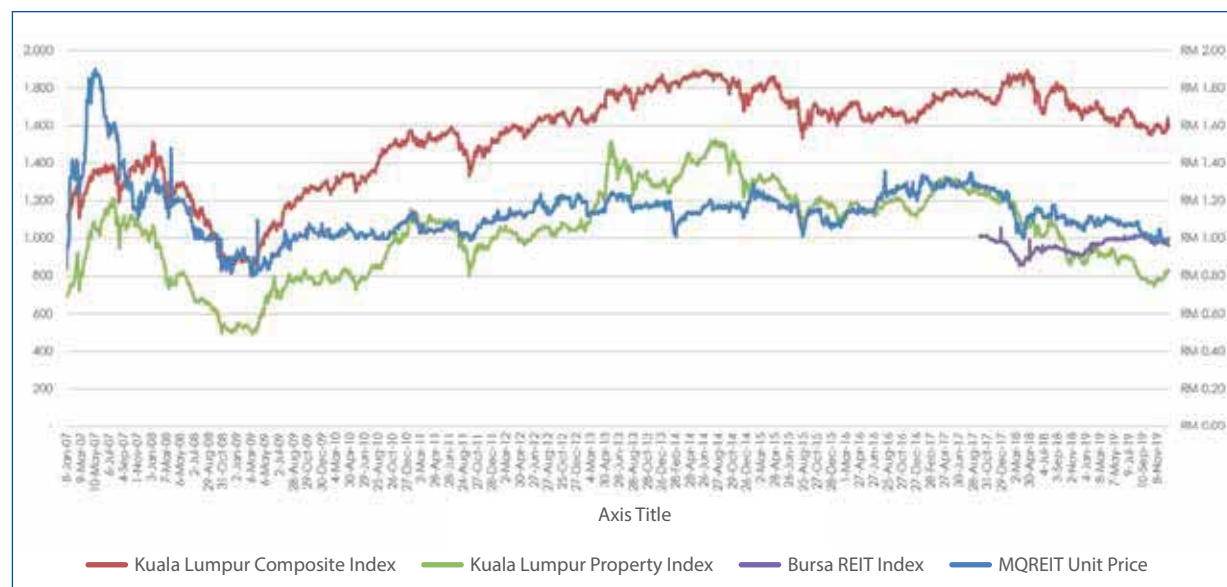
- TRADING PERFORMANCE AND INVESTOR RELATION

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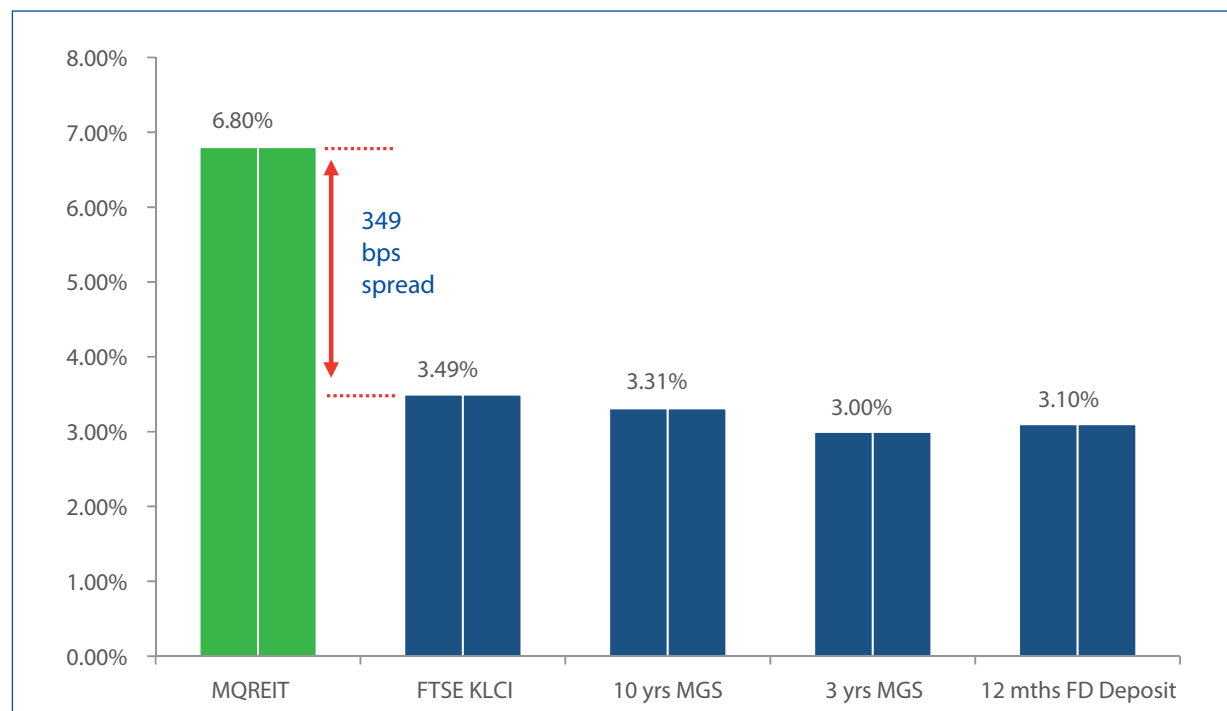
(A) TRADING PERFORMANCE (cont'd)

MQREIT's Unit Price versus Performance Benchmarks

- 7 January 2007 (MQREIT Listing Date) to 31 December 2019



Comparative Yields



Source:

- 1) Rates for 5-yrs MGS & 10-yrs MGS rate was obtained from HSBC Daily Commentary Report dated 31 December 2019.
- 2) 12 months FD rate is from Maybank.
- 3) Dividend Yield of FTSE Bursa Malaysia KLCI as at 31 December 2019 is from Bloomberg.

MANAGEMENT DISCUSSION AND ANALYSIS

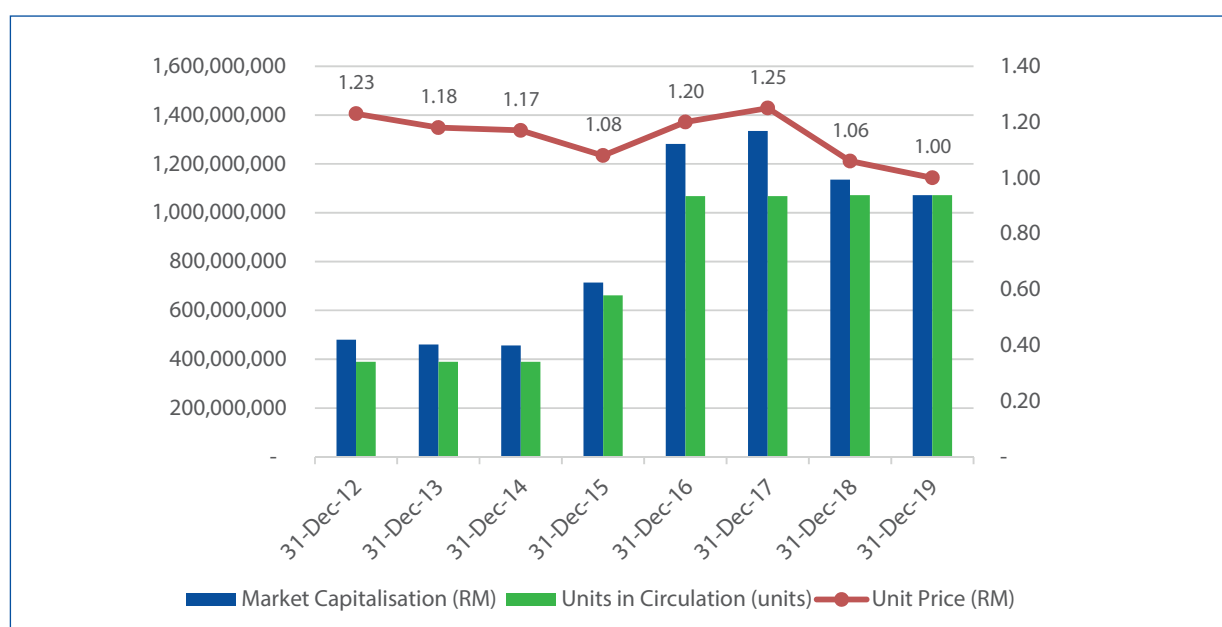
- TRADING PERFORMANCE AND INVESTOR RELATION

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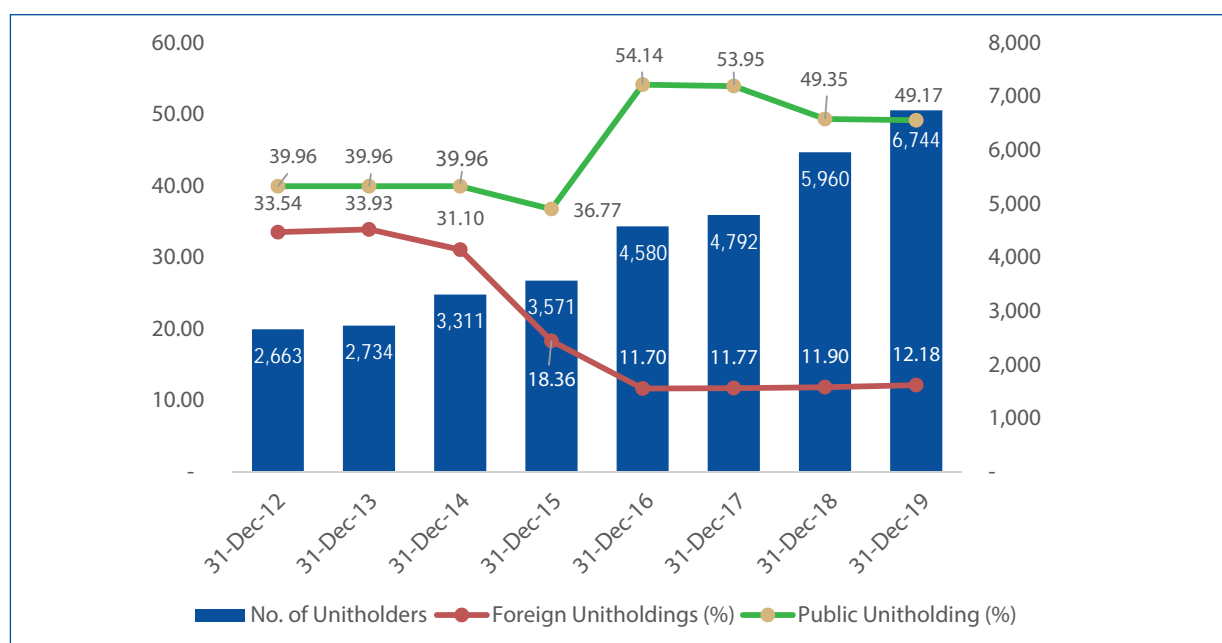
(A) TRADING PERFORMANCE (cont'd)

Market Capitalisation	
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
As at 31 Dec 2015 - RM714,291,480	As at 31 Dec 2019 - RM1,071,783,000

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 INITIATIVES ("IR")

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

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

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

Unitholders' Meetings

Seventh Annual Unitholders' Meeting

On 3 April 2019, MQREIT held its seventh (7th) 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 Listing Requirements, as well as to brief Unitholders about MQREIT's financial results for FY 2018. We are pleased to report that the resolution for the Proposed Unitholders' Mandate was duly passed.

Our stakeholders value timely and transparent disclosure of information and announcements as well as the accessibility to the Board and key management. Accordingly, the AGM will serve as a good platform for the Board and key management to share the highlights of the Trust's financial results for the fiscal year. In turn, unitholders can ask questions, clarify facts and provide feedback to the Management about the MQREIT's financial health, business performance, outlook and strategies.

We will continue to proactively engage with MQREIT's unitholders regularly to ensure proper dissemination of information and consistency in messages for better understanding of the business and operating environment.

MANAGEMENT DISCUSSION AND ANALYSIS

- TRADING PERFORMANCE AND INVESTOR RELATION

(cont'd)

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

Research coverage in 2019

In 2019, MQREIT was covered by 8 investment banks. Below is a summary of the reports published for MQREIT's 4Q 2019 results:

Coverage	Rating	Target Price (RM per unit)
RHB Research Institute	Neutral	0.97
Hong Leong Investment	Hold	1.05
Alliance DBS	No report for 4Q 2019	
Maybank Investment	Buy	1.19
CIMB Research	Hold	1.02
UOB Kay Hian	Hold	1.05
KAF Research	Hold	0.89
Kenanga Investment Research	Market Perform	1.05

(C) AWARDS AND RECOGNITION

The Edge Billion Ringgit Club (BRC) Awards 2019

MQREIT received the award for Highest Growth in Profit After Tax over Three Year* at The Edge BRC Awards 2019 gala dinner held at the Shangri-La Hotel, Kuala Lumpur on Wednesday, September 18, 2019.



MQM's CEO, Yong Su-Lin accepting the award from Datuk Ho Kay Tat, Publisher and Group CEO of The Edge Media Group, together with other representatives The Edge Media Group



The MQM management team and representatives for Maybank Trustees Berhad, the trustee of MQREIT

Note:

* for the three years ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

- TRADING PERFORMANCE AND INVESTOR RELATION

(cont'd)

(C) AWARDS AND RECOGNITION

The Asia Pacific Best Of The Breeds REITs Awards

The Asia Pacific Best of the Breeds REITs Awards™ 2019 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 5th REITs Asia Pacific Conference 2019 on 26th September 2019 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, price to book ratio and DPU.

Arising from this, many 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 bagged the following:

- Best of the Breeds REITs Award for Office REIT Malaysia (Gold)
- Best of the Breeds REITs Award for CEO Office REIT Malaysia (Platinum)



(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 2019, the MQM donated approximately RM105,000 and RM90,000 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 to Persatuan Kebajikan Kanak-Kanak Kajang helped to fund the operations cost of running these centres, which includes staff and teachers' salaries, workbooks and desktop computers for the children, as well as rental, utilities, food and maintenance cost.

Meanwhile, the cash donation to Yayasan Ozanam's Ozanam Service Centre helped to fund the learning centre's program include computer studies and other soft skills; its youth dropout programme and the newly introduced the women empowerment programme.

This year, MQM has also decided to extend financial support for the women empowerment programme as we view this as an extension to our CSR focus. The objective of women empowerment programme is to educate and facilitate lifelong learning of skills required among poor single women and mothers to enable them to earn a living, to lift them out of poverty and improve their family's lives. Due to the importance of mother's role in a child's life, it is therefore necessary for them to be equipped with basic life skills to be self-sufficient and to be able to provide stability at home.

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 teaching assistants 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 2019. The staff will continue with this participation commitment in 2020.

PROPERTY MARKET UPDATES

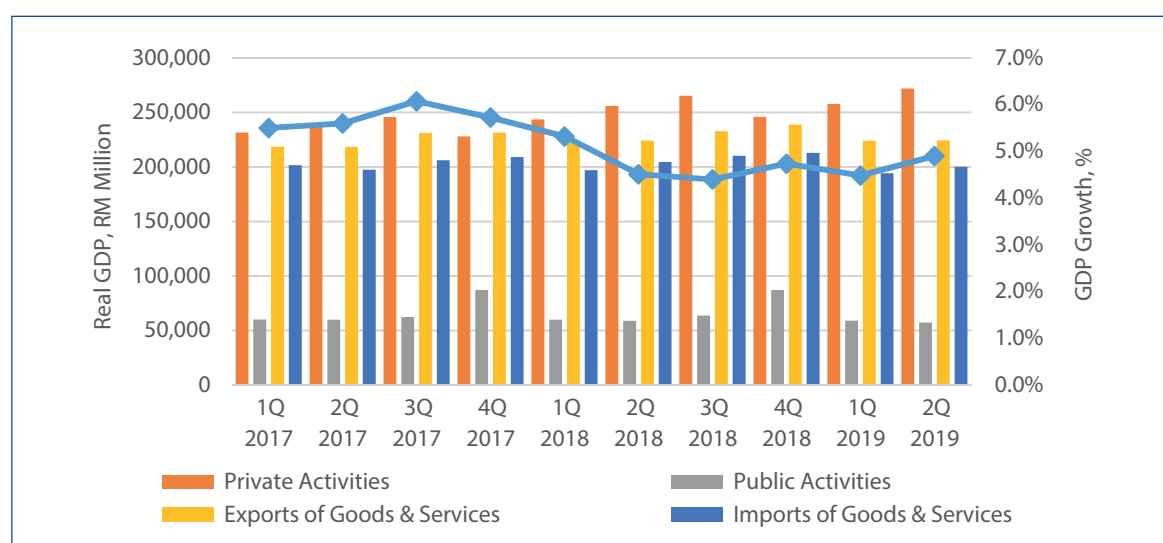
PURPOSE-BUILT OFFICE MARKET OVERVIEW

PROPERTY MARKET COMMENTARY ON PURPOSE BUILT OFFICE SECTOR IN KLANG VALLEY AND PURPOSE BUILT RETAIL SECTOR IN KLANG VALLEY AND PENANG DATED DECEMBER 2019 PREPARED BY C H WILLIAMS TALHAR & WONG SDN BHD FOR MQREIT

1.1 GENERAL

1.1.1 Economic Overview

Chart 1.1: Real GDP Growth Domestic Product (GDP) and Sources of Contributions



Source: Bank Negara Malaysia, CBRE | WTW Research, December 2019

The economy recorded a stronger growth of 4.9% in the second quarter (1Q 2019: 4.5%), supported by expansion of domestic demand.

Domestic demand expanded by 4.6% in the second quarter (1Q 2019: 4.4%), due to higher household spending and private investment. Private consumption improved by 7.8% (1Q 2019: 7.6%), supported by continued income growth and festive spending during the quarter. Selected Government incentives, such as the special Aidilfitri assistance and Bantuan Sara Hidup, bounced on the overall household spending.

After a strong growth in the first quarter of 2019 by 6.3%, public consumption expanded marginally by 0.3%, due to lower spending on supplies and services, while public investment declined at a rate of -9.0% (1Q2019: -13.2%). Private investment improved to 1.8% after a flat growth in the previous quarter (1Q2019: 0.4%), supported by increased capital spending in the services and manufacturing sectors. Nonetheless, uncertainty surrounding global trade tensions and prevailing weaknesses in the property segment continued to weight on the investment growth performance.

In terms of labour market, labour participation rate registered higher at 68.8%, y-o-y comparison (2Q2018:68.4%). However, the unemployment rate remained unchanged at 3.3%.

The increase in Consumer Price Index, averaged higher at 0.6% in 2Q 2019 (1Q2019: -0.3%) reflected the lapse in the impact of the Goods and Services Tax (GST) zerorisation that was implemented in June 2018.

PROPERTY MARKET UPDATES

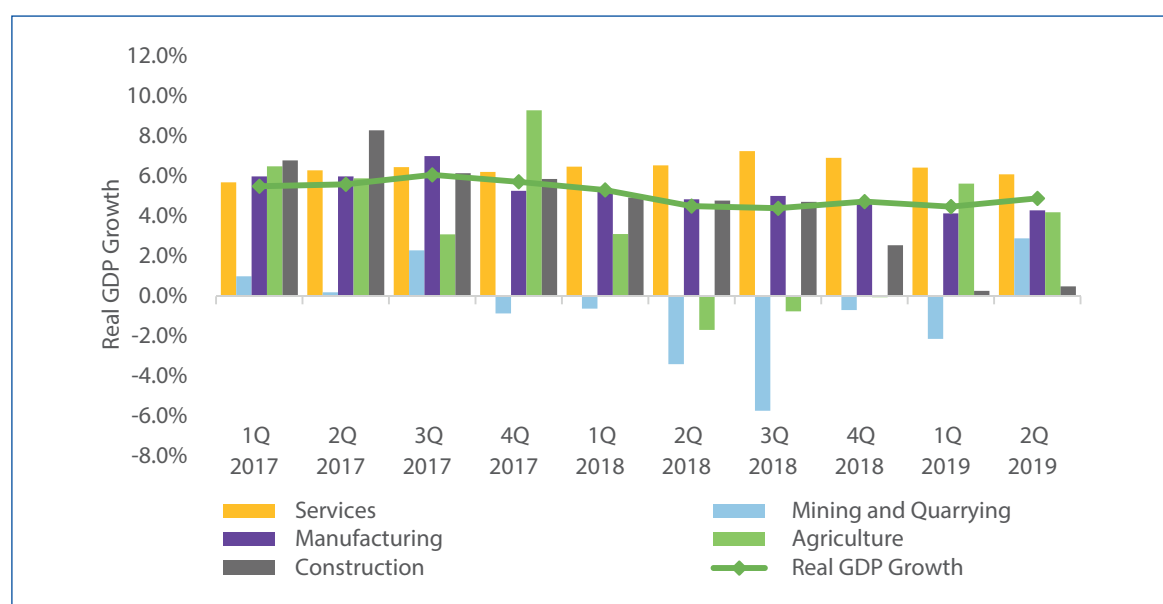
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PURPOSE-BUILT OFFICE MARKET OVERVIEW (cont'd)

1.1 GENERAL (cont'd)

1.1.1 Economic Overview (cont'd)

Chart 1.2: Real GDP and Growth by Sectors



Source: Bank Negara Malaysia, CBRE|WTW Research, December 2019

The mining and quarrying sector rebounded, driven mainly by the recovery in natural gas production. Manufacturing sector improved marginally at 4.3% (1Q2019:4.2%) and services sector continued to expand at 6.1% (1Q2019: 6.4%), amid sustained growth in the wholesale and retail trade subsector. Slower growth for the construction sector was recorded at 0.5% (1Q 2019: 0.3%). The agriculture sector had declined to 4.2% in 2Q2019 (1Q2019: 5.6%) which was underpinned by the slump in the production activities of Rubber and Forestry and Logging.

In 2Q2019, gross exports recovered slightly with a growth of 0.2% (1Q 2019: -0.7%), supported by the rebound in commodities export. A smaller decline was recorded for imports, of -1.2% (1Q 2019: -2.5%) due to higher intermediate and consumption imports.

The trade balance is narrower, registered at RM30.1 billion (1Q 2019: RM37.0 billion).

A smaller net inflow of RM4.4 billion (1Q 2019: net inflow of RM21.7 billion) for foreign direct investments (FDI) was channelled mainly into the services and manufacturing sectors.

1.1.2 Outlook

The Malaysian economy is projected to grow between 4.3% - 4.8% for 2019, supported by private sector activity. The external sector is likely to be affected by slower global growth amidst the ongoing trade tensions. Inflation in 2H 2019 is expected to average higher compared to 1H2019, following the gap in the impact of the consumption tax policy changes. Supported by the continued expansion in economic activity and in the absence of strong demand pressures, underlying inflation is expected to remain stable.

With the concerns on the global economic outlook, Malaysia with its progressive economy, competitive operating costs and business-friendly environment and policies will also face mixed prospects in different industries and different localities. However, its capital city of Kuala Lumpur with its large established commercial community will be better placed to weather these economic adversities.

PROPERTY MARKET UPDATES

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PURPOSE-BUILT OFFICE MARKET OVERVIEW (cont'd)

1.2 SUPPLY AND DEMAND

1.2.1 Existing Supply

Table 1.1: Summary of Purpose-Built Office Buildings (as at 3Q 2019)

Supply/Performance	Klang Valley	Zone		
		CKL	MKL	GKL
Existing Supply (million square feet)	111.93	47.30	48.76	15.87
% of Share		42.3%	43.5%	14.2%
Future Supply (4Q2019 – 2022) (million square feet)	10.23	7.61	2.62	0.00
% of Share		74.4%	25.6%	0.0%
Vacancy Rate	19.6%	17.5%	19.0%	27.6%

Source: CBRE|WTW Research, December 2019

As at 3Q 2019, Klang Valley (KV) had 111.93 million square feet of Purpose-Built Office (PBO)¹ space. The latest completions of PBO buildings during the first half of 2019, are Menara Prudential (TRX), KYM Tower, Menara Etiqa and Symphony Square.

The existing supply of PBO buildings in Cyberjaya and Putrajaya was 5.6 million square feet and 4.01 million square feet respectively as at 3Q 2019, representing 60.5% of total supply in GKL. The existing PBO buildings in Putrajaya are mainly in the Central Business District, (Precincts 1-4), largely occupied by government offices.

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

These buildings are generally categorised as:

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

Government office buildings are excluded from this survey.

PROPERTY MARKET UPDATES

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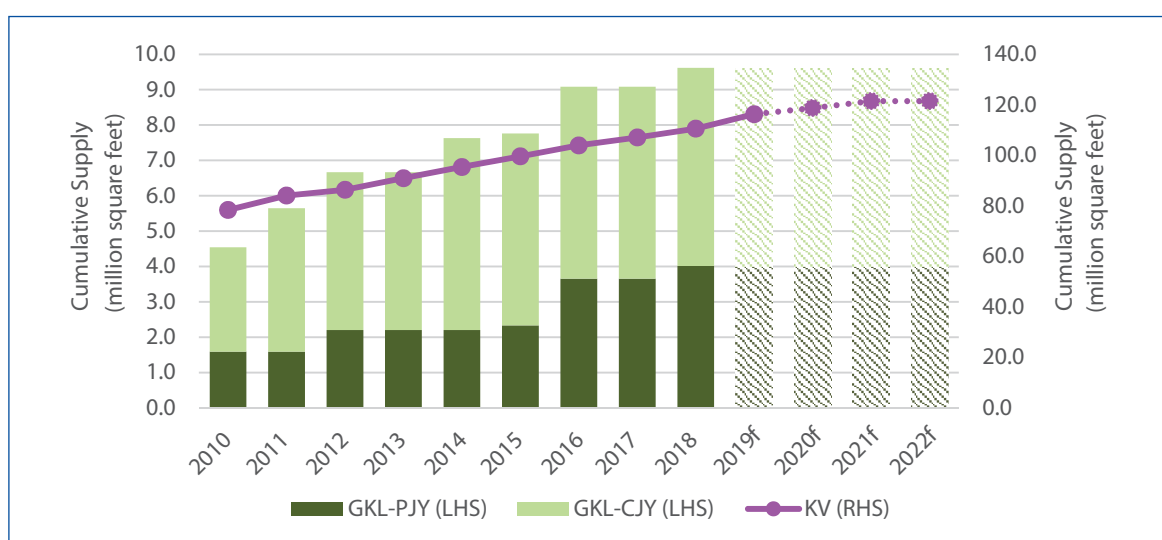
PURPOSE-BUILT OFFICE MARKET OVERVIEW (cont'd)

1.2 SUPPLY AND DEMAND (cont'd)

1.2.1 Existing Supply (cont'd)

The chart below illustrates the supply of PBO buildings in Cyberjaya and Putrajaya (2010 to 2022f).

Chart 1.3: Cumulative Supply of Purpose-built Office Buildings in Klang Valley vis-à-vis Putrajaya & Cyberjaya (2010 to 2022f)



Abbreviation : GKL – Greater Kuala Lumpur; PJY – Putrajaya, CJY – Cyberjaya; f – forecast, RHS – Right Hand Side; LHS – Left hand Side

Source : CBRE|WTW Research, December 2019

Table 1.2: List of Future Purpose-Built Office Buildings in Klang Valley (4Q 2019f- 2022f)

Year	Zone	Name of Building	Net Lettable Area (square feet)
4Q 2019	CKL	The Exchange 106, BB Tower (YTL HQ)	3,110,000
	MKL	1 Power House @ Bandar Utama, MBSB Tower (PJ Sentral Garden City), Menara Star 2	900,000
Total 4Q 2019			4,010,000
2020	CKL	Menara Hap Seng 3, Sapura Corporate HQ, Affin Bank HQ (TRX), HSBC HQ (TRX), Menara TCM (Redevelopment of Bombay Restaurant)	2,260,000
	MKL	Tropicana Gardens (Phase 6), HCK Tower @ Empire City	570,000
Total 2020			2,830,000
2021	CKL	PNB 1194 (Redevelopment of Bangunan MAS), Merdeka PNB 118, UOB Tower 2	2,240,000
	MKL	iMazium (formerly known as Uptown 8)	480,000
Total 2021			2,720,000
2022	MKL	Aspire Tower @ KL Eco City	670,000
Total 2022			670,000
Grand Total (4Q2019 – 2022)			10,230,000

Source: CBRE|WTW Research, December 2019.

PROPERTY MARKET UPDATES

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PURPOSE-BUILT OFFICE MARKET OVERVIEW (cont'd)

1.2 SUPPLY AND DEMAND (cont'd)

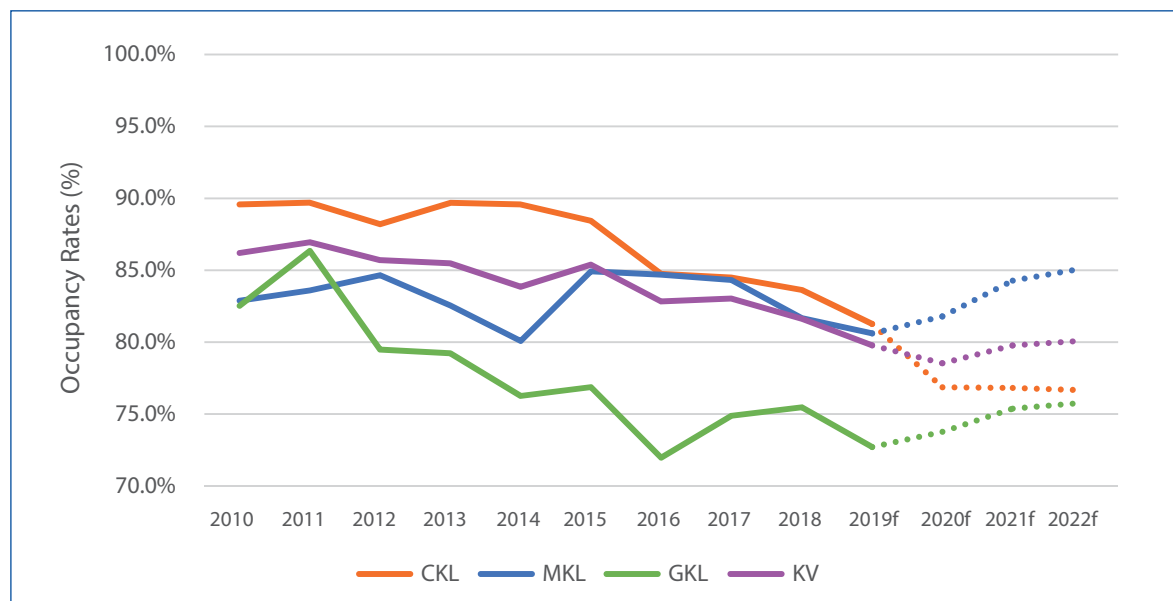
1.2.1 Existing Supply (cont'd)

Another seventeen (17) PBO buildings contributing approximately 10.23 million square feet of PBO space are expected to be completed by end-2022. Most of these buildings are parts of large integrated developments such as Tun Razak Exchange and Merdeka PNB 118. There are several upcoming office developments in Putrajaya, mainly for government use, but are excluded from our survey.

During the review period, Klang Valley occupancy rates were stable averaging 80.4%. In the Golden Triangle area in CKL and West of MKL, comprising KL Sentral, Mid Valley and Bangsar, the average occupancy rates are slightly higher, ranging between 81.4% and 81.6%.

In Cyberjaya/Putrajaya, occupancy rates for PBO buildings averaged 62.2% (Cyberjaya: 72.9%, Putrajaya: 51.4%), with healthier rates reflecting owner-occupancies.

Chart 1.4: Occupancy Rate of Purpose-built Office Buildings in Klang Valley (2010 to 2022f)



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

Source : CBRE|WTW Research, December 2019

PROPERTY MARKET UPDATES

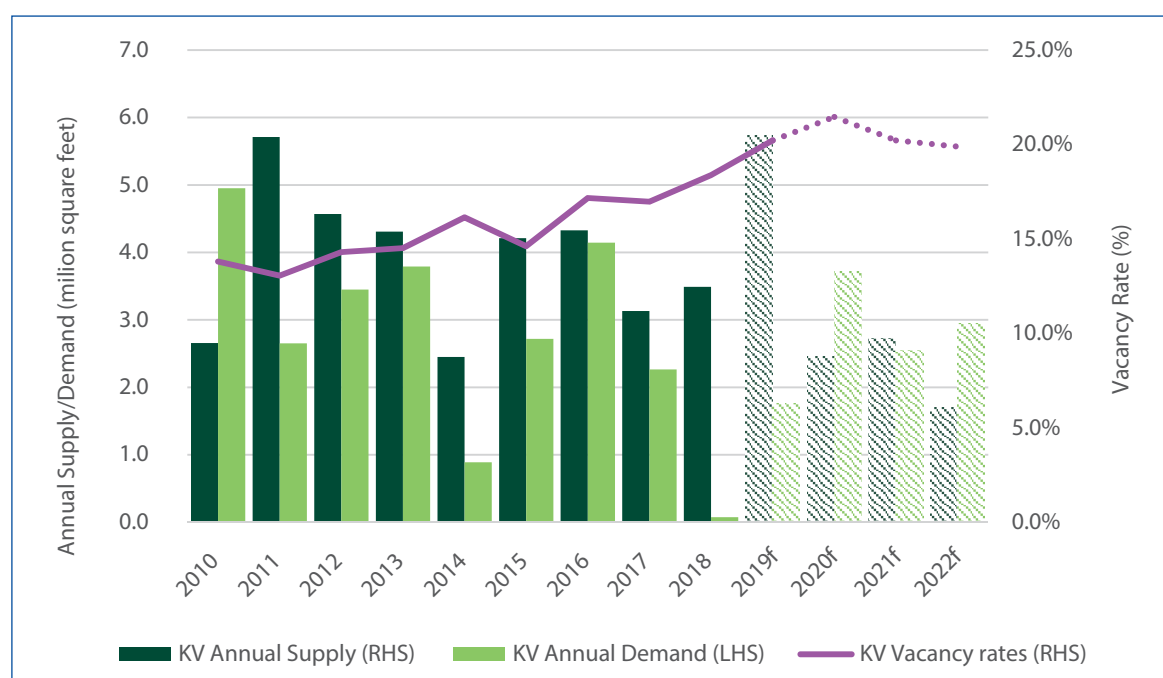
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PURPOSE-BUILT OFFICE MARKET OVERVIEW (cont'd)

1.2 SUPPLY AND DEMAND (cont'd)

1.2.1 Existing Supply (cont'd)

Chart 1.5: Supply, Take-up & Vacancy Rates of Purpose-Built Office in Klang Valley (2010 to 2022f)



Note : The analysis only includes ongoing supply which commenced construction during the review period
Abbreviations : KV – Klang Valley; RHS – Right Hand Side, LHS – Left Hand Side; f – forecasted
Source : CBRE|WTW Research, December 2019

The average annual take-up (from 2014 – 2018) in the Klang Valley was approximately 2.09 million square feet per annum, but reduced to 0.13 million square feet in 3Q 2019, down 73% from 3Q 2018 (0.48 million square feet).

Given that there will be about 10.23 million square feet of new supply of PBO space in the coming three years and assuming that the annual take-up rate is maintained, the overall vacancy rate is likely to trend upwards to 21.5% by 2022.

PROPERTY MARKET UPDATES

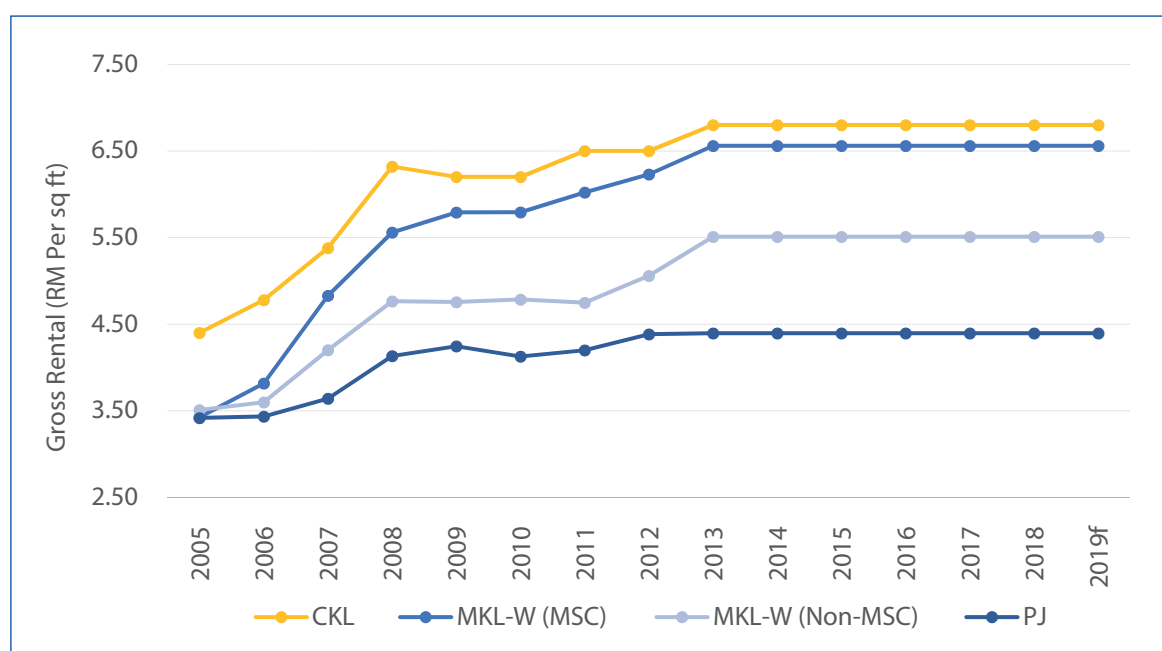
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PURPOSE-BUILT OFFICE MARKET OVERVIEW (cont'd)

1.2 SUPPLY AND DEMAND (cont'd)

1.2.2 Investment Activity

Chart 1.6: Rental Trends in Selected Zones



Source: CBRE|WTW Research, December 2019

Selected prime PBO buildings within CKL (excluding Petronas Twin Towers) are currently offering monthly gross rents of around RM6.80 – RM11.00 per square foot whereas in MKL and GKL, asking gross rents are between RM3.80 and RM5.50 per square foot per month (with the exception of KL Sentral and Bangsar South, which generally offered RM6.50-RM7.50 per square foot per month for MSC Status buildings). Service charges for prime office buildings are typically in the range of RM1.50 - RM1.80 per square foot per month.

For PBO buildings in Putrajaya/Cyberjaya, monthly gross rents are generally in the range of RM4.50 to RM 6.00 per square foot.

PROPERTY MARKET UPDATES

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PURPOSE-BUILT OFFICE MARKET OVERVIEW (cont'd)

1.2 SUPPLY AND DEMAND (cont'd)

1.2.2 Investment Activity (cont'd)

The following table is a summary of latest transactions of en-bloc office buildings in Klang Valley. Generally, yields remained stable at 5.5% to 6.0%.

Due to the current slow market, transaction activities remained limited. There were only three (3) PBO buildings transacted throughout 2019, namely Ikhlas Point Bangsar South, Wisma MPL and Wisma KFC. Wisma MPL in Jalan Raja Chulan was acquired by Asia New Venture Capital in June 2019, with a transacted price of RM189 million and Wisma KFC was sold by the Employees Provident Fund (EPF) to Singapore's Royal Group, for RM130 million, which is planned to be converted into a hotel.

Table 1.3: Selected Transactions of Purpose-Built Office Buildings in Klang Valley (2017-2019)

Month, Year	Name of Building	Zone	Vendor	Buyer	Net Lettable Area (square feet)	Sales Price (RM' million)	Price (RM per square foot)
March 2019	Wisma MPL	CKL-Golden Triangle	Malaysia Pacific Corporation	Asia New Venture Capital Holdings Sdn Bhd	338,900	189.0	558
February 2019	Wisma KFC	CKL-Golden Triangle	Employee Prominent Fund	Royal Group	*342,145	130.0	380
January 2019	Ikhlas Point, Tower 11, Avenue 5, The Horizon, Bangsar South	MKL-West	Takaful Ikhlas Family Berhad	Sanichi Capital Sdn Bhd	*54,046	46.0	851.0

Note : *Gross Floor Area

Source : Bursa Malaysia General Announcements, CBRE|WTW Research, December 2019

1.2.3 Market Outlook

The Klang Valley PBO market will remain challenging with an additional of 10.23 million square feet of PBO buildings to be completed in the next 3 years. However, new PBO buildings having quality specifications, located in established commercial areas and with proximity to LRT and MRT stations, will secure better take-up rates upon completion.

Demand for PBO buildings in Putrajaya/Cyberjaya is expected to remain stable, given its competitive rental, coupled with several new commercial developments to spur business activity and population and workforce growth. The completion of the MRT 2 line (Sungai Buloh-Serdang-Putrajaya) in 2022 will also attract demand for office space in Putrajaya/Cyberjaya as its connectivity to Kuala Lumpur and the rest of the Klang Valley improves.

PROPERTY MARKET UPDATES

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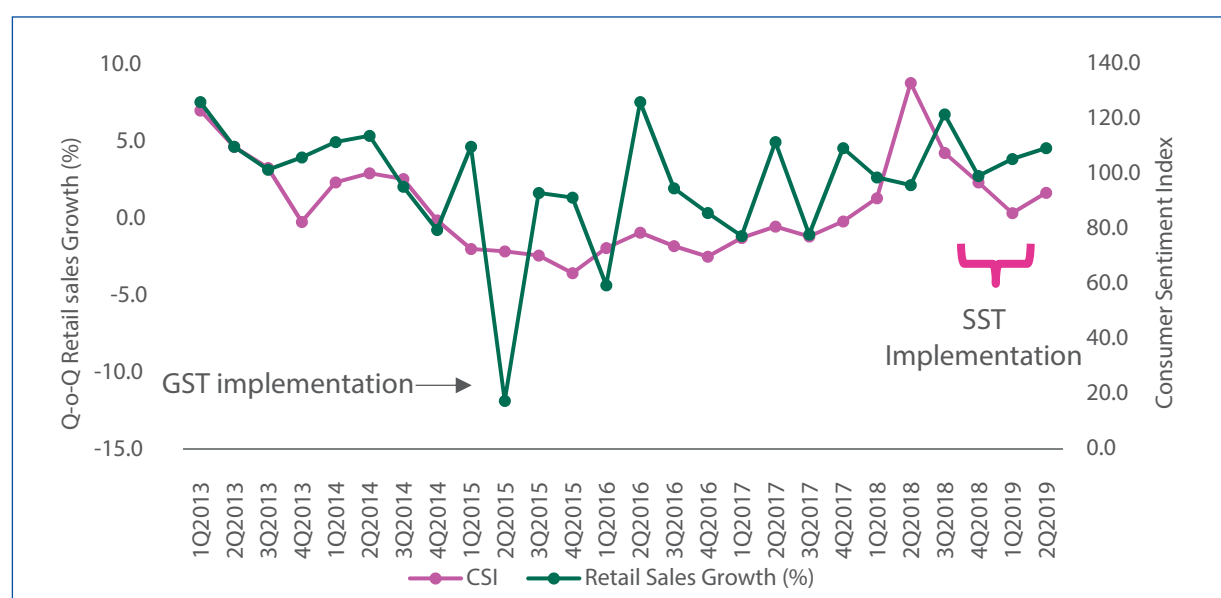
PURPOSE-BUILT RETAIL² SECTOR

2.1 GENERAL

As of 2Q 2019, the Malaysia Retailers Association (MRA) reported a growth rate of 4.5% in retail sales, up 0.7% from the previous quarter.

The Consumer Sentiment Index (CSI) reported by the Malaysian Institute of Economic Research (MIER) gained 7.4 points in 2Q 2019 to 93 points, as compared to 86 points in the previous quarter. Although a slight improvement, consumers' cautiousness on their spending activity has increased due to prospects of declining income. Rising prices in the near term is also becoming a concern for consumers.

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



Source: Malaysian Institute of Economic Research (MIER) and Malaysia Retailers Association (MRA), 2Q 2019

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

PROPERTY MARKET UPDATES

(cont'd)

PURPOSE-BUILT RETAIL SECTOR (cont'd)

2.2 KLANG VALLEY

2.2.1 Supply and Demand

Table 2.1: Summary of Existing Purpose-built Retail Space in Klang Valley (as at 3Q 2019)

Supply/Performance	Klang Valley	Zone	
		Kuala Lumpur	Outside Kuala Lumpur
Existing Supply (million square feet)	58.13	31.54	26.59
% of Share		54.3%	45.7%
Future Supply (million square feet) (up to 2022)	13.61	8.46	5.15
% of Share		62.2%	37.8%
Vacancy Rate	14.7%	14.2%	13.6%

Source: CBRE|WTW Research, December 2019

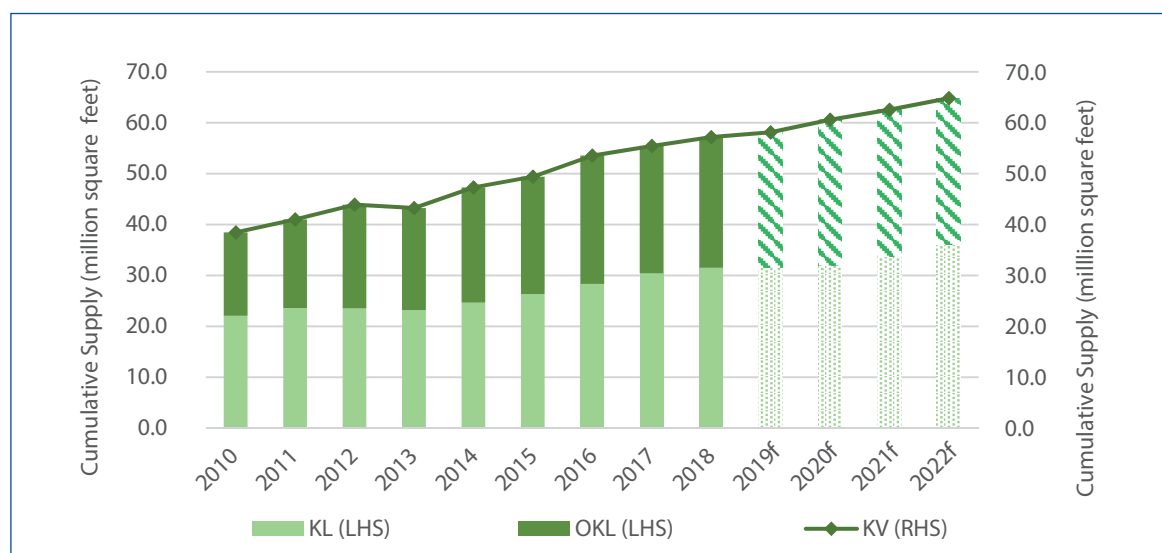
The supply of purpose-built retail (PBR) space in Klang Valley is estimated at 58.13 million square feet with no new completions during the review period.

Kuala Lumpur remains the popular shopping destination, attracting local and international tourists and consumers, with many established PBR spaces located within Bukit Bintang and Kuala Lumpur City Centre (KLCC).

Successful retail malls located Outside Kuala Lumpur are also well-connected by road networks and public transportation such as Keretapi Tanah Melayu (KTM), Light Rail Transit (LRT), Mass Rapid Transit (MRT) and Bus Rapid Transit (BRT) lines. Malls with such connectivity also enjoyed occupancy rates above 90%.

A total of ten (10) PBR centres are expected to be completed in Kuala Lumpur by 2022, contributing approximately 8.46 million square feet of retail PBR space. The future supply of PBR space shows that Kuala Lumpur will be the main focus for Klang Valley's retail market, in comparison to 5.15 million square feet of PBR space (or 37.8% of total Klang Valley future supply) Outside Kuala Lumpur.

Chart 2.2: Cumulative Supply of Purpose-Built Retail Space in Klang Valley vis-a-vis Kuala Lumpur vis-a-vis Outside Kuala Lumpur (2010 to 2022f)



Abbreviation : KV – Klang Valley, KL – Kuala Lumpur, KV – Klang Valley, LHS – Left Hand Side, RHS – Right Hand Side
 Source : CBRE|WTW Research, December 2019

PROPERTY MARKET UPDATES

(cont'd)

PURPOSE-BUILT RETAIL SECTOR (cont'd)

2.2 KLANG VALLEY (cont'd)

2.2.1 Supply and Demand (cont'd)

Table 2.2: Future Supply of Purpose-Built Retail Space (4Q 2019f- 2022f)

Year	Name of Retail Centre	Estimated Net Lettable Area (square feet)
Kuala Lumpur (KL)		
4Q 2019	Quarza Mall	360,000
2020	Sapura Corporate HQ Retail	120,000
2021	Datum Jelatek	5,880,000
	8 Conlay lifestyle Quarter	
	Tun Razak Exchange Lifestyle Quarter	
	Mitsui Shopping Park Lalaport KL	
	Warisan Merdeka Mall (PNB 118 Retail Centre)	
2022	Pavilion Bukit Jalil	2,100,000
	Pavilion Damansara Heights	
Subtotal Kuala Lumpur (2019 – 2022)		8,460,000
Outside Kuala Lumpur		
4Q2019	No Future Supply	0
2020	Tropicana Garden Mall	1,980,000
	Pier 8 @ Gravit8	
	One Utama E - Phase 2	
	Setia City Mall - Phase 2	
2021	Eco Hill Walk Mall	170,000
2022	IOI City Mall	3,000,000
	Empire City Mall*	
Subtotal Outside Kuala Lumpur (2019 – 2022)		5,150,000
Total Klang Valley (2019 – 2022)		13,610,000

Source: CBRE|WTW Research, December 2019

The average occupancy rate of PBR space in the Klang Valley in 3Q 2019 stood at 85.3%. Active pre-leasing activities and successful retail strategies by I-City Mall, Shah Alam which-opened in 2019, had contributed to good overall occupancy rates of between 75% and 85%.

PBR space in Kuala Lumpur continued to attract investors and retailers, which contributed to the improved occupancy rate in 3Q 2019 by 0.7% compared to the previous quarter. Meanwhile, the occupancy rate of PBR space Outside Kuala Lumpur decreased by 0.1% in 3Q 2019 as compared to the previous quarter.

Notable PBR space in Klang Valley which are owned and managed by Real Estate Investment Trusts (REITs) maintained stable performances and improved occupancy rates with a good mixture of retailing activities.

PBR space located in the city fringe, namely Mont' Kiara, Sri Hartamas and Bangsar remains appealing, due to its good tenant mix, catering to affluent urbanites in the localities.

PROPERTY MARKET UPDATES

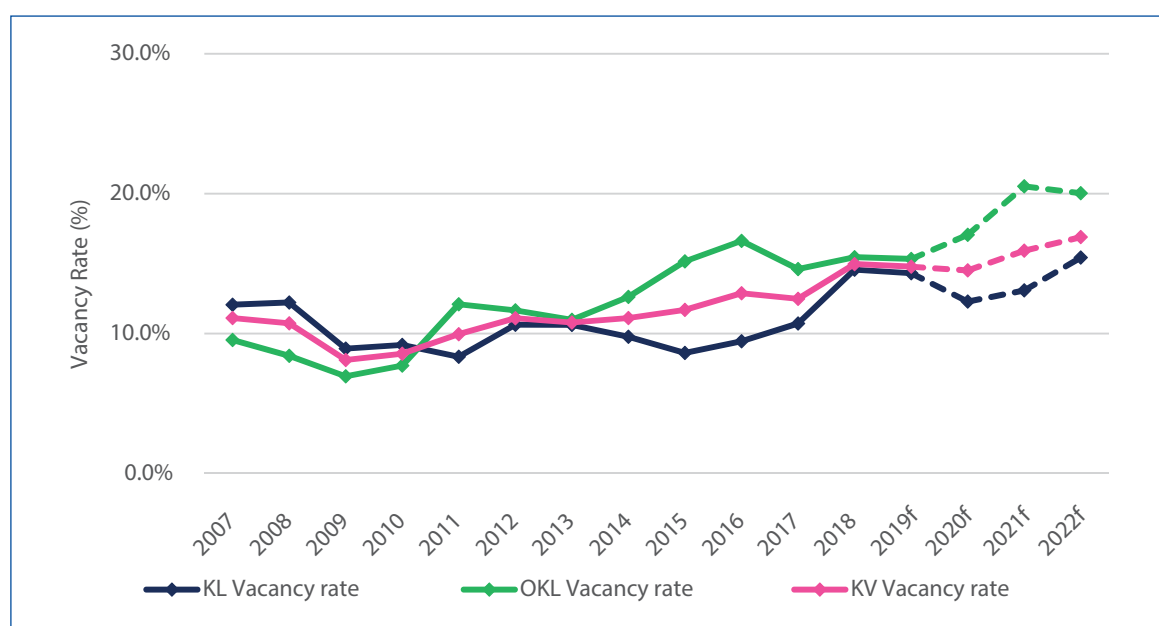
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PURPOSE-BUILT RETAIL SECTOR (cont'd)

2.2 KLANG VALLEY (cont'd)

2.2.1 Supply and Demand (cont'd)

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



Abbreviation : KL – Kuala Lumpur, OKL – Outside Kuala Lumpur, KV – Klang Valley

Source : CBRE|WTW Research, December 2019

The take up rates in the Klang Valley has been stable, with an average of about 1.91 million square feet-of retail space annually for the past 5 years (2014-2018).

In comparison, the take-up rates of PBR space in Kuala Lumpur was about 1.17 million square feet whilst PBR space Outside Kuala Lumpur absorbed 0.75 million square feet per annum. Leasing activities remained active for retail malls conveniently located near public transportation and providing a good spread of retail outlets to local residents.

By 2022, Outside Kuala Lumpur is expected to have 31.7 million square feet of PBR space, while Kuala Lumpur will have 40.0 million square feet. Established retail malls in well-located areas are expected to remain vibrant and continue to attract international brands expanding their presence into Kuala Lumpur. Notable new entrants into the Malaysian retail industry include Haidi Lao (China), Christian Loubotin (France), Henry Jacques (France), All Saints (UK) and Wycon Cosmetics (Italy).

The advancement of technology, e-commerce and the rise of tech-savvy shoppers are changing the current shopping landscape. Although, physical stores are still seen to be central to the shopping experience but the infusion of technology is expected to increase and enrich customer involvement. PBR spaces are also gaining traction as entertainment and social networking locales of the new generation of consumers. Recent examples include SuperPark Malaysia in Avenue K, Selfie Museum in Fahrenheit 88, VAR Live in MyTown Shopping Centre, The Rift in Nu Sentral and MyBestBox in Berjaya Times Square.

PROPERTY MARKET UPDATES

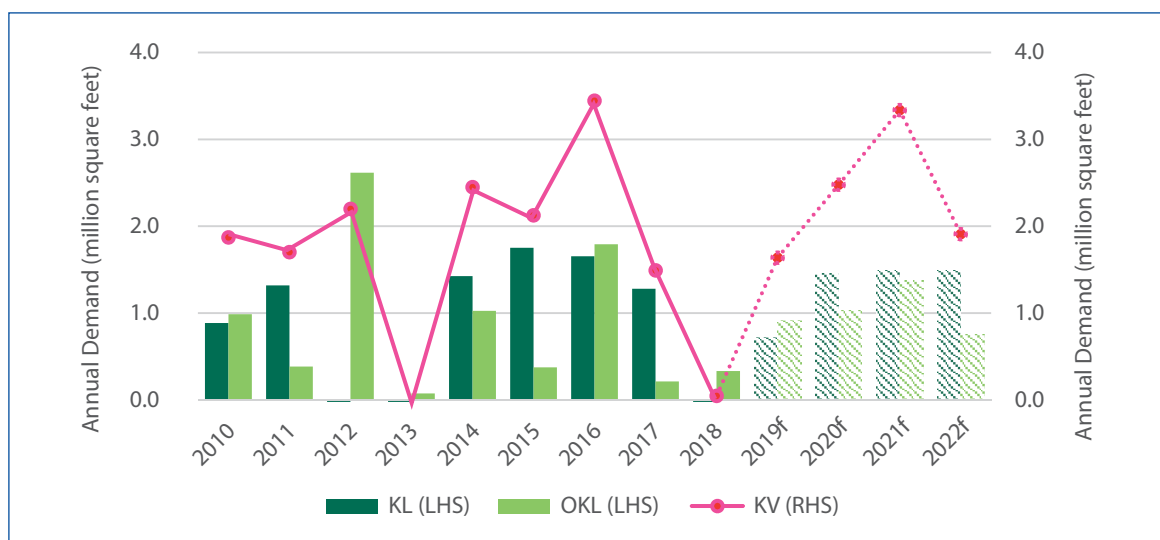
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PURPOSE-BUILT RETAIL SECTOR (cont'd)

2.2 KLANG VALLEY (cont'd)

2.2.1 Supply and Demand (cont'd)

Chart 2.4: Take-up of Retail Space in Purpose-Built Retail Spaces in Kuala Lumpur and Outside Kuala Lumpur (2010 to 2022f)



Abbreviation : KV – Klang Valley, KL – Kuala Lumpur, OKL – Outside Kuala Lumpur, RHS – Right Hand Side, LHS – Left Hand Side

Source : CBRE|WTW Research, December 2019

2.2.2 Investment Activity

Based on REITs Annual Reports 2018, the average gross rental of prime PBR spaces in Klang Valley was about RM16 per square foot: about RM28 per square foot in Kuala Lumpur compared to about RM12 per square foot Outside Kuala Lumpur. Prime retail rentals in Klang Valley are expected to remain stable.

Prime yields have remained steady since 2006, between 6.0% and 7.0%.

PROPERTY MARKET UPDATES

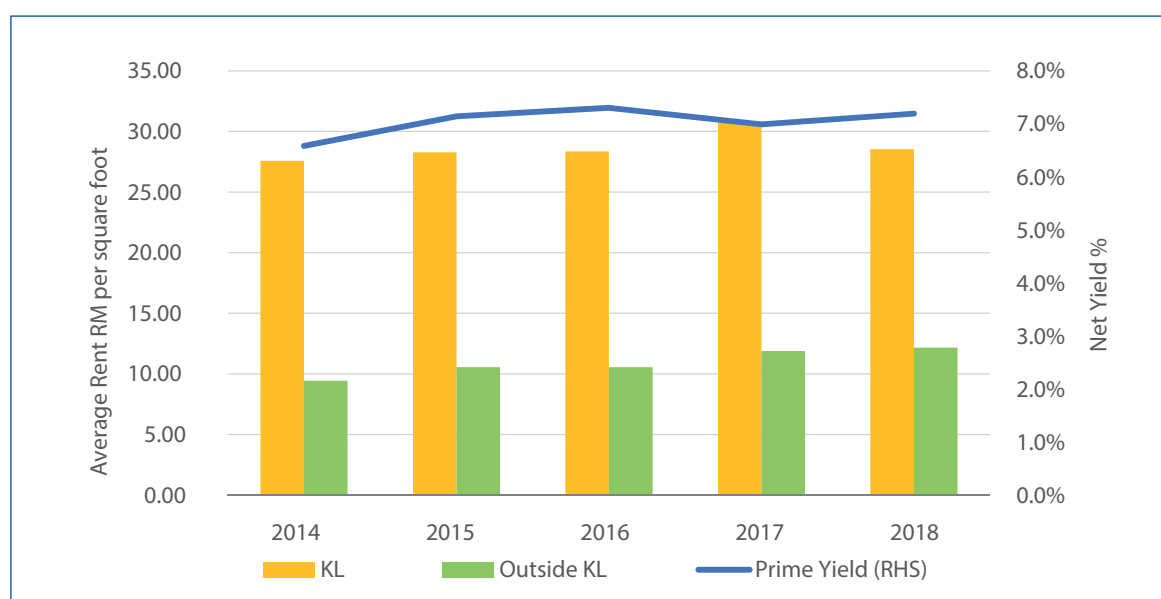
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PURPOSE-BUILT RETAIL SECTOR (cont'd)

2.2 KLANG VALLEY (cont'd)

2.2.2 Investment Activity (cont'd)

Chart 2.5: Average Prime Gross Rental in Klang Valley (2014 -2018)



Abbreviation : KV – Klang Valley, KL – Kuala Lumpur, OKL – Outside Kuala Lumpur; RHS – Right Hand Side
Source : REITS Annual Reports, 2014- 2018, CBRE | WTW Research, December 2019

The current soft market in 2019 was also reflected in limited transactions of PBR properties in KV. Notably, Regal Path Sdn Bhd has secured syndicated banking facilities for its acquisition of Pavilion Bukit Jalil for RM1.1 billion from Pioneer Haven Sdn Bhd. This PBR space would be a part of an integrated development within the 50 acres of Bukit Jalil City, slated for completion by March 2021.

2.2.3 Market Outlook

As reported by MRA and MIER, rising prices have led to a cautious spending attitude by consumers. Retailers are finding new ways to compete for a larger share of the dwindling consumer dollar by various sale offers, new purchasing channels, collaborative platforms and technology adaptation in retail. These new strategies are executed to provide shopping ease and convenience to attract consumers.

In addition, with the rising operating costs, retailers will strive for business sustainability by increasing sales volume via various innovative marketing strategies such as Omni channel, click and collect, concept store, tech-savvy advertisements and promotions. Physical stores will still remain important for customers' experiential needs and to establish close contact as part of customer retention strategies.

Retailing activities are expected to have good prospects supported by the growing tourism sector including the upcoming Visit Malaysia 2020 campaign by the government.

With the Klang Valley's average annual take up rate of 1.91 million square feet of PBR space compared to the 13.61 million square feet of upcoming PBR spaces in the next 3 years, the retail scene is expected to remain competitive and challenging.

Prime and neighbourhood PBR spaces located at strategic locations, with good access to public transportation will remain highly sought after.

PROPERTY MARKET UPDATES

(cont'd)

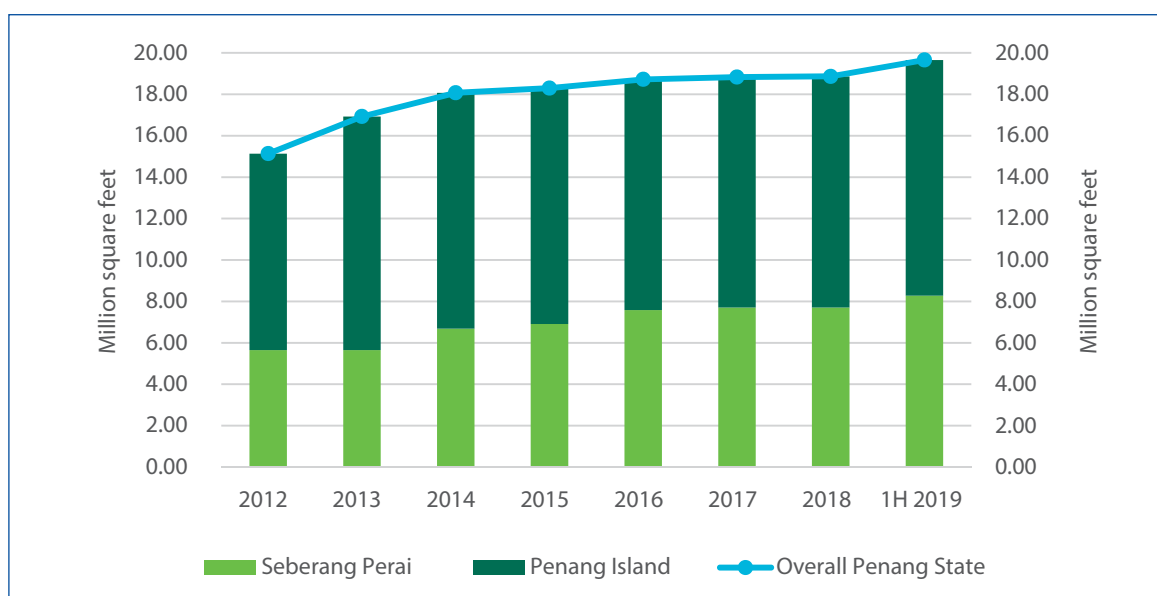
PURPOSE-BUILT RETAIL SECTOR (cont'd)

2.3 PENANG³

2.3.1 Existing Supply

The existing supply of PBR space in Penang state stands at approximately 19.655 million square feet.

Chart 2.6: Cumulative Supply of Purpose-Built Retail Spaces in Penang



Source: NAPIC, CBRE|WTW Research, December 2019

Most retail accommodation is located in Penang Island, comprising 11.378 million square feet, or approximately 58% of the total existing supply. Seberang Perai accommodates the remaining 8.277 million square feet (42%).

Table 2.3: Existing Supply of Purpose Built Retail Spaces in Penang

Supply	Overall (Penang State)	Location	
		Penang Island	Seberang Perai
Existing Supply (million square feet)	19.655	11.378	8.277
Share (%)	100%	58%	42%

Source: NAPIC, CBRE|WTW Research, December 2019

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

PROPERTY MARKET UPDATES

(cont'd)

PURPOSE-BUILT RETAIL SECTOR (cont'd)

2.3 PENANG (cont'd)

2.3.1 Existing Supply (cont'd)

Existing retail accommodation in Penang State comprises 42 shopping centres (12.85 million square feet), followed by 49 arcades (approximately 4.04 million square feet) and 17 hypermarkets (2.76 million square feet).

Table 2.4: Existing Supply of Purpose-Built Retail Spaces According to Type

Local	Shopping Centre		Arcade		Hypermarket		Total	
	No.	Retail Space (million square feet)	No.	Retail Space (million square feet)	No.	Retail Space (million square feet)	No.	Retail Space (million square feet)
Penang Island	18	6.59	46	3.97	4	0.81	67	11.37
Seberang Perai	24	6.26	4	0.07	13	1.95	41	8.28
Total Penang State	42	12.85	49	4.04	17	2.76	108	19.65

Source: NAPIC, CBRE|WTW Research, December 2019

Approximately 790,000 square feet of PBR spaces was completed in 2019: City Junction on Penang Island and 2 other PBR spaces in Seberang Perai.

Table 2.5: Newly Opened Purpose-Built Retail Spaces in Penang in 2019

Location	Retail Mall	Estimated Net Lettable Area (square feet)
Penang Island	City Junction (Tanjung Tokong)	217,000
Seberang Perai	Tesco (Bagan Ajam)	103,000
	IKEA Store @ Aspen Vision City (AVC) (Batu Kawan)	470,000

Source: NAPIC, CBRE|WTW Research, December 2019

2.3.2 Future Supply

Approximately 2.83 million square feet of new net lettable area is being planned in Penang State. Major PBR spaces under construction include Penang Time Square Phase 3, Retail Mall @ Sunshine Tower, Sunway Carnival Extension and GEM Megamall.

Table 2.6: Notable Upcoming Purpose-Built Retail Spaces in Penang

Location	Proposed Purpose Built Retail Spaces	Estimated Net Lettable Area (square feet)	Expected Year of Completion
Penang Island	Penang Time Square Phase 3	230,000	2020
	Retail Mall @ Sunshine Tower	900,000	2021
Seberang Perai	Sunway Carnival Extension	500,000	2022
	GEM Megamall	1,200,000	2022

Source: NAPIC, CBRE|WTW Research, December 2019

PROPERTY MARKET UPDATES

(cont'd)

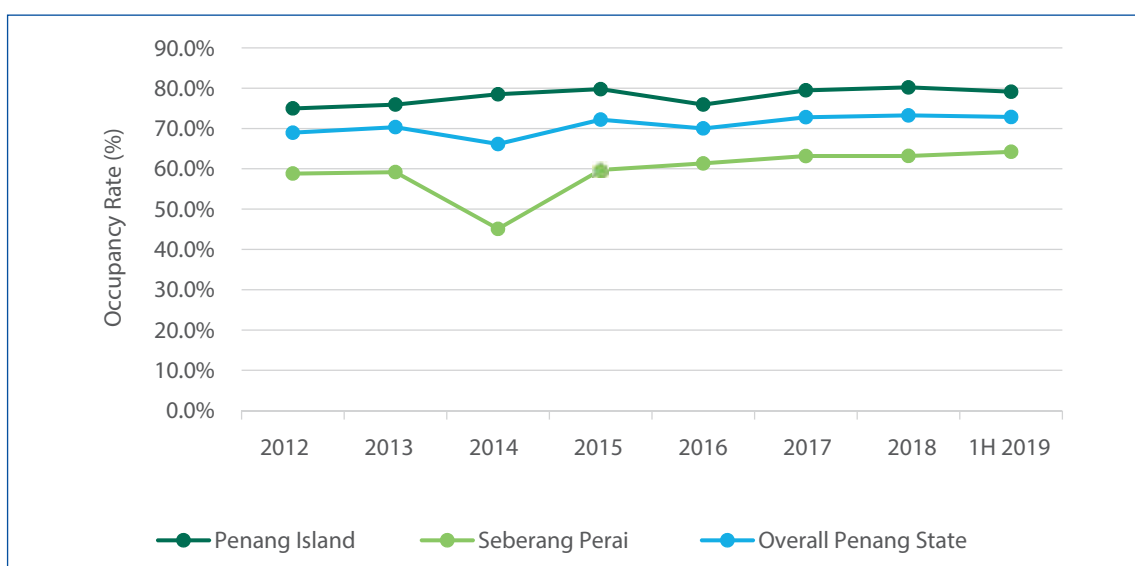
PURPOSE-BUILT RETAIL SECTOR (cont'd)

2.3 PENANG (cont'd)

2.3.3.1 Market Occupancy

The overall occupancy rate of PBR spaces in Penang was in the region of 66% to 73% in the past 5 years. PBR spaces on Penang Island continued to outperform Seberang Perai, which registered an average occupancy rate of about 79% whilst the latter at about 64%. The higher occupancy rate of the island is attributed mainly to the relatively larger working population as well as tourist visitors.

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

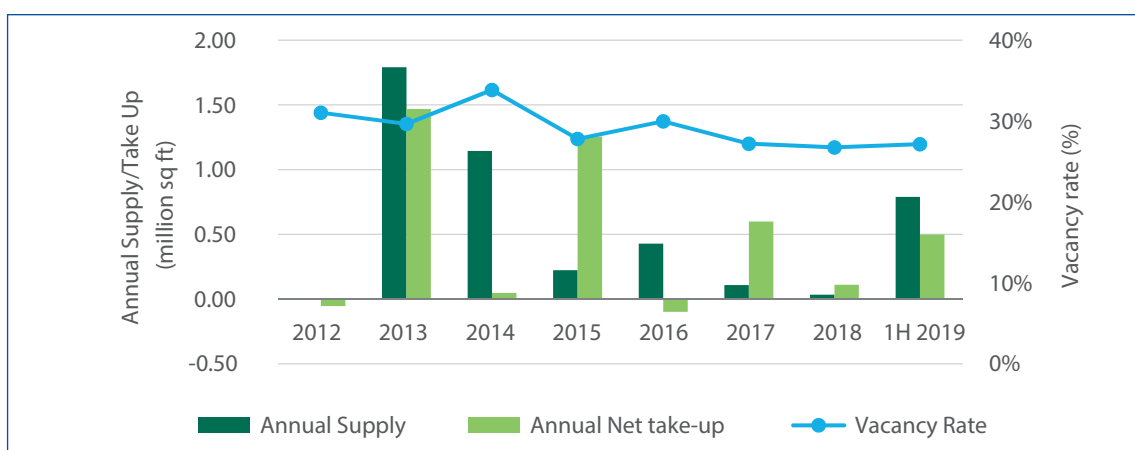


Source: NAPIC, CBRE|WTW Research, December 2019

2.3.3.2 Annual Supply, Annual Net Take-Up and Vacancy Rate

The trend of annual supply, annual net take-up and vacancy rate of retail accommodation in Penang State is summarised in the following chart.

Chart 2.8: Annual Supply, Net Take-up and Vacancy Rate in Penang (2012-1H2019)



Source: NAPIC, CBRE|WTW Research, December 2019

PROPERTY MARKET UPDATES

(cont'd)

PURPOSE-BUILT RETAIL SECTOR *(cont'd)*

2.3 PENANG *(cont'd)*

2.3.4 Investment Activity

Gross rentals for the ground floor of selected prime shopping centres in Penang Island commanded higher rental rates of up to RM45 per square foot per month. For en-bloc hypermarket, the gross rentals range from RM2.30 to RM3.20 per square foot per month in Seberang Perai and Penang Island.

A recent en-bloc transaction was recorded in September 2019: A subsidiary company of Ideal United Bintang International Berhad (IUBIB) has entered into a Conditional Sale Purchase Agreement to purchase the 1st Avenue Shopping Mall from 1st Avenue Mall Sdn Bhd. The transacted price was RM153 million, analysed at approximately RM375 per square foot on the net lettable area of approximately 407,076 square feet.

2.3.5 Market Outlook

Following the opening of new PBR spaces such as Tesco Bagan Ajam, IKEA Store and City Junction and also on-going and planned construction of a number of PBR projects in Penang, a substantial increase of supply will be seen in the medium-term leading to keener competition among retailers and landlords.

The incoming PBR spaces will be better planned, providing a more enriching experience for shoppers. All these will build up more pressure and challenges to ageing PBR spaces. Existing PBR spaces will need more effort to stay competitive in the market. Single owner PBR spaces will continue to sustain good occupancy rates and high rentals due to strong management and co-ordinated marketing and tenant mix efforts. On the other hand, most stratified PBR spaces with multiple ownership with poorer tenant mix are expected to experience reduced occupancy rates and rentals due to lower footfalls and business volume.

Revenue for retailers is expected to sustain but not grow as consumers could be held back by lack of extra income and eroded purchasing power due to rising cost of living. Hence, the ability of retailers to pay increased rentals would be constrained, leading to flat prices and rentals in the near future.

The emergence of mobile shopping applications and online shopping have increased pressure on occupancy rates in retail centres. While the online boom has impacted traditional bricks-and-mortar retailers, certain retailers have leveraged e-commerce to drive their businesses. The customer can seamlessly shop online from a desktop, mobile device or at a physical store. For example, fashion retail brand Uniqlo allows customers to buy online and collect the purchase at their preferred outlet.

PBR spaces will be repositioned as interaction centres for leisure, social and recreational activities to provide a more entertaining experience which have been proven to appeal to shoppers.

CORPORATE HIGHLIGHTS AND EVENTS

MRCB-Quill REIT ("MQREIT") 7th Annual General Meeting ("AGM") on 3 April 2019

MQREIT's 7th AGM was held on 3 April 2019 wherein 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 trustee of MQREIT and the Statement issued by 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 Listing Requirements 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 AND EVENTS

(cont'd)

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

MQM's corporate social responsibility ("CSR") focus is to provide support to non-profit organisations that undertakes food aid, shelter, education and healthcare programmes to meet the needs for underprivileged children.

In December 2019, the MQM donated approximately RM105,000 and RM90,000 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 to Persatuan Kebajikan Kanak-Kanak Kajang helped to fund the operations cost of running these centres, which includes staff and teachers' salaries, workbooks and desktop computers for the children, as well as rental, utilities, food and maintenance cost.



Meanwhile, the cash donation to Yayasan Ozanam's Ozanam Service Centre helped to fund the learning centre's program include computer studies and other soft skills; its youth dropout programme and the newly introduced the women empowerment programme.

This year, MQM has also decided to extend financial support for the women empowerment programme as we view this as an extension to our CSR focus. The objective of women empowerment programme is to educate and facilitate lifelong learning of skills required among poor single women and mothers to enable them to earn a living, to lift them out of poverty and improve their family's lives. Due to the importance of mother's role in a child's life, it is therefore necessary for them to be equipped with basic life skills to be self-sufficient and to be able to provide stability at home.

A cheque presentation ceremony was held on 22 November 2019 at Ozanam Service Centre, Taman Sri Sentosa in conjunction with the inaugural event under the women empowerment programme. Ms. Yong Su Lin, Chief Executive Officer of MQM presented the cheque to Yayasan Ozanam.



IN THE NEWS

馬資源桂和
推共享辦公空間

《吉隆坡1報》：馬資源桂和（MQREIT 5123）主理產業投資顧問（兼）兼于辦公樓區域內提供于業主，計劃透過其共享辦公空間（co-working）吸引市場租戶。

每3年商議租金

該公司高層執行總裁郭志輝在股東大會中表示，其共享辦公空間計劃在今年6或7月開始在吉隆坡納特蘭區投標。雙方已同意簽署4年租約，與3年可重新商議租約。

“上述租戶的租約是10年租約，租金不會受到市場波動。此外，該租戶要求保密，因此不能透露租戶的名稱。與其共享辦公空間投標之時，將會公布于中環網。”

楊志輝補充，該公司正在與其他共享辦公空間商談合作事宜。

楊志輝表示，辦公樓區域發展迅速，其今年年終有12%的租戶租約合約內附，該公司將是為該發展商租戶，并將也該附合約租戶。

目前，該公司旗下辦公樓的租戶達80%。

該公司主席馬景雲表示，該公司已有回報，其明年初將開始在該辦公樓下，可試中區辦公樓的租戶。

馬景雲表示有意收購新資產，楊志輝表示，該公司投資房地產公司，而該公司必須符合該公司。該公司也將是用于收購資產。

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4 April 2019

MQREIT gets first tenant from co-working sector

BY JUSTIN LIM

KUALA LUMPUR: MRCB-Quill REIT (MQREIT) has secured its first-ever tenant from the co-working sector as the REIT seeks to diversify its portfolio to ride out the challenging environment in the office space. It is looking to secure more tenants within the co-working sector to fill its vacant space.

MQREIT chief executive officer Yong Su-Lin said the REIT had signed a lease agreement with a multinational co-working space provider, which she declined to identify, that would become a tenant of its office space in either Platinum Sentral or Menara Shell in the Kuala Lumpur Sentral area.

Yong said it would be a long-term lease of nine years with the option to extend for an additional three years.

“We have agreed with them that

there will be a rental revision every three years, all subject to negotiation at the point of time,” Yong told a press conference after MQREIT’s annual general meeting. She declined to disclose the lease amount.

Yong said the new tenant is expected to commence operations in June or July.

Yong said the growing number of technology start-up companies in Malaysia had led to rising demand in the co-working space. As such, MQREIT is proactively looking to sign up co-working space providers as tenants in view of the current oversupply of office spaces and downward pressure on rental rates.

“We cannot deny that the co-working space is coming in a big wave into the market. We need to be flexible and dynamic in this changing environment for the of-

fice market,” Yong said.

She expects the office market to remain challenging in the next few years due to slower growth of occupiers’ demand compared to the escalating supply of office space.

Taking into account the increasingly challenging operating landscape, Yong said MQREIT will prioritise tenant retention over reversion growth. She said 12% or some 264,000 sq ft of MQREIT’s total net lettable area (NLA) of 2.2 million sq ft will be up for renewal.

The bulk of this will be due by the end of this year, and the REIT has started to negotiate with the tenants and is hoping to get them to sign longer-term leases.

Despite a lacklustre office space market, MQREIT’s portfolio is about 93% occupied. The REIT is hopeful of maintaining the rate this year.

Meanwhile, MQREIT chairman

Tan Sri Saw Choo Boon said he expects a minimal impact on the REIT in the event of an interest rate cut by Bank Negara Malaysia.

“We are in the property business and we are not speculating on interest rates to make money. Our concentration is on making money from renting office space,” he added.

MQREIT’s gearing ratio stands at 37.7% with 70% of its total borrowings being charged a fixed interest rate, and 24% floating rates. It is estimated that the REIT had total debts of RM853.7 million as of Dec 31, 2018.

The REIT expects its capital expenditure in 2019 to be about RM10 million, mainly for asset enhancement.

MQREIT’s share price rose one sen or 0.9% to RM1.12 yesterday, giving the REIT a market capitalisation of RM1.2 billion. It has risen by 10.89% over the past year.

MRCB-Quill REIT Q1 net profit down 7.6%

PEKAMPUNG, JALAN: The net profit of MRCB-Quill REIT (MQREIT) slipped 7.6% to RM119 million in the first quarter, on the back of lower revenue generated from selected properties.

The company in a filing with Bursa Malaysia said that the decline was primarily due to lower occupancy and lower revenue generated during the period.

In the third five years, net profit, MQREIT recorded a modest increase of 1.1% from RM119 million to RM120 million during the same period last year.

Revenue for the first quarter

ended March 31, 2019, was also down by 0.8% to RM212 million. The increase, the company said, was mainly due to lower revenue generated from Platinum Sentral, Wisma Techpark and low of revenue from QM-002, NPI following a takeover in April 2018.

In a statement, MQREIT said Management felt that the decline in the first quarter was a result of a number of factors, including the current challenging office market environment.

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Revenue for the first quarter

MRCB-Quill REIT records lower NPI, declares 1.81 sen DPU

KUALA LUMPUR: MRCB-Quill Real Estate Investment Trust’s (MQREIT) net property income (NPI) in the first quarter ended March 31, 2019 slipped 0.2% to RM38.32 million from RM34.54 million a year ago, on the back of lower revenue.

Revenue fell 5.8% to RM41.72 million from RM44.29 million

last year, despite lower property operating expenses and trust expenses, its filing with Bursa Malaysia yesterday showed.

The commercial REIT has declared a distribution per unit (DPU) for the quarter of 1.81 sen, 13.8% less than the 2.1 sen returned in first quarter of financial year 2018.

Trust manager MRCB Quill

Management Sdn Bhd (MQM) expects some fluctuation in earnings amid the persistent challenging office market environment.

However, we remain optimistic that MQ REIT’s operation will be able to weather these market challenges over time.

“We will continue to focus on tenant retention to maintain a stable occupancy and healthy weighted average lease expiry, which stood at 4.84 years as at March 31, 2019 for the REIT’s current asset portfolio,” said MQM chairman Tan Sri Saw Choo Boon.

MQ REIT’s portfolio of assets boasts 369,000 sq ft, of which 19% of its total leased net lettable area is due for renewal in 2019.

10 May 2019

Office space seen
stable for MQREITMRCB-Quill REIT
(May 10, RM1.09)

Maintain buy with a slightly lower target price of RM1.16: MRCB-Quill REIT’s (MQREIT) first quarter ended March 31, 2019 (Q1FY19) gross revenue of RM41.4 million (-3% quarter-on-quarter (q-o-q); -6% year-on-year (y-o-y)) translated into a core net profit (CNP) of RM19.4 million (-1% q-o-q; -7.6% y-o-y). The results were below both our and consensus’ expectations, accounting for 23.2% and 23.3% respectively. The deviation was due to lower-than-expected interest income.

The decline in CNP was driven by lower revenue contributions, mainly from Platinum Sentral, Wisma Techpark and Quill Building 5 – IBM (QB5), as well as the loss of revenue after the disposal of QB6 back in April 2018. Nevertheless, the fall was marginally mitigated by a reduction in property operating expense (4.5%) attributed to lower expenses incurred by some properties, and other expenses (-8.8%).

The occupancy rate fell to 89% (FY18: 93%), relatively stable considering that the average occupancy rate in Kuala Lumpur stood at 78.7% in FY18 (according to Knight Frank). Average debt to maturity decreased slightly from 2.47 years to 2.32 years, while the average cost of debt was main-

MRCB-Quill REIT

FY/DECT (RM MIL)	1Q2018	1Q2019	Q-O-Q (%)	Y-O-Y (%)
Gross revenue	44.0	42.7	-3.0	-6.0
Property operating expenses	-9.8	-10.0	-9.3	-6.5
Net property income	34.3	32.7	-32.0	-1.9
Interest income	0.7	1.7	0.8	-51.3
Gain on investment	0.0	0.0	0.0	NM
Net investment income	35.0	28.9	-32.9	-13.6
Finance costs	-9.7	-10.0	-9.9	-9.5
Valuation fees	-0.1	-0.1	-0.1	5.5
Administrative expenses	-0.7	-0.3	-0.1	-76.8
Total expenses	-14.0	-14.8	-13.5	-8.8
Core PBT	21.0	19.6	-19.4	-1.0
Core PAT	21.0	19.6	-19.4	-1.0
Distributable adjustments	1.4	1.4	0.0	>100
Distributable income	22.4	18.2	-19.4	-6.5
Core EPU (sen)	2.0	1.8	-1.8	-1.0
DPU (sen)	0.0	3.9	0.0	NM

Source: MLIS Research

tained at 4.5%. The gearing level decreased slightly to 37.5% (FY18: 37.7%), comfortably below the 50% limit, with a majority of its total borrowings (76%) being charged a fixed interest rate.

Despite the lacklustre overall office market, MQREIT’s office space will remain relatively stable and well guarded by its long weighted average term to expiry with well-spread net lettable area expiry. Going forward, management will be focusing on cost

management as well as tenant retention over reversion growth. Also, with the expectations of a challenging office market, some properties will be scheduled for enhancement works, namely Wisma Techpark (washrooms and the external facade), QB5 (the air-conditioning system), Platinum Sentral (several common-area facility upgrades) and Menara Shell (lift systems).

— Hong Leong Investment Bank Research, May 10

MQREIT's 1Q19 results within expectations

KUALA LUMPUR: MRCB-Quill Real Estate Investment Trust’s (MQREIT) first quarter of 2019 (Q1FY19) gross revenue of RM41.4 million (-3% quarter-on-quarter (q-o-q); -6% year-on-year (y-o-y)) translated into a core net profit (CNP) of RM19.4 million (-1% q-o-q; -7.6% y-o-y). The results were below both our and consensus’ expectations, accounting for 23.2% and 23.3% respectively. The deviation was due to lower-than-expected interest income.

The decline in CNP was driven by lower revenue contributions, mainly from Platinum Sentral, Wisma Techpark and Quill Building 5 – IBM (QB5), as well as the loss of revenue after the disposal of QB6 back in April 2018. Nevertheless, the fall was marginally mitigated by a reduction in property operating expense (4.5%) attributed to lower expenses incurred by some properties, and other expenses (-8.8%).

The occupancy rate fell to 89% (FY18: 93%), relatively stable considering that the average occupancy rate in Kuala Lumpur stood at 78.7% in FY18 (according to Knight Frank). Average debt to maturity decreased slightly from 2.47 years to 2.32 years, while the average cost of debt was main-



The 10 to 15% fall in the average lease expiry for MQREIT, which is consistent with the tough office market conditions due to the oversupply of office space in KL and the Klang Valley, and risk of tenant attrition, analysts say.

get rent in Q1FY19 compared with 50 per cent in Q1FY18. “We understood there was lower occupancy in Q1FY18, as well as Platinum Sentral and Menara Shell, as tenants opted to diversify operations,” it added.

Looking ahead, AllianceDB Research said that while the first quarter of MQREIT’s total net lettable area (NLA) is due for renewal in FY19, of which close to a per cent has been renewed

and three per cent will be renewed while the expiring leases in FY19 form of per cent of total NLA and to per cent in FY20.

On the other hand, Knight Frank most likely that a research team from Menara Shell viewed the minimal renewal leases in consistent with the current market conditions.

FY19 to FY20 will see minimal lease up the expiry in to a per cent of NLA which is consistent with the tough office market conditions due to the oversupply of office space in KL and the Klang Valley, and risk of tenant attrition.

Analyst favours MQREIT for its attractive 7% dividend, stable assets

► Recommendation:

Buy

“MQREIT has a strong track record of being a good dividend payer,” said the analyst.

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► MRCB-QUILL REAL ESTATE INVESTMENT TRUST

FY/DECT	FY18	FY19	FY20	FY21
TOTAL REVENUE (RM MIL)	44.0	42.7	41.4	40.1
NET PROPERTY INCOME (RM MIL)	34.3	32.7	31.4	30.1
NET INVESTMENT INCOME (RM MIL)	35.0	28.9	27.6	26.3
FINANCE COSTS (RM MIL)	-9.7	-10.0	-9.9	-9.5
VALUATION FEES (RM MIL)	-0.1	-0.1	-0.1	-0.1
ADMINISTRATIVE EXPENSES (RM MIL)	-0.7	-0.3	-0.1	-0.1
TOTAL EXPENSES (RM MIL)	-14.0	-14.8	-13.5	-12.8
CORE PBT (RM MIL)	21.0	19.6	19.4	19.0
CORE PAT (RM MIL)	21.0	19.6	19.4	19.0
DISTRIBUTABLE ADJUSTMENTS (RM MIL)	1.4	1.4	0.0	0.0
DISTRIBUTABLE INCOME (RM MIL)	22.4	18.2	19.4	19.0
CORE EPU (SEN)	2.0	1.8	1.8	1.8
DPU (SEN)	0.0	3.9	0.0	0.0

Q1FY19 Total gross revenue slipped to 41.4% from 44.0% in Q1FY18, followed by a decline in Q1FY19 to 41.4%.

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13 May 2019

IN THE NEWS

(cont'd)

5 HOME BUSINESS

REITs still a good defensive play against market volatility

REITs still a good defensive play against market volatility

BY SARAHATHA NG

KUALA LUMPUR: The recent sharp rise in the FTSE 4-Index and China three financial markets has surprised investors, but Bursa Malaysia REITs are still considered by market watchers to be a defensive play.

"REITs are indeed good to add as a defensive strategy portfolio," said REIT fund of research Global

Investment Research. "Looking at the REIT index, it has gone up steadily from Dec 31, 2018 closing at 924.9 points to 955.19 points on May 17 at 9.75 percent. In response to questions from the Edge Financial Daily, Redza added that the sector index has had steady movement over the past few months, with the REIT index rising about 1.75% and 1.21% respectively, the REIT index has held steady at over 900 points since hitting its VTD peak of 1,001.47 on May 3. However, another investment bank, Global Equities and Securities, said that the REIT index will continue to rise as it is still considered a defensive play against market volatility.

It is worth to say, "We have to look at where bond yields are located from the US Federal Open Market Committee's (FOMC) decision," said the analyst, who declined to be named. Last Wednesday, the minutes of the latest FOMC meeting suggested that it would follow a "patient approach" to interest rate changes. "Overall, REITs are a good defensive play against market volatility," said Sarin, adding that REITs will continue to rise as it is still considered a defensive play against market volatility.

CONTRAST PAGE 1



22 July 2019

27 May 2019

REITs expected to benefit from lower interest rate

FROM PAGE 3

slashed its overnight policy rate by 25 basis points in early May, REITs were expected to benefit from the lower interest rate as it would have provided a better spread between their yields and the returns on Malaysian Government Securities. It would also have supported lower financing costs for the property managers.

"With the rate cut, we can expect better private domestic spending especially with the coming festive season, which bodes well for REITs with exposure to shopping malls and logistics hubs," MIDF's Redza said.

Corporate earnings will also be a key factor to watch when it comes to judging the valuations of Malaysian REITs. To MIDF, financial results for the first quarter of 2019 so far have been decent in meeting expectations.

"Earnings are expected to be stable for the sector, thus providing window opportunities whenever negative overall market sentiment puts pressure on their price movements," said Redza.

So far, most REITs which have reported their earnings for the first quarter of 2019 recorded a year-on-year (y-o-y) decline in profitability.

For instance, UOA REIT recorded a decrease in first-quarter gross rental income to RM15.55 million from RM19.6 million a year ago.

Net rental income for the commercial asset manager also declined as it recorded higher property operating expenses, although total expenditure declined 9% y-o-y due to lower borrowing costs.

UOA REIT announced a higher distribution per unit of 2.21 sen for the first quarter from 2.03 sen a year ago.

Meanwhile, Hekstar REIT reported a fall in distribution per unit to 1.53 sen from 2.3 sen in the first quarter, as net property income declined 4.37% to RM18.58 million from RM19.42 million y-o-y.

"Property operating expenses increased by 1.6%," the shopping mall operator said in its stock exchange filing.

Another mall and commercial property manager MRCB-Quill REIT posted a lower gross revenue of RM41.4 million, down some 6% y-o-y on the back of lower contributions from Platinum Sentral, Wisma Technip and Quill Building 5-IBM.

"The results were below both our and consensus' expectations. The deviation was due to lower-than-expected interest income," said Hong Leong Investment Bank in its May 10 report.

Amanahya REIT, meanwhile, announced a distribution per unit of 1.5 sen in the first quarter versus 1.35 sen a year ago as net property income also inched up 5.06% to RM20.1 million. This was supported by contributions from Vista Tower, the group said in a stock exchange filing.

MOREIT realised net income down

PETALING JAYA: MRCB-Quill real estate investment trust (MQREIT) saw its realised net income fall about 30% to RM16.4m for the second quarter ended June 30 from RM23.7m for the corresponding quarter last year.

In a statement, MRCB-Quill Management Sdn Bhd (MQM), the manager of MQREIT, said the decline in realised net income was largely due to lower income contribution from Platinum Sentral, Wisma Technip and Quill Building 5-IBM as well as the extraordinary gain from the disposal of Quill Building 8-DHL (XPI) recognised in 2QFY18.

"A distribution per unit of 3.43 sen for the six months ended June 30 has been approved, translating to a yield of 6.35%."

For the quarter in review, MQREIT's distributable income fell to RM17.4m from RM24.4m in the corresponding quarter last year. This translated to a distributable income per unit of 1.62 sen compared with 2.28 sen previously.

For the cumulative period, MQREIT's distributable income was 21.8% lower at RM36.4m, or 3.43 sen, compared with RM46.7m, or 6.38 sen, previously.

MRCB Quill declares 3.43 sen DPU for MQREIT

KUALA LUMPUR: MRCB Quill Management Sdn Bhd (MQM), the manager of MRCB-Quill REIT (MQREIT), has declared a distribution per unit (DPU) of 3.43 sen for the six months ended June 30, 2019, translating to a yield of 6.35 per cent.

The DPU would likely be distributed on Sept 23, 2019.

"MQREIT recorded a first half 2019 (H1) distributable income and distributable income per unit of RM17.4 million and 3.43 sen respectively," the trust manager said in a statement.

During the second quarter, MQREIT's net income decreased by 21.8 per cent to RM36.4 million, largely due to lower income contribution from Platinum Sentral, Wisma Technip and Quill Building 5-IBM, as well as the extraordinary gain from the disposal of Quill Building 8-DHL (XPI) — Bernama

MQREIT 2Q NPI falls 12.4%; trust declares 3.43 sen DPU

BY JUSTIN LIM

KUALA LUMPUR: MRCB-Quill REIT's (MQREIT) net property income (NPI) for the second quarter ended June 30, 2019 (2QFY19) fell 12.4% to RM29.49 million, from RM33.65 million a year earlier.

MQREIT said this was due to lower income recognition from properties such as Platinum Sentral, Wisma Technip, Quill Building 5 as well as a gain from the disposal of Quill Building 8-DHL (XPI) recognised in 2QFY18.

In a filing with Bursa Malaysia yesterday, MQREIT said revenue for the quarter came in at RM39.19 million, down 10.3% from RM43.69 million previously.

MQREIT declared an income distribution per unit (DPU) of 3.43 sen, payable on Sept 23.

For the six months ended June 30, 2019, MQREIT's NPI fell 9.3% to RM61.87 million,

from RM68.18 million a year ago. Revenue during the same period decreased 8% to RM80.91 million from RM87.99 million.

MRCB Quill Management Sdn Bhd (MQM) chairman Tan Sri Saw Choo Boon, in a separate statement, said he expects the operating environment for office space in the Klang Valley to remain challenging due to oversupply pressure.

"This is not expected to abate soon with more office buildings pending completion."

"We are confident the trust will ride out the office market down cycle with our continued focus on cost management, tenant retention and optimisation of rental contribution," said Saw.

MQM chief executive officer Yong Siu Lin said the REIT has secured new leases of about 123,000 sq ft for a few of its properties, with demand coming from the oil and gas, information technology, services and retail sectors.

MQREIT 2Q profit falls 30% to RM14m

MQREIT's net income for the second quarter ended June 30, 2019, fell 21.8% to RM36.4 million, down from RM46.7 million a year earlier. The decline was primarily due to lower income contribution from Platinum Sentral, Wisma Technip and Quill Building 5-IBM, as well as the extraordinary gain from the disposal of Quill Building 8-DHL (XPI) recognised in 2QFY18.

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馬資源桂嘉產託 次季淨利挫近30%

(吉隆坡7日訊)受旗下業務收入走跌影響，馬資源桂嘉產託（MQREIT，3123，主要板上市）截至今年6月底次季，營業額按年跌10.3%至3919萬令吉，淨利也重挫29.9%至1646萬令吉。

同時，該公司建議每單位派息3.43仙，對比去年同期派息4.25仙。

馬資源桂嘉產託今日向馬証交所報告，首半财年營業額按年下跌6%至6091萬令吉，淨利也挫19.4%至3585萬令吉。

該公司解釋，次季營業

額下跌主要因為旗下業務 Platinum Sentral大廈、Technip大樓和IB5收入下跌所致。

"我們在去年次季因為出售6888業務录得220萬令吉的額外收入，相比之下，今年次季并无額外收入，因此下滑。"

馬資源桂嘉產託指出，接下來巴生谷一帶的辦公樓市場料繼續充滿挑戰。

"但无论如何，我們將繼續專注以租戶保留為中心的资产管理策略，以克服2019年的挑戰性运营环境。"

8 August 2019

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 ("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 Listing Requirements and Corporate Governance Guide (3rd edition) issued by Bursa Malaysia Berhad. As an added heft, MQREIT has also taken heed of the observations on disclosure practices as availed by Securities Commission Malaysia ("Securities Commission") in its inaugural Corporate Governance Monitor 2019.

As part of MQREIT's continued endeavor to enrich its corporate governance disclosure tapestry, the Corporate Governance Overview Statement is complemented with a voluntary Corporate Governance Report, based on a prescribed format by Bursa Malaysia Berhad so as to provide a detailed articulation on the application of corporate governance practices against the Malaysian Code on Corporate Governance issued by the Securities Commission ("MCCG"). The Corporate Governance Report is available on MQREIT's website, www.mrcbquillreit.com as well as the website of Bursa Securities under the company announcements. 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 Guidelines on Listed Real Estate Investment Trusts ("SC REIT Guidelines") issued by the 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, Audit Committee Report 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 remains surefooted in instilling 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 for MQREIT to remain competitive and sustainable in the long-term. MQM is committed to be a 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. The Board and Management of MQM is vigilant in steering MQREIT's corporate governance compass to align with the Restated Deed of Trust Constituting MRCB-Quill REIT dated 02 December 2019.

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.

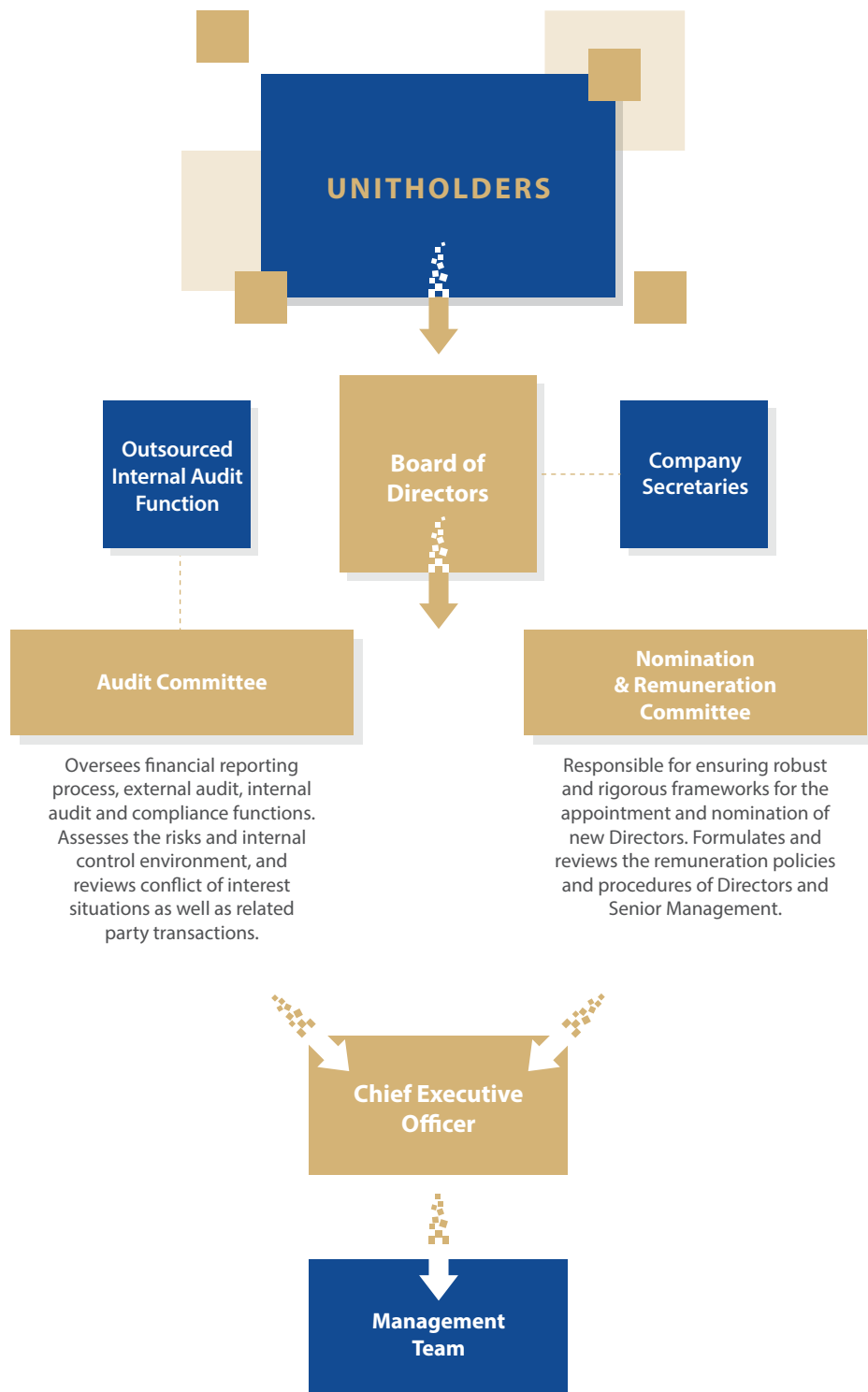
MQM is governed by a robust yet fluid corporate governance framework which is developed to underpin the day-to-day activities with sound processes and procedures. The Board conducts periodic reviews of the corporate governance framework to ensure it is attuned with the evolving expectations of stakeholders, regulatory changes and market dynamics whilst remaining relevant to the needs of MQREIT's businesses and core values.

In line with the belief that improving corporate governance is a continuous and relentless process, the Board remains cognisant and agile in responding to the regulatory changes that Corporate Malaysia and the REIT industry face during financial year 2019. As MQM continues to further internalise the salient revisions incorporated in the SC REIT Guidelines which was released by Securities Commission during the first quarter of 2018 and revised in June 2019, the Board and Senior Management of MQM are also keeping a watchful eye on other significant developments to the regulatory architecture. For example, the forthcoming operationalisation of the corporate liability provision on 1 June 2020 represents an impetus for MQM to take unequivocal steps to future-proof itself from incidences of corruption and business misconduct.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(cont'd)

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

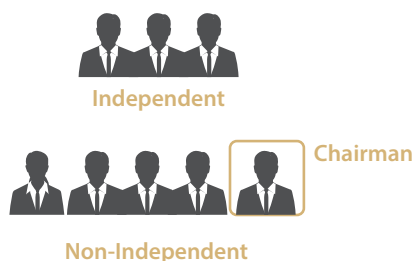


CORPORATE GOVERNANCE OVERVIEW STATEMENT

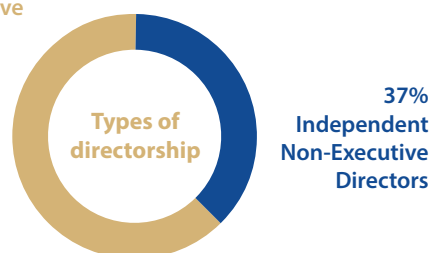
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OUR GOVERNANCE AT A GLANCE

BOARD OF DIRECTORS

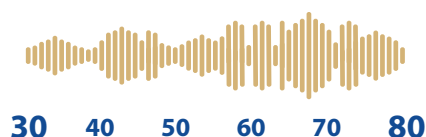


63%
Non-Independent
Non-Executive
Directors

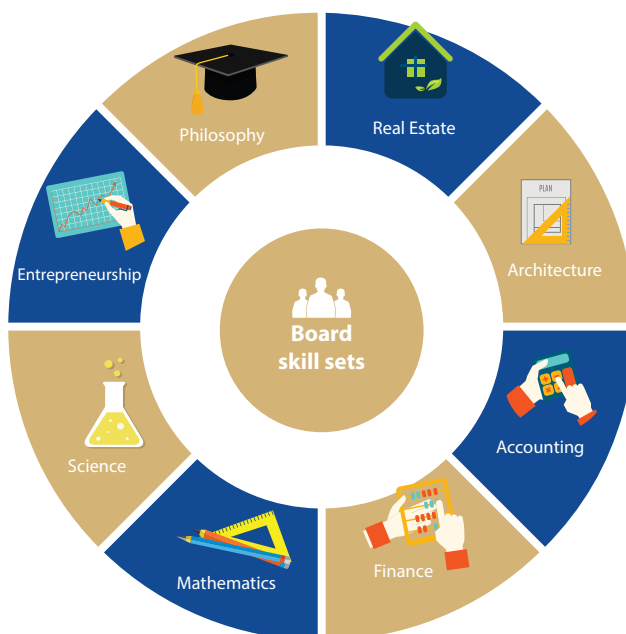
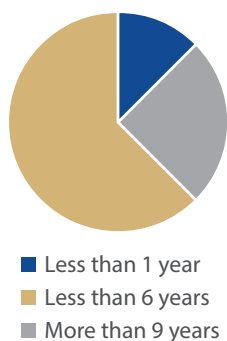


1 Female
Non-Independent
Non-Executive Director

DIVERSITY OF AGE



DIVERSITY OF TENURE



SUMMARY OF CORPORATE GOVERNANCE PRACTICES

In seeking to implement 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 5.1 (undertake a formal and objective evaluation annually to determine the effectiveness of the board);
- Practice 7.2 (disclosure of top five Senior Management personnel's remuneration); and
- Practice 11.2 (the adoption of Integrated Reporting).

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(cont'd)

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 Companies¹ 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.

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

Board Responsibilities

The primary role of the Board is to promote MQREIT's long term sustainability 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 strategies, business plans, annual budget, 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 (<i>Chairman</i>)	6/6	-	-
Dato' Dr. Low Moi Ing, J.P.	5/6	4/4	-
Dato' Michael Ong Leng Chun	6/6	-	-
Ann Wan Tee	6/6	4/4	-
Kwan Joon Hoe	6/6	-	-
Dato' Thanarajasingam Subramaniam ¹	-	-	-
Independent Non-Executive Directors			
Foong Soo Hah	6/6	4/4	-
Datuk Dr. Roslan Bin A. Ghaffar ⁴	6/6	4/4	-
Datuk Kamalul Arifin Bin Othman ²	5/5	3/3	-
Aminuddin Bin Mohd Arif ³	1/1	1/1	-
Legend			
	Chairman		
	Member		

¹ Resigned as Director on 10 January 2019

² Appointed as Director, Member of Audit Committee and Nomination & Remuneration Committee on 8 March 2019

³ Resigned as Director, Member of Audit Committee and Chairman of the Nomination & Remuneration Committee on 1 March 2019

⁴ Appointed as Chairman of the Nomination & Remuneration Committee on 1 March 2019

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)

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. Any recommendations made by the Board Committees are ultimately subjected to the approval of the Board. Membership of the established Committees and their respective Terms of Reference are reviewed periodically for the progressive renewal of committee relevance.

The primary responsibility of an Independent Non-Executive Director is to protect the interests of minority Unitholders and other stakeholders. As such, the intimate participation of the Independent Non-Executive Directors in affairs of the Board and the placement of independent director as chairman of the Board Committees serves to promote greater accountability in the Board's decision-making process.

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 operations. This provides for a balance of power and authority, increased accountability and greater capacity of the Board for objective decision making.

Chairman and Chief Executive Officer ("CEO")



The Board has formalised a Board Charter on 18 January 2018 which clearly demarcates the responsibilities of the Board, Board Committees and individual Directors, including the matters that are solely reserved for the Board's decree. The following are matters which are specifically reserved for the Board's approval:

- | | | | |
|---|--|---|--|
| 1 | Corporate plans and programmes | 2 | Annual budgets, including major capital commitments |
| 3 | Acquisitions and disposals of properties | 4 | Changes to the management and control structure within the Company, including key policies |

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 Company Secretaries are members of the Malaysian Institute of Chartered Secretaries & Administrators ("MAICSA"). The office of joint Company Secretaries is currently occupied by Mohamed Noor Rahim Bin Yahaya (MAICSA 0866820) and Ho Ngan Chui (MAICSA 7014785).

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(cont'd)

The Board is also cognisant of its responsibility to set the ethical tone and standards of behaviour for MQM. In the previous financial year, MQM established an autonomous Whistleblowing Policy for complaints to be 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. As part of its future priorities, MQM is currently imbuing the considerations of the corporate liability provision into their ethical policies and procedures as an auxiliary.

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 year 2019 saw changes to MQM's Board. Dato' Thanarajasingam Subramaniam, a Non-Independent Non-Executive Director and Aminuddin Bin Mohd Arif, an Independent Non-Executive Director have relinquished their duties as Directors of MQM. In order to bridge this lacuna, Datuk Kamalul Arifin Bin Othman, a highly experienced director in real estate and property development had been appointed as an Independent Non-Executive Director.

The Board is currently made up of eight (8) 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 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, real estate holding, fund management, architecture, oil and gas, entrepreneurship and accounting.

The Nomination and Remuneration Committee is responsible for the identification, assessment and recommendation of suitable candidates to be appointed to the Board taking into account the skills, experience and diversity needed on the Board in the context of MQREIT's strategic direction.

In addition, the Board, through the Nomination & Remuneration Committee, would assess the independence of Independent Director based on a set of criteria as specified in the Listing Requirements of Bursa Securities.

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. To illustrate further, it is perhaps worth mentioning that the average tenure of MQM's Independent Directors is 4.1 years whilst the corresponding REIT industry average for independent directors is 5.85 years².

Board Effectiveness

The Board believes that engaging in a regular process of self-assessment and evaluation of board performance in order to identify key strengths and areas for improvement is essential to effective. The exercise is externally facilitated by a consulting firm every alternate year or when the Board deems fit.

2 Based on the latest available annual reports as at November 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(cont'd)

Directors' Training and Continuing Education Programme

The Directors of MQM continue to update their knowledge and enhance their skills through appropriate continuing education programmes. The Board assesses the training needs of the Directors from time to time, and ensures Directors have access to continuing education programmes. The trainings attended by the Directors during 2019 were as follows:

Name of Directors	List of Training/Conference/Seminar/Workshop Attended/Participated in 2019
Tan Sri Saw Choo Boon	Islamic Finance for Boards Forum - The next financial crisis and its potential impact on Asia "Economic Developments in the US" by Dr Mark Zandi, Moody US Market Manipulation and Securities Fraud Industry 4.0 and It's Impact of Malaysian Capital Market BNM's AML/CFT Policies and Guidelines Independent Directors' Program – The Essence of Independence IT Risk Management for Insurance Boards Transfer Pricing – Next Phase in Malaysia Understanding Fintech and its Implications for Banks Role of Board in Risk Management of Legal Issues of Merger & Acquisition Integrated Accounting Sustainability by Design – Practical Steps for Malaysian Businesses The Business Foresight Forum – New Business Directions 2025 Islamic Banking Case Studies on Court Decisions Digital To The Core Implications of Acquisition and Restructuring SCM Audit Oversight Board Conversation with Audit Committees Regulatory Framework: Pre/Post IPO
Dato' Dr Low Moi Ing, J.P.	National Housing and Property Focus Summit 2019 Special Programme for Voluntary Disclosure
Dato' Michael Ong Leng Chun	Eco-B Archidex 2019 DATUM Green DATUM +Plus DATUM: KL
Kwan Joon Hoe	Property Market Outlook 2019 Section 17A of Malaysian Anti-Corruption Commission Act 2019 [Act 694] World Market Outlook and Sector Analysis Detecting Creative Accounting Resulting in Fraud
Ann Wan Tee	Property Market Outlook 2019 Section 17A of Malaysian Anti-Corruption Commission Act 2019 [Act 694] AML & Prevention of Financial Fraud in Digital Economy China's Belt and Road Initiative: Impact on Malaysian Capital Market Corporate Liability and MRCB's Internal Control
Foong Soo Hah	PowerTalk by Mark Reid on "Revisiting the Misconception of Board Remuneration" Corporate Liability and MRCB's Internal Controls Demystifying the Diversity Conundrum: The Road to Business Excellence
Datuk Kamalul Arifin Bin Othman	Mandatory Accreditation Programme for Directors of Public Listed Companies

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(cont'd)

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 and risk appetite 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	18,000.00	93,000.00
Dato' Dr Low Moi Ing, J.P.	60,000.00	27,000.00	87,000.00
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
Foong Soo Hah	75,000.00	30,000.00	105,000.00
Datuk Dr Roslan Bin A. Ghaffar	69,095.89	30,000.00	99,095.89
Datuk Kamalul Arifin Bin Othman	53,246.57	24,000.00	77,246.57
Dato' Thanarajasingam Subramaniam	1,232.88	-	1,232.88
Aminuddin Bin Mohd Arif	11,506.85	6,000.00	17,506.85

(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 to provide a robust and comprehensive oversight on financial reporting, external and internal audit processes as well as compliance matters. The Audit Committee is currently chaired by an Independent Director, Foong Soo Hah, who is distinct from the Chairman of the Board. The Audit Committee 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 Audit Committee 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 Audit Committee's terms of reference, the Audit Committee 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.

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 and oft-sidelined 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(cont'd)

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 Audit Committee and is independent of Management (as indicated through a perforated line of reporting that is limited for administrative matters). The internal auditor is accorded with unencumbered access to relevant records, properties and personnel. For this financial year, an internal audit review of areas concerning MQM's cost structures and operating expenses were conducted to identify key cost saving areas in order to execute MQREIT's strategy of cost optimisation.

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 and one-to-one analyst briefings. 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, MQREIT became a sponsoring member of the inaugural Malaysian REIT Managers Association ("MRMA") and Asia Pacific Real Estate Association Malaysia ("APREA") REIT Forum 2019. Being the first of its kind, the watershed platform provided an opportunity for the Investor Relations team of MQM to explore the latest developments and megatrends in the Malaysia REIT market, and engage with other REIT managers, property developers, government regulators, investment bankers 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 better practices in the realm of corporate governance.

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 availed themselves at the AGM of the previous financial year. The poll voting results and procedures were validated by Boardroom Corporate Services Sdn Bhd, 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 within 30 days upon conclusion of the said proceedings. As called upon by better 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 2019 represented a period of prudence and continued devoir of corporate governance reforms as Corporate Malaysia consolidated and operationalised the slew of regulatory changes over the past years. As the synchronised headwinds in the real estate industry linger on, corporate governance becomes ever more omnipresent. The Board of MQM is focused 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 2019 are as follows:



Board Diversity

The Board remains highly cognisant of the importance in progressive refreshment of the board configuration in terms of diversity, independence and the Board Skills Matrix. The Board, with the support of the Nomination & Remuneration Committee, has closely monitored the formalisation of MQREIT's diversity policy which is in line with the MCGG, Listing Requirement and SC REIT Guidelines.

To further enhance the gender diversity, the Nomination & Remuneration Committee will continue its search for a female Independent Director candidate with the requisite skills in fund management, property industry or the banking industry to further buttress the existing Board composition. The scour takes into account the current Board Skills Matrix, fit and proper criteria and established succession plans for Directors.



Constitutional Architecture

In line with MQREIT's rooted corporate governance culture of accountability, MQREIT has revised and updated its Trust Deed to be aligned to the Listing Requirements, MCGG and the revised SC REIT Guidelines. The changes seek to reinforce the interests of Unitholders and fortify the role of MQM and the Trustee towards the Unitholders.

The Board is always cognisant of the need to update the Trust Deed so that the apex and sacrosanct governing document is aligned with the latest industry regulations, promulgations and MQREIT's business strategies.



Internal Control and Risk Management Framework

The Board, with the support of the Audit Committee, have continued to undertake rigorous deliberations on internal control and risk management with coverage on more nuanced risks such as reputational, corruption and compliance risks. For the financial year under review, the Board and Management of MQM undertook a laser-focused review of its strategic risks. In the review, a portfolio recalibration of MQREIT's tenancy mix in key properties was undertaken to better appreciate and mitigate any radical shifts to the local politics and socio-economic landscape.

Additionally, leveraging on MQM's asset enhancement initiatives ("AEI") as a two-pronged exercise, safety risks and energy risks were effectively addressed as part of MQM's planned AEI. The AEI completed during the financial year not only provided MQREIT properties aesthetical face-lifts but also enhanced its safety aspects, thus dovetailing with its sustainability agenda.



Succession Planning

The Board continues to work on establishing 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 established succession plan for Directors and Senior Management was carefully designed by considering different time horizons: i) contingency planning for sudden and "hit-by-the-bus" departures ii) medium-term planning for orderly succession (i.e. retirement) iii) long-term planning for future strategic priorities of MQREIT.

For the financial year, the timely appointment of Datuk Kamalul as INED after the departure of two directors has provided a "soft landing" to the succession planning of Directors. With Datuk Kamalul's presence in the boardroom, he has filled in the real estate "savoir faire" to deliberations due to his deep-seated executive experience in real estate.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(cont'd)

CORPORATE GOVERNANCE PRIORITIES (2020 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:



Ethical Policies and Procedures

Supplementing MRCB's ongoing pursuit in the implementation of the anti-bribery and corruption policies and processes (i.e. Anti-Bribery and Corruption Policy, the Policy on Giving and Receiving Gifts, the Whistleblowing Policy and the Operation Manual), the Manager has already rolled out working plans to study and further contextualise these efforts to suit the needs, nuances and specifics of MQREIT.

This forward-looking move was a collective decision made by the Board and Management of MQM as part of their future priority to prime MQM for the gazetted Malaysian Anti-Corruption Commission (Amendment) Act 2018, precisely on the corporate liability provision (Section 17A) which will take legal effect June 2020. The review of MQREIT's ethical policies and procedures are set to be aligned to the Guidelines on Adequate Procedures to ensure that the policies and procedures are robust and resilient. In implementing the "Training and Communication" limb under the overall T.R.U.S.T acronym outlined in the said Guidelines, the Manager will set up the necessary visuals around its office space as well as via through various communication channels to pervasively communicate its employees, clients or any third-parties of its ethical credos, policies and procedures.



Financial Management

Prudent financial supervision is seen as an indispensable imperative for the near-future of MQREIT given the tepid economy and subdued marketplace. Hence, the Board and Management of MQM are prioritising cost optimisation efforts and programmes such as streamlining the cleaning services contractors, targeted replacement of auxiliary police services for private security guards and rationalising inefficient administrative outlays. A focused internal audit review and benchmarking of standard operating procedures on cost inefficiencies were deployed for the financial year to identify the key cost saving areas. It is also the intention of MQM to utilise technology in the forthcoming years as a catalyst for the automation of its property management and financial systems. The Manager has already set its sights on entrenching a single digital platform to real-time track and monitor maintenance of its buildings.

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

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

- To consider the appointment of the external auditor, the audit fee and the reason given for their resignation or dismissal;
- To review the audit plans and scope of audit examination of the external auditors;
- To review with external auditors with regards to problems and reservations arising from their interim and final audits;
- To review the quarterly and year-end financial statements, focusing particularly on:
 - Any changes in accounting policies and practices
 - Significant and unusual events
 - 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 Listing Requirements;
- To review procedures established to address allegations raised by whistleblowers, to ensure independent investigations is conducted and follow-up action is taken;
- To review any related party transaction and conflict of interest situations that may arise including any transaction, procedure or course of conduct that raises questions of management integrity;
- To assess the risks and control environment, to determine whether management has implemented policies ensuring the risks are identified and evaluate and those internal controls in place and effective to address the risks;
- To consider the report, major findings and management's response of an internal investigations carried out by the internal auditors; and
- To undertake such other responsibilities as may be agreed by the Audit Committee and the Board.

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

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

In its review of the audited financial statements for the financial year ended 31 December 2019, and based on its discussions with the management and where required, in consultation with the external auditors, the Audit Committee is of the view that the financial statements are fairly presented, and conform to generally accepted accounting principles in all material aspects.

AUDIT COMMITTEE REPORT

(cont'd)

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

The Audit Committee also review arrangements by which employees of the Manager may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

For the financial year ended 31 December 2019, a total of four (4) Audit Committee meetings were held and the attendance of the members at the Audit Committee meetings was as follows:

Audit Committee Member	Designation	Attendance
Foong Soo Hah	Chairman	4/4
Datuk Dr Roslan Bin A Ghaffar	Member	4/4
Dato' Dr Low Moi Ing, J.P.	Member	4/4
Ann Wan Tee	Member	4/4
Datuk Kamalul Arifin Bin Othman ¹	Member	3/3
Aminuddin Bin Mohd Arif ²	Member	1/1

1 Appointed as a member of Audit Committee on 8 March 2019

2 Resigned as a member of Audit Committee on 1 March 2019

HOW THE AUDIT COMMITTEE SPENT ITS TIME IN 2019

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 MQREIT 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 external auditor's Audit Plan, 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 MQREIT;
- 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.

AUDIT COMMITTEE REPORT

(cont'd)

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 Reviewed the fairness, transparency of related party transactions with appropriate disclosures made as required under SC REIT Guidelines, the Trust Deed and the Listing Requirements, and ascertain that the transactions are conducted at arm's length prior to submission for the Board's consideration and, where appropriate, unitholders' approval.

Related Party Transactions

- i) Reviewed the fairness, transparency of related party transactions with appropriate disclosures made as required under SC 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.

Internal Audit Function

During the year under review, the internal audit function was outsourced and carried out by an independent consultancy firm, 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 2019 is RM42,000 (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 ("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 ("Securities Commission"). 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: 199701018781 (434278-K)) 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 pages 66 to 76. These efforts are all part of the Board's recognition that a strong corporate governance framework is important. The Board also recognises that an effective corporate governance culture is critical to the Manager's performance and consequently to the success of MQREIT. The Board is committed to maintain a sound system of risk management and internal control with a view to safeguard the interest of the Unitholders, its investment and MQREIT's assets and to provide the following statement, which outline the nature and scope of internal control of the Manager during the financial year ended 31 December 2019.

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 2019 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 2019 for compliance with established internal policies and procedures and applicable provisions of the Listing Requirements and the Guidelines on Listed Real Estate Investment Trusts issued by the Securities Commission ("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 2019 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 2019 is RM42,000 (excluding 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 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 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; and
- (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 2019 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 2019 under review and up to the date of issuance of the annual report and financial statements is sound and sufficient to safeguard the interest of the Unitholders, its investment and MQREIT's assets.

STATEMENT ON DIRECTORS' RESPONSIBILITY

For preparing the Annual Audited Financial Statements

In accordance with Paragraph 15.26(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors ("Directors") of MRCB Quill Management Sdn Bhd, is responsible to ensure that the financial statements for the financial year ended 31 December 2019 have been prepared and drawn out in accordance with the applicable Financial Reporting Standards in Malaysia, applicable provisions of the Restated Deed of Trust Constituting MRCB-Quill REIT dated 2 December 2019 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 2019 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 2019, 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 STATEMENT

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SUSTAINABILITY STATEMENT

(cont'd)

MESSAGE FROM THE CEO

Three years ago, we embarked on our sustainability reporting journey with the aim to connect with our stakeholders and to demonstrate our commitment to drive business performance sustainably while considering the long-term impact of our operations on the stakeholders and communities that we serve. As a continuation to our commitment, we are pleased to present our 2019 Sustainability Statement ("Statement").

Our primary objective is to ensure that MRCB-Quill Real Estate Investment Trust ("MQREIT")'s asset portfolio provides our unitholders with long-term and sustainable distribution of income, achieving long-term growth in the net asset value per Unit. We strive to achieve 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 the resiliency of MQREIT's business. Our four strategic initiatives – Property Management Strategy, Leasing Strategy, Capital Management Strategy and Investment Strategy – guides our sustainable growth. We are cognisance of the evolving office market space environment in Malaysia and have welcomed a renowned co-working space operator to occupy 70,000 sq.ft. of prime office space at Platinum Sentral.

WELCOME TO OUR 2019 SUSTAINABILITY STATEMENT

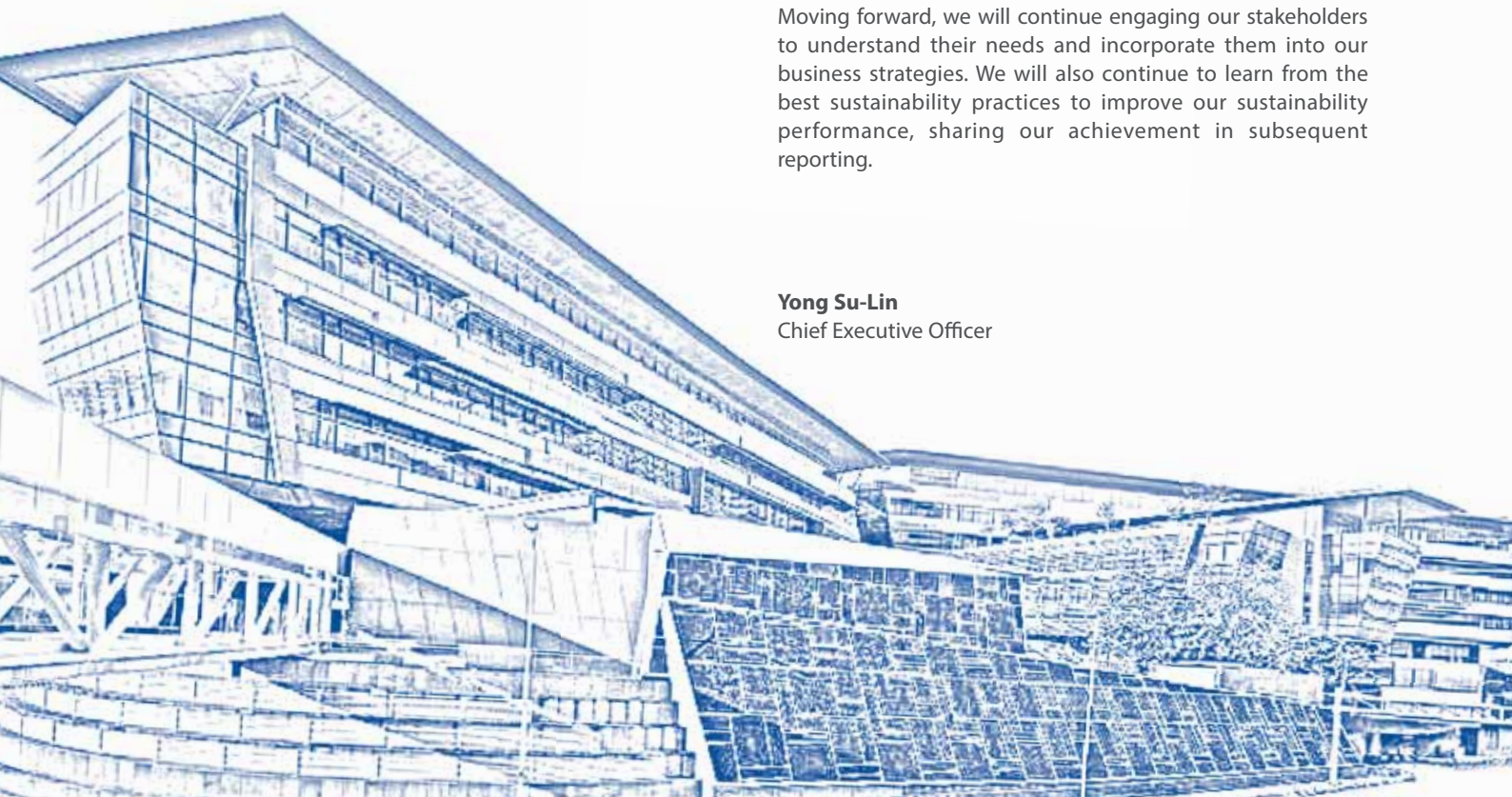
Our business model also factors in the impact that our day-to-day activities have on the society and environment.

As a responsible corporate citizen, we are committed to continue to take care of and give back to the community in which we operate in. We have implemented community projects which focus on improving the lives of the vulnerable groups in society, which includes children and women from underprivileged background. We provide financial aid to children to meet their immediate needs and education. We are proud to have garnered the participation of all our employees in this year's corporate social responsibility project.

Energy generation is one of the largest emitters of greenhouse gases ("GHG") which in turn contributes to climate change. We are conscious on our business impact to the environment and are committed to reduce our footprint through energy and water conservation initiatives as well as investments in green buildings, energy efficient systems and clean energy. In FY2019, our solar panels at Platinum Sentral were replaced with a total maximum capacity of 159,200 Watt to achieve greater efficiency in clean energy generation.

Moving forward, we will continue engaging our stakeholders to understand their needs and incorporate them into our business strategies. We will also continue to learn from the best sustainability practices to improve our sustainability performance, sharing our achievement in subsequent reporting.

Yong Su-Lin
Chief Executive Officer



SUSTAINABILITY STATEMENT

(cont'd)

ABOUT MQREIT.

[GRI 102-13]

MQREIT is a Real Estate Investment Trust ("REIT") incorporated in Malaysia and listed on the main board of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

Managed by MRCB Quill Management Sdn. Bhd. ("we", "MQM" or the "Manager"), MQREIT is established to acquire and invest in commercial properties, with the goal to provide our unitholders with long-term and sustainable distribution of income and potential capital growth.

As at 31 December 2019, MQREIT owns 10 commercial properties in Malaysia with a combined value of RM2.14 billion. The locations of MQREIT's properties are illustrated in Figure 1.

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

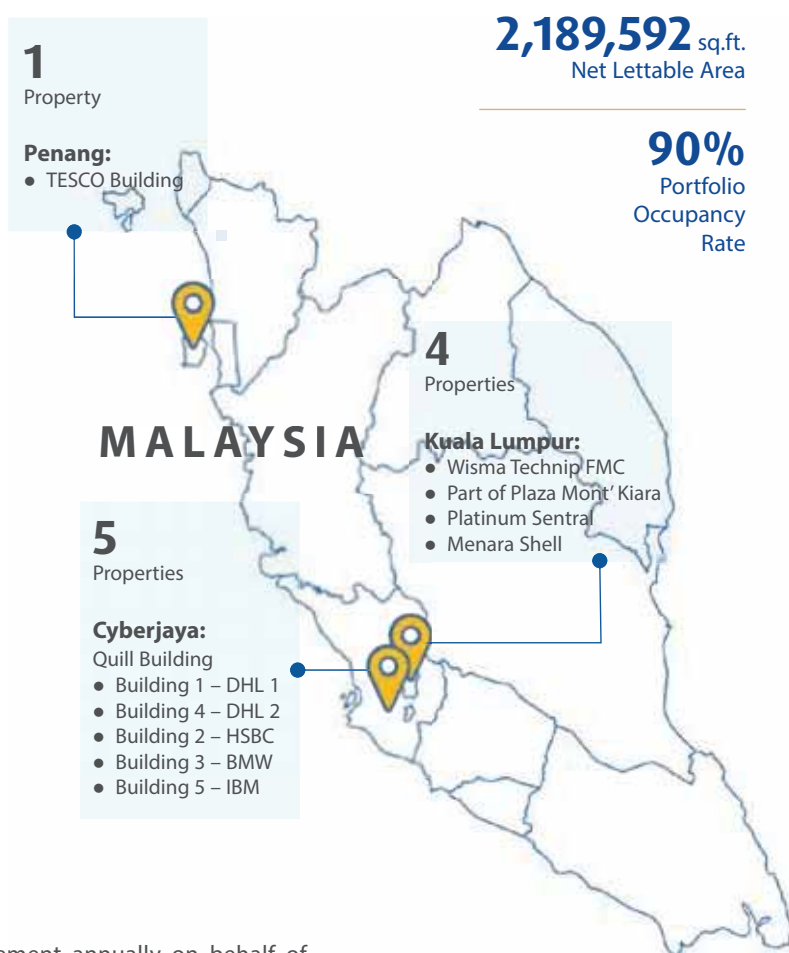


For more information on MQREIT's structure, refer to Pg. 4



For more information on MQREIT's properties, refer from Pg. 13 to 26

Figure 1: Location of commercial properties



ABOUT THIS STATEMENT.

[GRI 102-46, 102-50, 102-51, 102-52, 102-53, 102-54, 102-56]

As the Manager, we prepare a Sustainability Statement annually on behalf of MQREIT. This is our third Sustainability Statement in our sustainability journey which serves to transparently communicate our sustainability performance and initiatives with our stakeholders.

Reporting Period and Scope

This Statement features our sustainability performance and initiatives from 1 January 2019 to 31 December 2019 and covers all of MQREIT's operations in Malaysia which we have direct managerial control, except for Tesco Building Jelutong Penang which is fully self-managed by the tenant.

Reporting Framework

This Statement has been prepared in accordance with the Global Reporting Initiatives ("GRI") Standards: Core option, Bursa Malaysia's Sustainability Reporting Guide (2nd edition) and Main Market Listing Requirements.

Independent Assurance

We are committed in strengthening the sustainability reporting process and our management team has applied their collective mind to the preparation of this Statement. The development of this Statement is supported by adequate internal controls. Notwithstanding our existing internal controls, we recognise the importance of independent verification and we intend to seek independent assurance on our key sustainability indicators in the future.

Get in touch

We value and welcome all stakeholders' feedbacks. For any queries relating to this Statement, please feel free to contact:

Ms. Joyce Loh
General Manager, Investment and Investor Relations

☎ : 603-2859 7175
✉ : joyce.loh@mrcb.com

SUSTAINABILITY STATEMENT

(cont'd)

Sustainability Governance.

[GRI 102-16, 102-18, 102-20, 102-32]

Institutionalising sustainability in the organisation requires committed leadership, clear direction and strategic influence. This will not be possible without a robust corporate governance framework.

We acknowledge that good governance is essential to protect the best interests of the unitholders and crucial to the success of our business. Our corporate governance framework (Figure 4) – overseen by our Board – ensures accountability, oversight and review on the implementation of our strategy and the management of our economic, environmental and social (“EES”) risks and opportunities.

Our Board sets the tone from the top and is ultimately accountable for the integration of sustainability in our day to day business to ensure sustainable growth. Our sustainability governance structure is presented in Figure 5.



For more information on our corporate governance, refer to our Corporate Governance Report which is available on our website at www.mrcbquillreit.com and our Corporate Governance Overview Statement from Pg. 66 to 76.

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.

Figure 4: Corporate Governance Framework

Sustainability Governance Structure

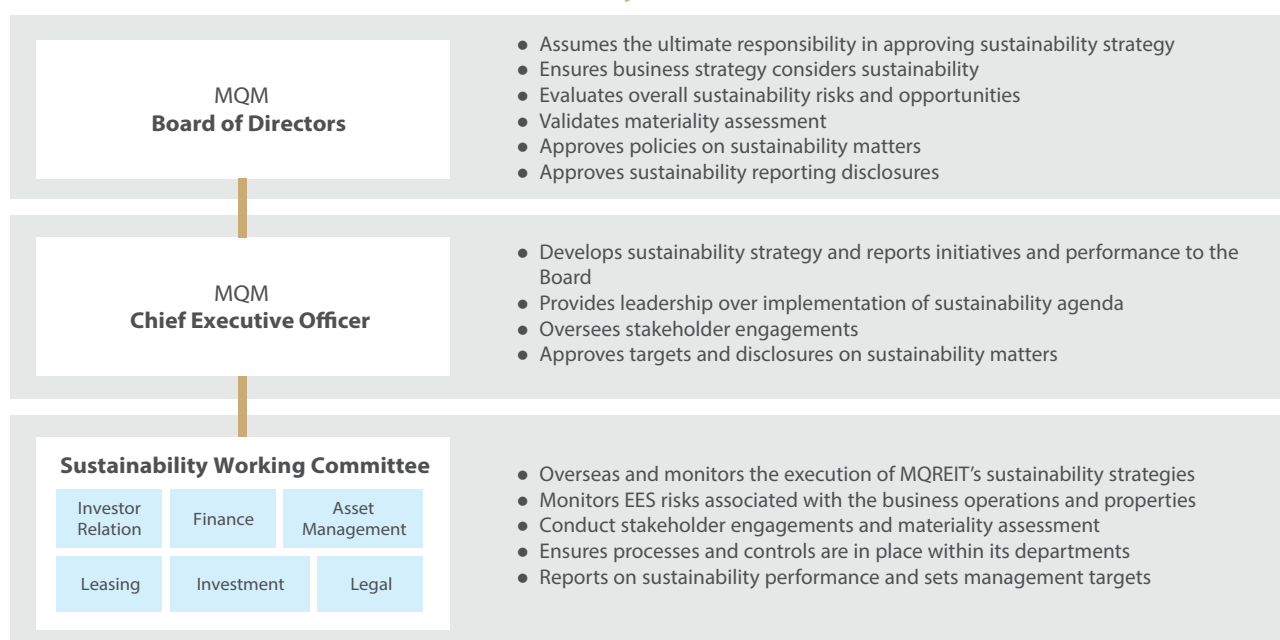


Figure 5: Sustainability Governance Structure

SUSTAINABILITY STATEMENT

(cont'd)

Stakeholder Engagement.

[GRI 102-40, 102-41, 102-42, 102-43, 102-44]

We define key stakeholders as individuals, companies and/or groups who could significantly affect or being affected by our business operations. We understand that effective engagements with our stakeholders will provide us insights into matters that they are most concerned with, which sets the basis for effective strategy development. Therefore, we are committed to strengthening relationships with our key stakeholders through constructive dialogue on material matters and consider their feedbacks in our decision-making. The outcome of our engagements with our key stakeholders is summarised in the table below:





Stakeholder	Engagement objective	Engagement method	Stakeholder's concern and/or interest	Our response	Relevant material matter
Analysts 	<ul style="list-style-type: none"> › To provide information to allow analysts to disseminate accurate information to the investment community 	<ul style="list-style-type: none"> ■ One-on-one meetings ■ Analyst briefing ■ Investor conferences 	Timely and transparent disclosure of information and announcements Accessibility to management/Investor Relations ("IR") team Profitability and financial health of MQREIT	<ul style="list-style-type: none"> › Improved responsiveness towards feedback and queries 	<ul style="list-style-type: none"> › Governance › Sustainable Business Growth and Financial Performance
Employees 	<ul style="list-style-type: none"> › To provide fair and equal opportunities › To provide employee development and career progression 	<ul style="list-style-type: none"> ■ Employee survey ■ Quarterly employee appraisals ■ One-on-one meetings ■ Team meetings 	Employee welfare and benefits Work opportunity and career advancement Financial health of the company	<ul style="list-style-type: none"> › Transparent, open and consistent approach to appraisals › Feedback sessions with senior management › Training, team building, and staff retreats 	<ul style="list-style-type: none"> › Talent Attraction and Retention › Sustainable Business Growth and Financial Performance › Health and Safety › Employee Capacity Building
Government 	<ul style="list-style-type: none"> › To seek clarification from government agencies on the guidelines under their purview › To ensure compliance and proper administration of the legislations effecting the operations of the REIT 	<ul style="list-style-type: none"> ■ Consultation meetings together with consultants/ advisers and industry associations ■ Seminars and workshops 	Adherence to legislations and guidelines affecting the REIT Continuous learning through the promotion/ marketing of Securities Industry Development Corporation courses (Securities Commission)	<ul style="list-style-type: none"> › Professional consultants/advisers are appointed to assist us during the consultations 	<ul style="list-style-type: none"> › Regulatory Compliance › Employee Capacity Building
Industry Associations 	<ul style="list-style-type: none"> › To be a contributing member to the industry sectors' professional objectives 	<ul style="list-style-type: none"> ■ Consultation and feedback sessions 	Fair representation of industry's needs and demands to regulators through consultation with government authorities	<ul style="list-style-type: none"> › Active membership involvement and contribution 	<ul style="list-style-type: none"> › Regulatory Compliance

Table 1: Stakeholder engagement

Engagement frequency:

■ Annually ■ Quarterly ■ As and when required

SUSTAINABILITY STATEMENT

(cont'd)






Stakeholder	Engagement objective	Engagement method	Stakeholder's concern and/or interest	Our response	Relevant material matter
Investment Community 	<ul style="list-style-type: none"> › To engage existing and potential investors to provide information which allow these investors to make sound investment decisions in relation to MQREIT 	<ul style="list-style-type: none"> ■ One-on-one meetings ■ Investor conferences ■ Annual reports ■ MQREIT website 	<p>Profitability and financial health of MQREIT</p> <p>Timely and transparent disclosure of information and announcements</p> <p>Accessibility to management or IR team</p>	<ul style="list-style-type: none"> › Improved responsiveness towards feedback and queries 	<ul style="list-style-type: none"> › Governance › Sustainable Business Growth and Financial Performance
Local Community 	<ul style="list-style-type: none"> › To give back to the community in which we operate, specifically to improve the welfare of needy children › To contribute funds to meet the immediate needs of at least 1 children's NGO › To involve all staff in the fund-raising event 	<ul style="list-style-type: none"> ■ Cash contribution to meet immediate needs 	<p>To provide sustained support after the completion of each CSR project</p> <p>Financial assistance to NGOs</p>	<ul style="list-style-type: none"> › Alignment of goals of charities with our CSR Objectives › Continue to maintain relationship with charitable organisations 	<ul style="list-style-type: none"> › Health and Safety › Community Partnerships and Activities
Tenants 	<ul style="list-style-type: none"> › To engage existing customers to ensure tenant satisfaction and high retention rate › To forge new relationships with potential tenants 	<ul style="list-style-type: none"> ■ Direct feedback from tenants at all stages of the tenancy ■ Regular meetings and discussions 	<p>Maintenance of the properties</p> <p>Quick response time by property managers</p>	<ul style="list-style-type: none"> › Scheduled maintenance for each property › Notify and resolve disruptions caused to tenants promptly › Timely response to tenant's queries 	<ul style="list-style-type: none"> › Health and Safety › Quality of Assets and Services
Unitholders 	<ul style="list-style-type: none"> › To proactively provide up-to-date disclosures and information to allow unitholders to make informed decisions on their investments 	<ul style="list-style-type: none"> ■ Annual general meeting (AGM) ■ Annual reports ■ MQREIT website ■ Announcements on Bursa Securities ■ Interactions with IR personnel 	<p>Profitability and financial health of MQREIT</p> <p>Timely and transparent disclosure of information and announcements</p>	<ul style="list-style-type: none"> › Sound investment and capital management strategy › Tested leasing and property management capabilities › Robust corporate governance procedures 	<ul style="list-style-type: none"> › Governance › Sustainable Business Growth and Financial Performance
Vendors 	<ul style="list-style-type: none"> › To have fair, proper and transparent dealings with vendors 	<ul style="list-style-type: none"> ■ One-on-one meetings 	<p>Fair and transparent selection of vendors</p>	<ul style="list-style-type: none"> › Professional approach in reviewing proposals from vendors 	<ul style="list-style-type: none"> › Quality of Assets and Services

Table 1: Stakeholder engagement

Engagement frequency:

■ Annually ■ Quarterly ■ As and when required

SUSTAINABILITY STATEMENT

(cont'd)

Materiality assessment.

[GRI 102-21, 102-29, 102-47, 102-49]

Our sustainability efforts are focused on strengthening our business growth, driving positive social engagement and maintaining environmental conscientiousness. Material matters are factors that can have a present or future impact on our ability to deliver sustainable value to MQREIT and our stakeholders.

Materiality assessment provides the foundation of our sustainability direction, helping us to prioritise and focus on matters that have significant EES impacts on MQREIT's business as well as our stakeholders.

Our materiality assessment considers both internal and external factors affecting our business, including risks and opportunities. We conduct a full materiality assessment once every three years, or as and when required if there are any significant change in our business operations or external operating environment. We will be conducting a full materiality assessment in FY 2020. We also perform annual materiality review and the outcome is validated by our CEO and the Board. Our materiality assessment process is presented in Figure 2.

Materiality Assessment Process

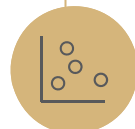
Identification

A list of relevant economic, environmental, social and governance matters were identified through analysing internal and external sources of information such as peer benchmarking, stakeholder engagement outcome, media reviews, external market and megatrends analysis as well as MQREIT's strategy.



Prioritisation

The identified matters were rated and prioritised after robust discussion via an anonymous voting exercise by the representatives from various departments, taking into consideration both internal and external stakeholders' perspective. As a result, a materiality matrix was developed.



Validation

The material matters and materiality matrix identified in the prioritisation stage were presented to our CEO and the Board for validation and approval.

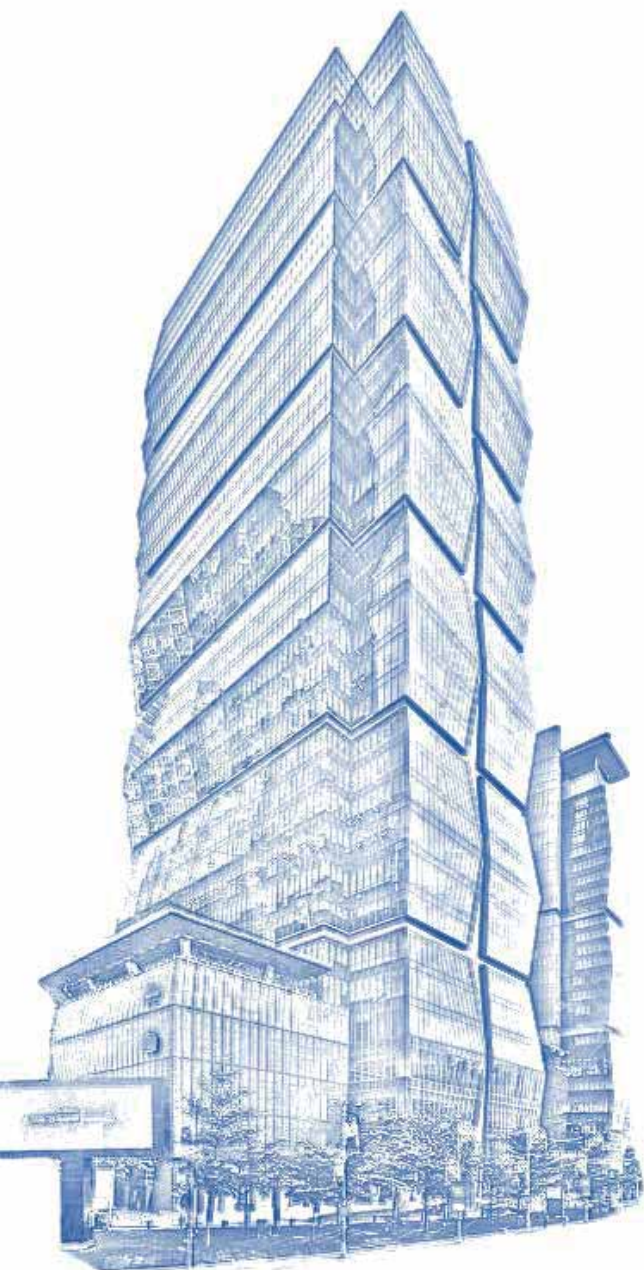


Review

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

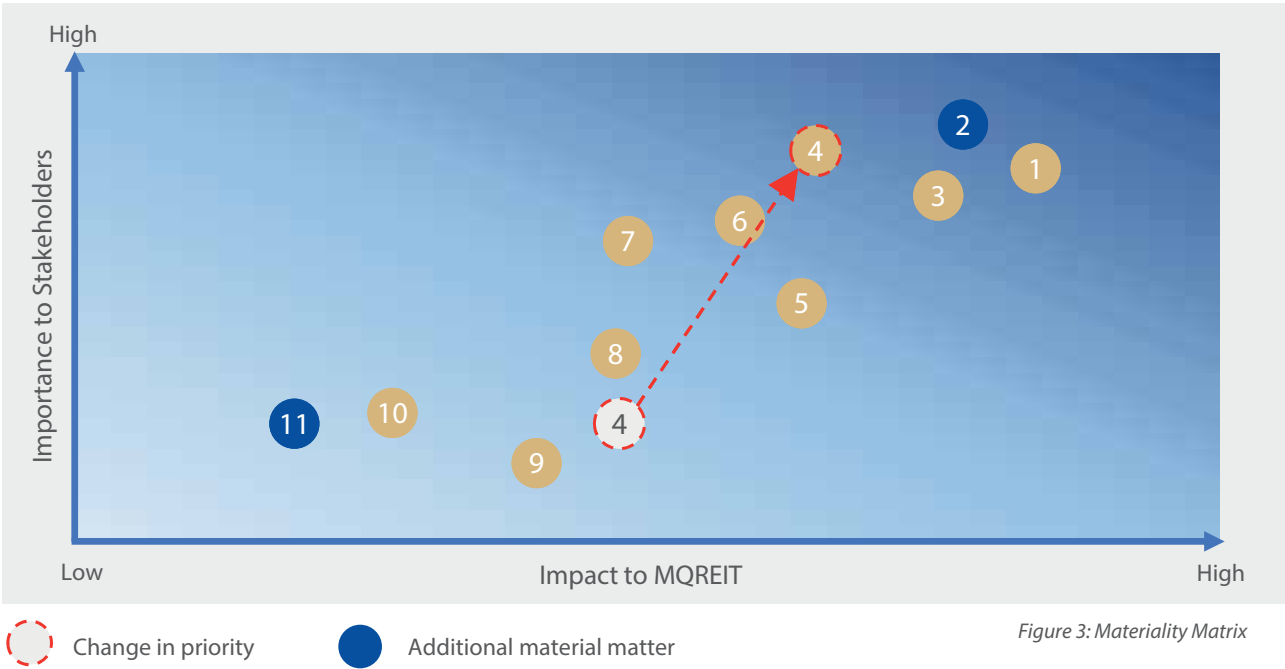


Figure 2: Materiality Assessment Process



SUSTAINABILITY STATEMENT

In FY 2019, we reviewed and updated our materiality matrix considering the external operating environment. The changes are reflected in our updated materiality matrix (Figure 3) and validated by the Board. For this Statement, we will be discussing each material matter according to the three sustainability pillars: Economic, Environmental and Social.



	Material Matter	Definition
1	Regulatory Compliance	Compliance to building, REITs and other regulatory requirements, such as environment, financial, labor, health and safety, listing rules, authority guidelines, public announcements, etc.
2	Sustainable Business Growth and Financial Performance	Concerns an organisation's impacts on the economic conditions of its stakeholders, and on economic systems at local, national, and global levels
3	Anti-Corruption	Corruption is defined as the abuse of entrusted power for private gain. Discusses activities that promote transparency and guard against various forms of corruption (e.g. bribery, extortion, fraud, undue pressure or influence)
4	Quality of Assets and Services	Attention to quality of MQREIT's assets and services in which can translate to satisfaction level of tenants. Tenants can be assured that the properties are in a comfortable and safe environment throughout the tenancy period
5	Talent Attraction and Retention	Retaining and attracting the appropriate subject matter experts in the organisation, given the context of larger competitors who can potentially offer greater growth opportunities and remuneration
6	Leadership and Succession Planning	Risk of losing key personnel who has strong knowledge of current business model, future growth direction and past performance. May also impact on institutional investors' confidence who value track record and stability
7	Governance	The systems and procedures that an organisation has in order to manage economic, environmental and social performance
8	Health and Safety	Anticipation, recognition, evaluation and control of risks concerning health and safety for all employees, tenants and visitors to our properties
9	Employee Capacity Building	Providing employees with market knowledge to help support growth opportunities in new areas. Particularly important in current economic climate in Malaysia, where there is fierce competition in the market
10	Water Management	Minimising water leaks and water usage to provide cost savings to the organisation as well as answering to the nation's call on water conservation
11	Energy and Carbon Footprint	Efficient use of energy to minimise carbon emissions and provide cost savings to MQREIT and the tenants

Table 2: Material Matters

SUSTAINABILITY STATEMENT

(cont'd)

Economic.

7 Governance

Ethical Business Conduct

Conducting business responsibly builds trust, minimises risk, and enhances our reputation. Our corporate governance framework is supported by comprehensive guidelines, policies and procedure – for one, the Board has established a Code of Business Ethics which aims to inculcate ethical corporate culture and provides guidelines on conducting our daily business with honesty and uncompromising integrity.

The Code of Business Ethics applies to all our employee and Directors, and is part of the employee's Terms and Conditions of Service. It covers regulatory and procedural compliance, conflict of interests, confidentiality and liability of employee, amongst others. We disseminate the Code of Business Ethics to all Directors and employees upon their appointment or employment.

In addition, we seek to uphold strong organisational values (Figure 6) and ensures that these values are embraced by all our employees and cascaded to the new joiners during their orientation. Our employees are regularly reminded of these values through email reminders, display on TV screen at common areas and during town hall meetings.

1 Regulatory Compliance

[GRI 103-1, 103-2, 103-3, 307-1, 419-1]

We place utmost priority in ensuring compliance with all relevant laws and regulations as our license to operate. We strictly adhere to all applicable laws and regulations mandated by relevant authorities to provide confidence to our stakeholders.

Our Corporate Secretariat, Legal and Finance departments work closely to monitor the effectiveness of internal controls in managing compliance performance. External consultants are appointed as internal auditor to review our internal processes.

Since 2018, we have an internal compliance officer responsible for managing and monitoring compliance with all applicable rules and regulations such as the Securities Commission ("SC")'s Licensing Handbook and Guidelines on Listed Real Estate Investment Trust, Bursa Malaysia's Main Market Listing requirements, as well as the General Tax Compliance by the Inland Revenue Board of Malaysia, amongst others.

This year, we have included the principles of anti-modern slavery in all our service agreements, in which both MQREIT and service providers shall comply with the relevant rules and regulations. We have informed all service providers on the compliance of this clause.

To keep up with the latest developments on relevant laws and regulations, our employees attended trainings organised by Bursa Malaysia, SC, the Malaysia Institute of Accountants and reputable law firms.



Figure 6: Organisational Values

The relevant laws and regulations we adhered to include, but are not limited to the followings:

- **Malaysian Anti-Corruption Commission (MACC) Act 2018**
Introduced corporate liability for corruption offences, which applies to Malaysian commercial organisations
- **Malaysian Employment Act 1955**
Prohibits exploitative labour practices
- **Income Tax Act 1967 and Public Rulings**
Imposition of income tax that includes collection and recovery of tax, tax refund, offences and penalties, and exemptions, remissions and other relief
- **Children and Young Persons (Employment) Act 1966**
Forbids the employment of children under the age of 14
- **Occupational Safety & Health Act 1994**
Secure the safety, health and welfare of persons at work
- **Anti-Trafficking in Persons and Anti-Smuggling of Migrants Act 2007**
Prohibit in child labour, slavery, servitude and forced or compulsory labour, and human trafficking
- **Environmental Quality Act 1974**
- **Construction Industrial Development Board Act 1994**
- **Electricity Supply Act 1990 (PW4)**

In FY2019, we maintained zero incidences of reported non-compliance with laws and regulations. We strive to maintain this record in the years ahead.

3 Anti-Corruption

[GRI 103-1, 103-2, 103-3, 205-3]

Corruption stifles business growth, posing significant financial, operational and reputational risks to our business. Therefore, we do not tolerate bribery or any forms of corruption in our operations. We hold our employees, business partners and directors to high ethical and compliance standard through our Code of Business Ethics.

To demonstrate the commitment to uphold the Anti-Corruption Principles for Corporations in Malaysia, our employees have signed to the Corporate Integrity Pledge by the Malaysia Anti-Corruption Commissions ("MACC"). Furthermore, we have implemented the Whistleblowing Policy and Policy on Giving and Receiving Gifts to encourage reporting on misconducts and to provide guidelines on acceptance and acknowledgement of gifts by employees respectively. These policies are communicated to our employees via emails at least once a year and to our service providers, suppliers, vendors and tenants through an anti-corruption clause in all agreements we execute.

On 4 May 2018, the MACC (Amendment) Act 2018 (the "Act") was gazetted. The Act introduced the corporate liability provisions which imposes strict liability on commercial organisation and requires organisations to have in place adequate procedures designed to prevent associated persons from undertaking corrupt practices. With that in mind, We are currently developing our Anti-Bribery and Corruption Policy based on the Guidelines on Adequate Procedures ("GAP"), issued by the Prime Minister's Department, which would incorporate the five principles identified as "TRUST". Mandatory ethics and compliance trainings will be provided to the Board, employees, property manager and their employees to educate and reinforce their commitment to ethical practices.

For this financial year, we have neither recorded any complaints nor received fines pertaining to improper conduct or corruption.



Total Asset Value:

RM2.21 billion

Realised Revenue FY2019:

RM162.07 million

Distribution Per Unit:

6.80 sen

Weighted average lease expiry:

4.9 years

The Edge Billion Ringgit Club Award 2019:

Highest growth in profit after tax over 3 years under the REIT category

2 Sustainable Business Growth and Financial Performance

[GRI 103-1, 103-2, 103-3, 201-1]

As the Manager, we strive to ensure that MQREIT's portfolio assets provides the unitholders with long-term and sustainable distribution of income, achieving long-term growth. The success of MQREIT would also contribute to the development of our nation through payments to the government as well as the creation of direct and indirect employment opportunities.

MQREIT generates value through rental income from the 10 commercial properties, as well as car park income. Our approach to ensure sustainable business growth is guided by our four strategic initiatives – Property Management Strategy, Leasing Strategy, Capital Management Strategy and Investment Strategy.

Despite the challenging property landscape in Malaysia, we remained resilient. In FY 2019, MQREIT recorded realised revenue of RM162 million as compared to RM179 million a year ago, representing a 6.5% decline. The value we generated through our operations allowed us to declare and pay Distribution Per Unit of 6.80 sen for this financial year. The direct economic value generated and distributed by MQREIT is presented in Table 3.



For more information on our economic performance, refer to our Management Discussion and Analysis section from Pg. 27 to 36.

SUSTAINABILITY STATEMENT

(cont'd)

2 Sustainable Business Growth and Financial Performance

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



	FY 2017 RM	FY 2018 RM	FY 2019 RM
Value generated			
Revenue, finance income, gain on divestment of investment property	182,588,523	179,041,503	164,687,987
Less: Property operating expenses	(41,655,789)	(31,594,183)	(30,769,769)
Less: Other operating expenses	(789,457)	(948,463)	(922,599)
Total value generated	150,143,277	146,498,857	132,995,619
Reconciliation:			
Total realised income net of taxation	88,006,515	84,653,758	72,107,547
Add:			
Finance costs	39,484,739	39,774,798	38,976,163
Manager's fees	13,458,072	13,253,725	12,760,955
Trustee's fees	688,676	685,921	676,287
Quit rent and assessment	8,505,275	8,130,655	8,474,667
Total value generated	150,143,277	146,498,857	132,995,619
Payments to the Manager and Trustee			
- Manager's fees	13,458,072	13,253,725	12,760,955
- Trustee's fees	688,676	685,291	676,287
Payments to government			
- Quit rent and assessment	8,505,275	8,130,655	8,474,667
Payments to providers of capital			
- Income distribution	89,605,200	86,600,067	72,881,244
- Finance costs	39,484,739	39,774,798	38,976,163
Economic value retained	(1,598,685)	(1,946,309)	(773,697)
Total value distributed	150,143,277	146,498,857	132,995,619

SUSTAINABILITY STATEMENT

(cont'd)

Environmental.

10 Water Management

[GRI 103-1, 103-2, 103-3, 303-1, 303-5]

Water is crucial for our daily operations; we use water for essential building services such as air-conditioning, washroom facilities, cleaning, landscaping and for fire protection at all MQREIT's properties. The main source of water supply for MQREIT's properties is from municipal water.

In recent years, water supply disruptions or shortages have been more frequent and prolonged in Malaysia, especially in the Klang Valley, due to repair and maintenance work as well as higher demand from both the increasing population and industry. These water cuts could disrupt our operations and cause inconvenience to our tenants. Therefore, we take proactive measures to conserve water and to ensure sufficient water reserve in the event of water cut.

The property manager of each building is responsible to manage, monitor and report on monthly water usage through the Asset Control Group ("ACG") report. Unusual increase in water consumption will be promptly investigated, and appropriate remedial measures shall be taken. Regular checks are also conducted by property managers to ensure all equipment are in good conditions and to replace old pipes, install self-closing taps and repair any leaky pipes to conserve water.

The water use for air-conditioning system accounts for majority of our overall water usage. A monthly maintenance check is performed to ensure that air-conditioning system is operating at optimum levels at all properties. We also regularly monitor our reserve tank to ensure sufficient reserve to sustain our operations during water shortage. The water tanks at each MQREIT's properties have the capacity to allow us to carry on business as usual for at least 2 days at each building. We will purchase water from other source during prolonged period of water cut.

This year, we achieved our target of 2% year-on-year reduction in overall water consumption as compared to last year. There are minor fluctuations in water consumption for each property which is mainly due to the corresponding increase or decrease in occupancy. In FY 2019, we have installed a rainwater harvesting system at Quill Building 4 which collects and reuses rainwater for landscaping and flushing of toilets. This move will further reduce our demand for municipal water.

Currently, we are developing our Water Management Policy which would act as the formal guideline for water management at MQREIT. Moving forward, we aim to install and replace water filtration system for all our buildings to ensure clean water quality for consumption purposes. We also intend to replace existing toilet taps with water efficient taps at Platinum Sentral which will reduce our water usage. We aim to further reduce our water consumption by 1% from FY2020.

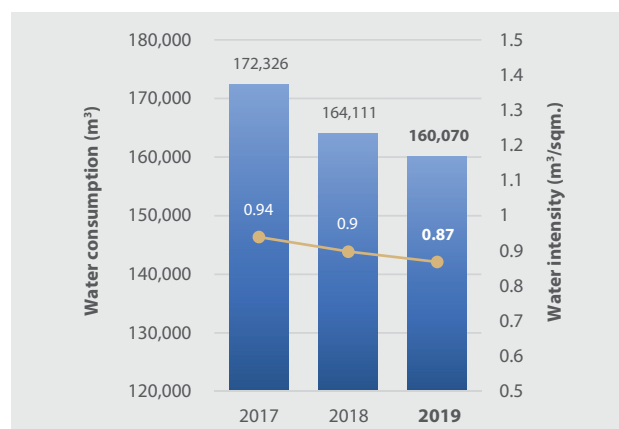


Figure 7: Total water consumption and water intensity

Property	Water consumption (m³)			Water intensity (m³/sqm.)		
	FY 2017*	FY 2018*	FY 2019	FY 2017*	FY 2018*	FY 2019
Quill Building 1 DHL1	8,603	8,691	8,693	1.00	1.01	1.01
Quill Building 2 HSBC	4,339	3,960	4,745	0.25	0.23	0.28
Quill Building 3 BMW	11,312	10,975	11,841	1.04	1.00	1.09
Quill Building 4 DHL2	9,239	9,642	9,506	1.00	1.05	1.03
Quill Building 5	8,246	9,842	1,359	1.09	1.30	0.18
Wisma Technip	19,435	12,454	15,350	0.90	0.58	0.71
Plaza Mont' Kiara	1,379	1,228	882	0.11	0.10	0.07
Platinum Sentral	54,434	55,595	45,854	1.23	1.26	1.04
Menara Shell	55,339	51,724	61,489	1.07	1.00	1.20
TOTAL	172,326	164,111	160,070	0.94	0.90	0.87

Table 4: Water consumption and water intensity

* Prior years amounts have been restated to reflect actual consumption. Estimates were used for November and December in previous years as data were not readily available at the point of reporting.

SUSTAINABILITY STATEMENT

(cont'd)

11 Energy and Carbon Footprint

[GRI 103-1, 103-2, 103-3, 302-2]

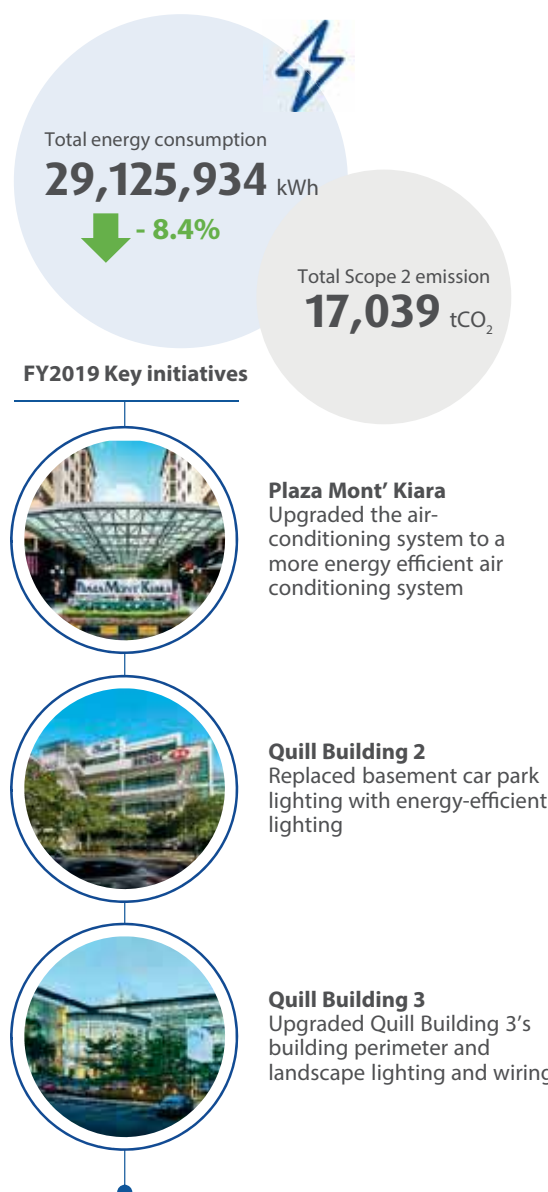
Energy generation is one of the main contributors to greenhouse gas emissions globally. We are committed to reduce our environmental footprint through improving energy efficiency and investing in clean energy.

Our main source of energy is from electricity supplied by the local utility companies. Additionally, we have generators powered by diesel at all MQREIT's properties as back-up electrical system during utility outage, but the energy consumptions and corresponding GHG emissions from these generators are negligible. Our main source of carbon emission is from electricity purchased. The property manager of each building manages, monitors and reports on the monthly electricity consumption through the ACG report. The property manager is also responsible to identify opportunities for improving energy performance.

In FY 2019, we have implemented several key initiatives which include replacing the solar power system at Platinum Sentral with a maximum capacity of 159,200 Watt, doubling the capacity of the previous system. We subscribe to the Feed-in-Tariff ("FiT") for Solar PV programme which allow us to sell the renewable energy we produced to the contracted Distribution Licensee. Some of our other key initiatives for the year are highlighted on the right.

For FY 2020, we intend to develop an Energy Management Policy to guide the implementation of energy conservation and management initiatives. Furthermore, we plan to replace all lighting fixtures in common areas and toilets of Menara Shell and Platinum Sentral with energy efficient lightings. We are also looking at upgrading Quill Building 2's Building Automation System ("BAS") for air-conditioning to further optimise energy consumption of the cooling system.

We target to reduce our electricity consumption by 2% year-on-year.



Property	Energy consumption (kWh)			Energy intensity (kWh/sqm.)			Carbon emission (tCO ₂)*		
	FY 2017	FY 2018	FY 2019	FY 2017	FY 2018	FY 2019	FY 2017	FY 2018	FY 2019
Quill Building 1 DHL1	4,829,396	4,519,207	4,595,957	563	527	536	2,825	2,644	2,689
Quill Building 2 HSBC	812,993	873,146	909,089	47	50	53	476	511	532
Quill Building 3 BMW	8,816,566	7,242,719	7,181,163	809	665	659	5,158	4,237	4,201
Quill Building 4 DHL2	5,192,777	5,062,322	4,815,665	563	549	522	3,038	2,961	2,817
Quill Building 5	2,667,755	2,443,915	451,787	351	322	59	1,561	1,430	264
Wisma Technip	3,010,364	2,733,335	2,368,990	139	126	109	1,761	1,599	1,386
Plaza Mont' Kiara	749,276	652,179	664,039	62	54	55	438	382	388
Platinum Sentral	3,231,385	3,112,525	2,962,583	73	70	66	1,890	1,821	1,733
Menara Shell	5,874,103	5,168,693	5,176,661	113	99	100	3,436	3,024	3,028
TOTAL	35,184,615	31,808,041	29,125,934	192	173	159	20,583	18,608	17,039

Table 5: Energy consumption, energy intensity and carbon emission (scope 2)

* Carbon emission from purchased electricity (Scope 2) is calculated based on the emission factors from the [2017 CDM Electricity Baseline For Malaysia](#) report by Malaysian Green Technology Corporation

SUSTAINABILITY STATEMENT

(cont'd)

Social.

5 Talent Attraction and Retention

Our employees are integral to the success of MQREIT. Their diverse skill sets and experience, professionalism as well as commitment forms part of our competitive advantage that enables MQREIT to grow sustainably. We understand retaining key employees ensures tenant satisfaction, effective succession planning and organisational knowledge sharing. Therefore, we place great emphasis on attracting and retaining talents through our provision of competitive remuneration packages as well as a fair and conducive working environment that allows employees to realise their true potential.

Employment

[GRI 102-8, 102-41, 103-1, 103-2, 103-3, 401-1, 401-2, 401-3]

We strive to be an employer of choice by promoting diversity, equality, personal development, mutual trust, and teamwork at workplace. This is reflected in our General Policies and Code of Conduct of the employees' handbook.

Our recruitment practices are fair and we do not discriminate against any attributes and characteristics of individual. We value diversity and inclusion and the benefits they bring to our business in achieving our objectives. We seek to attract the right skills and talents to meet the business needs of MQREIT.

As at 31 December 2019, we have a total of 18 employees (FY 2018: 18), of which 8 of them are on temporary contract. During the year, we recorded 1 new hire and 1 turnover. Our workforce comprises 67% female and 33% male. Majority of our employees (83%) are below the age of 50. None of our employees are covered by collective bargaining agreement due to the nature of our business.



2019 year-end dinner

Figure 8: Employee breakdown by gender

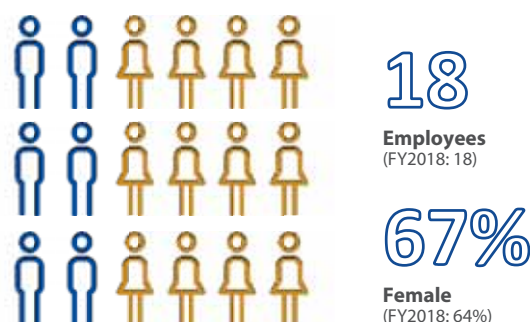


Figure 9: Employee breakdown by age group

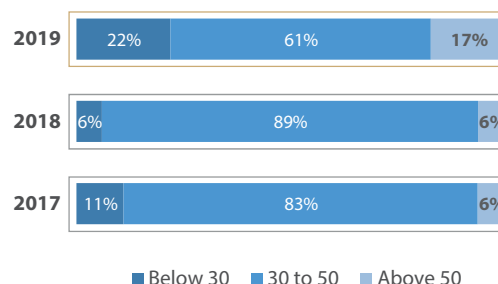


Figure 10: Employee breakdown by employee category

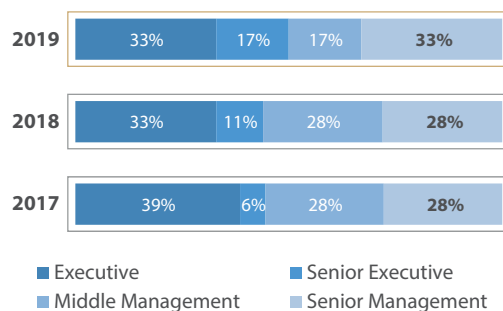
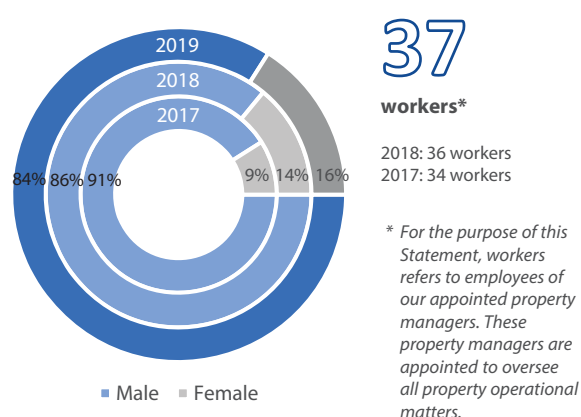


Figure 11: Worker breakdown by gender



SUSTAINABILITY STATEMENT

(cont'd)

5 Talent Attraction and Retention



Durian session with employees and vendors

Employee benefits and well-being

We provide competitive and attractive benefits for our employees. Some of the benefits that our employees are entitled to include:

Type of benefits	Detail of benefits
Insurance	<ul style="list-style-type: none"> Group term life insurance (including dependant) Disability and invalidity insurance Surgical and hospitalisation insurance
Leaves	<ul style="list-style-type: none"> Annual leave Parental leave Maternity leave Compassionate leave Prolonged illness leave Family care leave Examination leave
Wellness	Outpatient and health screening
Flexible work arrangement	Staggered working hours
Subsidy and reimbursement	<ul style="list-style-type: none"> Professional membership subsidy Parking subsidy Broadband subsidy Mobile phone bill reimbursement

Table 6: Employee benefits

Becoming a parent is a life-changing event for many. We care for and support our employees in this joyous milestone by providing flexibility of shorter working hours for pregnant employees as well as 90 days and 5 days of paid maternity leave and paternity leave respectively. We believe that our small gestures would bring large positive impact in building healthy families and in facilitating mothers to get back to the workforce.

The number of employees who took the maternity and paternity leave is as follows:

Family leave	FY 2017	FY 2018	FY 2019
Paternity leave	0	0	0
Maternity leave	1	2	0

Table 7: Number of employees who took maternity and paternity leave

We care for our employees' physical and mental well-being as we believe a healthy workforce is a productive one. We support work-life balance by providing flexible working arrangements for our employees.

Employee engagement

Listening to our employees allows us to understand their grievances and improve on the way we do things. We encourage two-way communication between management and employees to build a inclusive workplace based on trust and respect. All employees receive their performance appraisal once annually.

In addition, 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.

SUSTAINABILITY STATEMENT

(cont'd)

5 Talent Attraction and Retention

Employee engagement

In addition, to foster healthy working relationships amongst colleagues, we organised many engagement activities throughout the year including treasure hunt activity, weekly yoga sessions, birthday luncheons, festive dinner and parties. We also encourage our employees to volunteer in corporate social responsibility ("CSR") activities.

In 2019, our employees volunteered on weekends as teacher's aid for the English Tutoring Programme Centre in collaboration with Windsor Language for the less fortunate children at Rumah Ozanam Klang, St. Bernadette's Home, and Rumah SVP Klang Home. We have been sponsoring this programme since 2017 and have contributed RM173,000 since then. We also provide donation to the tune of RM90,000 and RM105,000 to Yayasan Ozanam and Persatuan Kebajikan Kanak-Kanak Kajang respectively to support the immediate needs of children from vulnerable groups.



6 Leadership and Succession Planning

[GRI 103-1, 103-2, 103-3, 401-1]

We believe that strong leadership is central to a successful organisation and developing the next generation of leaders is crucial to ensure we have the right people with the right skills, capabilities, and experiences, in the right place at the right time.

MQM's Nomination and Remuneration Committee is responsible to assess and appoint our Board of Director by considering the relevant skill sets, qualification and experience. The same considerations apply to the appointment of our senior management. Details of our Board are available in the Profile of Directors section of this annual report.

This year, we recorded zero turnover of our senior management. We aim to retain our leaders through our employee retention plan while at the same time, develop our employees to take on leadership roles in the future through on-the-job experience and training programme.

9 Employee Capacity Building

[GRI 103-1, 103-2, 103-3, 404-1, 404-2]

Investing in our employee capacity building is a win-win for both the employees and us. On one hand, employee who receives the necessary training will have greater understanding of the subject, acquire new competencies and in turn build their confidence. Their confidence will allow them to perform their job at a higher level which contributes to the performance of our business. In addition, employees who receive regular trainings would have higher job satisfaction which also helps us retain our key talents.

Our training and development plan is guided by Malaysian Resources Corporation Berhad ("MRCB") Group's training and development policies (Figure 12). Our employees are given access to MRCB Group's diverse training platforms and programme (Table 8) which present a great opportunity for our employees to attain valuable skill sets.

In 2019, we invested around RM33,000 in various training programme to develop our employees' competencies, skills and knowledge to meet current and future business needs. Furthermore, all relevant employees have achieved the 2019 company-wide target of 20 Continuing Professional Education ("CPE") points for each Capital Markets & Services Representative License Holders and all employees have received an average of 35 training hours per employee.

SUSTAINABILITY STATEMENT

(cont'd)

9 Employee Capacity Building

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 Group 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.

Figure 12: MRCB Group Training and Development Policies

Training platform and programme	Description
MRCB Training Academy	Provides a year-round calendar of skills-based and technical trainings which are designed purposefully for all employees across levels. The focus of this year's training is with a more targeted effort aimed at improving English proficiency among employees.
MRCB Learning Zone	An e-learning platform that hosts 111 e-learning courses that promote continuous learning at each individual's pace and convenience whilst tailoring to their learning needs. The courses include topics relating to leadership, work ethics, emotional intelligence, writing and communication skills, entrepreneurship, teamwork and self-motivation.
Industrial Practical Trainings - Environmental, Health and Safety ("ESH") Trainings	Offers a list of EHS trainings for the year such as Chemical Hazard Risk Assessment, Effective Safety Committee where employees are given the opportunity to enrol 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.

Table 8: Training Platforms and Programmes

Figure 13: Average hours of training per year per employee

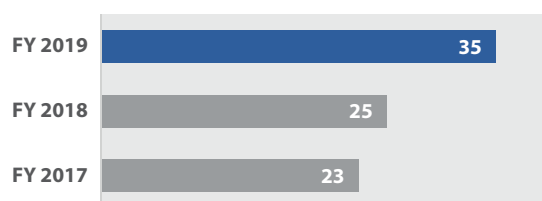


Figure 14: Average hours of training per year by employee category

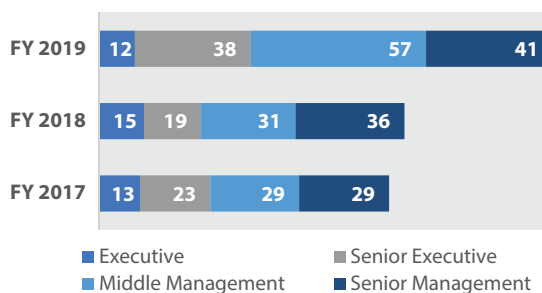
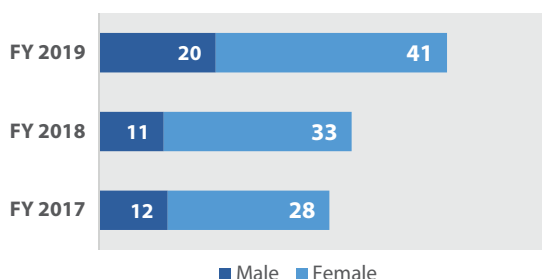


Figure 15: Average hours of training per year by gender



SUSTAINABILITY STATEMENT

(cont'd)

8

Health and Safety

[GRI 403-2, 403-5, 403-6, 403-9, 403-10]

We are committed to provide and ensure a safe and healthy environment for all of our employees, tenants, visitors, community, supply chain vendors and contractors.

Our health and safety policy is designed based on the health and safety principles illustrated in Figure 16. It guides the management of all health and safety issues, complying with the relevant laws and regulations. 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 ("OSH Act") and all applicable regulations. We comply with the requirements sets out by the Department of Safety and Health ("DOSH") and receive periodic checks for office environment to ensure ongoing compliance.

We work closely with our tenants, visitors and communities to ensure that the buildings are properly maintained, and measures are in place to prevent health and safety hazards.



Figure 16: MQREIT Health and Safety Principles



Fire drill at Platinum Sentral

Retails, Offices and Carparks

Prior to any renovation and fit-out of the tenanted spaces, the tenants are required to conduct a risk assessment. The building or property managers will check to ensure it is well maintained with clear signages of all hazards. The property manager will conduct regular inspections or spot checks on site periodically to identify and prevent any potential health and safety hazards. This is also to ensure compliance with the OSH Act. We have also established an Emergency Response Team trained in first aid and equipped with fire-fighting abilities to respond to health and safety risks.

This year, we have developed an emergency response plan for Menara Shell to guide emergency response at Menara Shell in the event of an emergency, to prevent any casualties and/or injuries. At Quill Building 2 - HSBC, we also upgraded the staircase design to prevent accumulation of rainwater at common areas such as staircase for safety purposes.

SUSTAINABILITY STATEMENT

(cont'd)

8 Health and Safety

Retails, Offices and Carparks

The table below highlights the key activities conducted in collaboration with external parties such as the Fire and Rescue Department of Malaysia ("BOMBA") and tenants to create awareness and protect the health and safety of our building stakeholders.

Category	Activity	Objective	Property	No. of Attendees
Health and Safety Awareness Events	12th Shell Malaysia and Safety Partner Organisations' CEO HSSE Forum	Discuss and create awareness on the topic of Care, Dilemmas and Risk Nominalisation	Menara Shell	250
	Shell Safety Day 2019	Discuss and create awareness on the topic - Together We Make Goal Zero Possible!	Menara Shell	50
Health and Safety Communication	Yearly fire evacuation drill briefing	Communicate and alert on the building's emergency respond plan and route with the Building Management Office ("BMO") Emergency Response Team and Tenants' Floor Warden	Platinum Sentral	33
	Menara Shell emergency response team	Communicate the roles and responsibilities of Emergency Manager, Evacuation Controller, Floor Marshalls, First Aiders and Emergency Response Team	Menara Shell	80
	Building safety briefing	Communicate building's health and safety requirements and procedures to all tenant's vendors, contractors prior to issuance of work permits and commencement of work	Menara Shell	All contractors, vendors, suppliers and caterers
	Tenants wellbeing	Communicate with tenants and contractors on Menara Shell's smoke-free policy during safety briefings	Menara Shell	All tenants
	Emergency Response Team Training	Train our Property Manager's team as Emergency Response Team, in collaboration with BOMBA	HQ	30
Health and Safety Training	First Aid Training	Prepare and train our employees in providing emergency care to an injured person	HQ	9
	Basic Life Support Training	Train our employees in giving Cardiopulmonary resuscitation ("CPR") during life-threatening emergencies such as cardiac arrest	HQ	9
	Fire Safety Training	To prepare and train our employees in fire safety procedure	HQ	23
	Annual fire drill and evacuation exercise	Prepare stakeholders to respond and manage crisis during emergency	Platinum Sentral and Menara Shell	All tenants

Table 9: Health and Safety Activities

SUSTAINABILITY STATEMENT

(cont'd)

8 Health and Safety



Fire Life Safety in Buildings Seminar conducted on 9 December 2019

Health and safety grievances

We have in place various channels for external stakeholders to raise their concerns involving health, hygiene and safety protection matters, as follows:

Channel	Description
Telephone	Stakeholders can call the BMO and request to speak to a stakeholder contact officer or obtain property manager's contact details.
Email	Grievances can be escalated to the respective property manager's email which can be obtained from the respective BMO.
Face-to-face	Stakeholders can raised their grievances directly to the property managers. 24-hour Auxiliary Police and/or security guard personnel are also on duty at the main lobby counter.

Table 10: Health and Safety Grievance Channel

Every case will be acknowledged, investigated, addressed and followed up until the case is closed or until satisfactory resolution is reached upon. There were zero case reported through these channels in 2019 and the preceding two years.

Health and safety performance

In 2019, there were no reported case of fatalities and work-related injuries. In addition, we have not observed any incidence of non-compliance with regulations concerning health and safety.

4 Quality of Assets and Services

[GRI 103-1, 103-2, 103-3, 205-3]

We place strong emphasis on the quality of MQREIT's assets (i.e. MQREIT properties) and our services as we believe they are the main contributing factors for attracting new tenants and retaining existing ones, especially in this current competitive property landscape. Having high quality assets will also alleviate MQREIT's reputation as an outstanding REIT with well managed and sought after properties.

Property highlight

We are proud to own two award-winning platinum certified green buildings in our portfolio, namely Platinum Sentral and Menara Shell. We invest in these green buildings for their environmental benefits as well as the growing demand from reputable organisations. According to Leadership in Energy and Environmental Design ("LEED"), green buildings consume 25% less energy and 11% less water.



Menara Shell is a Grade A office building, designed with energy efficiencies and green features, and has been accorded LEED platinum certification. In addition, it is also accredited with MSC Malaysia Status. The building features a Thermal Energy Storage System, which uses rain water and the environment's temperature to regulate the internal temperature of the building. Menara Shell has won the Best Office Award of the Malaysia Property Press Award 2015 (MPPA 2015) and top place at the International Real Estate Federation (FIABCI) Malaysia Property Award 2015.

Platinum Sentral was accorded the BCA Green Mark Platinum full certificate on 1 October 2014. It has received multiple awards over the years, such as the World Gold Winner of the FIABCI World Prix D'Excellence Awards 2014 (Sustainable Development Category) as well as the winner of the FIABCI Malaysia Property AwardTM 2013 (Sustainable Development Category).



SUSTAINABILITY STATEMENT

(cont'd)

4 Quality of Assets and Services

Asset enhancement

We continuously maintain and enhance the quality of our properties to ensure that our tenants and visitors are satisfied. Guided by our asset enhancement policy, our yearly asset enhancement plan is tabled to the Board for approval. Our main asset enhancement initiatives for 2019 are as follows:

1 Platinum Sentral

Enhancement was made to Platinum Sentral Lobby to enhance the building atmosphere. Artistic decorations and landscape was added to the Block D and Block C lobby area.

Before



After



2 Wisma Technip

16 units of Energy Efficient Initial Elite Plus Jet Hand Dryer was installed at Wisma Technip for toilets at Level 2 to Level 9. This will help reduce paper and energy consumption.

Before



After



3 Quill Building 2 - HSBC

Tenant reported near miss incident at staircase no. 2 and 5 after rainwater splashed on the staircases. We carried out upgrading work with the proper level gradient to divert the rainwater discharge out to ensure no water ponding would occur and keep the staircases dry at all time for safety precaution.

SUSTAINABILITY STATEMENT

(cont'd)

4 Quality of Assets and Services

Asset enhancement

Moving forward, further enhancement work is anticipated for Quill Building 1 - DHL 1, Quill Building 4 - DHL 2, Menara Shell and Platinum Sentral subject to approval by the Board and relevant authorities. The enhancement would focus on improving aesthetics, safety and energy management, as follows:

Property	Future initiative
Menara Shell	<ul style="list-style-type: none"> Refurbish lobby and driveway entrance to improve space utilisation and traffic flow Refurbish toilets across all floors
Platinum Sentral	<ul style="list-style-type: none"> Refurbish lobby, driveway entrance and retail area to improve aesthetic Upgrade outdoor courtyard area to improve safety Upgrade lighting system to improve lighting access in darker areas Refurbish toilet
Quill Building 1 - DHL 1 and 4 - DHL 2	<ul style="list-style-type: none"> Implement integrated building management system to improve operational efficiency Perimeter fencing to improve security Refurbish toilets (Quill Building 1 - DHL 1)

Table 11: Future initiatives on asset enhancement

Supply chain management

We work closely with our suppliers and contractors in enhancing the quality of our assets. To ensure that the quality of services and products that we procure consistently meet our requirements, we have implemented the Service Provider Pre-Qualification Policy and Services Contractor Evaluation Policy for all our properties except for Tesco Penang as it is fully managed by the tenant.

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. The assessment criteria is as follows:

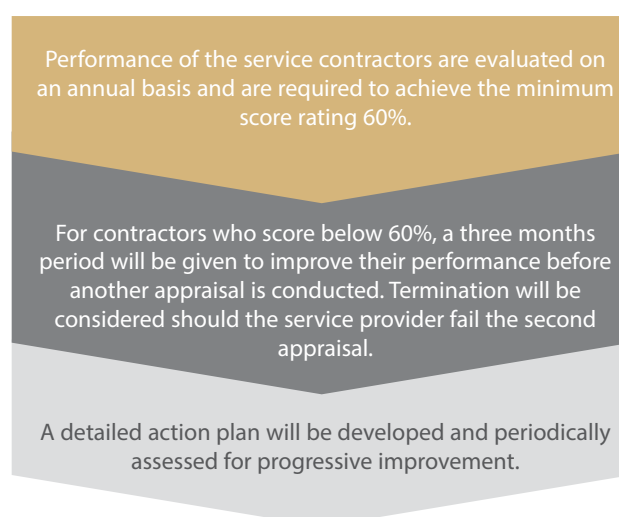
- Financial Capacity
- Technical Experience
- Machinery and Equipment
- Insurance
- Manpower
- Major Client
- Certificate (e.g. ISO and OHSAS)

Services Contractor Evaluation Policy

Standard performance appraisal is adopted to re-evaluate the performance of the service contractors and improvement on a yearly basis.

Upon awarding of contract, we will conduct on-going monitoring on the contractor or service provider's service level to ensure the service quality meets our requirements. A standard performance appraisal is conducted annually to re-evaluate the performance of service contractors against a defined set of criteria.

Figure 17: Standard Performance Appraisal



For 2019, 99.9% of our service providers achieved higher than the minimum score rating of 60% as a result of our ongoing efforts to maintain high standards of service.

We prioritise sourcing from local contractor or suppliers within our procurement process where feasible. Local sourcing contributes to the development of our local economy, reduces supply chain costs as well as our environmental footprint. In 2019, 80% of our procurement budget were spent on local suppliers.

SUSTAINABILITY STATEMENT

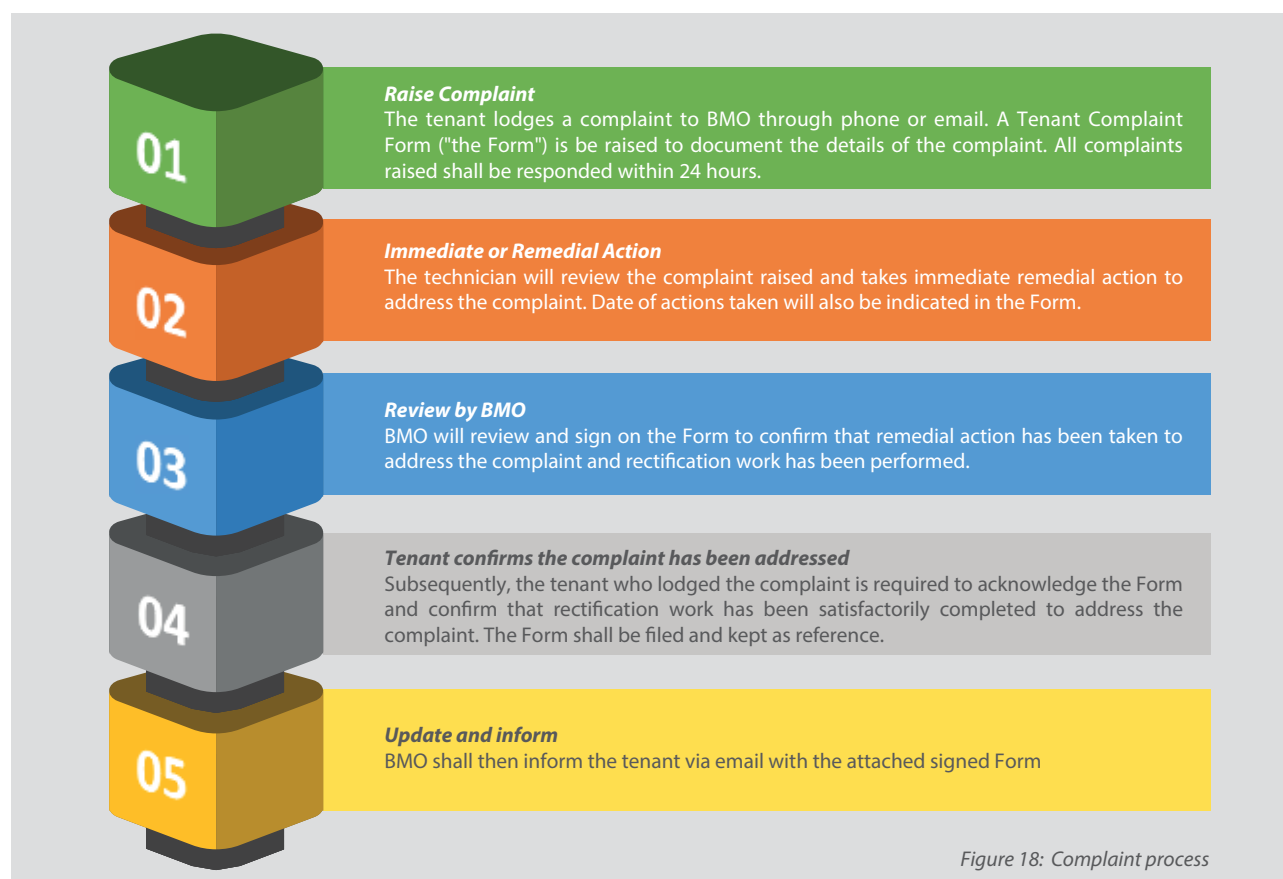
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4 Quality of Assets and Services

Tenant engagement and satisfaction

We believe strong tenant relationship is built through regular and meaningful engagement. Apart from regular briefings and sharing sessions, we also engage our tenants to obtain their feedbacks and address their complaints effectively.

Our Tenant Complaints Policy outlines our approach in managing tenant's feedback and complaints. All tenant complaints are collated through our complaint form system and we strive to respond to them within 24 hours. Furthermore, all complaints are brought up to the ACG during the monthly discussions on operational matters including recommendations for improvement by the property managers to improve tenant satisfaction. Our complaints management process is as follows:



In 2018, we embarked on the implementation of the Computerised Maintenance Monitor System ("CMMS") to track complaints raised more efficiently. In 2019, the CMMS system was implemented in Menara Shell and we aim to roll-out to other properties with more than 10 active tenants progressively. Among the benefits of the CMMS system include:

- Reduce downtime and repair costs
- Prevent duplication of rectification works through data that was previously input
- Track maintenance records of work orders
- Analyse data and detect recurring problems
- Manage work orders efficiently
- Eliminate paperwork
- User friendly and enhance productivity

Number of complaints

1,658 ↓ -10%

In 2019, we received 1,658 complaints (2018: 1,845 complaints), a 10% reduction compared to 2018. All the complaints received during the year have been fully resolved as at 31 December 2019. Amongst our properties, Platinum Sentral and Menara Shell received the most complaints: 683 and 408 respectively. Our target for 2020 is to reduce the number of complaints for these two properties by 5% from 2019 through more proactive daily and weekly operational or maintenance work.

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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 2019.

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"); the First Supplemental Deed dated 27 August 2007; the Second Supplemental Deed dated 28 May 2013 and the Third Supplemental Deed dated 2 April 2015, which was superseded by the Restated Trust Deed dated 2 December 2019 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 25 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 net assets value ("NAV").

THE MANAGER'S REPORT

(cont'd)

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
 Datuk Kamalul Arifin Bin Othman *(appointed on 8 March 2019)*
 Dato' Thanarajasingam Subramaniam *(resigned on 10 January 2019)*
 Aminuddin Bin Mohd Arif *(resigned on 1 March 2019)*

Directors' benefit

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

Since the end of the previous financial year, no director of the Manager has received or become entitled to receive a benefit by reason of a contract made by MQREIT or a related corporation with any director of the Manager or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except for units held in MQREIT as disclosed in Note 29 to the financial statements and the related party transactions as disclosed in Note 33 to the financial statements.

Directors' interests

		Units as at 1 January 2019	Number of units acquired/ (disposed)	Units as at 31 December 2019
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)	59,401,000	-	59,401,000
Dato' Michael Ong Leng Chun	(b)	59,401,000	-	59,401,000
Tan Sri Saw Choo Boon	(c)	185,000	-	185,000

- (a) Deemed interest by virtue of her direct shareholding in Quill Land Sdn. Bhd. ("QLSB") and Quill Resources Holding Sdn. Bhd. ("QRSB").
- (b) Deemed interest by virtue of his direct shareholding in QLSB and QRSB.
- (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.

THE MANAGER'S REPORT

(cont'd)

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 2019.

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 2019, 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 2019, 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 RM80,000 on the advisory services for sustainability reporting for FY 2019 by Ernst & Young Advisory Services Sdn. Bhd..

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 and satisfied themselves that all known bad debts had been written off 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) the amount written off for 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.

THE MANAGER'S REPORT

(cont'd)

Other statutory information (cont'd)

- (e) At the date of this report, the directors of the Manager are not aware of any circumstances not otherwise dealt with in this report or financial statements of MQREIT which would materially affect the interests of the unitholders.
- (f) At the date of this report, there does not exist:
 - (i) any charge on the assets of MQREIT which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of MQREIT which has arisen since the end of the financial year.
- (g) In the opinion of the directors of the Manager:
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of MQREIT to meet its obligations as and when they fall due; and
 - (ii) 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 35 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..



Tan Sri Saw Choo Boon
Director



Ann Wan Tee
Director

Kuala Lumpur, Malaysia
25 February 2020

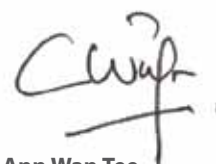
STATEMENT BY MANAGER

We, Tan Sri Saw Choo Boon 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 119 to 174 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 2019 and its financial performance and cash flows for the year then ended.

Signed on behalf of the Manager, MRCB Quill Management Sdn. Bhd.



Tan Sri Saw Choo Boon
Director



Ann Wan Tee
Director


Kuala Lumpur, Malaysia
25 February 2020

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 119 to 174 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 25 February 2020.

Before me,
Commissioner of Oath

Yong Su-Lin

TRUSTEE'S REPORT

To the Unitholders of MRCB-Quill REIT

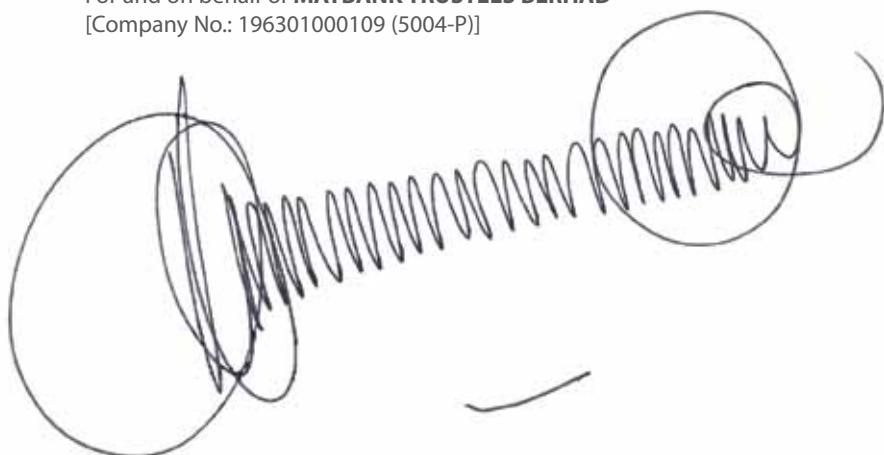
We have acted as Trustee of MRCB-Quill REIT ("MQREIT") for the financial year ended 31 December 2019. To the best of our knowledge, MRCB Quill Management Sdn. Bhd. ("the Manager") has managed MQREIT in the financial year under review in accordance to the following:

- (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 3.43 sen per unit has been distributed to the unitholders of MQREIT on 23 September 2019 for the financial period from 1 January 2019 to 30 June 2019. The proposed final gross income distribution of 3.37 sen per unit for the financial period from 1 July 2019 to 31 December 2019 will be payable on 28 February 2020 to all unitholders as at the book closure date of 3 February 2020.

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.: 196301000109 (5004-P)]

A large, stylized handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke.

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 2019, 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 119 to 174.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of MQREIT as at 31 December 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) ("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 2019 of RM2,125,182,320 represents 96% 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 similar 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 knowledge 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 of 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 judgement 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.

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)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on MQREIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of MQREIT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause MQREIT to cease to continue as a going concern.
- 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 PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Kuala Lumpur, Malaysia
25 February 2020



Tan Shium Jye
No. 02991/05/2020 J
Chartered Accountant

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Note	2019 RM	2018 RM
Total income			
Revenue			
- Realised	5	162,066,468	173,376,079
- Unrealised (in relation to unbilled lease income receivable)	5	(1,074,265)	(849,536)
		160,992,203	172,526,543
Property operating expenses	6	(39,244,436)	(39,724,838)
Net property income		121,747,767	132,801,705
Finance income	7	3,222,627	4,327,333
Change in fair value of investment properties			
- As per valuation		(36,730,682)	(5,434,231)
- Unbilled lease income receivable		1,074,265	849,536
Gain on divestment of investment property		-	2,196,632
		89,313,977	134,740,975
Total expenditure			
Manager's fees	8	(12,760,955)	(13,253,725)
Trustee's fee	9	(676,287)	(685,921)
Finance costs	10	(39,594,458)	(40,590,429)
Valuation fees		(328,623)	(357,043)
Auditors' remuneration		(147,170)	(146,842)
Tax agent's fee		(32,012)	(49,827)
Administrative expenses		(414,794)	(394,751)
		(53,954,299)	(55,478,538)
Income before taxation		35,359,678	79,262,437
Income tax expense	11	(6,237,773)	(6,132,188)
Income net of taxation		29,121,905	73,130,249
Other comprehensive income			
Gain on remeasurement of financial derivatives		103,784	237,709
Other comprehensive income for the year, net of tax		103,784	237,709
Total comprehensive income for the financial year		29,225,689	73,367,958
Net income for the year is made up as follows:			
- Realised		72,107,547	84,653,758
- Unrealised		(42,985,642)	(11,523,509)
		29,121,905	73,130,249

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2019
(cont'd)

	Note	2019 RM	2018 RM
Total realised income net of taxation		72,107,547	84,653,758
Distribution adjustments	A	900,000	2,400,000
Total distributable income		73,007,547	87,053,758
Earnings per unit			
After manager's fees (sen)	12(a)	2.72	6.83
Before manager's fees (sen)	12(b)	3.91	8.07
Earnings per unit (realised)			
After manager's fees (sen)	12(c)	6.73	7.91
Before manager's fees (sen)	12(d)	7.92	9.14
Income distribution			
Interim distribution of 4.23 sen paid on 19 September 2018 (RM) ^{1*}	13	-	45,336,421
Final distribution of 3.85 sen payable on 28 February 2019 (RM) ^{2*}	13	-	41,263,646
Interim distribution of 3.43 sen paid on 23 September 2019 (RM) ^{3*}	13	36,762,157	-
Final distribution of 3.37 sen payable on 28 February 2020 (RM) ^{4*}	13	36,119,087	-
		72,881,244	86,600,067
Interim distribution per unit			
Gross (sen) ⁵		3.43	4.23
Final distribution per unit			
Gross (sen) ⁵		3.37	3.85
Total distribution per unit			
Gross (sen) ⁵		6.80	8.08

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

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

3 Based on 1,071,783,000 units entitled to distribution, for the financial period from 1 January 2019 to 30 June 2019;

4 Based on 1,071,783,000 units entitled to distribution, for the financial period from 1 July 2019 to 31 December 2019;

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

* Final income distribution for the financial year 2019 was declared on 17 January 2020 and will be payable on 28 February 2020. The declared final income distribution will be recognised in the immediate subsequent financial year.

Note A:

	2019 RM	2018 RM
Distribution adjustment comprise:		
Amount previously not distributed	900,000	2,400,000

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 2019

	Note	2019 RM	2018 RM
Assets			
Non-current assets			
Plant and equipment	14	363,265	345,125
Investment properties	15	2,125,182,320	2,158,708,055
Investment properties - accrued rental income	18	17,817,680	18,891,945
Lease receivables	17	773,211	1,326,763
		2,144,136,476	2,179,271,888
Current assets			
Trade and other receivables	18	5,755,440	5,969,634
Lease receivables	17	553,552	688,167
Deposits, cash and bank balances	19	63,258,890	85,775,603
		69,567,882	92,433,404
Total assets		2,213,704,358	2,271,705,292
Liabilities			
Non-current liabilities			
Borrowings	21	503,018,839	853,704,352
Derivative liabilities	16	-	428,022
Security deposits	23	19,106,575	11,168,217
Other payables	20	1,602,022	1,825,879
Deferred tax liabilities	22	12,369,961	6,132,188
		536,097,397	873,258,658
Current liabilities			
Trade and other payables	20	15,703,152	16,114,325
Derivative liabilities	16	324,238	-
Borrowings	21	332,697,543	-
Security deposits	23	5,392,610	10,042,778
		354,117,543	26,157,103
Total liabilities		890,214,940	899,415,761
Net assets value ("NAV")		1,323,489,418	1,372,289,531

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(cont'd)

	Note	2019 RM	2018 RM
Unitholders' funds			
Unitholders' funds attributable to unitholders of MQREIT			
Unitholders' capital	24	1,235,876,768	1,235,876,768
Undistributed and non-distributable income		87,612,650	136,412,763
Total unitholders' funds		1,323,489,418	1,372,289,531
Net asset value ("NAV")			
	27		
Before income distribution ¹		1,323,489,418	1,372,289,531
After income distribution ²		1,287,370,331	1,331,025,885
NAV per unit			
	27		
Before income distribution ¹		1.2348	1.2804
After income distribution ²		1.2011	1.2419
Number of units in circulation			
As at 31 December (units)	24	1,071,783,000	1,071,783,000

- 1 Before the proposed final income distribution of 3.37 sen per unit and 3.85 sen per unit for the financial year 2019 and 2018 respectively.
- 2 After the proposed final income distribution of 3.37 sen per unit and 3.85 sen per unit for the financial year 2019 and 2018 respectively.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE

For the financial year ended 31 December 2019

		← Distributable →		Non-distributable		
	Unitholders' capital	Undistributed income realised	Undistributed income unrealised	Cash flow hedge reserve*	Total undistributed and non-distributable income	Unitholders' funds
	RM	RM	RM	RM	RM	RM
At 1 January 2019	1,235,876,768	54,923,500	81,917,285	(428,022)	136,412,763	1,372,289,531
Total comprehensive income for the financial year	-	72,107,547	(42,985,642)	103,784	29,225,689	29,225,689
	1,235,876,768	127,031,047	38,931,643	(324,238)	165,638,452	1,401,515,220
Transactions with unitholders						
Distribution to unitholders	-	(78,025,802)	-	-	(78,025,802)	(78,025,802)
At 31 December 2019	1,235,876,768	49,005,245	38,931,643	(324,238)	87,612,650	1,323,489,418
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/ placements of new units (Note 24)	(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

* The cash flow hedge reserve comprise the effective portion of the gain or loss on interest rate swap arrangements as disclosed in Note 34.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2019

	Note	2019 RM	2018 RM
Cash flows from operating activities			
Income before taxation		35,359,678	79,262,437
Adjustments for:			
Finance costs	10	39,594,458	40,590,429
Depreciation of plant and equipment	14	156,668	76,758
Changes in fair value of investment properties	15	35,656,417	4,584,695
Unbilled lease income	5	1,074,265	849,536
Allowance for impairment of trade receivables	18	1,646,311	899,357
Reversal for impairment of trade receivables	18	(2,508,646)	(91,953)
Finance income	7	(3,222,627)	(4,327,333)
Gain on divestment of investment property		-	(2,196,632)
Operating cash flows before changes in working capital		107,756,524	119,647,294
Changes in working capital:			
Decrease/(increase) in trade and other receivables		1,713,504	(980,243)
Increase/(decrease) in trade and other payables		692,586	(12,933,093)
Net cash flows generated from operating activities		110,162,614	105,733,958
Cash flows from investing activities			
Additions to investment properties	15	(2,130,682)	(3,833,631)
Proceed from divestment of QB8		-	28,000,000
Purchase of plant and equipment	14	(174,808)	(249,450)
Changes in lease receivable	17	688,167	730,820
Changes in deposits in financial institution		23,278,401	(62,105,576)
Interest received		2,717,909	3,686,860
Net cash flows generated from/(used in) investing activities		24,378,987	(33,770,977)
Cash flows from financing activities			
Distribution to unitholders		(78,025,802)	(89,765,221)
Proceeds from borrowings	21	35,000,000	117,000,000
Repayment of borrowings	21	(54,000,000)	(117,000,000)
Proceeds from issuance/placements of new units	24	-	3,974,420
Expenses paid on issuance/placements of new units	24	-	(12,196)
Finance costs paid		(36,754,111)	(38,531,283)
Net cash flows used in financing activities		(133,779,913)	(124,334,280)
Net increase/(decrease) in cash and cash equivalents		761,688	(52,371,299)
Cash and cash equivalents at 1 January		12,136,603	64,507,902
Cash and cash equivalents at 31 December	19	12,898,291	12,136,603

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

1. MQREIT, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

MRCB-Quill REIT ("MQREIT") was constituted under a Trust Deed dated 9 October 2006, the First Supplemental Deed dated 27 August 2007, the Second Supplemental Deed dated 28 May 2013 and the Third Supplemental Deed dated 2 April 2015, entered into between MQM as the Manager (the "Manager") and Maybank Trustees Berhad as the trustee (the "Trustee") (Collectively Referred As The "Original Deed"), 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.

Pursuant to Paragraph 9.43(1)(j) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), the board of directors of the Manager ("Board") has on 22 November 2019, approved the Proposed Amendments and Restatements. The Manager and the Trustee have amended and restated trust deed to incorporate the Proposed Amendment and Restatement of the Trust Deed ("Amended and Restated Trust Deed").

The Amended and Restated Trust Deed are for the purpose of streamlining the Original Deed to be in line with the Guidelines on Listed Real Estate Investment Trusts issued by the Securities Commission Malaysia ("SC") on 15 March 2018 (which was subsequently revised on 18 June 2019) ("SC REIT Guidelines"), the Listing Requirements and the Companies Act 2016 ("Companies Act"), as applicable, as well as to update the Original Deed, where relevant.

The Amended and Restated Trust Deed dated 2 December 2019 has been registered and lodged with SC and the effective date is on 31 December 2019. Thereafter, the Amended and Restated Trust Deed superseded the Original Deed.

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 25 to the financial statements. There has 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 25 February 2020.

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 SC REIT Guidelines.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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

3.2 Changes in accounting policies

The financial statements are presented in Ringgit Malaysia ("RM"). The accounting policies adopted are consistent with those of the previous financial year.

On 1 January 2019, MQREIT adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2019:

Description	Effective for annual periods beginning on or after
MFRS 16: Leases	1 January 2019
Annual Improvements to MFRSs 2015 - 2017 Cycle (Amendments to MFRS 3, MFRS 11, MFRS 112 and MFRS 123)	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

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

3.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of MQREIT's financial statements are disclosed below. MQREIT intends to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 3 : Business Combination	1 January 2020
Amendments to MFRS 101 : Presentation of Financial Statements	1 January 2020
Amendments to MFRS 101: Definition of Material	1 January 2020
Amendments to MFRS 108 : Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform	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

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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

3.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of MQREIT and its special purpose entities ("SPEs") as at the reporting date. The financial statements of the SPEs used in the preparation of the consolidated financial statements are prepared for the same reporting date as MQREIT. Consistent accounting policies are applied to like transactions and events in similar circumstances. The SPEs are established for the specific purpose of raising financing on behalf of MQREIT for the acquisition of real estate and are single-purpose entities.

MQREIT controls the SPEs if and only if MQREIT has all the following:

- (i) Power over the SPEs (such as existing rights that give it the current ability to direct the relevant activities of the SPEs);
- (ii) Exposure, or rights, to variable returns from its investment with the SPEs; and
- (iii) The ability to use its power over the SPEs to affect its returns.

SPEs controlled by MQREIT were established under terms that impose strict limitations on the decision-making powers of the SPEs management resulting in MQREIT receiving all of the benefits related to the SPEs operations and net assets.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

3.5 Plant and equipment

All items of plant and equipment are initially recorded at cost. The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to MQREIT and the cost of the item can be measured reliably.

Subsequent to recognition, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of plant and equipment are required to be replaced in intervals, MQREIT recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation of plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Plant and machinery	20%
Office equipment	20% - 50%
Furniture and fittings	33%

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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

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.

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 criteria 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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

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.

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 changes 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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

3.9 Financial assets (cont'd)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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

3.9 Financial assets (cont'd)

(iii) Financial assets at FVTPL (cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(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)

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.

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 2019

(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 payables, other payables and 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 2019

(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 is 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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

3.18 Income taxes (cont'd)

(ii) Deferred tax (cont'd)

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

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.

NOTES TO THE FINANCIAL STATEMENTS

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(cont'd)

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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

3.21 Fair value measurement (cont'd)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

MQREIT uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- 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 2019

(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)	
	2019	2018
	RM	RM
Yield rate		
- 0.25%	51,421,978	69,148,007
+ 0.25%	(54,092,158)	(62,237,316)
Discount rate		
- 0.25%	11,422,118	15,976,117
+ 0.25%	(13,756,757)	(16,464,257)

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 2019

(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

	2019 RM	2018 RM
Rental income and service charges		
- Realised	145,216,841	155,817,922
- Unrealised (in relation to unbilled lease income receivable)	(1,074,265)	(849,536)
Car park income	12,956,711	13,169,151
Utilities recovery	3,814,434	4,320,696
Others	78,482	68,310
	160,992,203	172,526,543

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 16 *Leases*, recognised on straight-line basis.

6. PROPERTY OPERATING EXPENSES

	2019 RM	2018 RM
Quit rent and assessment	8,474,667	8,130,655
Depreciation	156,668	76,758
Insurance	735,979	908,376
Property management fee	3,091,102	3,110,531
Service contracts and maintenance	11,690,081	12,129,366
Utilities	15,095,939	15,369,152
	39,244,436	39,724,838

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 2019

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7. FINANCE INCOME

	2019 RM	2018 RM
Realised:		
Interest income on fixed deposit	2,383,800	3,139,252
Interest on deposit paid to authorities	40,436	20,733
Interest income on lease receivable	175,788	254,199
Late payment interest charged to tenants	21,495	54,608
	2,621,519	3,468,792
Unrealised:		
Amortisation of deferred lease income (Note 20 (c))	601,108	858,541
	3,222,627	4,327,333

8. MANAGER'S FEES

	2019 RM	2018 RM
Base fee	8,997,649	9,140,124
Performance fee	3,763,306	4,113,601
	12,760,955	13,253,725

The Manager is entitled under the Trust Deed to a base fee of 0.4% per annum of the gross asset value, payable monthly in arrears and a performance fee of 3% per annum on the net investment income, payable semi-annually in arrears.

The Manager is also entitled under the Trust Deed to an acquisition fee of 1% of the acquisition value of any asset, being authorised investments, acquired by MQREIT and divestment fee of 0.5% of the disposal value of any asset divested by MQREIT.

There are no other fees earned by the Manager during the financial year other than as disclosed in this note.

The Manager's remuneration is accrued and paid in accordance with the Trust Deed.

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

9. TRUSTEE'S FEE

Trustee's fee accrued to the Trustee for the financial year ended 31 December 2019 amounted to RM676,287 (2018: RM685,921).

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

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10. FINANCE COSTS

	2019 RM	2018 RM
Realised:		
Accretion of interest expense	1,050,003	1,176,352
Amortisation of transaction costs incurred to obtain Commercial Papers ("CPs")/ Medium Term Notes ("MTNs")	477,095	499,440
Amortisation of transaction costs incurred to obtain Term Loan	200,730	310,113
Annual CPs/MTNs Programme expense	437,280	461,382
Loss on interest rate swap arrangements	748,675	530,635
Interest expense on CPs	18,814,091	18,896,986
Interest expense on MTNs	6,580,000	6,580,000
Interest expense on Term Loan	10,668,289	11,319,890
	38,976,163	39,774,798
Unrealised:		
Unwinding of discount on security deposits (Note 23)	618,295	815,631
	39,594,458	40,590,429

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 RM	2018 RM
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 22)	6,237,773	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 2019 shall be exempted from tax.

NOTES TO THE FINANCIAL STATEMENTS

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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 2019 and 2018 is as follows:

	2019 RM	2018 RM
Income before taxation	35,359,678	79,262,437
Tax at Malaysian statutory tax rate of 24% (2018: 24%)	8,486,323	19,022,985
Income not subject to taxation	(17,082,112)	(19,393,300)
Unrealised income not subject to tax	4,125	(10,298)
Exempt income not subject to tax	(572,112)	(1,280,612)
Expenses not deductible for tax purposes	9,163,776	1,661,225
Deferred tax on Real Property Gains Tax ("RPGT") on fair value gain of investment property	6,237,773	6,132,188
Income tax expense for the year	6,237,773	6,132,188

12. EARNINGS PER UNIT ("EPU")

- EPU after manager's fees is based on net income for the year of RM29,121,905 (2018: RM73,130,249) divided by the units in circulation during the year of 1,071,783,000 (2018: 1,070,808,748).
- EPU before manager's fees is based on net income for the year of RM41,882,860 (2018: RM86,383,974) after adding back manager's fees of RM12,760,955 (2018: RM13,253,725) divided by the units in circulation during the year of 1,071,783,000 (2018: 1,070,808,748).
- EPU after manager's fees (realised) is based on realised net income for the year of RM72,107,547 (2018: RM84,653,758) divided by the units in circulation during the year of 1,071,783,000 (2018: 1,070,808,748).
- EPU before manager's fees (realised) is based on realised net income for the year of RM84,868,502 (2018: RM97,907,483) after adding back manager's fees of RM12,760,955 (2018: RM13,253,725) divided by the units in circulation during the year of 1,071,783,000 (2018: 1,070,808,748).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

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13. DISTRIBUTION TO UNITHOLDERS

Distribution to the unitholders is from the following sources:

	2019 RM	2018 RM
Realised:		
Revenue (Note 5)	162,066,468	173,376,079
Finance income (Note 7)	2,621,519	3,468,792
Gain on divestment of investment property	-	2,196,632
	164,687,987	179,041,503
Less: Total expenses	(92,580,440)	(94,387,745)
Total realised income	72,107,547	84,653,758
<u>Add: Distribution adjustment</u>		
Amount previously not distributed	900,000	2,400,000
Distributable income	73,007,547	87,053,758
Distribution to unitholders	72,881,244	86,600,067
Distribution per unit (sen) of which:		
- taxable distribution of income (sen)	6.58	7.59
- tax exempt distribution of income (sen)	0.22	0.49
Gross distribution per unit (sen) *	6.80	8.08

* 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	
	2019	2018
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 2019
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14. PLANT AND EQUIPMENT

	Plant and machinery RM	Office equipment RM	Furniture and fittings RM	Total RM
At 31 December 2019				
Cost				
At 1 January 2019	6,000	582,375	19,400	607,775
Additions	-	154,200	20,608	174,808
At 31 December 2019	6,000	736,575	40,008	782,583
Accumulated depreciation				
At 1 January 2019	5,998	237,253	19,399	262,650
Depreciation charge for the financial year	-	154,951	1,717	156,668
At 31 December 2019	5,998	392,204	21,116	419,318
Net carrying amount	2	344,371	18,892	363,265
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

15. INVESTMENT PROPERTIES

	2019 RM	2018 RM
At 1 January	2,158,708,055	2,159,459,119
Additions from assets enhancement	2,130,682	3,833,631
Fair value adjustments	(35,656,417)	(4,584,695)
At 31 December	2,125,182,320	2,158,708,055

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

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 RM'000	Carrying value as at 31 December 2019 RM'000	Fair value as at 31 December 2019 RM'000	Fair value as % of NAV	Carrying value as at 31 December 2018 RM'000	Fair value as at 31 December 2018 RM'000
<u>Commercial buildings</u>								
Quill Building 1								
- DHL 1	20-Nov-06	Freehold	133,000	133,139	133,300	10.07	132,678	133,000
Quill Building 4								
- DHL 2	20-Nov-06							
Quill Building 2								
- HSBC	20-Nov-06	Freehold	122,000	122,988	123,000	9.29	121,797	122,000
Quill Building 3								
- BMW	20-Nov-06	Freehold	79,000	79,210	78,000	5.89	80,003	79,000
Wisma Technip	3-Sep-07	Freehold	172,400	171,694	173,200	13.09	170,223	172,400
Part of Plaza Mont' Kiara	3-Sep-07	Freehold	118,200	118,546	118,500	8.95	118,198	118,200
Quill Building 5								
- IBM	14-Mar-08	Freehold	39,000	40,000	40,000	3.02	39,000	39,000
Tesco Building, Penang	7-Nov-08	Freehold	140,000	129,837	140,000	10.58	130,387	140,000
Platinum Sentral	30-Mar-15	Freehold	724,000	679,426	686,000	51.83	716,475	724,000
Menara Shell	22-Dec-16	Freehold	650,000	650,342	651,000	49.19	649,947	650,000
Total			2,177,600	2,125,182	2,143,000		2,158,708	2,177,600

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

15. INVESTMENT PROPERTIES (cont'd)

The carrying value of the investment properties for the financial years ended 31 December 2019 and 2018 is based on the market value determined based on valuations, adjusted with accrued rental income as required by MFRS 140, as follows:

	2019 RM	2018 RM
Investment properties - fair value	2,143,000,000	2,177,600,000
Investment properties - accrued rental income (Note 18)	(17,817,680)	(18,891,945)
Investment properties	2,125,182,320	2,158,708,055

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.

Investment properties with net carrying amount totalling RM2,065,000,000 (2018: RM2,098,600,000) are pledged as securities for borrowings as disclosed in Note 21.

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 2019 and 31 December 2018.

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
		2019	2018	
Investment method (refer below)	Office:			
	Market rental rate (RM/psf/month)			The estimated fair value would increase/(decrease) if:
	- Term	4.4 - 8.5	4.2 - 9.0	- expected market rental growth were higher/(lower)
	- Reversion	4.4 - 8.5	4.5 - 9.0	- expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	0.5 - 1.8	0.6 - 1.8	- expected inflation rate were lower/(higher)
	- Reversion	0.8 - 1.8	0.8 - 2.0	- expected inflation rate were lower/(higher)
	Void rate (%)	5.0 - 10.0	5.0 - 15.0	- void rate were lower/(higher)
	Term yield (%)	5.5 - 6.6	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 (%)	6.5 - 6.8	6.3 - 6.8	- discount rate is lower/(higher)

NOTES TO THE FINANCIAL STATEMENTS

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(cont'd)

15. INVESTMENT PROPERTIES (cont'd)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models: (cont'd)

Valuation technique	Significant unobservable inputs	Range		Inter-relationship between significant unobservable inputs and fair value measurement
		2019	2018	
Investment method (refer below)	Retail:			
	Market rental rate (RM/psf/month)			The estimated fair value would increase/(decrease) if:
	- Term	1.5 - 17.7	1.5 - 18.9	- expected market rental growth were higher/(lower)
	- Reversion	1.5 - 17.7	1.5 - 18.9	- expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	0.3 - 1.9	0.3 - 1.8	- expected inflation rate were lower/(higher)
	- Reversion	0.4 - 2.0	0.3 - 2.0	- expected inflation rate were lower/(higher)
	Void rate (%)	5.0 - 10.0	5.0	- 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 - 6.75	6.0 - 6.8	- reversionary yield were lower/(higher)
	Discount rate (%)	6.75	6.3 - 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	
		2019	2018
	RM	RM	RM
Non-current			
Interest rate swap (Note 34 (i))	139.5 million	-	211,635
Interest rate swap (Note 34 (ii))	139.5 million	-	216,387
		-	428,022
Current			
Interest rate swap (Note 34 (i))	139.5 million	162,129	-
Interest rate swap (Note 34 (ii))	139.5 million	162,109	-
		324,238	-

MQREIT entered into interest rate swap transactions to manage the risks associated with interest rate movement as disclosed in Note 34.

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17. LEASE RECEIVABLES

	2019 RM	2018 RM
Non-current		
Lease receivables	773,211	1,326,763
Current		
Lease receivables	553,552	688,167

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 amounting 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	2019 RM	2018 RM
Non-current			
Accrued rental income (Note 15)		17,817,680	18,891,945
Current			
Trade receivables			
Trade receivables		1,275,693	2,476,483
Less: Allowance for impairment		-	(862,335)
Trade receivables, net	(a)	1,275,693	1,614,148
Other receivables			
Deposits		2,907,817	2,886,115
Prepayments		739,847	507,081
Sundry receivables	(b)	832,083	962,290
		4,479,747	4,355,486
		5,755,440	5,969,634
Total trade and other receivables		5,755,440	5,969,634
Less: Prepayments		(739,847)	(507,081)
Add: Deposits, cash and bank balances (Note 19)		63,258,890	85,775,603
Total loans and receivables		68,274,483	91,238,156

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

18. TRADE AND OTHER RECEIVABLES (cont'd)

(a) Trade receivables

Trade receivables are non interest-bearing and are generally on 7 to 30 days term (2018: 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.

Ageing analysis of trade receivables

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

	2019 RM	2018 RM
Neither past due nor impaired	1,170,608	1,010,842
1 - 30 days past due not impaired	-	-
31 - 60 days past due not impaired	34,237	264,124
61 - 90 days past due not impaired	12,248	152,009
More than 90 days past due not impaired	58,600	187,173
	105,085	603,306
	1,275,693	1,614,148
Impaired	-	862,335
	1,275,693	2,476,483

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 RM105,085 (2018: RM603,306) 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:

	2019 RM	2018 RM
Trade receivables - nominal amounts		
(after offsetting security deposits)	-	862,335
Less: Allowance for impairment	-	(862,335)
	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(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:

	2019 RM	2018 RM
At 1 January	862,335	54,931
Charge for the financial year	1,646,311	899,357
Reversal for the financial year	(2,508,646)	(91,953)
At 31 December	-	862,335

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

	2019 RM	2018 RM
Deposits with licensed financial institutions	59,363,150	80,486,003
Cash on hand and at banks	3,895,740	5,289,600
Total deposits, cash and bank balances	63,258,890	85,775,603
Less:		
Deposits with licensed financial institution with maturity of more than 3 months	(45,500,529)	(68,490,041)
Debt service reserves accounts pledged	(4,860,070)	(5,148,959)
Cash and cash equivalents	12,898,291	12,136,603

Included in deposits with licensed financial institutions is an amount of RM4,860,070 (2018: RM5,148,959) maintained in the debt service reserves accounts which are assigned for the borrowings as disclosed in Note 21.

Included in cash on hand and at banks is an amount of RM2,823,760 (2018: RM4,444,246) maintained in the revenue and operations accounts which are assigned for the borrowings as disclosed in Note 21.

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

	2019 %	2018 %
Deposits with licensed financial institutions (per annum)	3.45	3.82

Deposits with licensed financial institutions have an average maturity ranging from 61 to 367 days (2018: 31 to 184 days).

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20. TRADE AND OTHER PAYABLES

	Note	2019 RM	2018 RM
Non-current			
Other payables			
Deferred lease income	(c)	1,602,022	1,825,879
Current			
Trade payables			
Trade payables	(a)	215,867	765,757
Trade accruals		3,684,471	5,929,981
		3,900,338	6,695,738
Other payables			
Amount due to the Manager	(b)	3,377,910	2,847,805
Other payables	(a)	890,738	521,916
Accruals		6,520,359	5,204,715
Deferred lease income	(c)	1,013,807	844,151
		11,802,814	9,418,587
		15,703,152	16,114,325
Total trade and other payables		17,305,174	17,940,204
Add: Borrowings (Note 21)		835,716,382	853,704,352
Add: Security deposits (Note 23)		24,499,185	21,210,995
Total financial liabilities carried at amortised cost		877,520,741	892,855,551

(a) Trade and other payables

Trade and other payables are normally settled between 30 to 90 days (2018: 30 to 90 days).

(b) Amount due to the Manager

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

(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 9 years (2018: 1 to 10 years).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019
(cont'd)

20. TRADE AND OTHER PAYABLES (cont'd)

(c) Deferred lease income (cont'd)

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

	2019 RM	2018 RM
At 1 January	2,670,030	892,069
Additions during the financial year	546,907	2,636,502
Recognised in profit or loss (Note 7)	(601,108)	(858,541)
At 31 December	2,615,829	2,670,030
Representing:		
Current	1,013,807	844,151
Non-current	1,602,022	1,825,879
	2,615,829	2,670,030

21. BORROWINGS

	Note	2019 RM	2018 RM
Non-current			
Secured:			
Fixed Rate Term Loan Facility of up to RM150 million	(a)	116,876,410	116,842,726
Senior CPs/MTNs Programme of up to RM290 million	(b)	-	275,947,231
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	(b)	-	109,833,591
CPs/MTNs Programme of up to RM3 billion	(c)	386,142,429	351,080,804
		503,018,839	853,704,352
Current			
Secured:			
Senior CPs/MTNs Programme of up to RM290 million	(b)	241,720,974	-
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	(b)	90,976,569	-
		332,697,543	-
Total		835,716,382	853,704,352

The maturities of MQREIT's borrowings as at 31 December 2019 are as follows:

	2019 RM	2018 RM
Less than 1 year	332,697,543	-
More than 1 year and less than 5 years	503,018,839	853,704,352
	835,716,382	853,704,352

Other information on financial risks of borrowings are disclosed in Note 38(a) and Note 38(c).

NOTES TO THE FINANCIAL STATEMENTS

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21. BORROWINGS (cont'd)

(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:

	2019 RM	2018 RM
Term loan drawdown	117,000,000	117,000,000
Transaction costs carried forward	(157,274)	(131,551)
Transaction costs incurred during the year	-	(168,500)
	116,842,726	116,699,949
Amortisation of transaction costs during the year	33,684	142,777
	116,876,410	116,842,726

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;
- (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;

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019
(cont'd)

21. 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)

- (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")

	2019 RM	2018 RM
Senior CP/MTN Programme		
Face value of CP issued/rollover	279,000,000	279,000,000
Discount	(2,256,164)	(2,844,959)
Cash proceeds	276,743,836	276,155,041
Accretion of interest expense	25,068	125,053
	276,768,904	276,280,094
Transaction costs carried forward	(332,863)	(617,506)
Amortisation of transaction costs during the year	284,933	284,643
Partial redemption on 29 March 2019	(35,000,000)	-
	241,720,974	275,947,231
Fixed Rate Subordinated Term Loan		
Term Loan drawdown	110,000,000	110,000,000
Transaction costs carried forward	(166,409)	(309,240)
	109,833,591	109,690,760
Amortisation of transaction costs during the year	142,978	142,831
Partial redemption on 29 March 2019	(19,000,000)	-
	90,976,569	109,833,591
Total	332,697,543	385,780,822

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

21. 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)

On 30 March 2015, RM279 million nominal values of Senior CP were 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.

On 29 March 2019, RM35 million nominal value of Senior CPs had been early redeemed and refinanced by a RM35 million nominal value of CPs issued by Kinabalu Capital Sdn Bhd ("Kinabalu"), at the interest rate of 4.29% p.a.. On the same day, RM19 million Fixed Rate Subordinated Term Loan had been early repaid via the proceeds from disposal of QB8 and internal funds.

The CP/Term Loan outstanding as at 31 December 2019 are subject to interest at the following interest rates per annum as at the reporting date:

	2019	2018
	%	%
RM279 million nominal value CP	3.75	4.09
RM110 million nominal value Term Loan	5.35	5.35

The interest rates for the CP is subject to interest rate swap arrangements as disclosed in Note 34.

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
 - (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;

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

21. 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)

- (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.

(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")

	2019 RM	2018 RM
(i) Issue 1	216,564,099	181,573,608
(ii) Issue 2	169,578,330	169,507,196
	386,142,429	351,080,804

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

	2019 RM	2018 RM
Face value of CP/MTN issued	164,000,000	164,000,000
Discount	(2,951,093)	(3,159,320)
Cash proceeds	161,048,907	160,840,680
Accretion of interest expense	194,577	190,948
	161,243,484	161,031,628
Transaction costs carried forward	(273,248)	(366,828)
Amortisation of transaction costs during the year	93,634	93,580
	161,063,870	160,758,380

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31 December 2019

(cont'd)

21. 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)

	2019 RM	2018 RM
(i) (b) RM21 million in nominal value of CP ("Issue 1") issued on 6 March 2017		
Face value of CP issued	21,000,000	21,000,000
Discount	(434,556)	(458,203)
Cash proceeds	20,565,444	20,541,797
Accretion of interest expense	279,357	296,186
	20,844,801	20,837,983
Transaction costs carried forward	(22,755)	(29,935)
Amortisation of transaction costs during the year	7,183	7,180
	20,829,229	20,815,228
	2019 RM	2018 RM
(i) (c) RM35 million in nominal value of CP ("Issue 1") issued on 29 March 2019		
Face value of CPs/MTN issued	35,000,000	-
Discount	(343,805)	-
Cash proceeds	34,656,195	-
Accretion of interest expense	18,890	-
	34,675,085	-
Transaction costs carried forward	(5,683)	-
Amortisation of transaction costs during the year	1,598	-
	34,671,000	-

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 MTN under the MTN Programme.

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

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

On 29 March 2019, RM35 million in nominal value of CPs were issued at the interest rate of 4.29% per annum. The proceeds raised from this issuance were utilised to partially redeemed the Senior CPs under the RM279 million CP/MTN Programme issued by Murud.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

21. 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 2019 are subject to interest at the following interest rates per annum as at the reporting date:

	2019	2018
	%	%
RM144 million nominal value CP	4.11	4.40
RM20 million nominal value MTN	4.30	4.30
RM21 million nominal value CP	4.15	4.40
RM35 million nominal value CP	3.94	-

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

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; operation account; debt service reserve account ("DSRA") (collectively, the "Designated Accounts - Issue 1") for the declaration of any dividends or distributions to unitholders, if:
 - an event of default and/or trigger event under Issue 1 has occurred and is continuing or will occur as a result of such payment or distribution; or
 - the financial covenants under Issue 1 are not met prior to and/or after such distribution;
- (iii) First ranking legal charge and assignment over all rights, titles, interests and benefits in and under the Designated Accounts - Issue 1 (i.e. third party legal assignment and charge by the Trustee over the Revenue Account and Operations Account; and a first party legal assignment by Kinabalu over the DSRA);
- (iv) Third party legal assignment over all the Trustee's rights, titles, interests and benefits in and under the proceeds deriving from the tenancy/lease agreements in relation to the Secured Property - Issue 1, including the rights to sue and to recover such proceeds from the tenants or lessees;
- (v) Third party legal assignment over all the Trustee's rights, titles, interests and benefits in and under the insurance policies in relation to the Secured Property - Issue 1;
- (vi) An irrevocable Power of Attorney granted by the Trustee in favour of the Security Trustee to dispose the Secured Property - Issue 1 upon declaration of a trigger event under Issue 1;
- (vii) First party assignment over all rights, titles, interests and benefits in and under the REIT Trustee Financing Agreement entered into between Kinabalu; the Trustee and the Security Trustee for the provision of the inter-company loan from Kinabalu to the Trustee from the proceeds raised from the Issue 1.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

21. 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)

	2019 RM	2018 RM
RM40 million in nominal value of CP and RM130 million in nominal value of MTN ("Issue 2") issued on 6 March 2017		
Face value of CPs/MTN issued	170,000,000	170,000,000
Discount	(827,726)	(872,767)
Cash proceeds	169,172,274	169,127,233
Accretion of interest expense	532,110	564,165
	169,704,384	169,691,398
Transaction costs carried forward	(184,202)	(242,329)
Amortisation of transaction costs during the year	58,148	58,127
	169,578,330	169,507,196

On 6 March 2017, RM40 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 CPs/MTNs under the RM270 million CP/MTN Programme which matured on 6 March 2017.

The CPs/MTN outstanding as at 31 December 2019 are subject to interest at the following interest rates per annum as at the reporting date:

	2019 %	2018 %
RM40 million nominal value CPs	4.15	4.40
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 accounts; 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;

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31 December 2019

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21. 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 Issue 2 is secured, inter-alia by the following: (cont'd)

- (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.

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

	Fixed Rate Term Loan Facility of up to RM150 million RM	Senior CPs/MTNs Programme of up to RM290 million RM	Fixed Rate Subordinated Term Loan Facility of up to RM250 million RM	CPs/MTNs Programme of up to RM3 billion RM	Total RM
Balance at 1 January 2019	116,842,726	275,947,231	109,833,591	351,080,804	853,704,352
Changes from financing cash flows					
Proceeds from borrowings	-	-	-	35,000,000	35,000,000
Repayment of borrowings	-	(35,000,000)	(19,000,000)	-	(54,000,000)
Finance costs paid	(5,557,500)	(9,637,520)	(4,999,411)	(16,559,680)	(36,754,111)
Total changes from financing cash flows	111,285,226	231,309,711	85,834,180	369,521,124	797,950,241
Other changes liability-related					
Interest expense on CPs/MTNs/ Term Loan	5,557,500	9,983,352	5,110,789	16,460,743	37,112,384
Amortisation of transaction costs incurred to obtain CPs/MTNs/ Term Loan	33,684	427,911	31,600	160,562	653,757
Total other changes liability-related	5,591,184	10,411,263	5,142,389	16,621,305	37,766,141
Balance at 31 December 2019	116,876,410	241,720,974	90,976,569	386,142,429	835,716,382

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(cont'd)

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

	2019 RM	2018 RM
At beginning of financial year	6,132,188	-
Recognised in profit or loss (Note 11)	6,237,773	6,132,188
At end of financial year	12,369,961	6,132,188

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

NOTES TO THE FINANCIAL STATEMENTS

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23. SECURITY DEPOSITS

	2019 RM	2018 RM
At 1 January	21,210,995	29,023,125
Additions/(refunds) during the financial year	3,271,003	(7,769,220)
Recognised in profit or loss:		
Deferred lease income (Note 20(c))	(601,108)	(858,541)
Unwinding of discount on security deposits (Note 10)	618,295	815,631
At 31 December	24,499,185	21,210,995
Representing:		
Non-current	19,106,575	11,168,217
Current	5,392,610	10,042,778
	24,499,185	21,210,995

24. UNITHOLDERS' CAPITAL

	2019	2018
No. of units		
Issued and fully paid:		
At 1 January	1,071,783,000	1,068,000,000
Issuance of new units as part satisfaction of the Manager's management fees	-	3,783,000
At 31 December	1,071,783,000	1,071,783,000
	2019	2018
	RM	RM
Amount		
Issued and fully paid:		
At 1 January	1,235,876,768	1,231,914,544
Issuance of new units as part satisfaction of the Manager's management fees	-	3,974,420
Expenses on issuance of new units	-	(12,196)
At 31 December	1,235,876,768	1,235,876,768

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25. INVESTMENTS IN SPEs

Details of SPEs are as follows:

Name of SPEs	Country of incorporation	Principal activity	Proportion of ownership interest	
			2019	2018
			%	%
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.

26. COMMITMENTS

(a) Capital commitments

Capital expenditure as at reporting date is as follows:

	2019	2018
	RM	RM
Capital expenditure approved and contracted for investment properties	593,502	2,056,500

(b) Non-cancellable operating lease commitments

	2019	2018
	RM	RM
As lessor		
Future minimum rental receivable:		
Not later than 1 year	152,522,509	141,031,880
Later than 1 year but not later than 5 years	422,040,665	420,349,604
Later than 5 years	182,215,758	245,656,769
	756,778,932	807,038,253

MQREIT has entered into leases on its investment properties. The non-cancellable leases have remaining lease terms of between one to thirteen years (2018: between one to fourteen years).

27. NET ASSET VALUE PER UNIT

The calculation of net asset value per unit is based on 1,071,783,000 units (2018: 1,071,783,000 units) in circulation as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

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28. TRANSACTIONS WITH STOCKBROKING COMPANIES

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

29. UNITHOLDINGS BY THE MANAGER

As at 31 December 2019, the Manager held 2,857,000 units (2018: 2,857,000 units) in MQREIT.

30. UNITHOLDERS RELATED TO THE MANAGER

	MQREIT				
	No. of units	No. of units	Percentage of total units	Percentage of total units	Market value
	2019	2018	2019 %	2018 %	2019 RM
Malaysian Resources Corporation Berhad ("MRCB")	298,297,000	298,297,000	27.83	27.83	298,297,000
HLIB Nominee (Tempatan) Sdn. Bhd. for:					
Quill Properties Sdn. Bhd. ("QPSB")	-	40,997,000	-	3.83	-
Quill Land Sdn. Bhd. ("QLSB")	59,040,000	767,000	5.51	0.07	59,040,000
Quill Estates Sdn. Bhd. ("QESB")	-	17,276,000	-	1.61	-
MRCB Quill Management Sdn. Bhd.	2,857,000	2,857,000	0.27	0.27	2,857,000
Quill Resources Holding Sdn. Bhd. ("QRSB")	361,000	361,000	0.03	0.03	361,000
Global Jejaka Sdn. Bhd.	185,000	185,000	0.02	0.02	185,000
	360,740,000	360,740,000	33.66	33.66	360,740,000
The Manager's directors' direct unitholding in MQREIT:					
Dato' Dr. Low Moi Ing, J.P.	50,000	50,000	0.00	0.00	50,000
Dato' Michael Ong Leng Chun	55,000	55,000	0.01	0.01	55,000
Kwan Joon Hoe	80,000	80,000	0.01	0.01	80,000
The Manager's directors' indirect unitholding in MQREIT:					
Dato' Dr. Low Moi Ing, J.P. (a)	59,401,000	59,401,000	5.54	5.54	59,401,000
Dato' Michael Ong Leng Chun (b)	59,401,000	59,401,000	5.54	5.54	59,401,000
Tan Sri Saw Choo Boon (c)	185,000	185,000	0.02	0.02	185,000

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

(b) Deemed interest by virtue of his direct shareholding in QLSB and QRSB.

(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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31. PORTFOLIO TURNOVER RATIO

	2019	2018
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.

32. MANAGEMENT EXPENSE RATIO

	2019 %	2018 %
Management expense ratio ("MER")	1.06	1.09

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.

33. RELATED PARTIES TRANSACTIONS

The following table provides the total amount of transactions that have been entered into with related parties for the financial year.

	2019 RM	2018 RM
(i) Car park income from Semasa Parking Sdn. Bhd.		
- Platinum Sentral	1,822,318	1,854,279
- Menara Shell	2,329,439	2,170,473
(ii) Auxiliary police services with Semasa Sentral Sdn. Bhd.		
- Platinum Sentral	(418,997)	(403,186)
- Menara Shell	(658,082)	(710,238)
(iii) Supply of chilled water services with Semasa District Cooling Sdn. Bhd.	(2,681,580)	(2,963,261)
(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.	(16,890)	(15,582)
(vi) Reimbursements to 348 Sentral Sdn. Bhd.	(2,724,918)	(2,429,961)
Reimbursement from 348 Sentral Sdn. Bhd.	41,442	183,000
(vii) Reimbursement to Joint Management Body for Lot 348	(184,257)	(208,055)
(viii) Provision of MSC Services		
- Kuala Lumpur Sentral Sdn. Bhd.	(13,247)	(50,022)
- MRCB Sentral Properties Sdn. Bhd.	(102,028)	(359,857)
(ix) Event space charges to Malaysian Resources Corporation Berhad	-	3,000

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

(cont'd)

33. RELATED PARTIES TRANSACTIONS (cont'd)

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 3 years commencing from 1 January 2019 to 31 December 2021, at a monthly minimum guaranteed rental of RM150,000 with a profit sharing basis in the proportion of 70% (MQREIT): 30% (SPSB) ratio. The total amount received for the financial year ended 31 December 2019 amounted to RM1,822,318.

On 20 December 2019, MQREIT appointed SPSB as the car park operator for Menara Shell for a period of 3 years commencing from 22 December 2019 to 21 December 2022, at a monthly fee of RM180,000 per month. The total amount received for the financial year ended 31 December 2019 amounted to RM2,329,439.

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

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

- (ii) As announced on 29 August 2019, 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 2019 to 31 August 2021 at the monthly rate of RM41,721.60 and RM34,916.40 (including service tax) respectively.

Auxiliary police services with SSSB for deployment of auxiliary police personnel from January 2019 up to December 2019, at Platinum Sentral and Menara Shell amounted to RM418,997 and RM658,082 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.

The entire issued share capital of SSSB is held by 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 2019 amounted to RM2,681,580.

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 amounted to RM67,078.

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

- (v) Reimbursement of insurance to Kuala Lumpur Sentral Sdn. Bhd. ("KLSSB") for Platinum Sentral Lot E deck from 1 April 2019 to 31 March 2020 amounted to RM16,890.

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 utilities, other reimbursements on utilities charges to/from 348 Sentral Sdn. Bhd. ("348 Sentral") for Menara Shell amounted to RM2,724,918 and RM41,442 respectively.

348 Sentral is a subsidiary of MRCB, which in turn is a major unitholder of MQREIT and also a major shareholder of MQM.

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33. RELATED PARTIES TRANSACTIONS (cont'd)

Details of material contracts with related parties other than as disclosed in Note 8 are as follows: (cont'd)

- (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 2019 to 31 December 2019 amounted to RM23,065 and reimbursement of quit rent and insurance amounted to RM161,192 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 MQM and 1 member from 348 Sentral.

- (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, the total amount incurred in 2019 amounted to RM13,247.
2. MSP as MSC One-stop Centre Support Services Provider, the total amount incurred in 2019 amounted to RM102,028.

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.

The above arrangements between MQREIT and the service providers has expired on 31 March 2019 as the change of Cybercentre Manager from KLSSB to Pelaburan Hartanah Berhad ("PHB") had been approved by Malaysia Digital Economy Corporation Sdn. Bhd. on 1 April 2019.

34. INTEREST RATE SWAP ("IRS") ARRANGEMENTS

As part of the active interest rate management strategy of MQREIT, the following IRS arrangements have been entered into:

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

The differences between the floating rate and the fixed rate of the respective IRS arrangements are settled between MQREIT and the banks (HSBC and CIMB) on 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.

NOTES TO THE FINANCIAL STATEMENTS

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34. INTEREST RATE SWAP ("IRS") ARRANGEMENTS (cont'd)

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

MQREIT was eligible to apply hedge accounting for its IRS arrangements with effect from 1 October 2010, upon satisfying the requirements of the standard. The portion of the changes in fair values of the IRS arrangements that was determined to be an effective hedge was recognised in other comprehensive income, while the ineffective portion was recognised in profit or loss. Prior to adoption of hedge accounting, the fair value changes of the IRS arrangements were recognised in profit or loss.

The fair values of the derivative liabilities and the maturity profile as at the respective dates are as follows:

	2019 RM	2018 RM
Less than 1 year	324,238	-
More than 1 year and less than 5 years	-	428,022
	324,238	428,022

35. SIGNIFICANT EVENTS

Proposed Amendments And Restatements of The Deed of Trust Constituting MRCB-Quill Reit (Previously known as Quill Capita 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 ("Manager") and Maybank Trustees Berhad ("Trustee") (Collectively Referred As The "Original Deed") (Referred To As "Proposed Amendment And Reinstatement of The Trust Deed")

Pursuant to Paragraph 9.43(j) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), the board of directors of the Manager ("Board") has on 22 November 2019, approved the Proposed Amendments and Restatements. The Manager and the Trustee has amended and restated trust deed to incorporate the Proposed Amendment and Restatement of the Trust Deed ("Amended and Restated Trust Deed").

The Proposed Amendments and Restatements of the Trust Deed are for the purpose of streamlining the Original Deed to be in line with the SC REIT Guidelines issued by the Securities Commission Malaysia ("SC") on 15 March 2018 (which was subsequently revised on 18 June 2019) ("SC REIT Guidelines"), the Listing Requirements and the Companies Act 2016 ("Companies Act"), as applicable, as well as to update the Original Deed, where relevant.

The Proposed Amendments and Restatements will not have any effect on the issued unit capital and substantial unitholders' unitholdings in MQREIT as the Proposed Amendments and Restatements do not involve any issuance of new units.

As announced on 2 December 2019, the Manager and the Trustee had on the same day executed the Amended and Restated Trust Deed. The Amended and Restated Trust Deed has been submitted to the SC for registration and lodged with the SC.

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36. SIGNIFICANT SUBSEQUENT EVENT

Others Proposed Amendments And Restatements of The Deed of Trust Constituting MRCB-Quill Reit (Previously known as Quill Capita 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 ("Manager") and Maybank Trustees Berhad ("Trustee") (Collectively Referred As The "Original Deed")(Referred To As "Proposed Amendment And Reinstatement of The Trust Deed")

As announced on 3 January 2020, the Amended and Restated Trust Deed dated 2 December 2019 has been registered with the SC on 31 December 2019 and lodged with the SC on 3 January 2020.

The effective date of the Amended and Restated Trust Deed is on 31 December 2019 and superseded the Original Deed.

37. 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	21
Trade and other payables (including security deposits)	20

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.

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37. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(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 2019 and 31 December 2018 are as follows:

	Total RM	Level 2 RM	Level 3 RM
As at 31 December 2019			
Assets measured at fair value			
Investment properties	2,143,000,000	-	2,143,000,000
Liabilities measured at fair value			
Derivative liabilities			
- current	(324,238)	(324,238)	-
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)	-

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 described in Note 15.

There were no material transfers between Level 2 and Level 3 during the financial year.

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37. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(b) Fair value measurement (cont'd)

Set out below is a comparison, by class, of the carrying amounts and fair value of MQREIT's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Note	Carrying amount RM	Fair value RM
Financial liabilities			
As at 31 December 2019			
Fixed Rate Term Loan Facility of up to RM150 million	21(a)	116,876,410	117,000,000
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	21(b)	90,976,569	91,000,000
As at 31 December 2018			
Fixed Rate Term Loan Facility of up to RM150 million	21(a)	116,842,726	117,117,904
Fixed Rate Subordinated Term Loan Facility of up to RM250 million	21(b)	109,833,591	107,736,154

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

MQREIT is exposed to financial risks arising from its operations and use of financial instruments, including interest rate risk, credit risk, liquidity risk and market risk.

MQREIT has a system of controls in place to create an acceptable balance between the costs of risks occurring and the costs of managing the risks. The Manager continuously monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies are reviewed regularly to reflect changes in market conditions and MQREIT's activities.

The Audit Committee oversees how management monitors the compliance with stated risk management policies and procedures, assisted by the internal auditor. The internal auditor undertakes regular review of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following section provides details of MQREIT's exposures to the above mentioned risks and the objectives and policies for the management of these risks.

(a) Interest rate risk

MQREIT's exposure to changes in interest rates relates primarily to borrowings as disclosed in Note 21. 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 34.

NOTES TO THE FINANCIAL STATEMENTS

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 10 basis points ("bps") lower/higher, with all other variables remain constant, MQREIT's income net of taxation as a result of lower/higher interest income on short term deposits and interest expense on floating rate loans and borrowings would have the following effects:

	Income, net of taxation	
	2019	2018
	RM	RM
Interest rate		
- 10 bps	137,284	94,631
+ 10 bps	(137,284)	(94,631)

(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 2019, MQREIT's maximum exposure to credit risk is represented by the carrying amount of its financial assets as follows:

	Note	2019	2018
		RM	RM
Trade and other receivables*	18	5,015,593	5,462,553
Deposits, cash and bank balances	19	63,258,890	85,775,603
Lease receivables	17	1,326,763	2,014,930

* 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.

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.

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Liquidity risk

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of MQREIT's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
As at 31 December 2019				
Trade and other payables*	13,087,323	-	-	13,087,323
Borrowings	360,766,330	539,690,067	-	900,456,397
Security deposits	5,392,610	15,253,941	6,652,534	27,299,085
Total undiscounted financial liabilities	379,246,263	554,944,008	6,652,534	940,842,805
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

* 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.

39. 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.

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39. CAPITAL MANAGEMENT (cont'd)

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	2019 RM	2018 RM
Total borrowings	21	835,716,382	853,704,352
Total assets		2,213,704,358	2,271,705,292
Gearing ratio (%)		37.75	37.58

40. 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 2019

DISTRIBUTION OF UNITHOLDINGS AS AT 31 DECEMBER 2019

Unit Class	No. of Unitholders	% of Unitholders	No. of Unitholdings	% of Unitholdings
Less than 100	132	1.96	1,542	-
100 - 1,000	1,142	16.93	778,746	0.07
1,001 - 10,000	3,270	48.49	17,572,270	1.64
10,001 - 100,000	1,879	27.86	63,849,442	5.96
100,001 to less than 5% of issued units	318	4.72	445,017,300	41.52
5% and above of issued units	3	0.04	544,563,700	50.81
TOTAL	6,744	100.00	1,071,783,000	100.00

CLASSIFICATION OF UNITHOLDERS AS AT 31 DECEMBER 2019

CATEGORY OF UNITHOLDERS		NO. OF UNITHOLDERS			NO. OF UNITS		
		MALAYSIAN		FOREIGN	MALAYSIAN		FOREIGN
		BUMIPUTRA	NON-BUMIPUTRA		BUMIPUTRA	NON-BUMIPUTRA	
1.	Individual	121	4,867	86	1,357,500	99,460,924	4,257,708
2.	Body Corporate						
	Banks/Finance Companies	10	-	-	160,985,900	-	-
	Investments Trusts/ Foundations/Charities	1	2	-	100,000	250,500	-
	Other Types of Companies	29	79	1	4,024,200	47,189,100	58,000
3.	Government Agencies/ Institutions	1	-	-	9,441,000	-	-
4.	Nominees	1,065	418	64	331,699,062	286,747,404	126,211,702
5.	Trustee	-	-	-	-	-	-
6.	Others	-	-	-	-	-	-
TOTAL		1,227	5,366	151	507,607,662	433,647,928	130,527,410
GRAND TOTAL		6,744			1,071,783,000		

UNITHOLDINGS AND 30 LARGEST UNITHOLDERS

as at 31 December 2019

(cont'd)

LIST OF TOP 30 HOLDERS AS AT 31 DECEMBER 2019

NO.	NAME	HOLDINGS	%
1	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD <i>RHB ISLAMIC BANK BERHAD PLEDGED SECURITIES ACCOUNT FOR MALAYSIAN RESOURCES CORPORATION BERHAD</i>	297,917,000	27.80
2	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>EMPLOYEES PROVIDENT FUND BOARD</i>	129,606,700	12.09
3	HSBC NOMINEES (ASING) SDN BHD <i>HSBC-FS FOR CAPITACOMMERCIAL TRUST</i>	117,040,000	10.92
4	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	44,577,100	4.16
5	HLIB NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR QUILL LAND SDN. BHD.</i>	42,145,800	3.93
6	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM BUMIPUTERA</i>	35,000,000	3.27
7	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM MALAYSIA</i>	22,919,300	2.14
8	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM BMALAYSIA 2 - WAWASAN</i>	20,000,000	1.87
9	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM BUMIPUTERA 2</i>	20,000,000	1.87
10	QUILL LAND SDN. BHD.	16,894,200	1.58
11	HONG LEONG ASSURANCE BERHAD <i>AS BENEFICIAL OWNER (LIFE PAR)</i>	16,118,300	1.50
12	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)</i>	15,178,300	1.42
13	HSBC NOMINEES (TEMPATAN) SDN BHD <i>HSBC (M) TRUSTEE BHD FOR ALLIANZ LIFE INSURANCE MALAYSIA BERHAD (P)</i>	14,827,000	1.38
14	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)</i>	13,669,200	1.28
15	AMANAHRAYA TRUSTEES BERHAD <i>AMANA SAHAM MALAYSIA 3</i>	11,000,000	1.03
16	HSBC NOMINEES (TEMPATAN) SDN BHD <i>HSBC (M) TRUSTEE BHD FOR ZURICH LIFE INSURANCE MALAYSIA BERHAD (LIFE PAR)</i>	10,621,900	0.99
17	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>VALUECAP SDN BHD</i>	9,441,000	0.88
18	PERMODALAN NASIONAL BERHAD	9,441,000	0.88
19	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 4)</i>	9,304,900	0.87
20	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>EXEMPT AN FOR AIA BHD.</i>	4,788,600	0.45
21	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD <i>DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSSMALL-CAP FUND</i>	4,648,800	0.43
22	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (AFFIN HWNG SM CF)</i>	4,297,100	0.40
23	HSBC NOMINEES (TEMPATAN) SDN BHD <i>HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (AFF HWG6939-403)</i>	4,281,000	0.40

UNITHOLDINGS AND 30 LARGEST UNITHOLDERS

as at 31 December 2019
(cont'd)

LIST OF TOP 30 HOLDERS AS AT 31 DECEMBER 2019 (cont'd)

NO.	NAME	HOLDINGS	%
24	AMANAHRAYA TRUSTEES BERHAD <i>ASN EQUITY 2</i>	3,900,000	0.36
25	CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ESPG IV SC E)</i>	3,281,600	0.31
26	AMANAHRAYA TRUSTEES BERHAD <i>ASN UMBRELLA FOR ASN IMBANG (MIXED ASSET BALANCED) 2</i>	3,269,500	0.31
27	MRCB QUILL MANAGEMENT SDN BHD	2,857,000	0.27
28	MAYBANK NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR WONG SIEW HUNG</i>	2,208,000	0.21
29	CITIGROUP NOMINEES (ASING) SDN BHD <i>CBNY FOR DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO OF DFA INVESTMENT DIMENSIONS GROUP INC</i>	2,188,800	0.20
30	UOB KAY HIAN NOMINEES (ASING) SDN BHD <i>EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS)</i>	2,142,200	0.20
TOTAL		893,564,300	83.40

NOTICE OF EIGHTH ANNUAL GENERAL MEETING



MRCB-QUILL REIT

(A real estate investment trust constituted under the laws of Malaysia)

NOTICE IS HEREBY GIVEN THAT the Eighth Annual General Meeting ("AGM") 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 Tuesday, 28 April 2020 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 2019 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, in such number and to such person and upon such terms and conditions 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 Proposed Authority shall continue to be in force until:

- (i) the conclusion of the next AGM of MQREIT at which time this Proposed Authority will lapse, unless by a resolution passed at the next AGM, the authority is renewed; or
- (ii) the expiration of the period within which the next AGM of the Unitholders is required by law to be held; or
- (iii) the Proposed Authority is revoked or varied by a resolution passed by the Unitholders in a general meeting of MQREIT,

whichever is earlier;

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;

NOTICE OF EIGHTH ANNUAL GENERAL MEETING

(cont'd)

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."

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 2020

Notes:

1. Only Unitholders whose name appear in the Record of Depositors of MQREIT on 20 April 2020 shall be eligible to attend in person or appoint proxies to attend and/or vote on their behalf at the Eighth Annual General Meeting.
2. A Unitholder who is entitled to attend and vote at this meeting is entitled to appoint another person to attend and vote in his stead. A proxy may but need not be a Unitholder.
3. Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
4. Where a Unitholder is an exempt authorised nominee which holds the units for multiple beneficial owners in one securities account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
6. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority shall be deposited at the Registered Address of MRCB Quill Management Sdn Bhd at Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than forty eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.

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 by a resolution passed by the Unitholders at a general meeting of MQREIT, will expire at the conclusion of the next AGM of MQREIT.

As at the date of this notice, MQREIT has not issued any units under the mandate which was approved at the 7th AGM held on 3 April 2019 and which will lapse at the conclusion of the 8th 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.

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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 Eighth 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 Tuesday, 28 April 2020 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 _____ 2020

Signature of Unitholder

* DELETE IF NOT APPLICABLE

Notes:
Proxy

- Only Unitholders whose name appear in the Record of Depositors of MQREIT on 20 April 2020 shall be eligible to attend in person or appoint proxies to attend and/or vote on their behalf at the Eighth Annual General Meeting.
- A Unitholder who is entitled to attend and vote at this meeting is entitled to appoint another person to attend and vote in his stead. A proxy may but need not be a unitholder.
- Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
- Where a Unitholder is an exempt authorised nominee which holds the units for multiple beneficial owners in one securities account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
- The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority shall be deposited at the Registered Address of MRCB Quill Management Sdn Bhd at Level 33A, Menara NU 2, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral, 50470 Kuala Lumpur not less than forty eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.

Fold this flap for sealing

Then fold here

Affix
stamp

The Company Secretary
MRCB Quill Management Sdn. Bhd.

The Manager of MRCB-Quill REIT
Level 33A, Menara NU 2,
No. 203, Jalan Tun Sambanthan,
Kuala Lumpur Sentral,
50470 Kuala Lumpur.

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www.mrcbquillreit.com



MRCB Quill Management Sdn. Bhd.

Company No. 200601017500 (737252-X)
(the Manager of MRCB-Quill REIT)

Level 35, Menara NU 2, No. 203, Jalan Tun Sambanthan,
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Tel : +603 2786 8080 / 2859 7070
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