



# THE PLACE



KLCCP Stapled Group

ANNUAL  
REPORT  
2018





At KLCC, we create **THE PLACE** for all our stakeholders. By understanding changing market dynamics, lifestyles and through differentiating ourselves, we are able to **evolve** and **transform** our destinations to the places people look forward to.

The places we create envision the office of tomorrow, where tenants elevate their workplace through greater **experiences, connectivity** and **security**.

Our places **re-imagine** retail spaces, personalising the entire customer journey. We **innovate** bespoke and seamless hotel experiences, designed to serve the diverse and evolving needs of our guests.

Through developing **places people look forward to**, we continue to drive enduring demand for our spaces, ultimately delivering both financial and societal value to all our stakeholders.









Malaysia's largest internally managed Stapled Security

Premium property location centered within the landmark of Kuala Lumpur City Centre

Our Properties

-  5
-  2
-  1

PORTFOLIO SUMMARY

11,139,323  
Gross Floor Area (sq ft)

Office  
5,603,837

Retail  
1,168,870

Net Lettable Area (sq ft)

629  
No. of Hotel Rooms

RM1.4<sup>bil</sup>  
Revenue

RM0.8<sup>bil</sup>  
Profit for the year



2018 KEY HIGHLIGHTS

KLCC  
REIT

RM588.5<sup>mil</sup>  
Revenue

RM558.4<sup>mil</sup>  
Net Property Income



**RM15.7**<sup>bil</sup>  
Property Value

**RM7.25**  
Net Asset Value per Stapled Security

**37.00**<sup>sen</sup>  
Distribution per Stapled Security

## KLCCP STAPLED GROUP



**5.0%**  
Reduction in GHG Emission

**6.7%**  
Reduction in Water Use

**37.5%**  
Women on Board

## SUSTAINABILITY HIGHLIGHTS

**RM1.4**<sup>mil</sup>  
Staff Learning and Development

**RM2.0**<sup>mil</sup>  
Community Investment

**RM9.2**<sup>bil</sup>  
Property Value

**RM4.48**  
Net Asset Value per Unit

**23.35**<sup>sen</sup>  
Distribution per Unit



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## What you'll find inside this report

Our business is premised on building long term sustainable value

➔ Read about it on pages 52-53



...which is addressed through our **value creating business model**

➔ Read about it on pages 54-57



- FINANCIAL
- MANUFACTURED
- NATURE
- SOCIAL AND RELATIONSHIP
- HUMAN
- INTELLECTUAL

...and reflected in **our sustainable practices**

➔ Read about it on pages 106-159

### OUR FIVE SUSTAINABILITY PILLARS

- CORPORATE GOVERNANCE
- ENVIRONMENTAL STEWARDSHIP
- SECURITY, SAFETY AND HEALTH
- OUR PEOPLE
- RELIABLE PARTNER



## KLCC PROPERTY HOLDINGS BERHAD

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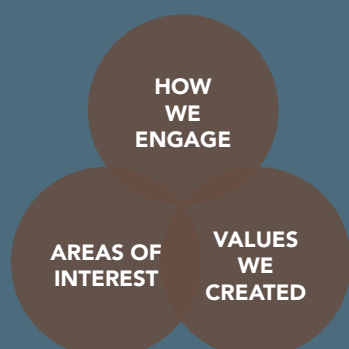
## KLCCP STAPLED GROUP

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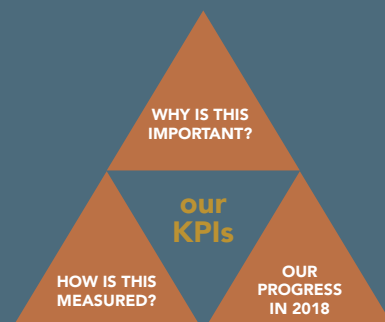
...we build trust and connect **with our stakeholders**

☞ Read about it on pages 60-61



We measure progress against **our KPIs**

☞ Read about it on pages 66-67



...underpinned by our **strong governance and leadership**

☞ Read about it on pages 162-206





**This Annual Report aims to provide a balanced and comprehensive view of our strategy and sustainable practices, performance, governance and prospects of KLCC Property Holdings Berhad and KLCC Real Estate Investment Trust (collectively known as KLCCP Stapled Group). This year, we provided more in-depth discussion on our strategic priorities based on the key trends shaping the market and how we approached this through the risks and opportunities of our material matters and management of stakeholder expectations, to ensure business agility and clarity of our strategies towards business sustainability.**

This document contains the consolidated annual financial statements of the Group for the financial year ended 31 December 2018. The annual financial statements audited by Ernst & Young, have been prepared and presented in accordance with the Malaysian Financial Reporting Standards ("MFRS") and the Companies Act in Malaysia.

This Report should be read together with the information available on our website [www.klcc.com.my](http://www.klcc.com.my) for a comprehensive overview of the Group.

The report is guided by:

- The Malaysian Code on Corporate Governance 2017
- The Companies Act 2016
- Bursa Malaysia Listing Requirements
- Bursa Malaysia Management Discussion & Analysis (MD&A) Disclosure Guide
- Bursa Malaysia Sustainability Guidelines
- Bursa Malaysia Corporate Governance Guidelines
- The International Integrated Reporting Council Framework

#### **Forward looking statements**

This annual report may contain certain forward-looking statements and is prepared based on the Group's current view of future events that may involve certain assumptions, risks and uncertainties. Holders of Stapled Securities and investors are advised that past performance does not necessarily signify the future performance.







# ABOUT THIS REPORT



# UNDERSTANDING

## VISION

To be the leading  
Real Estate Investment  
Group of Choice

## MISSION

Maximise Value of  
Investment and Returns  
to Holders of Stapled  
Securities

Committed to Deliver  
Sustainable Performance  
and Growth

Build Rounded Capabilities  
in Real Estate Investment

## PURPOSE STATEMENT

We create places people look forward to,  
converging cultural diversity, commercial  
vibrancy and sustainable living

**OUR  
COMPETITIVE  
ADVANTAGE**



# OUR BUSINESS

Iconic and quality portfolio of assets centred within the landmark of Kuala Lumpur City Centre underpin our financial strength and strong fundamentals

Strong cashflow generating assets to drive long term value creation, supporting sustainable and stable returns to our holders of Stapled Securities

Our deep real estate experience, unique market insights and outstanding execution capabilities keep us agile to respond and adapt to the new pace of change

A development pipeline which positions us for future earnings growth and significant debt headroom to capitalise on market opportunities

## SHARED VALUES

### INNOVATIVE

Trend Setting Mentality through Creation of New Products, Ideas and Ways of Doing

### COHESIVENESS

United in Purpose and Fellowship

### LOYALTY

Loyalty to Corporation and Nation

### INTEGRITY

Honest and Upright

### PROFESSIONALISM

Committed, Proactive and Always Striving for Excellence



# CORPORATE PROFILE

KLCC Property Holdings Berhad ("KLCCP") was incorporated as a public limited company under the Companies Act 1965 on 7 February 2004 and was listed on the Main Board of Bursa Malaysia Securities Berhad on 18 August 2004.

In 2013, KLCCP undertook a corporate restructuring exercise which involved the restructuring of KLCCP group into a stapled structure known as "KLCCP Stapled Group" where the existing ordinary shares of KLCCP are stapled together with the units in KLCC Real Estate Investment Trust ("KLCC REIT") forming the resultant KLCCP Stapled Securities.

On 9 May 2013, KLCCP Stapled Securities were listed under the "REITs" sector of the Main Market of Bursa Malaysia Securities Berhad.

Upon completion of the corporate restructuring exercise, the office buildings held by the subsidiaries of KLCCP namely *PETRONAS Twin Towers*, *Menara ExxonMobil* and *Menara 3 PETRONAS* were acquired by KLCC REIT.

Whilst KLCCP still owns a diverse property portfolio largely within the KLCC Development comprising *Suria KLCC* (a leading shopping mall) and *Mandarin Oriental, Kuala Lumpur* (a luxury hotel), KLCCP also has 33% interest in *Menara Maxis*. Outside the KLCC Development, KLCCP owns *Kompleks Dayabumi* which is located within the older central commercial area of Kuala Lumpur.

Two of KLCCP's wholly-owned subsidiaries, namely *KLCC Urusharta Sdn Bhd* and *KLCC Parking Management Sdn Bhd*, are engaged in providing facility management services and car parking management services respectively.

In addition, *KLCC REIT Management Sdn Bhd*, a wholly-owned subsidiary of KLCCP, has been appointed to manage and administer the KLCC REIT in accordance with the objectives and investment policy of KLCC REIT.

KLCCP Stapled Group's strength is reflected through its premium assets centred within the KLCC Development, one of the largest integrated real estate developments in the world.

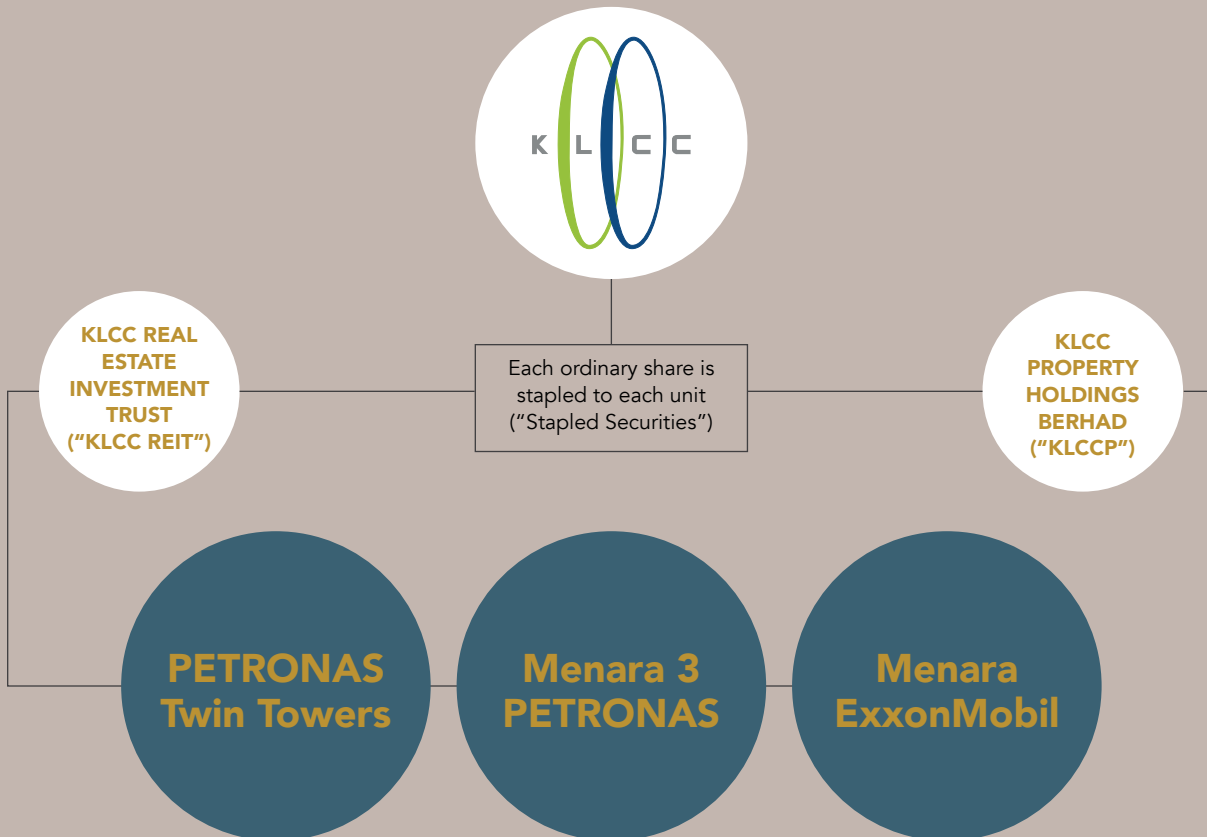
KLCCP Stapled Group, with its niche position in property investment and facility management services, intends to continue to grow its earnings potential by building on the strength of its premium assets, maintaining high standards in its operational performance and exploring prospects for sustainable progress.







# KLCCP STAPLED GROUP STRUCTURE



- |  |   |
|--|---|
| <b>KLCC REIT MANAGEMENT SDN BHD</b><br>(Manager of KLCC REIT)      | <b>ARENA JOHAN SDN BHD</b><br>(Inactive)                        |
| <b>KOMPLEKS DAYABUMI SDN BHD</b><br>(Kompleks Dayabumi)            | <b>MIDCITI RESOURCES SDN BHD</b><br>(Inactive)                  |
| <b>IMPIAN CEMERLANG SDN BHD</b><br>(Vacant Land (LOT D1))          | <b>ASAS KLASIK SDN BHD</b><br>(Mandarin Oriental, Kuala Lumpur) |
| <b>KLCC PARKING MANAGEMENT SDN BHD</b><br>(Car Parking Management) | <b>SURIA KLCC SDN BHD</b><br>(Suria KLCC)                       |
| <b>KLCC URUSHARTA SDN BHD</b><br>(Facilities Management)           | <b>IMPIAN KLASIK SDN BHD</b><br>(Menara Maxis)                  |
| <b>ARENA MERDU SDN BHD</b><br>(Inactive)                           |   |

- |            |           |           |           |
|------------|-----------|-----------|-----------|
| 100% Owned | 75% Owned | 60% Owned | 33% Owned |
|------------|-----------|-----------|-----------|



# CORPORATE INFORMATION

## KLCC PROPERTY HOLDINGS BERHAD ("KLCCP") (641576-U)

## KLCC REAL ESTATE INVESTMENT TRUST ("KLCC REIT")

### MANAGER FOR KLCC REIT ("THE MANAGER")

**KLCC REIT Management Sdn Bhd ("KLCCRM")** (1026769-H)

### BOARDS OF DIRECTORS OF KLCCP AND THE MANAGER

**Datuk Ahmad Nizam bin Salleh**  
(Chairman/Non-Independent Non-Executive Director)  
- Appointed w.e.f 21 December 2018

**Datuk Hashim bin Wahir**  
(Chief Executive Officer)

**Tengku Muhammad Taufik**  
(Non-Independent Non-Executive Director)  
- Appointed w.e.f. 1 December 2018

**Datuk Ishak bin Imam Abas**  
(Non-Independent Non-Executive Director)

**Dato' Halipah binti Esa**  
(Senior Independent Non-Executive Director)

**Datuk Pragasa Moorthi a/I Krishnasamy**  
(Non-Independent Non-Executive Director)

**Cik Habibah binti Abdul**  
(Independent Non-Executive Director)

**Pn. Farina binti Farikhullah Khan**  
(Independent Non-Executive Director)  
- Appointed w.e.f. 23 April 2018

### BOARD AUDIT COMMITTEES OF KLCCP AND THE MANAGER

**Pn. Farina binti Farikhullah Khan**  
(Chairperson)  
**Dato' Halipah binti Esa**  
**Cik Habibah binti Abdul**

### NOMINATION AND REMUNERATION COMMITTEES OF KLCCP AND THE MANAGER

**Dato' Halipah binti Esa** (Chairperson)  
**Tengku Muhammad Taufik**  
**Cik Habibah binti Abdul**

### COMPANY SECRETARIES OF KLCCP AND THE MANAGER

**En. Abd Aziz bin Abd Kadir** (LS0001718)  
Levels 33 & 34, Menara Dayabumi  
Jalan Sultan Hishamuddin  
50050 Kuala Lumpur

Telephone No. : 03-2783 6000  
Facsimile No. : 03-2783 7810

**Mr. Yeap Kok Leong** (MAICSA 0862549)  
c/o Tricor Corporate Services Sdn Bhd  
Unit 30-01, Level 30, Tower A  
Vertical Business Suite  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur

Telephone No. : 03-2783 9191  
Facsimile No. : 03-2783 9111

### REGISTERED OFFICE OF KLCCP AND THE MANAGER

Level 54, Tower 2  
PETRONAS Twin Towers  
Kuala Lumpur City Centre  
50088 Kuala Lumpur

Telephone No. : 03-2783 6000  
Facsimile No. : 03-2783 7231

### CORPORATE OFFICE OF KLCCP AND THE MANAGER

Levels 33 & 34, Menara Dayabumi  
Jalan Sultan Hishamuddin  
50050 Kuala Lumpur

Telephone No. : 03-2783 6000  
Facsimile No. : 03-2783 7810

### SHARE REGISTRAR FOR KLCCP AND KLCC REIT

Tricor Investor & Issuing House  
Services Sdn Bhd  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur

Telephone No. : 03-2783 9299  
Facsimile No. : 03-2783 9222

### TRUSTEE FOR KLCC REIT

Maybank Trustees Berhad  
8<sup>th</sup> Floor, Menara Maybank  
100, Jalan Tun Perak, 50050 Kuala Lumpur

Telephone No. : 03-2070 8833  
Facsimile No. : 03-2070 9387

### PROPERTY MANAGER FOR KLCC REIT

Rahim & Co International Sdn Bhd  
Level 17, Menara Liberty  
1008, Jalan Sultan Ismail  
50250 Kuala Lumpur

Telephone No. : 03-2691 9922  
Facsimile No. : 03-2691 9992

### SHARIAH ADVISER FOR KLCC REIT

CIMB Islamic Bank Berhad  
13<sup>th</sup> Floor, Menara CIMB  
Jalan Stesen Sentral 2, Kuala Lumpur Sentral  
50470 Kuala Lumpur

Telephone No. : 03-2261 8888  
Facsimile No. : Nil

### AUDITORS

Ernst & Young (Firm No. AF 0039)  
Level 23A, Menara Milenium  
Jalan Damanlela, Pusat Bandar Damansara  
50490 Kuala Lumpur

Telephone No. : 03-7495 8000  
Facsimile No. : 03-2095 9076/78

### INTERNAL AUDITOR

Group Internal Audit Division  
KLCC (Holdings) Sdn Bhd  
Levels 33 & 34, Menara Dayabumi  
Jalan Sultan Hishamuddin  
50050 Kuala Lumpur

Telephone No. : 03-2783 6000  
Facsimile No. : 03-2783 7810

### PRINCIPAL BANKERS FOR KLCCP AND KLCC REIT

CIMB Islamic Bank Berhad  
CIMB Bank Berhad  
Maybank Islamic Berhad

### STOCK EXCHANGE LISTING

Listed on Main Market of Bursa Malaysia  
Securities Berhad on 9 May 2013  
Stock Code : 5235SS  
Stock Name : KLCC





# THE PLACE TO WORK

A much sought-after office address located on a distinguished landmark development. This place offers Grade-A offices, equipped with state-of-the-art security, building management systems and multi-faceted work spaces that promote collaboration and interaction. Well integrated with the best amenities and with great accessibility and connectivity, it is undeniably a complete city-within-a-city





/ **TENANT,**  
TOWER 2,  
PETRONAS TWIN TOWERS  
/

PETRONAS Twin Towers is an iconic building in Malaysia and is in the heart of the city with easy access to all businesses. The KLCC Precinct provides conducive environment for business and leisure combined

SEC 01

SEC 02

SEC 03

SEC 04

SEC 05

SEC 06

SEC 07



# CHAIRMAN'S

## IT IS MY HONOUR TO DELIVER MY FIRST STATEMENT AS THE CHAIRMAN OF KLCC PROPERTY HOLDINGS BERHAD (KLCCP) AND KLCC REIT MANAGEMENT SDN BHD (KLCCRM)

**DATUK AHMAD NIZAM BIN SALLEH**  
Chairman

Permit me to begin by recognising the efforts of my predecessor Tan Sri Mohd Sidek Hassan who had contributed to KLCCP Stapled Group's continued success and the many notable achievements in the past year.

I am also grateful for the trust bestowed upon me in steering the Group's execution of its strategies. I sincerely look forward to working with the Boards towards delivering long-term sustainable value for the holders of Stapled Securities.

### **THE YEAR THAT WAS**

2018 was a challenging year in the external economic environment, on the back of moderating international trade and investment, driven by escalating trade tensions – between the US and China, as well as tighter monetary conditions particularly in the developed world. The negative global economic sentiment has affected open economies such as Malaysia, resulting in what many expect to be a period of softening economic growth compared to preceding years.

The Malaysian REIT (MREIT) sector was not spared as it saw a hike in the overnight policy rate (OPR) to 3.25% early this year. Uninspiring earnings growth, compounded by domestic oversupply in the office and retail space further compressed occupancy rates and rental reversions.



# STATEMENT



I AM EXCITED TO BE WORKING CLOSELY WITH THE BOARDS IN GUIDING THE MANAGEMENT LEADERSHIP TEAM TO FURTHER UNLOCK KLCCP STAPLED GROUP'S TRUE POTENTIAL

SEC 01

SEC 02

SEC 03

SEC 04

SEC 05

SEC 06

SEC 07



# CHAIRMAN'S

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# STATEMENT



THE GROUP IS FORTUNATE  
TO BENEFIT FROM VARIOUS  
LEVELS OF EMPLOYEE  
ENGAGEMENT TO  
HARNESS KEY STRENGTHS  
AND INSPIRE EMPLOYEES  
AT THEIR RESPECTIVE  
WORKPLACE

## WHAT MATTERS TO YOU, MATTERS TO US

### 1 NEW PACE OF CHANGE

We recognised that the challenges in the operating landscape required a review of the Group's strategies to ensure our business remains agile to respond to the new pace of change and provide us the impetus to create significant value

### 2 OPERATIONAL EXCELLENCE

The due recognition from the industry demonstrate the hard work and commitment of our dedicated employees in pursuing excellence and attaining a competitive edge

### 3 VALUES AND CULTURE

Building a corporate culture is a key agenda for the Group and we focused on ongoing efforts to harness key strengths and improvements at the workplace to keep our employees inspired. We place priority on a strong culture of safety, strengthening our HSE capability and respectfully managing our impact on the environment, premised on sustainable business practices

### 4 INTEGRITY AND TRUST

Our expectations at the Boards are high and we are committed together with the Management Leadership Team in promoting a strong culture that values ethical conduct, respect and most importantly, integrity

### 5 OUR COMMITMENT

We will remain steadfast in leveraging on our core competencies in key market segments, while adapting to a challenging business environment in our continued quest of creating value for the holders of Stapled Securities



CHAIRMAN'S  
STATEMENT

With these uncertainties, volatility and challenges in the market, we reviewed the Group's strategies to ensure our business remains agile to respond to the new pace of change. This I believe, will put us in good stead to be at a competitive advantage and provide us the impetus to create significant value for our holders of Stapled Securities.

**I AM PLEASED TO REPORT THAT THE KLCCP STAPLED GROUP ACHIEVED PROFIT ATTRIBUTABLE TO THE HOLDERS OF STAPLED SECURITIES (EXCLUDING FAIR VALUE GAIN) OF RM726.7 MILLION, REPRESENTING A RM6.3 MILLION GROWTH FROM 2017**

#### **SUSTAINING CREDIBLE PERFORMANCE**

Amidst the challenging environment, KLCCP Stapled Group delivered a credible performance for the financial year ended 31 December 2018, underpinned by its strong fundamentals, long-term locked-in tenancy structure with the highest quality tenants and leveraging on premium location.

I am pleased to report that the KLCCP Stapled Group achieved profit attributable to the holders of Stapled Securities (excluding fair value gain) of RM726.7 million, representing a RM6.3 million growth from 2017.

The Boards also approved four interim dividends totaling 37.00 sen per Stapled Security, amounting to a full year dividend payment of RM668.0 million to the holders of Stapled Securities, an increase of RM15.4 million from the preceding year. This bears testimony to the Group's commitment to creating value for our holders of Stapled Securities which is also reflected in our strong and robust balance sheet.

#### **LEADING OPERATIONAL EXCELLENCE**

2018 was another illustrious year for KLCCP Stapled Group which saw us building on our leadership position as we continued to be recognised for our operational excellence in the industry.

Our proud moment for the year was when KLCCP Stapled Group was awarded the Industry Excellence Award for REITs and Investment Funds for quality and transparent corporate reporting at the National Annual Corporate Report Awards 2018 (NACRA). This was a boost to our team in its continuing efforts to raise the quality of information made available to investors towards accountability and excellence.

I am also delighted to share that for the third consecutive year, KLCCP Stapled Group was awarded the Highest Return on Equity Over Three Years under the REIT category at The Edge Billion Ringgit Club Corporate Awards 2018. At the Asia Pacific Best of the Breeds REITs Awards 2018, we were bestowed the Best of the Breeds REIT in Retail and Office for

## CHAIRMAN'S STATEMENT

Malaysia for the second consecutive year, further demonstrating our achievements in portfolio management and financial performance whilst upholding the highest standards of corporate governance.

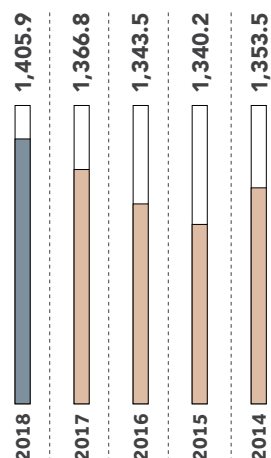
In recognition of our commitment to socially responsible and sustainable investment, the KLCCP Stapled Group was bestowed its third Gold Award at The Asset Corporate Awards 2018 for excellence in Environmental, Social and Corporate Governance, following our achievements in 2016 and 2017. We were also awarded the Gold award for Best Governed and Transparent Company at the 10<sup>th</sup> Annual Global CSR Summit & Awards 2018 and the Sustainable Business Awards Malaysia 2018 for Best Workforce.

The condition of our assets is strong testament to our facility management expertise and on this front, our iconic assets continue to do us proud. Menara 3 PETRONAS was awarded the Gold Award for Below 10 Years Mixed Development Category at the TheEdgeProperty.com Malaysia's Best Managed Property Awards 2018, whilst KLCC Park bagged the Gold Award for Above 10 Years in the Specialised Category. We also had a special mention when the Gold Award for Editor's Choice Award for Exemplary Contribution to the Nation was presented to KLCC Park. At the Nation Branding Award 2017-2018, PETRONAS Twin Towers was awarded the BrandLaureate in recognition of National ICONS that have contributed to building a strong Brand Malaysia.

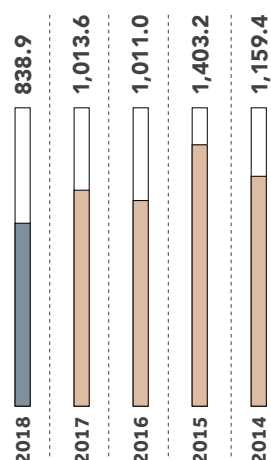
Our car parking management services company, KLCC Parking Management Sdn Bhd added another feather to its cap with the Silver Platinum Premier Award at the MOSHPA OSH Excellence Awards 2018 for OSH Management in Car Parking, following its Platinum and Gold Awards in the last 3 years.

### OUR RESULTS

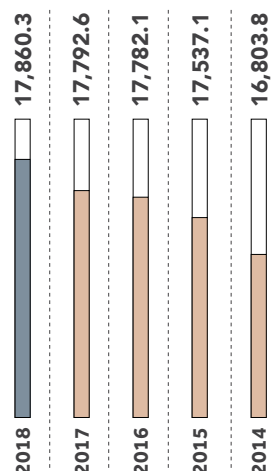
#### REVENUE (RM'mil)



#### NET PROFIT (RM'mil)



#### TOTAL ASSETS (RM'mil)



These high profile awards and recognition demonstrate the hard work and commitment of our dedicated employees. I would like to place on record my sincere appreciation for their contributions.

#### BUILDING VALUES AND CULTURE

Shaping and developing a corporate culture remains a key part of the Boards' role and an important agenda for the Group. The Group is fortunate to benefit from various levels of employee engagement to harness key strengths and inspire employees at their respective workplace.

Health and safety remains a priority and we continue to drive efforts towards values, attitudes, goals and proficiency of the organisation's health and safety programmes. No effort is being spared to strengthen HSE capability and culture amongst the employees and contractors. We are proud to have upheld our zero fatal incidents rate in the last 6 years.

Sustainable management and social responsibility are at the heart of our values in delivering long-term value and contributing to the well-being of our community. The Boards remain committed to maintaining an inclusive and progressive working environment for all our people, while taking into account the impact of our business on the environment and communities in which we operate. We retained our sustainability leadership credentials during the year, maintaining our inclusion on the FTSE4Good Emerging Index and the FTSE4Good ASEAN 5.

The Group's Board Diversity Policy, which was rolled out in August 2016, aspires to ensure a diverse and inclusive board that will leverage on the contributions of a demographically diverse workforce in order to achieve effective stewardship and management.



## CHAIRMAN'S STATEMENT

The Boards were committed to achieve the target of 30% women directors on both Boards by 2018. For the year under review, KLCCP Stapled Group hit the 37.5% mark of women on board, surpassing the country's aspirational target of 30% women representation at the Board level for public listed entities.

### GOVERNING WITH INTEGRITY AND TRUST

The governance of corporate behaviour represent a critical benchmark in determining an organisation's success and management stability. Our expectations at the Boards are high and I can attest that we are committed – in promoting a strong culture that values ethical conduct, respect and most importantly, integrity.

In compliance to the Companies Act 2016, Main Market Listing Requirements and the relevant laws and regulations, the Boards will be seeking the approval of the holders of Stapled Securities in respect to the proposed alteration of the whole Memorandum and Articles of Association (M&A) by replacing the existing M&A with a new Constitution at the forthcoming Annual General Meeting to be convened in 2019.

Institutionalising integrity in our people remain a priority for us during the year. We continued to enhance governance and compliance by embedding our code of conduct and business ethics into day-to-day processes and addressing the integrity risk concerns through the Group's Integrity Action Plan.

In 2018, emphasis was put on anti-bribery and corruption with the rollout of the Anti-Bribery and Corruption (ABC) Manual in March 2018 across all employees of the Group. This was further strengthened with the Asset Declaration by all employees of

the Group to promote transparency and uphold integrity in the efforts of fighting corruption.

### BOARD CHANGES

On behalf of the Boards, we are extremely pleased to welcome Puan Farina Farikhullah Khan and YM Tengku Muhammad Taufik Tengku Aziz to the Boards of KLCCP and KLCCRM with effect from 23 April 2018 and 1 December 2018 respectively. Puan Farina also took over as the Chairman of the Board Audit Committee. They both bring strong credentials in financial leadership along

with extensive experience and deep commercial awareness to the Boards and we look forward to their contributions towards the stewardship of KLCCP Stapled Group.

During the year, Tan Sri Mohd Sidek Hassan retired as Chairman on 16 July 2018, followed by Datuk George Ratilal, who stepped down from the Boards with effect from 26 October 2018. On behalf of the Boards, I would like to register my utmost appreciation to both of them for their contributions.

**FOR THE YEAR  
UNDER REVIEW, KLCCP  
STAPLED GROUP HIT  
THE 37.5% MARK  
OF WOMEN ON  
BOARD, SURPASSING  
THE COUNTRY'S  
ASPIRATIONAL TARGET  
OF 30% WOMEN  
REPRESENTATION AT  
THE BOARD LEVEL  
FOR PUBLIC LISTED  
ENTITIES**





## CHAIRMAN'S STATEMENT

### LOOKING AHEAD TO 2019

As we look forward to 2019, global growth is expected to ease on the back of moderating industrial activities, trade tensions and tighter monetary conditions. In tandem, Malaysia's economy is anticipated to soften in 2019 compared to the previous year.

KLCCP Stapled Group will remain steadfast in leveraging on its core competencies in key market segments, while adapting to a challenging business environment. We expect our office segment to remain stable on the

back of locked-in long-term tenancies and high quality tenants, maintaining 100% occupancy at all our offices in the portfolio of assets.

In our retail segment, we expect Suria KLCC to navigate this dynamic and challenging retail market through strong emphasis on research and interaction with both

shoppers and tenants in order to deliver a distinctive in-store shopping experience.

### KLCCP STAPLED GROUP WILL REMAIN STEADFAST IN LEVERAGING ON ITS CORE COMPETENCIES IN KEY MARKET SEGMENTS, WHILE ADAPTING TO A CHALLENGING BUSINESS ENVIRONMENT

With Mandarin Oriental, Kuala Lumpur (MOKL Hotel) fully renovated and rejuvenated, MOKL Hotel is now equipped to compete against its class. Our hotel will capitalise on its newly renovated guestrooms, providing guests with a unique experience.

### APPRECIATION

On behalf of the Board of Directors I would like to express my heartfelt appreciation to our stakeholders, including our holders of Stapled Securities, customers and business associates and partners, for their continued support and trust in the Group. I would also like to take this opportunity to extend my sincere appreciation to the Management Leadership Team and our employees for their collective commitment and courage in contending with considerable challenges last year and delivering credible results.

Going forward, I am excited to be working closely with the Boards in guiding the Management Leadership Team to further unlock KLCCP Stapled Group's potential.

I believe KLCCP Stapled Group is well positioned to be THE PLACE – a converging point for cultural diversity, commercial vibrancy and sustainable living.



**DATUK AHMAD NIZAM BIN SALLEH**  
Chairman





## CEO'S YEAR IN REVIEW

**In 2018, KLCCP Stapled Group sustained its momentum and delivered a stable performance, driven by our quest to create value and provide sustainable returns to our holders of Stapled Securities.**

The past year saw volatility in the equity markets with capital outflows from emerging markets, growing uncertainties in the global economy, political changes on the domestic front, mixed performance of the ringgit, further heightened by the challenging industry landscape and technological advancements.

In spite of the challenges faced and testament to our commitment in delivering value and growth, we distributed a distribution per Stapled Security of 37.00 sen, an increase of 2.4% from 2017. The improved performance in all our business segments, led by the retail and management services, recorded a 2.9% top-line growth whilst Profit Before Tax (PBT) excluding fair value gain, saw a RM11.3 million increase, sustaining margins despite navigating the headwinds in the market.

### BEING THE PLACE

At KLCCP Stapled Group, our purpose is to create places people look forward to, be it a place to work, shop, dine or be entertained. Our repositioning strategy was the start of this and during the year, we focused on driving enduring demand for our spaces, towards delivering both financial and societal value to all our many stakeholders. This involved us working collaboratively in a team and working with the right people to support growth, intensifying the speed and opportunity to capture, in responding and adapting to the new pace of change and also embracing digitalisation to revolutionise the consumer experiences.

**TESTAMENT TO OUR  
COMMITMENT IN  
DELIVERING VALUE  
AND GROWTH, WE  
DISTRIBUTED A  
DISTRIBUTION PER  
STAPLED SECURITY  
OF 37.00 SEN, AN  
INCREASE OF 2.4%  
FROM 2017**

**DATUK HASHIM BIN WAHIR**  
Chief Executive Officer

In envisioning the office of tomorrow, our aim was to create workplaces that embodied the evolving needs of our tenants which foster collaboration and flexibility. We progressed with creating the "Workplace for Tomorrow" for our tenant, PETRONAS at all our office buildings, which saw 52% completion as at 31 December 2018, with expected full completion by 2019.

**DURING THE YEAR, WE  
FOCUSED ON DRIVING  
ENDURING DEMAND  
FOR OUR SPACES,  
TOWARDS DELIVERING  
BOTH FINANCIAL  
AND SOCIETAL VALUE  
TO ALL OUR MANY  
STAKEHOLDERS**

Suria KLCC paved the way in respect to re-imagining the retail spaces, personalising the customer journey with unique, innovative retail experiences. During the year, Suria KLCC continued to differentiate itself with 28 new tenants including 9 first-to-market stores in Malaysia, exclusive to Suria KLCC. The dedicated luxury men's precinct continued to set the pace

## CEO'S YEAR IN REVIEW

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in the Malaysian fashion and grooming, being the first of its kind in a shopping mall in the country. The mall also saw creation of several duplex stores featuring a new retail concept to deliver a unique customer experience.

With the emergence of digital revolution redefining customer expectations, Suria KLCC installed the largest rotating double-sided LED screen in the world, in its center court, facilitating retailers' promotions and advertising. Suria KLCC also embarked on eWallet payment services via Alipay by its

retailers for customer convenience. These digitalisation exertions allow us to engage with the broader community and at the same time evolve to stay relevant, creating unique shopping experiences and embracing the challenges faced to stay ahead. In spite of a challenging retail landscape during the year, Suria KLCC together with the retail podium of Menara 3 PETRONAS sustained its Total Moving Annual Turnover exceeding RM2.6 billion with customer footfall in excess of 48 million.

During the year, our hotel, MOKL Hotel saw through the completion of its guestroom renovation which marked the full completion of the master plan refurbishment of MOKL Hotel which commenced in 2011. MOKL Hotel reconfigured the original mix of rooms and suites to meet the current and future demand which included the addition of another Presidential Suite. MOKL Hotel now showcases a Royal Suite and a Presidential Suite, amongst the 152 Club Rooms and Suites, and a further 435 Deluxe and Park Suites. The newly renovated guestrooms are driving the healthy pace gain for stronger demand with a 7% increase in guest satisfaction to 92%.

With a commitment to provide world class hospitality and exceeding guests' expectations for a luxury hotel experience, MOKL Hotel continued to improve its legendary service quality and launched innovative signature offerings across all its food and beverage outlets. The hotel also embraced new systems and digital technology to promote hotel offerings and make customer journey seamless through the launch of its new loyalty program, "Fans of MO", improved on-line conversion from its MO.com platform, smart technology for conference room facilities with eco-conscious initiatives and Smart Digital Thermostats in all guest rooms for room occupancy detection. With the completion of the master plan refurbishment, rolling-out of comprehensive marketing efforts and leveraging in smart technology, MOKL Hotel is now geared up to offer guests a resolutely new hotel experience which transcends accommodation.



## CEO'S YEAR IN REVIEW

In keeping up with technological advances, our car parking management company, KLCC Parking Management (KPM) embarked on improving convenience to customers with their cashless initiative and upgraded the parking entry and exit terminals at our North West Development Car Park with integrated credit/debit card and Touch n Go readers. This saw 92% of its customers in support of the cashless initiative. KPM have also created a mobile application for easy payment which will take effect in first quarter 2019.

In order to maintain a secured network for data storage and transfer and to mitigate cybersecurity risk, during the year, KPM implemented the first-ever virtual Parking Management System in Malaysia utilising a private cloud, which is centralised and located at our data centre managed by our internal ICT experts. This initiative is also part of our Business Continuity Plan and aligned to the PETRONAS' Baseline Security policy requirements.

### OUR PEOPLE, OUR PRIORITY

Having an engaged and passionate workforce is crucial to the success of any organisation. At KLCCP Stapled Group, we aim to be the employer of choice, building an engaged workforce, who embraces the Cultural Beliefs in delivering superior performance. This year, we were pleased to have maintained the employee engagement score at a high of 85%, well above the property and development industry benchmark of 63%. This is reflective of the trust the employees have in our organisation and for giving them a workplace that inspires them.

As part of our employee performance appraisal, our Human Resource Division initiated the inclusion of Behavioral Evaluation – PETRONAS Cultural Beliefs (Be PCB) in nurturing and instilling the Cultural Beliefs elements for all levels of employees. This encourages each employee to nominate themselves for the Cultural Beliefs elements they have exhibited for the

**AT KLCCP STAPLED GROUP, WE AIM TO BE THE EMPLOYER OF CHOICE, BUILDING AN ENGAGED WORKFORCE, WHO EMBRACES THE CULTURAL BELIEFS IN DELIVERING SUPERIOR PERFORMANCE**



year and subsequently be assessed by their superior for feedback in the areas of strength and improvement.

We also recognise that a systematic approach is necessary in ensuring leadership continuity and hence engaged our high-performing employees to set stretched key performance indicators and assume bigger roles and responsibilities whilst aligning ourselves to the PETRONAS' leadership framework and talent management strategies.

During the year, we introduced the KLCC Group Elite Leadership Program (KELPRO) which focuses on building future leaders for the second-tier succession line, comprising the senior

executives and managers who are seen to have demonstrated consistent high performance, delivering superior results. These talents will be subjected to a 1½ year program to prepare themselves to take up future leadership roles.

Praise and recognition are essential to an outstanding workplace and thus stronger emphasis was also placed on our internal rewards recognition for our employees. This year, we introduced the KLCC Group Choice Awards in recognition of our people's relentless efforts to excel, through the quality of their actions and efforts in making results matter. We also recognised those who excelled beyond their daily responsibilities, which included for the best Sports person, both men and women and to the employee who displayed exemplary efforts in embracing the Cultural Beliefs values.



## CEO'S YEAR IN REVIEW



### CREATING VALUE THROUGH SUSTAINABILITY

Sustainability continues to be a key part of our competitive advantage. As a real estate player in property investment and development, KLCCP Stapled Group is in a position to create engaging and sustainable spaces, from office towers to retail malls, hotels and community precincts. We also own and manage our buildings and use our insights into customers' needs to deliver value, lifestyle experiences and collaborate for the longer-term.

With rapid advancements in technology changing the way we work, live and communicate, connectivity, safety and security have also come to the forefront of our focus. By integrating sustainable features into our development, we are focused on maximising performance of our assets and investments, managing expectations of our stakeholders and driving positive change in the communities where we operate.

Our 3-Year Sustainability Roadmap from 2016 which focused on our commitment to further improve environmental performance whilst contributing a positive impact as a reliable partner and promoting a safe environment saw completion this year, with our 3-year targets being achieved against a 2015 baseline, across the focus areas of Economic, Environment, Social and Corporate Governance – details are in our Sustainability Statement. We are also proud that our sustainability efforts have been clearly recognised with the numerous awards we have received to-date which have benchmarked ourselves against the sustainability leaders in the industry.

### ROBUST CAPITAL STRUCTURE

KLCCP Stapled Group has a prudent approach to capital management and have maintained a strong balance sheet which provides a conducive business environment for sustainable growth and long term stability. Our capital position has remained firm with gearing at a low of 17.1% and average cost of debt at 4.6%, providing KLCCP Stapled Group a solid foundation and a sizeable debt headroom for future growth. We also have a well staggered debt maturity profile of 4.1 years with 84% of our borrowings at fixed rate to mitigate the fluctuations in interest rates.

Suria KLCC's restructuring of its Sukuk Murabahah Programme with a combined limit of up to RM600 million retained its AAA rating following the review by RAM Ratings in 2018.





## CEO'S YEAR IN REVIEW

### EXPECTATIONS OF 2019

Slowing global economic growth and potential escalations in trade tensions are expected to continue in 2019 with the monetary policy tightening likely to peak by 1H 2019. However, the more stable interest rate environment anticipated should exert less pressure on emerging market currencies. Domestically, a moderated economic growth is expected with domestic demand being the key driver. The significant income enhancing measures initiated by the Government during Budget 2019 is expected to increase disposable income and in-turn improve consumer sentiment.

Expectations are for a firmer year for the MREITs in 2019, with positive consumer sentiment being supportive for retail REITs while stable OPR soothes market fears of higher financing costs. Oversupply of retail and office space will continue to remain as major earnings risks to MREITs as it would generally heighten occupancy risks and limit potential positive rental reversions for expiring leases, while the large supply of new hotels is expected to pressure hotel occupancy.

Our strategic priorities going forward would be to continue to adapt to the evolving industry landscape, stay ahead of the curve with our competitive differentiators and to sustain the momentum in delivering strong results. We will continue our efficiency improvements and cost optimisation efforts, aligning with the themes of Collaboration, Pace and Going Digital.

Our high quality investment portfolio will provide strong, secured, income growth to the Group. Full occupancy of our office portfolio will continue to drive stable growth, primarily anchored by the Triple Net Leases for the PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi. We are actively securing an anchor tenant for the Phase 3 refurbishment of Kompleks Dayabumi which entails the redevelopment of the City Point podium. Our greening efforts of PETRONAS Twin Towers and

Menara 3 PETRONAS for the full Green Building Index Certification of Gold and Silver rating respectively is expected to be achieved by 1H 2019.

The retail landscape is anticipating a moderate growth in 2019, with the expected positive consumer sentiment and increase in minimum wage. Suria KLCC will continue to face increased competition due to the influx of new retail space and ongoing digital disruption in the retail industry. Nevertheless, Suria KLCC will focus its efforts to re-purpose the retail space and differentiate the consumer

offerings towards experience and convenience. The mall will see the launch of the dedicated luxury women's and men's precinct on Level 1 in 2019, upon full completion.

**I BELIEVE OUR  
ASPIRATION TO  
TRANSFORM KLCC  
PRECINCT INTO THE  
PLACE AND TO STAY  
RELEVANT, WILL  
CONTINUE TO INSPIRE  
US TO DELIVER  
STRONG RESULTS FOR  
OUR STAKEHOLDERS**

Our MOKL Hotel is expected to have a tougher time with the hospitality outlook remaining challenging as the Kuala Lumpur city centre market absorbs a 1,000 new room supply from 5 new hotels opened in 2H 2018, followed by an additional 1,600 rooms from 5 more new





CEO'S YEAR  
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hotels between 2019 and 2022. Cost pressures continue with further increases to the minimum wage that will come into effect from January 2019. MOKL Hotel's wide range of product offerings, prime location, superior service and brand recognition will give us the competitive advantage that will continue to ensure a point of difference and strengthen our market leader position.

I believe our aspiration to transform KLCC Precinct into THE PLACE and to stay relevant, will continue to inspire us to deliver strong results for our stakeholders, turn customer experiences into a competitive differentiator and ensure we have a



sustainable business well positioned for the future.

#### IN APPRECIATION

I would like to express my sincere gratitude to Tan Sri Mohd Sidek Hassan who stepped down as the Chairman of KLCCP and KLCCRM on 16 July 2018. Also my utmost appreciation to Datuk George Ratilal, one of our longest serving Board members, who resigned from the Boards with effect from 26 October 2018. KLCCP Stapled Group has seen many milestones and notable achievements under his tenure and forthright stewardship. On behalf of the Management Leadership Team, we wish Tan Sri Sidek and Datuk George the very best in their future endeavours.

It is with pleasure that I welcome the appointment of Datuk Ahmad Nizam Salleh as our new Chairman. Also new to the Boards are Puan Farina Farikhullah Khan, appointed as an Independent Non-Executive Director and YM Tengku Muhammad Taufik Tengku Aziz as Non-Independent Non-Executive Director. On behalf of the Management Leadership Team and all our employees, we congratulate them on their appointments

and look forward to their contribution towards our next stage of growth.

I would like to express my deepest gratitude to the Boards of KLCCP and KLCCRM for their invaluable contribution and steering the Management Leadership Team to strive for excellence. My sincere appreciation is also extended to our holders of Stapled Securities for their continued loyalty, support and confidence in KLCCP Stapled Group's commitment to creating long-term growth and stakeholder value.

Finally, my utmost appreciation to our employees. You underpin our success and your hard work and passion have ensured THE PLACE we have created remain sustainable and well positioned for the future, with continued operational excellence to scale greater heights.

**DATUK HASHIM BIN WAHIR**  
Chief Executive Officer





# THE PLACE TO SHOP

From luxury to fast fashion, latest high-tech home gadgets to a multitude of dining options, Suria KLCC has it all! Living up to its positioning of "Always Something New", Suria KLCC introduced a new level of style to the city with its stunning array of retail splendour with luxury brands that span the international and locally exotic, with exclusive services and differentiation providing shoppers with a seamless yet exciting retail experience and more





/  
**RETAILER,**  
SURIA KLCC  
/

I wanted to be part of Suria KLCC – an iconic destination, brimming with excitement, beauty and the twin towers. Suria KLCC has given us the opportunity to rise above the rest

/  
**SHOPPER,**  
SURIA KLCC  
/

At Suria KLCC, I am able to get anything I need at one-stop and being able to see such a diverse group of people in one place is always appealing to me and indeed a wonderful experience

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# MARKET REPORT

## EXECUTIVE SUMMARY



### ECONOMIC OVERVIEW

Economic Indicator	2017	2018	
GDP Growth	5.9%	4.7%	↓
Unemployment Rate	3.4%	3.3%	↓
Consumer Price Index (CPI)	3.7%	1.0%	↓
Overnight Policy Rate (OPR)	3.00%	3.25%	↑
Private Investment Growth	9.3%	4.5%	↓
Public Investment Growth	0.1%	(5.2%)	↓
Private Consumption Growth	7.0%	8.1%	↑
Public Consumption Growth	5.4%	3.3%	↓

Source: Bank Negara Malaysia (BNM), Department of Statistics Malaysia, Maybank IB, International Monetary Fund (IMF)

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- No Change
- Increased
- Decreased

## Remarks

Sharp decline in GDP growth given the slowdown in internal activity, alongside external trade tensions and market volatility

Improved to 3.3% with stronger net employment gain in the Services sector

CPI grew 1.0% in 2018 compared to 3.7% recorded in 2017

In January, the central bank increased OPR to 3.25% and it remained unchanged since. At the current level of the OPR, the degree of monetary accommodativeness is parallel with the intended policy stance

Moderated to 4.5% primarily due to slower capital spending across major economic sectors. Overall growth was sustained by ongoing multi-year projects largely in manufacturing sector

Public investment registered a decline in all four quarters, with a cumulative decline of 5.2% as large-scale projects are nearing completion and due to drops in capital spending by public corporations

Growth of 8.1% was driven by lower inflation and improved household spending which was fueled by zerorisation of GST and special payments to government servants and pensioners

Registered growth of 3.3% attributed to moderate growth in spending for supplies and services

## OFFICE MARKET OVERVIEW



**83** million sq ft total purpose-built office supply in Kuala Lumpur

New completions continued to outweigh net absorption during the year, with 2.5 million sq ft space newly available in the market. The office market will remain favourable to tenants in the short and medium term considering the volume of incoming supply.

### Kuala Lumpur Office Occupancy



Source: NTL Research & Consulting, 2018

## RETAIL MARKET OVERVIEW



**12** million sq ft total retail stock in city centre

New government policy had boosted consumer sentiment. Yet, retail sales growth was not at par with the improved consumer sentiment. Malls ought to continue embracing new technologies to remain attractive towards both retailers and consumers.

### Retail Occupancy in City Centre



Source: NTL Research & Consulting, 2018

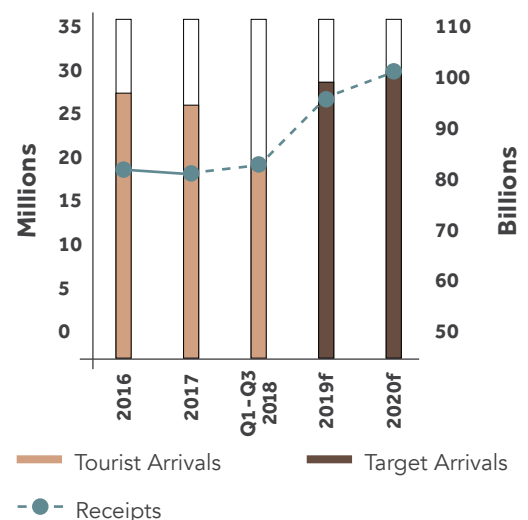
## HOTEL MARKET OVERVIEW



**224** hotels with 40,500 rooms in Kuala Lumpur

Given the sluggish growth in tourist arrivals, hotel market remained subdued with pressures on ARR and occupancy. Declines in tourists from Singapore and Brunei were recorded in the first nine months of 2018. Additional supply of luxury hotels in the city centre further heightened competition.

### Tourist Arrivals and Receipts



Source: NAPIC



# MARKET REPORT

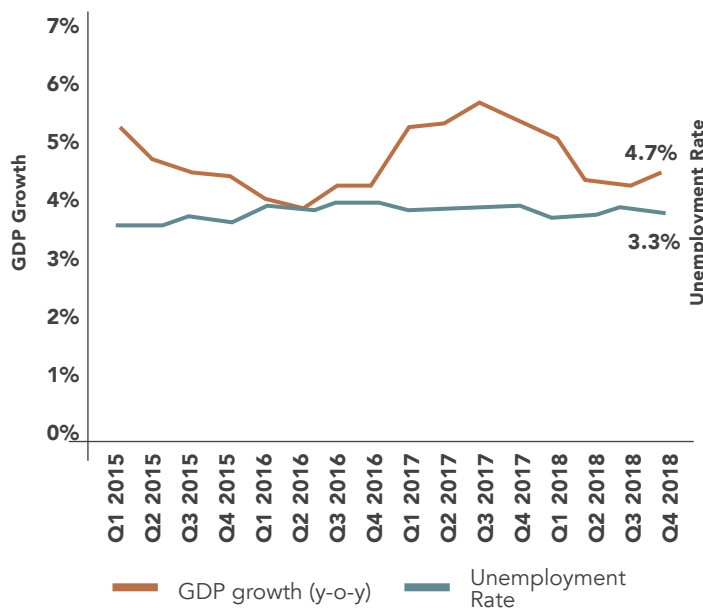
## ECONOMY

Following a year of robust growth in 2017, the global economy sustained its momentum and continued to expand, however, with less synchronised growth across economies amid the heightened downside risks such as escalating trade barriers, capital outflows from emerging markets and policy uncertainties. Overall GDP growth for 2018 dipped to 4.7% compared to 5.9% in 2017. Private sector expenditure remained as an anchor to the economy with growth of 7.2%, whilst public spending dropped significantly from 3.3% to only 0.1% due to a decline in public investments (-5.2%) as several major infrastructure projects were cut back or postponed.

On the supply side, the services sector recorded the highest growth of 6.8% in 2018, stronger than last year's figure of 6.2%, followed by manufacturing (5.0%) and construction (4.2%). The primary sector, namely mining and agriculture registered decline of 1.5% and 0.4% due to continued low oil and commodity prices.

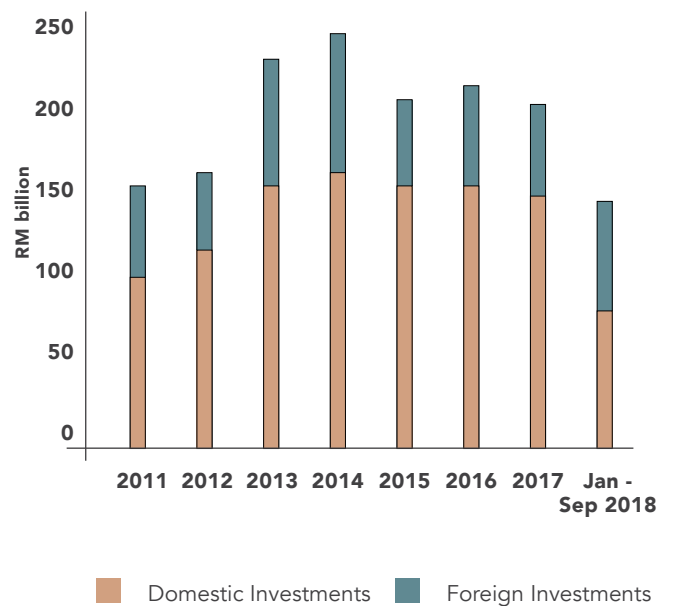
The labour market remained stable with moderate hiring activities. Growth in the labour force was generally in line with net employment gain, resulting in an unemployment rate of 3.3% in 2018.

**FIGURE 1.1  
GDP GROWTH AND UNEMPLOYMENT RATE**



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

**FIGURE 1.2  
APPROVED INVESTMENTS**



Source: Malaysian Investment Development Authority, 2018

Between January and September 2018, Malaysia registered a total of RM139.3 billion approved investments in the services, manufacturing and primary sectors (Figure 1.2). This translates to a surge of 22.8% compared to the corresponding period last year, involving some 3,243 projects with over 93,300 job opportunities to be created. The World Economic Forum ranked Malaysia as the 25<sup>th</sup> most competitive economy in the world in its Global Competitiveness Report 2018, making it one of the three non-high-income economies featured in the top 40, aside from China (28<sup>th</sup>) and Thailand (38<sup>th</sup>).

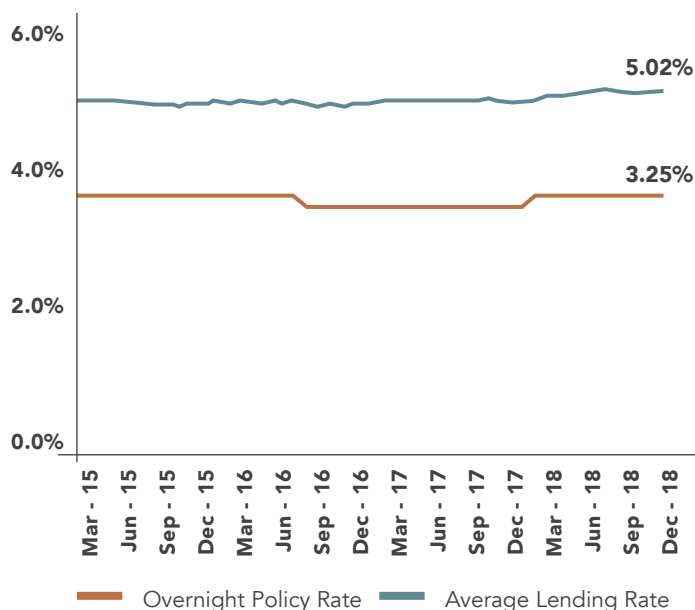
Headline inflation, as measured by the annual percentage change in the Consumer Price Index, rose at a benevolent rate of 1% in 2018, the lowest since 2009, as a result of combined outcome from removal of Goods and Services Tax (GST) and the implementation of Sales and Service Tax (SST). Nonetheless, Bank Negara Malaysia (BNM) expects headline inflation to increase moderately moving forward as the impact of the removal of the consumption tax eases off towards the end of 2019.

# MARKET REPORT

In January 2018, the central bank increased the Overnight Policy Rate (OPR) by 25 basis points to 3.25% and it remained unchanged since to support business activities (Figure 1.3). Throughout the year, the domestic economy maintained its underlying fundamental strength, low unemployment and surplus in the current account of the balance of payments. At the current level of the OPR, the degree of monetary accommodativeness is parallel with the intended policy stance.

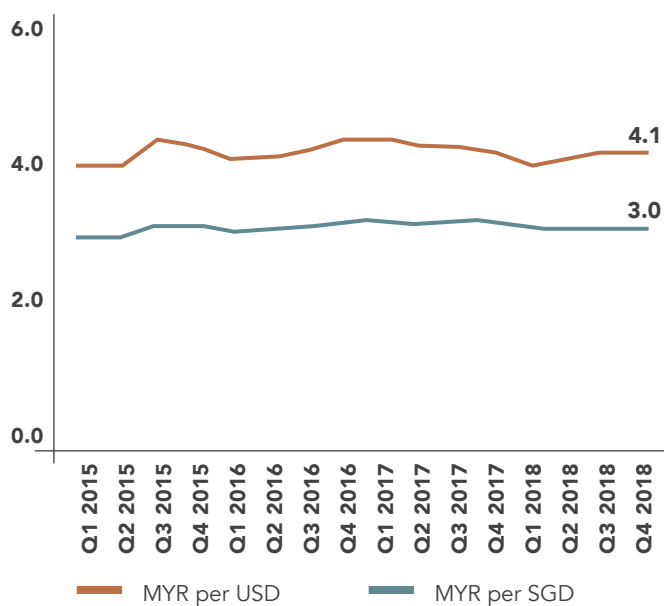
The Ringgit strengthened during the early part of the year, but depreciated over the second half, in line with regional currencies, ending the year with a decline of 1.8% (Figure 1.4). The normalisation of the US monetary policy has resulted in the strengthening of the US dollar, consequently affecting the currency of emerging markets. While the higher crude oil prices and sustaining economic growth provide upside potential for the Ringgit, its future trajectory will also be dependent on the economic policies of the newly-elected government. In light of external uncertainties and a slowing global economy, the Government has revised GDP growth forecast for the next two years to between 4.5% and 5.5%. Despite the short-term uncertainties, growth will be supported by the sustained domestic demand, moving forward.

**FIGURE 1.3**  
**OVERNIGHT POLICY RATE**



Source: Bank Negara Malaysia, 2018

**FIGURE 1.4**  
**EXCHANGE RATE**



Source: Bank Negara Malaysia, 2018

## OFFICE

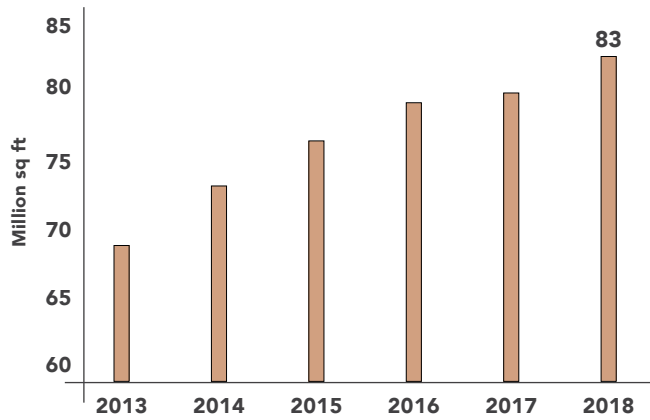
The recurrent theme of oversupply in the office market continued unabated during the year. Over the last three years, there has been limited expansion or new take-up due to the drop in oil prices and economic slowdown. New completions continued to be stable during the year, with 2.5 million sq ft of newly available space into the market, compared to 2.4 million sq ft in the preceding year. As of the end of the year, office supply in Kuala Lumpur registered a total space of 82.9 million sq ft, with an annual growth of 3.1% (Figure 2.1). Although the services sector fared better with stronger growth, in an overall slowing economy, its impact on net space absorption remains to be seen. Annual net absorption figure, however, nosedived to 170,000 sq ft from 1.4 million sq ft recorded in 2017 (Figure 2.2). The overall impact is that the average vacancy rate continued to edge upward by 2% to 22% from 20% in 2017 (Figure 2.3).

The year saw several major occupiers' movement include relocation of Standard Chartered Bank (100,000 sq ft) to Equatorial Plaza, Zurich Insurance (120,000 sq ft) and Samsung (100,000 sq ft) to KL Ecocity, Tower 3, and Mercu 2 respectively.



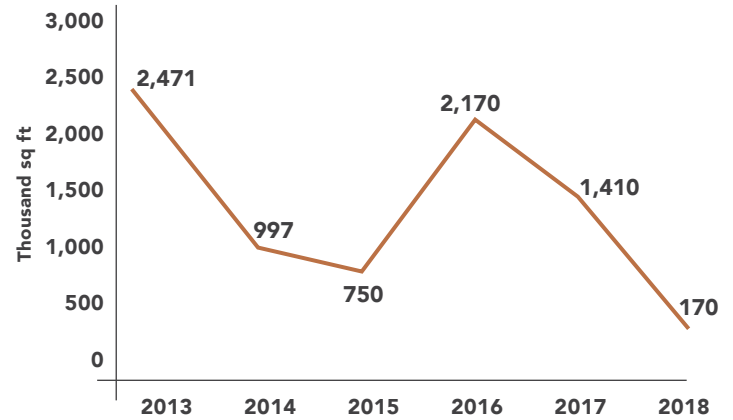
# MARKET REPORT

**FIGURE 2.1**  
**OFFICE SUPPLY IN KUALA LUMPUR**



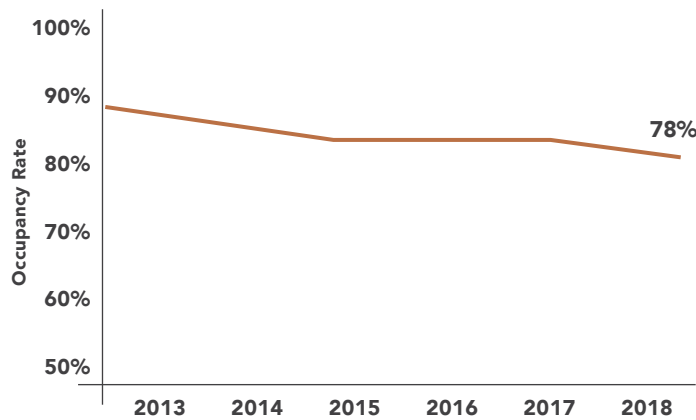
Source: NTL Research & Consulting, 2018

**FIGURE 2.2**  
**NET ABSORPTION**



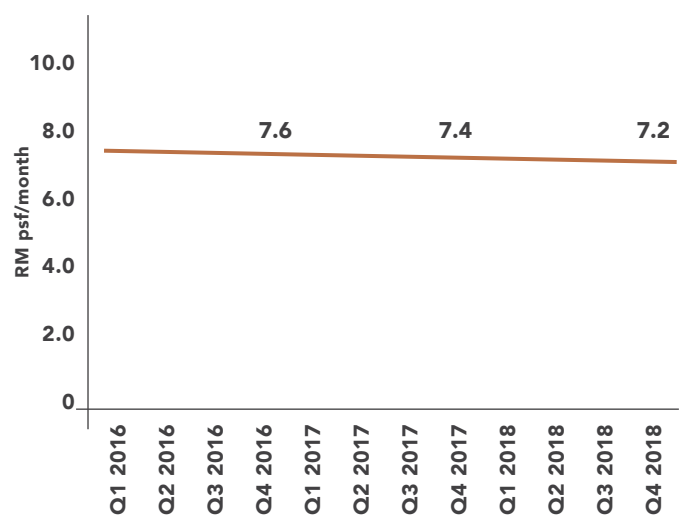
Source: NTL Research & Consulting, 2018

**FIGURE 2.3**  
**OFFICE OCCUPANCY RATE IN KUALA LUMPUR**



Source: NTL Research & Consulting, 2018

**FIGURE 2.4**  
**AVERAGE RENTAL FOR PRIME OFFICE SPACE IN CITY CENTRE**



Source: NTL Research & Consulting, 2018

The emergence of co-working space provides a growth story as it continued its trend during the year with expansion of current operators and the entry of new players. Among co-working space operators that have expanded their business in new locations include Common Ground (Menara Worldwide) and Colony (Boutique Office 1 in KL Eco City). The latter is also anticipating its third branch in KL Sentral (Q Sentral) in January 2019. Hong Kong-based, Compass Office has opened its maiden centre of 30,000 sq ft co-working space at Menara Standard Chartered. In addition, American-based WeWork will be making its Malaysian debut at Equatorial Plaza.

Major completions during the year include Mercu 2 in KL Eco City, Southpoint Tower in MidValley and Menara Etiqa in Bangsar. The pipeline supply remains high with nearly 13 million sq ft under construction, boosted by new project start-ups such as Permodalan Hartanah Berhad (PHB)'s proposed office at Jalan Bangsar, and The Met at KL Metropolis, bringing total new supply to 98.87 million sq ft by 2021 (Table 2.5).

## MARKET REPORT

**TABLE 2.5**  
**SELECTED NEW OFFICE DEVELOPMENTS IN KUALA LUMPUR**

Office Buildings	Location	Net Lettable Area (sq ft)	Expected Completion
Exchange 106	Tun Razak Exchange	2,650,000	2019
Prudential Tower	Tun Razak Exchange	392,000	2019
YTL Headquarter	Jalan Bukit Bintang	324,000	2019
Menara TCM	Jalan Tun Razak	403,000	2019
Menara Felcra	Jalan Semarak	1,121,000	2020
Menara Hap Seng 3	Jalan P Ramlee	240,000	2020
Sapura Tower	Jalan Kia Peng	1,180,000	2020
Cititower	Jalan Ampang	1,700,000	2020
Merdeka PNB 118	Jalan Hang Jebat	1,700,000	2020
Oxley Tower	Jalan Ampang	346,000	2020
The Stride, BBCC	Jalan Pudu	394,000	2020
HSBC Tower	Tun Razak Exchange	568,000	2020
Affin Bank Tower	Tun Razak Exchange	576,000	2020
The Met Corporate Towers	KL Metropolis	600,000	2021
KL Eco City (COT 1)	Jalan Bangsar	756,000	2021
<b>TOTAL</b>		<b>12,950,000</b>	

Rental rate of prime office space remained stable, at least at face value for the time being, in spite of continuing downward pressure in the face of a very competitive environment. In Kuala Lumpur, gross rental rates are trending between RM7 and RM13 per sq ft with an average of RM7.20 per sq ft in the city centre and RM6.90 in KL Sentral (Figure 2.4). Rental rates are expected to trend downward as landlords are becoming more realistic and willing to provide attractive tenant incentives to lock in major deals in the absence of an early sign of a market recovery. In particular, owners of major offices recently completed or about to be completed, with low occupancies or pre-commitment rates will feel pressured to win new occupiers. Conversely, a host of financial institutions, such as Standard Chartered, CIMB, Affin, Zurich Insurance and HSBC are relocating, taking advantage of such incentives and good choices of new buildings. The loss of these anchor tenants in the older buildings will necessitate major capital refurbishment by their owners and will involve lengthy marketing efforts to fill up the pending voids.

Capital value remained stable with no particular selling pressure on the part of owners. In 2018, there were limited sales of offices and only two notable smallish transactions (Table 2.6). Wisma Mont Kiara, a suburban office building was sold to Saudi Arabia's Al Rajhi family at RM670 per sq ft by Singapore-based ARA Asset Management. Wisma UOA Pantai was acquired by CIMB Bank at RM764 psf from UOA REIT. Both domestic and foreign investors are in cautious mode given the current volatile environment fuelled by slowing economic growth and contagion threats from other parts of the world, hence the limited number of transactions. Yield remained stable at around 6% and is likely to trend lower due to the more immediate pressure on rental and occupancy vis-a-vis capital value.

**TABLE 2.6**  
**SELECTED MAJOR OFFICE TRANSACTIONS IN KUALA LUMPUR**

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

Source: NTL Research & Consulting, 2018

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# MARKET REPORT

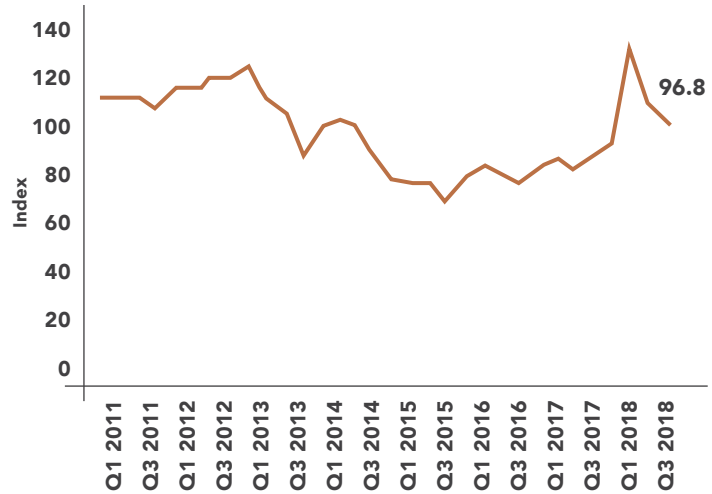
Regardless, Tun Razak Exchange (TRX), Malaysia's International Financial District, has continued its momentum with four office buildings. The Exchange 106, Prudential Tower, HSBC Tower and Affin Bank Tower are scheduled for completion in 2019 and 2020, offering a total NLA of 4.2 million sq ft. TRX is expected to pose serious competition to buildings surrounding KLCC given the incentives it offers to financial institutions. Moving forward, uncertainties remain on the economic and political fronts with slowing domestic and global economic growths in the midst of growing international geopolitical tensions. There is a distinct absence of new economic strategies to catalyse growth and cheer the market onwards. Considering such, the office market will remain a buyers' market, favourable to tenants in the short and medium term in the absence of any sign of a quick turnaround. For landlords, short term pains and uncertainties will remain, due to the challenges of maintaining high occupancies and stable rental rates in the year ahead.

With full occupancy at KLCCP Stapled Group's office buildings, its office portfolio is on a very strong footing, given the long-term leases they have with their existing high-quality tenants. The triple net lease arrangement particularly for PETRONAS Twin Towers, Menara 3 PETRONAS, and Menara Dayabumi shield them from the soft market conditions, with minimal impact to earnings.

## RETAIL

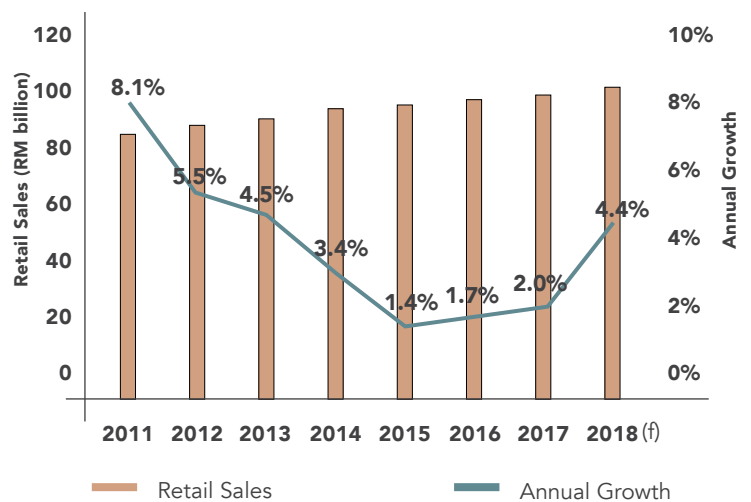
After three years of poor consumer sentiment, the Consumer Sentiment Index (CSI) unexpectedly spiked through the 100-point threshold level and soared to a 21 year-high of 132.9-point during the second quarter 2018, driven mainly by the unexpected election euphoria of a new Government (Figure 3.1). The upturn signalled a positive sign to recovery in consumer sentiment and was expected to foster retailing activities. However, there was a rapid change in momentum and direction where retail turnover depicted a conflicting anecdote as Malaysian consumers remained cautious in their spending, resulting in lower growth of 2.3% for the first half of 2018 as opposed to 2.6% during the same period in 2017. Retail Group Malaysia (RGM) has thrice revised its estimate for retail growth in 2018, from 4.7% in March, to 5.3% (June), 4.1% (September), and 4.4% (November), given the series of mixed reactions during the year following the pre and post GST removal, tax-holiday period in June to August, and reintroduction of SST in September (Figure 3.2).

**FIGURE 3.1**  
**CONSUMER SENTIMENT INDEX**



Source: Retail Group Malaysia, 2018

**FIGURE 3.2**  
**MALAYSIA ANNUAL RETAIL SALES**



Source: Malaysian Institute of Economic Research, 2018

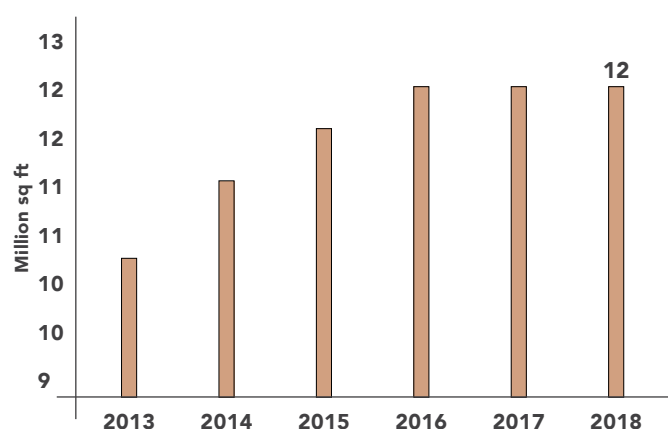
Wage increase and bonuses were modest for the year, and the high cost of living did not decline significantly despite the removal of the GST. High household debt remained a concern despite recording marginal improvement. Its ratio to GDP declined slightly to 83.8% in H1 2018, as opposed to 84.2% recorded in 2017. Income inequality, as measured by the Gini coefficient, is generally still high in Malaysia although improving to 0.399 in 2016 from 0.401 in 2014. The Government Budget 2019 primarily focused on assisting the B40 income group through several strategies including Bantuan Sara Hidup, electricity bill subsidies, and fuel subsidies, among others. The increase in minimum wage by RM50 to RM1,100 is expected to have minimal impact on spending, hence, minimal impact on demand.

## MARKET REPORT

The retail industry continued to experience more consolidation with the closure of several notable stores throughout the year. Parkson, one of the biggest department store operators, closed its outlets at Sungei Wang Plaza and Maju Junction, which eventually led to the closure of the mall. Maju Junction suffered from declining sales due to weak merchandise mix offer and increasing competition of well-positioned and newer malls.

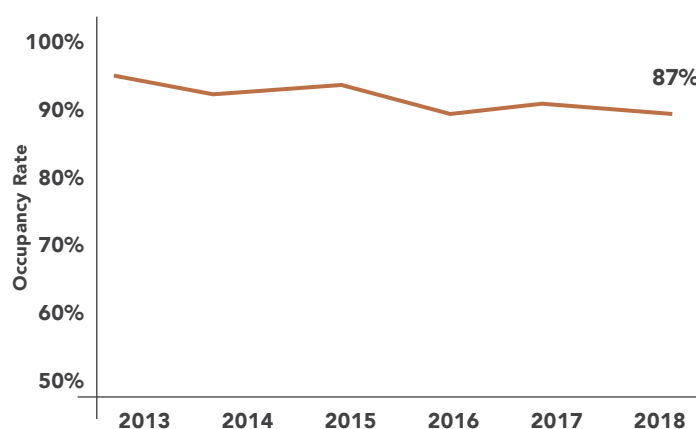
New mall openings in the heart of Kuala Lumpur include Shoppes at Four Seasons Place, a 250,000 sq ft retail podium with Robinsons being its anchor tenant and GM Bukit Bintang, a part-strata mall integrated with residential development called The Robertson. Both of the malls have added a cumulative space of 372,000 sq ft to retail supply in the city centre, bringing the total to 12.1 million sq ft with an estimated average occupancy rate of 87% (Figure 3.3 and Figure 3.4).

**FIGURE 3.3**  
RETAIL STOCK IN CITY CENTRE



Source: NTL Research & Consulting, 2018

**FIGURE 3.4**  
RETAIL OCCUPANCY RATE IN CITY CENTRE



Source: NTL Research & Consulting, 2018

Pipeline supply of new malls in Kuala Lumpur is currently estimated at 9.9 million sq ft to the year 2021 (Table 3.5). The most prominent of these projects within the city include Lendlease's mall at TRX, BBCC and Merdeka@118. These proposed regional malls, when completed, will add glitz and excitement to the local retail scene and shoppers' choice but will add stress to an increasingly fragmented market that is crying out for a strong increase in consumer spending, domestic or otherwise, to support the existing and expanded space.

**TABLE 3.5 NEW MALLS IN KUALA LUMPUR BY 2021**

Malls	Location	Net Lettable Area (sq ft)	Expected Completion
Empire City	Damansara Perdana	2,500,000	2019
Pavilion 2	Bukit Jalil, KL	1,800,000	2020
The Exchange Mall at TRX	Jalan Tun Razak	1,330,000	2020
M101 Skywheel	Jalan Raja Muda Abdul Aziz	200,000	2021
Merdeka @ 118	Jalan Hang Jebat	1,000,000	2021
Mitsui Shopping Park Lalaport KL Mall	Jln.Pudu (BBCC)	900,000	2021
Mall @ Maju Kuala Lumpur	Sg. Besi	750,000	2021
Pavilion Damansara Heights	Damansara Heights	1,170,000	2021
Suria KLCC (expansion) Lot 185	KLCC	300,000	2021
<b>TOTAL</b>		<b>9,950,000</b>	

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# MARKET REPORT

There is a lack of mall transactions during the year in review although several struggling malls are known to be up for offer. Revaluations of high-end malls indicated marginal increases of capital values at the Pavilion Mall, The Gardens Mall, and Mid Valley Megamall, at RM3,526 per sq ft, RM1,547 per sq ft and RM1,999 per sq ft respectively. In the absence of a clear benchmark transaction, the prime retail yield is taken to be stable at 6.0% - 6.5% although the rationales for a rise in the light of higher sectorial risk, especially the growth of e-commerce, have some justifications going forward. Gross revenue per square foot of NLA registered stable growth of between 6% and 7% for prime malls in KL metropolitan area, whilst a fairly lower growth of 2% in the fringe area.

Malls have to wrestle with rising concern of oversupply, new competitors, and overlapping catchments; and at the same time grappling with cautious consumer spending behaviour, besides technological disruption. Nonetheless, the established malls in the city centre that are well-maintained are adaptive to changing consumer dynamics and enjoy the benefit of excellent connectivity. This includes the nation's major malls; Suria KLCC and Pavilion KL, which recorded average occupancy of over 98%.

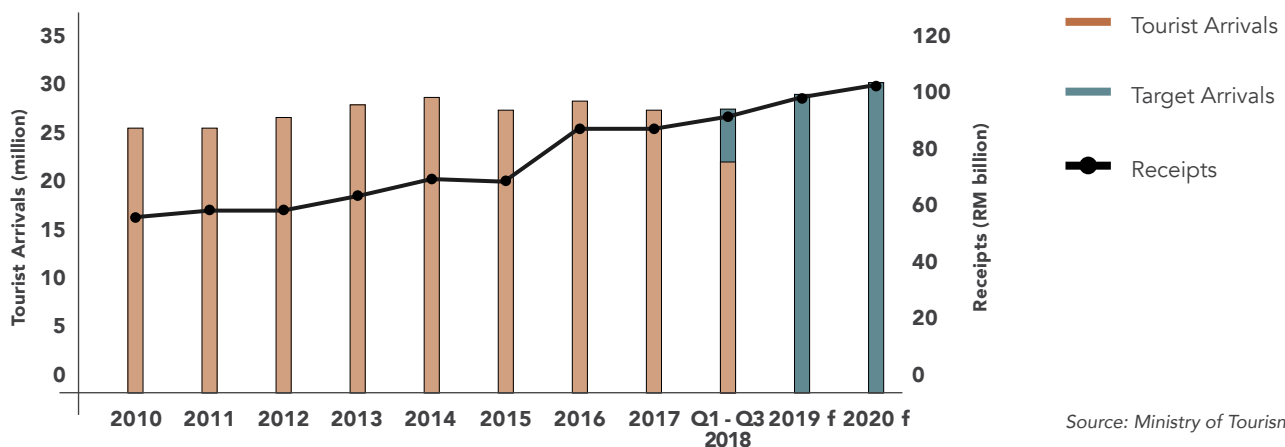
Suria KLCC Mall will continue to remain resilient with the strong catchment fundamentals and location within the iconic KLCC belt to attract quality retailers and consumer demands. Suria KLCC brought in first-to-market brands and is continuously embracing digitalisation efforts which will bring differentiating shopping experience for its retail customers and remain relevant in the challenging market.

The retail business, like many other industries, is at its cusp, a transition that is only beginning. Mall owners and developers will need to refigure the "where, what and how" to cater and adapt successfully to an ever evolving demographics, and changes in consumer buying behaviour. In addition, advances in technology will also impact shopping both on-line and brick-and-mortar. Shopping centres that embrace these changes and emphasise the customer experience will have the best chance for success.

## HOTEL

The tourism industry in 2018 registered consecutive years of decline, whereby 19.4 million tourists were hosted in the first nine months, recording a contraction of 0.3% compared to the same period in the preceding year. Tourist arrivals were earlier projected to reach 33.1 million for the full year 2018 with total receipts of RM134 billion. However, the Ministry of Tourism and Culture revised downward the number of tourist arrivals and receipts for 2018 to 26.4 million and RM84.9 billion respectively (Figure 4.1).

**FIGURE 4.1**  
**TOURIST ARRIVALS AND RECEIPT**



Source: Ministry of Tourism, 2018

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Singapore, Indonesia and Thailand remained as the top three markets, with Singaporeans accounting for 40% of the total arrivals in the first three quarters. During the same period, Malaysia welcomed strong double-digit growth from China (34%), Indonesia (18%), and India (10%). Tourism Malaysia launched “Malaysia Smart Tourism 4.0 Powered by Tencent” to draw Chinese tourists, with tools developed by the Chinese tech giant, Tencent Holdings. Malaysia remained a favorite holiday destination to the country given its G-to-G friendliness to China, a major criteria when choosing holiday destinations. The growth from the three markets, however, was offset by the steep decline in tourist arrivals from Brunei (-19%) and Singapore (-16%).

The hotel market continued to see the introduction of more new luxury hotels in the city center, which included the Four Seasons Place, W Hotel, Pavilion Hotel and The RuMa Hotel that collectively contributed more than 900 rooms to the market. In addition, over 2,000 rooms are slated for completion by 2021 (Table 4.2), and majority of these will be integrated with serviced residence which will be managed by the hotel operators.

The new hotels, especially Four Seasons and W Hotel, which were completed in late 2018, posed direct competition to Mandarin Oriental Hotel, Kuala Lumpur (MOKL Hotel) given their location proximities and similar target market segment. As both of the new entrants are expected to launch aggressive campaigns to gain market share among travellers, the hotel market will be facing tight competition. MOKL Hotel, however, is expected to remain stable and is ready to offer new hotel experience post-completion of its master plan refurbishment in 2018.

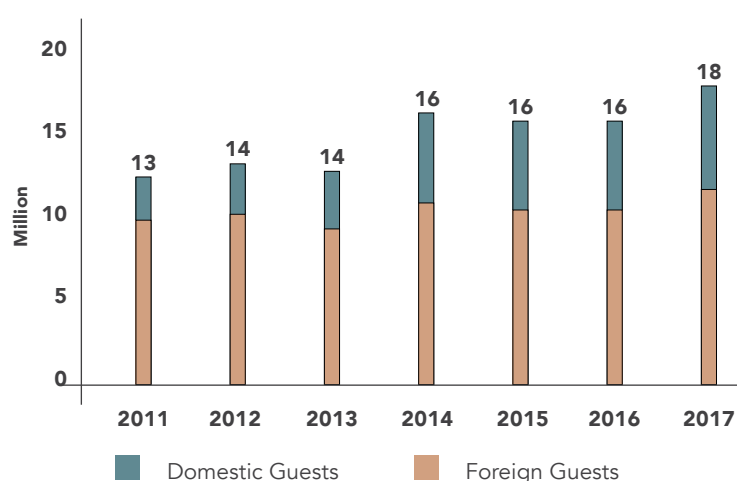
**TABLE 4.2**  
**SELECTED NEW LUXURY HOTEL DEVELOPMENTS IN KUALA LUMPUR**

Hotels	Location	No. of Rooms	Expected Completion
Fairmont Raffles	Jalan Ampang	750	2020
Kempinski Hotel	Jalan Conlay	261	2020
Canopy by Hilton	Jalan Hang Tuah	456	2021
Hotel @ TA3 & TA4	Jalan Ampang	384	2021
Jumeriah Hotel	Jalan Ampang	181	2021
So Sofitel	Jalan Ampang	207	2021
<b>TOTAL</b>		<b>2,239</b>	

Source: NTL Research & Consulting, 2018

In Kuala Lumpur, the number of hotel guests recorded double-digit growth of 11% in 2017 amounting to 18 million (Figure 4.3). The fraction remained to be dominated by foreign guests, accounting for 60% of the total. The up-trending GDP in 2017 had created the path for the recovery of the luxury hotel market. Consequently, the occupancy rate for luxury hotels in Kuala Lumpur rose to 77.5% in 2017. However, the slowdown of national economic growth in 2018 had also reversed the trend in the hotel market. Average Room Rate (ARR) for selected luxury hotels declined 4% to RM618, as registered in Q3 2018 while occupancy rate dropped marginally to 76.6% (Figure 4.4). In the short term ahead, the upward movement of ARR is likely to remain limited, given the competitive new supply coming into the market, coupled with sluggish growth in tourist arrivals.

**FIGURE 4.3**  
**HOTEL GUESTS IN KUALA LUMPUR**

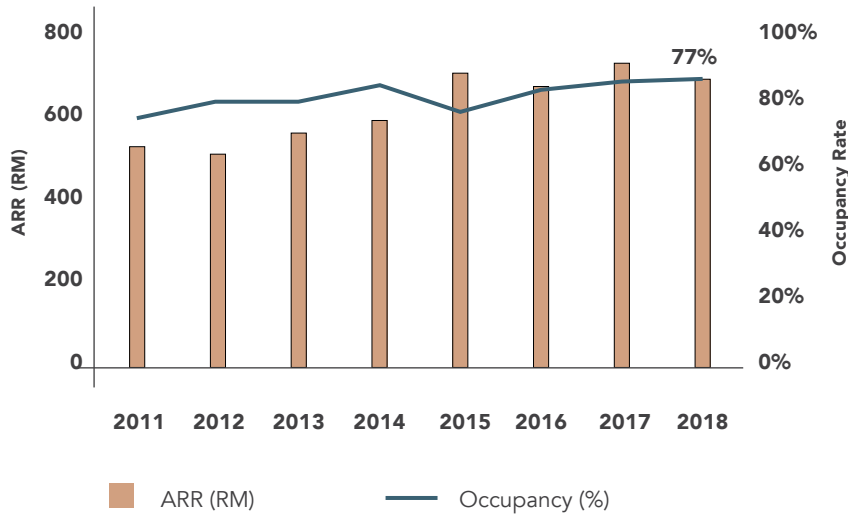


Source: Tourism Malaysia, 2018



# MARKET REPORT

**FIGURE 4.4**  
**AVERAGE ROOM RATE (ARR) AND OCCUPANCY RATE OF 5-STAR HOTELS**



Source: NTL Research & Consulting, 2018

No major prime hotel asset was sold during the year although several newly completed hotels such as the W Hotel were reportedly up for an offer whilst a sale by tender was held at the end of the year for the 4-star Royale Chulan Bukit Bintang. Capital values for 4- and 5-star hotels remain stable in the range of RM800,000 - RM1,000,000.

During the Budget 2019 announcement, departure levy for all international outbound flights was announced and to take into effect from June 1, 2019, with a proposed fee of RM20 per head for those departing for ASEAN countries and RM40 for other countries. The move is expected to broaden the competitiveness gap between Malaysia and other destinations in the region, with the additional charges applied to air travel being 7% to 9% more than neighbouring countries such as Thailand, Indonesia and Singapore following its introduction. As a result, the levy is anticipated to marginally impact the number of tourist arrivals and ultimately, the number of foreign hotel guests which have historically been the main contributor to the Kuala Lumpur hotel market.

The Government continued efforts to boost tourist arrivals by participating in various regional and international travel forums, arranging familiarisation programs in an otherwise uneventful year for the hospitality industry. The fallout from the withdrawal of Century Fox from the proposed theme park at Genting Highland will have some negative impact on room demand in the city as well. Business travellers will be the key to boosting recovery in the luxury hotel segment and in the recent past, the Oil and Gas sector is the main demand driver. As such, a sustainable recovery in this sector will be needful to boost room demand besides aggressive tourism promotion in new and growing key markets.



Disclaimer

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# BUSINESS AND OPERATIONS

KLCCP Stapled Group which comprises KLCC Property Holdings Berhad (KLCCP) and KLCC Real Estate Investment Trust (KLCC REIT) have remained as Malaysia's only Stapled Security and the largest REIT since its listing more than 5 years ago in 2013. As a diversified property and investment group, KLCCP Stapled Group has a wide range of investments in office, retail and hotel, located in the prime Kuala Lumpur City Centre.

KLCCP Stapled Group has a stable of 8 properties exceeding 11 million sq ft of gross floor area with our main focus on becoming Malaysia's premier and leading Real Estate Investment Group. Our iconic and quality assets within the portfolio is very much Malaysia focused, with a value of RM15.7 billion as at 2018.

Our core fundamental value resides in the portfolio of assets under KLCC REIT which have defined cashflow returns together with strong cash generating assets under KLCCP.

KLCCP Stapled Group's facility management and car parking management services, under KLCC Urusharta Sdn Bhd (KLCCUH) and KLCC Parking Management Sdn Bhd (KPM) respectively, complement the property portfolio in delivering premium asset management services in maintaining the iconic stature and performance of the assets within the Group.

The resilience of KLCCP Stapled Group's strong fundamentals, quality tenants and premium property location underpin its long-term value and drives sustainable returns. The operations of KLCCP Stapled Group remained stable during the year in spite of the challenges from the intensifying competition of the hospitality industry and the oversupply in the office and retail markets.

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# PROPERTY PORTFOLIO

## PETRONAS TWIN TOWERS

TENURE  
FREEHOLD

AGE OF  
BUILDING  
21 YEARS



An iconic landmark and world's tallest twin towers. The corporate headquarters of PETRONAS, the national petroleum company

Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date of Acquisition	10 April 2013
Acquisition Price	RM6,500,000,000
Title	GRN 43697, Lot 169, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Encumbrances	Nil
Lease/ Tenancy Profile	Leased to a single lessee, Petroliaam Nasional Berhad vide a Triple Net Lease Agreement for a term of 15 years, expiring 30 September 2027
Net Book Value as at 31 December 2018	RM6,679,918,979
Appraised Value	RM7,010,000,000
Date of Valuation	18 October 2018
Independent Valuer	Cheston International (KL) Sdn Bhd

# PROPERTY PORTFOLIO

## MENARA 3 PETRONAS



59-storey office tower with premium Grade-A office with exclusive retail and sky dining

TENURE  
FREEHOLD

AGE OF  
BUILDING  
7 YEARS



Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date of Acquisition	10 April 2013
Acquisition Price	RM1,790,000,000
Title	GRN 43699, Lot 171, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Encumbrances	Nil
Lease/ Tenancy Profile	Office Tower, Menara 3 PETRONAS is leased to a single lessee, Petroliam Nasional Berhad vide Triple Net Lease Agreement for a term of 15 years, expiring on 14 December 2026. Retail Podium, Menara 3 PETRONAS is tenanted to various retailers on a 3 to 5-year term tenancy
Net Book Value as at 31 December 2018	RM1,975,605,251
Appraised Value	RM2,052,200,000
Date of Valuation	17 October 2018
Independent Valuer	Cheston International (KL) Sdn Bhd

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# PROPERTY PORTFOLIO

## MENARA EXXONMOBIL

TENURE  
FREEHOLD

AGE OF  
BUILDING  
22 YEARS



29-storey office building strategically located at the south-eastern portion of the KLCC Development and home to a major oil and gas corporation

Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date of Acquisition	10 April 2013
Acquisition Price	RM450,000,000
Title	GRN 43685, Lot 157, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Encumbrances	Nil
Lease/ Tenancy Profile	Leased to two lessees, ExxonMobil Exploration and Production Malaysia Inc for an initial period of 9 years with an option to renew for 3 successive terms of 3 years each; and another with PETRONAS for an initial period of 3 years with an option to renew for 5 successive terms of 3 years each
Net Book Value as at 31 December 2018	RM535,307,091
Appraised Value	RM536,700,000
Date of Valuation	17 October 2018
Independent Valuer	Cheston International (KL) Sdn Bhd

# PROPERTY PORTFOLIO

## MENARA DAYABUMI

**TENURE**  
LEASEHOLD INTEREST FOR  
99 YEARS EXPIRING  
9 NOVEMBER 2081

**AGE OF BUILDING**  
36 YEARS



An integrated office development with retail podium located within the former business district of Kuala Lumpur

Location	50500 Kuala Lumpur
Date of Acquisition	31 May 2004
Title	PN 2395, PN 4073, PN 33471, PN 32233, Lot 38, 39, 45 & 51, Seksyen 70, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Encumbrances	Nil
Net Book Value as at 31 December 2018	RM769,204,071
Appraised Value	RM773,000,000
Date of Valuation	22 October 2018
Independent Valuer	Cheston International (KL) Sdn Bhd

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# PROPERTY PORTFOLIO

## SURIA KLCC

TENURE  
FREEHOLD

AGE OF  
BUILDING  
20 YEARS



Premier shopping destination in Malaysia with over 400 specialty stores making it the best place for shopping, dining and entertainment experience

Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date of Acquisition	31 May 2004
Title	GRN 43698 Lot 170, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Encumbrances	Charged twice by Suria KLCC to Lembaga Kumpulan Simpanan Pekerja, registered on 19 December 1996 and 12 February 1998 respectively
Lease/ Tenancy Profile	Tenanted to various retailers on a 3 to 5-year term tenancy
Net Book Value as at 31 December 2018	RM5,444,129,660
Appraised Value	RM5,455,000,000
Date of Valuation	25 October 2018
Independent Valuer	Cheston International (KL) Sdn Bhd

# PROPERTY PORTFOLIO

## MANDARIN ORIENTAL, KUALA LUMPUR

TENURE  
FREEHOLD

AGE OF  
BUILDING  
20 YEARS



A five-star luxury hotel in the heart of Kuala Lumpur offering impressive views with elegant interiors, spacious rooms, fabulous facilities and a wealth of dining options

Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date of Acquisition	31 May 2004
Title	GRN 43700 Lot 172, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Encumbrances	Charged by Asas Klasik Sdn Bhd to Public Bank Berhad, registered on 12 June 2008
Net Book Value as at 31 December 2018	RM648,431,431
Appraised Value	RM900,000,000
Date of Valuation	3 December 2018
Independent Valuer	Cheston International (KL) Sdn Bhd

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# PROPERTY PORTFOLIO

## MENARA MAXIS

TENURE  
FREEHOLD

AGE OF  
BUILDING  
20 YEARS



49-storey office tower with unique and distinctive architecture. Houses one of the largest communications service provider in Malaysia and its associate companies

Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date of Acquisition	31 May 2004
Title	GRN 43696 Lot 168, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Encumbrances	Nil
Lease/ Tenancy Profile	Leased between Impian Klasik Sdn Bhd and Tanjung City Centre Property Management Sdn Bhd vide a Triple Net Lease Agreement for a term of 15 years, expiring 1 June 2028
Appraised Value	RM764,000,000
Date of Valuation	30 November 2018
Independent Valuer	Jones Lang Wootton

Note: KLCCP owns a 33% stake in Menara Maxis

**PETRONAS TWIN TOWERS****234,007**  
Land Area (sq ft)**4,693,756**  
Gross Floor Area (sq ft)**2,065,000<sup>1</sup>**  
Gross Floor Area - car park (sq ft)**3,195,544**  
Net Lettable Area (sq ft)**5,092<sup>1</sup>**  
Car Park bays**100**  
Occupancy as at 31 December 2018 (%)**MENARA 3 PETRONAS****46,306**  
Land Area (sq ft)**1,500,814**  
Gross Floor Area (sq ft)**170,782**  
Gross Floor Area - car park (sq ft)**812,806** (Office)  
**134,822** (Retail)  
Net Lettable Area (sq ft)**193**  
Car Park bays**100** (Office) **84** (Retail)  
Occupancy as at 31 December 2018 (%)**MENARA EXXONMOBIL****43,045**  
Land Area (sq ft)**559,520**  
Gross Floor Area (sq ft)**240,981**  
Gross Floor Area - car park (sq ft)**408,105**  
Net Lettable Area (sq ft)**528**  
Car Park bays**100**  
Occupancy as at 31 December 2018 (%)**MENARA DAYABUMI****315,802**  
Land Area (sq ft)**1,059,783**  
Gross Floor Area (sq ft)**316,018**  
Gross Floor Area - car park (sq ft)**650,297**  
Net Lettable Area (sq ft)**854**  
Car Park bays**100**  
Occupancy as at 31 December 2018 (%)**MENARA MAXIS****46,597**  
Land Area (sq ft)**781,383**  
Gross Floor Area (sq ft)**100**  
Occupancy as at 31 December 2018 (%)**537,085**  
Net Lettable Area (sq ft)**SURIA KLCC****303,112**  
Land Area (sq ft)**1,545,361**  
Gross Floor Area (sq ft)**98**  
Occupancy as at 31 December 2018 (%)**1,034,048**  
Net Lettable Area (sq ft)**MANDARIN ORIENTAL HOTEL, KL****87,123**  
Land Area (sq ft)**998,706**  
Gross Floor Area (sq ft)**29,000**  
Gross Floor Area - car park (sq ft)**629**  
No. of Rooms**389**  
Car Park bays**55**  
Occupancy as at 31 December 2018 (%)<sup>1</sup> North West Development (NWD) Car Park, shared by PETRONAS Twin Towers, Suria KLCC and Menara Maxis



# KEY TRENDS SHAPING OUR MARKET

## ECONOMIC CHALLENGES

- ◆ Expectations of interest rate hikes
- ◆ Softer consumer sentiments in light of market volatility, reintroduction of Sales and Services Tax
- ◆ Changes in Government policies

## INDUSTRY COMPETITIVENESS

### OFFICE

- ◆ Supply outstripping demand affecting rental and occupancy
- ◆ Downward pressure on rental and price adjustments due to anticipated worsening imbalance of supply and demand

### RETAIL

- ◆ Strong headwinds from influx of in-coming supply
- ◆ Rapid growth in online shopping posing a challenge to brick and mortar outlets

### HOTEL

- ◆ Heightened competition from newer brands and supply of rooms entering the market
- ◆ Slower growth of tourist arrivals into the country
- ◆ The rise of Airbnb as hotel market's main competitor

## OUR STRATEGIC RESPONSE

- Optimisation of capital structure, limiting exposure of fluctuations of interest
- Review of growth and asset repositioning strategies with focused initiatives through our strategic partnerships to drive continued demand for our places
- Diligent monitoring of our financial and operational initiatives and cost optimisation efforts
- Continuous investor engagements to reassure Malaysia's strong fundamentals and positive prospects
- Continuous positioning and branding of KLCC as a company and place brand to the investing community to shape market expectations and valuation

- Re-strategising our leasing approach and redefining unique and compelling value of properties beyond existing demand
- Focused on tenant retention and improving tenant experience within our office buildings

- Bespoke tenancing strategies to attract and retain quality retailers
- Innovative and targeted marketing for each catchment segment to spur footfall and retail spend
- Refreshing tenant mix with new concepts to ensure relevance of the mall
- Managed occupancy costs and vacancies through space optimisation and tenant mix

- Capitalised on newly refurbished guestrooms to drive stronger demand and occupancy
- Strategic partnership with key business players and positioning to enhance competitiveness and vibrancy
- Strengthened the brand presence and position Malaysia firmly as a tourist destination through various roadshows

# KEY TRENDS SHAPING OUR MARKET

## EVOLVING CUSTOMER BEHAVIOUR AND EXPECTATIONS

### OFFICE

- ◆ Demand for flexible and more collaborative spaces that foster networking with overlap between work and leisure
- ◆ Tenants want amenity oriented, technology enabled and community driven commercial spaces

### RETAIL

- ◆ Responding to changing customer lifestyles
- ◆ Click & mortar taking stronger foothold

### HOTEL

- ◆ Bespoke experiences which transcends accommodation
- ◆ Millennial's tastes & technology influencing product offerings

## TECHNOLOGY DRIVEN CHANGE

- ◆ Technology development re-inventing business value-chain
- ◆ Evolution of social media in shaping consumer tastes

## SUSTAINABILITY AGENDA

- ◆ Growing recognition of sustainability as investment opportunities to operate more efficiently
- ◆ Call for action by the United Nations to promote prosperity while protecting the planet
- ◆ The risk-return enhancement by adopting sustainable practices of environment, social and governance (ESG) as an investment criteria

## OUR STRATEGIC RESPONSE

- Conceptualising and creating a "Workplace for Tomorrow" for all our office buildings, providing a collaborative workplace for our tenants
- Supporting tenant initiatives in greening the office buildings to be more cost efficient in the longer term

- Repositioning the retail concept by integrating the mall as a lifestyle and attracting first-to-market brands into Malaysia
- Differentiating the consumer offering with a focus on experience and convenience
- Re-imagining and re-purposing the retail space, creating a sense of novelty to the mall offerings

- Personalised offerings and quality guest experience
- Leveraging brand expressions with unique and distinguishing products, wellness and dining programmes

- Management workshop on "Transformation and Business Innovation via Design Thinking" to Rethink, Redefine and Redesign the future of KLCC Group through a digital transformation
- Realignment of investments into technologies to engage target customers effectively at touchpoints in the customer experience lifecycle
- Transforming the mall experience by leveraging technology and multi-channel engagement platforms to reach out to a broader community
- Embracing new systems and digital technology to promote hotel offerings and make customer journey seamless

- Creating social value for our partners and communities through our corporate responsibility initiatives and strategic partnerships
- Creating multi-faceted places where working and leisure are intertwined to cater to the changing dynamics of today's landscape and customer expectations
- Responding to climate change to protect the community, supporting the country's commitment in mitigating climate change risks
- Working collaboratively with all stakeholders to understand the level of interest of material matters and the potential impact to the Group

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# OUR STRATEGY

KLCCP Stapled Group's strategic focus is premised on its purpose of creating places people look forward to, converging cultural diversity, commercial vibrancy and sustainable living. With deep real estate experience, unique market understanding and insights and outstanding execution capabilities, we create synergy within our property portfolio, anticipate future tenant and customer needs to deliver long-term value across our business for all stakeholders.

<p><b>Leverage Core Capabilities</b></p> <ul style="list-style-type: none"> <li>• Deep real estate experience</li> <li>• Asset management expertise</li> <li>• Strong relationship with our stakeholders and business partners</li> <li>• Experienced and highly skilled people</li> </ul>	<p><b>Capitalise on Market Trends</b></p> <ul style="list-style-type: none"> <li>• Unlock value through asset repositioning</li> <li>• Refurbish, reconfigure and refresh tenant mix to improve vibrancy and maintain competitiveness</li> <li>• Unique product and service offerings in meeting customer demands</li> </ul>	<p><b>Active management of capital and risks</b></p> <ul style="list-style-type: none"> <li>• Maintain strong balance sheet</li> <li>• Limit exposure of fluctuations of interest</li> <li>• Retain appropriate mix of debt and equity funding</li> </ul>
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We are focused on cashflow generation from our high quality prime Grade-A office buildings in Kuala Lumpur City Centre and landmark retail and hotel assets, providing diversification and generating a steady stream of income.

Strategic Priorities	Our Objectives
 <p><b>Maximising Value of Investments</b></p> <p>Ensuring high returns and yield through strategic initiatives</p>	<p>Creating long-term value for our stakeholders by maximising value of our existing investments in ensuring our revenue generating potential remains sustainable amidst the subdued market conditions</p>
 <p><b>Resilience in Soft Market Conditions</b></p> <p>Ensuring the Group is able to continue to sustain its business in difficult environment</p>	<p>Business agility to respond and adapt to the new pace of change and strengthening our competencies to amplify our skillsets to match the specialisation and mindset required to drive the change and ensure alignment</p>
 <p><b>Creating Value through Sustainability</b></p> <p>Delivering financial and societal value to all our stakeholders</p> <p>Business enhancement through digital initiatives</p>	<p>Maintaining a robust business model which embodies our commitment and focus on the sustainable priority areas by balancing the economic, environment and social needs of our stakeholders in delivering long-term value and contributing to the well-being of our community</p> <p>To challenge ourselves to think several years out and to think of a different business model to what we have today with the objective of "Rethink, Redefine and Redesign the Future" of KLCC Group through a digital transformation</p>

## OUR STRATEGY

We seek to pursue growth by leveraging on our ownership of premier assets, developments that have low risk - high potential value and choiced landbanks in strategic locations. KLCCP Stapled Group is also well positioned with its strong fundamentals and inorganic pipeline of assets to drive future earnings growth through the Right of First Refusal (ROFR) from the high quality asset portfolio of KLCC (Holdings) Sdn Bhd, our holding company. This ROFR forms a key part of our future earnings growth strategy.

### Inherent Organic Growth Strategy for REIT-embedded Assets

through portfolio management, asset enhancement, cost-efficiency improvements and optimisation of tenant mix initiatives

### Growth from In-Built Pipeline Strategy for Acquisition of Properties

partially owned by KLCCP into KLCC REIT which further realises benefits to the REIT. The Group continues to pursue low-risk, non-speculative developments and redevelopment opportunities that can be potentially considered for REIT as a growth platform

### Inorganic Growth from Right of First Refusal granted by KLCC (Holdings) Sdn Bhd and Third Party Acquisitions

of strategic real estate assets which will be value accretive and add growth to income distribution for the holders of Stapled Securities

Responsible conduct is an integral part of our business strategy which is reinforced at all levels within the Group. We are committed to operate and grow in a socially responsible way and have aligned our business and processes to adopt strategies that support sustainable development across society.

Delivering on our strategy	Our Focus for 2019
We capitalised on the market opportunities and created value through our asset repositioning strategy, maintaining the synergy of our portfolio of assets and drove enduring demand for our spaces, towards delivering both financial and societal value to all our many stakeholders	<ul style="list-style-type: none"> <li>• Delivery of critical projects – Workplace for Tomorrow, Phase 3 redevelopment of City Point podium</li> <li>• Boosting space utilisation within our office buildings, car park spaces for income growth</li> <li>• Managing vacancy levels at our retail mall and balancing occupancy and ARR at our hotel</li> </ul>
We refined our strategies and worked towards a robust business model to respond to the new pace of change, leveraging our brand relationships to enliven THE PLACE	<ul style="list-style-type: none"> <li>• Redefining spaces at THE PLACE to adapt to the changing customer expectations and creating the experiences they want</li> <li>• Differentiating promotions and marketing of services and products to capture market share and be the go-to brand</li> <li>• Diligence on cost containment across the business to sustain our operating margins and remain resilient against the headwinds in the market</li> </ul>
Thinking long term and improving on sustainable performance, building strong relationships with our stakeholders through high levels of customer and partner satisfaction, investing in our employees to equip them with skillsets to be innovative and to think differently in the new normal environment	<ul style="list-style-type: none"> <li>• Investing in our people, with bespoke training alongside a focus on wellbeing, supported by investment in new expertise, broadening of skills in customer experience and technology</li> <li>• Protect and enhance asset value through environmental stewardship, including energy generation and efficiency and eco-conscious initiatives which will add value to our tenants and community</li> <li>• Building upon our culture of integrity and leadership in governance</li> <li>• Establishing a digital transformation blue print across the organisation to fully embrace Going Digital</li> <li>• Intensifying the cashless initiatives promotion for our car parking management services and retail</li> <li>• Integrating technology within THE PLACE towards a smart, sustainable city</li> </ul>
We focused on leveraging technology in our buildings, amenities and services we offer, realising quick values from “low-hanging fruit” initiatives	

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# VALUE CREATING BUSINESS MODEL

## FINANCIAL

- Total equity attributable to equity holders of Stapled Securities **RM13.1bil**
- Total borrowings **RM2.2bil**

## MANUFACTURED

- Iconic and high quality assets  
 **5**     **2**     **1**
- Property value **RM15.7bil**
- Rental revenue **RM1.1bil**

## NATURE

- **50 acres** of KLCC Park (green lung) with **1,600 species** of trees and palms
- **7,000 solar panels** for electricity generation
- Chilled water supply via District Cooling System - **51,400 Refrigerant Tonne** capacity
- **5 electric vehicle** charging stations

## SOCIAL AND RELATIONSHIP

- High integrity and trust
- Transparent shareholder communication
- Leverage expertise of business partners

## HUMAN

- Employees **1,126**
- High performing people and future driven culture

## INTELLECTUAL

- Deep real estate experience
- Asset management expertise
- Unique market understanding and insights



## THROUGH CLEAR OPERATIONAL ACTIVITIES

The main activities that we undertake towards delivering our strategy

### OWN

Own strategic-located investments comprising a quality portfolio of office, retail and hotel

### DEVELOP AND INVEST

Develop own lands or make strategic investments which improve the overall quality of the portfolio and ensure long-term capital appreciation

### MANAGE

Manage assets and invest the capital necessary to ensure properties are well maintained and operate at optimum efficiency

### CONNECT AND COLLABORATE

Active engagements with key stakeholders in mitigating operational issues and achieving sustainability in value creation

## BUSINESS ACTIVITIES AND PRACTICES

### PREMISED ON OUR COMMITMENT OF SUSTAINABILITY

#### CORPORATE GOVERNANCE

Upholding transparency in our actions and disclosures to ensure the highest standards of governance, business ethics and integrity in our operations

#### ENVIRONMENTAL STEWARDSHIP

Striving for improved environmental practices and operational sustainability

#### SECURITY, SAFETY AND HEALTH

Protecting our assets, operating reliably, effectively and efficiently, across the Health, Safety and Environment (HSE) societal spheres

#### OUR PEOPLE

Nurturing a diverse and talented workforce to drive business growth strategies

#### RELIABLE PARTNER

Strengthening the company's financial position, business competitiveness and spurring socio-economic growth




**CUSTOMER EXPERIENCE**


Provides Malaysia's iconic experience in Kuala Lumpur

Powerful offerings of best hotels, restaurants, retail and entertainment experience

2.0mil visitors annually to PETRONAS Twin Towers and major attractions within KLCC Precinct

 97% tenant satisfaction

 RM2.6bil moving annual turnover - tenant sales  
28 new brands with 9 first-to-market stores in Malaysia

 629 refurbished hotel guest rooms  
92% hotel guest satisfaction


**CATALYST FOR SURROUNDING DEVELOPMENT**

Spurred surrounding commercial and residential development

Created significant value enhancement to surrounding properties

 ↑ ~11mil sq ft since 1998

 ↑ ~6mil sq ft since 1998

 ~20,000 additional surrounding residential units in the last 10 years

**SOCIAL DEVELOPMENT**

Bridge people together - work, shop, place, meet, stay, visit and dine

- RM2.0mil spent on Community Investment
- RM1.4mil spent on Staff Learning and Development

**NATION BUILDING**

Malaysia's landmark and game changer for Kuala Lumpur

- Over 21,000 employees work in our offices
- 15 oil and gas MNCs and Fortune 500 Tenants
- Hosted over 12,000 events to-date, bringing over 12mil delegates and visitors
- RM104.5mil tax paid to Government
- RM668.0mil dividend paid to shareholders

**SUSTAINABLE DEVELOPMENT**

Balance between commercial, public space and natural greenery

- 512,257kWh renewable energy generated
- 5.0% Reduction in GHG Emission
- 6.7% Reduction in Water Use
- Central source for chilled water supply for air-conditioning to whole precinct
- RM1.6mil spent on KLCC Park maintenance

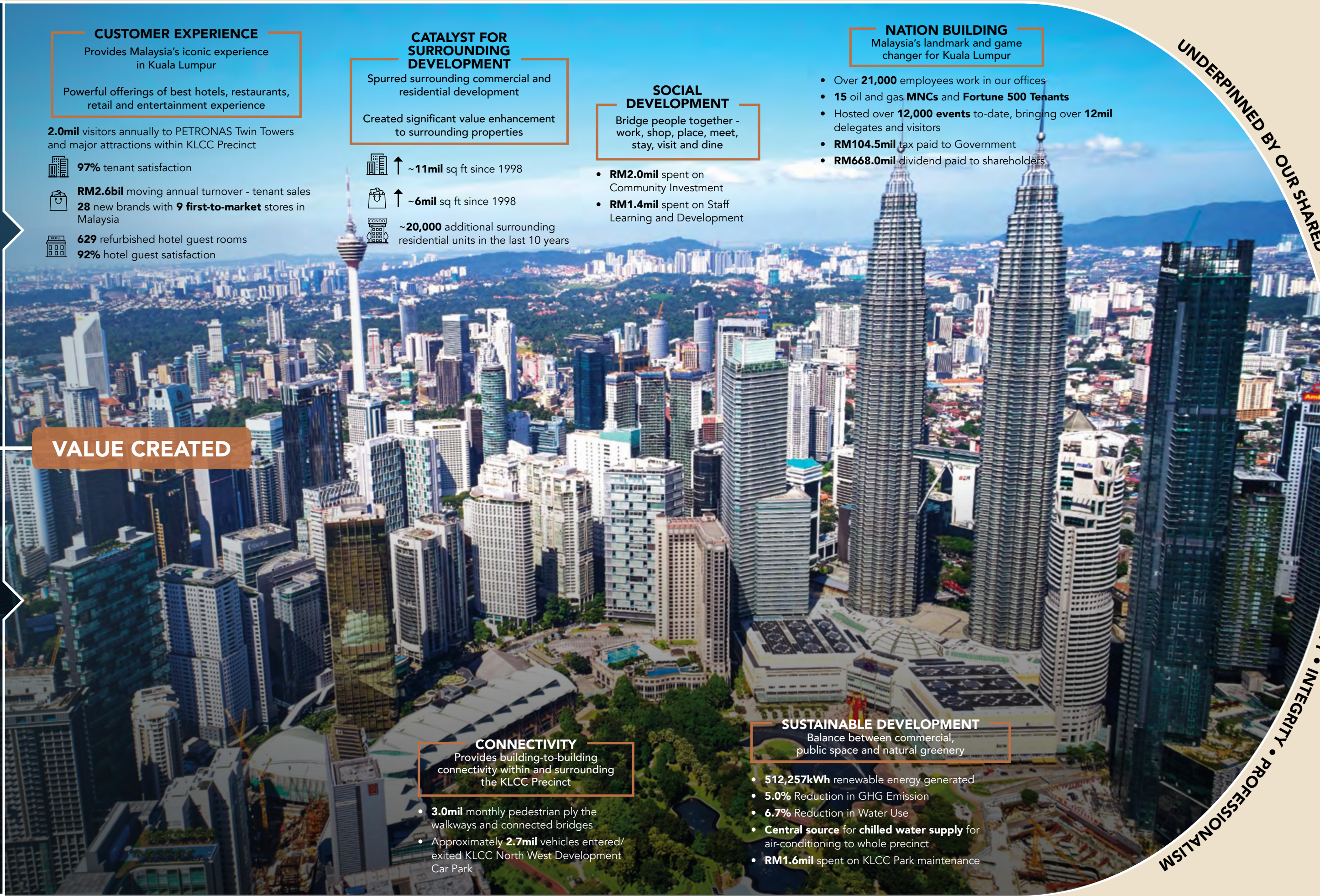
**CONNECTIVITY**

Provides building-to-building connectivity within and surrounding the KLCC Precinct

- 3.0mil monthly pedestrian ply the walkways and connected bridges
- Approximately 2.7mil vehicles entered/exited KLCC North West Development Car Park

**VALUE CREATED**

UNDERPINNED BY OUR SHARED VALUES - INNOVATIVE • COHESIVENESS • LOYALTY • INTEGRITY • PROFESSIONALISM



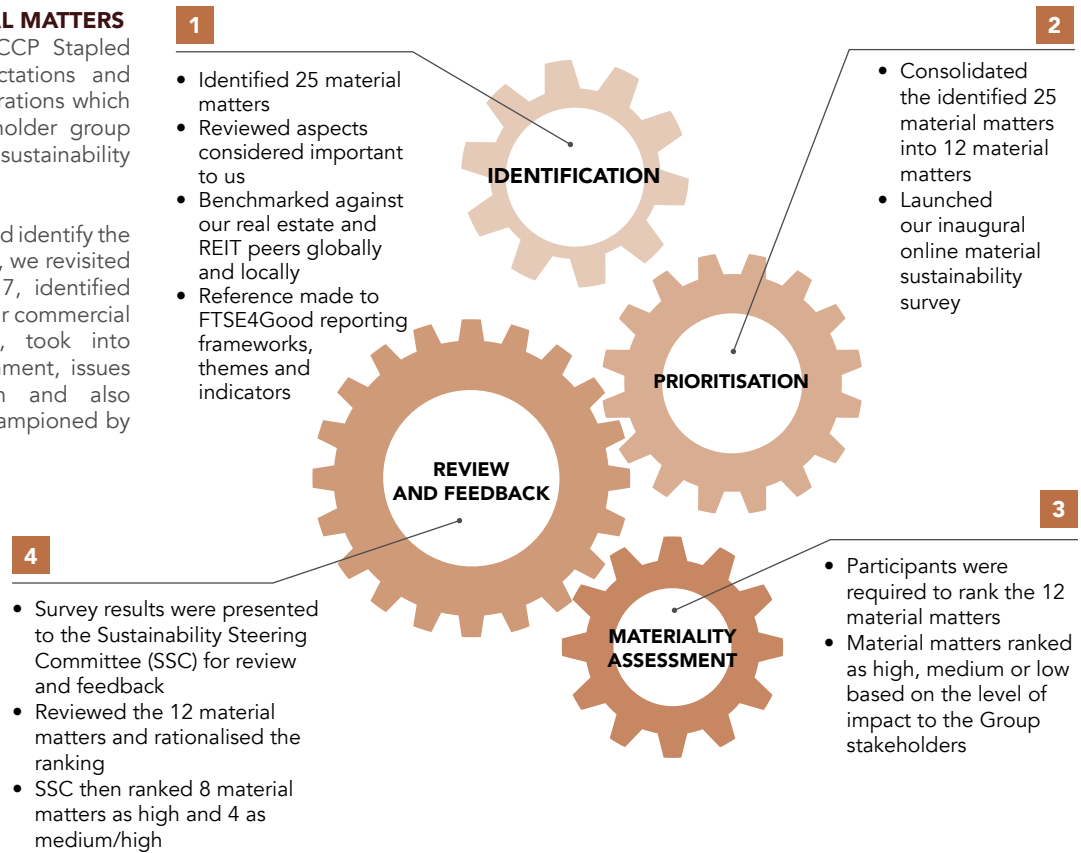






# MATERIAL MATTERS

## MANAGING OUR MATERIAL MATTERS

We seek to understand KLCCP Stapled Group's stakeholders' expectations and the issues regarding our operations which are significant to our stakeholder group and have an impact on our sustainability journey forward.

In our efforts to understand and identify the top material matters for 2018, we revisited our material matters of 2017, identified emerging issues impacting our commercial and operational landscape, took into account the external environment, issues impacting our organisation and also sustainable matters being championed by the country.



MATERIAL MATTERS	2018 HIGHLIGHTS
<b>ECONOMIC</b>	
<b>Financial Sustainability</b> - Sustained Returns and Profitable Growth	 <ul style="list-style-type: none"> <li>• Distributed dividend of 37.00 sen per Stapled Security</li> <li>• Recorded a revenue of RM1.4 billion</li> </ul>
<b>Economic, Social &amp; Industry Growth</b> - Promoting Economic and Industry Growth	 <ul style="list-style-type: none"> <li>• 15 oil and gas MNCs and Fortune 500 tenants</li> <li>• Over 21,000 employees work at our office buildings</li> <li>• Suria KLCC brought onboard 28 new tenants</li> <li>• Approximately 2.7 million vehicles entered/exited the NWD car park</li> </ul>
<b>ENVIRONMENT</b>	
<b>Climate Change</b> - GHG Emission Reduction - Efficient Energy Management - Renewable Energy	 <ul style="list-style-type: none"> <li>• 5% reduction in GHG emission</li> <li>• Savings of RM187,000 from solar energy</li> <li>• Establishment of Energy Committee to address energy efficiency management</li> </ul>
<b>Environmental Management</b> - Water Management - Waste Management - Responsible Material Use - Biodiversity	 <ul style="list-style-type: none"> <li>• 6.7% reduction in water use</li> <li>• 2.6% improvement in waste diversion at MOKL Hotel</li> <li>• 10.8% increase in recycled waste at Suria KLCC</li> <li>• MOKL Hotel introduced bio-digester to manage wet food waste</li> <li>• Promoted responsible procurement by including "Green Product Requirement" in tender documents</li> </ul>

# MATERIAL MATTERS



HIGH



MEDIUM/HIGH\*

MATERIAL MATTERS		2018 HIGHLIGHTS
<b>SOCIAL</b>		
<b>Security, Safety and Health</b> - Safety and Health Management - Security Management		<ul style="list-style-type: none"> <li>Maintained zero fatality</li> <li>Management Leadership Team conducted 17 HSE walkabouts at project sites, plants, buildings and car parks, promoting leadership in driving HSE excellence</li> <li>Included new accident investigation analysis tools i.e. Tripod Beta to analyse if human factors contribute to accidents</li> <li>Achieved a score of 4.11, reflecting a Level 4 HSSE maturity of "Proactive" in the HSSE Maturity Survey</li> <li>KLCC Parking Management implemented the first-ever virtual Parking Management System in Malaysia utilising a private cloud to mitigate cybersecurity risk</li> </ul>
<b>Our People</b> - Skills and Capability Development - Talent Management - Equality, Diversity and Inclusion - Workforce Engagement		<ul style="list-style-type: none"> <li>Invested RM1.4 million on staff learning and development</li> <li>78% of employees underwent training and development</li> <li>Organised a total of 326 training programmes for employees</li> <li>Achieved a succession management ratio of 1 to 2.6</li> <li>Introduced the "HR Careline" to address HR-related matters as part of the HR One-Stop Point initiative</li> </ul>
<b>Human Rights and Labour Practice</b> - Responsible Employment - Non-Discrimination		<ul style="list-style-type: none"> <li>Zero incidents on grievance on discrimination, child/forced labour incidents</li> </ul>
<b>Customer and Tenant Management</b> - Tenant Engagement - Customer Satisfaction		<ul style="list-style-type: none"> <li>MOKL Hotel achieved a 7% increase in guest satisfaction to 92%</li> <li>Suria KLCC installed world-largest rotating LED screen at the mall's centre court to provide a new and exciting shopping experience</li> <li>80% retailers at Suria KLCC providing eWallet payment service via Alipay</li> <li>NWD car park's entry and exit terminals upgraded with integrated credit/debit card readers to elevate its cashless payment initiatives</li> <li>MOKL Hotel completed its master plan refurbishment programme, offering guests 629 renovated rooms with upgraded service standards</li> </ul>
<b>Corporate Social Investment</b> - Societal Well-being		<ul style="list-style-type: none"> <li>RM2 million invested in various community programmes in the areas of education, environment and social welfare</li> </ul>
<b>Supply Chain Management</b> - Local Procurement Management - Responsible Product Sourcing		<ul style="list-style-type: none"> <li>Procurement policies in shortlisting of bidders included screening of suppliers background and registration with regulated bodies</li> <li>Improved Standard Operating Procedures on tender evaluation to incorporate Anti-Bribery Due Diligence</li> <li>MOKL Hotel carried out audit on 32 suppliers in both "High Risk" and "Low Risk" classification</li> </ul>
<b>CORPORATE GOVERNANCE</b>		
<b>Corporate Governance and Business Ethics</b> - Corporate Governance and Compliance - Business Ethics, Integrity and Corruption Management		<ul style="list-style-type: none"> <li>Achieved 37.5% women on Board, surpassing the country's aspirational target of 30%</li> <li>Rolled out the Anti-Bribery and Corruption (ABC) Manual across all employees of the Group</li> </ul>
<b>Risk Management</b> - Risk and Crisis Management		<ul style="list-style-type: none"> <li>Review of Business Continuity Plan (BCP) on Business Impact Analysis (BIA) to identify critical business functions</li> <li>BCP simulation exercise conducted on Strategy, Finance and Investor Relations Division and Information Technology Team</li> </ul>

\* Medium impact to the company but of high interest to the stakeholders



For more information, please refer to our SUSTAINABILITY STATEMENT on page 106-159

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# STAKEHOLDER MANAGEMENT

KLCCP Stapled Group recognises stakeholder management as an important aspect to ensure transparency and accountability. We continue to engage and manage our stakeholders’ needs and expectations, taking into consideration their viewpoints and provide new perspectives in generating positive impact to the organisation.

	SHAREHOLDERS/ INVESTORS/BUSINESS PARTNERS	EMPLOYEES	GOVERNMENT/ LOCAL AUTHORITIES/ REGULATORS
HOW WE ENGAGE	<ul style="list-style-type: none"> <li>• Annual General Meeting</li> <li>• Investors and Analysts Briefings</li> <li>• Results Announcements</li> <li>• Investor Relations Events</li> <li>• Website</li> <li>• Annual Report</li> </ul>	<ul style="list-style-type: none"> <li>• Townhall Sessions</li> <li>• Dialogue and Engagement</li> <li>• Intranet Portal</li> <li>• Employee Satisfaction Survey</li> <li>• Annual Dinner</li> <li>• Recreation and Sports Club Events</li> </ul>	<ul style="list-style-type: none"> <li>• Emails/Letters</li> <li>• Discussion on Government Initiatives</li> <li>• Formal Meetings</li> <li>• Inspections</li> </ul>
AREAS OF INTEREST	<ul style="list-style-type: none"> <li>• Dividends</li> <li>• Sustainable Returns</li> <li>• Long-term Growth and Stability</li> <li>• Board and Governance Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Company's Long-term Growth and Performance</li> <li>• Skills and Capability Development</li> <li>• Employee Benefits</li> <li>• Staff Safety and Well-being</li> </ul>	<ul style="list-style-type: none"> <li>• Contribution to Economic, and Industry Growth</li> <li>• Governance Compliance</li> <li>• Compliance to:                             <ul style="list-style-type: none"> <li>- Construction and Building By-Laws</li> <li>- Malaysian Labour Laws</li> <li>- Environmental Management and Compliance</li> <li>- Security and Safety Management</li> </ul> </li> </ul>
VALUES WE CREATED	<ul style="list-style-type: none"> <li>• Sustainable Returns</li> <li>• Promote Transparent Practices</li> <li>• Long-term Growth and Stability</li> </ul>	<ul style="list-style-type: none"> <li>• Skills and Career Development</li> <li>• Safety and Wellness</li> <li>• Competitive Remuneration</li> </ul>	<ul style="list-style-type: none"> <li>• Certifications and HSE Assurance</li> <li>• Responsible Environmental Management</li> </ul>

## THEIR QUERIES

Financial performance, labour relations at project sites, GHG monitoring methodology, green initiative, sustainability practices •

Employee queries on benefits, digitisation plans, engagement programme •

Customer feedback, smoking policy, customer experience, security and safety •

# STAKEHOLDER MANAGEMENT

Our key stakeholder groups were identified by their significance, impact and potential impact to our business. We engaged with our stakeholders according to their areas of interest and addressed any issues raised appropriately through specific channels of communication.

CUSTOMERS AND CONSUMERS	SUPPLIERS AND SERVICE PROVIDERS	COMMUNITY	MEDIA
<ul style="list-style-type: none"> <li>• Customer Feedback Management - hotline, surveys, email queries</li> <li>• Loyalty Programmes</li> <li>• Events Dialogue and Engagements</li> <li>• Social Media</li> </ul>	<ul style="list-style-type: none"> <li>• Face to Face Meetings</li> <li>• Evaluation/Performance Review</li> <li>• Corporate Presentations</li> <li>• Supplier Training Programmes</li> <li>• Signing Ceremonies</li> </ul>	<ul style="list-style-type: none"> <li>• Community Engagement Activities</li> <li>• Annual Report</li> <li>• Website/Information</li> <li>• Leaflet/Kiosks</li> </ul>	<ul style="list-style-type: none"> <li>• Press Release/Media Invites</li> <li>• Press Conferences</li> <li>• Interviews</li> <li>• Media Engagement</li> </ul>
<ul style="list-style-type: none"> <li>• Customers Satisfaction</li> <li>• Safety and Security</li> <li>• Differentiation of Products and Services, Tailored to Customer Demand and Current Trend</li> <li>• Innovative and Trend Setting Practices</li> </ul>	<ul style="list-style-type: none"> <li>• Fair Practices</li> <li>• Transparent Tender Processes</li> <li>• Company's Compliance with Laws and Regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Social Responsibilities</li> <li>• Health, Safety and Environmental Impact</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Performance, Growth Strategy and Future Plans</li> <li>• Corporate Social Responsibility</li> </ul>
<ul style="list-style-type: none"> <li>• Attractive and Competitive Offerings at Marketplace</li> <li>• Innovative and Trend Setting Products and Services</li> <li>• Customer Loyalty</li> <li>• Safe and Secured Place to Work, Shop, Stay and Play</li> </ul>	<ul style="list-style-type: none"> <li>• Fair Procurement Practices</li> <li>• Business Opportunities</li> <li>• Elevate Marketability</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Social Investment</li> <li>• Safety and Security Assurance</li> <li>• Responsible Environmental Management</li> </ul>	<ul style="list-style-type: none"> <li>• Company Updates</li> <li>• Quarterly Reports</li> </ul>

## OUR RESPONSES

- Analyst briefings and issuance of quarterly reports, Annual General Meeting
- Addressed at Townhall session, published responses in intranet portal
- Responded to complaints, suggestions through letters and emails

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# INVESTOR RELATIONS

The investor relations (IR) landscape has evolved over the years and IR priorities have shifted from mere targeting investors by geography to embracing a more holistic view of shareholder base, to include ESG communication and incorporate the technological advancements from the investment community.

Strategic investor engagements have gained in importance as shareholders are exerting more influence on corporation's behaviour by exercising their rights. Additionally, the investment community is increasingly emphasising on long-term sustainability and value creation of the investee companies, beyond delivering strong financial performance.

IR forms an integral part of KLCCP Stapled Group's corporate governance principles and continues to increase in strategic importance for communications not only with the investment community but also with internal stakeholders such as the board of directors, management and employees.

### COMMITMENT TO IR EXCELLENCE

In 2018, our IR Team emphasised the importance of benchmarking and remained committed to disclosing information in line with best practices. We also upheld our commitment to excellence in service, a pro-active relationship and a strategic and integrated approach to corporate governance through investor relations.

We conducted research analysts outreach wherein we provided clarity to the outlier analysts' projections against consensus and internal projections to better manage expectations. We also shared insights on the value gap between the perceived complexity of the stapled structure and the markets ability to allocate fair value to the KLCCP Stapled Group.

Following the OPR hike in March 2018, the MREITs experienced a significant downtrend in the share prices. We analysed the decline in our share price against our peers and also against the Singapore REITs and the post market correction and provided feedback to our management.

Our focus was also to build a strategic investor targeting plan and as such we analysed our share register to prioritise investor interaction and outreach, based on investment style, peer ownership amongst others. Pursuant to the volatility in the global equity markets, we focused our efforts on reinforcing existing investor support in the Asian markets.



**National Corporate Reporting Awards (NACRA) 2018**

**Industry Excellence Awards for Real Estate Investment Trust (REITs) and Investment Funds category**

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## ENGAGING THE INVESTMENT COMMUNITY

KLCCP Stapled Group recognises the importance of engaging our holders of Stapled Securities and investors and believe, being consistent with our communication with stakeholders builds credibility, trust and in turn leads towards maximum shareholder value.

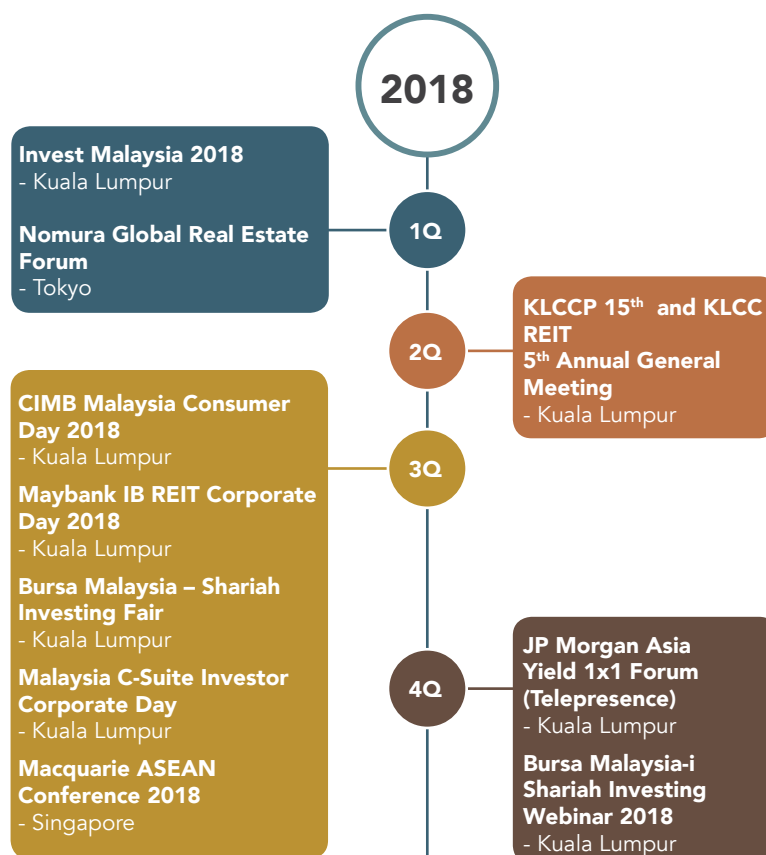


## INVESTOR MEETINGS, CONFERENCES & EVENTS

Throughout 2018, KLCCP Stapled Group engaged with 127 institutional investors, analysts, and fund managers in Malaysia and globally through one-on-one meetings, conference calls, analysts' briefing, and visits to the Group properties as well as at capital market conferences.

As the largest Malaysian REIT, KLCCP Stapled Group fully supports events and initiatives organised by Bursa Malaysia which promotes Malaysia as an attractive marketplace. Participation in the Invest Malaysia conferences has always been a major part of our programme. In 2018, we participated in Invest Malaysia Kuala Lumpur, with a series of one-on-one and group meetings with local and overseas investors. KLCCP Stapled Group also participated in several other investor conferences in Kuala Lumpur, Singapore, and Tokyo.

In addition to outreach programmes targeted at institutional investors, we also intensified our communication with retail investors in collaboration with Bursa Malaysia and the Malaysian REIT Managers Association (MRMA). This year the IR Team participated in the Bursa Malaysia's Shariah Investing Fair 2018 via a large track presentation and the Bursa Malaysia-i Shariah Investing Webinar 2018 Series, sharing insights on Shariah compliant investment to the retail investors.





# INVESTOR RELATIONS

## QUARTERLY ANALYST BRIEFINGS

The quarterly financial results provide the capital markets with up-to-date information and analysis of KLCCP Stapled Group’s financial and business performance. In conjunction with the release of the quarterly financial announcements to Bursa Malaysia, we host a face-to-face analyst briefing semi-annually, for our half-year and full-year results announcement, chaired by our Chief Financial Officer (CFO), in the presence of the Chief Executive Officer (CEO), Head of Legal & Corporate Services as well as the IR Team. These briefings are accessible to both our sell-side and buy-side analysts, facilitating management discussion and analysis of the results, as well as questions and answers to clarify queries from the briefing participants.

Presentation materials for the briefings are made available on the KLCCP Stapled Group website on the day of the analyst briefing.

## ANNUAL GENERAL MEETING

The Annual General Meeting is the principal platform for dialogue with the holders of Stapled Securities. The holders of Stapled Securities are encouraged to participate in the proceedings and at the question and answer sessions, followed by the electronic poll-voting on all resolutions.

The 15<sup>th</sup> AGM of KLCCP and 5<sup>th</sup> AGM of KLCC REIT were held concurrently on 12 April 2018 in Kuala Lumpur, Malaysia. All the Directors including Chairman of the Board Committees, CEO, CFO and External Auditors were in attendance to engage directly with the holders of Stapled Securities.

Tan Sri Sidek Hassan, Chairman of the Board, chaired the overall proceedings. Datuk Hashim Wahir, our CEO, presented to the holders of Stapled Securities on the Group’s business and financial highlights for 2017, market outlook and strategic direction moving forward.

The Chairman also shared the Group’s responses to questions submitted in advance by the Minority Shareholder Watchdog Group, with the holders of Stapled Securities. During the “Question and Answer” session of the AGM, our holders of Stapled Securities were invited to post their questions and provide their feedback to the Board. Post conclusion of the AGM, KLCCP Stapled Group held a press conference with the media.

All proposed resolutions were duly passed and minutes of the AGM made available on our website.

## PROPERTY TOUR

This year, our analysts were taken for a tour of our newly refurbished MOKL Hotel. The General Manager of MOKL Hotel was on hand to conduct an insightful presentation of the hotels’ offerings, services and competitive advantage. The analysts also got to experience the newly refurbished Royal and Presidential Suite, Club & Park Suites, Deluxe rooms, Club Lounge as well as the restaurants and the lounge. The analyst also had the opportunity to engage in open interaction with the senior management under a less formal setting.

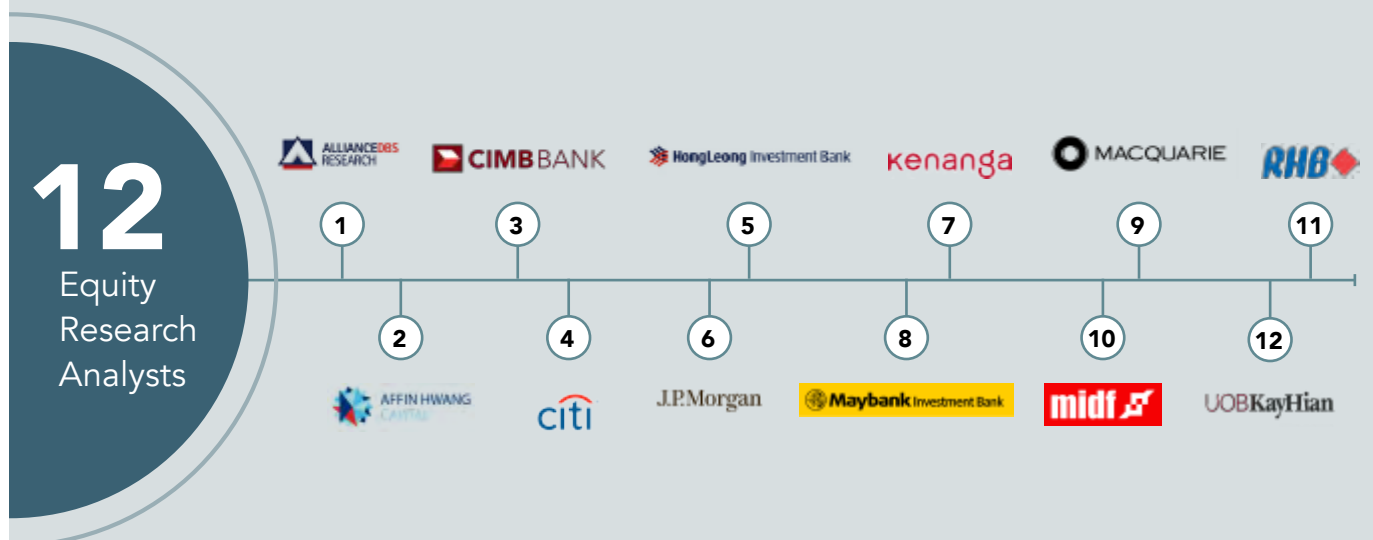
## CORPORATE WEBSITE

Our investor relations website ([www.klcc.com.my/investorrelations/](http://www.klcc.com.my/investorrelations/)) is the go-to resource for the investing community for quality and timely information. Apart from the announcements to Bursa Malaysia, it contains Group news, investor presentations, financial information, annual reports, minutes of AGM, upcoming events, and stock information.

To keep up with current trends, we are currently working towards a revamp of our corporate website, with a brand new look and feel which the investing community can look forward to in 2019.

## ANALYSTS’ COVERAGE

KLCCP Stapled Group is presently covered by 12 analysts, both from local and foreign research houses.



We nurture and maintain strong links with these sell-side analysts who issue regular reports. We monitor analysts’ industry and media reports closely as part of our efforts to continuously improve disclosures and IR practices.

# INVESTOR RELATIONS

## ESG COMMUNICATION

ESG has increasingly become part of IR professionals' vernacular as more investors are using ESG screens in their decision making process. At KLCCP Stapled Group, we started incorporating our ESG communication in our IR presentations and briefing decks more than 2 years ago. Since then, we have seen an increase in ESG queries, mainly in respect to our financial sustainability, how sustainability-related issues help manage risks and enhance long-term returns, amongst others.

Our IR Team continues to be the primary point of contact and helps the Group rise to the challenge in future-proofing itself against the wider economy and operating landscape changes.

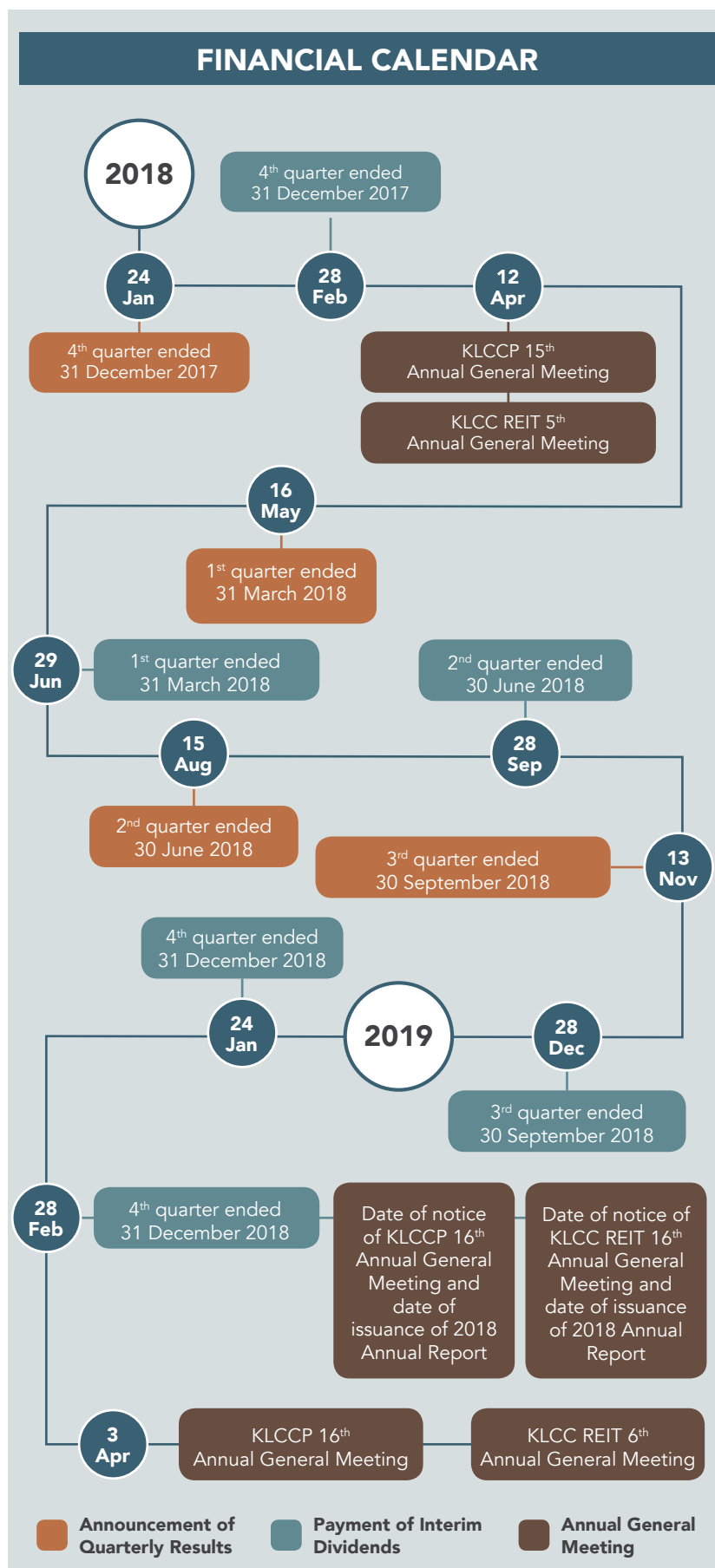
## LOOKING AHEAD

In today's technology-driven era, the investor relations function continues to grow in strategic importance. Our dedicated IR Team is very committed in ensuring all capital market players have easy access to clear, reliable and meaningful information of our Group to make informed investment decisions.

In 2018, KLCCSS was excluded from the FTSE Bursa Malaysia Index (FBM KLCI) following the semi-annual review of the FBM Index Series in December 2018. This was mainly attributable to the liquidity screen test where our median trading volume fell below the stipulated threshold. Nevertheless, our strong fundamentals have remained intact and the Group is geared towards working to get back on the index.

In order to stay relevant and ensuring stability and flexibility within the investment community, it is essential for the IR Team to embrace the digital shifts. It is for this reason, the IR Team is equipping themselves with more digital distribution channels moving forward to engage with the investing community. The new revamped corporate website will also help improve the digital connectivity for the Group.

We welcome feedback on our Investor Relations initiatives and other information we have provided. Queries about and requests for publicly available information, comments and suggestions to the Group can be directed to [investor.relations@klcc.com.my](mailto:investor.relations@klcc.com.my). We look forward to continued and effective engagements with our holders of Stapled Securities and investing community.



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# KEY PERFORMANCE INDICATORS

## MONITORING OUR PERFORMANCE

We monitor our performance via Key Performance Indicators (KPIs) in delivering value for our stakeholders. The KPIs comprise financial and non-financial measures, each linked to our strategic priorities.

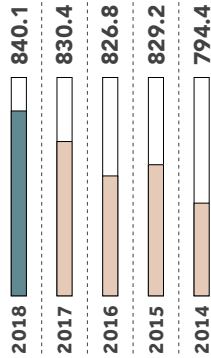


### WHY IS THIS IMPORTANT?

### HOW IS THIS MEASURED?

### OUR PROGRESS IN 2018

### PROFIT FOR THE YEAR\* (RM'mil)

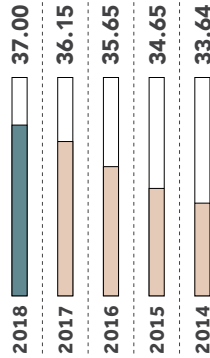


Profit for the year is a primary measure of financial results and the organisation's sustainable business growth performance

Based on the audited financial statements of KLCCP Stapled Group

The Group showed a growth of 1.2% year-on-year underpinned by its strong fundamentals, long-term locked-in tenancy structure with quality tenants and premium property location

### DISTRIBUTION PER STAPLED SECURITY (sen)

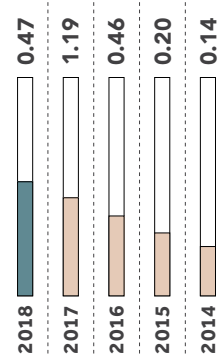


It is a direct measure of the organisation's total amount of profits paid out to the holders of Stapled Securities, which translates to income for them

Based on the pay-out ratio applied to the realised distributable income of KLCCP Stapled Group

The Group showed a growth of 2.4%, testament to our commitment in delivering value and growth to our holders of Stapled Securities

### HSE – ZERO FATALITY & GROUP LTIF



Safeguarding people, the environment, and communities residing in close proximity to our operational vicinity is our top priority. Solidifies our HSE leadership across all levels

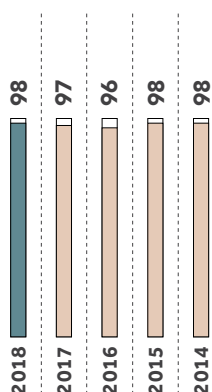
Number of Loss Time Injury (LTI) recorded against the total cumulative hours worked by the Group

The Group maintained an impressive zero fatality rate, with improvement of 60.5% Loss Time Injury Frequency (LTIF) reflecting 5 LTI incidents for the year

\* Excluding fair value adjustment

## KEY PERFORMANCE INDICATORS

### RETAIL OCCUPANCY (%)

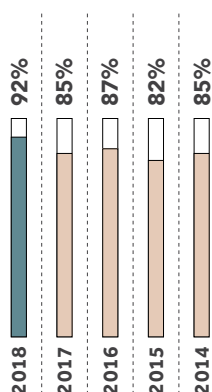


It ensures we generate rental income and enliven our retail destination and enhances the appeal and trading environment

Based on the floor space which is currently leased

The 98% occupancy met our target for 2018. This is higher than the prior year as majority of the tenant remixing was completed during the year. It also exceeds the average retail occupancy of 87% in Kuala Lumpur City Centre

### HOTEL GUEST SATISFACTION (%)

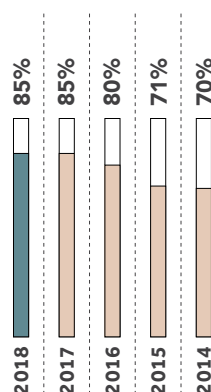


Customer reviews are not only valuable in the way which guests select hotels based on the quality of the review, but they also provide useful feedback for hotels to effect improvements

Using the LRA email surveys to hotel guests. LRA is a leading global provider of brand protection and customer experience measurement services with extensive experience in the hospitality industry

Increased 7% to 92% from last year, mainly due to the completion of the guestroom renovation with fresh new accommodation to guests and launch of 'Fans of MO', Mandarin Oriental's global guest recognition system

### EMPLOYEE SATISFACTION (%)

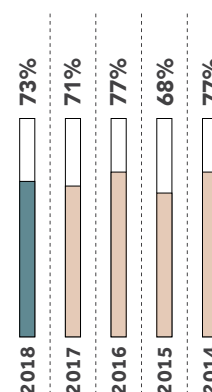


Measures the satisfaction of employees in respect to the organisation's policies, culture and values, management behaviour and trust in the organisation, towards sustaining a healthy organisation climate

An employee feedback questionnaire survey is sent out annually, to all employees of the Group, via an independent survey platform

Achieved 85% employee satisfaction score well above the property industry and development benchmark of 63%

### CUSTOMER SATISFACTION (%)



Managing reputational risk as the satisfaction of our tenants, customers, reflect our efforts in creating destinations which meet evolving customer expectations and provide experiences

A customer satisfaction survey is sent out annually to all tenants of our buildings, users of our car parking management and facility management services, via an independent survey platform

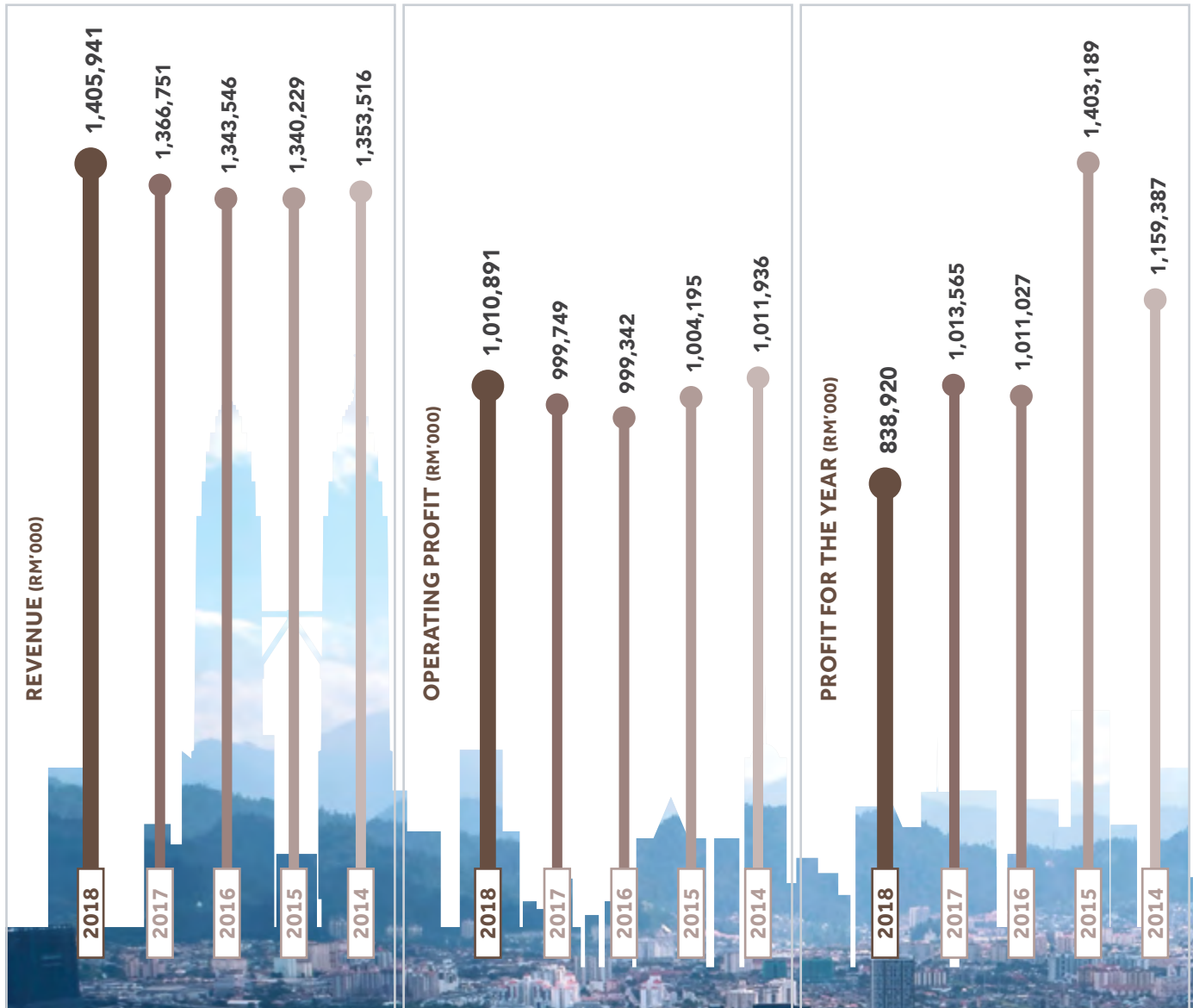
Improved customer satisfaction score to 73% compared to 71% a year ago



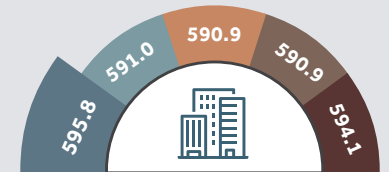
For more information, please refer to OUR STRATEGY on page 52.



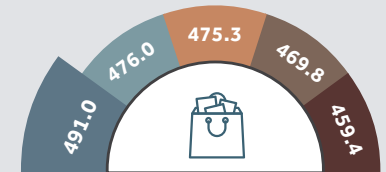
# KLCCP STAPLED GROUP 5-YEAR FINANCIAL HIGHLIGHTS



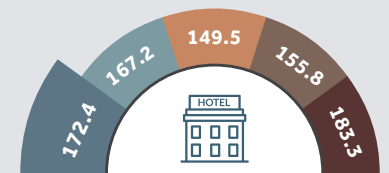
## SEGMENTAL REVENUE (RM'mil)



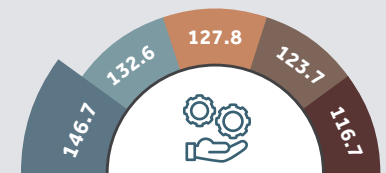
OFFICE



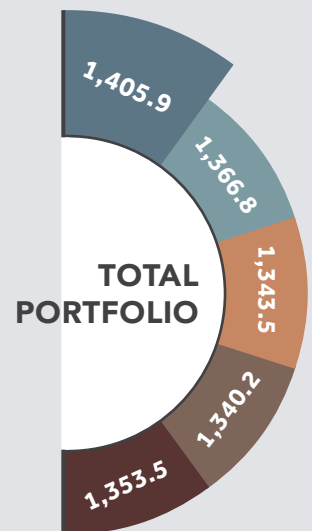
RETAIL



HOTEL

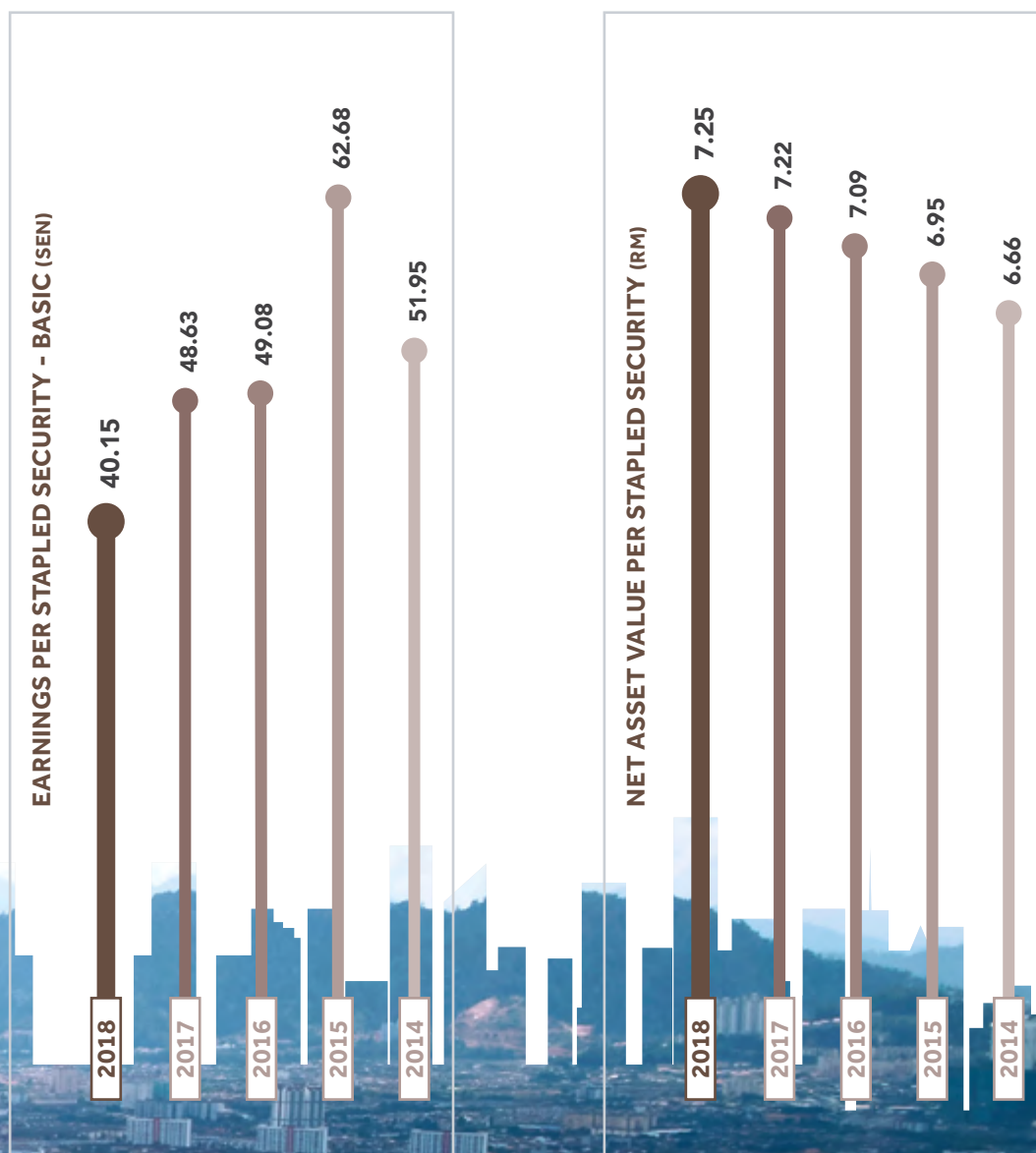


MANAGEMENT  
SERVICES

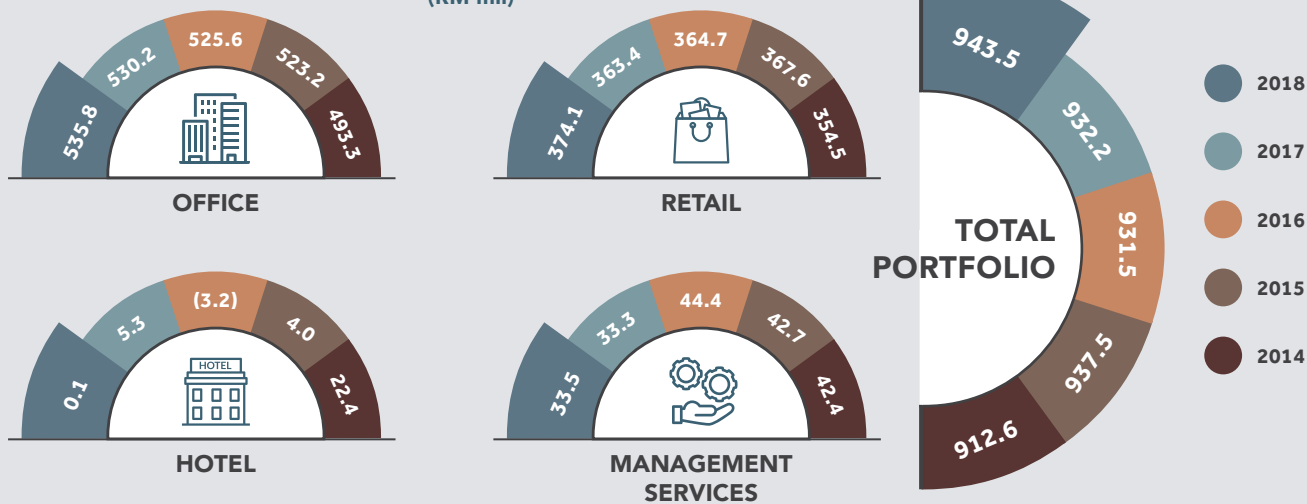


TOTAL  
PORTFOLIO

# KLCCP STAPLED GROUP 5-YEAR FINANCIAL HIGHLIGHTS



## SEGMENTAL PROFIT BEFORE TAX (PBT)<sup>1</sup> (RM'mil)



<sup>1</sup> Excluding fair value adjustment

SEC 01

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SEC 04

SEC 05

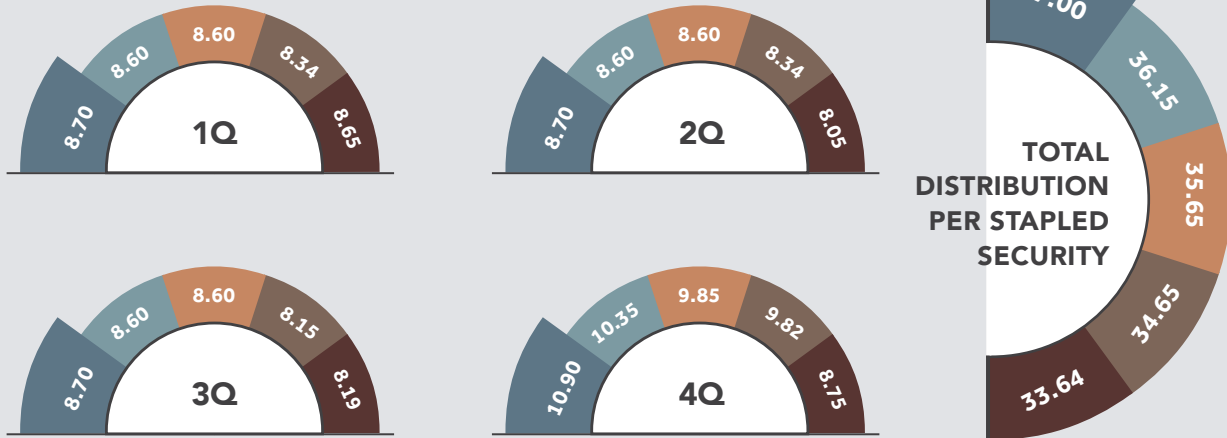
SEC 06

SEC 07

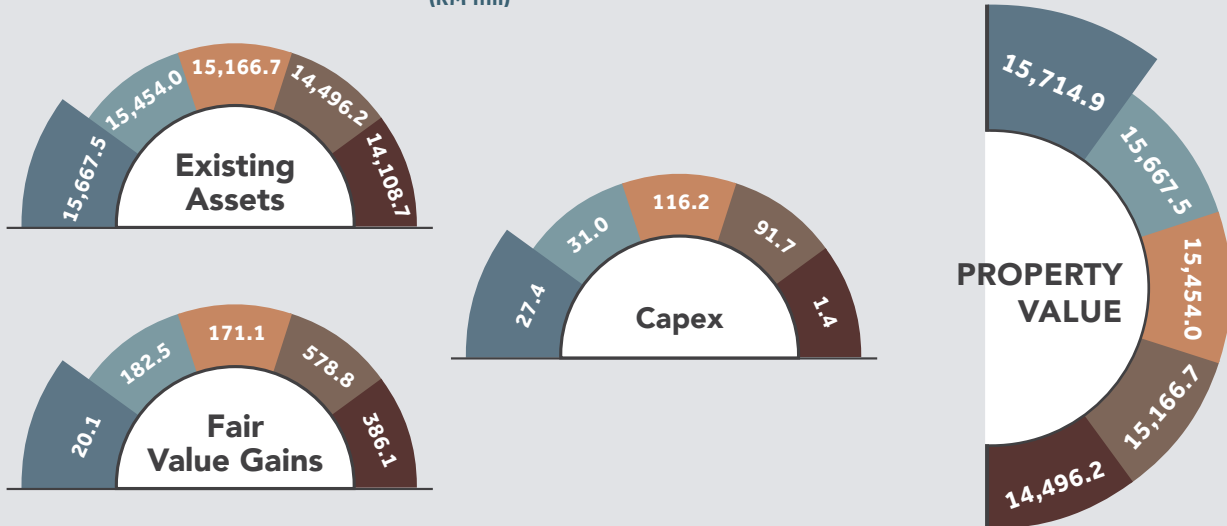


# KLCCP STAPLED GROUP 5-YEAR FINANCIAL HIGHLIGHTS

**DISTRIBUTION PER STAPLED SECURITY  
(SEN)**



**PROPERTY VALUE  
(RM'mil)**



# 5-YEAR FINANCIAL SUMMARY

	2018 RM'mil	2017 RM'mil	2016 RM'mil	2015 RM'mil	2014 RM'mil
<b>Key Operating Results</b>					
Revenue	<b>1,405.9</b>	1,366.8	1,343.5	1,340.2	1,353.5
Operating Profit	<b>1,010.9</b>	999.8	999.3	1,004.2	1,011.9
Profit before Tax (PBT)	<b>964.1</b>	1,115.3	1,102.7	1,518.4	1,280.5
Profit for the Year	<b>838.9</b>	1,013.6	1,011.0	1,403.2	1,159.4
<b>Key Statement of Financial Position</b>					
Investment Properties	<b>15,714.9</b>	15,667.5	15,454.0	15,166.7	14,496.2
Total Assets	<b>17,860.3</b>	17,792.6	17,782.1	17,537.1	16,803.8
Total Borrowings	<b>2,244.7</b>	2,251.1	2,552.4	2,560.6	2,511.5
Total Liabilities	<b>2,735.2</b>	2,745.7	3,004.1	3,026.0	2,955.8
Total Equity Attributable to Equity Holders of Stapled Securities	<b>13,095.3</b>	13,028.5	12,794.2	12,551.3	12,026.0
<b>Stapled Securities Information</b>					
Earnings per Stapled Security - Basic (sen)	<b>40.15</b>	48.63	49.08	62.68	51.95
Net Asset Value per Stapled Security (RM)	<b>7.25</b>	7.22	7.09	6.95	6.66
Distribution per Stapled Security (sen)	<b>37.00</b>	36.15	35.65	34.65	33.64
Stapled Securities Closing Price as at 31 December (RM)	<b>7.66</b>	8.64	8.30	7.06	6.71
Number of Stapled Securities ('mil)	<b>1,805.3</b>	1,805.3	1,805.3	1,805.3	1,805.3
Market Capitalisation (RM'mil)	<b>13,828.9</b>	15,598.1	14,984.3	12,745.7	12,113.8
<b>Financial Ratios</b>					
PBT Margin	<b>69%</b>	82%	82%	113%	95%
Dividend Payout-Ratio	<b>96%</b>	97%	95%	98%	95%
Gearing (times)	<b>0.17</b>	0.17	0.20	0.20	0.21

SEC 01

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# KLCCP STAPLED GROUP VALUE ADDED STATEMENT

	2018 RM'000	2017 RM'000
Total turnover	1,405,941	1,366,751
Interest income	27,574	30,597
Operating expenses	(246,428)	(229,824)
Value added by the KLCCP Stapled Group	1,187,087	1,167,524
Share of profits of an associate	13,288	13,465
Fair value adjustments of investment properties	20,050	182,483
	<b>1,220,425</b>	<b>1,363,472</b>
<b>Reconciliation</b>		
Profit attributable to holders of Stapled Securities	724,914	877,900
Add:		
Depreciation and amortisation	38,073	33,152
Finance costs	107,710	110,963
Staff costs	110,549	104,026
Taxation	125,173	101,766
Other non-controlling interests	114,006	135,665
	<b>1,220,425</b>	<b>1,363,472</b>
<b>Value distributed</b>		
<b>Employees</b>		
Salaries and other staff costs	110,549	104,026
<b>Government</b>		
Corporate taxation	104,463	104,002
<b>Providers of capital</b>		
Dividends	658,044	643,601
Finance costs	107,710	110,963
Other non-controlling interests	114,006	135,665
<b>Reinvestment and growth</b>		
Depreciation and amortisation	38,073	33,152
Capital reserve*	7,906	75,309
Income retained by the Group	79,674	156,754
	<b>1,220,425</b>	<b>1,363,472</b>

\* Capital reserve represents the fair valuation gain on properties which is only distributable upon disposal of investment property



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# FINANCIAL REVIEW



## Key Highlights

- Stable performance with top-line growth of 2.9% and increase in PBT (excluding fair value adjustment) of RM11.3 million, underpinned by the stability of the office segment and resilience of the retail segment
- Suria KLCC stayed true to form of a landmark mall with a 4.0% revenue growth and PBT growth from higher rents becoming effective during the year and higher occupancy
- Steady growth in revenue of hotel segment from newly renovated guestrooms setting pace gain, though PBT impacted by higher operating costs
- Strong top-line growth of 10.6% in the management services segment with new contracts under facilities management fuelling growth

For the financial year ended 31 December 2018, KLCCP Stapled Group's revenue increased by RM39.1 million or 2.9% compared to 2017 driven by improved performance in all business segments, supported by the strong fundamentals of the Group. Consequently, the profit attributable to equity holders (excluding fair value adjustment) increased by RM6.3 million to close at RM726.7 million.

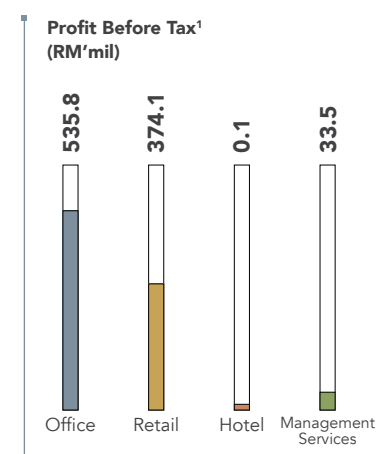
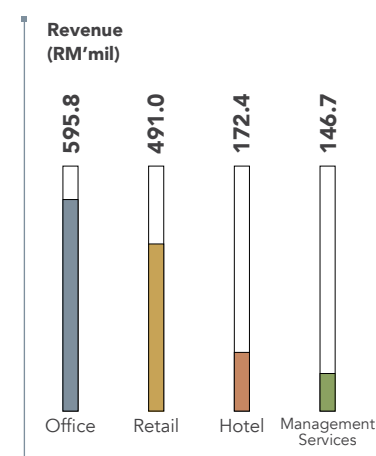
	2018 RM'mil	2017 RM'mil	Growth %
Revenue	<b>1,405.9</b>	1,366.8	2.9
Operating profit	<b>1,010.9</b>	999.8	1.1
Profit before tax*	<b>943.5</b>	932.2	1.2
Profit for the year*	<b>840.1</b>	830.4	1.2
Profit attributable to equity holders*	<b>726.7</b>	720.4	0.9
Operating profit margin	<b>72%</b>	73%	(1.0)
Profit before tax margin*	<b>67%</b>	68%	(1.0)
Earnings per Stapled Security* (sen)	<b>40.25</b>	39.91	0.9
Distribution per Stapled Security (sen)	<b>37.00</b>	36.15	2.4

\* Excluding fair value adjustment

## Revenue

The increase in revenue by RM39.1 million is contributed by all segments of the business, led by the retail and management services segments. The retail segment achieved an increase of RM15.0 million by strengthening and elevating its position in a challenging retail market from higher rents becoming effective during the year and higher occupancy. The increase in the management services segment is mainly contributed by facilities management services from the Workplace for Tomorrow project and one-off projects in Terengganu for PETRONAS.

The steady growth in the office segment was mainly due to the full year rental impact from Menara ExxonMobil, stemming from the full occupancy following the two-month vacancy in 2017 upon the return of 40% space at the lease expiry. The hotel segment showed improvement in revenue reflecting the full complement of rooms available with the completion of the MOKL Hotel master plan refurbishment.



<sup>1</sup> Excluding fair value adjustment

FINANCIAL  
REVIEW**Operating Profit**

Operating profit recorded an increase of RM11.1 million to RM1,010.9 million, though this was impacted by the higher operations and maintenance cost incurred for the additional one-off works by the management services segment and higher operating expenses arising from higher depreciation from the fully renovated hotel guestrooms back in inventory.

**Profit before Tax (PBT)**

PBT grew 1.2% from the previous year, in line with the increase in operating profit coupled with the net interest cost savings achieved during the year from the repayment of RM200.0 million of the RM3.0 billion Sukuk Murabahah Programme in 2017.

**Profit for the Year**

The effective tax rate for KLCCP Stapled Group was approximately 11% with KLCC REIT distributing more than 90% of its distributable income and was thus exempted from tax. The capital expenditure in respect to the hotel building also provided additional investment tax allowance for the deduction against taxable income.

**Distribution per Stapled Security**

We reported a profit attributable to equity holders of RM726.7 million, representing a RM6.3 million growth from 2017. Testament to our commitment in delivering value and growth, we distributed a distribution per Stapled Security of 37.00 sen, an increase of 2.4% from 2017. This translates to a full year dividend payment of RM668.0 million to the holders of Stapled Securities.

**FINANCIAL POSITION REVIEW**

	2018 RM'mil	2017 RM'mil	Variance %
<b>ASSETS</b>			
Investment Properties	15,714.9	15,667.5	0.3
Property, plant and equipment	673.6	667.2	1.0
Receivables	481.9	451.0	6.9
Cash and Bank Balances	735.7	750.3	(1.9)
Others	254.2	256.6	(0.9)
	<b>17,860.3</b>	<b>17,792.6</b>	<b>0.4</b>
<b>LIABILITIES</b>			
Payables	370.5	402.3	(7.9)
Borrowings	2,244.7	2,251.1	(0.3)
Others	120.0	92.3	30.0
	<b>2,735.2</b>	<b>2,745.7</b>	<b>(0.4)</b>
<b>Total Equity attributable to equity holders of KLCCP and KLCC REIT</b>	<b>13,095.3</b>	13,028.5	0.5
<b>Net Asset Value per Stapled Security (NAV)</b>	<b>7.25</b>	7.22	0.4

KLCCP Stapled Group's balance sheet maintained its healthy position providing a conducive business environment for future development and long term stability. Our total assets grew marginally from RM17.8 billion to RM17.9 billion, inclusive of the appreciation in fair value of the investment properties. This translated to an increased net asset value per Stapled Security of RM7.25 from RM7.22 in the preceding financial year. Correspondingly, total equity attributable to equity holders continued to strengthen to RM13.1 billion.



## FINANCIAL REVIEW

### Investment Properties

The investment properties in KLCCP Stapled Group are represented by its primary assets in KLCC REIT namely; PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Exxonmobil, along with KLCCP's assets, Menara Dayabumi, the undeveloped City Point podium land, Suria KLCC and the vacant land of Lot D1.

Valuation of these properties as at 31 December 2018 recorded an increase in market value of RM73.3 million as compared to the previous year. In line with the accounting treatment under MFRS 140 Investment Property, adjustment of the accrued operating lease income and additions are required to be made to avoid double counting of assets, hence RM20.1 million out of the RM73.3 million was recognised as fair value adjustment.

Property	Market Value		Carrying Value	
	31 Dec 2018 RM'mil	31 Dec 2017 RM'mil	31 Dec 2018 RM'mil	31 Dec 2017 RM'mil
KLCC REIT assets	<b>9,598.9</b>	9,555.7	<b>9,190.8</b>	9,176.1
Suria KLCC	<b>5,455.0</b>	5,430.0	<b>5,444.2</b>	5,424.1
Dayabumi	<b>580.0</b>	579.4	<b>578.3</b>	576.1
Lot D1	<b>288.0</b>	283.5	<b>288.0</b>	283.5
<b>Total</b>	<b>15,921.9</b>	<b>15,848.6</b>	<b>15,501.3</b>	<b>15,459.8</b>

### Fair Value Adjustment

The fair value adjustment is mainly contributed by PETRONAS Twin Towers as it reflects the renewal in rental rates in its third term of the 15-year triple net lease tenancy.

### Property, Plant and Equipment

Property, plant and equipment for the Group comprise mainly of the cost of MOKL Hotel's building and its increase is in line with the refurbishment works completed for the hotel.

### Receivables

The Group's receivables consists primarily of accrued rental income (87.5%) and trade receivables (1.9%). The accrued rental income arises from the straight lining effects of recognition of the step-up rates in the triple net lease arrangements by which all future revenue of the tenancy locked-in period is accounted for in constant amounts across the entire lease period.

### Cash and Bank Balances

A healthy cash and bank balance of RM735.7 million as at 31 December 2018 is reflective of our prudent cash management to service loans, operating expenses, capital commitments as well as the Group's commitment to distribute more than 90% of its distributable income. The small decrease compared to last year was mainly due to timing differences in receipts from customers and payments to suppliers.

### Payables

Payables for the year showed a decrease of 7.9% mainly arising from prompt payment to suppliers.



FINANCIAL  
REVIEW

## CASH FLOW REVIEW

	2018 RM'mil	2017 RM'mil
Operating activities	915.2	954.1
Investing activities	(59.7)	(68.0)
Financing activities	(862.1)	(1,161.2)
Change in cash and cash equivalent	(6.6)	(275.1)
Cash with PETRONAS IFSSC	439.4	430.2
Deposits with licensed banks	286.4	303.8
Cash and bank balances	9.9	16.2
<b>Cash and cash equivalents</b>	<b>735.7</b>	<b>750.2</b>

**Operating Activities**

The net cash generated from operating activities stood at RM915.2 million as at 31 December 2018, a 4.1% decrease year-on-year mainly attributable to timing differences in payments to suppliers and receipts from customers.

**Investing Activities**

The Group utilised RM59.7 million for investing activities during the year compared to RM68.0 million in 2017. The investing activities are primarily related to KLCCP Stapled Group's enhancement initiatives and capital expenditure at MOKL Hotel, Suria KLCC and for the redevelopment of City Point podium.

**Financing Activities**

KLCCP Stapled Group reported a cash outflow of RM862.1 million taking the form of payment of dividends, interest expense and repayment of MOKL Hotel term loan made during the year.

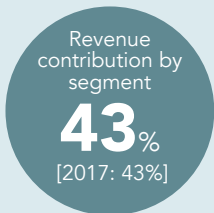
Despite an overall drop in cash and cash equivalents as at 31 December 2018, the cash levels are maintained at a positive level of RM735.7 million. The available cash is managed with prudence through placement in fixed deposits or with PETRONAS Integrated Financial Services Centre (IFSSC) whereby the balance are interest bearing.



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## OFFICE

**With full occupancy at our office buildings, our office portfolio is on very strong footing, given the long-term leases we have with our high quality tenants**



KLCCP Stapled Group’s performance was largely driven by the stability of our core assets in the office segment, reinforced by the solid full occupancy and long-term leases which generated recurring income and cashflow.

With premium Grade-A offices, our office portfolio comprises PETRONAS Twin Towers, Menara Exxonmobil and Menara 3 PETRONAS which are strategically located within the Kuala Lumpur City Centre and Menara Dayabumi which stands tall within the former Central Business District of Kuala Lumpur. The Group also has a 33% stake in the office tower of Menara Maxis. These strong cash generating assets which carry a combined value of RM10.0 billion provide a steady cash flow return to the holders of Stapled Securities.

As at 31 December 2018, our office portfolio with an NLA of 5.6 million sq ft continue to drive strength and stability with top quartile rental profiles. The long-term locked-in tenancy structure with quality tenants cements the stability of the revenue stream for this segment.

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With changing market dynamics and growing demand for flexible working solutions, the office market also experienced the emergence of co-working spaces as a trend during the year, with expansion of established operators and entrance of new players revolutionising the office market in Malaysia. The advent of co-working spaces is expected to further impact office demand and bring about a whole new challenge for the established commercial locations and its form of design in the coming future as people want spaces where they can collaborate with other parties and get the services they need under one roof.

With full occupancy at our office buildings, our office portfolio is on very strong footing, given the long-term leases we have with our existing high quality tenants. The triple net lease arrangement particularly for PETRONAS Twin Towers, Menara 3 PETRONAS and

Menara Dayabumi wherein the tenant bears all the property outgoings, shields us from the soft market conditions, with minimal impact to earnings. Nevertheless, we remained vigilant and steadfast in our efforts to retain quality tenants by ensuring that their needs and requirements are always met, reflecting our tenant satisfaction of 97%, which ultimately bodes well for longer term tenancy prospects.

### Strategy and Initiatives for the Year

Our strategy was underpinned by our aim in creating the best office experience for our tenants and in our continued pursuit of attracting the best companies and employees. Our leasing team also continued to step-up its efforts with pro-active lease management, reinforcing long-term defensiveness and tenancies in seeking quality anchor tenants for the new development whilst also re-defining unique and compelling value of properties beyond existing demand.

**THESE STRONG CASH GENERATING ASSETS WHICH CARRY A COMBINED VALUE OF RM10.0 BILLION PROVIDE A STEADY CASH FLOW RETURN TO THE HOLDERS OF STAPLED SECURITIES**

### Industry Landscape and Operating Challenges

During the year, the office market in Kuala Lumpur which was a very much tenant-led market, continued to face oversupply challenges which caused occupancy and rental rates to come under pressure. New completions continued to outweigh absorptions causing disequilibrium between demand and supply, with lack of near-term catalysts to boost take-up. Flight to quality also impacted the office market particularly the older and lower grade buildings.

<h1>1</h1> <p><b>Revolutionising Workplace for Tomorrow</b></p> <p>Transformation of office spaces at all our buildings - collaborative workspace which cater to personalised needs, promote productivity and building efficiency</p>	<h1>2</h1> <p><b>Going Green</b></p> <p>Supporting tenant GBI initiatives for long-term asset operational efficiency towards a greener environment</p>	<h1>3</h1> <p><b>Rejuvenation of Kompleks Dayabumi</b></p> <p>Bodes well with the development of River of Life (RoL) project, bringing stronger impact to the heritage trail</p>
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## OPERATIONS REVIEW

### **Revolutionising Workplace for Tomorrow**

Given the unfolding new demands for more efficient office space, we worked closely with our tenant, PETRONAS in creating a "Workplace for Tomorrow" (WFT) at our office buildings with the aim of converting conventional workplaces to one which help caters to personalised needs and promotes productivity. This entailed the transformation of office space with more open areas for employees, encouraging collaborative interaction, simplifying how employees access and use office space. This is also towards cost saving for the employers and building owners by enabling them to right-size their office space and operate more efficiently. This transformation saw 52% completion in 2018 with successful completion of 56 floors in 3 batches for PETRONAS Towers 1 and 2 and Menara 3 PETRONAS during the year. The WFT transformation in all our office buildings within the portfolio is expected to see full completion by 2019.

### **Going Green**

In our call towards a sustainable development, we continued our efforts to focus on achieving full Green Building Index Certification (GBI) for PETRONAS Twin Towers and Menara 3 PETRONAS. We increased our efforts during the year to drive down the energy consumption in our assets through the implementation of LED lightings at all common areas and parking levels of P1 to P4 at Menara 3 PETRONAS. These efforts are also currently underway for Menara Dayabumi's common and office areas with target completion by the year 2020. Initiatives to minimise water consumption were also put in place through the installation of water aerators and split valves at all lavatories in Menara 3 PETRONAS as well as through the replacement of vertical piping at Menara Dayabumi. Strategically located premium grade office buildings with MSC and GBI dual compliance continue to garner interest from both investors and tenants, and this in turn would put us in good stead to attract multinational corporations (MNCs) in future.

### **Rejuvenation of Kompleks Dayabumi**

The Phase 3 refurbishment of Kompleks Dayabumi which entails the redevelopment of the City Point podium is underway with the completion of substructure works and is in the tender evaluation stage for the next development phase. Being a non-speculative developer, we are actively securing an anchor tenant prior to proceeding with the full-scale development. With the first phase of the River of Life (RoL) project and the Blue Pool project which covers the river stretch around Masjid Jamek – Dayabumi launched, we expect that this rejuvenation in the area would further complement our upcoming development as the RoL project is touted to strengthen the country's progress through the nation's capital.



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Property	REVENUE			PROFIT BEFORE TAX (Excluding fair value adjustment)			PBT contribution 2018 %
	2018 RM'mil	2017 RM'mil	Growth %	2018 RM'mil	2017 RM'mil	Growth %	
PETRONAS Twin Towers	<b>423.9</b>	424.2	(0.1)	<b>375.7</b>	373.3	0.6	<b>70</b>
Menara 3 PETRONAS	<b>88.1</b>	87.8	0.3	<b>85.5</b>	84.9	0.7	<b>16</b>
Menara ExxonMobil	<b>44.6</b>	39.4	13.2	<b>29.2</b>	24.5	19.2	<b>6</b>
Menara Dayabumi	<b>39.2</b>	39.6	(1.3)	<b>32.6</b>	34.7	(6.1)	<b>6</b>
Menara Maxis*	-	-	-	<b>12.8</b>	12.8	-	<b>2</b>
Total Office Segment	<b>595.8</b>	591.0	0.8	<b>535.8</b>	530.2	1.1	<b>100</b>

\*share of results of an associate



For the financial year 2018, revenue for the segment grew to RM595.8 million, taking into effect the revision in rental rates for PETRONAS Twin Towers which took place during year as well as the full year impact of rental income for the 11 floors leased to PETRONAS at Menara Exxonmobil. With full occupancy, the office segment continues to maintain its stability and cashflow generation going forward.

PETRONAS Twin Towers remains the largest contributor at 71% or RM423.9 million of the office segment, followed by Menara 3 PETRONAS at 15% or RM88.1 million. The Triple Net Lease arrangement with PETRONAS wherein all property expenses and outgoings are borne by the tenant shields us from the impact of the operating expenses to the overall PBT. This, along with the resilient rental income and strong cashflows backed by the long-term lease structures and rental step-ups, underpin the overall performance of the office segment.

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# OPERATIONS REVIEW

## RETAIL

**As Malaysia’s landmark mall, Suria KLCC continued to evolve and paved the way in leading the retail industry in line with its positioning of “Always Something New”**



The retail segment of KLCCP Stapled Group represented by Suria KLCC and the retail podium of Menara 3 PETRONAS continued to drive performance and growth for the Group despite the rapid transformation taking place in the retail landscape. As Malaysia’s landmark mall, Suria KLCC continued to evolve and paved the way in leading the retail industry, re-imagining the retail spaces with the latest retail curation and services, catering to customers’ needs for a seamless and exciting shopping experience, in line with its positioning of “Always Something New”.

Complemented by the office towers and its location within the iconic belt and tourists’ attractions provide a ready catchment area for our retail malls. Suria KLCC continued to command competitive rental rates relative to the industry despite the challenging retail market climate. Together, the combined moving annual turnover - tenant sales of both Suria KLCC and the retail podium of Menara 3 PETRONAS continued to garner strength sustaining the RM2.6 billion mark with footfall exceeding 48 million.

### Industry Landscape and Operating Challenges

The Kuala Lumpur retail landscape continued to face strong headwinds due to heightened competition in an already crowded market. The growing supply of retail space with the influx of new malls in the Klang Valley continued to put downward pressure on the overall occupancy and rental rates of retail malls. In efforts to boost occupancy rates, many new malls were seen to offer attractive incentives in the form

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purchases, product uniqueness and shopping experience tailored to customers' preferences has also been growing being the differentiating point for the overall retail market. Despite the rise in on-line shopping, the brick and mortar outlets remained relevant with retail mall operators evolving the shopping experience through addition of food and beverage (F&B), entertainment and a wide array of retail offerings.

The year also witnessed the zerorisation of GST in June 2018 and the re-introduction of SST in September 2018, which impacted consumer sentiment. The tax holiday period proved a boon, with consumers' expectations for higher income, greater employment and low inflation catapulted the Consumer Sentiment Index to an all-time high of 132.9 pts in Q2 2018. Post SST, consumer spending remained cautious and selective despite the upward trend in financial expectations on the back of higher employment prospects and concerns over rising prices moderating.

### Strategy and Initiatives for the Year

Despite the dynamic and challenging retail landscape, KLCCP Stapled Group's retail portfolio saw a progressive year with its assets significantly strengthened and overall position elevated through the strong emphasis on research and interaction with both tenants and shoppers.

<h1>1</h1> <p><b>Repositioning Retail Concept</b></p> <p>Integrating the mall as a lifestyle, re-imagining the consumer experience</p>	<h1>2</h1> <p><b>Curating Tenant Mix</b></p> <p>Re-purposing the retail space with wider array of retail offerings tailored to customer preferences</p>	<h1>3</h1> <p><b>Reinvesting to Stay Relevant</b></p> <p>Transforming digital customer experience for the connected customer</p>
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of rent-free periods, gross turnover rent and fit-out contributions which impacted the rental yield of these new malls.

At the global front, traditional retailers particularly department stores continued to be disrupted by online stores and big-box rivals. Initiatives to consolidate the stores to have future stores focused mainly on high impact area are also seen taking place amidst the challenging environment.

The advent of online shopping providing instant gratification with the offer of normal everyday

### Repositioning Retail Concept

With the ever changing market trends which dictates that the present day shoppers demand differentiation in the form of experience, personalisation and exclusivity, Suria KLCC successfully introduced 9 first-to-market stores in Malaysia, exclusive to Suria KLCC.

<p><b>TOM FORD</b></p> <p><b>1<sup>st</sup></b> standalone boutique in Asia and the world's second outlet</p> <hr/> <p><b>AW LAB</b></p> <p><b>1<sup>st</sup></b> Malaysian store with multi-label sports retail with streetwear specialist from Italy</p>	<p><b>qeelin</b></p> <p><b>1<sup>st</sup></b> Malaysian store and in Southeast Asia offering fine jewellery</p> <hr/> <p><b>JB. BLANCPAIN</b></p> <p><b>1<sup>st</sup></b> Malaysian store offering Swiss brand synonymous with traditional watchmaking</p>	<p><b>Open House</b></p> <p><b>1<sup>st</sup></b> Malaysian store offering modern Malay fine dining restaurant</p> <hr/> <p><b>BELGIUM</b></p> <p><b>2<sup>nd</sup></b> outlet in Asia, after Japan</p>
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Puma launched its largest store in Southeast Asia with sports and active wear on Level 3 of Suria KLCC with a unique shop-in-shop concept for their "Select" range whilst NYX cosmetics opened its largest store in Malaysia with cutting edge concept integrating technology into customer experience with digital interactive screens at their lip, brush and selfie bar.

The mall also saw creation of several duplex stores featuring a new retail concept to deliver a unique customer experience. Michael Kors launched its unique duplex store whilst at the retail podium of Menara 3 PETRONAS, Chanel re-opened following its monolithic expansion with a brand new duplex flagship and façade, along with De Beers' flagship and double-storey façade. This has brought the number of duplex stores at our retail malls

to five. Further enhancing the scene on ground and first floors of the retail podium is a new-to-market luxury wellness concept anchor tenant, Babel which is currently undergoing renovation works and is scheduled for opening in the second quarter of 2019.

### **THE DEDICATED LUXURY MEN'S PRECINCT AT LEVEL 1, CONTINUED TO SET THE PACE IN THE MALAYSIAN FASHION AND GROOMING, BEING THE FIRST OF ITS KIND IN A SHOPPING MALL IN THE COUNTRY**

#### ***Curating Tenant Mix***

In a bid to stay ahead of the curve, Suria KLCC aggressively and intensively curated the mall through its on-going research which entailed a detailed understanding of consumers and retailers in Malaysia. During the year, our retail malls brought on board 28 new tenants, with 6 new F&B concepts. Suria KLCC embarked on a mission to elevate its food offering to the next level by introducing several new and unique

concepts namely, Open House, a modern Malay fine dining restaurant with stunning and unique interior. Other additions

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include Dotty's which opened to overwhelming response with a popular fusion offering, Acme Bar and Coffee with a beautiful concept overlooking the park, and Delirium Bar which is an International Craft Beer Café in many key cities - Kuala Lumpur being the second country in Asia after Tokyo to house this concept.

The dedicated luxury men's precinct at Level 1, continued to set the pace in the Malaysian fashion and grooming, being the first of its kind in a shopping mall in the country. The last few pieces of the puzzle on the men's luxury precinct on level one have also been placed, with Michael Kors' exclusive men's range and a specialty cigar shop called Cigars Malaysia further complementing the men's precinct, making it a seamless and enjoyable shopping experience for the men.

### Reinvesting to Stay Relevant

With the emergence of digital revolution redefining customer expectations, Suria KLCC transformed the digital customer experience for the connected customer through installation of the largest rotating double-sided LED screen in the world, in its centre court, facilitating retailers' promotions and advertising. Suria KLCC also embarked on eWallet payment services via Alipay for customer convenience, garnering support from 80% of its retailers. These digitalisation exertions allow our retail malls to engage with the broader community and simultaneously evolve to stay relevant, creating unique shopping experiences and embracing the challenges faced to stay ahead.

Suria KLCC also completed the escalator modernisation for Park Mall which commenced in 2017, with target to commence the next phase for Ampang Mall by second quarter of 2019.

### FINANCIAL REVIEW

Property	REVENUE			PROFIT BEFORE TAX (Excluding fair value adjustment)			PBT contribution 2018 %
	2018 RM'mil	2017 RM'mil	Growth %	2018 RM'mil	2017 RM'mil	Growth %	
Suria KLCC	460.0	442.3	4.0	358.9	345.0	4.0	96
Menara 3 PETRONAS (Retail Podium)	31.0	33.7	(8.0)	15.2	18.4	(17.4)	4
Total Retail Segment	491.0	476.0	3.2	374.1	363.4	2.9	100

Comprising 35% of the overall KLCCP Stapled Group's revenue contribution, the retail segment saw a steady growth of 3.2% in revenue from the previous year to RM491.0 million in 2018. The increase in revenue for the segment was mainly attributable to higher rents becoming effective during the year and the increase in occupancy to 98%. Consequently, PBT for the year saw an improvement of 2.9%

The performance of the retail segment continued to be driven mainly by Suria KLCC which generated a revenue growth of 4.0% to RM460.0 million during the year. With the increase in occupancy, PBT recorded RM358.9 million, representing an increase of 4.0% and continued to be the backbone of the overall retail portfolio.

In 2018, the retail podium of Menara 3 PETRONAS registered total revenue of RM31.0 million and PBT of RM15.2 million. The drop compared to 2017 is mainly due to the tenant transitioning and timing of commencement of rental, which will kick-in from 2019.

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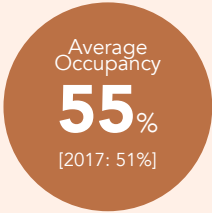
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## HOTEL

**2018 saw the successful completion of the final phase of the master plan refurbishment programme which comprised the renovation of guestrooms**



Rated as one of the top luxury hotels in the country, MOKL Hotel represents the hotel segment of KLCCP Stapled Group. MOKL Hotel in its bid to stay ahead of the game, commenced its repositioning initiatives in 2011 with a master plan refurbishment programme which was implemented in phases. The year 2018 saw the successful completion of the final phase of the programme which comprised the renovation of guestrooms. With the two-year renovation now fully complete and all rooms back in inventory, MOKL Hotel is now well positioned to offer guests a resolutely new experience which transcends accommodation.

With the relentless pursuit of superlative guest service, MOKL Hotel was able to reap worldwide recognition as the 'hotel of choice' for business and leisure travellers. Adding to the hall of accolades, MOKL Hotel was bestowed 20 awards during the year, including Best Business Hotel in Kuala Lumpur by Business Traveler Asia Pacific, Best Hotel in Malaysia by International Hotel Awards, World's Top 100 Hotels Awarded by Institutional Investor, Best Hotel in Malaysia from DestinAsian Reader's Choice and Top 15 Hotels in Southeast Asia by Conde Naste Traveler, amongst others.

### Industry Landscape and Operating Challenges

During the year, the hospitality industry remained positive despite the stagnant tourist arrivals. As at 3Q 2018, tourists arrivals were down more than 25% from the targeted 26.4 million for 2018. The hotel market continued to see the introduction of more luxury hotels in the city centre including Four Seasons Place, W Hotel, and The RuMa Hotel, which collectively contributed more than 900 rooms to the market.

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In addition, over 2,000 rooms are slated for completion by 2021, and to be integrated with most of these new hotels are serviced residences that will be managed by the hotel operators.

The opening of new hotels within the vicinity also gave rise to the surge in poaching of highly skilled staff in the hospitality industry amongst competitor hotels. MOKL Hotel embarked on a comprehensive colleague's communication programme and also offered intensive training and career development options for its staff. While also fostering a sense of unity and belonging amongst the employees of the hotel,

multiple social activities and effective staff engagement which involved the hotel's team in CSR programmes were also held to ensure sustainability of the environment and aid to the less fortunate. With this, MOKL Hotel successfully kept its staff turnover rate to under 24%, well below the industry average of 34%.

The city's key driver market of oil and gas showed some promising growth in the year, whilst banking and finance posted lacklustre performance under continued belt tightening pressures within the sector. A significant reduction in government-linked business following the austerity measures implemented also impacted the performance of the hotel. Meetings, incentives, conferences and exhibitions (MICE) segment was weaker than 2017 with less international city-wide events and intense competition from new competitor hotels in second half of 2018. The leisure segment has been a bright spot during the year showing strong gains linked to positive customer perception for the newly renovated rooms, enhanced

Level 3 recreation facilities and boosted digital commerce initiatives.

The hospitality industry continued to face pressure in terms of occupancy and room rates due to rising competition from home-sharing facilities such as Airbnb which remains a main competitor

to hotels. With levies of a new departure tax to be implemented for all overseas visitors at a nominal amount of RM20-RM40 per pax, following Budget 2019 and the increase to the minimum wage from RM1,000 to RM1,100 which comes into effect from January 2019, the hospitality

sector will see further challenges and pressure on operating costs, apart from the heightened competition from influx of new hotels coming on stream. With changing market conditions, increasing competitive pressures and shift in demand patterns, attractive customer offerings, prime location and a personalised brand redefining guest service will be the key differentiators for MOKL Hotel moving forward.

### WITH THE RELENTLESS PURSUIT OF SUPERLATIVE GUEST SERVICE, MOKL HOTEL WAS ABLE TO REAP WORLDWIDE RECOGNITION AS THE 'HOTEL OF CHOICE' FOR BUSINESS AND LEISURE TRAVELLERS



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### Strategy and Initiatives for the Year

In light of the stiff competition faced by the hotel and to be in the forefront of the market, 2018 saw the timely completion of MOKL Hotel's strategically planned hotel refurbishment coinciding perfectly with the arrival of 5 new competitor hotels within the vicinity.

<h1>1</h1> <p><b>Capitalise on Re-Launch of Renovated Guestrooms</b></p> <p>Refreshed product to compete with new hotels entering market</p>	<h1>2</h1> <p><b>Leveraging Brand Expressions</b></p> <p>Legendary quality service with distinguishing attributes</p>	<h1>3</h1> <p><b>Embracing Digital Marketing</b></p> <p>Improving online conversion through e-commerce (MO.com) and Social Media platform</p>
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### Capitalise on Re-Launch of Renovated Guestrooms

The hotel took advantage of the renovation by reconfiguring the original mix of rooms and suites to match the current and predicted future demand. It now boasts 1 royal suite, 1 presidential suite, 6 club suites, 12 park suites, 146 club rooms, 423 deluxe rooms and 51 service apartments. MOKL Hotel's renovated spa, swimming pool and recreational facilities continued to be well received by hotel guests with guest satisfaction increasing significantly to 92% from 87% in 2017.

Capitalising on the re-launch of the renovated rooms, MOKL Hotel rolled out a comprehensive marketing campaign featuring high profile publications, social media, digital marketing and site visits and familiarisation tours to maximise awareness and sales of the new products to its key customers. These new offerings has been well received and have set the pace gain for the hotel's revenue and average room rates.

MOKL Hotel also channeled major direct sales effort on corporate business in the domestic market and the regional markets of Singapore, Hong Kong, Japan and United Kingdom. The leisure segment saw boosted sales promotion with dedicated support for the online channels, particularly in China and Japan where healthy growth rates of 37% and 21% were seen respectively. In efforts to boost the performance of MICE and social caterings, comprehensive wedding and meeting packages with aggressive pricing strategy was the recipe to help counteract fierce competition from the newly opened hotels in the area.



### Leveraging Brand Expressions

The Spa, with a reputation of delivering unique and result oriented treatments recorded an excellent performance in the face of strong new competition during the year. The launch of exclusive new retail products, unique treatments and a series of educational wellness programmes with visiting wellness practitioners played a pivotal role in the awareness and interest in MOKL Hotel's spa. The Spa delivered an excellent performance in the face of strong new competition, posting revenue growth of 16.5% at a contribution margin of 61.7%.

In our quest to offer differentiation to our customers, 2018 saw the innovative launch of an online gourmet shop which offers home delivery service as well as the successful upgrade of the new mobile electronic frequent dining programme that has over 3,000 members. With both these initiatives in place, the hotel aims to gain more customer traction in the F&B segment and ultimately boost sales performance.

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With commitment to provide world class hospitality exceeding guests' expectations for a luxury hotel experience, MOKL Hotel continued to launch innovative signature offerings across all its food and beverage outlets with a very active schedule of 38 promotions held throughout 2018 which featured Michelin-starred celebrity chefs, seasonal holiday celebrations and international food festivals.

The hotel also continued to improve its legendary service quality by upgrading its guest service standards which were rewritten using neuro-linguistic elements which enables hotel staff to better understand the service standards in delivering special, unique and consistent experience to hotel guests at each and every visit.

### **Embracing Digital Marketing**

The hotel embraced new systems and digital technology to promote hotel offerings and make customer journey seamless through the launch of 'Fans of MO', a global guest recognition system with over 300,000 members to-date. In efforts to drive more business through the hotel's brand website while avoiding costly commissions

from third party travel partners, the enhanced and refocused digital marketing efforts put in place have seen the delivery of exceptional results through the MO.com platform. The hotel is also in the midst of setting up a WeChat platform to further cater to the China market.

With completion of the master plan refurbishment, rolling-out of comprehensive marketing efforts and leveraging in smart technology, MOKL Hotel is now geared up to compete with the new hotels on stream.

### **FINANCIAL REVIEW**

	2018 RM'mil	2017 RM'mil	Growth %
Revenue	172.4	167.2	3.1
Operating Profit	16.6	19.9	(16.6)
Profit before tax	0.1	5.3	(98.1)

For the financial year 2018, the hotel segment reported steady growth in revenue of 3.1%, mainly owing to the higher occupancy of its newly renovated guestrooms back in inventory. PBT was impacted by the increase in depreciation expenses arising from the fully renovated guestrooms. The strong results seen in the first 8-months of the year was offset by the arrival of 3 new competitors and a slower banqueting pace in the market.

The hotel room revenue during the year reported an increase of RM5.2 million from the previous year despite the ongoing room renovation from January to June mainly attributable to the growing demand in the leisure segment with the rooms and suites showing healthy performance. F&B revenue declined 2.5% owing to slower banqueting pace in the market. Several large events were not repeated during the year and were postponed due to the austerity measures by the new Government post GE14. The entry of the new hotels within KLCC vicinity also posed stiff competition in view of their introductory and member pricing impacting the F&B business.

Despite the 6 months refurbishment works, MOKL Hotel demonstrated a commendable performance during the year. This is in spite of the reduction of room stocks available for sale from the renovation works which involved the closure of 6 floors each time with 4 floors under construction and single buffer floor above and below to minimise noise impact to guests.

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**During the year, both KLCCUH and KPM continued to elevate quality of service and improve operational efficiency**



KLCCP Stapled Group’s management services portfolio comprises three broad categories namely: facilities management, car parking management and REIT Management.

The facilities management segment under KLCCUH undertakes the management of all the office buildings within the KLCCP Stapled Group portfolio, common facilities and common estate which include KLCC Park, all within KLCC Development and also various PETRONAS facilities. The Company offers a comprehensive range of services aimed at meeting the full range of needs by owners and users. KPM offers parking management services befitting the standard required for the portfolio of assets within the KLCC Group of Companies. KPM also addresses the parking demands of the facilities and ensure the operations complement the integrated needs of the retail, office tenants, hotel and convention centre while also offering advisory services to owners and operators on the practical, functional and aesthetic aspects of car park facilities.

**Industry Landscape and Operating Challenges**

Amidst the rising cost environment, one of the major challenges faced by the facilities manager in order to remain competitive is to be able to provide an exceptional level of service that ensures compliance with regulatory requirements whilst also efficiently maintaining reasonable operating costs for every

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With the growing trend of using e-Hailing services and the opening of the MRT railway, the commute to the city center has been made easier and more convenient for passengers. This coupled with the change in retail landscape which is moving towards the “click and mortar” concept has brought about some adverse impact on the transient car count in the North West Development car park at KLCC Precinct, the largest car park under KPM’s care. For the Company, to uphold the name of a high quality car park management is through the delivery of quality operations, having robust audit procedures and the requisite knowledge and experience which promises effective returns for the car park owner. Bearing this in mind and with the commitment in ensuring the parking experience for customers are kept at high standards, security of customers, flexibility of payment methods, convenience in finding car park spaces and other ancillary services such as charging stations for hybrid cars have been introduced.

### Strategy and Initiatives for the Year

During the year, both KLCCUH and KPM continued to elevate quality of service and improve operational efficiency.

<p><b>Delivering Premium Facilities Management Services</b></p> <p>1</p> <p>To maintain buildings in pristine condition for longer term tenancy prospects</p>	<p><b>Efficiency and Comfort of Car Parking Experiences</b></p> <p>2</p> <p>Continued operational efficiency towards exceptional customer service experience</p>	<p><b>Embracing New Systems and Technology</b></p> <p>3</p> <p>Maintaining a secured network for data storage and transfer aligned to Business Continuity Plan</p>
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square foot of space. As the critical systems of our office buildings continue to age, the need to have adequate preventive maintenance to extend the assets’ useful life and to replace asset parts that are out-dated will take a toll on the overall operational costs of KLCCUH. Faced with financial challenge that takes the form of higher operational cost on maintenance and the increasing manpower costs, KLCCUH exercised financial prudence in the management of all its overheads.

### Delivering Premium Facilities Management Services

KLCCUH continues to play a vital role in upholding the premium status of the offices of PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Exxonmobil. With the 20<sup>th</sup> year anniversary of PETRONAS Twin Towers upon us, the need for continuous maintenance either through replacements or preventative maintenance to extend the assets life is crucial to preserve the building in utmost pristine condition for longer term tenancy prospects. Efforts to balance between the maintenance requirements to retain the buildings in pristine condition and the call for greater cost efficiency was done by KLCCUH through prudent cost management. As a testimony to our service level improvements and efficient management services, we were conferred the EdgeProperty.com – Malaysia’s Best Managed Property Awards 2018, Gold Award for Menara 3 PETRONAS and for KLCC Park in the Specialised category. The pristine condition of our assets, asset integrity and facility management expertise continue to preserve the iconic stature of our assets, for longer term tenancy prospects. KLCCUH achieved a satisfaction score of 82% from its clients for the year in review.

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## OPERATIONS REVIEW

In efforts towards our sustainability agenda, the Energy Audit Committee was established in May 2018 as part of our energy management agenda in line with addressing asset performance within the Group. It is a platform to review and deliberate potential energy saving ideas and initiatives, share best practices and explore opportunities within the Group to target reduction in energy use towards better asset sustainability and longevity. Spearheaded by our facility management services company, KLCCUH, this is expected to strengthen the Group's efforts in its sustainability journey.

### **Efficiency and Comfort of Car Parking Experiences**

KPM, our car parking management services company, continues to deliver high standards of service level to improve and enhance customer experience. With the recognition by Malaysia Book of Records as the first car parking management company to achieve the integrated management certification of ISO 9001:2015 (Quality Management Services), ISO 14001:2015 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health and Safety Management System) in 2017, KPM strives to uphold the highest standards to be the best in the arena. To stay on top of the game and in keeping pace with the advances in technology, KPM embarked on several cashless payment initiatives during the year. Aside from successfully equipping the auto pay machines within the Suria KLCC car park with credit card facilities and the activation of online payment for season car card holders via their website, this initiative further saw the installation of integrated reader for Touch n Go, credit and debit card at the entry and exit terminals of our North West Development basement car park of KLCC Precinct development. This is a testament of our pursuit to continuously improve customer experience and satisfaction which saw support of 92% of its customers.

**KPM IMPLEMENTED THE FIRST-EVER VIRTUAL PARKING MANAGEMENT SYSTEM IN MALAYSIA UTILISING A PRIVATE CLOUD, WHICH IS CENTRALISED AND LOCATED AT OUR DATA CENTRE, MANAGED BY OUR INTERNAL ICT EXPERTS**

### **Embracing New Systems and Technology**

On the digitalisation front, KPM has put in efforts by introducing the method of payment via mobile application for ticketing customers. This has been completed during the year for the car park in Kuala Lumpur Convention Centre and is currently underway for the North West Development basement car park of the KLCC Precinct development. These efforts along with the Car Finding System that is already in place which assist customers in locating their car through the license plate recognition camera at the entry and exit barriers, bodes well our endeavor to bring about an exceptional level of parking experience for our customers.

In order to maintain a secured network for data storage and transfer and to mitigate cybersecurity risk, during the year, KPM implemented the first-ever virtual Parking Management System in Malaysia utilising a private cloud, which is centralised and located at our data centre, managed by our internal ICT experts. This initiative is also part of our Business Continuity Plan and aligned to the PETRONAS' Baseline Security policy requirements.

With the heightened global security threats and taking heed of the fact that KLCC Development falls within the iconic belt, the Security Master Plan for KLCC Precinct will be further strengthened in 2019 with new technology.



# OPERATIONS REVIEW

## FINANCIAL REVIEW

Property	REVENUE			PROFIT BEFORE TAX (Excluding fair value adjustment)			PBT contribution 2018 %
	2018 RM'mil	2017 RM'mil	Growth %	2018 RM'mil	2017 RM'mil	Growth %	
Facilities Management	<b>76.4</b>	64.8	17.9	<b>18.2</b>	17.9	1.7	<b>54</b>
Car Park Management	<b>62.4</b>	61.5	1.5	<b>13.5</b>	13.4	0.7	<b>40</b>
Others	<b>7.9</b>	6.3	25.4	<b>1.8</b>	2.0	(10.0)	<b>6</b>
Total Segment	<b>146.7</b>	132.6	10.6	<b>33.5</b>	33.3	0.6	<b>100</b>

During the year, the management services revenue contribution totaled RM146.7 million, representing an increase of 10.6% from the previous year and constituted 10% of KLCCP Stapled Group's revenue. The improved performance was mainly attributable to additional management fees recorded from facilities management services for the WFT project and PETRONAS one-off project in Terengganu. While revenue for the segment saw a commendable growth during the year, the recorded PBT of RM33.5 million showed a growth of lesser proportion mainly as a result of higher operational costs in tandem with the additional services provided.

Facilities management reported a growth in revenue of RM11.6 million or 17.9% mainly on the back of additional one-off works completed during the year. PBT however grew by 1.7%, mainly in line with the higher operational and maintenance cost incurred for the additional one-off works. Car park management revenue remained stable for the year with a growth of 1.5%. Accordingly, PBT reported also showed a positive marginal growth in line with the higher revenue. 'Others' is represented mainly by interest income earned as well as general manager services provided by the Company to the entire KLCC Group of Companies.



The Group's management services segment also includes the REIT management services under KLCC REIT Management Sdn Bhd. The stapled structure of our Group ensures no leakage of management fees. The management fees charged which is part of KLCC REIT expense is recycled back into the income stream within the KLCCP Stapled Group, hence does not impact the profitability. The income earned by KLCC REIT Management is subsequently utilised to distribute dividends to the holders of Stapled Securities.

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# CAPITAL MANAGEMENT

Our approach to capital management, premised on the KLCC Group Corporate Financing Policy, is to maintain an optimal capital structure and ensure the availability of funds to be able to support the business needs and also simultaneously maximise shareholders' value. The Group is disciplined and prudent in managing the cost of funds and refinancing risks to meet capital requirements.

The basis of foundation in our capital management strategy is to sync the income stream to the long term financings and maturity schedule whilst also keeping the financial ratios within the industry benchmark. The equity or debt structure undertaken also takes into consideration the tax impact to ensure that the optimal tax structure is achieved.

## Capital Expenditure

In line with KLCCP Stapled Group's efforts to embark on asset enhancement initiatives and the development of new assets, commitment to several major capital expenditure had been observed during the year. In respect to the ongoing projects within the Group, all the current capital expenditure committed are being funded via internal cash available, whilst the MOKL Hotel guest room renovations were partially funded by the existing term loan facilities of RM378.0 million.

With regards to the redevelopment of City Point podium, financing is currently sourced through internal cash and advance from KLCCP. The Management team will however review the funding requirements and raise debt funding where required, in tandem with the progress of the project.

	2018	2017	2016	2015	2014
Total borrowings (RM million)	<b>2,244.7</b>	2,251.1	2,552.4	2,560.6	2,511.5
Average cost of debt (%)	<b>4.6</b>	4.6	4.5	4.5	4.5
Fixed: Floating ratio	<b>84</b>	84	85	86	86
Average maturity period (years)	<b>4.1</b>	5.1	5.6	6.5	9.8
Gearing ratio (%)					
- Gross	<b>17.1</b>	17.2	19.9	20.4	20.9
- Net	<b>11.5</b>	11.5	12.0	11.6	11.5

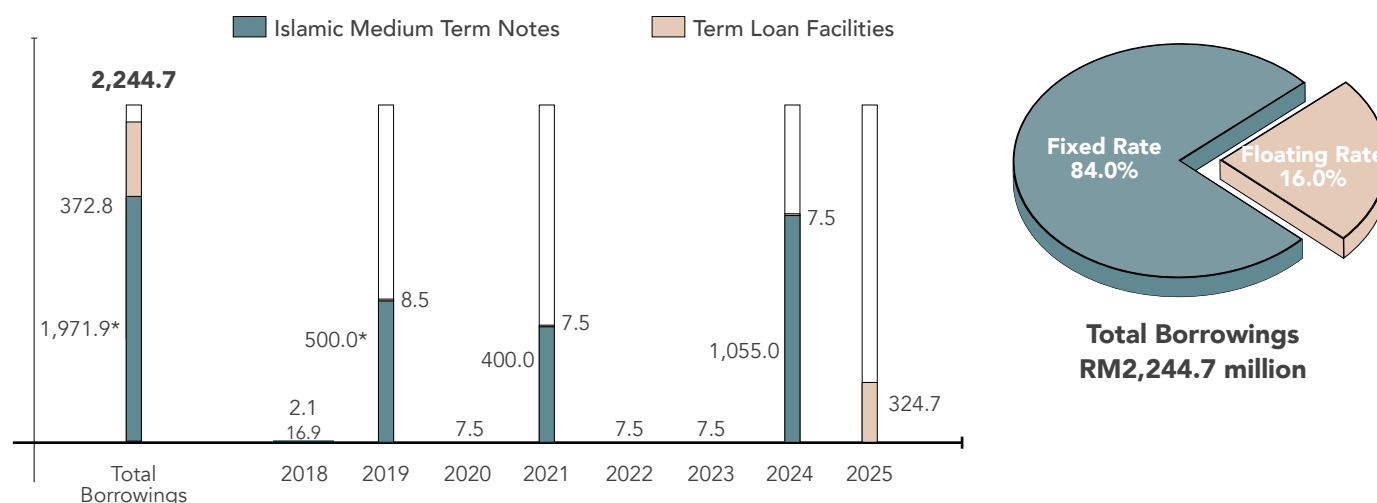
KLCC REIT and Suria KLCC proactively restructured its existing facilities in 2014 with the establishment of Sukuk Murabahah Programmes (Sukuk Murabahah) with a combined limit of RM3.0 billion and RM600 million respectively which were rated AAA by RAM ratings. In 2015, Asas Klasik Sdn Bhd, a 75% owned subsidiary of KLCC which owns MOKL Hotel, restructured its existing borrowings of RM330 million into 2 restructured term loan facilities in the aggregate sum of RM378.0 million. The first tranche of the RM3.0 billion Sukuk Murabahah amounting to RM300.0 million fell due in April 2017 and was repaid by KLCC REIT through internal cash of RM200.0 million and RM100.0 million through the subscription of the existing RM3.0 billion Sukuk Murabahah, by KLCCP.

As at 31 December 2018, our borrowings stood at RM2.2 billion, a marginal decrease from last year, as a result of repayment of MOKL Hotel's term loan facilities during the year amounting to RM7.5 million. The total gross gearing correspondingly reduced to 17.1%, well below the REIT industry benchmark of approximately 30.0%. RM500.0 million of the Sukuk Murabahah will be due in 2019 and the Management team is already in talks to strategise the repayment and refinancing of the borrowings.

With approximately RM1.7 billion from the total of RM3.0 billion Sukuk Murabahah which is yet to be utilised by KLCC REIT and together with the mandate granted by the holders of Stapled Securities to issue new share up to 100% of the approved share capital, KLCCP Stapled Group has the financial flexibility to tap into the debt equity markets to gear up further, to support future acquisitions.

## CAPITAL MANAGEMENT

### Debt Maturity Profile (RM million)



\*Includes RM100 mil interco from KLCCP

## FINANCIAL RISK MANAGEMENT

The Boards are committed in upholding effective risk management practices to achieve the objectives and strategies set for KLCCP Stapled Group. The Group's financial risk management is guided primarily by the PETRONAS Integrated Financial Risk Management ("IFRM") Guideline that entails a continuous, proactive and disciplined process in which financial risks are identified, analysed and consciously accepted or mitigated within approved risk parameters. The risks identified are continuously monitored and regularly evaluated with proper mitigation action plan developed to manage the risks at an acceptable level. The IFRM guidelines serves principally as a tool to ensure that appropriate policies, processes and procedures are in place for awareness and accountability when making key decisions on financial risk.

### Credit Risk

Credit risk is the inability to collect amounts owing to us that could bring about adverse impact on the financial performance. The credit risk appetite of different business segments differs from one another.

KLCCP Stapled Group strives in minimising its credit risk through efforts such as entering into contracts with highly credit rated counterparties and credit approvals, financial limits and on-going monitoring procedures. The credit evaluations of counterparties are carried out thoroughly using quantitative and qualitative criteria on credit risks specified based on individual operating units. KLCCP Stapled Group may necessitate a collateral or other forms of credit enhancements depending on the creditworthiness of the counterparty.

The Group's credit risk arises predominantly from our receivables that is inherent in our operating segments, in which a sizable portion is contributed by the office segment. The office segment is secured with locked-in long-term leases with creditable tenants where the lease rentals are paid timely. In respect to the retail segment, the financial strength and product offerings of potential tenants are reviewed systematically prior to offering tenancy spaces. The retail operators also carry out a rigorous follow up process with the tenants to ensure collectability and constant monitoring of the tenants affordability of the rental charges. Similarly, the hotel segment also conduct thorough reviews and assessments of the creditworthiness of customers who are provided credit limits to ensure timely collection of payment obligation when it falls due.

As at 31 December 2018, the following is the aging of the Group's trade receivables.

Trade Receivables' Aging	RM'mil
Not past due	7.3
Past due 1 to 30 days	0.9
Past due 31 to 60 days	0.4
Past due 61 to 90 days	0.2
Past due more than 90 days	1.2
	10.0
Less: Allowance for impairment losses (Retail)	(0.8)
	<b>9.2</b>



## CAPITAL MANAGEMENT

### Liquidity Risk

Liquidity risk is the risk that the funds of the group will not be able to meet its financial obligations. As part of the overall liquidity management, KLCCP Stapled Group maintains adequate cash and bank balances to meet its working capital requirements. In order to achieve this, our liquidity management guidelines require that periodic cashflow forecast is undertaken to determine the optimal working capital needs and proactive management of our receivables and payables. This will ensure that the idle monies are placed in interest bearing accounts.

As disclosed under the Debt Majority Profile, KLCCP Stapled Group's outstanding borrowings are only due within the medium to long term. In addition, KLCCP Stapled Group has significant debt headroom which will allow it to tap onto financing as and when required.

### Interest Rate Risk


Interest Rate Risk is the risk that future cash flows are affected by changes in market interest rates. Adverse interest rate movement may affect financial performance.

KLCCP Stapled Group's interest rate risk is relatively low as 84% of its borrowings are on fixed rate. The exposure of floating interest rate borrowings only represent RM372.8 million of the total borrowings. Hence a 0.5% change in the interest rate will only increase the interest expense by RM1.9 million per annum and decrease the Distribution per Stapled Security by 0.10 sen.

The balance of the exposure to interest rate represent interest bearing cash and bank balances. KLCCP Stapled Group reported an interest income of RM27.6 million at the back of average interest rate of 3.8%. On the available cash and bank balances as at 31 December 2018, a 5% change in the interest rate will result in an additional income of approximately RM1.4 million.

### Foreign Currency Risk

Foreign currency risk is that arising from exposure to foreign currency and exchange rate fluctuations. As KLCCP Stapled Group operates predominantly in Malaysia and transacts mainly in Malaysian Ringgit, it is not exposed to any significant foreign currency risk.

 For more information, please refer to the UNDERSTANDING OUR PRINCIPAL RISKS on page 98-103.

## PROSPECTS

For the year 2019, global growth momentum is expected to be sustained on the back of synchronised expansions in the world's leading economies however concerns of downside risks leading to sharper global growth slowdown and associated commodity prices decline are also on the cards. On the domestic front, the Malaysian economy is anticipated to remain resilient in 2019 on sound macroeconomic fundamentals, with gross domestic product growth targeted at 4.5%, supported mainly by domestic demand. Household spending is expected to remain the key driver of growth following the increase in employment and wage amid benign inflation.

KLCCP Stapled Group remains cautiously optimistic on the prospects of the overall market. The challenges seen in the oversupply of office spaces and intensifying competition from the hospitality and retail segments will continue to be of concern to the Group. In view of the unchanged OPR at 3.25% for the year, it is anticipated that the appetite for MREITs would increase for asset acquisition as they primarily rely on borrowings to support inorganic dividend distribution growth.

As our purpose is to create places people look forward to, converging cultural diversity, commercial vibrancy and sustainable living, we will continue to transform THE PLACE to create the best experiences for our tenants, shoppers, guests and the community at large.

Our office segment anchored by the long-term locked-in tenancy structure under the Triple Net Lease Agreements for the PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi will continue to be defensive and provide strength and stability for the Group. Nevertheless, we will remain steadfast in our efforts to retain and seek quality anchor tenants for our new development and create the office experiences for our tenants that will facilitate collaboration between employees and companies. It is also our priority and goal to maintain the buildings in utmost pristine condition and complete our greening efforts for our tenants, creating value in the longer term.

For the retail segment, Suria KLCC will continue to leverage on its strategic location, proximity and access to customers while also focusing on tenant remixing strategies and curating the mall in the most ideal way which in-turn will provide an immersive shopping experience for the customers. Suria KLCC will also embark on a redevelopment project to rejuvenate and bring vibrancy to selected areas of the mall in light of the changing customer needs and demands to deliver value. The anticipated rise in household earnings arising from better employment outlook, implementation of higher minimum wage is also expected to bode well for the overall retail segment of the Group.

## CAPITAL MANAGEMENT

MOKL Hotel is expected to face stiff competition with the entry of new luxury hotels in the coming years. Nevertheless, the completed guestroom renovations during the year as well as the newly renovated Club Rooms, Suites, Deluxe Rooms and Park Suites which saw a thorough makeover is anticipated to place the hotel in good stead giving it a competitive advantage. With the hotel being strategically located in the heart of the Kuala Lumpur City Centre and adjacent to Malaysia's iconic PETRONAS Twin Towers as well as the premier shopping destination, Suria KLCC, MOKL Hotel remains the ideal location for both business and leisure guests. Service differentiation is also the cornerstone of MOKL Hotel's business strategy with the focus of maintaining premium standards which elevate guests' satisfaction.

In spite of the coming headwinds, KLCCP Stapled Group is well positioned to weather the challenging times ahead and is expected to remain responsive to the opportunities and vagaries of the market. Having the ongoing efforts and initiatives to enhance operational excellence in the pipeline, we are confident that the Group is poised to deliver growth and value to all our stakeholders in the coming years.



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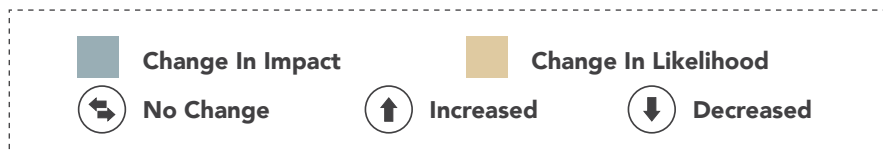


# UNDERSTANDING OUR PRINCIPAL RISKS

Our approach to managing risks is an integral part of how we deliver on our strategy. The principal risks and opportunities in managing KLCCP Stapled Group are assessed and evaluated against our risk appetite and tolerance levels whilst mitigation plans and key risk indicators are identified to reduce the risk exposure and monitor performance of the risks.

	RISK MANAGEMENT STRATEGIES	MATERIAL MATTERS
<p><b>FINANCIAL</b></p>   	<p>We have put in place all practical measures to mitigate any potential financial risks exposures which may impair the ability to provide adequate return on investment</p> <p>We have an established Integrated Financial Risk Management (IFRM) Guideline consisting 7 key principles of financial risks which ensures awareness and accountability for financial risks key decision making</p> <p> For more information, please refer to the MANAGEMENT DISCUSSION AND ANALYSIS on page 95-96.</p>	<p>Financial Sustainability</p>
<p><b>MARKET</b></p>   	<p>We undertake a comprehensive and robust study on the viability of potential investment proposals in line with the Group's business plan</p> <p>A structured process for new investments and ventures is in place encapsulating feasibility and market studies, analysis reports, negotiations on terms and conditions and execution of agreement</p> <p> For more information, please refer to the KEY TRENDS SHAPING OUR BUSINESS on page 50-51, MARKET REPORT on page 30-40.</p>	<p>Economic, Social and Industry Growth</p> <p>Risk Management</p> <p>Corporate Social Investment</p>
<p><b>HUMAN CAPITAL</b></p>   	<p>We maintain an effective succession plan for key positions and critical portfolios in order to enhance and retain qualified and competent talent for business sustainability</p> <p>Anchoring on the theme of Right Talent, Right Leader and Right Environment, talents are managed from hire to retire</p>	<p>Our People</p> <p>Human Rights and Labour Practices</p>

# UNDERSTANDING OUR PRINCIPAL RISKS



PRINCIPAL MITIGATIONS	ACTIVITIES IN 2018 AND OUTLOOK
<p>We maintain a strong capital structure, profitability and liquidity position in pursuit of our business objectives to support sustainability and growth of the business operations and activities</p> <p>Our gearing ratio is one of the lowest in the Malaysian REIT industry which provides us a sizeable debt headroom and greater financial flexibility to tap into the equity markets, as excessive debt could lead to financial risk exposure</p> <p>We maintain adequate cash and bank balances to meet the working capital requirements and we maximise the return from cash balances via fund placements in the money market whilst minimising counterparty risk exposure</p> <p>We diligently manage trade receivables to avoid trapped liquidity</p> <p>We deal with approved counterparties with minimum A-rating for fund investment on best terms and limits</p>	<p>We continued our diligence on monitoring our financial, operational and cost optimisation efforts towards driving sustainability of our business</p> <p> For more information, please refer to the SUSTAINABILITY STATEMENT on page 113-114.</p>
<p>A structured risk assessment process as part of decision making is carried out prior to any decision point to provide decision makers with a balanced view for informed decision making through richer risk conversations and considerations of risk reward trade-off</p> <p>All proposed capital investment care to meet the business return risk appetite threshold and maximise capital efficiency through a healthy portfolio distribution</p>	<p>We unlocked value through the repositioning of our assets, taking into consideration the tougher market conditions and operating landscape, the change in tenant-customer dynamics and the need to stay ahead of the intensifying competition</p> <p>We also continued to seek yield accretive assets for opportunistic acquisitions</p> <p> For more information, please refer to the MANAGEMENT DISCUSSION AND ANALYSIS on page 79, 82-83, 86-87, 90-91, SUSTAINABILITY STATEMENT on page 113-116, 154-156.</p>
<p>Competency validation study to identify the gaps for succession planning</p> <p>Structured programmes for knowledge transfer and cross business mobility</p> <p>Annual employee feedback survey/peer review survey to identify gaps for improvement</p>	<p>Identified 8 critical positions with 21 successors to fill the next leadership roles within the organisation, bringing the succession management ratio to 1:2.6</p> <p>Establishment of talent management programmes for the second-tier succession line- KLCC Group Elite Leadership Program</p> <p>Self-driven E-Learning programs, Brown Bag learning series sessions and development of Skill Groups to upskill technical competencies and knowledge</p> <p> For more information, please refer to the SUSTAINABILITY STATEMENT on page 136-137.</p>

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# UNDERSTANDING OUR PRINCIPAL RISKS

	RISK MANAGEMENT STRATEGIES	MATERIAL MATTERS
<p><b>HEALTH, SAFETY AND ENVIRONMENT (HSE)</b></p> 	<p>Zero tolerance towards fatality and major fire that could lead to damage of assets and business disruption</p> <p>A robust and institutionalised HSE culture is in place to ensure safe working environment through the establishment of HSE Management Systems (HSEMS)</p>	<p>Security, Safety and Health</p> <p>Climate Change</p> <p>Environmental Management</p>
<p><b>SECURITY</b></p> 	<p>We put in place all practical and precautionary steps to safeguard our assets and people against crime</p> <p>Our KLCC Precinct Security Master Plan details out the overall precinct security overlay where security control and crisis response measures are identified and implemented to safeguard our assets. The Security Master Plan was updated in 2017 to suit the current security risk environment</p> <p>We also successfully implemented the CPTED (Crime Prevention Through Environment Design) in our design maintenance and use of our buildings and environment to enhance quality of life and to reduce incidence of crime</p> <p>Our security team also works closely with the respective security teams of each building, PETRONAS Group Security and Polis DiRaja Malaysia (PDRM) for security intelligence updates</p>	<p>Security, Safety and Health</p>
<p><b>ASSET MANAGEMENT</b></p> 	<p>Our properties and assets are properly managed with the aim of creating value and maximising returns</p> <p>Robust procedures and guidelines for selection of operators and asset managers are in place and currently all our assets are managed by well accredited international operators to ensure sustainability of tenants</p>	<p>Customer and Tenant Management</p>

## UNDERSTANDING OUR PRINCIPAL RISKS

PRINCIPAL MITIGATIONS	ACTIVITIES IN 2018 AND OUTLOOK
<p>Scheduled HSE assurance audits (tier 1-yearly, tier 2 –yearly, tier 3- once every 5 years) are conducted to ensure compliance to the Department of Occupational Safety &amp; Health Malaysia (DOSH) and PETRONAS Technical Standards (where applicable)</p> <p>Take all reasonable, practicable and proactive steps to prevent and eliminate the risk of injuries, occupational illness, damage to properties and to protect the environment wherever we operate</p>	<p>Consequence management process to justify ZETO HSE non-compliance</p> <p>Maintain minimum HSEMS rating at 3.00</p> <p> For more information, please refer to the SUSTAINABILITY STATEMENT on page 128-132.</p>
<p>Established Security Coordination Platform to coordinate security matters within the KLCC Precinct -KLCC Precinct Security Management Working Group (PSMWG) and Dayabumi Heritage Trail comprising representatives from surrounding building owners e.g. Masjid Negara, Muzium Textile, Agro Bank , POS Malaysia, Central Market and RAPID KL</p> <p>KLCC Precinct Security Operation Centre (KPSOC) as a security focal point by all facilities within the KLCC Precinct and Local Authorities</p> <p>Automatic Number Plate Registration (ANPR) System within the KLCC Below Grade Parking which captures vehicles registration plate and face recognition</p> <p>Incident Action Plan briefing to stakeholders on preparedness in handling different types of incidents e.g.: unattended packages, bomb threat/call</p>	<p>Installation of additional CCTV at Menara Dayabumi to enhance security coverage</p> <p>Computerised Card Access System (CACS) for all floors at Kompleks Dayabumi to be installed and the Security Operational Room (PSOR) to be enhanced to cater to the additional security features to be put in place</p> <p>Implementation of the enhanced security measures identified in the updated KLCC Precinct Security Master Plan in progress</p> <p> For more information, please refer to the SUSTAINABILITY STATEMENT on page 132.</p>
<p>A comprehensive leasing strategy to retain and attract quality tenants</p> <p>Constant engagement with our retailers and tenants to understand their needs and keep them updated on the evolving trends</p> <p>Annual customer satisfaction survey and shopper exit survey to identify gaps for improvement</p>	<p>Dynamic review and enhancement of tenant mix and placement to ensure a balance of retail spaces between the new brands with younger market appeal and luxury brands with exclusive services</p> <p>Evolving our current office space under the Workplace for Tomorrow initiative with our tenant to meet the fluid requirements where the workplaces are flexible and collaborative</p> <p> For more information, please refer to the MANAGEMENT DISCUSSION AND ANALYSIS on page 79-80, 83-85, 88-89.</p>

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# UNDERSTANDING OUR PRINCIPAL RISKS

	RISK MANAGEMENT STRATEGIES	MATERIAL MATTERS
<p><b>FACILITY MANAGEMENT</b></p>   	<p>Our assets are professionally managed to ensure effectiveness and efficiency of the performance and integrity sustenance of the assets</p> <p>Our facility management arm is accredited with ISO14001, ISO9001 and OSHAS18001</p> <p>Our facility management team is involved in the design and construction stage (Day 1 and 2) in ensuring the practicality of layout design and appropriate systems and technology used will function effectively and efficiently upon building completion</p> <p>The facility management team also conducts annual building technical audits for continual improvement and provide assurance that the buildings are maintained in pristine condition</p>	<p>Customer and Tenant Engagement</p> <p>Security, Safety and Health</p>
<p><b>PROJECT MANAGEMENT (for development platform of KLCCP)</b></p>   	<p>We put in place measures to ensure that the performance of project delivery in meeting its development commitments in terms of time, cost and quality are met</p> <p>All our projects are managed by a qualified and competent project management company with accreditation of ISO14001, ISO9001 and OSHAS18001</p> <p>Risk assessments are required to be carried out for all projects undertaken</p>	<p>Risk Management</p> <p>Security, Safety and Health</p> <p>Corporate Governance and Business Ethics</p>
<p><b>SUPPLIER</b></p>   	<p>The performance of suppliers in meeting the deliverables commitment is important to mitigate disruption and support sustainability of the business</p> <p>We have a stringent selection of supplies/contractors guidelines and an established tendering management system consisting of:</p> <ul style="list-style-type: none"> <li>• Overall contracting strategy</li> <li>• Tender plan</li> <li>• Invitation to Bid</li> <li>• Technical and Commercial evaluation</li> <li>• Contractor Risk Assessment</li> </ul>	<p>Supply Chain Management</p> <p>Corporate Governance and Business Ethics</p>

## UNDERSTANDING OUR PRINCIPAL RISKS

PRINCIPAL MITIGATIONS	ACTIVITIES IN 2018 AND OUTLOOK
<p>Implementation of predictive, preventive and corrective maintenance strategies and initiatives to provide high level of service standards with minimal service interruption</p> <p>100% compliance with agreed Service Level Agreement (SLA) with customers:</p> <ol style="list-style-type: none"> <li>1. Emergency Power Supply Availability (Gen set) to provide alternate power supply during disruption from service provider</li> <li>2. Mechanical Systems for Air-Conditioning to control Indoor Air Quality for room temperature, humidity and airflow, for the comfort of the tenants/occupants and to protect sensitive electronic equipment at data center, electrical and telecommunication rooms</li> <li>3. Vertical transportation to facilitate smooth movement of building occupants</li> <li>4. Mechanical Systems for Domestic Water (Water storage tank) to ensure 24 hour supply for drinking, domestic use and fire-fighting system</li> </ol>	<p>Continued implementation and monitoring of predictive, preventive and corrective maintenance strategies and initiatives</p> <p> For more information, please refer to the <b>MANAGEMENT DISCUSSION AND ANALYSIS</b> on page 91-92.</p>
<p>Control and monitor project risk events through Project Management Standards to attain Project Delivery Excellence in terms of time and cost</p>	<p>Close monitoring of projects to ensure delivery schedule and cost shall not exceed the stipulated threshold and adversely impacting project investment rate of return</p>
<p>Annual review of suppliers' /contractors' performance are carried out for continual improvement</p> <p>Update and maintain a database of potential qualified suppliers</p>	<p>Tightened procurement policies in shortlisting bidders, established guidelines for separate tender evaluation teams, included anti-bribery assessment for Contractor's Risk Assessment for all projects</p> <p>Continuous assessment of existing and potential suppliers to meet standards of operational excellence</p> <p> For more information, please refer to the <b>SUSTAINABILITY STATEMENT</b> on page 144-146.</p>

 For more information, please refer to the **STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL** on page 201-205.

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# THE PLACE TO PLAY

Making every first impression a perfect one, KLCC is THE PLACE to Play. With wholesome choices of attractions to visit and enjoy, from the art gallery, the science discovery centre, state-of-the-art oceanarium, the Malaysian Philharmonic, KLCC Park and the Lake Symphony Fountains, it is an endless discovery. You'll find yourself in paradise





/  
**CONGRESS  
ORGANISER**  
/

Due to its strategic location in the heart of the city, KLCC provides a great experience for conference delegates because of its proximity to hotels, shopping malls and numerous entertainment options - the delegates really enjoyed the experience!

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# SUSTAINABILITY STATEMENT



## OUR SUSTAINABILITY JOURNEY AND COMMITMENT

### SUSTAINABILITY STRATEGY

Sustainability is an important agenda of KLCCP Stapled Group's corporate strategy and culture and is deeply embedded in our business model to deliver long-term growth and value for our multiple stakeholders. We champion sustainability development premised on our strategies and initiatives to drive our sustainable goals economically, environmentally and socially, across all our business operations, maintaining high standards of conduct and maximising long-term value creation for the benefit of our stakeholders.

## SUSTAINABILITY STATEMENT

As a real estate player, our business strategy takes into perspective the risks and opportunities impacting the real estate industry and organisation, while keeping abreast of current expectations of our tenants, customers, shoppers and investors. We continued our focus in addressing our material matters across our priority areas under the Economic, Environment and Social (EES) aspects to further strengthen our approach to sustainability. The Boards have the overall responsibility for sustainability and considers EES matters that are material to our business in the formulation of our strategy.

With THE PLACE as our theme this year, we are proud of how KLCC Precinct has transformed into this remarkable destination, the people's place – a place to work, live, shop, play, meet, visit and dine. As one of the world's largest integrated real estate development and Malaysia's landmark and pride of the nation, THE PLACE has evolved into a dynamic city-within-a-city, creating an engaging and sustainable environment which brings together a diverse group of community, setting the benchmark in sustainability. The value created supports and strengthens our business sustainability which enables us to continue to deliver lasting outcomes to all our stakeholders.

As testament to our steadfast commitment in advancing sustainability practices within the organisation, KLCCP Stapled Group has been recognised both locally and globally for demonstrating strong EES practices. Among our notable achievements this year include being awarded the Gold Award in the Environmental, Social and Governance category at The Asset Corporate Awards 2018 for the third successive year, the Gold Award for The Best Governed and Transparent Company Award at the 10<sup>th</sup> Annual Global CSR Summit & Awards 2018 and winner of "Best Workforce" at the Sustainable Business Awards Malaysia 2018.

With profound leadership, commitment and experience, we will continue to drive sustainability in broader perspectives to deliver strategic sustainable goals with clearly defined targets, material to our business and stakeholders with the aim of maintaining a robust business model which embodies our commitment and focus on the sustainability priority areas and aligning our practices to the United Nations Sustainable Development Goals (UNSDGs).

### AN INTERVIEW WITH THE SUSTAINABILITY STEERING COMMITTEE CO-CHAIRMAN

■ Anuar Marzuki Abdul Aziz    ■ Zalina Ibrahim  
*Chief Financial Officer/*                      *Head, Group Health,*  
*Chief Investment Officer*                      *Safety and Environment*

#### **Q** What does Sustainability mean to KLCCP Stapled Group?

**A** To us, sustainability means transitioning our business to be relevant, agile and responsive to the internal and external environment without losing momentum or vision, whilst embracing ethical responsibility in driving this change.

It is also about the well-being of our employees, the partners whom we do business with, the safety, security and experiences we give our customers, tenants, shoppers and the community we serve around our operations.

We are committed in managing the environmental impact resulting from our business activities, by responsibly managing the resources by promoting the use of eco-friendly products, reducing our energy consumption and water use, tracking our carbon footprint and responsibly managing our waste.

#### **Q** What role does sustainability play in the Group's overall strategic plan and how does it support value creation?

**A** We started our sustainability journey in 2014 as we realised that there is value to be created through sustainability, be it differentiating our offerings with a wide range of economic, environmental and social benefits or through cost savings by introducing efficient technology or supply chain practices. Such initiatives actually form the basis of our competitive advantage, ensuring our offices, retail and hotel maximise occupancy and growth for the benefit of our stakeholders and at the same time contributing towards industry, social and economic growth.

We place sustainability high on our agenda as it is an integral part of our business strategy. We align our business, processes and our corporate culture to adopt strategies that support sustainable development and investment for the Group and the community at large.



## SUSTAINABILITY STATEMENT

### **Q What is the Group's goal of sustainable development and its aspiration in progressing in its sustainability journey?**

**A** We are proud to have created this landmark destination as THE PLACE which offers a balance between commercial and public spaces, natural greenery, engineered infrastructure whilst preserving the culture and heritage of Malaysia. We have created an environment that caters to all.

Our aspiration is for THE PLACE to remain relevant for future generations to come as we envision KLCC Precinct to be a smart city, where the community engages with smart city ecosystems and for the value of nature to be factored into business decisions. We will keep advancing our sustainable practices to improve performance and embrace the challenge of stretch-goals for a future-proof sustainable business.

### **Q Climate change is a huge global agenda in today's business operations. What is the Group's stand on climate change?**

**A** We echo and support the country's stand and commitment in combating global climate change and we are very proud that Malaysia is working towards a National Adaptation and Mitigation Plan on Climate Change. As a corporate, we remain committed in addressing climate change risks through reduction of our energy consumption and carbon emission in our business operations. Through our own small way, we hope to contribute towards the bigger global agenda.

### **Q What are the challenges faced in implementing sustainability practices within the Group?**

**A** To achieve excellence in economic, environmental and social performance is indeed a huge challenge for any organisation. What we are doing now is creating greater awareness and better understanding among our stakeholders. Sustainability is a huge global agenda and in support of this, we have in place our sustainability strategies and objectives to guide us in pursuing our sustainability journey.

A concerted effort from our employees and business units in translating sustainability into actions is crucial and it does not stop within the organisation. We are also encouraging responsible and sustainable practices across our supply chain to align their practices to our sustainable values and commitment. As our business partners, they have an impact in our sustainability performance which further contribute towards the Group's bigger sustainability agenda.

## THE REAL ESTATE LANDSCAPE

The real estate and construction sector is one of the largest contributors to the Malaysian economy. 2018 saw a myriad of challenges in the global and domestic economies, industry sub-sectors and the equity markets.

The challenges in the office, retail and hospitality industries heightened the lackluster outlook, impacted consumer sentiment and increased competitive pressures. The real estate industry was further hampered by:

- Oversupply in the office and retail sectors
- Growing mismatch between supply and demand exerting pressure on occupancy and rental rates
- Softer consumer sentiment in view of economic and market uncertainties coupled with the reintroduction of the Sales and Service Tax (SST)
- Intense competition for retail tenants due to changing consumer behaviour and cautious consumer sentiment
- Growing popularity of e-commerce activities disrupting traditional brick and mortar retail business
- Intensifying competition from new hotels with increased supply of rooms entering the hospitality market and impact from the slower growth in tourists arrivals
- Sharing economy disrupting traditional channels in hotels i.e. Airbnb
- The emergence of co-working spaces challenging established commercial office locations

Responding to these challenges, the real estate landscape has been moving towards lifestyle needs, new-age real estate investments, ranging from design to materials used and sustainable operational efficiency of buildings. The real estate industry is also impacted by resource constraints, demographic change, environmental impact, urbanisation and emerging technologies.

The country's commitment towards contributing to meeting sustainable development goals and its effort in combating global climate change in support of the 2015 Paris Agreement has seen real estate companies now giving more focused attention towards green investment to compete at the global level. With Malaysia working towards a National Adaptation and Mitigation Plan on Climate Change, an Energy Efficiency Conservation Act and putting in place various programs, initiatives and incentives on climate change, renewable energy, environment quality, green financing and research in science and technology, there are numerous opportunities for companies to embrace new technology and innovation to meet environmental goals and enhance business performance in the long run whilst creating value for its stakeholders.

# SUSTAINABILITY STATEMENT

## DRIVING SUSTAINABILITY AT KLCC

At KLCCP Stapled Group, we create long-term stakeholder value by having business strategies that consider every dimension of how our business operates in the ethical, social, environmental and economic spheres. We believe that to create, deliver and capture value, we need to be future ready and be part of a sustainable society. As such, our business model is anchored on sustainability strategies to create, deliver and share value with our stakeholders.

Our sustainability approach focuses on the EES sustainability aspects, reflecting the FTSE4Good themes and indicators for the Real Estate Holding and Development sector which KLCCP Stapled Group is categorised under, taking into consideration our unique business requirements, the global and domestic industry landscape and also the needs of our stakeholders.

We embed sustainability in all our business operations and believe participation by top management and employees is vital to the successful implementation of the strategies for sustainable development. We aim to deliver financial value and societal benefits by balancing the commercial objectives with the environment and social needs of our stakeholders, underpinned by solid governance and ethical business practices.

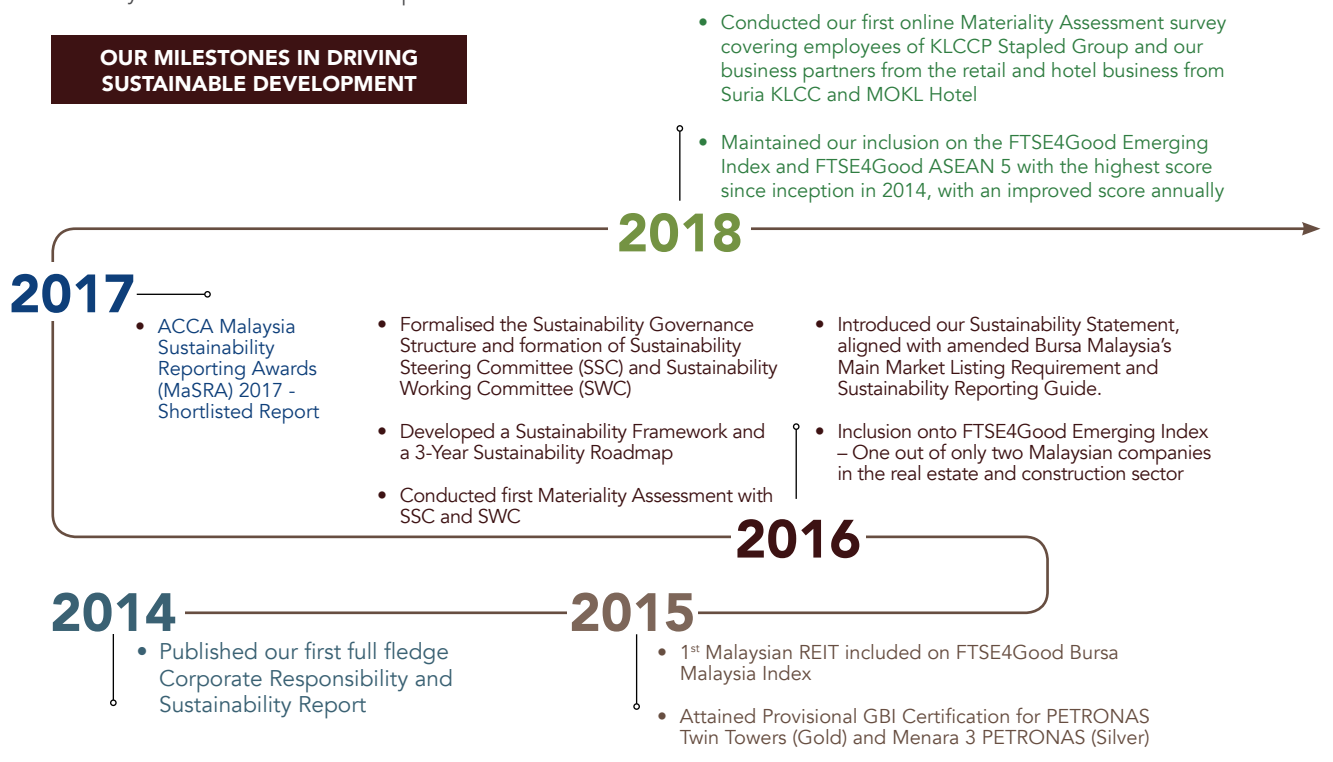
## In our quest to achieve our sustainable goals, we had framed our KLCC Corporate Sustainability Journey in three stages:



To-date, we have substantially completed stage one and have moved into stage two in driving sustainability operational excellence across the businesses. Our 3-year Sustainability Roadmap from 2016 saw completion this year with our 3-year targets being achieved against a 2015 baseline across the four focus areas of Economic, Environment, Social and Corporate Governance. The results are further elaborated in the respective sections accordingly.

Our sustainability journey in the last five years saw us achieve milestones through the years in our continued learning and driving sustainability initiatives within the Group.

### OUR MILESTONES IN DRIVING SUSTAINABLE DEVELOPMENT



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# SUSTAINABILITY STATEMENT

This year, pursuant to our exclusion from the FTSE Bursa Malaysia Index (FBM KLCI) with effect from 24 December 2018 attributable to the share volume trading and liquidity not meeting the stipulated threshold, we have also been automatically removed from the FTSE4Good Bursa Malaysia Index. Nevertheless, we still remain a constituent of the FTSE4Good Emerging Index and FTSE4Good ASEAN 5 and will continue to pursue our sustainability journey, aligned to best practices.

## SCOPE OF REPORTING

The information covered in KLCCP Stapled Group's Sustainability Statement 2018 underlines our sustainability performance as well as its strategies and practices, while highlighting the EES impact of our business activities. This report is based on KLCCP Stapled Group's financial year from 1 January to 31 December 2018.

Our scope of reporting for the year covers all of KLCCP Stapled Group's operations in Malaysia comprising office, retail and hotel assets as well as our operations in facility management and car parking management services. The scope is in accordance with the reporting scope of our Annual Report.

## GOVERNANCE STRUCTURE

The Groups' governance structure which was formalised in 2016 was designed to build on the capacity to pursue sustainable goals. KLCCP Stapled Group's Sustainability Steering Committee (SSC) forms the core of the governance structure and plays a very important role in driving sustainability within the organisation. The SSC comprises heads from all major business functions which ensures the development of sustainability strategies represent the wider interests of the Group.

Reporting to the Chief Executive Officer (CEO), the SSC ensures accountability, oversight and review in the identification and management of sustainability matters within the Group and have the overall responsibilities in overseeing the corporate sustainability strategy and progress of the KLCCP Stapled Group's sustainability performance, identifying and prioritising material matters, reviewing and endorsing policies, practices, targets and achievements for key sustainability issues and ensures regulatory sustainability requirements and reporting are met.

The SSC is supported by a working committee in ensuring sustainability is considered and integrated throughout our business operations. The CEO is responsible for driving the implementation of sustainability strategies for KLCCP Stapled Group and

together with the SSC, report the progress to the Boards of KLCCP and KLCCRM annually and seeks their advice on related issues. The Boards represent the highest authority and is ultimately accountable for managing material matters in KLCCP Stapled Group.

## KLCCP STAPLED GROUP SUSTAINABILITY GOVERNANCE STRUCTURE



## SUSTAINABILITY FRAMEWORK

In 2016, we established the KLCCP Stapled Group's Corporate Sustainability Framework (CSF) which encapsulates our principles on sustainability and aligns to our priority areas under the EES sustainability aspects. The CSF serves as a guide in managing the strategic and operational risks and opportunities which supports our business strategies, sustainability approach and objectives. Premised on the PETRONAS' Corporate Sustainability Framework, we adopted it to our context with eight focused areas – Governance and Business Ethics, Climate Change, Natural Resource Use, Health, Safety, Security and Environment, Workforce Development, Human Rights, Shareholder Value and Corporate Social Investment.

# SUSTAINABILITY STATEMENT

In 2017, with changes made by FTSE Russell to include Biodiversity as a theme exposure for the Real Estate Holding and Development sector, we included Biodiversity as one of its key focus areas into our CSF. Although the impact of biodiversity is nominal for KLCCP Stapled Group as our investments and developments are centred within the city centre, on the basis that Malaysia is identified as a Primary Impact Country, biodiversity is classified as high priority for the Real Estate Holding and Development sector. Our CSF now constitutes nine focused areas, applicable across all our business operations.

## KLCCP STAPLED GROUP SUSTAINABLE DEVELOPMENT

To deliver financial value and societal benefits in a responsible and holistic manner, by balancing the economic, environment and social needs of our stakeholders, steered by solid governance and ethical business practices



### KLCCP STAPLED GROUP CORPORATE SUSTAINABILITY FRAMEWORK



### OUR FIVE SUSTAINABILITY PILLARS



### ALIGNING OUR SUSTAINABILITY PRACTICES TO THE UNITED NATION'S SUSTAINABILITY DEVELOPMENT GOALS

As a real estate investment and development player, we aspire to contribute and make a positive impact to the communities and the world we live in. In pursuing this aspiration, we aligned our sustainability practices to the UNSDGs for sustainable development by operating responsibly, increasing opportunities, reducing corporate risk arising from sustainable development issues whilst maximising value creation over the long-term.

Last year, we mapped our practices to the UNSDGs which were relevant to KLCCP Stapled Group's sustainable material matters. Progressing from last year, we looked into prioritising the UNSDGs in promoting sustainable development as a real estate player taking into account the context of our operating and business environment and aligning with our risk profile and strategic objectives. We have chosen to focus on four UNSDGs where we believe we can make the most impactful contributions. This takes into account our sustainability pillars, the markets we operate in and our businesses.



We are in the midst of developing our next **5-year Sustainability Roadmap (2019-2023)** and will be aligning and measuring our contribution to these four UNSDGs with the targets and indicators once formalised.

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# SUSTAINABILITY STATEMENT

## 2018 SUSTAINABILITY PERFORMANCE HIGHLIGHTS

### ECONOMIC

REVENUE  
**RM1.4bil**

DIVIDEND  
**RM668.0mil**

TAX PAID  
**RM104.5mil**

### ENVIRONMENT

**GHG Emission**  
(mtCO<sub>2e</sub>)

**OFFICE & CAR PARK**  
Scope 1 **4.66**  
Scope 2 **82,667**

**RETAIL**  
Scope 1 **1,635**  
Scope 2 **27,141**

**HOTEL**  
Scope 1 **1,192**  
Scope 2 **16,583**

**Energy Consumption**  
(kWh)'000

**88,044**

**14,293**

**13,621**

**Water Consumption**  
(m<sup>3</sup>)

**589,491**

**497,347**

**154,530**

### WASTE MANAGEMENT (metric tonnes)

#### OFFICE & CAR PARK

**9.88**

Hazardous waste generated

**9.88**

Hazardous waste disposed

#### RETAIL

**0.755**    **0.970**

Hazardous waste generated

Hazardous waste disposed

**4,232**

Recycled waste (tonne)

#### HOTEL

**0.50**    **0.50**

Hazardous waste generated

Hazardous waste disposed

**2.35**

Waste intensity (kg per room/night)

**25.76**

Waste diversion (% diverted from landfills)

### SOCIAL

#### SAFETY AND HEALTH

Loss Time Injury (LTI) — **5 cases**

Loss Time Injury Frequency (LTIF) — **0.47**

Number of Fatalities — **0**

Loss of Primary Containment (LOPC) — **0**

#### EMPLOYEES

Workforce Diversity

**38%** Female

**62%** Male



**78%**

Staff sent for Training



**RM1.4mil** Spent on Staff Learning and Development

#### COMMUNITIES



**RM2.0mil**

Community Investment

#### CORPORATE GOVERNANCE

Board Diversity

**37.5%** women on board

# ECONOMIC



As a real estate player, KLCCP Staped Group plays a part in contributing towards the nation's economic and industry growth. Since its inception, KLCCP Staped Group has achieved significant milestones, being the largest Malaysia REIT, constituting 34% of Malaysia's REIT industry. With a diversified asset portfolio strategically located in Kuala Lumpur's most premium location, we are committed to deliver sustainable returns and long term value to our holders of Staped Securities.

## SUSTAINABLE MATTERS



Supporting the UNSDGs

Financial Sustainability

Economic, Social and Industry Growth

## WHY IT MATTERS

- Ensure improving sustainable returns and yields for our holders of Staped Securities through stable dividend payout
- High quality office buildings and good track record enable us to secure high quality tenants
- Delivering our role in contributing towards industry and the nation's growth

## VALUES CREATED

- Our strong fundamentals and management capabilities underpin our sustainable growth which is reflected through our credible performance for the year
- Diversified portfolio of iconic and high quality assets offering balance between commercial and public spaces
- Spurring commercial and residential development and heightened economic activities surrounding the KLCC Precinct



# ECONOMIC

## OUR APPROACH

In the pursuit of creating values and delivering long-term financial sustainability to our stakeholders, KLCCP Stapled Group is committed to manage its business responsibly and aligning its business processes and strategies to support sustainable development and growth across our operations.

As a property investment and development group, and the owner of the iconic properties which placed Malaysia firmly on the world map, we acknowledge our role in contributing positively to the industry's and the nation's growth. We are focused in our commitment to drive sustainable growth through efficient cost management, service level improvements and capitalise growth opportunities to maximise value of investments and ensuring sustainable returns to our stakeholders.

## FINANCIAL SUSTAINABILITY

The past year saw volatility in the equity markets with capital outflows from emerging markets, growing uncertainties in the global economy, political changes on the domestic front, mixed performance of the ringgit, further heightened by the challenging industry landscape and

technological advancements. KLCCP Stapled Group continued to focus its priority to drive sustainable growth and create significant value for its stakeholders through various strategic efforts in our portfolio during the year.

Our strategies of maximising value of investments, resilience in soft market conditions and creating sustainable value saw us responding to the new pace of change to ensure business agility and robustness. Our value creation ensures that our properties are well maintained in pristine condition to drive longer term tenancy prospects. The asset repositioning strategy and asset enhancements transform KLCC Precinct into THE PLACE creating the experience for our customers in driving enduring demand for our spaces.

These strategic priorities coupled with our diligent monitoring of our financial, operational initiatives and cost optimisation efforts resulted in KLCCP Stapled Group delivering a stable performance and sustainable returns to the holders of Stapled Securities. We distributed 96% of our overall distributable income with a distribution of 37.00 sen per stapled security. This is in line with our continued quest in delivering value and growth to the holders of Stapled Securities.

## ECONOMIC, SOCIAL AND INDUSTRY GROWTH

KLCCP Stapled Group has been involved in nation building, realising the vision of making Kuala Lumpur a world class city. The development within KLCC Precinct has marked a milestone in the growth of Kuala Lumpur and is the benchmark for the urban spatial planning and development in Malaysia. Designed to be a city within a city, the KLCC Development sits on a 100-acre precinct and is an integrated mixed development with residential, hotel, convention, retail and leisure components. Our properties within the KLCC Precinct have bridged people together and built a stronger sense of community where people can work, live, shop, play, meet, visit and dine. Our development within the KLCC Precinct has also created significant value enhancements to the properties surrounding and in the periphery of the KLCC Precinct.

KLCCP Stapled Group is committed to building and managing our properties to ensure safety, accessibility and vibrancy to meet social integration and enhance lives of its tenants, shoppers, guests and community.

### Delivering Economic and Social Value

OUR COMMITMENTS	VALUES	IMPACT
<b>Nation Building</b>	<ul style="list-style-type: none"> <li>Malaysia's landmark and pride of the nation</li> <li>Iconic development and major tourists attraction</li> </ul>	<ul style="list-style-type: none"> <li>Approximately two million visitors annually to PETRONAS Twin Towers and the major attractions within the KLCC Precinct</li> <li>Kuala Lumpur Convention Centre hosted over 12,000 events to-date, bringing into Kuala Lumpur over 12 million delegates and visitors</li> </ul>
<b>Catalyst for Surrounding Development</b>	<ul style="list-style-type: none"> <li>Spurred commercial and residential development in the periphery surrounding KLCC Precinct</li> <li>Created significant value enhancement for surrounding properties</li> <li>Selling point for developers of high-rise properties with KLCC view</li> </ul>	<ul style="list-style-type: none"> <li>Notable Developments surrounding KLCC Precinct</li> <li>Offices: Menara TH@ Platinum Park, Menara Darussalam, Menara Prestige</li> <li>Hotels: Four Seasons, Grand Hyatt, W Kuala Lumpur</li> <li>Residential: The Troika, Four Seasons Place, The Ruma</li> </ul>

## ECONOMIC

## Delivering Economic and Social Value

OUR COMMITMENTS	VALUES	IMPACT
<b>Connectivity</b>	<ul style="list-style-type: none"> <li>Convenient accessibility in built environment within our properties for children, the elderly and the disabled</li> <li>Building-to-building connectivity via air-conditioned pedestrian walkways, providing convenient access to surrounding areas, light-rail and mass rapid transit</li> <li>Unparalleled infrastructure with five entry/exit points from KLCC Precinct connecting various city centre roads and highways</li> </ul>	<ul style="list-style-type: none"> <li>Approximately three million pedestrian ply the walkways and connectivity to and from the KLCC Precinct monthly</li> <li>Approximately 2.7 million vehicles enter/exit KLCC Northwest Development car park annually</li> </ul>
<b>Customer Experience</b>	<ul style="list-style-type: none"> <li>Provides Malaysia's Iconic Experience in Kuala Lumpur in collaboration with our business partners, promoting Kuala Lumpur City Centre as a must visit destination for tourists, travelers and locals</li> <li>Powerful collective offerings from best hotels, restaurants, prime convention centre and entertainment experience</li> <li>Point of business of MICE activities, events, exhibitions, government and global ministerial meetings</li> </ul>	<ul style="list-style-type: none"> <li>Houses 15 oil and gas multinational companies and Fortune 500 companies with over 21,000 employees occupying our assets within the KLCC Precinct</li> <li>Over 400 new concepts/tenancies at our retail mall over the last 13 years</li> <li>Exceeding 48 million annual footfall to our retail mall</li> <li>92% hotel guest satisfaction</li> </ul>

## Promoting Industry Growth through Affiliations

KLCCP Stapled Group seeks to promote industry growth through its various industry associations it supports that are aligned with our shared values. Our memberships enable us to contribute towards the development of the real estate, retail and hotel industries, directly or indirectly through our participation in event, discussions and working groups network with our industry peers. Through the memberships, we are also able to promote professionalism as well as share best practices in the industry.

OUR PROPERTY	MEMBERSHIP	VALUES AND IMPACT
<b>KLCC Property Holdings Berhad (KLCCP)</b>	<b>Council of Tall Buildings and Urban Habitat (CTBUH)</b> KLCCP has been a member of the Council at Patron Level since 1996 and has been actively participating as participants and speakers in conferences organised by the Council	Our contribution has helped put the latest information from research and advanced design practice into the hands of professionals throughout the world
	<b>Federation Internationale des Administrateurs de Bien-Conselis Immobiliers (FIABCI) Malaysian Chapter</b> KLCCP is a member of FIABCI Malaysian Chapter and supports the Federation through its various events, seminars and talks organised annually	Keeping employees abreast of the happenings related to the industry through participation in seminars, workshops and publications  We also receive updates from FIABCI through their newsletter and emails
	<b>Malaysian Investor Relations Association (MIRA)</b> KLCC Property Holdings Berhad registered as a member since 2014. MIRA is the first and only professional association committed to developing and advancing the status and integrity of Investor Relations (IR) professionals	Our participation in seminars, workshops, networking session and awards ceremony enable us to reach out to network with IR professionals in the industry

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# ECONOMIC

## Promoting Industry Growth through Affiliations

OUR PROPERTY	MEMBERSHIP	VALUES AND IMPACT
<b>KLCC REIT</b>	<p><b>Malaysian REIT Managers Association (MRMA)</b></p> <p>KLCC REIT Management Sdn Bhd is a member of the Malaysian REIT Managers Association (MRMA). MRMA also represents its members' interests through engagement with the Malaysian Government and regulators for functional regulations, viable structures and tax harmonisation. This ensures Malaysian REITs remain competitive within the region and internationally</p>	Our active participation keeps us abreast of the development in the REIT industry and also provides us the platform to share ideas and opinions for the betterment of the industry
<b>Suria KLCC</b>	<p><b>Persatuan Pengurusan Kompleks Malaysia International Council of Shopping Centres</b></p> <p>Suria KLCC has been a member of the Persatuan Pengurusan Kompleks (PPK) Malaysia since 1995 and a member of the International Council of Shopping Centres (ICSC) since 2003</p>	As a member of PPK and ICSC, Suria KLCC is able to network with the management of other shopping centres in Malaysia and also benchmark with the retail industry best practices worldwide. Suria KLCC also receives information pertaining to the shopping centre industry, statistical data and other statistical research from the ICSC
<b>Mandarin Oriental, Kuala Lumpur (MOKL Hotel)</b>	<p><b>KLCC Business Events Alliance</b>  <b>Malaysian Employers Federation</b>  <b>Jactim Foundation</b>  <b>Malaysian Association of Hotel Owners</b>  <b>The Japanese Chamber of Commerce</b>  <b>Persatuan Hotel Malaysia</b></p>	<p>MOKL Hotel's membership in these association enables them to expand their business networking, leverage on the Association's database and solicit for potential business</p> <p>MOKL Hotel participates in initiatives carried out by the associations from time to time, contribute opinions and comments when requested. MOKL Hotel also participates in any surveys initiated</p>

## Commitment to Capital Market Development

We are committed to promote REIT as an investment asset class to retail investors. We intensified our communication with retail investors in collaboration with Bursa Malaysia and the Malaysian REIT Managers Association (MRMA). This year, we participated in the Bursa Malaysia's Shariah Investing Fair 2018 via a large track presentation and the Bursa Malaysia-i Shariah Investing Webinar 2018 Series sharing insights on Shariah compliant investment to the retail investors. Both events held in Kuala Lumpur were well received with participation from over 100 retail investors.

**OVER 100**  
PARTICIPATION FROM  
RETAIL INVESTORS

**7 July 2018**  
**BURSA MALAYSIA SHARIAH**  
**INVESTING FAIR 2018 – Kuala Lumpur**

**21 November 2018**  
**BURSA MALAYSIA-I SHARIAH INVESTING**  
**WEBINAR 2018 SERIES – Kuala Lumpur**

# ENVIRONMENT



**KLCCP Stapled Group’s commitment towards promoting environmental sustainability focuses on delivering sustainable developments, enhancing a sustainable society and cultivating a green and safe corporate culture. We continue to take proactive measures in minimising environmental impact through efficient management of our operations in the areas of Greenhouse Gas emission(GHG), energy efficiency, responsible water and waste management.**

## SUSTAINABLE MATTERS



Supporting the UNSDGs

Climate Change  
Environmental Management

## WHY IT MATTERS

- Shows our support towards the global agenda on Climate Change and the country’s initiatives towards energy efficiency, environment and climate change
- Growing level of environmental awareness to protect the planet
- Cultivates an eco-mindset among employees

## VALUES CREATED

- Creating a greener environment for the well-being of our community through responsible practices in reducing GHG emission, energy consumption, water use and waste management
- Achieved cost savings with reduced energy consumption, water use for our tenants and the use of renewable energy in operating costs for our retail
- Conservation of natural habitat and eco system within our KLCC Park, providing a green convenient, tranquil and conducive destination for our community
- Increased awareness amongst employees through participation in various environmental programmes organised

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# ENVIRONMENT

Our commitment in environmental stewardship is focused on improving our environmental practices and operational sustainability through:

<p><b>Driving down energy consumption in our operations</b></p> 	<p><b>Minimising use of water throughout our assets</b></p> 
<p><b>Influencing suppliers/contractors on commitment in conserving the environment</b></p> 	<p><b>Minimising quantities of waste generated at our assets</b></p> 
<p><b>Promoting biodiversity</b></p> 	

## OUR APPROACH

At KLCCP Stapled Group, we acknowledge our responsibility and emphasise the needs in raising awareness and understanding of environmental sustainability amongst our business units, stakeholders and the broader community. In line with our Code of Conduct and Business Ethics (CoBE) and as a real estate owner, developer and manager, we aim to minimise disruptions to the community and the environment by lowering the environmental footprint of our buildings and use energy, water and resources more efficiently.

With inherent focus on mitigating the environmental related challenges, and in achieving operational sustainability, KLCCP Stapled Group has embarked to strengthen its foothold in the areas of energy efficiency and waste management in all its assets and operations. In our 3-year Sustainability Roadmap (2016 – 2018), we have identified our baseline and targets for improving our environmental sustainability performance in these areas.

We strive to ensure our decisions contribute to improvements in environmental sustainability, working in-tandem with our tenants in green building initiatives, the local authority, Government and other stakeholders in achieving our targets.

KLCCP Stapled Group is committed in achieving its aspiration to be recognised as a responsible organisation that places great importance on environmental best practices throughout our operations.

With the growing awareness of environmental concerns, particularly in relation to climate change, it is imperative to all companies to address and mitigate the adverse effect resulting from business operations worldwide and the risks aggressively. The alarming rate of ozone depletion, the 2 degrees scenario, chemical pollution and biodiversity loss among others, call for the need to have in place initiatives for environmental conservation to ensure a safe and healthy environment for the future generations.

## CLIMATE CHANGE

Climate change results in adverse weather and global warming which will have impact on our wear and tear of assets and cost associated with repair and maintenance. Increased demand on ventilation and air-conditioning will also result in higher energy consumption. With the increasing awareness on climate change, there are also increasing demand for greener products and services which puts pressure on organisations to shift towards greener economy.

Climate change is fast becoming a global agenda and Malaysia is stepping up efforts in combating global climate change with the implementation of initiatives which include the development of the Climate Change Act in 2019, tax incentives to companies that invest in energy efficient set ups and target to increase use of renewable energy from 2% to 40% by 2025. In support of these initiatives, KLCCP Stapled Group is committed to address climate change risks through reduction of its energy consumption and carbon emission in its business operations. To-date, our facility management company, KLCC Urusharta Sdn Bhd, our car parking management company, KPM and hotel, MOKL Hotel are ISO 14001 EMS certified.

KLCCP Stapled Group anticipates, mitigates and develops adaptation strategies to face the upcoming carbon risks and opportunities, which may affect our tenants, users, guests and community. We monitor our GHG emission based on:

<b>Scope ONE</b>	<b>Scope TWO</b>
<p><b>DIRECT COMBUSTION</b> (Natural Gas and Diesel Consumption)</p>	<p><b>INDIRECT COMBUSTION</b> (Electricity and Chilled Water Consumption)</p>

## ENVIRONMENT

## MEASURING CARBON EMISSION

Carbon management in our business operations is in relation to utilities (electricity, natural gas, chilled water) and diesel. We have developed a carbon inventory to establish our emission baseline and monitor our carbon emission on a quarterly basis and track our progress.

At our hotel, the tracking of GHG emission is carried out through sampling of generator dust and smoke stack, chemical hazard risk assessment and local exhaust ventilation, among others. Our hotel also complies with the Clean Air Regulation 2014 and by 2018/2019 for boilers and generators.

## Performance for the Year

GreenHouse Gas Emission by Segments					
	2018	2017	2016	2015	2014
	⇓	⇓	⇓	⇓	⇓
<b>SCOPE 1</b> (mtCO <sub>2e</sub> )					
<b>OFFICE AND CAR PARK</b>	<b>4.66</b>	9.63	5.47	5.47	8.32
<b>RETAIL</b>	<b>1,635</b>	1,573	1,540	1,540	1,537
<b>HOTEL</b>	<b>1,192</b>	1,913	1,925	1,946	1,892
<b>TOTAL</b>	<b>2,831.66</b>	3,496	3,471	3,491	3,437
<b>SCOPE 2</b> (mtCO <sub>2e</sub> )					
<b>OFFICE AND CAR PARK</b>	<b>82,667</b>	87,078	90,214	90,138	90,699
<b>RETAIL</b>	<b>27,141</b>	27,462	33,103	32,819	21,422
<b>HOTEL</b>	<b>16,583</b>	18,003	17,511	17,330	17,924
<b>TOTAL</b>	<b>126,391</b>	132,543	140,828	140,287	130,045

Overall, KLCCP Stapled Group's GHG emission for 2018 totaled 129,223 metric tonnes, a decrease of 5% as compared to 2017. The reduction was contributed by the continued installation of the LED lighting and replacement of old fittings with new and more efficient fittings at Menara 3 PETRONAS, Suria KLCC and MOKL Hotel.

## ENERGY MANAGEMENT AND EFFICIENCY

As one of our sustainability agendas and a pillar to our carbon emission reduction strategy, we continue to implement energy efficient initiatives to consistently achieve our energy reduction performance across our business operations. We monitor and track our energy consumption and continued to install energy saving fixtures in our effort to reduce energy consumption in our office, retail and hotel properties as it is vital to achieve KLCCP Stapled Group's energy efficient goals and impact on overhead, cost, return on investment and the commensurate reduction of GHG emission.

## Key Initiatives for the Year

<b>PETRONAS Twin Towers</b>	<ul style="list-style-type: none"> <li>The establishment of the Energy Audit Committee in May 2018 to address our energy efficiency management. It is a platform to review and deliberate potential energy saving ideas and initiatives, share best practices and explore opportunities within the Group to target improvement of energy use towards better asset sustainability and longevity.</li> <li>Replacement of secondary valve for heat exchanger</li> <li>Reconditioning of heat exchanger plate</li> </ul>
<b>Menara 3 PETRONAS</b>	<ul style="list-style-type: none"> <li>Retrofitting Programmable Lighting Controller (PLC) type lighting to LED lighting at lift lobby area</li> <li>Re-scheduling of Air Handling Unit (AHU) operations to start from 6.30 a.m. to 7.30 a.m.</li> </ul>
<b>Menara Dayabumi</b>	<ul style="list-style-type: none"> <li>Implementation of LED lighting at common areas, office and car park</li> <li>Revision of schedule and usage of chillers during office hours: Monday to Wednesday – chillers in operation at 3,000 tonnes Thursday to Friday – chillers in operation at 2,600 tonnes</li> <li>Replacement of cool water system piping resulting in less water friction thus reducing running of pump</li> </ul>
<b>Suria KLCC</b>	<ul style="list-style-type: none"> <li>Replacement of all recess lights from normal tubes to LED lights</li> <li>Progressive escalators modernisation at Park Mall under Phase 3 to 5</li> </ul>
<b>MOKL Hotel</b>	<ul style="list-style-type: none"> <li>Installation of LED lights in the renovated guestrooms as per design specifications, resulting in a 32% reduction in wattage per room</li> <li>Installation of all walk-in refrigerators and freezers with plastic curtains to reduce cold air from escaping</li> <li>Upgrading of InnCom (Integrated room management system i.e. interfaces and energy savings software and hardware) in all guestrooms to improve guest comfort and energy saving</li> </ul>

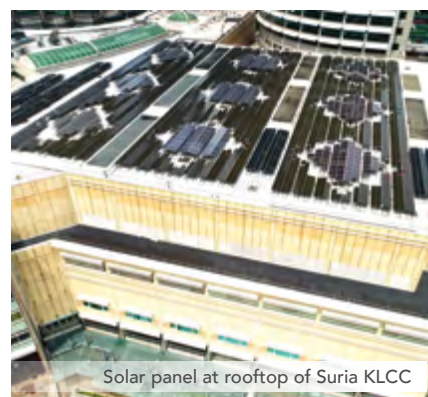


# ENVIRONMENT

## 3-Year (2016-2018) Sustainability Roadmap – Driving Down Energy Consumption

3-YEAR TARGET (against 2015 baseline)	STATUS	
<b>Office</b> Reduction of 5%	● ○ ○	Achieved Reduction of 19%
<b>Retail</b> Reduction of 3%	● ○ ○	Achieved Reduction of 27%
<b>Hotel</b> Reduction of 3%	● ○ ○	Achieved Reduction of 10%

● ○ ○ Met 2018 target      ○ ○ ● 2018 target not met



### Performance for the Year

Energy Consumption by Segments					
('000 kWh)	2018	2017	2016	2015	2014
	∨	∨	∨	∨	∨
<b>OFFICE AND CAR PARK</b>	<b>88,044</b>	82,900	95,426	99,656	100,209
<b>RETAIL</b>	<b>14,293</b>	14,851	15,791	15,412	13,641
<b>HOTEL</b>	<b>13,621</b>	14,141	13,541	13,830	14,678
<b>TOTAL</b>	<b>115,958</b>	111,892	124,758	128,898	128,528

Energy consumption registered an increase of 3.6% from 111,892,000 kWh in 2017 to 115,958,000 kWh in 2018 contributed by ongoing works for the “Workplace For Tomorrow” at all office buildings.

### Performance for the Year

Energy Intensity (kWh Per Square meter)	
	2018
	∨
<b>PETRONAS Twin Towers</b>	<b>70.10</b>
<b>Menara 3 PETRONAS</b>	<b>83.93</b>
<b>Menara Dayabumi</b>	<b>97.53</b>
<b>Menara ExxonMobil</b>	<b>97.67</b>
<b>Suria KLCC</b>	<b>99.56</b>
<b>MOKL Hotel</b>	<b>441</b>

### Renewable Energy

Suria KLCC’s photovoltaic system located at the rooftop has contributed towards the mall’s electricity saving of approximately 15.8 million kWh, equivalent to RM1.4 million since it began operations in 2012. It generates about 30% of Suria KLCC’s power requirement per month and contributes to the GHG emission reduction by approximately 360,000 kg carbon dioxide (CO<sup>2</sup>) per year.

Solar Energy 5-Year performance					
('000 kWh)	2018	2017	2016	2015	2014
	∨	∨	∨	∨	∨
<b>ENERGY GENERATED FROM SOLAR</b>	<b>512,257</b>	510,000	553,093	591,216	551,162
<b>SAVINGS (RM)</b>	<b>187,000</b>	186,000	324,000	282,000	201,000

### WATER MANAGEMENT

Water is a key element in our everyday life. Despite its abundance in some areas, millions of people around the world are still facing water scarcity due to lack of infrastructure, uneven distribution and access, contamination and adverse weather conditions. Rapid industrialisation, deforestation, unsustainable agricultural practices and fast growing populations are putting pressure on companies to understand how water issues can destabilise, radically alter, or halt business performance.

Despite having plenty of rainfall, Malaysia still encounters water shortages in some states for a certain period each year. Water rationing and unscheduled interruptions over recent years have adversely affected various industries and investors’ confidence.

## ENVIRONMENT

Though our business operations are located within water abundance areas, we are equally concerned about the recurring water crisis faced by the people in some areas. In responding to this issue, we are taking several initiatives to effectively and efficiently manage our water use as water resources is critical to our business sustainability and investments. As a real estate owner, developer and manager, we aim to keep consumption to a minimum, reuse water and prevent water pollution. Efficient water management also translates to less energy which reduces carbon footprint and in-turn lowers our operational cost.

### 3-Year (2016-2018) Sustainability Roadmap – Minimising water consumption

3-YEAR TARGET (against 2015 baseline)	STATUS	RESULTS
<b>Office</b> Reduction of 28%	○ ○ ●	Recorded a reduction of 0.2% Target reduction not met due to: 1. Water tank cleaning activity at PETRONAS Twin Towers 2. Massive work on transforming offices into “Workplace For Tomorrow” (WFT at PETRONAS Twin Towers, Menara 3 PETRONAS, Menara ExxonMobil and Menara Dayabumi. New equipment in place i.e vending machine. 3. Water tank lining refurbishment works.
<b>Retail</b> Reduction of 10%	● ○ ○	Achieved reduction of 13%
<b>Hotel</b> Reduction of 6%	● ○ ○	Achieved reduction of 13%

● ○ ○ Met 2018 target      ○ ○ ● 2018 target not met

### Key Initiatives for the Year

<b>OFFICE</b>	<ul style="list-style-type: none"> <li>Installation of water aerators and split valve at all lavatories at Menara 3 PETRONAS</li> <li>Installation of Variable Speed Drive (VSD) to regulate the domestic water pump operating speed at Menara 3 PETRONAS</li> <li>Replacement of vertical domestic water piping at Menara Dayabumi</li> </ul>
<b>RETAIL</b>	<ul style="list-style-type: none"> <li>Installation of water meter for all tenants that use water to track consumption</li> <li>Progressively change of water saving water tap in all toilets</li> </ul>
<b>HOTEL</b>	<ul style="list-style-type: none"> <li>Use of water restrictors and “seat” between pipe and faucet to stop drips in all kitchens</li> <li>Installation of aerator at hand basin tap in renovated guestrooms</li> </ul>

### Performance for the Year

Water Consumption by Segments					
(m <sup>3</sup> )	2018	2017	2016	2015	2014
	⇓	⇓	⇓	⇓	⇓
<b>OFFICE AND CAR PARK</b>	589,491	591,444	646,355	681,605	754,269
<b>RETAIL</b>	497,347	569,490	607,715	627,125	-
<b>HOTEL</b>	154,530	169,103	181,678	191,796	211,715
<b>TOTAL</b>	1,241,368	1,330,037	1,435,748	1,500,526	965,984

With our ongoing initiatives, overall water consumption for 2018 reduced by 6.7% being contributed by the installation of water aerators and variable speed drive at Menara 3 PETRONAS and Menara Dayabumi and use of water restrictors at MOKL Hotel.

# ENVIRONMENT

## WASTE MANAGEMENT

KLCCP Stapled Group continued its effort in managing waste disposal in a responsible manner to ensure the wellbeing of our tenants, guests, customers and the community at large. Besides being one of the key platforms in which we create sustainability awareness among employees, it is also part of our commitment and contribution towards our environment for the benefit of our future generation.

As a property investment and development group, our approach to waste management covers construction waste produced during development and renovation of our buildings, municipal waste produced

during operation of our buildings by the various users and occupants, which includes domestic and hazardous waste. Domestic waste comprises solid waste, compostable materials, recyclable materials and reusable materials whilst hazardous waste generated include used fluorescent bulbs, used batteries, spent lubricating oil, spent solvents and electronic wastes.

In respect to hazardous waste, KLCCP Stapled Group complies with the Scheduled Wastes Regulation 2005 (Environmental Quality Act 1974) by the Department of Environment (DOE), Malaysia. All the generated hazardous waste from our respective assets are disposed to the waste facility managed

by Kualiti Alam, Sdn Bhd, registered and licensed with DOE. All scheduled waste will be weighed and inventory will be tracked on a monthly basis. Collection of scheduled waste are undertaken within 180 days by Kualiti Alam, and e-consignment note are filed into DOE's eSwis website.

At our hotel, segregation of waste has been implemented at source - at kitchens, guestrooms and engineering. Waste for landfill or recycled waste are submitted by the waste vendor and tracked on a monthly basis. The data is collected and trended for any abnormalities prior to corrective actions being taken. The waste vendor uses a weighing machine at the Waste Management Center to obtain a more accurate data on recycled waste.

### 3-Year (2016-2018) Sustainability Roadmap – Minimising water consumption

3-YEAR TARGET (against 2015 baseline)	STATUS	RESULTS
<b>Office</b> Reduction of 9%	○ ○ ●	Waste Generation Recorded an increase of 100% Target reduction was not met due to: 1. Massive work on transforming offices into "Workspace For Tomorrow" at PETRONAS Twin Towers, Menara 3 PETRONAS, Menara ExxonMobil and Menara Dayabumi 2. Ongoing initiatives of changing fluorescent bulbs to LED lights under GBI initiatives at PETRONAS Twin Towers and Menara 3 PETRONAS 3. Major disposal of electronic waste at PETRONAS Twin Towers
<b>Retail</b> Reduction of 3%	● ○ ○	Waste Generation Achieved reduction of 17%
<b>Hotel</b> Waste generation Expected increase of 11% (Due to hotel's masterplan refurbishment)	● ○ ○	Waste Generation Achieved reduction of 47%
Waste intensity Reduction of 1%		Waste intensity Achieved reduction of 39%
Waste diversion Increase of 23.00%		Waste diversion Achieved increase of 24.71%

● ○ ○ Met 2018 target      ○ ○ ● 2018 target not met



## ENVIRONMENT

## Key Initiatives for the Year

<b>Recycling</b>	<ul style="list-style-type: none"> <li>Ongoing awareness training for employees and suppliers on smart purchasing and diligent practices of reuse, reduce and recycle</li> <li>Waste bins for recycle waste placed at office floors, NWD car park, kitchens and common areas</li> </ul>
<b>Waste segregation</b>	<ul style="list-style-type: none"> <li>Waste bins allocated for segregation of hazardous waste at office floors of the PETRONAS Twin Towers and NWD basement car park</li> <li>Reuse of coffee beans as compost for employees of MOKL Hotel to use for their gardens</li> <li>Engagement with tenants on schedule waste handling</li> </ul>
<b>Waste reduction</b>	<ul style="list-style-type: none"> <li>Implementation of a food bio-digester machine at MOKL Hotel, in partnership with waste vendor</li> <li>Monitoring, tracking and analysis of waste collection data is conducted monthly by MOKL Hotel</li> </ul>

## Performance for the Year

## Waste Generation and Disposal by Segments

	2018 ⇩	2017 ⇩	2016 ⇩	2015 ⇩	2014 ⇩
<b>OFFICE AND CAR PARK</b>					
<b>Total Hazardous Waste Generated</b> (metric tonnes)	<b>9.88</b>	9.133	2.173	4.640	3.975
<b>Total Hazardous Waste Disposed</b> (metric tonnes)	<b>9.88</b>	10.284	1.750	4.122	1.920
<b>RETAIL</b>					
<b>Recycled Waste</b> (tonnes)	<b>4,232</b>	3,819	2,997	-	-
<b>Total Hazardous Waste Generated</b> (metric tonnes)	<b>0.755</b>	0.920	-	-	-
<b>Total Hazardous Waste Disposed</b> (metric tonnes)	<b>0.970</b>	0.920	-	-	-
<b>HOTEL</b>					
<b>Total Hazardous Waste Generated</b> (metric tonnes)	<b>0.50</b>	0.746	0.903	0.903	0.901
<b>Total Hazardous Waste Disposed</b> (metric tonnes)	<b>0.50</b>	0.970	0.903	0.903	0.901
<b>Waste Intensity</b> (kg per room)	<b>2.35</b>	3.80	4.70	4.08	3.52
<b>Waste Diversion</b> (%)	<b>25.76</b>	23.13	22.39	17.06	14.16

In 2018, KLCCP Stapled Group generated approximately 11.14 metric tonnes of hazardous waste from its office and hotel operations. This increase was mainly due to the ongoing initiative of changing fluorescent tubes to LED lights under our GBI initiatives for PETRONAS Twin Towers and Menara 3 PETRONAS and the generation and disposal of spent solvent due to break down of dry cleaning machine at MOKL Hotel.

As at December 2018, MOKL Hotel's Waste Intensity (landfill waste per overall guests' room nights) was at 2.35kg per room compared to 3.8 kg per room in 2017. This decrease was mainly due to the ongoing campaign on educating guests to reduce waste, implementation of Electronic Direct Marketing and MO Digital Library where guests can download newspapers and magazines eliminating print flyers and hard copy newspapers. MOKL Hotel's focus on the requirement to practice the 3R of Reduce, Reuse and Recycle paid off when the hotel's waste diversion increased to 25.76% from 23.13% in 2017 which contributed less to landfill waste.

# ENVIRONMENT



## CASE STUDY

### MANAGING WET FOOD WASTE AT MOKL HOTEL

When compared to overall waste generated by the hotel, wet food waste consists of 26% of the hotel's total waste. Waste disposal companies are not provided with environmental alternatives where disposal is concerned, thus all wet food waste are dumped into landfills.

From the middle of 2018, MOKL hotel initiated the implementation of a bio-digester, Ecowiz Pte Ltd, which uses aerobic digestion of food waste in a mixer chamber using microbes and enzymes to break down the food waste into water slurry within 24 hours. The slurry will then be directed to the sewer system for treatment by Indah Water.

The implementation of bio-digester is environmentally beneficial as it enables MOKL Hotel to save wet food waste from being dumped into landfills. In addition, it saves one trip per day of haulage to landfills. MOKL Hotel's daily wet food waste is approximately 300 – 600 kg per day. The bio-digester machine can take up to 500 kg of waste per day and the balance is stored in wet food waste chiller to be digested at the next slow day.



## RESPONSIBLE MATERIAL USE

KLCCP Stapled Group takes pride in ensuring our assets and facilities are managed diligently to ensure they are always in pristine condition and cater to the comforts of our users and occupants whilst adhering to environmental friendly products and material use in their maintenance. We promote the use of sustainable building and fit out materials in our assets and eco-friendly products throughout our operations as part of our roles in inculcating environmental values and behaviours within the organisation and delivering environmental, social and business benefits.

### Promoting the use of Eco-Friendly Products

At KLCCP Stapled Group, we continue to promote the use of eco-friendly products throughout our business operations in our effort towards minimising adverse impact to the environment and for the safety and health of our employees and customers.

### Key Initiatives for the Year

<p><b>PETRONAS Twin Towers and Menara 3 PETRONAS</b></p>	<ul style="list-style-type: none"> <li>• Implementation of green product requirement as part of Invitation To Bid (ITB) submission</li> <li>• Carpet flooring and adhesive used for fit out are from recycled materials and low in Volatile Organic Compound (VOC)</li> <li>• Materials for ceiling insulation were of recycled content materials and non-toxic</li> <li>• All wiring outlet plates are PVC free to minimise outgassing of toxic substances and the lifecycles issues are also consideration in terms of production and disposal</li> </ul>
<p><b>MOKL Hotel</b></p>	<ul style="list-style-type: none"> <li>• Sourced from locally farmed fish, and locally grown vegetables, fruits, herbs and spices</li> <li>• Photocopying paper purchase from FSC approved paper (Forest Stewardship Council) from UPM Asia Pacific Pte. Ltd</li> <li>• Bedroom amenities such as shampoo, body wash, conditioner and body lotion tubes are made of Polyethylene (PE) which are recyclable. The ingredients are derived from natural plants and with essential oils.</li> <li>• The Mandarin Oriental Spa utilises:                         <ul style="list-style-type: none"> <li>- Essential oils derived from organically grown plants</li> <li>- All oils, fragrances and essences contain 100% natural ingredients</li> <li>- All treatment oils come in recyclable glass bottles</li> </ul> </li> </ul>

## ENVIRONMENT



## CASE STUDY

## PROMOTING SUSTAINABLE FISH FARMING AT PULAU KETAM BY MOKL HOTEL

With the increase in human population, the demand for food production increases. Where seafood is concerned, the fisherman will harvest from the oceans and seas. With this increase in demand, many have witnessed the decline of numerous ocean species. Thus with sustainable fishing, this has helped with meeting the demand whilst alleviating the depletion of ocean species.

In order to ensure or help to sustain fresh fish supply, MOKL Hotel's fish vendor, Dragon Taste/ Aqua Ceria has embarked on aquaculture, creating their own fish farm located at Pulau Ketam. Employees from MOKL Hotel paid a visit to the farm whereby the owner explained about fish farming, creating quality fish food and maintaining quality fishes.

A floating cage system farm with approximately 720 cages can be found in the open sea of Pulau Ketam. Among the quality marine fish species farmed are Tiger Grouper, Green Grouper, Giant Grouper (Asian Cod), Red Snapper and Barramundi (Asian Seabass).

Since purchasing from Dragon Taste, MOKL Hotel have been able to maintain their quality of seafood served due to daily delivery of fresh live, chilled, and frozen fish. This also allows the hotel to support sustainable fishing by vendors who are certified by Aquaculture Stewardship Council (ASC).

Live fish such as Pearl Tiger Garoupa and Soon Hock, are served at Lai Po Heen restaurant and Banquet events. Also available and served in banquets are the chilled and frozen fishes such as Red Snapper, Seabass and Garoupa (cooked whole and fillet).

The hotel's investment is in supporting companies who are doing their part in sustainable fishing. Approximately 20% to 30% of the total seafood purchased in 2018 comes from Dragon Taste. MOKL Hotel will continue to support vendors who venture into sustainability practices that will benefit mankind.



## BIODIVERSITY

Protecting and improving biodiversity is an integral part of our well-being as well as the environment and the eco-system surrounding us. KLCCP Stapled Group acknowledges the critical need to conserve our environment for our current and future generations. Over the years, we continue to upscale our efforts in maintaining and conserving our ecosystem and biodiversity through landscaping, conservation of native species and habitat protection and tree planting to leave a positive and lasting legacy in the areas where we operate.

Our biodiversity efforts are reflected through our KLCC Park, which is located in the middle of the 100-acre KLCC Development. The KLCC Park is a botanical wealth that showcases a rich composition of tree species carefully sourced throughout the country. Annually, we spend approximately RM1.6 million for the maintenance of the KLCC Park.

SEC 01

SEC 02

SEC 03

SEC 04

SEC 05

SEC 06

SEC 07



# ENVIRONMENT



## CASE STUDY

### KLCC PARK'S ECO-SYSTEMS

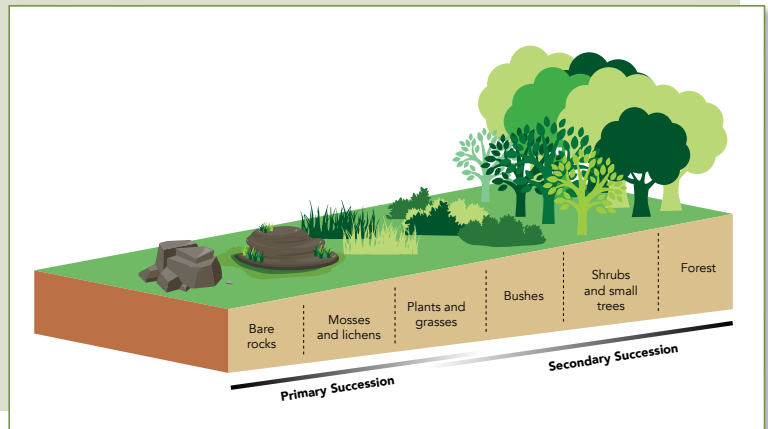
Malaysia's terrestrial ecosystems and its succession process (as featured in diagram below) is well represented within the KLCC Park which hosts 44 species of woody and flowering plants; shrubs and small trees as well as large dipterocarps and palms. The tree species also represent the different elevations at which they grow from the coastal area i.e. sea hibiscus, nibong and sea coconut and lowland dipterocarp i.e. Borneo camphor, penaga, chengal and shorea and together they form a profile of a mixed dipterocarp forest.

In addition to these important forest species, KLCC Park also comprises fruit trees such as rambutan, langsung and mangosteen as well as plants with medicinal properties such as sandal bead tree and Malayan teak.

These tree species are carefully maintained and to ensure longevity and adaptation to the environment, various treatment are carried out which include enriching of fertiliser, pest and diseases control and pruning to remove dead branches. This is also part of the preventive

maintenance carried out on a regular basis which will help sustain the growth and survival of plants and trees to support the ecology of the park.

With its diversity of plant species from different ecosystems, KLCC Park could be viewed as an important urban green area that also functions as a small botanic garden and habitat to bird species, insects and possibly small mammals although this may need to be studied and inventoried in greater detail.



Our environmental sustainability involves KLCCP Stapled Group playing its part as a good corporate citizen and encourage our employees to develop environmental and community outreach initiatives to appreciate and inculcate the back-to-nature awareness. Through such activities, we endeavor to make a difference and inspire others to do the same in our quest for a sustainable future.

### Envirocomm 2018

As an environmentally and socially responsible organisation, KLCCP Stapled Group carried out its annual Envirocomm 2018 as part of our effort in promoting environmental conservation and reaching out to the native community. Envirocomm also encourages employees' participation to create environmental awareness.

This annual activity was successfully held at the RISDA Eco Park at ULU Slim, Perak, focusing on environmental conservation and supporting the local communities. Among the programme conducted include building rock bed at Sungai Bernama Recreational Area to minimise erosion, planting of trees along Sungai Bernama and donated basic needs to the native community in the area.

Envirocomm 2018 marked our support towards environment conservation and the wellbeing of the communities. It has also become a program that promotes healthy lifestyle as well as addressing various social objective, establishing a cohesive relationship among corporates, our employees, customers and also the underprivileged community surrounding us.

### Key Initiatives for the Year

<b>Waste Not Want Not Sale</b>	<ul style="list-style-type: none"> <li>The objective was to raise funds for CSR initiatives in 2018, to encourage employees to Reuse, Recycle and Reduce, employees engagement</li> <li>A total of RM 6,000 was raised with items donated from employees for sale</li> </ul>
<b>Earth Hour</b>	<ul style="list-style-type: none"> <li>The objective was to create awareness on the need to conserve the natural resources of our planet by being responsible for our actions as well as understand the impact to our environment</li> <li>Shut-down of non-essential lights and equipment in the commercial and retail space and at the hotel</li> <li>Worked to engage and educate our tenants, guests and visitors to encourage participation and to create awareness on climate change</li> <li>Concerted effort made to identify and eliminate electricity usage resulting in savings</li> </ul>
<b>Give a Book, Take a Book</b>	<ul style="list-style-type: none"> <li>Encouraged employees to read as well as to reuse books. This also helps the environment by allowing employees to borrow or donate books from the library located in the staff cafeteria at MOKL Hotel</li> </ul>
<b>Beach Cleaning</b>	<ul style="list-style-type: none"> <li>The objectives of the programme was to improve the quality of facilities and promote hygienic and cleanliness of beaches and to instill civic awareness</li> <li>Beach Cleaning at Pantai Bagan Lalang was held in collaboration with Majlis Perbandaran Sepang in September 2018</li> </ul>
<b>Mangrove Plants Conservation</b>	<ul style="list-style-type: none"> <li>To create awareness and encourage employees participation in environmental conservation programme</li> <li>Conservation of mangrove plants at Kilim Geo-Forest Park, Pulau Langkawi completed in March 2018</li> </ul>

# SOCIAL



Social sustainability is a proactive way of managing and identifying business impact on our employees, workers in the value chain, customers, and local communities. It involves a process of creating sustainable places that promote safe, secured and conducive environment whilst maintaining long-term partnerships across our business portfolios.

## OUR SOCIAL COMMITMENT THROUGH SUSTAINABILITY PILLARS



### Security, Safety and Health

Protecting our assets, operating reliably, effectively and efficiently, across the Health, Safety and Environment (HSE) societal spheres



### Our People

Nurturing a diverse and talented workforce to drive business growth strategies



### Reliable Partner

Strengthening financial position, business competitiveness and spurring socio-economic growth

SEC 01

SEC 02

SEC 03

SEC 04

SEC 05

SEC 06

SEC 07

SOCIAL  
SECURITY, SAFETY AND HEALTH

**SECURITY, SAFETY AND HEALTH**

Safety is the pre-requisite for sustainable operations excellence and integrity. KLCCP Stapled Group has robust Health, Safety and Environment (HSE) policies and practices in place to minimise and prevent workplace injuries, accidents, medical illnesses and even fatalities. As a property owner, developer and manager, KLCCP Stapled Group imposes strict adherence to the Group’s HSE Policy in all areas of our operations. Our leadership’s commitment in enhancing and improving HSE is testament to this.

**SUSTAINABLE MATTERS**



Supporting the UNSDGs

- Safety and Health Management
- Security Management

**WHY IT MATTERS**

- Protecting our people and caring for their well-being is essential to our business operations
- Safety at worksite is one of the highest safety issues due to increasing number of rate of work-related injuries, illnesses and inherent risks associated with working in the real estate sector

**VALUES CREATED**

- Strengthened HSE capability and culture and occupational health of employees within the organisation
- Sustained HSE excellence with every employee ensuring HSE accountability within the organisation
- Being the leader in the industry, surpassing our peers

**OUR APPROACH**

KLCCP Stapled Group is committed to conducting business in a manner that protects the health, safety and security of our employees, tenants, contractors, suppliers and the community who visit our properties. Our business activities are conducted in accordance with our policies on HSE and comply with the highest standards of occupational safety and health regulations.

We place utmost importance on safety management to prioritise safe work practices, building HSE capability and culture within our organisation and occupational health in sustaining ideal health levels of our employees, visitors to our properties and at project sites. Regular HSE programs are conducted to strengthen our HSE culture and capability and ensure our operations are carried out with the highest safety standards. We make continuous improvement in our HSE practices, measure and track our performance against industry best practices in our effort to raise the bar on HSE.

**3-Year (2016-2018) Sustainability Roadmap**

3-YEAR TARGET (against 2015 baseline)	STATUS	RESULTS
Zero Fatality at workplace	● ○ ○	Maintained zero fatality
Zero Loss of Primary Containment (LOPC)	● ○ ○	Maintained zero LOPC
0.7 Loss Time Injury Frequency (LTIF)	● ○ ○	Achieved 0.47 LTIF (below threshold limit of 0.7)

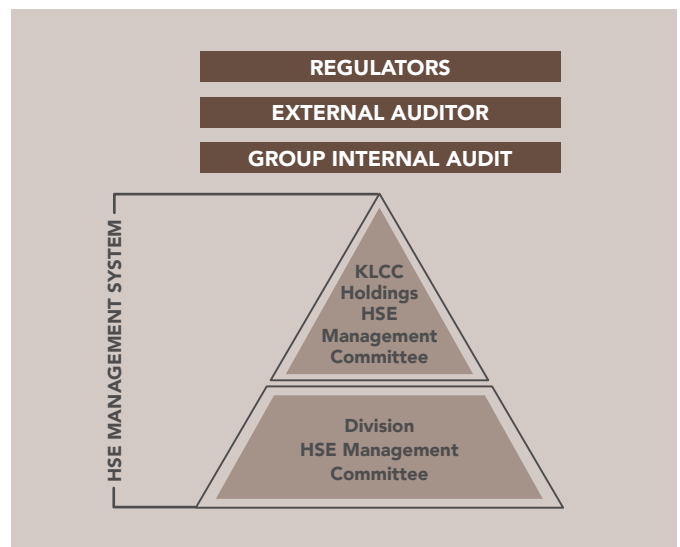
● ○ ○ Met 2018 target      ○ ○ ● 2018 target not met

**HSE GOVERNANCE**

KLCCP Stapled Group work jointly with the Department of Occupational, Safety and Health, Department of Environment, BOMBA and other certification bodies in enforcing the relevant acts and regulations to achieve appropriate standards in health and safety performance. A health and safety management audit is conducted by our external

auditors based on ISO 14001 and OHSAS 18001. It is a structured process of collecting independent information on the efficiency, effectiveness and reliability of our HSE practices and drawing up plans for corrective actions. The Group Internal Audit ensures all our HSE practices complies to the legal and conditions of contract in controlling risk and safeguarding against any harmful safety and health effects.

HSE at KLCCP Stapled Group is driven from the top through two HSE Management Committees (HSE MC) within the organisation subscribing to the HSE Management System (HSEMS). At the holding company level, the KLCC Holdings HSE MC is chaired by the CEO and its members comprise heads of business units and representatives from our joint ventures and hotel operations. Under KLCCP Stapled Group, we have a Division HSE MC chaired by the respective Division Heads and comprise representatives from the Employer and Employee.



These committees meet every quarter to proactively discuss on mitigating potential HSE risks and investigate root causes of incidents, and report back to Group level. The members of the committees actively undergo training on the roles and responsibilities of the National Institute of Occupational Safety and Health. With this governance structure, KLCCP Stapled Group ensures effective practice and implementation of HSE culture.



## SOCIAL SECURITY, SAFETY AND HEALTH

### SAFETY AND HEALTH MANAGEMENT

KLCCP Stapled Group has a robust safety system in place, demonstrating our strong commitment to uphold the KLCC HSE Policy which governs and reinforces our commitment towards safeguarding the employees, preserving the reliability of assets, facilities and operations. This is supported by our HSE Management System, HSE Mandatory Control Framework (MCF) and PETRONAS Technical Standards to strengthen HSE

Governance within the KLCCP Stapled Group while providing clear requirements on operational safety, environment and health for consistent and effective implementation.

Our employees, and third party personnel serving at our properties and development sites are mandated to comply with our standards and rules on HSE. We comply to the Zero Tolerance (ZETO) Rules, a principle to ensure all activities are carried out in a safe manner and where any non-compliance is not tolerated.

#### Key Initiatives for the Year

INITIATIVES	DETAILS	BENEFITS
<b>HSE MS Assurance Tier 2 Audits</b>	<ul style="list-style-type: none"> <li>KLCCP adopts the PETRONAS HSEMS. HSEMS integrates the Business Controls, Quality Management System and Risk Management into a single management system. It consists of 88 elements with 36 sub-elements</li> <li>The governance of HSEMS is conducted annually, through tier 2 assurance, a cross business assurance exercise</li> </ul>	Examines every stage in our HSEMS to measure our compliance with the controls, assess our effectiveness and draw up plans for corrective actions
<b>Top Management HSE Walkabout</b>	<ul style="list-style-type: none"> <li>Leadership walkabouts were conducted group wide by the Management Leadership Team – from project sites to plant environment and from buildings to parking management sites</li> <li>A total of 17 HSE Walkabouts were conducted in 2018 by the Management Leadership Team</li> </ul>	Promotes leadership visibility in driving HSE at our workplace and provides clarity to staff and contractors that they are not alone in preventing fatalities and accidents at workplace.
<b>Workplace Health Assessment</b>	<ul style="list-style-type: none"> <li>The workplace health assessment was conducted in accordance to DOSH requirements as minimum (industrial hygiene) identified workplace health risk through:               <ul style="list-style-type: none"> <li>Chemical health risk assessment</li> <li>Chemical exposure monitoring</li> <li>Noise exposure monitoring</li> <li>Indoor air quality                   <ul style="list-style-type: none"> <li>Monitoring and tracking were followed through in HSE committee meetings and monitored in Tier 2 HSEMS assurance exercise</li> <li>No health incidents recorded for the Group in year 2018</li> </ul> </li> </ul> </li> </ul>	Reduces and prevents occupational health disease incidents reported
<b>Emergency Preparedness</b>	<ul style="list-style-type: none"> <li>Fire drill held in Menara Dayabumi in May 2018</li> <li>Simulation exercises (dry run for responder deployment) held at PETRONAS Twin Towers to test the effectiveness of the Emergency Response Plan, Crisis Management Plan and Business Continuity Plan</li> </ul>	<p>Provides common understanding of emergency response management and consistent approach in managing risk to all employees</p> <p>Better able to respond and manage crises in the risk areas to protect and save people, environment, assets and reputation</p>
<b>Safety Engagement With Contractors</b>	<ul style="list-style-type: none"> <li>Programme on safe work practices towards achieving zero LTI included sharing on HSE best practices, lessons learnt and safety pledge on working safely. A total of 15 employees and 70 contractors attended the programme</li> </ul>	Better understanding of HSEMS, MCF and other HSE requirement translating to zero fatalities
<b>Investigations and Findings of Reported Incidents/Action Taken</b>	<ul style="list-style-type: none"> <li>Inclusion of new accident investigation analysis tools i.e. Tripod Beta for better analysis on human factor</li> <li>Standardisation of HSE incident management reporting at all operating units (OPUs), and incident investigation team appointment base on capability and competency</li> <li>All incidents are investigated with proper accident and root cause methodology to identify the cause of the incident</li> <li>The action items from incidents were discussed at various platforms i.e. within the HSE team, OPU level and tracked accordingly by corporate HSE</li> </ul>	Lessons learnt LTI incidents and dangerous occurrence/ near miss incidents were highlighted and shared with all employees within the Group for reflective learning

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# SOCIAL

## SECURITY, SAFETY AND HEALTH

### Strengthening HSE Capability and Culture

KLCCP Stapled Group continued to drive efforts towards values, attitudes, goals and proficiency of the organisation’s health and safety programs to strengthen HSE capability and culture among its employees and contractors. Our Management is committed to workplace safety and encourages the safety culture with everyone playing a part in keeping themselves and others safe.



#### CASE STUDY

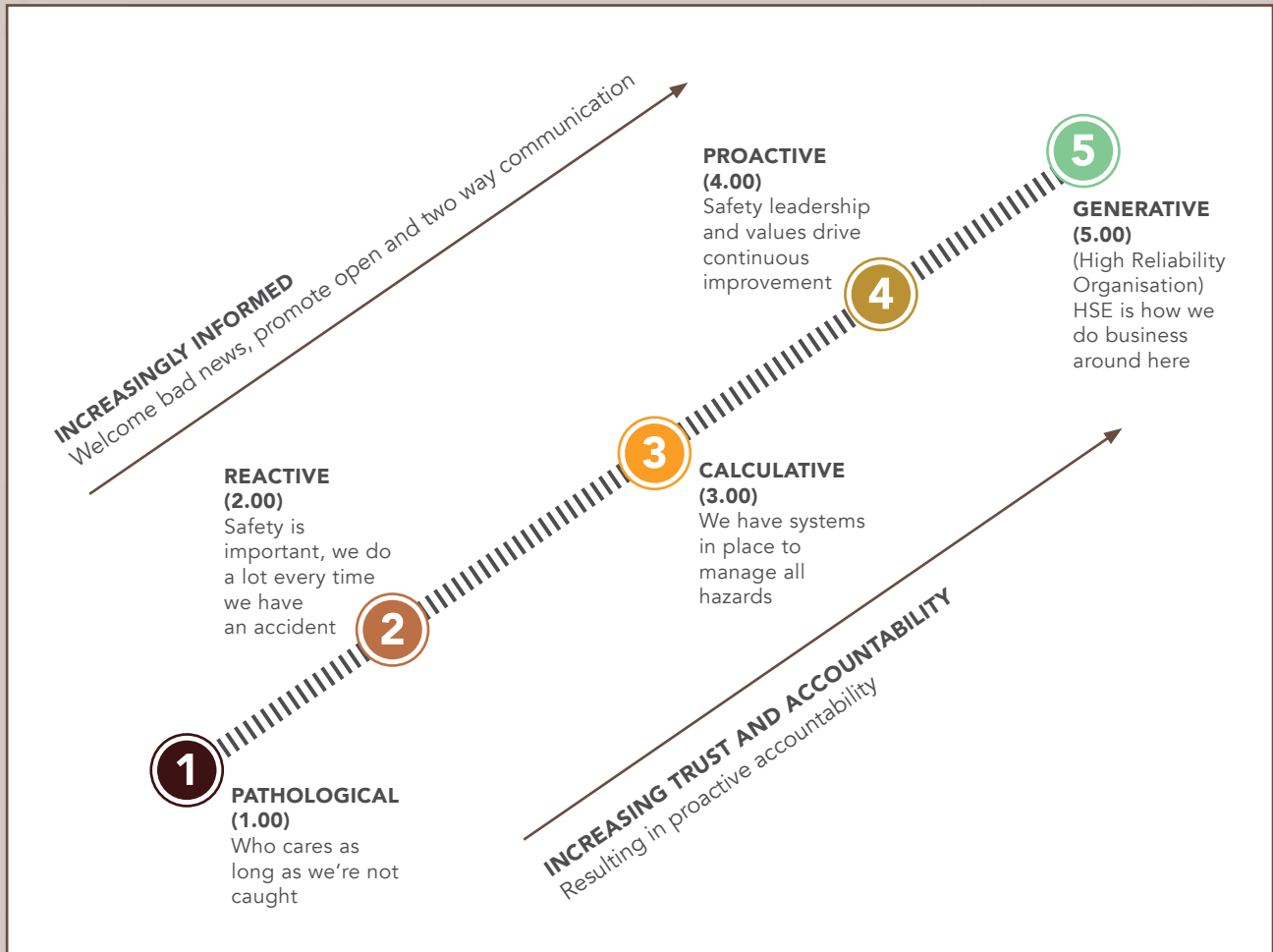
#### HEALTH, SECURITY, SAFETY AND ENVIRONMENT (HSSE) MATURITY SURVEY 2018 IN COLLABORATION WITH GHSE PETRONAS

The PETRONAS Group is working towards a step change improvement in HSSE and it is perceived that behavioral and cultural issues need to be addressed to achieve this improvement.

In aligning ourselves to this initiative, KLCCP Stapled Group collaborated with Group HSSE PETRONAS to conduct a HSSE Culture Maturity Survey which was customised based on the Energy Institute’s “Understanding Your Culture Toolkit”.

The objective of the survey was to gauge the level of HSSE maturity culture in our organisation and to understand our strengths and areas of improvements.

The survey was conducted between 16 April and 4 May 2018 which saw a response rate of 67%. The results of this survey is tabulated and given a scoring of 1-5 for maturity levels; 1 – Pathological, 2 – Reactive, 3 – Calculative, 4 – Proactive and 5 – Generative.



KLCCP Stapled Group achieved a score of 4.11, reflecting a level 4 HSSE maturity of ‘Proactive’ which confirms that we are on track to develop a Generative HSSE culture within our organisation. Moving forward, our GHSE division will be using insights from this survey to develop action plans and intervention program to strengthen our HSSE culture within our organisation.

## SOCIAL SECURITY, SAFETY AND HEALTH

For workplace safety, we continued our initiatives in ensuring strict adherence to ZeTo Rules, safety management systems, enforcing safety culture, compliance and leadership and lessons learnt. In 2018, numerous HSE programmes were conducted:

### Key Initiatives for the Year

INITIATIVES	DETAILS	BENEFITS
<b>Instilling HSE in each employee via Key Performance Indicators in Employee Performance Contract</b>	<ul style="list-style-type: none"> <li>Reporting on Potential Incident/Near Miss (PI/NM) of potential hazards or incidents at our properties or sites – there were 2,245 PI/NM reported in 2018</li> <li>Identified corrective actions are taken into account prevent injury/illness or recurring of similar incidents</li> </ul>	It encourages HSE excellence and awareness, making each employee responsible towards safety of the workplace
<b>HSE Awareness Programmes</b>	<ul style="list-style-type: none"> <li>HSE Awareness Session with staff – theory and practical.</li> <li>HSE induction for new staff, KLCCUH on-boarding training on daily basis for new tenants and contractors, Stress Management Training for Floor marshals and assistant floor marshals, sustainable development training, Mandatory Control Framework awareness training for KPM staff</li> <li>Education program – Re-inforce ZeTo Rules Training with consequence management for KLCCUH staff and HSE Fraternity</li> <li>Competency program- first aid training for first aiders, HSEMS Tier 2 auditor training, internal auditors training, ISO 14001 and OHSAS 18001 Lead Auditor trainings</li> <li>Training on identification of HSE risk – identifying the impact to people, environment, assets and reputation through hazard and effect management process (HEMP)</li> <li>Monthly KPM HSE Contest launched in February 2018</li> </ul>	An on-going initiative to train and educate our people, raise awareness, and develop HSE competencies within the organisation
<b>HSE Communication</b>	<ul style="list-style-type: none"> <li>Updates on HSE news, events and lessons learnt are published on the KLCC Group intranet portal</li> <li>HSE alerts on HSE incidents within the PETRONAS Group are communicated to all employees for awareness</li> <li>HSE sharing sessions with business units facilitated by the HSE team on environmental awareness and conservation, basic hazards and risk at workplace</li> </ul>	<p>Promotes awareness and understanding of health management and safety as well as specific risk issues</p> <p>Improves the overall effectiveness and efficiency of the implementation of the HSEMS</p>

### Performance for the Year

KLCCP Stapled Group maintained its impressive zero fatal incidents rate in 2018, stretching its record to 6 years. This was contributed by stringent safety measures implemented throughout our business operations. This achievement was also the result of employees' and leaders awareness and commitment towards the importance of upholding and embracing safety culture in all aspects of their work be it at site or offices.

	2018	2017	2016	2015	2014
	⇓	⇓	⇓	⇓	⇓
<b>FATALITIES</b>	0	0	0	0	0
<b>LOSS TIME INJURY (LTI) INCIDENTS</b>	5	9	4	8	2
<b>LOSS TIME INJURY FREQUENCY (LTIF)</b>	0.47	1.19	0.46	0.23	0.14
<b>LOPC</b>	0	0	0	0	0

During the year, KLCCP Stapled Group recorded 5 LTI incidents with a LTIF of 0.47 contributed by mishap of contractors at worksite. Our group has worked on the tightening of permit to work enforcement and intensified training development to reduce the LTI incidents. Loss of Primary Containment (LOPC) was maintained at zero.

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# SOCIAL

## SECURITY, SAFETY AND HEALTH

### Independent Verification and Certifications

KPM received its ISO 14001:2015, ISO 9001:2015 and OHSAS 18001:2007 certification (renewal) in August and September 2018 by Llyod's Register

MOKL Hotel successfully received ISO 14001:2015, ISO 22000:2005 and OHSAS 18001:2007 certification (renewal) in September 2018 by SIRIM

MOKL Hotel successfully received ISO 14001:2015, ISO 22000:2005 and OHSAS 18001:2007 certification (renewal) in September 2018 by SIRIM



Top Management HSE walkabout

### SECURITY MANAGEMENT

At KLCCP Stapled Group we have the responsibility of keeping our guests, tenants, customers and visitors safe by strengthening our security measures in light of the rising global security threats. It is even more so critical that we put in place the best security measures within and surrounding our premises as the KLCC Development is located in the iconic belt and receives millions of visitors each year.

We have in place a KLCC Precinct Security Master Plan comprising the Security Surveillance System for KLCC Precinct Common Area and we also collaborate with the Police and PETRONAS Group Security to manage the customers and visitors' safety and security across all asset classes. We also reviewed various measures to ensure security standards of all our assets in relation to monitoring systems, physical controls, emergency and crisis management plans and administrative systems are intact.

In 2019, we will be embarking on our initiatives to strengthen the overall security within KLCC Precinct in our efforts to safeguard our people and assets.

### CyberSecurity

With cyber-attacks becoming more prevalent and damaging, KLCCP Stapled Group is working towards reinforcing our systems and procedures to detect, respond and mitigate potential cyber disruptions for upholding information security protection. Our ICT infrastructure is fully supported by PETRONAS ICT, and we adhere to the PETRONAS' Baseline Security policy requirements which are accredited by the International Organisation for Standardization (ISO) 27001:2013 – Information Security Management System. Our Business Continuity Plan also serves to mitigate security risk for our critical business applications.

### Key Initiatives for the Year

INITIATIVES	DETAILS	BENEFITS
<b>Virtual Parking Management System</b>	<ul style="list-style-type: none"> <li>Our car parking management services company, KPM, implemented the first-ever virtual Parking Management System in Malaysia utilising a private cloud, which is centralised and located at our data centre managed by our internal ICT experts</li> </ul>	<p>A secured network for data storage and transfer, in combating cybersecurity risk</p> <p>Strengthening our Business Continuity Plan for critical business applications</p>

## OUR PEOPLE

Our people are our core strength and our organisation’s success highly depends on their capabilities and commitment. Our employees stand guided by a strict compliance to CoBE without any compromise to the organisation’s integrity. At KLCCP Stapled Group, we embrace the Cultural Beliefs which unleash potential in our employees to deliver excellent results while creating better day-to-day experiences.

### SUSTAINABLE MATTERS



Supporting the UNSDGs

Our People  
Human Rights and Labour  
Practices

### WHY IT MATTERS

- Our people define the culture of the organisation and their diverse capabilities enable us to deliver quality outcomes and achieve business results
- We aim to be the Employer of Choice to be able to attract, nurture and retain the best talent in the industry

### VALUES CREATED

- Greater inclusiveness towards talent retention
- More focused and engaged workforce making results matter



A Kembara 2.0 - Mount Kinabalu Challenge hosted by KLCC Sports & Recreation Club (KSRC)

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## SOCIAL OUR PEOPLE

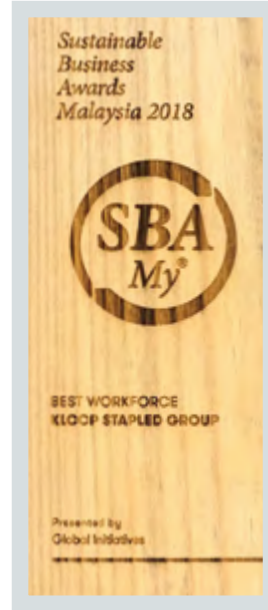
### OUR APPROACH

At KLCCP Stapled Group, our key focus for employees is to build the most diverse and inclusive workplace with appropriate capability development efforts and fair employment practices for our people to make better and informed decisions for superior business performance against the challenges in the real estate and property sector. We believe human capital is fundamental for us and we are guided by a high performance culture based on meritocracy, performance and delivery, subscribing to our KLCC Shared Values of Innovative, Cohesiveness, Loyalty, Integrity, and Professionalism, which are reflected in our daily work practices. Our Human Resource policies adhere to the strict guidelines on non-discrimination and fairness.

### 3-Year (2016-2018) Sustainability Roadmap

3-YEAR TARGET (against 2015 baseline)	STATUS	RESULTS
Succession ratio of 1:1.2	● ○ ○	Achieved a succession ratio of 1:2.6 as at December 2018
100% completion of leadership program for the remaining identified critical positions	● ○ ○	Completed 100% of leadership program for identified successors in critical position

● ○ ○ Met 2018 target      ○ ○ ● 2018 target not met



**Winner of  
"Best Workforce"  
at Sustainable  
Business Awards  
Malaysia 2018**

**in recognition of our  
commendable approach on  
employee engagement and  
diversity**

### EQUALITY, DIVERSITY AND INCLUSION

We view equality, diversity and inclusion within our workplace as a business imperative and continuously strive to provide equal opportunity in recruitment, career development, promotion, training and reward for all employees regardless of age, gender, race, religion, sexual orientation or disability. As at 31 December 2018, KLCCP Stapled Group has a total of 1,126 employees.

### Type of Employment

91% of our workforce constitute permanent employees. We still have contract employees as they are hired based on their specific skills for certain projects for a particular time duration. This demonstrates KLCCP Stapled Group's commitment to provide opportunities and nurture local talent by promoting talent retention within the organisation and ensuring that employees make the best of our organisation.



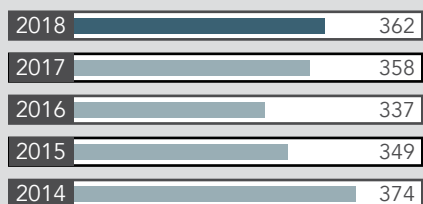


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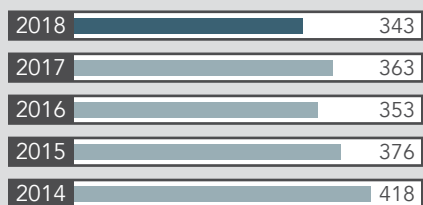
**Age Profile**

We have a diversified workforce across all age-groups with majority being in the millennials age-group. In 2018, 32% of our employee population are below the age of 30 years while 67% range from 30-60 years old.

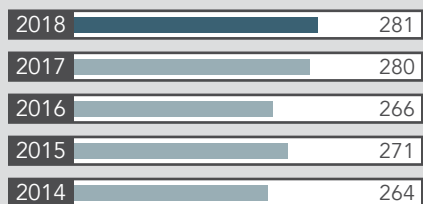
**Below 30**



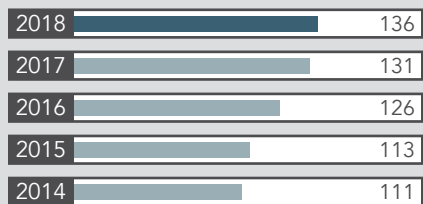
**30 - 39**



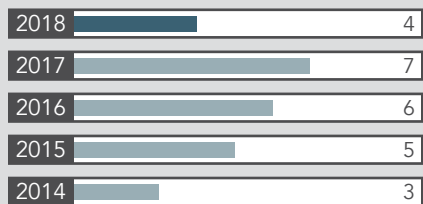
**40 - 49**



**50 - 59**

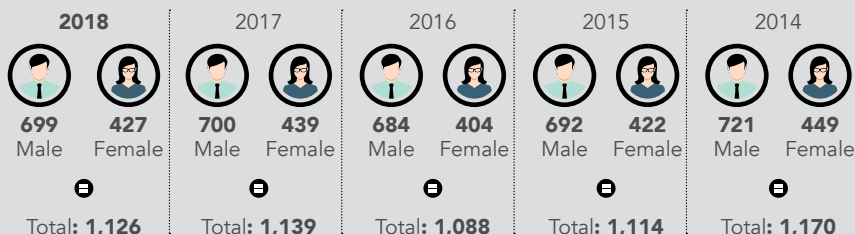


**60 Above**



**Gender Diversity**

KLCCP Stapled Group is committed to provide equal employment opportunities and practices merit-based promotion regardless of gender. Though our employee population is still dominated by males with a 62% to 38% female, there is still continuous efforts to balance the gender diversity within the organisation. For managerial position and above, male account for 57% with female at 43%.



**Top Management**



**2018**  
12 Male, 2 Female

**2017**  
20 Male, 6 Female

**2016**  
27 Male, 18 Female

**2015**  
7 Male, 4 Female

**2014**  
10 Male, 6 Female

**Senior and Mid Management**



**2018**  
151 Male, 122 Female

**2017**  
151 Male, 115 Female

**2016**  
151 Male, 124 Female

**2015**  
93 Male, 78 Female

**2014**  
126 Male, 100 Female

**Other Levels**



**2018**  
536 Male, 303 Female

**2017**  
529 Male, 318 Female

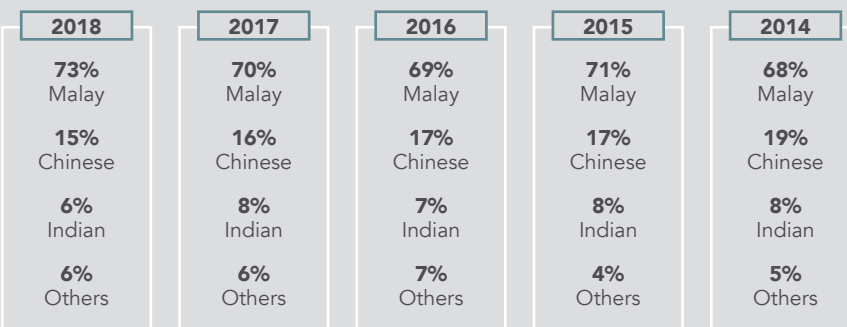
**2016**  
506 Male, 262 Female

**2015**  
592 Male, 340 Female

**2014**  
585 Male, 343 Female

**Ethnicity and Disability Inclusion**

KLCCP Stapled Group embraces an inclusive workplace practices by having a diverse racial workforce. Our workforce is inclusive of the three major races in the country with the remaining being the natives of Sabah and Sarawak from East Malaysia. We also provide fair employment opportunities for the disabled. As at 2018, we have two employees who collectively have been with the organisation for 30 years.



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## SOCIAL OUR PEOPLE

### SKILLS AND CAPABILITY DEVELOPMENT

#### Workforce Training and Investment

KLCCP Stapled Group strongly believes in investing in training and development initiatives as this leads our organisation towards gaining competitive advantage for future growth and success. Our training and development strategy is results driven in order to meet the needs of the business. We are focused on developing talent with the right competencies, knowledge and leadership skills at all levels. We groom and grow our internal talents by setting high standards of expectations and encourage employees to take personal ownership of their career that is reinforced through the 70:20:10 learning philosophy wherein 70% is experiential learning, 20% through coaching, mentoring and networking while the 10% is through formal classroom training.

#### Key Initiatives for the Year

INITIATIVES	BENEFITS
<b>Development of Skill Group (SKG) competencies for the Finance, Legal and Corporate Services and Human Resource fraternity between 2016 and 2018</b>	<ul style="list-style-type: none"> <li>• Enable employees to undergo assessments to identify gaps for closure to enhance functional and technical competencies</li> <li>• As at to-date, SKG assessment for Finance, Legal and Corporate Services and Human Resource fraternity have been completed</li> </ul>
<b>Establishment of KLCC Group Elite Leadership Program (KELPRO)</b>	<ul style="list-style-type: none"> <li>• Focuses on building future leaders for second-tier succession line: senior executives and managers</li> <li>• Talents are subjected to a 1½ year programme to prepare themselves to take up future leadership roles</li> </ul>
<b>Conducting of "Brown Bag" learning series sessions during lunch hour</b>	<ul style="list-style-type: none"> <li>• Ensure time is well spent making it hassle-free and non-disruptive to other work engagements</li> <li>• 12 learning sessions conducted covering areas such as technical and financial skills, personal development, economy, real estate industry and balanced scorecard framework</li> </ul>
<b>Participation in Skim Latihan 1 Malaysia (SL1M) employment program</b>	<ul style="list-style-type: none"> <li>• 4 SL1M trainees joined for a duration of one year, positioned at various business units within our organisation to gain exposure of the business operations</li> <li>• These trainees are from varied backgrounds - Human Resource, Property Management, Business Administration and Quantity Surveying</li> </ul>
<b>On-the-job training and Group Training Techniques for hotel employees</b>	<ul style="list-style-type: none"> <li>• Enhance the department trainer's skills in order for them to conduct training according to the hotel standards</li> <li>• Trainings are conducted in two categories:               <ol style="list-style-type: none"> <li>a) Generic Quality Trainings</li> <li>b) Fire Life, Health, Safety, Security and Environment trainings</li> </ol> </li> </ul>
<b>Leadership Development Workshop and Teambuilding for hotel management supervisors</b>	<ul style="list-style-type: none"> <li>• Solidify the management team and enhance its effectiveness by giving members time to get to know each other and execute strategic planning for the organisation</li> </ul>
<b>"Management Job Swap" for hotel management employees</b>	<ul style="list-style-type: none"> <li>• Opportunity to assume the role of their down line staffs for a minimum of half a day</li> <li>• Encouraging stronger interpersonal networks, improved communications, gain broader experience and develop new skills and awareness</li> </ul>
<b>Culture Exchange Ambassador at MOKL Hotel</b>	<ul style="list-style-type: none"> <li>• Ambassador is assigned to support and assist in the operational processes, conducting specific training, coaching new colleagues and sharing the Mandarin Oriental Hotel Group culture in other subsidiaries</li> <li>• 9 employees were sent to Guangzhou, Bangkok, Singapore and Dubai to build personal relationships, learn about the hotel's uniqueness, working style and culture</li> </ul>

Our retail employees continued their Competency Based Learning Curriculum with a focus on Customer Experience Excellence for Concierge and Front Liners, English programmes for Front Liners, Objective Setting and Planning, Standard Operating Procedures Drafting Guide, Procurement Optimisation Workshops and Specialised Trainings for competent handling of Photovoltaic Solar Panel.

In 2018, we invested RM1.4million on learning and development which saw 78% of employees undergoing training programmes that were planned for the year with an average of 34 hours per employee. This saw a total of close to 4,055 man-days for a total of 326 training programmes provided by the Group.

#### Student Internship Programme

KLCCP Stapled Group also partners with local tertiary education institutions to offer student internship opportunities for students interested in the real estate sector. In 2018, there were 9 interns assigned to various departments within the organisation. Our Human Resource Division also engaged with almost 30 fresh graduates from various universities via "Meet the Grads" session held in December 2018 to reach-out to potential talents for our 2019 internship program. They were inspired by the talks given by our various business unit heads and the graduates were offered an opportunity to initiate conversations with them. This program which was also to promote KLCCP Stapled Group as part of our branding initiative, ended with interview sessions to identify potential talents.

At MOKL Hotel, a structured 6-month global internship programme for key operational departments is made available in line with the hotel school internship schedule. Successful interns are given an opportunity to apply for the Management Development Programs upon their graduation. During the year, 18 students who have shown outstanding performance during the internship training were absorbed into employment at the hotel. MOKL Hotel also partners with the Bandung Institute of Tourism, a leading hotel school in Indonesia to train their students for a duration of 6 months at our hotel. This exposure is essential as part of their curriculum assessment and their accommodation is provided in-house including all meals.

#### TALENT MANAGEMENT

Dynamic, talented and dedicated employees play a crucial role in our organisation's long-term success. KLCCP Stapled Group continues to retain experienced and skilled employees for long-term and aspires to attract highly qualified and motivated new generation professionals. We see the recruitment, promotion and retention of young talents as a key strategic task. This requires flexible talent management that meets the current challenges of the labour market and transparent career opportunities. We have in place a Talent Strategy Blueprint detailing the strategies on attracting, retaining and developing talents, spanning a 5-year horizon. The blueprint outlines the HR roadmap and milestones focusing on three strategic thrusts – getting the right talents, putting them in the right environment and building credible leaders.

KLCCP Stapled Group identifies talent from within the organisation as well as externally. In 2018, our Human Resource Division participated in the Mega Career and Study Fair 2018 to attract potential candidates to be part of the Group. Our talent management programmes covers all stages from entry-level talent development programmes to top-tier executive programmes which are varied year-on-year to remain relevant to the changing needs of our employees and business while being impactful and meaningful.

We recognise that a systematic approach is necessary in ensuring leadership continuity. Hence, we constantly strengthen our performance management system, engaging our high-performing employees to set stretched key performance indicators and assume bigger roles and responsibilities. Career development planning based on employees' development needs and the input of their superiors are also important for us to build our pool of future leaders. Our Human Resource Planning and Development Committee (HRPDC) continuously reviews our succession planning strategy on an annual basis to identify and develop high potential employees to ensure sufficient talent pool for future succession and leadership needs. In 2018, KLCCP Stapled Group identified 8 critical positions with 21 successors to fill the next leadership roles within the organisation. The succession management ratio for the Group as at 31 December 2018 stands at a ratio of 1 to 2.6. KLCCP Stapled Group was also recognised in Malaysia's 100 Leading Graduate Employers as the most popular employers to work for which is voted by Malaysian students and fresh graduates.

#### Appraisals and Rewards

As KLCCP Stapled Group is committed to meritocracy, our rewards and compensation policies emphasise employees' performance, taking into account the challenges faced and efforts put in. Our employees' performance management was reviewed periodically and incorporated into a well-structured appraisal system through the Online Employee Management System (EMS) which covers all levels of employees. The EMS comprises of 3 stages – goal setting, periodic review and year-end review. Following the year-end review, a challenge session at division level with the Heads of Department and Heads of Division ensues, followed by a challenge session at organisation level prior to the final round of challenge at the HRPDC.

As part of our employee performance appraisal, our Human Resource Division initiated the inclusion of Behavioral Evaluation – PETRONAS Cultural Beliefs (Be PCB) to nurture and instill the Cultural Beliefs elements amongst employees. Each employee is required to nominate themselves for the Cultural Beliefs elements they have exhibited for the year and subsequently be assessed by their superior for feedback in the areas of strength and improvement. In 2018, 100% of our employees completed their performance appraisals via the EMS.

KLCCP Stapled Group also places emphasis on internal rewards recognition for our employees. In 2018, the Human Resource Division introduced the KLCC Group Choice Awards in recognition of our employee's relentless efforts to excel, through the quality of their performance and efforts in achieving excellent results. We recognise employee of choice for Manager, Executive and Non-Executive levels, best Sports person, for both men and women and employees who displayed exemplary efforts in embracing the Cultural Beliefs values. The selection was based on individual performance, participation in company events, and online voting by all employees.

Our hotel performance appraisal system for the Management team supports the Mandarin Oriental Hotel Group (MOHG) Performance Management process, called "PROFILE". The annual performance and succession planning reviews were completed at all levels of the organisation and feedback were given to ensure that employees are aware of their potential career progress.



## SOCIAL

### OUR PEOPLE

#### KLCC Young Professional Executive Club (YPEXC)

Nurturing young talents is an agenda of KLCCP Stapled Group as our young professionals constitute 27% of the workforce. In developing our future leaders, we provide an avenue for them to unlock their potential and leadership capabilities. YPEXC is a platform for the young executives to elevate their talent and focus on promoting KLCC values, work-life balance and breakthrough performance culture. The establishment of YPEXC Leadership Team has been endorsed in February 2018 to help empower youth leadership as the culture activator towards sustainable performance and growth.

#### Key Initiatives for the Year

ACTIVITIES	DETAILS AND BENEFITS
<b>YPEXC Annual Grand Meeting 2018</b>	<ul style="list-style-type: none"> <li>Annual gathering of YPEXC members as a platform to deliberate YPEXC initiatives and activities throughout the year</li> <li>Election of YPEXC Leadership Team (LT) and committee members</li> </ul>
<b>YPEXC Team Building</b>	<ul style="list-style-type: none"> <li>A platform for the LT and committees to communicate and align YPEXC organisational vision, mission and core values with clarity and effectiveness</li> <li>Enable the LT's to conceptualise learning experience and draw upon a cognizant plan of action to achieve a common goal in a fun and exciting settings</li> </ul>
<b>Confab session YPEXC LT-GCEO</b>	<ul style="list-style-type: none"> <li>A face-to-face opportunity to connect with the company's top management to achieve common understanding and to share concerns and challenges of being a Leader</li> </ul>
<b>YPEXC Clan Jumpa 2018</b>	<ul style="list-style-type: none"> <li>Address concerns and issues on YPEXC activities and its members</li> <li>Encourage camaraderie among members and strengthen YPEXC community ties</li> </ul>
<b>Sharing Session with UKM Students</b>	<ul style="list-style-type: none"> <li>Helps University students to connect their learning with the workplace challenges and expectations</li> <li>Sharing information about the property and construction industries and the career options it provides</li> </ul>
<b>YPEXC visit to Rumah Perlindungan Nur Hati</b>	<ul style="list-style-type: none"> <li>A joint effort with Human Resource (HR) Division to ease the burden of Rumah Perlindungan Hati residents in preparation for Aidilfitri</li> <li>Among the CSR activities include: monetary donations, visit to the orphanage and raya shopping with the unfortunate</li> </ul>
<b>KLCC Projek Knowledge Day</b>	<ul style="list-style-type: none"> <li>YPEXC was given the opportunity to be one of the invited speakers to share on Digital Transformation in Property and Construction Industries during Knowledge Day</li> <li>A platform for sharing knowledge about new technologies, products and services, as well as current challenges within the industry</li> </ul>
<b>Toastmaster Series Program/Stand Up, Speak Out Competition</b>	<ul style="list-style-type: none"> <li>Equip YPEXC with the skills of thinking clearly, speaking persuasively and listening to the opinions of others critically and constructively</li> <li>To develop their capacity for leadership and promote advance mutual understanding through more effective communication</li> </ul>

**WORKFORCE ENGAGEMENT**

Our employees play pivotal roles in advancing our business towards sustainable growth with the unique and valuable skill sets that they bring. To that end, we consistently engage our employees and empower our Management to interact transparently with their teams. Our engagements focus on employees' well-being, performances, results and recognition. During the year, we continued our proactive engagement with our workforce through various avenues for effective flow of information and alignment to business goals and strategies across our operations.

In 2018, we maintained the employee engagement score at 85%, well above the property and development industry benchmark of 63%. This is reflective of the trust the employees have in our organisation and for providing a workplace that inspires them. As at year end, the attrition rate for KLCCP Stapled Group stood at 6% compared to the property and development industry average of 11%.

**Key Initiatives for the Year**

INITIATIVES	BENEFITS
<b>Recognition of employees' loyalty and contribution to organisation</b>	<ul style="list-style-type: none"> <li>• Long Service Awards – provision of additional reward for retirees and long service for 10-35 years</li> <li>• Annual Dinner</li> </ul>
<b>Promote camaraderie, teamwork and cohesiveness</b>	<ul style="list-style-type: none"> <li>• CEO Townhall</li> <li>• Leadership Development Workshop and Teambuilding</li> <li>• Induction for new employees</li> <li>• Round Table Conference</li> </ul>
<b>Encourage stronger interpersonal networks and improved communication</b>	<ul style="list-style-type: none"> <li>• Employees Briefing</li> <li>• Management Retreat</li> <li>• Division Away Day</li> <li>• Social and Recreational Day</li> <li>• Employees Year End Party</li> <li>• Informative Talks</li> <li>• Social Get Together Fund</li> </ul>
<b>Employees' feedback on organisational culture</b>	<ul style="list-style-type: none"> <li>• Peer Review Survey</li> <li>• Online Employee Engagement Survey</li> </ul>
<b>Promote work-life balance</b>	<ul style="list-style-type: none"> <li>• Talent competition</li> <li>• Cooking Class for hotel employees</li> <li>• Sports and Games</li> </ul>



KLCC Group's Long Service Award ceremony is held annually to appreciate and recognise long serving employees

## SOCIAL

### OUR PEOPLE

#### Employee Wellness

We believe that investing in employees' health and well-being benefits both the employees and organisation. Healthy employees show better productivity, improved morale, positive contribution to work environment, and drive down overall healthcare costs. We are committed to creating a healthy workplace that encourages our employees to stay healthy and engage in a wide range of health programmes and initiatives.

#### Key Initiatives for the Year

INITIATIVES	DETAILS AND BENEFITS
<b>Free entry passes to the Twin Towers Fitness Centre (TTFC) for employees</b>	<ul style="list-style-type: none"> <li>Employees are able to utilise the gym facilities, squash, badminton courts and studios for group fitness classes and sports activities</li> </ul>
<b>KLCC Group Family Carnival and Property Games</b>	<ul style="list-style-type: none"> <li>Held in November 2018 as part of the efforts in promoting togetherness amongst families and encourage sports development</li> <li>Activities held include:               <ul style="list-style-type: none"> <li>- Zumba warm up</li> <li>- Telematch games</li> <li>- Food trucks</li> <li>- Carnival game booth</li> <li>- Petting zoo</li> <li>- Pony rides</li> <li>- Face painting</li> <li>- Clowns and mascots</li> <li>- Colouring contest</li> <li>- Magic show</li> </ul> </li> </ul>
<b>Fitness programme - Fit4Life 3.0 and JomFit</b>	<ul style="list-style-type: none"> <li>Aimed at providing an avenue for all employees to participate in physical exercise activities after working hours</li> <li>Conducted by professional trainers and highly effective for those who aim to get an ideal weight with an appropriate diet plan and physical exercise</li> </ul>
<b>MOHG Global Employees' Wellness Week</b>	<ul style="list-style-type: none"> <li>MOKL Hotel participated in the Blood Donation Campaign held in collaboration with the National Blood Bank</li> <li>Programmes on health talks, grooming classes, wellness class, sports and social activities as well as healthy food offerings</li> </ul>
<b>Suria KLCC staff get-together</b>	<ul style="list-style-type: none"> <li>Organises monthly zumba class, quarterly get-togethers and jogs in the KLCC Park to encourage bonding and understanding between managers and their teams as well as keeping fit.</li> </ul>

#### TOWARDS DIGITALISATION

In an effort of improving service delivery to employees, our Human Resource Division embraced digitalisation by continuing its efforts to relook at its current processes for automation. The journey started in 2012 via the outsourcing of its administrative and transactional activities through a shared services company, PETRONAS Human Resource Centralised Services ("PETRONAS HRCS"). In 2018, our HR Division embarked on several automation and simplification efforts for their systems. These enhancement initiatives were communicated with our employees at the ICT Pit-Stop event held in November 2018 which was in collaboration with PETRONAS-ICT to provide employee experience on the new digitalised services offered.



## SOCIAL OUR PEOPLE

The year also saw the “New Room Reservation System” go-live for meeting rooms. The goal is to make room bookings much easier whereby employees can book the meeting rooms using the outlook calendar without leaving the desk to check on every meeting rooms that are available. It saves time and in line with our goal to reduce paper usage.

### EMPLOYEE BENEFITS

In an effort to attract, motivate and retain employees, KLCCP Stapled Group emphasises on enhancing employee welfare and catering to the growing needs of our people. In 2018, KLCC Group of Companies were given the opportunity to leverage on PETRONAS’ exclusive vehicle offer for certain brand names. In light of the increasing importance of smart phones making them a necessity for everyone, KLCCP Stapled Group under the Employee Purchase Program provides employee with great discounts to own smart phones.

MOKL Hotel on the other hand introduces MObstay programme which provides its employees and their families discounts on hotel stays giving them the opportunity to experience Mandarin Oriental hospitality. “MOKL Family and Relatives Promo Rate” is also applicable to all permanent employees’ family and/or relatives who are travelling on leisure.

### HR ONE-STOP POINT

Aiming to assist both employers and employees, the Human Resource Division established a centralised contact centre called HR One-Stop Point to serve as a one-stop focal point that manages all enquiries that come in through emails, phone calls as well as walk-ins. Part of this initiative, the division introduced “HR Careline” in early 2018 to address HR-related matters for employees and to improve HR’s service level.

We also aim to address any grievance or complaints amongst employees or third party fairly and effectively. The grievance mechanism that we have in place enables employees to raise issues such as dissatisfaction regarding conditions of employment, relationship with colleagues or supervisor, or discrimination. In our efforts to establish fairness in the workplace, our employees can voice their grievances through multiple communication channels such as via the HR Careline, submission of official grievance form or even through face to face conversation with a HR representative. When a grievance report is filed, our HR team will closely monitor any concerns and conduct an investigation with due process which may include disciplinary actions within the framework of local laws and practices, if necessary.



KLCCP Stapled Group participates annually in the Bursa Bull Charge Run in aid of the underprivileged communities

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# SOCIAL

## OUR PEOPLE

### RESPONSIBLE EMPLOYMENT PRACTICES

KLCCP Stapled Group is a performance-driven organisation, adopting fair and responsible employment practices. We abide by the following laws:

<p><b>Employment Act 1955 (ACT 265)</b></p> 	<p><b>Trade Union Act 1959 (ACT 262)</b></p> 
<p><b>Industrial Relations Act 1967 (ACT 177)</b></p> 	<p><b>Minimum Retirement Age Act 2012 (ACT 753)</b></p> 
<p><b>Occupational Safety and Health Act 1994 (ACT 514)</b></p> 	<p><b>Factories and Machinery Act 1967 (ACT 139)</b></p> 
<p><b>Merchant Shipping Ordinance 1952</b></p> 	<p><b>Children and Young Persons (Employment) Act 1966 (ACT 350)</b></p> 

We also benchmark against the property development and management industry wherein the Group's policy is above the 50<sup>th</sup> percentile of the property development and management industry. Our remuneration packages comply with Malaysia's Minimum Wage regulation while the overtime compensation, working hours and fatigue management are in accordance with the Employment Act. We offer fair and competitive remuneration packages based on employees' competencies and expected roles and responsibilities which are aligned to industry's best practices and market benchmarks with review conducted annually.

Our Group also provides flexible work arrangements (FWA) for employees with special family needs to manage their personal and work commitments more effectively giving a well-balanced lifestyle. We keep abreast with the compliance or adoption of policies and best practices in PETRONAS through quarterly meetings with the PETRONAS Group Human Resource Management in order to align ourselves with our parent company whilst taking into account the relevance of the industry KLCCP Stapled Group is operating in.

### HUMAN RIGHTS AND LABOUR PRACTICES

A strong commitment to human rights is an integral part of KLCCP Stapled Group's business etiquette. We also demonstrate responsible workplace practices with respect to employment and fully comply with the legislations on the welfare and rights of our employees and workers as well as our service providers at our project sites. In 2018, there were no incidents and grievances of discrimination, child labour and forced labour reported in KLCCP Stapled Group.

#### Respect for Freedom of Association

KLCCP Stapled Group respects all employees' fundamental rights to freedom of association and the rights to be members of trade unions. Although KLCC Stapled Group is not a unionised organisation, we stand guided by the Industrial Relations Act which allows trade unions to act on behalf of employees for collective bargaining, providing them with an additional avenue to seek redress for disputes.

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RELIABLE PARTNER

**RELIABLE PARTNER**

KLCCP Stapled Group is committed to taking an active and long-term role in managing the relationship with our stakeholders and working as a reliable partner with the communities, to engage both citizens and community partners to ensure continuous improvement in our approach to sustainability and in giving back to the community.

**SUSTAINABLE MATTERS**



Supporting the UNSDGs

Supply Chain Management

Customer and Tenant Engagement

Corporate Social Investment

**WHY IT MATTERS**

- We are conscious of our role in delivering lasting impact to the community
- Our customers, tenants, shoppers, community create the vibrancy in KLCC Precinct for us and we in turn need to give them the experience of THE PLACE

**VALUES CREATED**

- Strategic business partnerships which contribute towards social development and long-term community value
- Made KLCC Precinct the people’s place where they can converge and enjoy the various experiences through excellent infrastructure, accessibility, connectivity with the attractions within the development



KLCCP Stapled Group supported the “Speak Up - There’s an Elephant in the Room” awareness campaign on life-limiting illnesses organised by Hospis Malaysia

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## SOCIAL RELIABLE PARTNER

### OUR APPROACH

Our objective as a reliable property investment and development group is to make meaningful contributions economically and socially and grow with our stakeholders which includes our suppliers, customers, tenants and business partners to maintain long-term partnerships across our business portfolios. We also invest in community and sustainable development programmes in the areas of education, health, environment and special community needs. Our contributions include the development of infrastructure, the support for charity associations through fundraising activities, as well as education and environmental initiatives.

### 3-Year (2016-2018) Sustainability Roadmap

3-YEAR TARGET (against 2015 baseline)	STATUS	RESULTS
Strengthening retail occupancy rate to optimum level		Achieved 98% occupancy rate
Increase % of accredited/certified hotel suppliers in food safety requirements by 3%		Increased accredited suppliers by 6.5%

Met 2018 target      2018 target not met

### SUPPLY CHAIN MANAGEMENT

KLCCP Stapled Group has a robust system in place to continuously review our supply chain, take concrete actions to enhance the quality of services and products we procure, and work closely with our suppliers to improve their sustainable performances.

KLCCP Stapled Group maintains a list of registered suppliers/vendors. Due diligence of contractors and suppliers are undertaken prior to them being registered/licensed with KLCCP Stapled Group. Suppliers are selected in accordance with established procurement processes which includes technical and commercial evaluation. The evaluation criteria cover acceptable technical offer, benefits in terms of value for money, experience of suppliers/vendors, total project requirement and well-being. Suppliers' performance evaluation is also performed in a frequent and consistent manner to measure the post award performance of a vendor against defined performance criteria. The evaluation includes discussion on the performance results and identification of improvement opportunities. We have also established several tender committees which made up of formally appointed cross-functional members from KLCCP Stapled Group's various business units to review, deliberate and endorse/approve tender documents for the sourcing of goods and services for the Group's projects and operational requirements.

### LOCAL PROCUREMENT MANAGEMENT

KLCCP Stapled Group practices sustainable procurement by ensuring its entire procurement process takes into account the EES impacts of our business practices. Our procurement department ensures that we uphold responsible procurement practices and our initiatives start right at the supplier selection process till the procurement of supplies or services, where various sustainability considerations including fair labour practices and safety requirements are embedded into our terms and conditions. Our procurement team prioritises on minimising any non-compliance risks in the supply chain and encourage our business partners to make continuous improvement towards sustainable business conduct.

### Sustainable Supply Chain and Ethical Behaviour

Procurements are made through the tendering and bidding process that screens the bidders' capability and credibility through transparent procurement guidelines, processes and procedures to ensure bidders are evaluated fairly. All contracts with our contractors, consultants and suppliers have imposed provisions requiring them to adhere to and comply with CoBE. Non-compliance by them shall result in legal consequence which may include termination of contract.

**Key Initiatives for the Year**

INITIATIVES	BENEFITS
Reviewed and tightened procurement policies in shortlisting bidders – screening of suppliers' background and registration with regulated bodies	Able to select bidders that offer services at the best value for money
Established guidelines for separate tender evaluation teams – 2 teams for technical and commercial analysis respectively	Evaluation process will not be influenced by the other party
Reviewed and improved SOP on Tender Evaluation by incorporating anti-bribery due diligence on contractor's experience and workload	Thorough screening based on the improved SOP to weed out contractors who are inclined towards acts of bribery
Included anti-bribery assessment for Contractor's Risk Assessment (CORA) for all projects	
Assigning a Quantity Surveyor Consultant in certifying the percentage of completion for projects before payment process	Payment is released based on completion of projects to avoid any form of overpayment
Incorporated notice on good governance and anti-bribery at common/public area	Create awareness amongst employees and business partners in promoting integrity and adopting zero- tolerance stance against bribery and corruption
Inculcating CoBE culture to business partners - contractors/consultants/service providers to report on corruption via whistle-blower	

**Supplier's Code of Conduct**

To ensure transparent and fair practices by vendors, the bid documents include a provision in the contract terms and conditions on:

<b>Conflict of interest and fighting corruption and unethical practices</b>	<ul style="list-style-type: none"> <li>The contractor shall comply with all relevant requirements and policies throughout the contract period</li> <li>Have in place and maintain throughout the contract period its own policies and procedures to ensure compliance with relevant requirements and policies</li> <li>Promptly report any request or demand for undue financial or other advantage of any kind received in connection with the performance of the contract</li> </ul>
<b>Business Ethics</b>	<ul style="list-style-type: none"> <li>The contractor shall take no action on behalf of the Employer in the performance of the works or rendition of the works or the conduct of operation that would subject either party to liability or penalty under any laws, rules, regulations or decrees of any governmental authority</li> <li>All invoices, financial settlements, reports and billings by the contractor shall properly reflect the facts about all activities and transactions handled for the employer's accounts</li> <li>The contractor agrees to notify the employer promptly upon discovery of any instance where the contractor has not complied with the requirements of the contract</li> </ul>
<b>Health, Safety and Environment (HSE)</b>	<ul style="list-style-type: none"> <li>HSE policy, targets and requirements</li> <li>Prevailing laws and regulations</li> <li>Risk assessment including preventing and mitigating measures</li> <li>Emergency response plan</li> <li>Incident reporting and investigation</li> </ul>

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## SOCIAL

### RELIABLE PARTNER

#### Supplier Diversity and Local Procurement

At KLCCP Stapled Group, we recognise that our suppliers are an extension of our organisation. We are committed to collaborating with a diverse supplier base and improve our collective environmental sustainability efforts. We also encourage sourcing of local products among the suppliers. In 2018, 90% of our products were sourced locally with a contract value of approximately RM700million, contributing positively to the local economy.

#### RESPONSIBLE PRODUCT SOURCING

We work together with our suppliers to develop a shared commitment to quality and safety of our product and services and ensure that all of our suppliers abide by our quality performance standards, requirements, processes and procedures. We source responsibly and apply rigorous systems to ensure our products meet or exceed the highest standards of quality and safety. It is part of our sustainability strategy to promote efforts towards prioritising on quality.

#### Supplier Audits

As food and beverage contributes approximately 40% of our hotels' revenue, food hygiene and safety is critical in sustaining MOKL Hotel's revenue. MOKL Hotel's Supplier Chain Management focuses on food and beverage suppliers in respect to compliance to food safety requirements. This is also in line with our certification in ISO 22000 – Food Safety Management and Halal Assurance Management System. We have in place a policy and the procedures include supplier audits for local F&B suppliers. These local suppliers are classified into "High Risk" or "Low Risk", depending on product type supplied. The audits are conducted yearly for "High Risk" and conversely once every 2 years for "Low Risk". Suppliers are encouraged to obtain accreditation (HACCP – MS 1480/ISO 22000) and accredited suppliers are preferred and

given "nominated supplier" status. The premises of the suppliers are audited based on food safety management, raw materials, product and materials, structure and facilities, pest control, cleaning and housekeeping.

There are a total of 53 local F&B suppliers out of which 35 are "High Risk" and 18 "Low Risk" which is scheduled to be audited. This year in MOKL Hotel, a total of 32 suppliers were audited.

#### Purchasing Policy and Scope

In MOKL Hotel, the Materials Management Department has a purchasing policy and procedures in place and spearheads the placement of orders for all goods and services required in the daily operations of the hotel. The department will ensure that there are competitive quotes from nominated or preferred suppliers capable of meeting the specifications in terms of quality, timely delivery, adherence to Food Safety, Environmental and OSH requirements and providing competitive price. This policy and procedure covers the requirements of the purchase requisition to the execution of the purchase order and was further enhanced to include green purchasing within the supplier chain.

#### Green Procurement

KLCCP Stapled Group acknowledges the increasing importance of green procurement and is further enhancing its efforts to move towards a more responsible procurement practice. We continue to expand our procurement scope by procuring products and services to support the green building initiatives especially at the PETRONAS Twin Towers, Menara Dayabumi and the Car Park.

MOKL Hotel further enhanced green purchasing within our supplier chain to comply and raise awareness of procurement as a pollution prevention tool and facilitate continual improvement in environmental performance through proactive green purchasing and contracting activities. In

compliance with the hotel's certification in ISO 14001 – Environment Management System, consideration of products that are environmentally friendly will be given priority and accredited suppliers are given "preferred" status. Special attention is given to ozone depleting materials. The policy further covers guidelines for Safety and Health requirements.

Our hotel team continues to seek-out suppliers who have accreditations in Hazard Analysis and Critical Control Point (HACCP) - ISO 22000 or certifications and who can provide quality products at competitive prices. The team continues to provide guidance to nominated F&B suppliers in food safety requirements by performing scheduled value added audits and inspections of their premise. Supplier audit findings were communicated to vendors via the Food Supplier Action Report for future improvement and guidance. In 2018, 42% of MOKL Hotel's nominated suppliers have accreditation or certification in food safety requirement.

Other sustainable practices by our hotel team include sourcing from locally farmed or grown products — farmed fishes, vegetables and fruits, herbs and spices and non-serving of shark's fin in the hotel's Chinese restaurant and banquet. Our retail partner at Suria KLCC places high priority for suppliers who have proven track record, credentials and certification. Performance of service providers are guided and monitored through scheduled audit checks and inspections.

#### CUSTOMER AND TENANT ENGAGEMENT

Connecting with our stakeholders especially with our tenants and customers is becoming more prominent, particularly in expanding the outreach and quality of service to build a shared sense of responsibility and societal development. Efforts to promote social betterment, building strong tenant relationship and managing customer expectations are conducted through extensive engagement with these stakeholders.



### Valuing Tenants and Creating Premium Shopping Experiences

ASSET	INITIATIVES	BENEFITS
<b>PETRONAS Twin Towers</b> <b>Menara 3 PETRONAS</b>	Annual "Tenants' Nite" held for tenants of PETRONAS Twin Towers and Menara 3 PETRONAS	Building strong tenant relationship by expressing our appreciation and recognition of tenants' support and pay tribute to the roles played by tenant representatives and floor safety managers and assistants at our commercial properties
<b>Suria KLCC</b>	Introduced 28 new tenants including 9 first-to-market stores in Malaysia, exclusive to Suria KLCC	Creating value across our retail mall to differentiate ourselves in the market and delivering a unique shopping experience tailored to customer preferences
	Escalator modernisation project which commenced in 2017 and will be completed in phases	Further enhancing safety of customers with higher balustrades and reliable safety features for the convenience of our shoppers
	Installation of the largest rotating double-sided LED screen in the world in the center court	Able to facilitate retailers' promotions and advertising and provide a better view for customers as they shop
	Embarked on eWallet payment service via Alipay	Providing customers with convenience of cashless payments
	Customer exit survey which is conducted monthly by an external consultant on 500 random customers	Gather valuable consumer behavioral and demographic data which gleans useful insights to solicit ideas for new stores, understanding customer preferences and demands
<b>North west Development Carpark</b>	Upgrading of the parking entry and exit terminals with integrated credit/debit card and Touch n Go readers	92% of customers support the convenience of this cashless initiative
	Created a mobile application for customers' ease of payment which will take effect from first quarter 2019	

### Delighting Guests with Quality Service

The quality service at our MOKL Hotel underpins everything that we do, and we are committed to exceeding guests' expectations on a daily basis. Our hotel focuses on providing personalised service to every guest every day, and on the sincerity of the people who deliver it. We encourage colleagues to know our guests, to anticipate what they want, in order to provide them with the best experience throughout their stay at MOKL Hotel. Some of the significant initiatives embarked in delighting guests with quality service:

INITIATIVES	BENEFITS
<b>Reconfigured the original mix of rooms and suites to meet the current and future demand</b>	Completion of guestroom renovation showcasing 152 Club Rooms and Suites, 435 Deluxe and Park Suites, 1 Royal and Presidential Suite respectively  Able to offer guests a resolutely new hotel experience which transcends accommodation driving a healthy pace gain for stronger demand of guestrooms resulting in a 7% increase in guest satisfaction to 92%
<b>Upgraded guest service standards which were re-written using neuro-linguistic elements, implemented throughout the hotel</b>	This enables the hotel staff to better understand the service standards where guests are rewarded with a special, unique and consistent experience at each visit
<b>Launched exclusive new retail products, unique treatments and a series of educational wellness programs with visiting wellness practitioners</b>	Created strong awareness and interest in MOKL's Spa. The Spa delivered an excellent performance in the face of strong new competition, posting revenue growth of 16.5%
<b>Embraced new systems and digital technology:</b> - Launch of new loyalty program – Fans of MO - Improved on-line conversion from MO.com platform - Smart technology for conference room facilities with eco-conscious initiatives - Smart Digital Thermostats in all guest rooms for room occupancy detection	Able to promote hotel offerings and provide world class hospitality services exceeding guests' expectations for a luxury hotel experience and making guests' journey seamless  Offer guests more personalised stay tailored to their preferences upon arrival
<b>Providing convenient accessibility for children, the elderly and disabled:</b> - manual or powered wheelchairs - ramps in lobby - handicap-friendly front desk and check-in area - restroom with handicap-friendly cubicle	Place great care and attention in providing convenient accessible amenities within the hotel for all guests

## SOCIAL RELIABLE PARTNER

### CORPORATE SOCIAL INVESTMENT

We recognise the importance in contributing towards the welfare of the community in which we operate in and continue to engage with the communities surrounding us to foster goodwill towards their well-being and social development. Being part of the society within which KLCCP Stapled Group operates in, we are conscious of our role in promoting social betterment of the community around it. We support various stakeholder engagement activities which include environmental sustainability, health and safety, social integration as well as reaching out to the underprivileged community.

#### Key Initiatives for the Year

PROGRAMME	DETAILS	IMPACT
<b>"Projek Apprentice" programme (2016-2018)</b>  - Student Training Placement within KLCC Group	<ul style="list-style-type: none"> <li>Focusing on students majoring in engineering, facilities management and other related courses</li> <li>In 2018, 7 students were on board the programme from University Teknologi PETRONAS (UTP) and University Teknologi Mara (UiTM)</li> </ul>	Impact to KLCCP Stapled Group: <ul style="list-style-type: none"> <li>Enhance our Group's visibility in the market</li> <li>Able to identify future workforce to be absorbed into the Group</li> </ul> Impact to students: <ul style="list-style-type: none"> <li>Gain exposure to the working environment in the industry</li> <li>Assist them to understand and plan their career path</li> </ul>
<b>Charity/ Donated Drives/ Fundraising/ Community Service</b>	<ul style="list-style-type: none"> <li>Participated in beautifying and cleaning Zoo Negara Malaysia under the Glow Green program in March 2018 – painting, clearing and cleaning surrounding of the Zoo</li> </ul>	RM3,410 was spent for beautifying the zoo with 69 employees participated in the engaging event
	<ul style="list-style-type: none"> <li>Involved in Reach Out Program – donation of food to the homeless</li> </ul>	Contributed 35 packets of food per day to the homeless around Kuala Lumpur  Approximately RM100,000 was spent for a year for the contribution
	<ul style="list-style-type: none"> <li>Participated in "Make a Wish Malaysia" for Xuan Ying in August 2018 – Sponsored a night stay at the MOKL Hotel with a party for herself and family</li> </ul>	To grant a wish for the less fortunate - Provided encouragement and love to the 7 year-old who has been diagnosed with Acute Lymphoblastic Leukemia  RM2,500 was spent for the accommodation, meals and decorations
	<ul style="list-style-type: none"> <li>Visited Rumah Kasih Murni at Keramat in October 2018 (orphanage) to replace old fans, changed lights to LED, installed new water pump, painted the home and followed by lunch with them</li> </ul>	Contributed to the less fortunate in terms of monetary assistance to provide them with a more comfortable environment  Spent a total of RM10,600 for the effort
<b>Festive Celebrations with the underprivileged community</b>	<ul style="list-style-type: none"> <li>Chinese New Year charity programme in collaboration with We Care Journey (children) – between 25 January - 18 February 2018</li> <li>Hari Raya charity programme in collaboration with We Care Journey between 17 May - 14 June 2018</li> <li>Deepavali charity programme in collaboration with Hospis Malaysia between 26 October - 7 November 2018</li> <li>Christmas charity programme in collaboration with Hospis Malaysia between 23 November - 25 December 2018</li> </ul>	Donated approximately RM34,710 to the needy and less fortunate

# CORPORATE GOVERNANCE



**Good governance practices represent a critical benchmark in determining an organisation’s success and management stability. Our Boards form the pillars of a robust corporate governance framework in setting the tone from the top and establishing a corporate culture of ethical conduct within the Group guided by the Code of Conduct and Business Ethics (CoBE).**

## SUSTAINABLE MATTERS



Supporting the UNSDGs

Corporate Governance and Business Ethics

Risk Management

## WHY IT MATTERS

- Our reputation and Shareholders’ trust and confidence in us is imperative to our future growth and attainment of long-term goals
- Building a culture of trust and accountability sets an organisation up for success
- Increased agility for our organisation to deliver on its purpose and goals

## VALUES CREATED

- Integrity and ethical practices amongst management, employees, business partners and stakeholders
- Sustainable financial performance delivering long-term values and returns to our holders of Stapled Securities
- Accountability on control systems which commensurate with the risks involved

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# CORPORATE GOVERNANCE

KLCCP Stapled Group is subject to corporate governance requirements set out by the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad and best practices as stipulated by the Malaysian Code of Corporate Governance ("MCCG") issued by the Securities Commission Malaysia.

With greater accountability and transparency, KLCCP Stapled Group strives to strengthen its corporate governance, anchoring it to its organisational culture and aligning it to our shared values that will ultimately secure the confidence and support of the Group's holders of Stapled Securities.

## OUR APPROACH

KLCCP Stapled Group takes a proactive approach in observing high standards of corporate conduct with good corporate governance policies and practices in ensuring the sustainability of the organisation and safeguarding the interests of the holders of Stapled Securities and maximising long-term stakeholder value.

Our commitment to good corporate governance is reflected in the CoBE which guides the organisation in fulfilling its business obligations with utmost integrity and transparency. Our commitment in driving the culture of openness, transparency and accountability are reflected through our adoption of the "No Gift Policy" and Whistleblowing Policy and our adherence to the Anti-Bribery and Corruption Policy and Guidelines (ABC) Manual.

Overseeing the overall strategic and operational business performance are KLCCP's and KLCCRM's Board of Directors. The Board Governance and Risk Committee as well as the Board Audit Committee were established to assist the Boards in discharging its functions in relation to internal controls, risk management, compliance with applicable laws and regulations, as well as reviewing internal policies and procedures. Together, they are entrusted to further fortify the levels of accountability and integrity in KLCCP Stapled Group.

### 3-Year (2016-2018) Sustainability Roadmap

3-YEAR TARGET (against 2015 baseline)	STATUS	RESULTS
Women on Board to achieve 30%	● ○ ○	Achieved 37.5% women on Board

● ○ ○ Met 2018 target      ○ ○ ● 2018 target not met

## CORPORATE GOVERNANCE AND COMPLIANCE

Our Boards take pride and places importance on strong governance culture and implementing international best practices across the business segments. In conducting our business operations, we are guided by the KLCC Shared Values to uphold integrity in fulfilling our obligations in an ethical, responsible and transparent manner. We strictly conform to the respective laws, rules and regulations in the country where we operate.

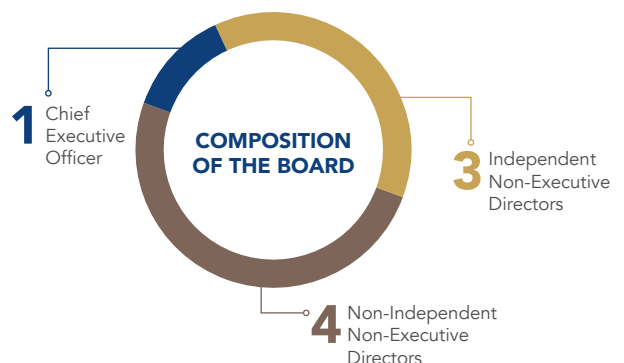
Our Board Charter incorporates elements of sustainability with the Boards recognising the responsibilities to our stakeholders and acknowledging that the organisation should play an important role in contributing towards the welfare of the community in which it operates. The Boards also acknowledge the need to safeguard and minimise the impact to the environment in achieving KLCCP Stapled Group's objectives. The Boards' agenda reflects commitment to economic support for longer term sustainability with a focus on the positive impact on the environment, community and society.

During the year, KLCCP Stapled Group was recognised for demonstrating good corporate governance practices and was awarded the Gold Award under the category, The Best Governed and Transparent Company at the 10<sup>th</sup> Annual Global CSR Summit and Awards 2018 and The Global Good Governance Awards and Summit 2018 in recognition of its effort in practicing a culture of openness and transparency across all levels of the organisation while implying a high degree of ethics in the marketplace.

## Board Composition and Diversity

The Boards are responsible for overseeing the overall management of KLCCP and KLCCRM and responsible for providing oversight and stewardship of the organisation. Harnessing strength from a variety of backgrounds and experiences, the Boards bring diversity and add depth to deliberations.

KLCCP and KLCCRM Boards of Directors comprise eight members respectively, one of whom is a Chief Executive Officer, three Independent Non-Executive Directors, in compliance with the requirement of the MMLR on independence, while the remaining four Non-Executive Directors are Non-Independent Directors. Currently, there are three female directors on each Board which accounts for 37.5% women representation on board.



# CORPORATE GOVERNANCE

MCCG recommended for the formulation and disclosure of gender diversity policies and targets to be mandatory, where companies must disclose in their Annual Reports policies and targets with respect to composition of women on their boards. The Group's Diversity Policy, which was rolled out in August 2016, aspires to ensure a diverse and inclusive board that will leverage on differences in thoughts, perspectives, knowledge, skills, regional and industry experiences, cultural and geographical background, age, ethnicity and gender to achieve effective stewardship and management which lead to its competitive advantage. The representation of women on Boards surpassed the country's aspirational target of 30% whilst maintaining an optimum mix of skills, knowledge and experience of the Boards underpinned by meritocracy.

## **Separate Non-Executive Chairman and CEO**

The positions of the Chairman and the CEO of KLCCP and KLCCRM are held by two different individuals. The Chairman, a Non-Independent and Non-Executive Director of the Company and KLCCRM, is primarily responsible for the orderly conduct and functions of the Boards whilst the CEO has delegated authority from, and is accountable to the Boards in managing the Group's businesses, organisational effectiveness and implementation of strategies and policies.

## **Sustainability Governance**

Our Board Charter incorporates elements of sustainability with the Boards recognising the responsibilities to our stakeholders and acknowledging that the organisation should play an important role in contributing towards the welfare of the community in which it operates. The Boards also acknowledge the need to safeguard and minimise the impact to the environment in achieving KLCCP Stapled Group's objectives. The Boards' agenda reflects commitment to economic support for longer term sustainability with a focus on the positive impact on the environment, community and society.

KLCCP Stapled Group is working towards strengthening sustainability governance practices across the Group. Our Boards acknowledge that given the emerging trends of EES risks and opportunities affecting business value and share prices, incorporating sustainability considerations into the workings of an organisation leads to value creation for its business and stakeholders in the longer run.

## **Financial Transparency, Cost of Fines, Penalties or Settlement in relation to Corruption**

In providing timely, transparent, comprehensive and up-to-date disclosures of KLCCP Stapled Group's overall performance, the Boards ensures that a balanced, clear and meaningful assessment of the financial position and prospects of the Group are presented in all the disclosures made to the holders of Stapled Securities, potential investors and the regulatory authorities through various announcements on quarterly financial results, annual reports and press releases, which are made available in Bursa's website and our corporate website.

The Management of KLCCP and KLCCRM also conducted financial performance briefing for the investor community and issued press statements in conjunction with the announcements of the quarterly results of KLCCP Stapled Group. All corporate disclosures take into account the prevailing legislative restrictions and requirements as well as investors' need for timely release of price-sensitive information such as the financial performance results, material disposals/acquisitions, and significant corporate proposals. In all circumstances, KLCCP and KLCCRM are conscious of the timeliness in providing material information about KLCCP Stapled Group and continually stress the importance of timely and equal dissemination of information to stakeholders.

During the financial year, there was no public sanction or penalty imposed by the relevant regulatory bodies on the management company of KLCC REIT.

## **Boards Training and Engagement**

The relevant development and training programmes are recommended to the Directors with assistance from Company Secretary according to Director's individual needs to keep abreast of business and regulatory development and to enhance their ability in discharging their duties and responsibilities. The relevant development and training programmes attended by Directors have during the year under review were reported in the CG Statement of the Group's Annual Report.

As provided in the Board Charter and in line with MCCG, the Company Secretary also facilitates with the induction programme for newly-appointed Directors.

## **Appointment, Re-appointment and Re-election of Directors**

The appointment, re-appointment and re-election of Directors are governed by the Companies Act 2016, MMLR, REIT Guidelines and other applicable rules and regulations. Both Constitutions of KLCCP and KLCCRM provide that at every AGM at least one third of all Directors for the time being and for those appointed during the financial year shall retire from office but shall be eligible for re-election in line with the MMLR.

## **Remuneration for Senior Management**

Remuneration of senior management is based on the approved remuneration policy by the Boards and benchmarked against the industry practice. Benchmarking exercise is conducted on an annual basis with information from independent external party. The senior management are also remunerated based on performance.

Appointment of senior management is based on merit and performance as well as undergoing leadership assessment based on the Group's leadership competency model to ensure their fitness to the position.

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## CORPORATE GOVERNANCE

Matters relating to remuneration for the Directors and Senior Management are reviewed by the NRCs and, where relevant, recommended to the Boards. The NRCs established formal and transparent remuneration policy for adoption by the Boards.

### Audit Committee and Rotation of Auditor

Audit Committees of KLCCP and KLCCRM comprise three independent members, two of whom are accounting graduates and have vast working experience in audit, finance and business advisory services. Puan Farina Farikhullah Khan is a Fellow member of the Institute of Chartered Accountants in Australia and Cik Habibah Abdul is a member of the Institute of Chartered Accountants of England and Wales, a Member of Malaysian Institute of Certified Public Accountants as well as Malaysian Institute of Accountants.

In line with the best practices stipulated by MCCG, the Boards have obtained written assurance from the external auditors on their independence in discharging their duties throughout the conduct of the audit engagement annually in Audited Financial Statement. The respective Terms of Reference of the Audit Committees includes the policy that requires a former key audit engagement partner of the Company's external auditors firm to observe a cooling-off period of at least two years before he or she could be appointed as a member of the Committee. With this in effect, the last rotation and appointment of our audit partner, Ernst & Young, was done in 2017.

### BUSINESS ETHICS AND INTEGRITY

The Board of Directors of KLCCP and KLCCRM are guided by the corporate governance principles, CoBE and charters for each board committee and is committed to representing the long-term interests of all holders of Stapled Securities.

KLCCP Stapled Group's commitment to good corporate governance is reflected through its effort in promoting compliance, integrity and transparency through the adoption of KLCCP Stapled Group's Shared Values, PETRONAS' CoBE, ABC, No Gift Policy and Whistleblowing Policy.

	EMPLOYEES	SUPPLY CHAIN
<b>Communication Channels</b>	<ul style="list-style-type: none"> <li>• KLCCP Shared Values</li> <li>• PETRONAS Code of Conduct and Business Ethics</li> <li>• PETRONAS Anti-Bribery and Corruption Manual</li> <li>• No Gift Policy</li> <li>• Gift Register</li> <li>• Asset Declaration</li> <li>• PETRONAS Integrity Compliance Framework</li> <li>• PETRONAS Whistleblowing Policy</li> <li>• Induction Trainings</li> </ul>	<ul style="list-style-type: none"> <li>• Imposed provision in all contracts requiring third parties to comply with CoBE</li> <li>• Imposed provision of Anti-Bribery and Corruption clauses in all contracts requiring third parties to comply with</li> <li>• Continuous engagement with third parties to ensure compliance with CoBE and ABC Manual</li> </ul>
<b>Feedback Channels</b>	<ul style="list-style-type: none"> <li>• Whistleblowing Reporting Platform</li> </ul>	

### Code of Business Ethics

At KLCCP Stapled Group, we adhere to the PETRONAS' CoBE which contains detailed policy statements on the standards of behavior and ethical conduct expected of each individual. The CoBE which was rolled out to the KLCC Group in 2012, serves as a guiding principle on how every employee, management and directors are expected to conduct his or her work. The CoBE applies to all employees and directors within the KLCCP Stapled Group and we continue to pursue good business ethics amongst the employees and stakeholders and endeavour to achieve the highest standards of integrity through the adherence to the CoBE.

The CoBE is benchmarked to international standards and outlines the behaviour and ethical conduct expected of employees, directors and other stakeholders in the way we do business which is reflected by the policies and procedures which deals with confidentiality, conduct and work discipline and corporate gifts and workplace harassment. It not only promotes legal and procedural compliance, but also provides guidance to ensure individual behavior is in line with the KLCC Shared Values.

For the year under review, KLCCP Stapled Group continued to communicate the CoBE to all employees as well as third parties performing work for or on behalf of KLCCP Stapled Group through its corporate website, meetings, corporate events and inclusion of CoBE in all new employees' induction program. During the year, 74 new employees were introduced to the CoBE and were required to sign a declaration of adherence to the CoBE.



# CORPORATE GOVERNANCE

## Anti-Bribery and Corruption

The ABC Manual and the No Gift Policy, as adopted from PETRONAS has been KLCCP Stapled Group's reference in dealing with unethical conduct and is now part of the culture in our efforts to eliminate all forms of bribery and corruption within the organisation. The ABC Manual was developed to supplement the general policy statements set out in the CoBE on fighting corruption and unethical practices and outlines detailed explanation on procedures for dealing with improper solicitation, bribery and corruption and addressing of ethical issues. Our Human Resource also rolled out the Anti-Bribery and Corruption Policy and Guidelines as part of our continuous effort in creating greater awareness on integrity as prescribed in the ABC Manual.

KLCCP Stapled Group's strong stance of zero-tolerance against bribery and corruption extends to its business dealings with third-party service providers and vendors. Pursuant to the ABC Manual, KLCCP Stapled Group requires that its agreements with third-party service providers and vendors incorporate anti-bribery and anti-corruption provisions. In line with this commitment, every reported case has been dealt with meticulously, with all fairness and according to lawful practices. During the year, we have had one case reported and investigated and the employee is no longer assigned to KLCCP Stapled Group.

To further strengthen our efforts in promoting ethical practices across the organisation, KLCCP Stapled Group continued to communicate and engage with employees at all levels through displays of posters at all office sites as well as conducted talks on integrity to uphold the core values and not engage in corrupt or unethical practices. During the year, we put emphasis on the anti-bribery and corruption with the rollout of the ABC Manual across all employees of the Group. This serves as a reminder to all employees to maintain the highest standards of integrity at work and in all business dealings

## Assets Declaration and Gift Register

The KLCC Group's Assets Declaration and Gift Register which was launched in December 2017 has been put in force during the year where employees declared their assets to the organisation through the Human Resource Division via sealed envelopes to ensure confidentiality. This Assets Declaration is for the Group to ensure management and employees do not abuse their power for personal gain or acquire assets through unlawful means or dealings. This Assets Declaration will be a means to anchor the issue of ethics and integrity within the Group.

KLCC Group also subscribes to the *No Gift Policy* which we have implemented since 2012. Under this policy, employees are prohibited to give or receive gifts of any kind from any parties it has dealings with. With the launch of the Gift Register and in accordance to the *No Gift Policy*, all gifts received by employees would need to be registered and returned to the sender to ensure adherence to this policy.

## Whistleblowing Policy

The KLCCP Stapled Group adopts a zero tolerance policy against all forms of bribery and corruption. The Whistleblowing Policy facilitates as a communication and feedback channel for employees to report on any misconduct within the organisation. This reflects our commitment and strong stance against any misconduct within the Group. The Whistleblowing Policy, as adopted from PETRONAS provides an avenue for employees and members of the public to disclose any misconduct or malpractices within KLCCP Stapled Group. It encourages openness and transparency and heightens ethical business conduct and provides trusted and accessible channels to report corruption, fraud and dishonest practices at the workplace.

Employees and members of the public who raise or disclose any malpractices can do so without doubt or fear of reprisals as the whistleblower is assured confidentiality of identity, to the extent reasonably practicable, even post completion of investigation, so long as the disclosure is made in good faith. Whistleblowers are also kept updated on outcomes of the disclosure made, adhering to procedures in place.

As part of the PETRONAS Group, all reported whistleblowing incidents are escalated to the PETRONAS Whistleblowing Committee set up to deliberate upon the disclosures made, determine next course of action and monitor progress until case closure. The Committee meets at least once a month and provides updates to the Internal Audit Management Committee as well as Board Audit Committee.

The organisation's ongoing efforts to promote the Whistleblowing Policy and its established platforms entailed displaying communication collateral at strategic locations within KLCCP Stapled Group's office premises such as at the PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi.



Our Whistleblowing Policy is available at <http://www.klcc.com.my/sustainability/governance.php>

## Dealings in Stapled Securities

KLCCP Stapled Group adopts the Dealings in Stapled Securities policy, a Memorandum of Insider Trading, for Directors and employees which advocates best practices pursuant to the MMLR. It sets out prohibitions against dealing in the Stapled Securities when in possession of unpublished price sensitive information and knowledge of facts or materials. The directors are issued guidelines and are notified in advance of the closed period for trading in Stapled Securities and are regularly reminded of the laws of insider trading and to refrain from dealing in Stapled Securities on short-term basis.

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## CORPORATE GOVERNANCE

### RISK MANAGEMENT

Risk management is an integral part of KLCCP Stapled Group's business at both strategic and operational levels. An effective and sound risk management system is important for KLCCP Stapled Group to achieve its business strategies and objectives. KLCCP Stapled Group has an established KLCC Group Enterprise Risk Management Governance Framework which outlines the risk policy, risk governance and structure, risk measurement and risk operations and system.

The Risk Management Oversight Structure which consists of the Boards, Audit Committees, Management Committee and Risk Management Committee (RMC) sets out the structure used to assign responsibility for risk management and facilitates the process for assessing and communicating risk issues from operational levels to the Boards.

KLCCP and KLCCRM Boards developed an integrated robust risk management system for business resiliency focusing on three key areas.

#### Enterprise Risk Management

KLCCP Stapled Groups' Enterprise Risk Management (ERM) Framework is a structured and holistic approach to identify, assess, treat and monitor risk aimed to reduce the likelihood and impact of all identified risks to enhance ability to achieve strategic objectives. It sets out the six key elements comprising Governance, Context Setting, Risk Assessment, Risk Treatment, Risk Monitoring and Review and Continual Improvement which enable KLCCP Stapled Group to manage risks in an integrated, systematic and consistent manner.

The framework provides a standard and consistent approach across KLCCP Stapled Group in achieving the following key attributes in risk management:

- Full accountability in managing risks at respective entity
- Application of risk management in decision making
- Continuous communication with external and internal stakeholders, including comprehensive and frequent reporting on risk management performance
- Risk management as part of KLCCP Stapled Group's management processes and culture in achieving the organisation's objective.

This is to provide a balanced view for informed decision making through richer risk conversations and considerations of risk reward trade-off. Risk assessment is carried out prior to any decision point using the risk assessment guideline which is aligned to ISO 31000.

Annually, the Group Enterprise Risk Management Department facilitates and coordinates the Group-wide Risk Profiling exercise that requires business and corporate executive leaders to proactively identify, assess and document material risks and the corresponding key controls and mitigating measures needed to address them. Material risks and their associated controls are consolidated and reviewed at KLCCP Stapled Group level before they are presented to the Risk Committee, Audit Committee and the KLCCP and KLCCRM Boards.

KLCCP Stapled Group utilises the INTERISK system as a risk tool to effectively manage and monitor risk profiles. It embeds the industry standard risk management process of ISO 31000. The INTERISK system drives active risk conversations and analysis monitoring through a dashboard, reinforces effective risk governance and assurance practices and provides a seamless flow of information and processes along the risk management value chain.

#### Crisis Management

A comprehensive set of processes aimed to prepare the organisation to respond and manage crisis in the risk areas to protect and save people, environment, assets and reputation.

A Crisis Management Plan (CMP) is in place to address and respond to incidents where risk mitigation fails or when full prevention of the risk occurring is unlikely. This includes the emergency response, emergency management and crisis management.

During the year, KLCCP Stapled Group conducted fire drill and evacuation exercises for tenants at PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi to test the effectiveness and robustness of the Crisis Management Plan. Briefing on Fire and Life Safety, on boarding program for new tenants and demonstration on Fire Extinguisher were amongst the fire safety program conducted for tenants to promote awareness of the dangers of fire hazards, prevention, guidance on effective operation of the fire extinguishers and carry out emergency evacuation procedures within workplace.

At MOKL Hotel, the Crisis Management Team members have responsibility with reference to their sections based on time sequence and direct responsibilities. The Hotel Manager and General Manager chair monthly meetings to outline simulation schedules and participate in the simulations. The local police authorities work with the hotel during the simulations to reflect a "real time authentic" scenario. Our hotel staff are trained yearly on the Business Continuity Management Plans and simulations are held yearly to ensure that we are prepared for any eventualities.

#### Business Continuity Management

A Business Continuity Plan (BCP) for KLCCP Stapled Group was established to cover the failure of ICT, business supply chain, assets and people. The BCP aims to provide guidance in resuming key business functions in the event the CMP fails to contain the incident and it escalates into a prolonged disaster that has a major or catastrophic impact on the business in terms of financial, operation and reputation.

During the year, the review of BCP on business impact analysis (BIA) was carried out to ensure the critical business functions are identified, assessment of the impact of unavailability of the functions over time, set prioritised timeframes for resuming these functions and specified Minimum Resources Requirements (e.g. as people, equipment, assets, facilities, technology, vital record, interdependencies) to be allocated to recover and resume these functions following prolonged business disruption. The BIA was conducted for all Business Units (BU) and Operating Units (OPUs) in compliance to BCM framework to review the BCP annually. The updated of BIA and BCP was presented to RMC and subsequently the updated BCP approved by GCEO.

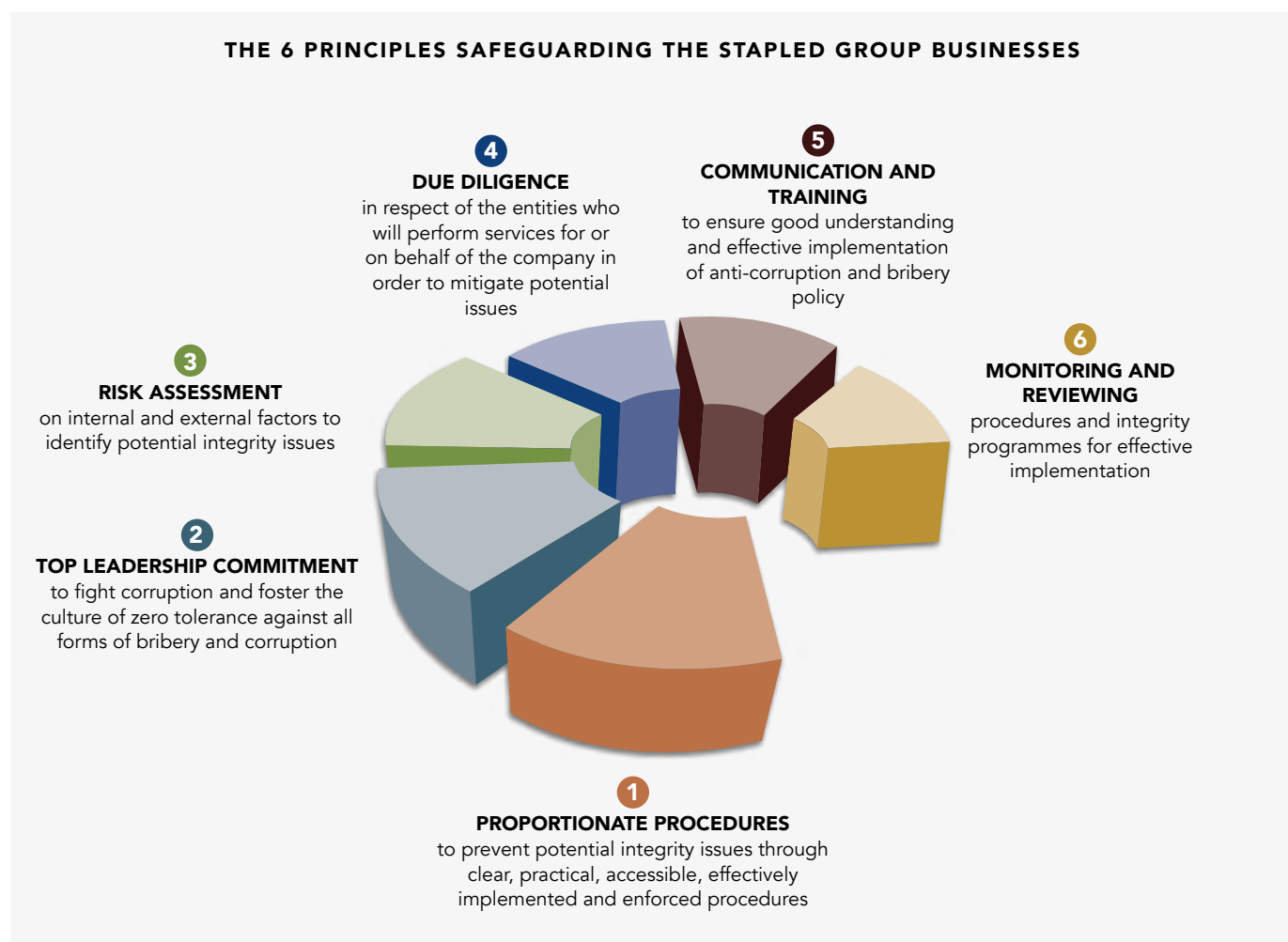
## CORPORATE GOVERNANCE

BCP simulation exercise comprising testing of BCP for specific identified scenario was carried out to ensure practicality of the BCP for its implementation and preparedness of the Critical Business Function staff during crisis. The BCP simulation exercise includes testing of the recovery strategy at virtual office and the effectiveness of identified Primary and Alternate Workforce for business resumption of the Critical Business Function. During the year, the critical business function tested was from the Strategy, Finance and Investor Relations Division including the Information Technology team.

At MOKL Hotel, BCP is demonstrated in an organisational chart that outlines the Crisis Management Team, Emergency Response Team and Business Recovery Team who are responsible in dealing with incidents and crisis related to hotel operations. Senior leadership and other department heads are part of this organisation led by the Deputy Crisis Management team member and Crisis Management Leader conducted over 24 yearly Emergency Response Plan scenarios and simulations involving hotel leadership and staff participation to increase the hotels readiness. All simulations are documented and then audited by senior leadership and independent auditor yearly.

### Integrity Action Plan

KLCCP Stapled Group's Integrity Action Plan guides us in managing integrity risk within the organisation as well as those whom we conduct business with. It reflects our commitment to do business with integrity and to support the Group's zero tolerance against all forms of bribery and corruption.



The aim of the KLCCP Stapled Group's Integrity Action Plan is to strengthen the existing system and procedures to address the root causes of integrity issues resulting from poor enforcement, weak internal control and acceptance culture. The Integrity Action Plan is also aligned to the requirements governed under ISO 37001 Anti-Bribery Management System.



## CORPORATE GOVERNANCE

During the year, we embarked on several initiatives addressing the integrity risks concerned:

RISK CATEGORY	INITIATIVES
<b>Bribery</b>	<ul style="list-style-type: none"> <li>• Conducted CoBE and Whistleblowing Act Awareness Programme to all staff and on CoBE and whistleblowing for new recruits through induction programme</li> <li>• Roll Out of Anti-bribery and Corruption (ABC) manual to all staff and stakeholders</li> <li>• Review and improve Standard Operating Procedures (SOP) on Tender Evaluation by incorporating Anti Bribery Due Diligence on contractor's experience and workload</li> <li>• Included anti-bribery assessment for contractor's risk assessment (CORA) for all projects. Currently CORA is carried out on projects valued at RM50 million and above and as and when requested by Tender Committee to avoid giving and accepting bribes</li> <li>• Included notice on good governance/anti bribery at common, public area and easy access platform such as on tender box</li> <li>• Inculcate CoBE culture to business partners e.g. contractors, consultants, service providers, to report on corruption via whistleblower. The Clause on CoBE and whistleblowing are incorporated in the Conditions of Contract</li> <li>• Establishment of separate evaluation team for Technical and Commercial Analysis</li> </ul>
<b>False Claim Misappropriation</b>	<ul style="list-style-type: none"> <li>• Reviewed and tighten Procurement, Certification of Work Done, QA/QC and Payment Procedures on pre-award process to deter false/fraudulent claim, falsification of financial statement to qualify for bidding process</li> <li>• Reviewed existing system to facilitate detecting of duplicate invoices to mitigate issues on overpayment</li> </ul>
<b>Non-Compliance</b>	<ul style="list-style-type: none"> <li>• Inclusion of owner's representative in Variation Order (VO) Committee to enforce compliance to standard operating procedures (SOP), administrative procedures, internal controls and governance</li> </ul>
<b>Abuse of Power</b>	<ul style="list-style-type: none"> <li>• Background screening for General Manager's position and above was conducted to deter potential abuse of power or wrongdoings</li> <li>• Declaration of Assets by all staff to facilitate investigation when issues arises</li> </ul>

# SUSTAINABILITY PERFORMANCE DATA

## Economic Impact

	2018	2017	2016	2015	2014
Dividend paid to Shareholders (RM'mil)	<b>668.0</b>	652.6	643.3	625.5	603.3
Tax paid to Government (RM'mil)	<b>104.5</b>	104.0	103.2	108.5	110.9
Revenue (RM'bil)	<b>1.41</b>	1.37	1.34	1.34	1.35
Infrastructure Maintenance (RM'000)	<b>1,647,000</b>	716,000	1,238,000	-	-

## Environmental Impact

Energy Consumption (kWh)	2018	2017	2016	2015	2014
Office and Car Park	<b>88,044</b>	82,900,000	95,426,000	99,656,000	100,209,000
Retail	<b>14,293</b>	14,851,000	15,791,000	15,412,000	13,641,000
Hotel	<b>13,621</b>	14,141,000	13,541,000	13,830,000	14,678,000
<b>Total Energy Used</b>	<b>115,958</b>	111,892,000	124,758,000	128,898,000	128,528,000
Energy Intensity (kWh per square meter)					
PETRONAS Twin Towers	<b>70.10</b>	-	-	-	-
Menara 3 PETRONAS	<b>83.93</b>	-	-	-	-
Menara Dayabumi	<b>97.53</b>	-	-	-	-
Menara ExxonMobil	<b>97.69</b>	-	-	-	-
Suria KLCC	<b>99.56</b>	-	-	-	-
MOKL Hotel	<b>441</b>	-	-	-	-
GHG Emission (mtCO <sub>2e</sub> )					
Scope 1					
Office	<b>4.66</b>	9.63	5.47	5.47	8.32
Retail	<b>1,635</b>	1,573	1,540	1,540	1,537
Hotel	<b>1,192</b>	1,913	1,925	1,946	1,892
<b>Total Scope 1 Emission</b>	<b>2,832</b>	3,496	3,471	3,491	3,437
Scope 2					
Office and Car Park	<b>82,667</b>	87,078	90,214	90,138	90,699
Retail	<b>27,141</b>	27,462	33,103	32,819	21,422
Hotel	<b>16,583</b>	18,003	17,511	17,330	17,924
<b>Total Scope 2 Emission</b>	<b>126,391</b>	132,543	140,828	140,287	130,045
Energy Generated from Solar (kWh)					
Retail	<b>512,257</b>	510,000	553,093	591,216	551,162
Water Used (m <sup>3</sup> )					
Office	<b>589,491</b>	591,444	646,355	681,605	754,269
Retail	<b>497,347</b>	569,490	607,715	627,125	-
Hotel	<b>154,530</b>	169,103	181,678	191,796	211,715
<b>Total Water Used</b>	<b>1,241,368</b>	1,330,037	1,435,748	1,500,526	965,984

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## SUSTAINABILITY PERFORMANCE DATA

### Environmental Impact

Waste Management	2018	2017	2016	2015	2014
<b>Hazardous Waste Generated (metric tonnes)</b>					
Office	9.88	9.133	2.173	4.640	3.975
Hotel	0.50	0.746	0.903	0.903	0.901
Retail	0.755	0.920	-	-	-
<b>Hazardous Waste Disposed (metric tonnes)</b>					
Office	9.88	10.284	1.750	4.122	1.920
Hotel	0.50	0.970	0.903	0.903	0.901
Retail	0.970	0.920	-	-	-
<b>Waste Intensity (kg per room)</b>					
Hotel	2.35	3.80	4.70	4.08	3.52
<b>Waste Diversion (%)</b>					
Hotel	25.76	23.13	22.39	17.06	14.16

### Social Impact

Employee Engagement	2018	2017	2016	2015	2014
<b>Workforce by Age Group</b>					
Below 30	362	358	337	349	374
30 - 39	343	363	353	376	418
40 - 49	281	280	266	271	264
50 - 59	136	131	126	113	111
60 above	4	7	6	5	3
<b>Total workforce</b>	<b>1,126</b>	<b>1,139</b>	<b>1,088</b>	<b>1,114</b>	<b>1,170</b>
<b>Workforce by Gender</b>					
Male	699	700	684	692	721
Female	427	439	404	422	449
<b>Employee Position and Gender Profile</b>					
<b>Top Management : Male</b>	<b>12</b>	20	27	7	10
<b>Female</b>	<b>2</b>	6	18	4	6
<b>Senior Management : Male</b>	<b>151</b>	151	151	93	126
<b>Female</b>	<b>122</b>	115	124	78	100
<b>Other Levels : Male</b>	<b>536</b>	529	506	592	585
<b>Female</b>	<b>303</b>	318	262	340	343
<b>Workforce by Ethnicity</b>					
Malay	822	797	750	794	795
Chinese	169	185	182	191	222
Indian	68	86	81	88	89
Others	67	71	75	41	64



# SUSTAINABILITY PERFORMANCE DATA

## Social Impact

Health and Safety	2018	2017	2016	2015	2014
Number of fatalities	0	0	0	0	0
Loss Time Injury (LTI) Incidents	5	9	4	8	2
Loss Time Injury Frequency (LTIF)	0.47	1.19	0.46	0.23	0.14
Loss of Primary Containment (LOPC)	0	0	0	0	0

## Sustainability benchmarks and certifications

Sustainability benchmarks	2018	2017	2016	2015	2014
FTSE4Good Bursa Malaysia Index	Constituent till December 2018				
FTSE4Good Emerging Index	Constituent since 2016				

Sustainability certifications	2018	2017	2016	2015	2014
<b>KLCC Urusharta Sdn Bhd</b>					
National Occupational Health and Safety Excellence Award 2014					Achieved in 2014
ISO 9001:2015 (Quality Management System)			Achieved since 2014 (latest recertification in 2017)		
ISO 14001:2004 (Environmental Management System)			Achieved since 2014 (latest recertification in 2017)		
OHSAS 18001:2007 (Occupational Health and Safety Management System)			Achieved since 2014 (latest recertification in 2017)		
<b>Mandarin Oriental Hotel, Kuala Lumpur</b>					
ISO 14001:2004 (Environmental Management System)		Achieved since 2003 (latest recertification in 2018)			
ISO 22000:2005 (Food Safety Management Systems)		Achieved since 2008 (latest recertification in 2018)			
OHSAS 18001:2007 (Occupational Health and Safety Management Systems)		Achieved since 2003 (latest recertification in 2018)			
<b>KLCC Parking Management</b>					
ISO 9001:2015 (Quality Management System)		Achieved in 2016			
ISO 14001:2015 (Environmental Management System)		Achieved in 2016 (latest recertification in 2018)			
OHSAS 18001:2007 (Occupational Health and Safety Management System)		Achieved in 2016 (latest recertification in 2018)			
MOSHPA OSH Excellence Award (Platinum)		2017	Awarded in 2015 and 2016		
(Gold)					
Silver Platinum Premier Award	Awarded in 2018				

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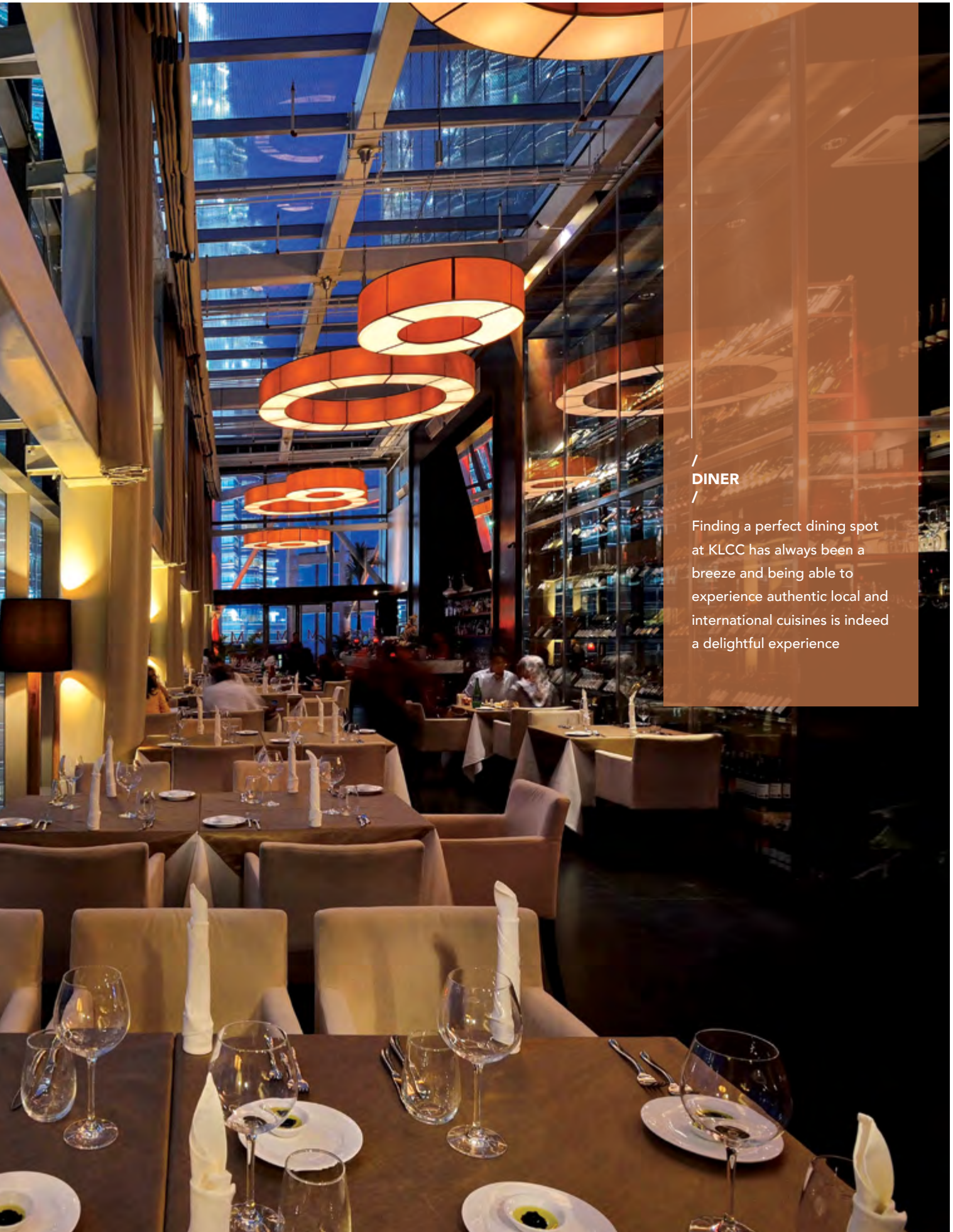
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# THE PLACE TO DINE

From local delicacies to international cuisines, from chic stalls to fancy restaurants, elegant cafes and some of the world's best restaurant chains – THE PLACE is a premier destination for dining with ethnically diverse dining options which complete the picture of a lifestyle that exceeds expectations. It's a melting pot of vibrant food cultures and traditions. Well regarded for its wide array of tantalising local delicacies and international cuisines, it is indeed a place worth exploring for one will not be disappointed!





/ DINER /

Finding a perfect dining spot at KLCC has always been a breeze and being able to experience authentic local and international cuisines is indeed a delightful experience

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**TENGGU  
MUHAMMAD  
TAUFIK**

Non-Independent  
Non-Executive Director

**DATUK ISHAK  
BIN IMAM ABAS**

Non-Independent  
Non-Executive Director

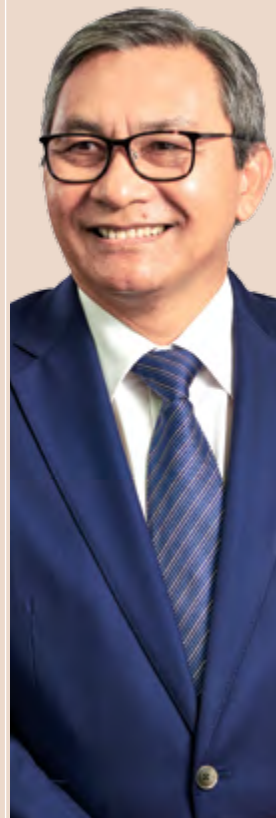


**DATO' HALIPAH  
BINTI ESA**

Senior Independent  
Non-Executive Director

**DATUK PRAGASA  
MOORTHY A/L  
KRISHNASAMY**

Non-Independent  
Non-Executive Director



**DATUK AHMAD  
NIZAM BIN  
SALLEH**

Chairman/Non-Independent  
Non-Executive Director

# KLCCP AND BOARDS OF

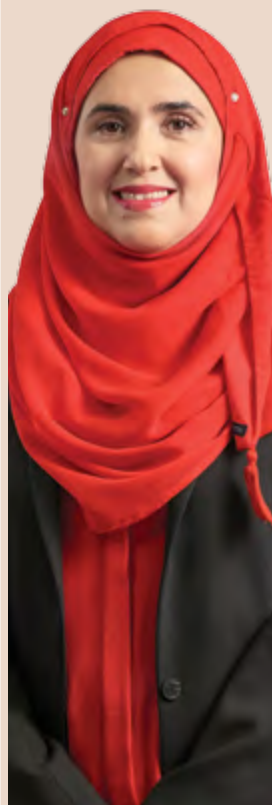


**DATUK HASHIM  
BIN WAHIR**

Chief Executive Officer

**HABIBAH BINTI  
ABDUL**

Independent  
Non-Executive Director

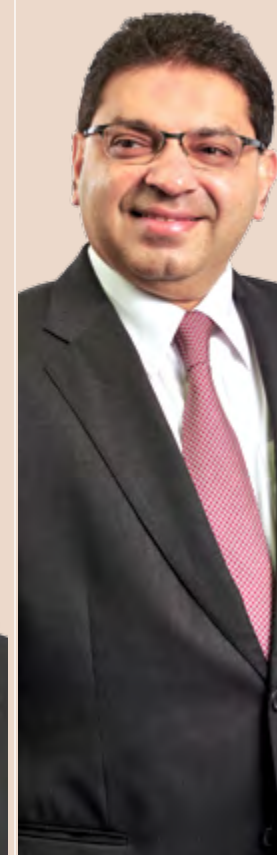


**FARINA BINTI  
FARIQHULLAH  
KHAN**

Independent  
Non-Executive Director

**YEAP KOK  
LEONG**

Company Secretary



**ABD AZIZ BIN  
ABD KADIR**

Company Secretary

# KLCC REIT DIRECTORS

**None of the Directors have:**

- (i) Any family relationship with any Directors of KLCCP, KLCC REIT and/or major Stapled Securities holders of KLCCP and KLCC REIT;
- (ii) Any conflict of interest with KLCCP and KLCC REIT; and
- (iii) Any conviction for offences (other than traffic offences) within the past 5 years, received any public sanction or any penalty imposed by the relevant regulatory bodies during the financial year.

## KLCCP AND KLCC REIT BOARDS OF DIRECTORS



### DATUK AHMAD NIZAM BIN SALLEH

- ▶ Chairman/Non-Independent Non-Executive Director
- ▶ Malaysian    ▶ Male    ▶ Aged 63

### SKILLS, EXPERIENCE AND EXPERTISE

Datuk Ahmad Nizam Bin Salleh was appointed as Chairman and Non-Independent Non-Executive Director of KLCC Property Holdings Berhad ("KLCCP") and KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust ("KLCC REIT")) on 21 December 2018.

Datuk Ahmad Nizam is the holder of a Bachelor's Degree in Business Administration from Ohio University, USA and attended the Advanced Management Program at Wharton School University of Pennsylvania, USA.

He held various positions such as Analyst, Planner and Project Coordinator in Corporate Planning and Finance divisions in PETRONAS Corporate Head Office from the years 1981 to 1987. Subsequently, he held various senior positions in PETRONAS Holding Company from years 1988 to 2002, including Head of Crude Oil Group and Group Treasury. In 2004, he assumed the position of Managing Director/Chief Executive Officer ("MD/CEO") of Malaysia LNG Group of Companies and was promoted to Vice President, Corporate Services Division of PETRONAS in 2007. From July 2010 to August 2015, Datuk Ahmad Nizam served as the MD/CEO of Engen Ltd, South Africa, which operated in 20 countries in southern Africa and Indian Ocean Islands.

Datuk Ahmad Nizam has previously served on the Boards of Putrajaya Holdings Sdn Bhd, Kuala Lumpur Convention Centre Sdn Bhd and Prince Court Medical Centre Sdn Bhd and listed companies such as MISC Berhad and Bintulu Port Berhad as well as several petrochemical subsidiaries of PETRONAS.

Presently, Datuk Ahmad Nizam sits on the Boards of Directors of PETRONAS and KLCC (Holdings) Sdn Bhd as the Chairman. He is currently the Chairman of Yayasan PETRONAS, Pro-Chancellor of Universiti Teknologi PETRONAS and a member of the Board for Universiti Malaysia Terengganu.



## KLCCP AND KLCC REIT BOARDS OF DIRECTORS



### DATUK HASHIM BIN WAHIR

- ▶ Chief Executive Officer
- ▶ Malaysian    ▶ Male    ▶ Aged 61

### SKILLS, EXPERIENCE AND EXPERTISE

Datuk Hashim bin Wahir was appointed to the Board of KLCC Property Holdings Berhad ("KLCCP") on 1 November 2007 and designated as the Chief Executive Officer.

He was also appointed to the Board of KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust ("KLCC REIT")) on 5 December 2012 and designated as Chief Executive Officer. He is also a Director of Midciti Sukuk Berhad.

He graduated from Universiti Teknologi Malaysia with a Bachelor of Engineering (Honours) in Mechanical Engineering. He also attended Executive Development Programs at Ashridge Management College, United Kingdom and Johnson School of Management, Cornell University, USA in 1993 and 1998, respectively.

Datuk Hashim joined PETRONAS on 16 June 1981 after graduating from Universiti Teknologi Malaysia. Whilst in PETRONAS, he undertook various assignments within the PETRONAS Group including exploration and production ("E&P") operations, international E&P and gas asset acquisitions, group strategic planning and corporate development. He also held various senior management positions in PETRONAS such as Senior Manager, Petroleum Engineering Department of PETRONAS Carigali Sdn Bhd ("PCSB") from 1995 until 1999, General Manager of Chad/Cameroon JV Project, PCSB from 1999 until 2000, and General Manager of Group Planning & Resource Allocation, PETRONAS from 2000 until 2004. He was appointed as the Chairman for the PETRONAS Group of companies in the Republic of Sudan until November 2007.

Datuk Hashim is presently a Director and the Group Chief Executive Officer of KLCC (Holdings) Sdn Bhd ("KLCCH"). He also sits on the board of Kuala Lumpur City Park Berhad and PETRONAS Hartabina Sdn Bhd.

His other directorships include KLCCH's subsidiaries and associate companies, and subsidiaries of KLCCP.

## KLCCP AND KLCC REIT BOARDS OF DIRECTORS



### TENGGU MUHAMMAD TAUFIK

▶ Non-Independent  
Non-Executive Director

▶ Malaysian    ▶ Male    ▶ Aged 44

## SKILLS, EXPERIENCE AND EXPERTISE

Tengku Muhammad Taufik, was appointed as a Non-Independent Non-Executive Director of KLCC Property Holdings Berhad (“KLCCP”) and KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust (“KLCC REIT”)) (“Manager”) on 1 December 2018.

He was also appointed as a member of the Nomination and Remuneration Committee of KLCCP and the Manager on 1 December 2018.

Tengku Muhammad Taufik graduated as a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and holds a BA (Hons) Finance & Accounting from Strathclyde University, Glasgow. He is also a member of the Malaysian Institute of Accountants (MIA).

Prior to re-joining PETRONAS in October 2018, he was a Partner, Capital Projects & Infrastructure & Malaysia Oil & Gas Practice Leader of PricewaterhouseCoopers Advisory Sdn. Bhd. where he was involved in financial advisory work. He began his career as an Audit Supervisor with Tenon Plc (formerly Morison Stoneham). He joined PETRONAS in December 2000 and had held various positions within the PETRONAS Group, including as General Manager Finance/CFO KLCC Property Holdings Berhad; Head, Finance & Risk Management (Gas & Power); and Head, Group Strategic Planning. Following a stint as the Deputy Chief Financial Officer of Tanjong Plc (Usaha Tegas Group), he served as the Group Chief Financial Officer of Sapura Energy (formerly SapuraKencana Petroleum Berhad) from December 2012 to January 2015.

Presently, Tengku Muhammad Taufik is the Executive Vice President and Group Chief Financial Officer of PETRONAS. He is also a member of the Board of Directors of PETRONAS and its Executive Leadership Team, as well as other subsidiaries of PETRONAS.

His other directorships include MISC Berhad and KLCC (Holdings) Sdn Bhd.

## KLCCP AND KLCC REIT BOARDS OF DIRECTORS



### DATUK ISHAK BIN IMAM ABAS

▶ Non-Independent  
Non-Executive Director

▶ Malaysian    ▶ Male    ▶ Aged 73

### SKILLS, EXPERIENCE AND EXPERTISE

Datuk Ishak bin Imam Abas was appointed to the Board of KLCC Property Holdings Berhad ("KLCCP") on 7 February 2004 and designated as the Chief Executive Officer until his retirement on 1 April 2007 when he was redesignated as Non-Independent Non-Executive Director.

He was also appointed as Non-Independent Non-Executive Director of KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust ("KLCC REIT")) on 5 December 2012.

Datuk Ishak is a Fellow Member of the Chartered Institute of Management Accountants (CIMA) and a member of the Malaysian Institute of Accountants (MIA).

Prior to joining PETRONAS in 1981, he worked as, amongst others, Finance Director of Pfizer (M) Sdn Bhd, Bursar of the University Kebangsaan Malaysia, Finance Director of Western Digital (M) Sdn Bhd and as an accountant in PERNAS International Holding Bhd. He joined PETRONAS in April 1981 and held various senior positions including Deputy General Manager Commercial of PETRONAS Dagangan Berhad, Senior General Manager (Finance) of PETRONAS, Vice-President (Finance) of PETRONAS, and Senior Vice-President of PETRONAS. He was also a board member of PETRONAS and several of its subsidiaries.

Currently, Datuk Ishak is a Non-Executive and Independent Director on the boards of Deleum Berhad and Integrated Petroleum Services Sdn Bhd.

He is a Non-Executive Chairman of Putrajaya Holdings Sdn Bhd and a Non-Executive Director of Kuala Lumpur City Park Berhad, both of which are members of the PETRONAS group.

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## KLCCP AND KLCC REIT BOARDS OF DIRECTORS



### DATO' HALIPAH BINTI ESA

- ▶ Senior Independent Non-Executive Director
- ▶ Malaysian    ▶ Female    ▶ Aged 69

## SKILLS, EXPERIENCE AND EXPERTISE

Dato' Halipah Binti Esa was appointed to the Board of KLCC Property Holdings Berhad ("KLCCP") and as member of the Audit Committee of KLCCP on 1 March 2007. The Board had on 21 August 2013 appointed her as the Chairperson of the Nomination and Remuneration Committee of KLCCP.

She was also appointed as Independent Non-Executive Director of KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust ("KLCC REIT")) ("the Manager") on 5 December 2012. She was also appointed as a member of the Audit Committee and the Chairperson of Nomination and Remuneration Committee of the Manager on 12 December 2012 and 21 August 2013 respectively.

Dato' Halipah received her Bachelor of Arts (Honours) in Economics and a Master of Economics from the University of Malaya. She also holds a Certificate in Economic Management from the IMF Institute, Washington and the Kiel Institute for World Economics, Germany as well as a Certificate in Advanced Management Programme from Adam Smith Institute, London.

She started her career with the Administrative and Diplomatic Services in 1973 in the Economic Planning Unit ("EPU") of the Prime Minister's Department. She held various senior positions in the EPU and retired as the Director General in 2006. She had also served in the Ministry of Finance as Deputy Secretary General.

She was previously Chairman of Pengurusan Aset Air Berhad and had also served on the boards of PETRONAS, Employees Provident Fund (EPF), Inland Revenue Board (IRB), Bank Pertanian, Federal Land Development Authority, UDA Holdings Berhad, Malaysia-Thailand Joint Authority, Perbadanan Insurans Deposit Malaysia, MISC Berhad and NCB Holdings Berhad. She was a consultant to the World Bank and United Nations Development Programme (UNDP) in advising the Royal Kingdom of Saudi Arabia on economic planning, and had also provided technical advice to planning agencies in Vietnam, Cambodia, Indonesia and several African countries.

Currently, she serves on the boards of Malaysia Marine and Heavy Engineering Holdings Berhad, S P Setia Berhad, Cagamas Berhad and Securities Industry Dispute Resolution Centre.

## KLCCP AND KLCC REIT BOARDS OF DIRECTORS



### DATUK PRAGASA MOORTHI A/L KRISHNASAMY

▶ Non-Independent  
Non-Executive Director

▶ Malaysian    ▶ Male    ▶ Aged 72

### SKILLS, EXPERIENCE AND EXPERTISE

Datuk Pragasa Moorthi A/L Krishnasamy was appointed to the Board of KLCC Property Holdings Berhad ("KLCCP") on 9 September 2004.

He was also appointed as Independent Non-Executive Director of KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust ("KLCC REIT")) ("Manager") on 5 December 2012.

On 26 January 2015, Datuk Pragasa was re-designated as Non-Independent Non-Executive Director of KLCCP and the Manager.

He graduated as a Quantity Surveyor from Curtin University, West Australia. He worked as a Project Quantity Surveyor for a number of projects in Perth, West Australia from 1971 to 1976. He was then appointed as General Manager/Director of Safuan Group Sdn Bhd from 1977 to 1981 and subsequently, as a Project Director of Sepang Development Sdn Bhd from 1981 to 1983 before he was engaged as a Project Director with WTW Consultant Sdn Bhd.

He joined KLCC Projek Sdn Bhd in March 1993 as General Manager, a position which he held for 4 years overseeing the management of design, construction and completion of the various building in KLCC such as the PETRONAS Twin Towers, Menara Maxis and Menara ExxonMobil. Subsequently, he was appointed Managing Director of KLCC Projek Sdn Bhd for another 4 years.

Presently, Datuk Pragasa sits on the board of United Contract Management Sdn Bhd, a private limited company incorporated in Malaysia.

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## KLCCP AND KLCC REIT BOARDS OF DIRECTORS



### HABIBAH BINTI ABDUL

- ▶ Independent Non-Executive Director
- ▶ Malaysian    ▶ Female    ▶ Aged 63

### SKILLS, EXPERIENCE AND EXPERTISE

Habibah binti Abdul was appointed as an Independent Non-Executive Director of KLCC Property Holdings Berhad ("KLCCP") and KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust ("KLCC REIT")) ("Manager") and also as a member of its Audit Committees on 26 June 2013. On 21 August 2013, she was appointed as a member of the Nomination and Remuneration Committees of KLCCP and the Manager. During 12 April 2018 to 11 October 2018, she was also the Chairperson Audit Committees of KLCCP and the Manager.

She graduated from University of Malaya with a Bachelor of Economics (Accounting). She is a Member of the Institute of Chartered Accountants of England and Wales and a Member of Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants.

She has about 35 years of experience in providing audit and business advisory services to large public listed, multinational and local corporations. She was a former member of the Securities Commission from 1999 to 2002.

Presently, Cik Habibah sits on the board of PETRONAS Gas Berhad.



## KLCCP AND KLCC REIT BOARDS OF DIRECTORS



### **FARINA BINTI FARIKHULLAH KHAN**

► Independent  
Non-Executive Director

► Malaysian    ► Female    ► Aged 46

### **SKILLS, EXPERIENCE AND EXPERTISE**

Farina Farikhullah Khan was appointed as Independent and Non-Executive Director of KLCC Property Holdings Berhad ("KLCCP") and KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust ("KLCC REIT")) ("Manager") and also as Member of the Audit Committees on 23 April 2018. Subsequently, on 12 October 2018, she was appointed as the Chairperson of Audit Committees of KLCCP and the Manager.

She is currently a Fellow member of the Institute of Chartered Accountants in Australia and has completed the Advanced Management Program at Harvard Business School in the United States of America. She graduated from University of New South Wales, Australia with a Bachelor of Commerce (Accounting) in 1993.

She has more than 20 years working experience, in the oil and gas industry with 10 years in management capacity. She started her career with Coopers & Lybrand, Australia in 1993 where she was involved in audit and business services.

She joined PETRONAS in 1997 and held various positions in the Corporate Planning and Development Division and Group Strategic Planning. She served in the Finance Division of PETRONAS Carigali Sdn Bhd and assumed the Chief Financial Officer position from 2006 to 2010. Subsequently, she served as the Chief Financial Officer of Exploration and Production Business at PETRONAS from 2010 to 2013. Prior to leaving PETRONAS in 2015, she was the Chief Financial Officer of PETRONAS Chemical Group Berhad from 2013-2015.

Currently, she is also an Independent Non-Executive Director for Icon Offshore Berhad, PETRONAS Gas Berhad, AMMB Holdings Berhad and AMBank Islamic Berhad.

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**DATUK HASHIM BIN WAHIR**  
Chief Executive Officer



**ANNUAR MARZUKI BIN ABDUL AZIZ**  
Chief Financial Officer/Chief Investment Officer



**ABD AZIZ BIN ABD KADIR**  
Head, Legal & Corporate Services Division



**DATIN SR FAUDZIAH BINTI IBRAHIM**  
Head, Development Division

# MANAGEMENT TEAM KLCC PROPERTY HOLDINGS BERHAD







**SULAIMAN BIN AB HAMID**  
Head, Human Resource Division



**ANDREW WILLIAM BRIEN**  
Executive Director/Chief Executive Officer, Suria KLCC Sdn Bhd



**HO MEI LING**  
Head Department, Group Enterprise Risk Management



**ISHAK BIN YAHAYA**  
Security Advisor



**BURHANUDDIN BIN YAHYA**  
Head, KLCC Parking Management Sdn Bhd



**FRANK PETER STOCEK**  
General Manager, Mandarin Oriental, Kuala Lumpur

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**DATUK HASHIM BIN WAHIR**  
Chief Executive Officer



**DATIN SR FAUDZIAH BINTI IBRAHIM**  
Head of Leasing/Asset Manager



**ABD AZIZ BIN ABD KADIR**  
Head of Legal & Compliance



**ANNUAR MARZUKI BIN ABDUL AZIZ**  
Head of Investment/Head of Finance

# MANAGEMENT TEAM KLCC REIT MANAGEMENT SDN BHD

## PROFILE OF KLCCP AND KLCC REIT MANAGEMENT TEAM



**DATUK HASHIM BIN WAHIR** | Malaysian | Male | Aged 61  
Chief Executive Officer

Datuk Hashim bin Wahir was appointed to the Board of KLCC Property Holdings Berhad ("KLCCP") on 1 November 2007 and designated as the Chief Executive Officer.

He was also appointed to the Board of KLCC REIT Management Sdn Bhd (the Manager of KLCC Real Estate Investment Trust ("KLCC REIT")) on 5 December 2012 and designated as Chief Executive Officer. He is also a Director of Midciti Sukuk Berhad.

He graduated from Universiti Teknologi Malaysia with a Bachelor of Engineering (Honours) in Mechanical Engineering. He also attended Executive Development Programs at Ashridge Management College, United Kingdom and Johnson School of Management, Cornell University, USA in 1993 and 1998, respectively.

Datuk Hashim joined PETRONAS on 16 June 1981 after graduating from Universiti Teknologi Malaysia. Whilst in PETRONAS, he undertook various assignments within

the PETRONAS Group including exploration and production ("E&P") operations, international E&P and gas asset acquisitions, group strategic planning and corporate development. He also held various senior management positions in PETRONAS such as Senior Manager, Petroleum Engineering Department of PETRONAS Carigali Sdn Bhd ("PCSB") from 1995 until 1999, General Manager of Chad/Cameroon JV Project, PCSB from 1999 until 2000, and General Manager of Group Planning & Resource Allocation, PETRONAS from 2000 until 2004. He was appointed as the Chairman for the PETRONAS Group of companies in the Republic of Sudan until November 2007.

Datuk Hashim is presently a Director and the Group Chief Executive Officer of KLCC (Holdings) Sdn Bhd ("KLCC"). He also sits on the board of Kuala Lumpur City Park Berhad and PETRONAS Hartabina Sdn Bhd.

His other directorships include KLCC's subsidiaries and associate companies, and subsidiaries of KLCCP.



**ANNUAR MARZUKI BIN ABDUL AZIZ** | Malaysian | Male | Aged 48  
Chief Financial Officer/Chief Investment Officer, KLCCP | Head of Investment/Head of Finance, KLCCRM

Annuar Marzuki bin Abdul Aziz was appointed as Chief Financial Officer/Chief Investment Officer of KLCC Property Holdings Berhad ("KLCCP") on 16 December 2013. He was also appointed as the Head of Finance/Head of Investment for KLCC REIT Management Sdn Bhd on 16 December 2013.

He is a Fellow of Certified Practising Accountants, Australia (CPA Australia).

He graduated from International Islamic University Malaysia, with Bachelor in Accounting (Hons.) and obtained Masters in Business Administration (Finance) from the same institution.

Encik Annuar Marzuki started his career in the Audit & Business Advisory Services Division of the then Pricewaterhouse, Malaysia. He has more than 20 years' experience covering audit, accounting, treasury, corporate

finance, procurement, investor relations and general management with a number of conglomerates namely UMW Corporation Sdn Bhd, Renong Berhad (now known as UEM Sunrise Berhad), Commerce International Merchant Bankers Berhad (now known as CIMB Investment Bank Berhad) and UEM Group Berhad. He was appointed as the Head of Corporate Finance of Renong Berhad in 2001 and the General Manager of Office of the Chief Executive Officer, UEM Group Berhad in 2004. He was appointed as the Chief Financial Officer of PLUS Expressways Berhad in 2006 and as the Group Chief Financial Officer of UEM Group Berhad in 2009 before assuming his current role.

Presently, Encik Annuar Marzuki sits on the boards of several subsidiaries of KLCCP.



## PROFILE OF KLCCP AND KLCC REIT MANAGEMENT TEAM



**ABD AZIZ BIN ABD KADIR** | Malaysian | Male | Aged 54  
 Head, Legal and Corporate Services Division, KLCCP | Head of Legal and Compliance, KLCCRM

Abd Aziz bin Abd Kadir was appointed as the Head of Legal & Corporate Services Division, KLCC Property Holdings Berhad ("KLCCP") on 1 October 2009. He was also appointed as the Head of Legal & Compliance, KLCC REIT Management Sdn Bhd on 5 December 2012. Currently, he is the Company Secretary for both companies.

He graduated with a LLB (Honours) from International Islamic University Malaysia. He joined PETRONAS in July 1991 and had held various legal positions within the PETRONAS Group. Prior to his current role, he was the General Manager of Legal and Corporate Secretarial Affairs Division at MISC Berhad.

Presently, Encik Abd Aziz sits on the boards of several subsidiaries of KLCCP and Kuala Lumpur City Park Berhad.



**DATIN SR FAUDZIAH BINTI IBRAHIM** | Malaysian | Female | Aged 55  
 Head, Development Division, KLCCP | Head of Leasing/Asset Manager, KLCCRM

Datin Sr. Faudziah binti Ibrahim was appointed as the Head of Development Division for KLCC Property Holdings Berhad on 1 January 2012. She was also appointed as the Head of Leasing/Asset Manager for KLCC REIT Management Sdn Bhd on 5 December 2012.

She holds a Diploma in Public Venue Management, Institute of Public Venue Management Australia. She obtained both her Bachelor of Science (Honours) in Estate Management and Masters of Science in

Construction Management (majoring Project Management) from Heriot-Watt University, Edinburgh, Scotland, and Diploma in Estate Management, Institute Teknologi MARA (now UiTM) in 1984.

She is a Registered Valuer and Registered Estate Agent since 1998 and a Registered Property Manager since November 2018 with the Board of Valuers, Appraisers, Estate Agents and Property Manager, Malaysia; a member of the Royal Institute of Surveyors Malaysia since 1998; a

Fellow since 2014 and a member of Royal Institute of Chartered Surveyors United Kingdom since 2010. She is the License Holder for the Capital Market Services Representative with Securities Commission Malaysia since 2012.

Datin Sr. Faudziah was an Assistant Director, Project Coordination Unit at Kuala Lumpur City Hall from 1988 and Senior Lecturer/Head of Department of Urban Estate Management, Northern Consortium United Kingdom/ITM from 1988 until 1994 and later was a valuer at Rahim & Co, Chartered Surveyors, Kuala Lumpur.

Subsequently, she joined KLCC (Holdings) Sdn Bhd on 13 November 1995 and held various positions with main responsibilities in the Development and Commercial Leasing of KLCC Development before appointed to her current role on 1 January 2012.

Presently, Datin Sr. Faudziah sits on the boards of Kuala Lumpur City Park Berhad and a subsidiary of KLCCP. She was appointed as the acting Head, KLCC Urusharta Sdn Bhd on 28 March 2018.



## PROFILE OF KLCCP AND KLCC REIT MANAGEMENT TEAM



**SULAIMAN BIN AB HAMID** | Malaysian | Male | Aged 43  
Head, Human Resource Division, KLCCP

Sulaiman bin Ab Hamid was appointed as the Head of Human Resource Division, KLCC Property Holdings Berhad on 1 January 2015.

He obtained an MBA Degree in Strategic Management from Maastricht School of Management, Netherland, and holds a Bachelor of Science in Business Administration (Major in Accounting

& Management Information System) from Northeastern University in Boston, Massachusetts, USA.

Encik Sulaiman started his career as an Accountant at the Hartford Financial Insurance Services in Boston, Massachusetts, USA, and later as a Senior Accountant at AIG Group, Boston. He moved to Fugro Jason, Abu Dhabi, United Arab Emirates,

as a Regional Controller for Middle East and, subsequently, joined Scomi Group Berhad as the Senior Finance Manager. Prior to his current role, he was the Head of Department of Business Performance, KLCC (Holdings) Sdn Bhd.



**HO MEI LING** | Malaysian | Female | Aged 55  
Head Department, Group Enterprise Risk Management, KLCCP

Ho Mei Ling was appointed as the Head of Department for Group Enterprise Risk Management, KLCC Property Holdings Berhad on 28 October 2013.

She holds a Bachelor of Arts (Honours) from York University, Toronto, Canada.

Ho Mei Ling was the Manager of Corporate Recovery at Ernst & Young before joining Putrajaya Holdings Sdn Bhd as a Manager for Business Planning. Throughout the ensuing years, she has assumed various roles in Business Monitoring, Corporate Affairs and Cost Residential & Commercial. Prior to her current role, she was the Head of Customer Relationship Management at Putrajaya Holdings Sdn Bhd.

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## PROFILE OF KLCCP AND KLCC REIT MANAGEMENT TEAM



**ISHAK BIN YAHAYA** | Malaysian | Male | Aged 68  
Security Advisor, KLCCP

Ishak bin Yahaya was appointed as the Security Advisor to KLCC Property Holdings Berhad effective 2 January 2008. Prior to this appointment, he was the General Manager of PETRONAS Corporate Security Division.

He is a retired senior police officer of the Royal Malaysia Police who started his career as an infantry officer in the Regiment of VAT69, a commando unit specialises in Counter Terrorist operation. He was trained by the British SAS and involved in combating the communist insurgency in the country.

He has served in various duties and functions in the Royal Malaysia Police before assuming the duties of General Manager of PETRONAS Corporate Security Division.



**ANDREW WILLIAM BRIEN** | Australian | Male | Aged 55  
Executive Director/Chief Executive Officer, Suria KLCC Sdn Bhd

Andrew William Brien was appointed as the Chief Executive Officer and later as an Executive Director of Suria KLCC Sdn Bhd on 1 January 2007 and 1 January 2015, respectively.

Mr. Brien holds Bachelor of Commerce, Management Studies (Marketing/Accounting) from University of Wollongong, Australia completed in 1986. He attended

and completed Stanford Executive Program, Stanford University, USA in 2013.

Mr. Brien has 6 years sales and marketing experience with Colgate Palmolive Pty Ltd, Australia in both regional and national roles. His real estate experience spans 24 years' in the disciplines of management, leasing, marketing and development of retail assets commencing with Lend Lease Corporation

Ltd, Australia in 1992 and continuing with Westfield Limited, Australia. Mr. Brien was seconded to Suria KLCC Sdn Bhd in 2003 pursuant to the advisory agreement entered into between Suria KLCC Sdn Bhd and Westfield Shopping Centre Management Co. Pty. Ltd. of Australia. In 2006 his secondment concluded with his CEO appointment.

## PROFILE OF KLCCP AND KLCC REIT MANAGEMENT TEAM



**FRANK PETER STOCEK** | Canadian | Male | Aged 59  
General Manager, Mandarin Oriental, Kuala Lumpur

Frank Peter Stoczek, was appointed as the General Manager of Mandarin Oriental Kuala Lumpur on 1 January 2012.

He obtained his First Year Executive MBA Program at Royal Melbourne Institute of Technology, Australia, in 2001 and have graduated with honours in Hotel and Restaurant Management Program from British Columbia Institute of Technology,

Burnaby, British Columbia, Canada, where he received 2 INSFA Awards for outstanding achievement.

Frank started his career with Mandarin Oriental Hotel, Vancouver, British Columbia, Canada in 1983 and was then appointed as an Assistant Food and Beverage Manager, Mandarin Oriental Hotel, Jakarta, Indonesia, before moving to The Excelsior

Hong Kong (a Mandarin Oriental Hotel). He was promoted as the Food and Beverage Manager at The Excelsior Hong Kong and later appointed as the Resident Manager.

Mr. Stoczek was the General Manager at Hotel Majapahit, Mandarin Oriental of Surabaya, Indonesia, and continued with the same position at Mandarin Oriental Hotel Group, Hong Kong Macau. Prior to his current role, he was the General Manager at Elbow Beach Bermuda (a Mandarin Oriental Hotel).



**BURHANUDDIN BIN YAHYA** | Malaysian | Male | Aged 59  
Head, KLCC Parking Management Sdn Bhd

Burhanuddin bin Yahya was appointed as the Head of KLCC Parking Management Sdn Bhd on 1 May 2013.

He holds a Bachelor of Science in Quantity Surveying from Council of National Academic Award (CNAA), Dundee University, Scotland.

Encik Burhanuddin joined KLCC Property Holdings Berhad in 1991 as a Cost Manager for PETRONAS Twin Towers project. Prior to his current role, he was the Head of Department for TCD, Procurement for Technical Services and Intra & Pre Development (Planning) at Putrajaya Holdings Sdn Bhd.

### None of the Management Teams have:

- (i) Any family relationship with any Directors of KLCCP, KLCC REIT and/or major Stapled Securities holders of KLCCP and KLCC REIT;
- (ii) Any conflict of interest with KLCCP and KLCC REIT; and
- (iii) Any conviction for offences (other than traffic offences) within the past 5 years, received any public sanction or any penalty imposed by the relevant regulatory bodies during the financial year.



# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## CHAIRMAN'S THOUGHT



**DATUK AHMAD NIZAM BIN SALLEH**



**As the new Chairman of KLCC Property Holdings Berhad ("KLCCP" or "the Company") and KLCC REIT Management Sdn Bhd ("KLCCRM"), I am pleased to provide you with a Corporate Governance Overview Statement ("Statement") for the financial year ended 31 December 2018 ("FY2018") of:**

- (i) KLCCP; and**
- (ii) KLCCRM, as the manager of KLCC Real Estate Investment Trust ("KLCC REIT").**



The Boards of Directors of KLCCP and KLCCRM ("Boards") are committed to maintain high standards of governance which enables to promote the success of KLCCP Stapled Group for the benefit of its stakeholders.

During FY2018, the former Chairman, Tan Sri Mohd Sidek Hassan, instilled leadership in the Boards and oversaw the good corporate governance practices and adherence across KLCCP Stapled Group. He also ensured that the Boards adhered to relevant board governance. Under his chairmanship, there was good interaction between the Boards and Management as part of the effective decision-making process.

Following the 15<sup>th</sup> Annual General Meeting of KLCCP held on 12 April 2018, there were a number of changes to the Boards as follows:

- (a) Puan Farina binti Farikhullah Khan, Tengku Muhammad Taufik and myself, Datuk Ahmad Nizam bin Salleh, were appointed to the Boards on 23 April 2018, 1 December 2018 and 21 December 2018 respectively; and
- (b) Tan Sri Mohd Sidek Hassan and Datuk Manharlal a/l Ratilal had on 16 July 2018 and 26 October 2018 ceased to be Chairman/Non-Independent Non-Executive Director and Non-Independent Non-Executive Director respectively.

In the current financial year ending 31 December 2019 ("FY2019"), I regret to report that our Senior Independent Non-Executive Director, Dato' Halipah Esa, who will retire pursuant to the Constitution of the Company, has indicated to the Company that she would not seek re-election at the 16<sup>th</sup> Annual General Meeting of KLCCP ("KLCCP 16<sup>th</sup> AGM") and also decided to step down as an Independent Non-Executive Director of KLCCRM after the conclusion of KLCCP 16<sup>th</sup> AGM. Hence, Dato' Halipah would cease to be a Director of both KLCCP and KLCCRM after the conclusion of KLCCP 16<sup>th</sup> AGM.

On behalf of the Boards, I would like to express my utmost gratitude and appreciation to the abovenamed former Chairman and Directors for their diligence, support, guidance and commitment given to KLCCP and KLCCRM during their tenures.

We look forward to an exciting 2019 in continuing to deliver long-term sustainable value for our stakeholders.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

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## INTRODUCTION – HOW OUR GOVERNANCE WORKS

This Statement demonstrates continuous commitment by the Boards to high standards of corporate governance in discharging their responsibilities to protect and enhance interests of the holders of the stapled securities through the application of best practices of corporate governance at all times.

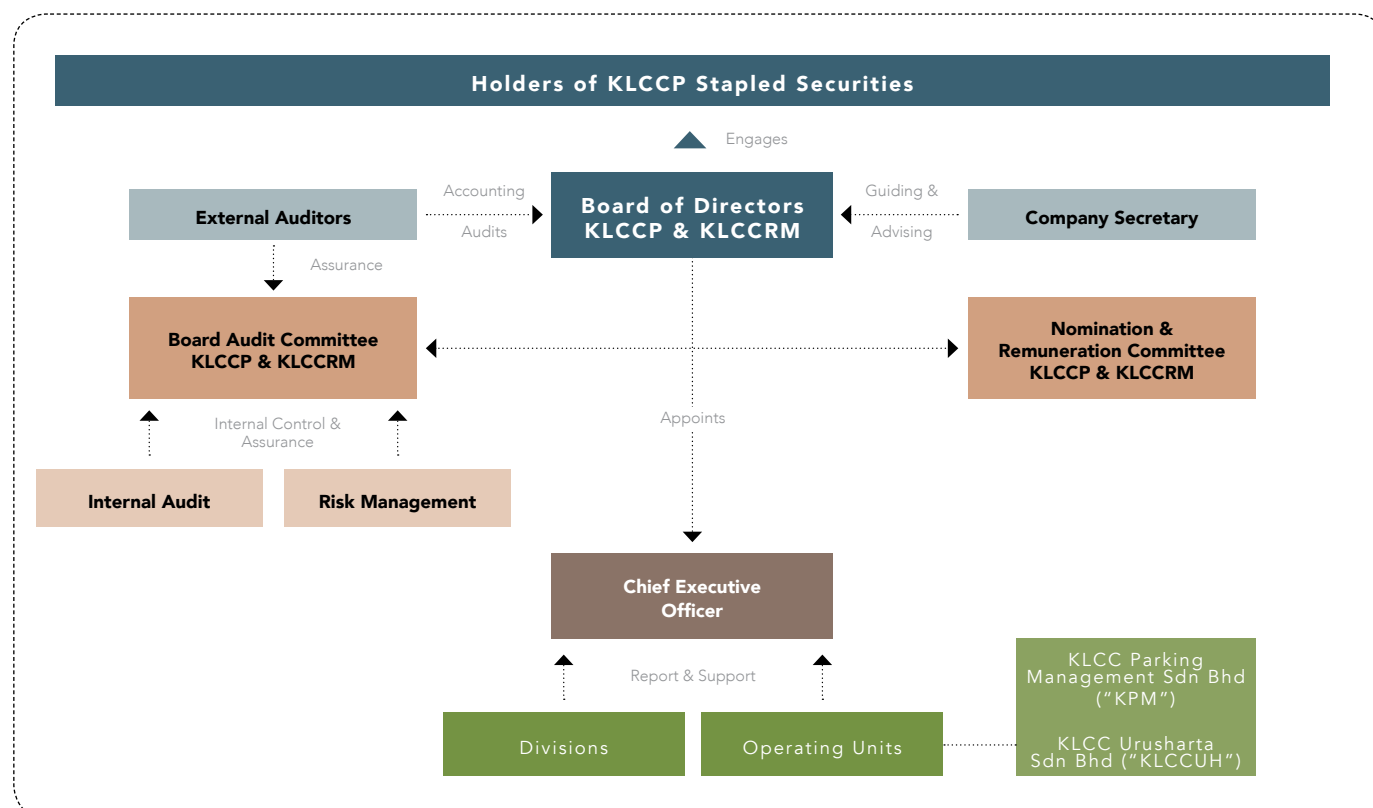
In this Statement, the respective Boards provide shareholders and investors with an overview of KLCCP Stapled Group’s application of the key principles of good corporate governance as set out in the Malaysian Code on Corporate Governance (“MCCG”). Throughout FY2018, we have adopted the relevant best practices of the MCCG.



The detailed application by KLCCP Stapled Group for each practice as set out in the MCCG during FY2018 is disclosed in the KLCCP Stapled Group Corporate Governance Report for FY2018 (“CG Report”) which is available on KLCCP’s corporate website at [www.klcc.com.my](http://www.klcc.com.my). The Boards are of the view that KLCCP Stapled Group has, in all material aspects, adopted the principles and relevant best practices set out in the MCCG. This Statement is to be read together with the CG Report.

KLCCP Stapled Group has, in place, numerous governance documents such as Constitutions, Trust Deed, Board Charter, Terms of Reference (“TOR”) of Board Committees, Enterprise Risk Management Framework, and Internal Audit Charters as part of its corporate governance framework.

The Boards operate within the governance framework as illustrated below:

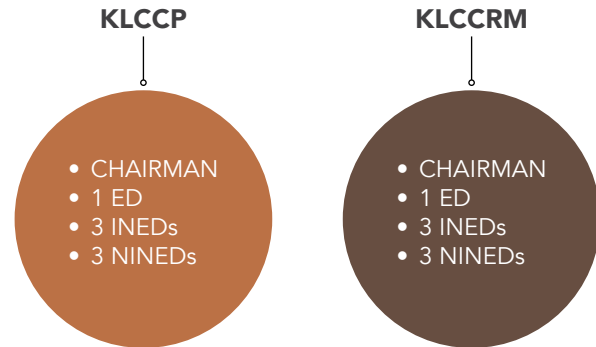


# CORPORATE GOVERNANCE OVERVIEW STATEMENT

## PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

### BOARD COMPOSITION AND RESPONSIBILITIES

Each Board currently consists of 8 members, led by a Non-Executive Chairman, and supported by 1 Executive Director as well as 6 Non-Executive Directors. Three of the Non-Executive Directors fulfill the criteria of independence, as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("MMLR"), while the remaining 4 Non-Executive Directors [including Chairman] are Non-Independent Directors.



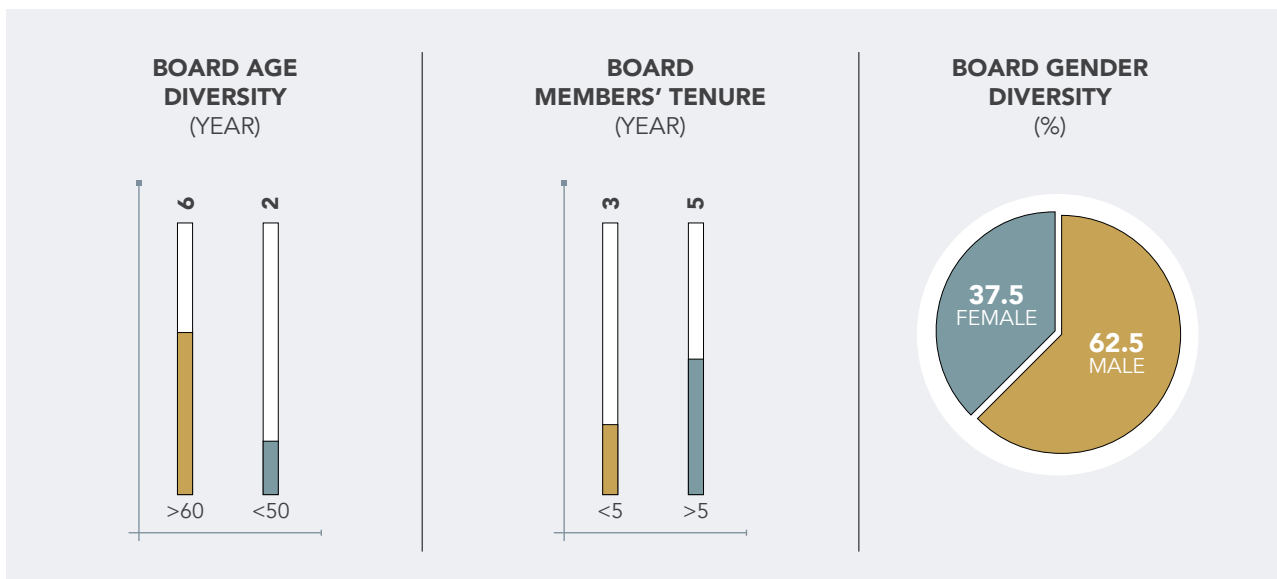
Details of the roles and responsibilities of the Chairman, Boards and Chief Executive Officer ("CEO") and their activities are described in the Board Charter and CG Report, which are available on KLCCP's corporate website at [www.klcc.com.my](http://www.klcc.com.my).

Details of the activities of these Board Committees are provided in the Statement of Risk Management and Internal Control, ACs Report and NRCs Report of this Annual Report as well as the CG Report.

The Boards of KLCCP and KLCCRM have established Board Committees, namely Audit Committees ("ACs") and Nomination and Remuneration Committees ("NRCs"), which are entrusted with specific responsibilities to oversee KLCCP Stapled Group's affairs. The Board Committees are granted the authorities to act on each Board's behalf in accordance with their respective TOR which are provided in the Board Charter.

In FY2018, there were a few Board changes described in the NRCs Report of this Annual Report. In April 2018, the Boards achieved 37.50% representation of women Directors.

As Dato' Halipah binti Esa will retire upon conclusion of KLCCP 16<sup>th</sup> AGM, none of the Independent Non-Executive Directors of KLCCP and KLCCRM would exceed a cumulative term limit of 9 years.






**BOARD LEADERSHIP AND EFFECTIVENESS**

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

**KEY FOCUS AREAS OF BOARDS' ACTIVITIES IN FY2018**

The Boards of KLCCP and KLCCRM are responsible for the long term success of KLCCP Stapled Group and are accountable to the shareholders as well as other stakeholders in ensuring that KLCCP Stapled Group is appropriately-managed and achieves the strategic objectives that have been set. The Boards discharged those responsibilities through Board Meetings, and focused on a number of specific areas such as strategy, performance, governance and succession planning.

**For KLCCP**

- (a) reviewed, deliberated and approved (where applicable) the reports from Management relating to the business plans and budget for FY2019 and forecast from FY2020 to FY 2023;
- (b) reviewed on quarterly basis, the projected cash flows and distribution for KLCCP Stapled Group;
- (c) oversaw the proper conduct of KLCCP Stapled Group's business (including budgetary approval, operational and financial matters) and deliberated on the reports from Management and consultant(s);
- (d) reviewed and approved the quarterly results for FY2018 and the audited financial statements of KLCCP for the financial year ended 31 December 2017 ("FY2017");
- (e) reviewed recurrent related party transactions of KLCCP Stapled Group;
- (f) reviewed and approved the proposed changes to the composition of the Board and Board Committees;
- (g) reviewed and approved the reports and statements for inclusion in the Annual Report 2017;
- (h) reviewed and endorsed the evaluation findings of the Board, Board Committees and Individual Director;
- (i) reviewed and endorsed the re-election of Directors retiring pursuant to KLCCP Constitution and recommended the same to the shareholders for approval;
- (j) reviewed and endorsed the reappointment of an Independent Director whose tenure had exceeded 9 years pursuant to best practice of the MCCG and recommended the same to the shareholders for approval;
- (k) reviewed and approved the proposed Directors' Remuneration Guidelines and Package for Non-Executive Directors;
- (l) reviewed and approved the proposal for performance reward for FY2017 and salary increment for FY2018 for permanent employees;
- (m) ensured that sound policies, procedures and practices relating to operational and corporate governance are implemented;
- (n) received reports from Group Risk Management and ensured KLCCP Stapled Group's principal risks were identified and mitigated, and appropriate measures implemented to manage these risks;
- (o) reviewed the adequacy and integrity of KLCCP Stapled Group's management information and internal control system;
- (p) received the updates of relevant laws and regulations from Management and ensured compliance thereof; and
- (q) determined and approved the dividends to holders of the Stapled Securities.

**For KLCCRM**

- (a) reviewed, deliberated and approved (where applicable) the reports from Management relating to the business plans and budget for FY2019 and forecast from FY2020 to FY2023;
- (b) reviewed on quarterly basis, the projected cash flows and distribution for KLCC REIT;
- (c) oversaw the proper conduct of KLCC REIT's business (including budgetary approval, operational and financial matters) and deliberated on the reports from Management and consultant(s);
- (d) reviewed and approved the quarterly results of KLCC REIT for FY2018 and the audited financial statements of KLCC REIT and KLCCRM for FY2017;
- (e) reviewed recurrent related party transactions of KLCC REIT;
- (f) ensuring that sound policies, procedures and practices are implemented;
- (g) reviewed and approved the proposed changes to the composition of the Board and Board Committees;
- (h) reviewed and approved the reports and statements for inclusion in the Annual Report 2017;
- (i) reviewed and endorsed the evaluation findings of the Board, Board Committees and Individual Director;
- (j) reviewed and endorsed the re-election of Directors retiring pursuant to KLCCRM Constitution and recommended the same to the shareholder for approval;
- (k) reviewed and approved the proposed Directors' Remuneration Guidelines and Package for Non-Executive Directors;
- (l) received reports from Group Risk Management and ensured KLCC REIT's principal risks were identified and mitigated, and appropriate measures implemented to manage these risks;
- (m) reviewed the adequacy and integrity of KLCC REIT's management information and internal control system;
- (n) guided the corporate strategies and directions of the Manager (including acquisition and divestment of the total assets of KLCC REIT);
- (o) reviewed and approved the appointment of an independent registered valuer for the valuation of KLCC REIT's properties for FY2018 to financial year ending 31 December 2020;
- (p) received the updates of relevant laws and regulations from Management and ensured compliance thereof; and
- (q) determined and approved income distributions to holders of the Stapled Securities and payments of management fees to the Manager.

The Boards are guided by its Charter (which is available on KLCCP's corporate website at [www.klcc.com.my](http://www.klcc.com.my)), which establishes a formal schedule of matters and outlines the types of information required for the Board's attention and deliberation at Board meetings.

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# CORPORATE GOVERNANCE OVERVIEW STATEMENT



## BOARD LEADERSHIP AND EFFECTIVENESS

### BOARD MEETINGS

All Directors are encouraged to declare their time commitment to the Boards and to notify the Chairman of each Board before accepting any new directorship in other public listed companies and that the new directorship would not unduly affect their time commitments and responsibilities to the Boards. The Boards believe that all members must be equally responsible for their overall core responsibilities.

The Boards meet at least quarterly to approve, inter alia, the strategic plans and direction for KLCCP Stapled Group, the annual business plans and budgets, operational and financial performance reports, investment and capital expenditures, and quarterly reports and to review the performance of KLCCP Stapled Group. Additional meetings are convened on an ad hoc basis to deliberate on urgent and important matters. Sufficient notices are duly given for all scheduled and additional meetings of the Boards.

During the year under review, 5 Board Meetings of KLCCP and 5 Board Meetings of KLCCRM were held respectively. The proceedings of all meetings of the Boards, the ACs and NRCs, including all issues raised, enquiries made and responses thereto, were also presented and recorded in the minutes of the respective Boards, ACs and NRCs meetings. Where necessary, decisions have been taken by way of circular resolutions.

The attendance at the Board meetings by the members of KLCCP and KLCCRM is as follows:

Directors	No. of Meetings Attended	
	KLCCP	KLCCRM
<b>Executive</b>		
Datuk Hashim bin Wahir	5/5	5/5
<b>Non-Executive</b>		
Datuk Ahmad Nizam bin Salleh (Chairman) (Appointed w.e.f 21 December 2018)	0/0	0/0
Datuk Ishak bin Imam Abas	5/5	5/5
Dato' Halipah binti Esa	5/5	5/5
Habibah binti Abdul	4/5	4/5
Datuk Pragasa Moorthi a/l Krishnasamy	5/5	5/5
Tengku Muhammad Taufik (Appointed w.e.f 1 December 2018)	0/0	0/0
Puan Farina binti Farikhullah Khan (Appointed w.e.f 23 April 2018)	3/3	3/3
Tan Sri Mohd Sidek bin Hassan (Chairman) (Resigned w.e.f 16 July 2018)	3/3	3/3
Augustus Ralph Marshall (Retired/Resigned w.e.f 12 April 2018)	1/2	1/2
Datuk Manharlal a/l Ratilal (Resigned w.e.f 26 October 2018)	4/4	4/4

### TRAINING AND PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Boards recognise the importance of attending and participating in training and development activities in order to broaden their perspectives and to keep abreast with developments in the market place, and new statutory and regulatory requirements which would enable them to fulfill their responsibilities.

In this regard, the Company Secretaries provide assistance in Directors' training and development, and to facilitate the induction programme for newly appointed Directors. The full list of Directors' Training and Professional Development is provided in the NRCs Report.

## A BOARD LEADERSHIP AND EFFECTIVENESS

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

### NOMINATION AT A GLANCE

#### Appointment, Resignation and Re-election

The appointment, resignation and re-election of Directors are governed by the Companies Act 2016, MMLR, Guidelines on Listed REIT and other applicable rules and regulations. The NRCs, chaired by a Senior Independent Director, review the size, structure and composition of the Boards and make recommendations on new appointments and ensure that the appointment process is rigorous and transparent.

Details on the appointment, resignation and re-election of Directors effected during the year under review are provided in the NRCs Report of this Annual Report.

#### Directors' Independence

The Boards are satisfied with the level of independence demonstrated by the Directors throughout the year, their ability to act in the best interest of KLCCP Stapled Group, and had upheld Practice 4.2 of the MCCG during FY2018.

Dato' Halipah binti Esa, an Independent Director of KLCCP, would have served more than 12 years on 28 February 2019. She has decided to retire at the conclusion of KLCCP 16<sup>th</sup> AGM to be held in April 2019.

None of the Independent Directors of KLCCRM has served more than 9 years as KLCCRM was only incorporated on 5 December 2012.

#### Board Effectiveness Evaluation

The evaluation on the effectiveness of the Boards and Boards Committees ("Boards Evaluation") was conducted for FY2018, which includes Directors' Self and Peer Evaluation. The purpose of the Evaluation is to measure the effectiveness of the performance of the Boards and the Board Committees as a whole, the Directors individually, as well as to address any areas of concern which may require improvements for Boards and Boards Committees.

The Boards Evaluation is assisted by an external company secretarial firm. The findings from the Boards Evaluation are presented to the NRCs for deliberation and appropriate recommendations were made to the Boards.

Guided by Practice 5.1 of the MCCG, the NRCs have agreed to engage an independent expert to facilitate objective and candid board evaluations. With the assistance of the proposed independent expert, Directors of KLCCP and KLCCRM will have the opportunity to respond to the evaluation from a different perspective and help to propel the Boards towards effective performance and function. The first external review by such independent expert is expected to be undertaken within the next 2 years (by the end of 2020).

Details on the process and criteria of the Boards Evaluation carried out for FY2018 are provided in the NRCs Report of this Annual Report.

#### Board Diversity Policy

KLCCP Board had approved the Board Diversity Policy in August 2016 which is also applicable to KLCCRM. The NRCs are tasked to determine the benefits of diversity underpinned by meritocracy in order to maintain an optimum mix of skills, knowledge and experience of the Boards.

The Board Diversity Policy is available on KLCCP's corporate website at [www.klcc.com.my](http://www.klcc.com.my). Further details on the Board Diversity Policy are described in the CG Report.

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# CORPORATE GOVERNANCE OVERVIEW STATEMENT



## BOARD LEADERSHIP AND EFFECTIVENESS

### REMUNERATION AT A GLANCE

In determining Directors' fees and meeting allowances as well as meeting allowances for the ACs and NRCs (collectively "Directors Remuneration"), the Boards adhere to the Non-Executive Directors Remuneration Guidelines and Remuneration Package recommended by the NRCs of KLCCP and KLCCRM.

Directors' Remuneration of KLCCP is subject to approval by holders of the Stapled Securities at the AGM of KLCCP, to be recommended by KLCCP Board.

Members of the Board, the AC and NRC of KLCCRM are entitled to meeting allowances only as long as their meetings are held on a different date than the meetings of the Board, AC and NRC of KLCCP.

Details of Directors Remuneration for the year under review are provided in the NRCs Report of this Annual Report as well as in the CG Report.

### COMPANY SECRETARIES

In order to ensure effective functioning of the Boards, the Company Secretaries play an advisory role to the Boards. This includes KLCCP and KLCCRM constitutions, policies and procedures, and compliance with the relevant legislations. They also regularly update the Boards on new statutory and regulatory requirements relating to the discharge of their duties and responsibilities.

The Company Secretaries also ensure that the Boards and the Board Committees function effectively based on the Board Charter and the respective TORs. Every member of the Boards have ready and unrestricted access to the advice and services of the Company Secretaries. The details of the Company Secretaries relating to qualification, training programmes attended and others are disclosed in the CG Report.

### SUPPLY AND ACCESS TO INFORMATION

To facilitate proper discharge of their duties, complete and unimpeded access to information relating to KLCCP Stapled Group is made available to the Boards at all times. Further details or clarifications regarding Board meetings' agenda items are timely furnished to the Boards as they may require and the details are described in the CG Report.

The Boards may obtain all information pertaining to KLCCP Stapled Group from the respective Management. The Boards may also seek advice from the Management concerned as they may require, and are able to interact directly with them regarding

any aspect of KLCCP Stapled Group's operations or businesses under its purview.

The Management is also invited to attend Board meetings to give an update of their respective functions and to discuss on issues that may be raised by the Directors.

Additionally, the Directors may obtain independent professional advice at KLCCP Stapled Group's expense through an agreed procedure on specific issues that would aid in their deliberations and arrival at a decision that would benefit KLCCP Stapled Group.

### INTEGRITY AND ETHICS

The Boards acknowledge their roles in establishing a corporate culture comprising ethical conduct within KLCCP Stapled Group. The Boards are guided by the PETRONAS Code of Conduct and Business Ethics ("PETRONAS CoBE") which was adopted by KLCCP Stapled Group. KLCCP Stapled Group has also adopted PETRONAS' Whistle-blowing Policy and the Anti Bribery and Corruption Manual which provide and facilitate appropriate communication and feedback channels between KLCCP Stapled Group and its employees. PETRONAS CoBE, which includes the Whistle-blowing Policy and the Anti Bribery and Corruption Manual, is described in the CG Report and is available on KLCCP's corporate website at [www.klcc.com.my](http://www.klcc.com.my).

As and when changes are made to PETRONAS CoBE, Whistle-blowing Policy and Anti Bribery and Corruption Manual, KLCCP Stapled Group will adopt the said changes.

KLCCP Stapled Group had implemented a Memorandum on Insider Trading whereby Directors and employees of KLCCP Stapled Group are prohibited from trading in the Stapled Securities, particularly when they are in possession of price-sensitive information and knowledge of facts which have not been publicly announced.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

#### AUDIT COMMITTEE

The Boards had established the ACs for KLCCP and KLCCRM which are governed by their respective TOR. The ACs comprise members who have a wide range of necessary skills to discharge their duties.

Following the resignation of Datuk Manharlal a/l Ratilal as a member of the ACs on 26 October 2018, the Boards have

adopted the best practice of the MCCG for an AC to be solely comprised of independent directors. Currently, there are 3 Independent Non-Executive Directors who are members of the ACs.

Further details of the ACs are set out in the ACs Report of this Annual Report as well as CG Report.

#### FINANCIAL REPORTING

In order to provide timely, transparent and up-to-date disclosure of KLCCP Stapled Group's overall performance, the Boards have to ensure that a balanced, clear and meaningful assessment of the financial position and prospects of KLCCP Stapled Group is presented in the disclosures made to holders of the Stapled Securities, investors and the regulatory authorities through various announcements on quarterly financial results, annual reports and press releases.

The Boards are assisted by the respective ACs to provide independent scrutiny of the processes in place to monitor KLCCP Stapled Group's financial and non-financial reporting and the quality of the same.

The Chairman of the ACs as well as its members are professional. Together, they have vast experience and skills in accounting and finance as well as other fields of expertise, and are highly-qualified to formulate and review the integrity and reliability of KLCCP Stapled Group's financial statements prior to recommending the same to the Boards for approval.

The Boards are responsible for ensuring that KLCCP Stapled Group's audited financial statements comply with the relevant financial reporting standards and any other applicable legislations and regulations.

The Statement by the Directors, the Manager's Report and the Statement by the Manager in relation to the preparation of the financial statements of KLCCP Stapled Group are set out in this Annual Report.

#### RISK MANAGEMENT AND INTERNAL CONTROL

The Boards determine the extent and nature of the risks they are prepared to take in order to achieve KLCCP Stapled Group's strategic objectives.

The Boards have overall responsibility for maintaining a sound system of risk management and internal control for KLCCP Stapled Group that provide reasonable assurance of effective and efficient business operations, compliance with laws and regulations as well as internal procedures and guidelines.

Oversight of the effectiveness of these systems is delegated to the ACs which undertake regular reviews to ensure that KLCCP Stapled Group is identifying, considering and mitigating risk as far as practicable and the most appropriate risks for the business. The review covers financial, operational and compliance controls as well as risk management functions.

The Statement on Risk Management and Internal Control, which provides an overview of the state of internal control within KLCCP Stapled Group, is set out in this Annual Report and also in the CG Report.

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# CORPORATE GOVERNANCE OVERVIEW STATEMENT

**B** EFFECTIVE AUDIT AND RISK MANAGEMENT

## RELATIONSHIP WITH EXTERNAL AUDITORS

KLCCP Stapled Group has established a professional relationship with the external auditors through the respective ACs. From time to time, the external auditors will highlight matters that require further attention of the respective ACs and the Boards. The Boards have obtained assurance from the external auditors on their independence in discharging their duties throughout the conduct of the audit engagement.

The respective ACs meet with the external auditors to discuss their audit plans, fees, audit findings and their reviews of KLCCP Stapled Group's financial statements. The meetings are held in the presence of the CEO and the Management.

The respective ACs also meet with the external auditors twice annually without the presence of the CEO and the Management. In addition, the external auditors are present at the AGMs to provide their professional and independent clarification on issues and concerns raised by holders of the Stapled Securities.

A summary of the work of the ACs during the year under review, including the evaluation of the independent audit process, are set out in the ACs Report and CG Report.

## INTERNAL AUDIT FUNCTION

The internal audit function is undertaken by the Group Internal Audit Division ("GIAD") of KLCC (Holdings) Sdn Bhd ("KLCCH") which provides assurance on the efficiency and effectiveness of the internal control systems implemented by KLCCP Stapled Group. To support the ACs in discharging their responsibilities, the Head of GIAD of KLCCH reports directly to the ACs.

The appointment of the Head of GIAD is reviewed and endorsed by the ACs. The Head of GIAD has unrestricted access to the

ACs, the Boards and Management. The Head of GIAD and a majority of internal auditors under GIAD are members of The Institute of Internal Auditors Malaysia.

Further details of the internal audit activities are set out in the ACs Report, and Statement on Risk Management and Internal Control of this Annual Report.

## COMMUNICATION ON AUDIT, RISK MANAGEMENT AND CONTROL

The Boards through the ACs have maintained oversight to ensure integrity in financial reporting, effectiveness of the internal control environment and risk management process in operation across KLCCP Stapled Group. Further details are outlined in the ACs Report, and Statement on Risk Management and Internal Control in this Annual Report.





## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

#### COMMUNICATION BETWEEN KLCCP, KLCCRM AND STAKEHOLDERS

The Boards recognise the importance of maintaining transparency and accountability to their stakeholders. As such, the Boards consistently ensure the supply of clear, comprehensive and timely information to their stakeholders via annual reports as well as various disclosures including quarterly financial results of KLCCP Stapled Group.

The Boards' principal duty is to deliver long term, sustainable returns to holders of the Stapled Securities bearing in mind the impact of their actions and decisions on other stakeholders. The detailed explanation of how KLCCP and KLCCRM interact with holders of the Stapled Securities and other stakeholders are detailed out in the Stakeholder Management of this Annual Report.

#### EFFECTIVE ANNUAL GENERAL MEETINGS

The Boards regard the AGMs as important forums for effective communication and proactive engagements between the Boards and holders of the Stapled Securities. Holders of the Stapled Securities will be informed at the commencement of the AGMs that all resolutions set out in the Notice of the AGMs are to be voted by poll.

Holders of the Stapled Securities will be accorded ample opportunity and time to raise questions and concerns, and the Directors of KLCCP and KLCCRM will provide appropriate answers and clarifications.

A detailed presentation of KLCCP Stapled Group's operations and financial results will be given by the CEO upon commencement of the AGMs. The external auditors of KLCCP and KLCC REIT will also be present during the AGMs to provide their professional and independent advice. Further details on matters relating to the proceedings of the AGMs are disclosed in the CG Report.

#### GOVERNANCE INITIATIVES AND OUTLOOK

The Boards believe that good governance is essential in supporting the realisation of business objectives of KLCCP Stapled Group. Having the right standards on governance protects the business of KLCCP Stapled Group as well as the interests of the stakeholders.

Moving forward, the Boards will strive to enhance corporate governance best practices for KLCCP and KLCCRM, as particularly stated below:



This statement is made in accordance with the resolution of the Board of Directors on 24 January 2019.

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# NOMINATION AND REMUNERATION COMMITTEES REPORT



## DATO' HALIPAH BINTI ESA

Chairperson/Senior Independent Non-Executive Director

### Formation

The Nomination and Remuneration Committees ("NRCs") of KLCCP and KLCCRM were established on 27 November 2012 and 21 August 2013, respectively.

### Composition

The members of the NRCs of KLCCP and KLCCRM are the same and each NRC comprises a majority of Independent Non-Executive Directors. The composition of the NRCs is as follows:

- (i) **Dato' Halipah binti Esa**  
Chairperson/Senior Independent Non-Executive Director
- (ii) **Tengku Muhammad Taufik**  
Member/Non-Independent Non-Executive Director
- (iii) **Habibah binti Abdul**  
Member/Independent Non-Executive Director

### Meetings and Attendance

During the year under review, 5 meetings of the NRCs of KLCCP and KLCCRM were held respectively.

The attendance of the members of the NRCs is as follows:

MEETING ATTENDANCE		
Committee Members	KLCCP	KLCCRM
<b>Dato' Halipah Binti Esa</b> (Chairperson)	5/5	5/5
<b>Datuk Manharlal a/l Ratilal</b> (Ceased w.e.f. 26 October 2018)	3/3	3/3
<b>Habibah Binti Abdul</b>	5/5	5/5
<b>Tengku Muhammad Taufik</b> (Appointed w.e.f. 1 December 2018)	1/1	1/1

Meetings of the NRCs were attended by the Chief Executive Officer.

## TERMS OF REFERENCE

Both NRCs' roles and functions are governed by their respective Terms of Reference ("TOR"). The TORs are periodically reviewed to ensure consistency and relevance with the recommended corporate governance best practices, applicable rules and regulations. The last revision to the respective TOR of KLCCRM and KLCCP was made on 13 November 2017.

The respective TOR of the NRCs is available on the corporate website of KLCCP at [www.klcc.com.my](http://www.klcc.com.my). for easy access by holders of the Stapled Securities and the public alike.

## NOMINATION AND REMUNERATION COMMITTEES REPORT

### ROLES AND FUNCTIONS

- (i) To assess and recommend new appointments to the Boards and Board Committees;
- (ii) To develop, maintain and review the criteria to be used in the recruitment process and annual assessment of Directors, including the criteria to assess their independence. Periodic assessment of Directors must be facilitated by a professional, experienced and independent party so as to provide unbiased perspective on a Director's performance and his/her ability to contribute effectively to the Boards;
- (iii) To review the succession plans for Directors and Senior Management and to ensure and maintain an appropriate balance of skills, experience, etc. necessary for KLCCP Stapled Group's business;
- (iv) To evaluate the re-appointment of any Non-Executive Director at the conclusion of their specific term of office;
- (v) To assist the Boards in reinforcing their independence:
  - (a) Where the tenure of an Independent Director has exceeded a cumulative term of 9 years, to provide relevant justifications when seeking shareholders' approval in the event the Committees' recommendation is to retain the individual as an Independent Director serving more than 9 years; and
  - (b) If the Boards do continue to retain the Independent Director after the 12<sup>th</sup> year, shareholders' approval would have to be sought through a 2-tier voting process at the general meetings of KLCCP and KLCCRM;
- (vi) To regularly review the structure, size and composition (including skills, knowledge, experiences and so on) of the Boards and make recommendations to the Boards for any changes required;
- (vii) To review and recommend suitable training programmes for the Board members, including Board induction and training for new Directors;
- (viii) To establish a formal and transparent remuneration policy to be adopted by the Boards and the policy shall also include procedures to attract and retain Executive Directors;
- (ix) To recommend to the Boards the remuneration package for Senior Management and executive staff, which is aligned with the property industry, and to review changes thereto as necessary;
- (x) To establish the remuneration package for Directors so as to be fair and aligned with the business strategy and long-term objectives of the KLCCP Stapled Group in order to reflect the Boards' responsibilities and individual Directors' expertise vis-a-vis the complexity of KLCCP Stapled Group's business activities;
- (xi) To ensure that no Director within companies in KLCCP Stapled Group other than the Chief Executive Officer/ Director of KLCCP and Chief Executive Officer/Director of Suria KLCC Sdn Bhd shall have a service contract;
- (xii) To undertake a formal independent review of Directors' remuneration once every 3 years.

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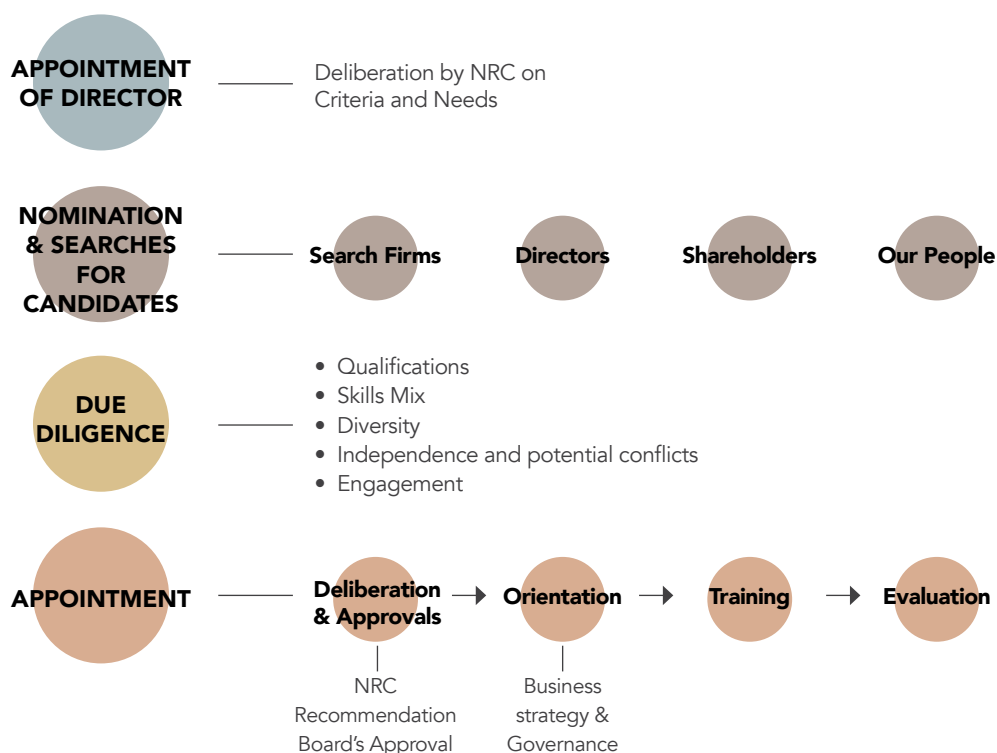
# NOMINATION AND REMUNERATION COMMITTEES REPORT

## BOARDS' APPOINTMENT PROCESS

**KLCCP and KLCCRM practice a formal and transparent procedure for appointment of new Directors.**

**All nominees to the Boards are first considered by the NRCs, taking into consideration the mix of skills, competencies, experiences, integrity, time commitment and other qualities required to effectively discharge the role of a Director. The NRCs will then endorse the nominees for the Boards' approvals.**

The Boards' appointment process is explained in the diagram below:



## APPOINTMENT AND RESIGNATION

During the year under review, changes to the composition of the Boards and Board Committees of KLCCP and KLCCRM are set out below:

EVENT DATE	CHANGES
12 April 2018	<ul style="list-style-type: none"> <li>• Mr Augustus Ralph Marshall retired/resigned as an Independent Non-Executive Director of KLCCP and KLCCRM and ceased to be Chairman of the ACs of KLCCP and KLCCRM.</li> <li>• Cik Habibah Abdul was appointed as Chairperson of the ACs of KLCCP and KLCCRM.</li> <li>• Tan Sri Mohd Sidek Hassan and Datuk Manharlal Ratilal were re-elected as Directors of KLCCP until the conclusion of the next AGM of KLCCP in 2019.</li> </ul>
23 April 2018	<ul style="list-style-type: none"> <li>• Puan Farina Farikhullah Khan was appointed as an Independent Non-Executive Director of KLCCP and KLCCRM and as a member of the ACs.</li> </ul>
16 July 2018	<ul style="list-style-type: none"> <li>• Tan Sri Sidek Hassan resigned as Chairman/Non-Independent Non-Executive Director of KLCCP and KLCCRM.</li> </ul>
12 October 2018	<ul style="list-style-type: none"> <li>• Cik Habibah Abdul was re-designated as a member of the ACs of KLCCP and KLCCRM.</li> <li>• Puan Farina Farikhullah Khan was appointed as Chairperson of the ACs of KLCCP and KLCCRM.</li> </ul>
26 October 2018	<ul style="list-style-type: none"> <li>• Datuk Manharlal Ratilal resigned as a Non-Independent Non-Executive Director of KLCCP and KLCCRM and ceased to be a member of both ACs and NRCs of KLCCRM and KLCCP.</li> </ul>
1 December 2018	<ul style="list-style-type: none"> <li>• Tengku Muhammad Taufik was appointed as a Non-Independent Non-Executive Director of KLCCP and KLCCRM and as a member of the NRCs of KLCCRM and KLCCP.</li> </ul>
21 December 2018	<ul style="list-style-type: none"> <li>• Datuk Ahmad Nizam Salleh was appointed as Chairman/Non-Independent Non-Executive Director of KLCCP and KLCCRM.</li> </ul>

# NOMINATION AND REMUNERATION COMMITTEES REPORT

## RE-ELECTION OF DIRECTORS

During the year under review, the KLCCP Board, with the recommendation of the NRC, endorsed the re-election of Directors who are subject to retirement by rotation in accordance with the provisions of KLCCP Constitution. The following retiring Directors who are eligible for re-election have indicated their willingness to seek for re-election at the forthcoming 2019 KLCCP AGM to be held in April 2019:



**Datuk Ahmad Nizam Salleh**



**Tengku Muhammad Taufik**



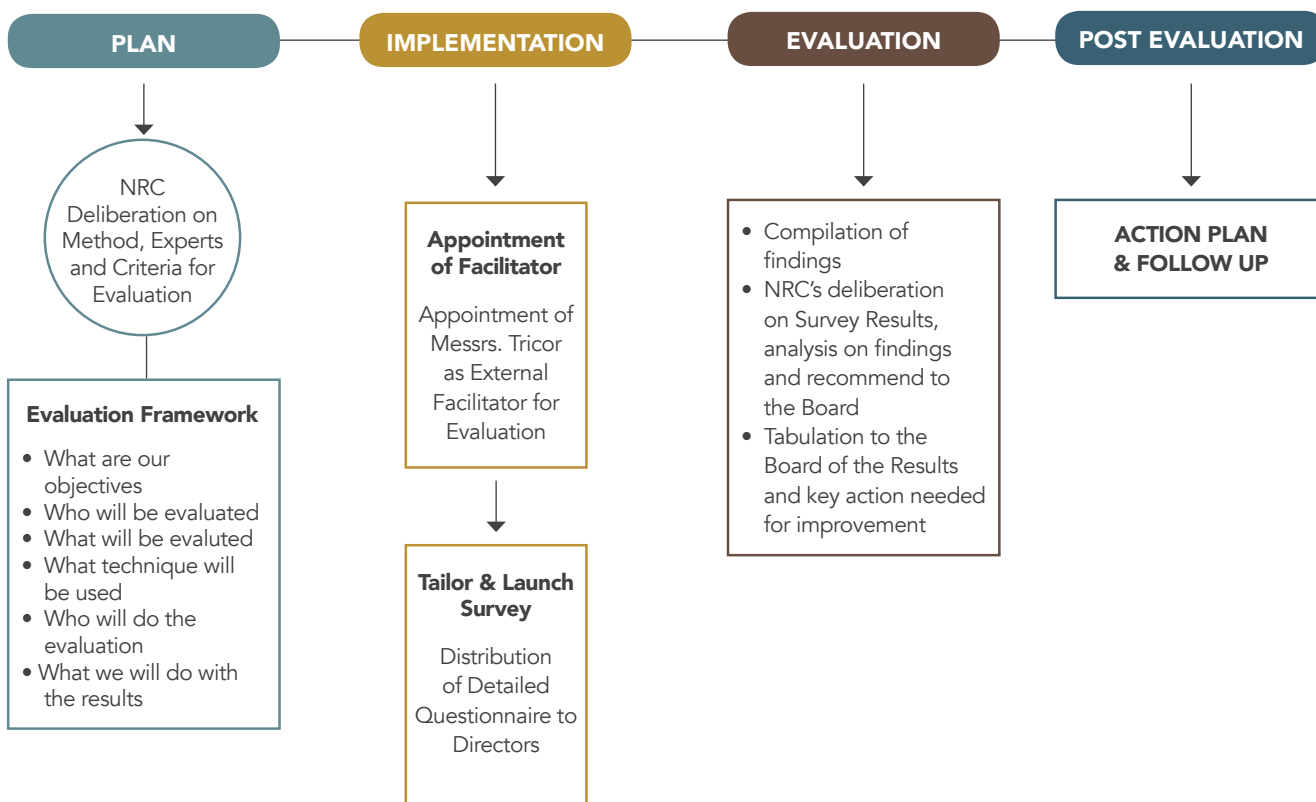
**Puan Farina Farikhullah Khan**



**Datuk Pragasa Moorthi Krishnasamy**

## BOARDS AND INDIVIDUAL DIRECTOR'S EFFECTIVENESS EVALUATION

During the year under review, an evaluation of the Boards and individual Directors was carried out with the assistance of an external company secretarial firm.



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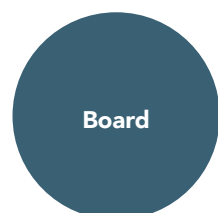
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## NOMINATION AND REMUNERATION COMMITTEES REPORT

The 2018 Performance Assessment on Board and Board Committees of both KLCCP and KLCCRM was carried out based on the following criteria:



### Board

- Structure;
- Operations and Interaction;
- Communication; and
- Roles and Responsibilities



### Audit Committee

- Terms of Reference and Composition;
- Skills and Competencies;
- Meeting Administration and Conduct;
- Board Communication;
- Internal Audit; and
- External Audit.



### Nomination & Remuneration Committee

- Terms of Reference and Composition;
- Skills and Competencies;
- Meeting Administration and Conduct;
- Board Communication;
- Nominating Matters; and
- Remuneration Matters.

The 2018 Performance Assessment included the evaluation of the performance of individual Directors as well as assessing the independence of Independent Directors.

In conformity with the MCCG, the first Board annual assessment by an external independent expert is expected to be undertaken within 2 years.

### TRAINING AND PROFESSIONAL DEVELOPMENT OF DIRECTORS

During the year under review, the Directors have attended relevant development and training programmes according to individual needs to enhance their ability in discharging their duties and responsibilities more effectively. The list of trainings attended by the Directors is as follows:

DIRECTORS	TRAININGS ATTENDED
Datuk Ahmad Nizam bin Salleh	<ul style="list-style-type: none"> <li>• The Inaugural PETRONAS Company Secretaries Conference</li> <li>• Anti Corruption Summit 2018</li> </ul>
Datuk Hashim bin Wahir	<ul style="list-style-type: none"> <li>• INVEST Malaysia 2018</li> <li>• World Capital Markets Symposium 2018</li> <li>• Guidelines on Listed Real Estate Investment Trusts issued by Securities Commission Malaysia</li> <li>• Limited Liability Partnerships &amp; Corporate Rescue Mechanism Workshop</li> <li>• KHAZANAH Megatrend Forum 2018 – “Balance in Our World – Recalibrating Markets, Firms, Society and People”</li> </ul>
Datuk Ishak bin Imam Abas	<ul style="list-style-type: none"> <li>• Managing Cyber Risks in Financial Institution</li> <li>• 1<sup>st</sup> Distinguished Board Leadership Series (Turbulence in Trying Times)</li> <li>• Understanding Liquidity Risk Management in Banking</li> <li>• Companies of the Future – The Role of Directors</li> </ul>
Dato’ Halipah binti Esa	<ul style="list-style-type: none"> <li>• World Capital Markets Symposium 2018</li> <li>• PNB CEO Round Table 2018</li> <li>• Integrated Reporting</li> <li>• 5<sup>th</sup> ASEAN Fixed Income Summit (AFIS)</li> <li>• ICDM power Talk: Would a Business Judgment Rule Help Directors Sleep Better at Night?</li> </ul>



## NOMINATION AND REMUNERATION COMMITTEES REPORT

DIRECTORS	TRAININGS ATTENDED
Datuk Pragasa Moorthi a/ Krishnasamy	<ul style="list-style-type: none"> <li>Risk Management</li> </ul>
Habibah binti Abdul	<ul style="list-style-type: none"> <li>Corporate Governance Breakfast Talk</li> <li>Introduction to Corporate Liability Provision</li> <li>MFRS Updates Training</li> <li>MIA Conference 2018</li> <li>Tax Seminar by Ernst &amp; Young Tax</li> </ul>
Farina binti Farikhullah Khan	<ul style="list-style-type: none"> <li>FIDE Core Programme Module B (Bank)</li> <li>Islamic Finance for Board of Directors</li> <li>Blockchain</li> <li>Budget Talk</li> <li>On Boarding Programme for New Directors</li> </ul>
Tengku Muhammad Taufik	<ul style="list-style-type: none"> <li>IT in Business</li> <li>Corporate Governance</li> <li>Real Estate Outlook</li> </ul>

### SUCCESSION PLANNING

During the year under review, the NRC of KLCCP continued to be updated on the approved Succession Management Framework of KLCCP, which enables critical positions across the group to be identified according to the clustering of positions in various categories.

The Succession Management Framework also provides the criteria and considerations in determining the potential talents and successors for the critical positions, resulting in the Leadership Bench Strength of KLCCP which is part of the management's initiative in building succession management.

### REMUNERATION OF DIRECTORS

The holders of the Stapled Securities at the 2018 AGM of KLCCP held on 12 April 2018 had approved the Non-Executive Directors' ("NEDs") Fees and Benefits effective 1 January 2018 until the next AGM to be held in April 2019, as follows:

Category	Non-Executive Chairman (RM per annum)	Non-Executive Directors (RM per annum)
<b>KLCCP</b>		
Directors' Retainer Fees	240,000.00	120,000.00
Petrol Allowance	6,000.00	6,000.00
	<b>(RM per attendance)</b>	<b>(RM per attendance)</b>
Attendance fee or Tele-Conferencing Fee	3,500.00	3,500.00
<b>KLCCRM</b>		
	<b>(RM per attendance)</b>	<b>(RM per attendance)</b>
Attendance fee or Tele-Conferencing Fee	3,500.00	3,500.00

For the financial year ended 31 December 2018, a total of RM1,089,754 was paid to the Board members of KLCCP being Directors' Remuneration.

The Executive Director, Datuk Hashim Wahir, who is also Chief Executive Officer of KLCCP and KLCCRM respectively, is an employee of KLCC (Holdings) Sdn Bhd ("KLCCH"). KLCCP reimburses KLCCH for services rendered by Datuk Hashim Wahir in the form of management fees. During the year under review, KLCCP reimbursed KLCCH an amount of RM1,124,477 for this purpose.

## NOMINATION AND REMUNERATION COMMITTEES REPORT

For the year under review, the breakdown of Directors' Remuneration incurred by KLCCP is tabulated below:

	Director's Fee (RM)	Board Meeting Allowance* (RM)	Audit Committee Meeting Allowance* (RM)	Nomination & Remuneration Meeting Allowance* (RM)	Petrol Allowance (RM)	Total (RM)
<b>Executive Director</b>						
Datuk Hashim bin Wahir	n/a	n/a	n/a	n/a	n/a	n/a
<b>Non-Executive Director</b>						
Datuk Ahmad Nizam bin Salleh (Appointed w.e.f 21 December 2018)	7,097	n/a	n/a	n/a	nil	7,097
Tengku Muhammad Taufik (Appointed w.e.f. 1 December 2018)	10,000	n/a	n/a	3,500	n/a	13,500 <sup>#</sup>
Datuk Ishak bin Imam Abas	120,000	17,500	n/a	n/a	6,000	143,500
Dato' Halipah binti Esa	120,000	17,500	17,500	17,500	6,000	178,500
Datuk Pragasa Moorthi a/l Krishnasamy	120,000	17,500	n/a	n/a	6,000	143,500
Habibah binti Abdul	120,000	14,000	17,500	17,500	6,000	175,000
Farina binti Farikhullah Khan (Appointed w.e.f. on 23 April 2018)	82,667	10,500	10,500	n/a	4,133	107,800
Augustus Ralph Marshall (Resigned/Retired w.e.f. 12 April 2018)	34,000	3,500	7,000	n/a	1,004	45,504
Tan Sri Mohd Sidek bin Hassan (Resigned w.e.f. 16 July 2018)	129,677	10,500	n/a	n/a	1,789	141,966
Datuk Manharlal a/l Ratilal (Resigned w.e.f. 26 October 2018)	98,387	14,000	10,500	10,500	n/a	133,387 <sup>#</sup>
<b>Total</b>	<b>841,828</b>	<b>105,000</b>	<b>63,000</b>	<b>49,000</b>	<b>30,926</b>	<b>1,089,754</b>

\* Meeting allowances depend on the number of meetings attended by the Board/Audit Committee/NRC Members.

# Fees paid directly to PETRONAS in respect of a Director and appointee of PETRONAS.

The Directors' Remuneration tabulated hereinabove reflects what was incurred on group basis since no meeting allowance was paid to the members of the Board, AC and NRC of KLCCRM, as their meetings were held on the same date as the meetings of the Board, AC and NRC of KLCCP.

During the year, the NRC of KLCCP had reviewed and endorsed the proposed Directors' Remuneration for the NEDs for approval by holders of the Stapled Securities at the forthcoming 2019 KLCCP AGM to be held in April 2019.

### SUMMARY OF ACTIVITIES OF THE NRCS

The following activities were carried out by the NRCS during the year under review:

- Reviewed and endorsed the re-election and re-appointment of Directors;
- Discussed updates on succession management (i.e. KLCCP Leadership Bench Strength) following the approved Succession Management Framework;
- Reviewed and endorsed proposals on revision to the composition of the Boards and Board Committees;
- Reviewed the implementation of the best practices of the MCCG and way forward;
- Assessment on the effectiveness of the Boards, Board Committees and individual Directors through Board Effectiveness Evaluation;
- Reviewed and endorsed proposals on performance reward and salary increment for KLCCP;
- Reviewed and endorsed enhancements to KLCCP Group Employee Benefits; and
- Reviewed the proposal for salary structure revision for KLCCP.

This Statement is made in accordance with the resolution of the Board of Directors on 24 January 2019

# AUDIT COMMITTEES REPORT



## FARINA BINTI FARIKHULLAH KHAN

Chairperson/Independent Non-Executive Director

### Composition

The members of the ACs of KLCCP and KLCCRM are the same and each AC comprises solely of Independent Non-Executive Directors. The composition of the ACs is as follows:

- (i) **Farina binti Farikhullah Khan**  
Chairperson/Independent  
Non-Executive Director
- (ii) **Dato' Halipah binti Esa**  
Member/Senior Independent  
Non-Executive Director
- (iii) **Habibah binti Abdul**  
Member/Independent  
Non-Executive Director

During the year under review, there were several changes to the membership of the ACs as detailed in the NRCs Report of this Annual Report.

### Formation

The Audit Committees ("ACs") of KLCCP and KLCCRM were established on 9 July 2004 and 12 December 2012 by the Boards of Directors of KLCCP and KLCCRM respectively.

## TERMS OF REFERENCE ("TOR")

The ACs are granted the authority to act on each Board's behalf in accordance with their respective TOR which are available on KLCCP's corporate website at [www.klcc.com.my](http://www.klcc.com.my).

### Meetings and Attendance

During the year under review, a total of 5 meetings of the AC of KLCCP and 4 meetings of the AC of KLCCRM were held.

The attendance of the members of the ACs is as follows:

MEETING ATTENDANCE		
Committee Members	KLCCP	KLCCRM
<b>Farina binti Farikhullah Khan</b> (Chairperson) (Appointed as a member and Chairperson on 23 April 2018 and 12 October 2018 respectively)	3/3	3/3
<b>Dato' Halipah binti Esa</b>	5/5	4/4
<b>Habibah binti Abdul</b> (Chairperson from 12 April 2018 to 11 October 2018)	5/5	4/4
<b>Augustus Ralph Marshall</b> (Ceased as a member on 12 April 2018)	2/2	1/1
<b>Datuk Manharlal a/l Ratilal</b> (Ceased as a member on 26 October 2018)	3/4	3/3

Meetings of the ACs were also attended by the CEO, CFO and Head of Investment, GIAD of KLCCH, and the external auditors as and when required.



# AUDIT COMMITTEES REPORT

## SUMMARY OF THE WORK OF THE AUDIT COMMITTEES

The ACs are collectively responsible in assisting the Boards in corporate governance and compliance matters of KLCCP Stapled Group. A summary of the work and key matters considered by the ACs during the financial year ended 31 December 2018 are described below:

### 01 INTERNAL AUDIT

- (a) Reviewed and approved the annual audit plans prepared by GIAD of KLCCH for activities to be undertaken in FY 2018;
- (b) Reviewed the quarterly internal audit status reports prepared by GIAD of KLCCH which highlighted the audit issues and recommendations as well as management's responses thereto.

Discussed with the Management on actions to be taken to improve the system of internal control based on improvement opportunities identified in the internal audit reports.

Further, the ACs also monitored and reviewed the progress of agreed corrective action items on audit findings to ensure all audit issues are resolved within the agreed stipulated period; and

- (c) During the first quarter of FY 2018, KLCCP AC reviewed the results of the Balanced Scorecard of GIAD for FY 2017 and approved the Balanced Scorecard of GIAD for FY 2018. The Mid-Year Performance Review of GIAD for the first 6 months of FY 2018 was presented to KLCCP AC.

### 02 FINANCIAL STATEMENTS AND REPORTING

- (a) Reviewed and discussed the unaudited quarterly financial results of KLCCP Stapled Group with the Management and recommended the same for the Boards' consideration and approval prior to announcement to Bursa Securities.

The review was to ensure compliance with the MMLR, Malaysian Financial Reporting Standards, the Companies Act 2016, REIT Guidelines and any other applicable legislations and regulations;

- (b) Reviewed and discussed the audited financial statements with the external auditors and the Management. Having been satisfied that the financial statements and reports complied with the relevant accounting standards and other applicable laws and regulations, the

ACs recommended the same for the Boards' consideration and approvals;

- (c) The ACs discussed the key audit matters raised by the external auditors with the Management. The disclosure thereof in the Auditors' Report for the financial year ended 31 December 2018 for KLCCP, KLCC REIT, and KLCCRM is in line with the requirements of the new International Standards on Auditing 701; and
- (d) Recommended to the Boards of KLCCP and KLCCRM (as approved by the Trustee) for approvals on dividends and income distributions respectively to be paid to holders of the Stapled Securities.

### 03 RISK REVIEW

- (a) Reviewed the adequacy and effectiveness of risk management, internal control system and key control processes as adopted by KLCCP Stapled Group;

- (b) Reviewed KLCCP Stapled Group's risk exposures to ensure the risk exposures are properly

mitigated and updated in the Corporate Risk Profile and recommended the same for the Boards' consideration and approvals; and

- (c) Reviewed the quarterly key risk indicators' results for the identified risks and recommended the same for Boards' endorsement.

## AUDIT COMMITTEES REPORT

### 04 EXTERNAL AUDIT

- (a) Reviewed the external auditors' scope of work, audit plans and fees for the year under review. Prior to the audit, representatives from the external auditors presented their audit strategies and plans;
- (b) Discussed with the external auditors on the Audited Financial Statements for the financial year ended 31 December 2018, particularly on the major issues that arose during the course of the audit and their resolutions, key accounting and audit adjustments, as well as the unadjusted differences identified during the audit;
- (c) Discussed issues arising from financial audits and any other matters the external auditors wished to discuss (in the absence of the Management twice annually); and
- (d) Reviewed the independence and objectivity of the external auditors and their services rendered including non-audit services:
  - For KLCCP, the AC made recommendations to the Board for the re-appointment of the external auditors and approvals of their audit and non-audit fees;
  - In respect of KLCCRM, the AC recommended the appointment and remuneration of the external auditors of KLCC REIT upon the approval of the Trustee of KLCC REIT.

The details of fees paid/payable to the external auditors for the year in respect of statutory audit and other services rendered to KLCCP Stapled Group are set out below:

	KLCCP Stapled Group RM'000*	KLCCP RM'000	KLCC REIT RM'000#
<b>Fees paid/payable to Messrs. Ernst &amp; Young:</b>			
Statutory Audit	603	212	89
Non-Audit Fee	57	10	3
<b>Total</b>	<b>660</b>	<b>222</b>	<b>92</b>

\* inclusive of fees paid by subsidiaries of KLCCP

# inclusive of fees paid by Midciti Sukuk Berhad

The Boards of KLCCP and KLCCRM believe that the provision of these services by the external auditors to KLCCP Stapled Group was cost effective and efficient due to their knowledge and understanding of the operations of KLCCP Stapled Group, and they did not compromise their independence and objectivity.

### 05 RELATED PARTY TRANSACTIONS

- (a) Reviewed related party transactions and recurrent related party transactions to be entered into by KLCCP Stapled Group based on the following requirements and recommended to the Boards for approval:
  - (i) The MMLR, REIT Guidelines and other applicable laws and regulations;
  - (ii) On arm's-length basis, under normal commercial terms and in the best interest of holders of the Stapled Securities;
  - (iii) Interested Directors abstained from voting at Board meetings;
  - (iv) Disclosure via Bursa Announcements, Quarterly Reports and Annual Report (if applicable);
  - (v) Approval by the Trustee (for KLCC REIT only); and
- (b) The AC of KLCCP reviewed the quarterly report on recurrent related party transactions of KLCCP Stapled Group.

### 06 CORPORATE GOVERNANCE AND REGULATORY COMPLIANCE

- (a) Reviewed and recommended to the Boards on the following:
  - (i) Corporate Governance ("CG") Overview Statement and CG Report;
  - (ii) Statement on Risk Management and Internal Control;
  - (iii) ACs Report; and
  - (iv) Sustainability Report;
- (b) Reviewed the current corporate governance practices implemented by KLCCP and KLCCRM and recommended to the Boards on areas for improvement; and
- (c) Reviewed the compositions of the ACs to ensure compliance with the MMLR and MCCG.

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## AUDIT COMMITTEES REPORT

### INTERNAL AUDIT FUNCTION

The ACs are supported by GIAD of KLCCH in discharging the internal audit function of KLCCP Stapled Group. Governed by the respective KLCCP and KLCCRM Internal Audit Charter, GIAD of KLCCH maintained their independence, impartiality, proficiency and due professional care by having their plans and reports directly under the purview of the ACs.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency, and effectiveness of the internal control systems to manage risk exposures of KLCCP Stapled Group. GIAD of KLCCH adopts risk-based approach in executing the planning, reviews, and assessments, steered by internal policies, procedures, and the Internal Control – Integrated Framework issued by COSO (The Committee of Sponsoring Organizations of the Treadway Commission).

The ACs also had full access to the services and advice of the internal auditors and received reports on all audits that were performed.

During the financial year ended 31 December 2018, GIAD of KLCCH had executed the following internal audit works:

- 1** — **Conducted reviews and assessments based on the approved FY2018 annual audit plans for KLCCP and KLCCRM covering the areas of:**

  - Facility Management, Building Technical Audit, Commercial Leasing, Parking Management, Finance, and Procurement for Menara ExxonMobil;
  - Overall Controls and Activities of the Management of Suria KLCC and Lot C Retail;
  - Overall Controls and Governance for the Management of Kompleks Dayabumi Project;
  - Mandarin Oriental Kuala Lumpur's Project Management for Refurbishment and Upgrading Works;
  - Mandarin Oriental Kuala Lumpur's Asset Management Cycle and Strategic Audit; and
  - Cash Management and Car Park Management Activities of KLCC Parking Management Sdn Bhd;
- 2** — **Conducted regular follow-ups with the Management on agreed corrective actions on outstanding audit issues to ensure key risks and weaknesses were addressed effectively and timely, where the status of implementation of the said agreed corrective actions are reported to the ACs on quarterly basis; and**
- 3** — **Prepared annual audit plans for FY2019 to ensure that all high risk areas in significant businesses and support units were identified and audited for the ACs' deliberations and approvals.**

The resulting reports from GIAD of KLCCH, including findings, recommendations, and management responses, were presented to the ACs.

Both the Management of KLCCP and KLCCRM are responsible to ensure that necessary agreed corrective actions are taken and resolved within the required timeframe.

The total costs incurred for the internal audit activities of KLCCP Stapled Group for the year was RM424,115.40.

Further details of the activities of GIAD of KLCCH are set out in the Statement on Risk Management and Internal Control of this Annual Report.

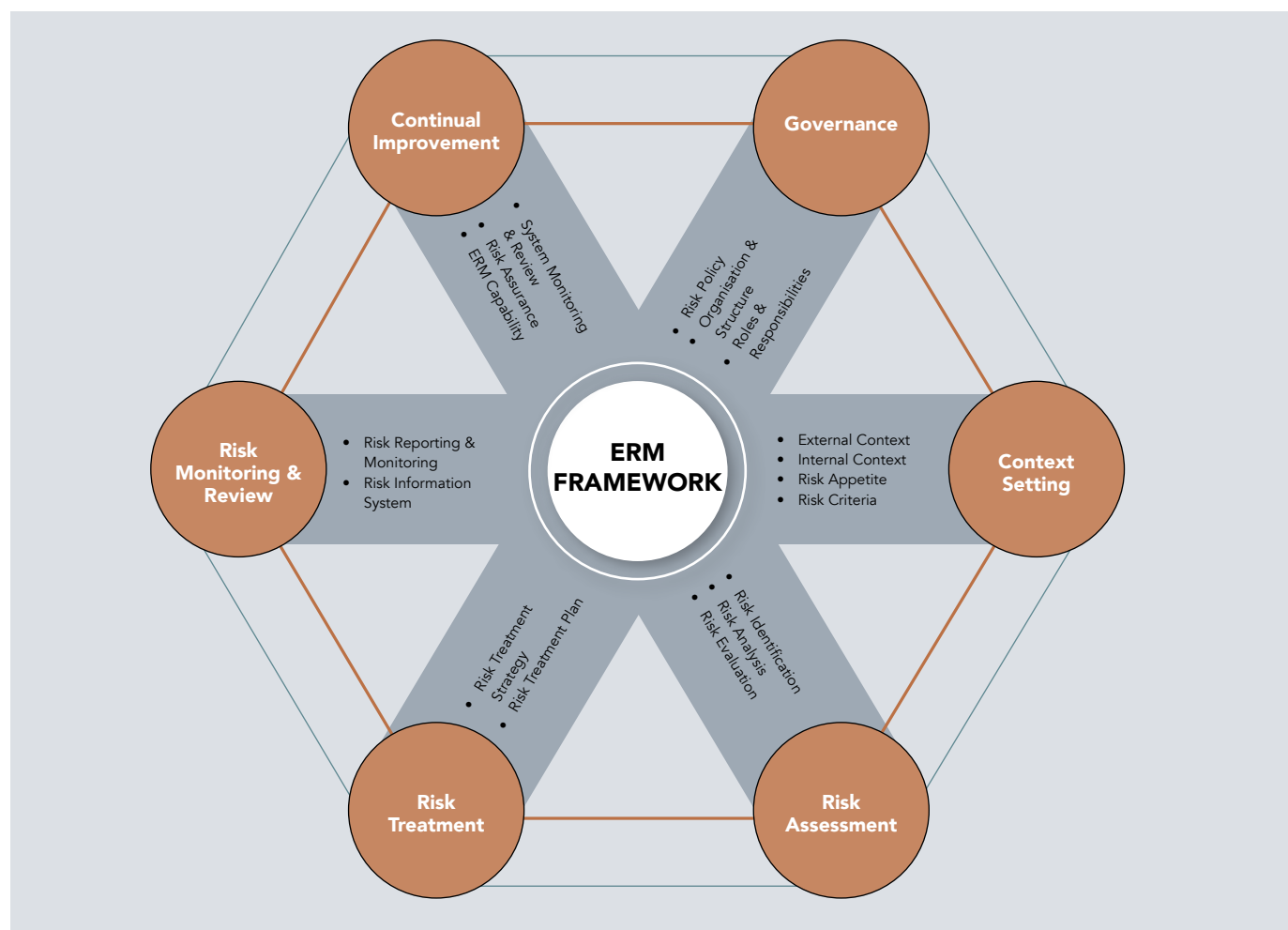
*This Statement is made in accordance with the resolution of the Board of Directors on 24 January 2019.*



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Boards of KLCCP and KLCCRM are responsible and committed to maintain a sound and effective risk management and internal control system of KLCCP group and KLCC REIT.

The system encompasses risk management, organisation policies and processes, corporate governance, financial information integrity, operational and regulatory controls. The system is designed to manage and not to eliminate all inherent risks associated with the business as well as any weaknesses in the processes and policies of KLCCP Stapled Group. An effective and sound risk management and internal control system is important for KLCCP Stapled Group to achieve its business strategies and objectives.



## RISK MANAGEMENT

The Boards have established sound risk management practices to safeguard KLCCP Stapled Group’s business interest from risk events that may impede the achievement of its business strategies and growth opportunities besides providing assurances to all stakeholders.

KLCC Group Enterprise Risk Management (“ERM”) Framework (“Framework”) outlines the risk policy, risk governance and structure, risk measurement and risk operations and system for KLCCP Stapled Group. The Boards have implemented the ERM processes to identify, assess, monitor, report and mitigate risks impacting KLCCP Stapled Group’s business and supporting activities in accordance with ISO 31000:2009 - Principles and Guidelines on Implementation.

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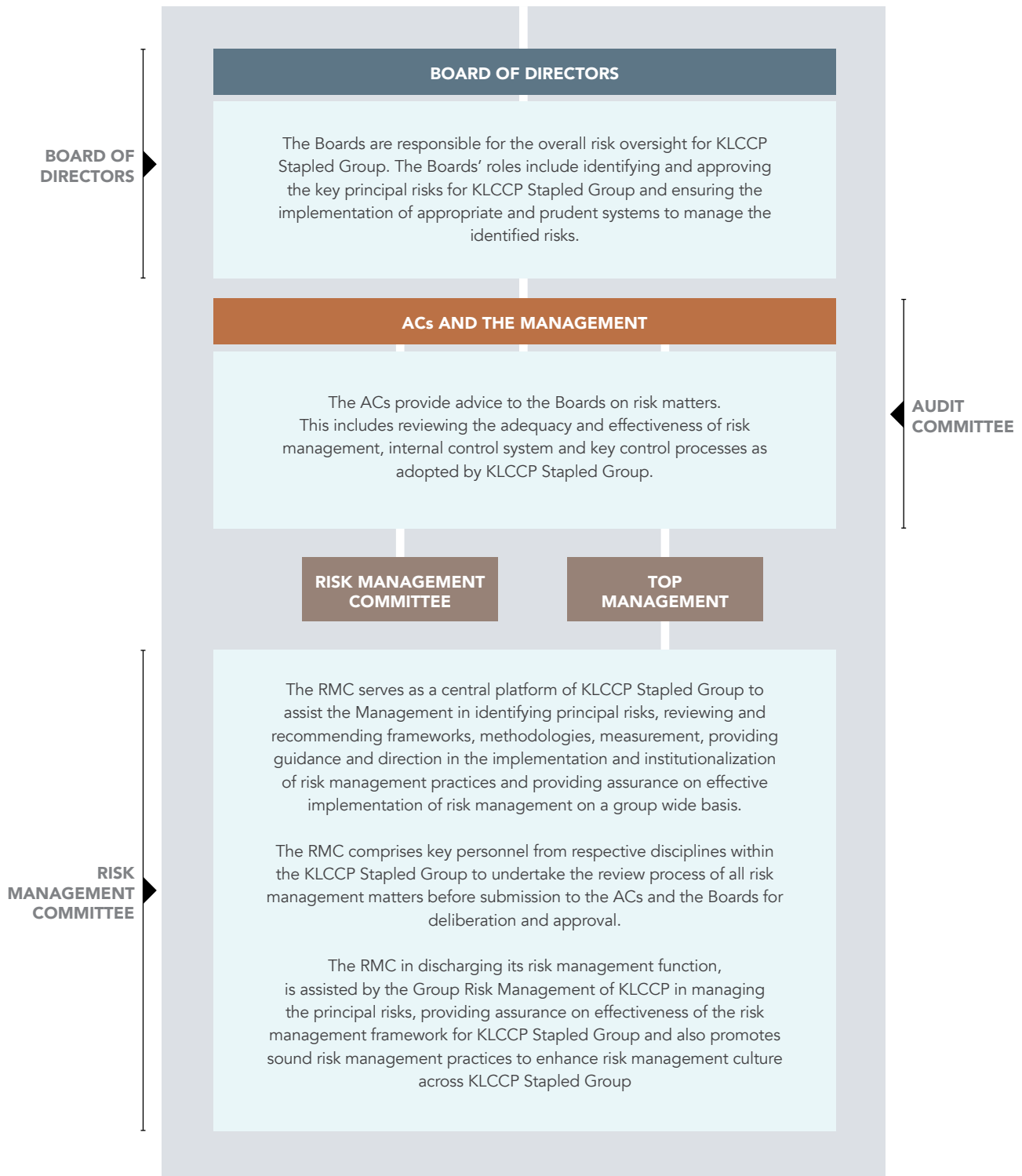
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# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

In supporting the risk governance structure and effective implementation of the ERM, KLCCP Stapled Group has established appropriate risk operations mechanism covering the areas of system, processes, reporting of risks, knowledge management and assurance activities.

The Risk Management Oversight Structure sets out the structure used to assign responsibility for risk management and facilitates the process for assessing and communicating risk issues from operational levels to the Boards. The structure consists of the Boards, ACs and the Management represented by Risk Management Committee (“RMC”) and Top Management. The structure allows for effective strategic risk communication to take place between the Boards, ACs and the Management on a quarterly basis.



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## RISK PROFILING

A risk profiling exercise was conducted to ensure that KLCCP Stapled Group's risk exposures are properly mitigated and updated to reflect the current economic environment and new regulations imposed by the government which impacted KLCCP Stapled Group's risk exposures.

The likelihood and impact of the risks have been assessed and evaluated against KLCCP Stapled Group's risk appetite and tolerance level while appropriate key risk indicators and mitigation plans have been identified for the risks. The status of the principal risks and key risk indicator performances are then reported to the RMC, ACs and the Boards for their deliberation and guidance on a quarterly basis.

**During the year under review, the Boards have carried out the following:**

**Review the Risk Appetite to provide comprehensiveness to the current risk appetite statements in ensuring the financial and non-financial risk exposure and type of risk to be pursued or retained by the Company in achieving its strategic objectives are properly defined.**

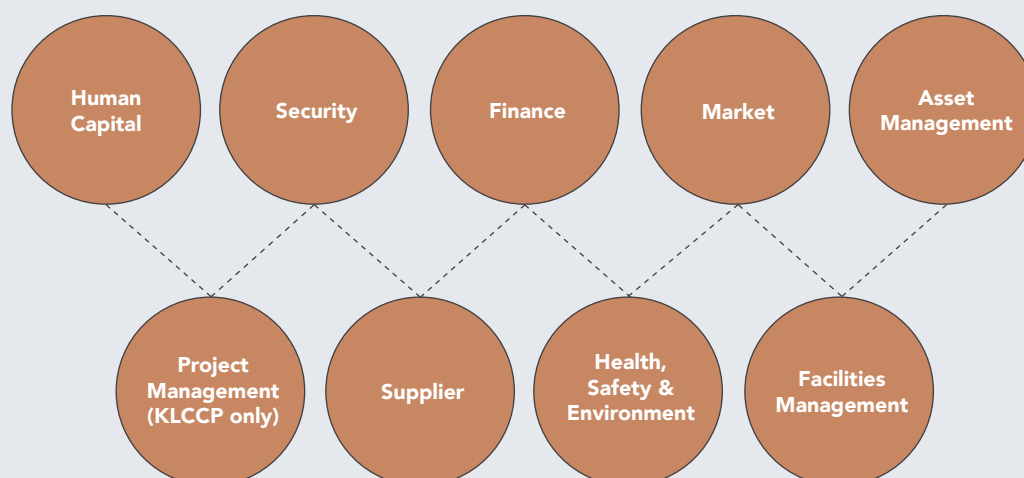
**Annual review of its risk profile in compliance with the ERM Framework where the risk profile was reviewed, assessed and updated to safeguard KLCCP Stapled Group's investment and key business activities and to ensure the risk exposures are relevant and up to date taking into account emerging risks**

**Annual review of risk profile for entities under KLCCP Stapled Group such as KLCC Parking Management Sdn Bhd and KLCC Urusharta Sdn Bhd**

Risk assessment for all the 15 facilities managed by KLCC Urusharta Sdn Bhd to identify the potential risks in managing the facilities that may impact the strategic objectives and to propose possible mitigation responses for the potential risk identified. This is in compliance with ISO 9001:2015 and ISO 14001:2015

**The Corporate Risk Profile is monitored via the INTERISK system, a risk management tool which provides complete risk overview of the organisation for reporting to the Boards. It is a web-enabled system where users are able to access the organisation risk profile on a real-time basis anytime and anywhere.**

**KLCCP Stapled Group has identified the following principal risks which are critical to the success of KLCCP Stapled Group's business objectives.**



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## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### BUSINESS CONTINUITY PLAN

The Business Continuity Plan ("BCP") was established which aims to provide guidance in resuming key business functions in the event crisis occurs that has a major or catastrophic impact on business in terms of financial, operation and reputation.

During the year under review, an update review of the business impact analysis (BIA) to identify the critical business functions (CBF) was carried out. The BIA is to assess the impact of unavailability of the functions over time, set prioritised timeframes for resuming these functions and specify Minimum Resources Requirements to be allocated to recover and resume these functions.

An integrated BCP simulation exercise on the testing of BCP based on specific identified scenario was carried out to ensure practicality of the BCP for its implementation during crisis. The BCP simulation exercise includes testing of the recovery strategy at virtual office and the effectiveness of identified Primary and Alternate Workforce for business resumption of the Critical Business Function.

The web-based storage was introduced to support the continuity of business in the event of crisis to enable the critical business function to retrieve the working data elsewhere.

Concerns on all principal risks are shared with the Group Internal Audit Division ("GIAD") of KLCC (Holdings) Sdn Bhd ("KLCCCH") which then uses the risk assessment reports as reference to develop the annual audit plans for KLCCP Stapled Group. Risk awareness sharing sessions are regularly conducted for all levels of staff as part of the ongoing initiative to sustain risk awareness and risk management capabilities to inculcate risk management culture within the KLCCP Stapled Group.

### INTERNAL CONTROL PROCESSES

The Boards continue to uphold and implement strong control structure and environment with the following key control processes to identify, evaluate and manage weaknesses of KLCCP Stapled Group's internal control system.

- 1 ▶ The Boards meet at least quarterly and have set a schedule of matters, which is required to be deliberated and approved by the Boards, thus ensuring that the Boards maintain full and effective supervision over the control processes
- 2 ▶ The CEO of KLCCP and KLCCRM leads the presentation of board papers and provides comprehensive information and explanation for each discussion paper. In arriving at any decision, on recommendation by the Management, a thorough deliberation and discussion by the Boards is a prerequisite
- 3 ▶ Updates on KLCCP Stapled Group's operations and performance are provided to the Boards at every meeting and the CEO also reports on any significant changes in the business operations and risk profiles of KLCCP Stapled Group. In addition, the CEO and the Chief Financial Officer/Chief Investment Officer ("CFO") of KLCCP (who is also the Head of Investment/Head of Finance ("Head of Investment") of KLCCRM) assure the Boards that adequate processes and controls are in place for the preparation of quarterly and annual financial statements
- 4 ▶ KLCCP Stapled Group has an organisational structure with defined lines of responsibilities, delegation of authority and accountability. A hierarchical reporting structure has been established to provide documentary and auditable trail of accountability. In this respect, Limits of Authority Manuals are in place to define the lines of accountability and responsibility in relation to KLCCP Stapled Group's operations and functions
- 5 ▶ KLCCP Stapled Group adopts the PETRONAS Code of Conduct and Business Ethics ("CoBE") to ensure that Directors, Management and employees, and third parties, when performing any work or services for KLCCP Stapled Group, will act ethically and remain above board at all times and their individual behaviour is in line with the PETRONAS Shared Values, i.e. Loyalty, Professionalism, Integrity and Cohesiveness  
  
The detailed policy statements on the standards of behaviour and ethical conduct of the PETRONAS CoBE can be accessed at KLCCP's corporate website
- 6 ▶ KLCCP Stapled Group undertakes annual planning and budgeting exercise including development of business strategies for forthcoming years and establishes key performance indicators for each business segment to achieve. Variance against budgets are analysed and reported on a quarterly basis to the Boards
- 7 ▶ KLCCP Stapled Group's strategic directions are also reviewed annually taking into consideration changes in market conditions and significant business risks
- 8 ▶ The CFO and Head of Investment report to the AC of KLCCP and AC of KLCCRM respectively that the accounting policies and procedures as set out in the Accounting Procedures Manual are in place and applied consistently to ensure that the financial statements are in compliance with the Malaysian Financial Reporting Standards and the relevant regulatory disclosure requirements
- 9 ▶ For the associate company, it is done via representation on the associate company's board. Information on the financial performance of the associate company is provided monthly

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### INTERNAL AUDIT

The review of the risk management and internal control system of KLCCP Stapled Group is undertaken by the GIAD of KLCCH, which provides assurance on the efficiency and effectiveness of the internal control systems as implemented by KLCCP Stapled Group to support the ACs of KLCCP and KLCCRM in discharging their governance responsibilities. Governed by the respective KLCCP and KLCCRM Internal Audit Charters, the GIAD of KLCCH is independent of the activities they audit and perform their duties with impartiality, proficiency and due professional care.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the internal control system to manage risks faced by KLCCP Stapled Group. The ACs also had full access to the services and advice of the internal auditors and on quarterly basis received reports on all audits that were performed.

Adequacy and effectiveness of the internal control is assessed by adopting a systematic and risk based approach in reviewing KLCCP Stapled Group's businesses and operational controls, risk management and governance processes.

The External Auditors have performed limited assurance procedures on this Statement on Risk Management and Internal Control ("Statement") in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and Recommended Practice Guide 5 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report.

They have reported to the Boards that nothing has come to their attention that causes them to believe the Statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers ("SRMICG") nor is the Statement factually inaccurate.

The Boards are of the view that KLCCP Stapled Group's internal control system is sound and effective to safeguard the Stapled Securities holders' investment, the interests of customers, employees and other stakeholders, and KLCCP Stapled Group's assets.

As recommended by the SRMICG, the respective Boards have received assurances from the CEO and CFO/Head of Investment that KLCCP Stapled Group's risk management and internal control system is operating effectively in all material aspects based on the processes as approved by the Boards.

This Statement is made in accordance with the resolution of the Board of Directors on 24 January 2019.

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# ADDITIONAL COMPLIANCE INFORMATION

**The information set out below is disclosed in compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and Guidelines on Listed Real Estate Investment Trusts issued by Securities Commission Malaysia.**

**(i) Material Contracts**

There were no material contracts or loans entered into by KLCCP or KLCCP's subsidiaries involving the interests of the Directors or major Stapled Securities holders, either still subsisting at the end of the financial year ended 31 December 2018 or entered into since the end of the previous year, except as disclosed in the Prospectus of KLCCP Stapled Securities dated 7 May 2013 and the audited financial statements of KLCCP.

**(ii) Utilisation of Proceeds**

KLCCP and KLCC REIT did not raise funds through any corporate proposals during the financial year.

**(iii) Sanctions and/or Penalties**

During the financial year, there was no public sanction or penalty imposed by the relevant regulatory bodies on the management company of KLCC REIT.

**(iv) Recurrent Related Party Transaction ("RRPT")**

Both KLCCP and KLCC REIT did not seek any mandate from the holders of the Stapled Securities on RRPT during the financial year.

**(v) List of Property Development Activities**

During the financial year, there were no property development activities including acquisition of vacant land carried out by KLCC REIT.



# KLCC PROPERTY HOLDINGS BERHAD FINANCIAL STATEMENTS

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# DIRECTORS' REPORT

## FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2018.

### PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial year are investment holding, property investment and the provision of management services.

The principal activities of its subsidiaries and associate are stated in Notes 7 and 8 to the financial statements respectively.

### CORPORATE INFORMATION

The Company is a public limited liability company, incorporated on 7 February 2004 and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Level 54, Tower 2, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

Upon the completion of the listing of stapled securities on 7 May 2013, the Group now comprises:

- (a) the KLCC Property Holdings Berhad ("KLCCP") Group, being the Company, its existing subsidiaries and associate company; and
- (b) KLCC Real Estate Investment Trust ("KLCC REIT") Group.

### RESULTS

	Group RM'000	Company RM'000
Profit for the year	838,920	245,070
Attributable to:		
Equity holders of the Company	284,253	245,070
Non-controlling interests relating to KLCC REIT	440,661	-
Other non-controlling interests	114,006	-
	838,920	245,070

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### RESERVES AND PROVISIONS

There were no material movements to and from reserves and provisions during the year, other than as disclosed in the Statements of Changes in Equity.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

#### DIVIDENDS

The amount of dividends paid by the Company since 31 December 2017 were as follows:

	<b>RM'000</b>
In respect of the financial year ended 31 December 2017 as reported in the Directors' Report in that year:	
A fourth interim dividend of 5.30%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 24 January 2018 and paid on 28 February 2018.	95,683
In respect of the financial year ended 31 December 2018:	
A first interim dividend of 2.98%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 16 May 2018 and paid on 29 June 2018.	53,799
A second interim dividend of 3.05%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 15 August 2018 and paid on 28 September 2018.	55,063
A third interim dividend of 2.99%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 13 November 2018 and paid on 28 December 2018.	53,979
	258,524

A fourth interim dividend in respect of the financial year ended 31 December 2018, of 4.63%, tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM83,587,000 will be payable on 28 February 2019.

The financial statements for the current year do not reflect this fourth interim dividend. Such dividend will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2019.



## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS OF THE COMPANY

Directors who served during the financial year end and up to the date of this report are:

Datuk Hashim Bin Wahir	
Datuk Ishak Bin Imam Abas	
Datuk Pragasa Moorthi A/L Krishnasamy	
Dato' Halipah Binti Esa	
Habibah Binti Abdul	
Datuk Ahmad Nizam Bin Salleh	(appointed w.e.f. on 21 December 2018)
Tengku Muhammad Taufik Bin Tengku Aziz	(appointed w.e.f. on 1 December 2018)
Farina Binti Farikhullah Khan	(appointed w.e.f. on 23 April 2018)
Datuk Manharlal A/L Ratilal	(resigned w.e.f. on 26 October 2018)
Tan Sri Mohd Sidek Bin Hassan	(resigned w.e.f. on 16 July 2018)
Augustus Ralph Marshall	(resigned w.e.f. on 12 April 2018)

The Directors who held office in the subsidiaries of the Company during the financial year and up to the date of this report (not including those directors listed above) are:

Mohaineer Binti Tahir	
Annuar Marzuki Bin Abdul Aziz	
Peter James Holland Riley	
Richard Daniel Baker (Alternate Director to Craig Alan Beattie)	
Rossana Annizah binti Ahmad Rashid (Alternate Director to Peter James Holland Riley)	
Abd Aziz Bin Abd Kadir	
Kevin William Whan (Alternate Director to Craig Alan Beattie)	
Rashidah Binti Alias @ Ahmad	
Shamsudin Bin Ishak	
Brian Lap Wei Hung	
Andrew William Brien	
Harold Alan Schwartz III	
Datin Faudziah Binti Ibrahim	
Muhmat Hilme Hassan	
Andrian Lee Baker	(appointed w.e.f. on 14 November 2018)
Craig Alan Beattie	(appointed w.e.f. on 1 November 2018)
Richard Thomas Gairdner Price	(resigned w.e.f. on 14 November 2018)
Charles Stuart Dickie	(resigned w.e.f. on 31 October 2018)

The names of subsidiaries' Directors are available at the Company's registered office and the Board deems such information is included in the Company's Directors' Report by such reference and shall form part of the Company's Directors' Report.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS' INTERESTS

The Directors in office at the end of the year who have interests and deemed interest in the shares of the Company and its related corporations other than wholly-owned subsidiaries as recorded in the Register of Directors' Shareholdings are as follows:

Number of Shares in Petronas Chemicals Group Berhad				
	Balance as at	← Number of Shares →		Balance as at
	1.1.2018/date of appointment	Bought	Sold	31.12.2018
<b>Direct</b>				
Dato' Halipah Binti Esa	10,000	-	-	10,000
Datuk Hashim Bin Wahir	16,000	-	-	16,000
Datuk Ahmad Nizam Bin Salleh	10,000	-	-	10,000
<b>Indirect</b>				
Dato' Halipah Binti Esa <sup>#</sup>	13,100	-	-	13,100
Number of Shares in MISC Berhad				
	Balance as at	← Number of Shares →		Balance as at
	1.1.2018	Bought	Sold	31.12.2018
<b>Indirect</b>				
Dato' Halipah Binti Esa <sup>#</sup>	10,000	-	-	10,000
Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad				
	Balance as at	← Number of Shares →		Balance as at
	1.1.2018	Bought	Sold	31.12.2018
<b>Direct</b>				
Dato' Halipah Binti Esa	10,000	-	-	10,000
<b>Indirect</b>				
Dato' Halipah Binti Esa <sup>#</sup>	10,000	-	-	10,000
Number of Shares in Petronas Gas Berhad				
	Balance as at	← Number of Shares →		Balance as at
	date of appointment	Bought	Sold	31.12.2018
<b>Direct</b>				
Datuk Ahmad Nizam Bin Salleh	2,000	-	-	2,000

<sup>#</sup> Deemed interest by virtue of Director's family member's shareholding.

None of the other Directors holding office as at 31 December 2018 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

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## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors or the remuneration received by the Directors from certain related corporations), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year, which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

The Directors' benefits are as follows:

	Group RM'000	Company RM'000
Directors of the Company		
Executive*	-	-
Non-Executive:		
Fees	1,090	1,090
	1,090	1,090

\* The remuneration of the Executive Director is paid to KLCCH as disclosed in Note 24.

#### ULTIMATE HOLDING COMPANY

The Directors regard Petroliam Nasional Berhad ("PETRONAS"), a company incorporated in Malaysia, as the ultimate holding company.

#### ISSUE OF SHARES

There were no issuance of new shares during the financial year.

#### OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

#### INDEMNIFICATION TO DIRECTORS AND OFFICERS

During the financial year, PETRONAS and its subsidiaries, including the Company, maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016. The total insured limit for the Directors' and Officers' Liability Insurance effected for the Directors and Officers of the Group was RM1,290 million per occurrence and in the aggregate. The insurance premium for the Company is RM1,000.



# DIRECTORS' REPORT

## FOR THE YEAR ENDED 31 DECEMBER 2018

### OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- (i) proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- (ii) any current assets which were unlikely to realise their value 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.

At the date of this report, the Directors of the Company are not aware of any circumstances:

- (i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
- (ii) that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading; or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- (i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

### AUDITORS

The auditors, Ernst & Young, have indicated their willingness to accept re-appointment.

Auditors' remuneration is as follows:

	Group RM'000	Company RM'000
Audit fees	603	212

Signed on behalf of the Board in accordance with a resolution of the Directors dated 24 January 2019.

**Datuk Ahmad Nizam Bin Salleh**

**Datuk Hashim Bin Wahir**

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## STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 215 to 284 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of the results of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 24 January 2019.

**Datuk Ahmad Nizam Bin Salleh**

**Datuk Hashim Bin Wahir**

Kuala Lumpur, Malaysia

## STATUTORY DECLARATION

I, Annuar Marzuki Bin Abdul Aziz, the officer primarily responsible for the financial management of KLCC Property Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 215 to 284 are to the best of my knowledge and belief, 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 Annuar Marzuki Bin Abdul Aziz  
in Kuala Lumpur, Wilayah Persekutuan  
on 24 January 2019.

Annuar Marzuki Bin Abdul Aziz  
(MIA Membership No. 11345)

BEFORE ME:

Commissioner for Oaths

# STATEMENTS OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	5	673,620	667,237	1,775	3,253
Investment properties	6	15,714,934	15,667,475	-	-
Investment in subsidiaries	7	-	-	1,371,136	1,369,760
Investment in an associate	8	252,973	256,441	99,195	99,195
Other investment	9	-	-	-	100,000
Deferred tax assets	10	1,225	690	808	311
Other receivables	12	418,939	388,842	-	-
		<b>17,061,691</b>	16,980,685	<b>1,472,914</b>	1,572,519
<b>Current Assets</b>					
Inventories	11	1,613	1,743	-	-
Trade and other receivables	12	59,980	57,888	7,873	12,873
Other investment	9	-	-	100,000	-
Tax recoverable		1,321	1,984	1,258	1,973
Cash and bank balances	13	735,724	750,262	395,749	403,995
		<b>798,638</b>	811,877	<b>504,880</b>	418,841
<b>TOTAL ASSETS</b>		<b>17,860,329</b>	17,792,562	<b>1,977,794</b>	1,991,360
<b>EQUITY AND LIABILITIES</b>					
<b>Equity Attributable to Equity Holders of the Company</b>					
Share capital	14	1,823,386	1,823,386	1,823,386	1,823,386
Capital reserve	2.21	2,937,256	2,929,350	-	-
Retained profits	15	243,209	225,492	148,108	161,562
		<b>5,003,851</b>	4,978,228	<b>1,971,494</b>	1,984,948
Non-controlling interests ("NCI") relating to KLCC REIT	7	8,091,402	8,050,264	-	-
<b>Stapled Securities holders interests in the Group</b>		<b>13,095,253</b>	13,028,492	<b>1,971,494</b>	1,984,948
Other NCI	7	2,029,836	2,018,364	-	-
<b>Total Equity</b>		<b>15,125,089</b>	15,046,856	<b>1,971,494</b>	1,984,948

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## STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Non-Current Liabilities</b>					
Deferred revenue	16	48,266	41,934	-	-
Other long term liabilities	17	156,132	133,945	-	-
Long term borrowings	18	1,817,166	2,225,666	-	-
Deferred tax liabilities	10	49,180	27,935	-	-
		<b>2,070,744</b>	2,429,480	-	-
<b>Current Liabilities</b>					
Trade and other payables	19	214,362	268,346	6,300	6,412
Borrowings	18	427,548	25,411	-	-
Taxation		22,586	22,469	-	-
		<b>664,496</b>	316,226	<b>6,300</b>	6,412
<b>Total Liabilities</b>		<b>2,735,240</b>	2,745,706	<b>6,300</b>	6,412
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>17,860,329</b>	17,792,562	<b>1,977,794</b>	1,991,360
Net asset value ("NAV")		<b>13,095,253</b>	13,028,492		
Less: Fourth interim distribution		<b>(83,587)</b>	(95,683)		
<b>Net NAV after distribution</b>		<b>13,011,666</b>	12,932,809		
<b>Number of stapled securities/shares in circulation ('000)</b>		<b>1,805,333</b>	1,805,333		
<b>NAV per stapled security/share (RM)</b>					
- before distribution		<b>7.25</b>	7.22		
- after distribution		<b>7.21</b>	7.16		

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

# STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	20	1,405,941	1,366,751	265,824	277,331
<b>Operating profit</b>	21	1,010,891	999,749	229,604	242,537
Fair value adjustments of investment properties	6	20,050	182,483	-	-
Interest income	22	27,574	30,597	16,365	16,225
Financing costs	23	(107,710)	(110,963)	-	-
Share of profit of an associate	8	13,288	13,465	-	-
<b>Profit before tax</b>	24	964,093	1,115,331	245,969	258,762
Tax expense	27	(125,173)	(101,766)	(899)	(1,233)
<b>PROFIT FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME</b>		838,920	1,013,565	245,070	257,529
<b>Profit attributable to:</b>					
Equity holders of the Company		284,253	350,256	245,070	257,529
NCI relating to KLCC REIT	7	440,661	527,644	-	-
		724,914	877,900	245,070	257,529
Other NCI	7	114,006	135,665	-	-
		838,920	1,013,565	245,070	257,529
<b>Earnings per share attributable to equity holders of the Company (sen):</b>					
Basic	28	15.75	19.40		
<b>Earnings per stapled security (sen):</b>					
Basic	28	40.15	48.63		

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

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# STATEMENT OF INCOME DISTRIBUTION TO STAPLED SECURITIES HOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group	
	2018 RM'000	2017 RM'000
Overall distributable income is derived as follows:		
Profit attributable to the equity holders of the Company	<b>284,253</b>	350,256
Less: Unrealised fair value adjustment attributable to the equity holders	<b>(7,906)</b>	(75,969)
	<b>276,347</b>	274,287
Distributable income of KLCC REIT	<b>421,928</b>	397,177
Total available for income distribution	<b>698,275</b>	671,464
Distribution to equity holders of the Company in respect of financial year ended 31 December 2018/2017:		
First interim dividend of 2.98% (2017: 3.10%)	<b>(53,799)</b>	(55,965)
Second interim dividend of 3.05% (2017: 3.16%)	<b>(55,063)</b>	(57,049)
Third interim dividend of 2.99% (2017: 3.64%)	<b>(53,979)</b>	(65,714)
Fourth interim dividend of 4.63% (2017: 5.30%)	<b>(83,587)</b>	(95,683)
	<b>(246,428)</b>	(274,411)
Distribution to KLCC REIT holders in respect of financial year ended 31 December 2018/2017:		
First interim income distribution of 5.72% (2017: 5.50%)	<b>(103,265)</b>	(99,293)
Second interim income distribution of 5.65% (2017: 5.44%)	<b>(102,001)</b>	(98,210)
Third interim income distribution of 5.71% (2017: 4.96%)	<b>(103,085)</b>	(89,545)
Fourth interim income distribution of 6.27% (2017: 5.05%)	<b>(113,194)</b>	(91,169)
	<b>(421,545)</b>	(378,217)
Balance undistributed	<b>30,302</b>	18,836

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

Note	← Attributable to Equity Holders of the Company →			Total equity attributable to holders of the Company RM'000	NCI relating to KLCC REIT RM'000	Other NCI RM'000	Total Equity RM'000
	Share Capital RM'000	Retained Profits RM'000	Capital Reserve RM'000				
<b>At 1 January 2018</b>							
As previously reported	1,823,386	225,492	2,929,350	4,978,228	8,050,264	2,018,364	15,046,856
Effect on the adoption of new pronouncement	-	(106)	-	(106)	(3)	(34)	(143)
<b>At 1 January 2018 Restated</b>	1,823,386	225,386	2,929,350	4,978,122	8,050,261	2,018,330	15,046,713
Total comprehensive income for the year	-	284,253	-	284,253	440,661	114,006	838,920
Transfer of fair value surplus	-	(7,906)	7,906	-	-	-	-
Dividends paid 29	-	(258,524)	-	(258,524)	(399,520)	(102,500)	(760,544)
<b>At 31 December 2018</b>	1,823,386	243,209	2,937,256	5,003,851	8,091,402	2,029,836	15,125,089

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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	← Attributable to Equity Holders of the Company →								
	Note	← Non-Distributable →			← Distributable →		Total equity attributable to holders of the Company RM'000	NCI relating to KLCC REIT RM'000	Other NCI RM'000
Share Capital RM'000		Capital Redemption Reserve RM'000	Retained Profits RM'000	Capital Reserve RM'000	Capital Reserve RM'000				
<b>At 1 January 2017</b>		1,805,333	18,053	204,555	2,854,041	4,881,982	7,912,211	1,983,832	14,778,025
Total comprehensive income for the year		-	-	350,256	-	350,256	527,644	135,665	1,013,565
Transfer of fair value surplus		-	-	(75,309)	75,309	-	-	-	-
Dividends paid	29	-	-	(254,010)	-	(254,010)	(389,591)	(101,133)	(744,734)
<b>Total transactions with equity holders of the Company</b>		1,805,333	18,053	225,492	2,929,350	4,978,228	8,050,264	2,018,364	15,046,856
Transfer in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime	14	18,053	(18,053)	-	-	-	-	-	-
<b>At 31 December 2017</b>		1,823,386	-	225,492	2,929,350	4,978,228	8,050,264	2,018,364	15,046,856

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Non-Distributable		Distributable	Total Equity RM'000
		Share Capital RM'000	Capital Redemption Reserve RM'000	Retained Profits RM'000	
<b>At 1 January 2018</b>		<b>1,823,386</b>	-	<b>161,562</b>	<b>1,984,948</b>
Total comprehensive income for the year		-	-	<b>245,070</b>	<b>245,070</b>
Dividends paid	29	-	-	<b>(258,524)</b>	<b>(258,524)</b>
<b>At 31 December 2018</b>		<b>1,823,386</b>	-	<b>148,108</b>	<b>1,971,494</b>
<b>At 1 January 2017</b>		1,805,333	18,053	158,043	1,981,429
Total comprehensive income for the year		-	-	257,529	257,529
Dividends paid	29	-	-	(254,010)	(254,010)
<b>Total transactions with equity holders of the Company</b>		1,805,333	18,053	161,562	1,984,948
Transfer in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime	14	18,053	(18,053)	-	-
<b>At 31 December 2017</b>		<b>1,823,386</b>	-	<b>161,562</b>	<b>1,984,948</b>

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

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# STATEMENTS OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax	<b>964,093</b>	1,115,331	<b>245,969</b>	258,762
Adjustments for:				
Interest income	<b>(27,574)</b>	(30,597)	<b>(12,275)</b>	(13,424)
Profit income from Sukuk subscription	-	-	<b>(4,090)</b>	(2,801)
Financing costs	<b>107,710</b>	110,963	-	-
Accrued rental income	<b>(36,708)</b>	(54,987)	-	-
Depreciation of property, plant and equipment	<b>38,073</b>	33,152	<b>1,476</b>	1,592
Dividend received	-	-	<b>(243,100)</b>	(256,300)
Property, plant and equipment written off	<b>28</b>	-	-	-
Loss/(gain) on disposal of property, plant and equipment	<b>148</b>	359	-	(2)
Net gain on fair value adjustments of investment properties	<b>(20,050)</b>	(182,483)	-	-
Bad debts written off	-	6	-	-
Allowance for impairment losses	<b>37</b>	214	-	-
Share of profit of an associate	<b>(13,288)</b>	(13,465)	-	-
<b>Operating cash flows before changes in working capital</b>	<b>1,012,469</b>	978,493	<b>(12,020)</b>	(12,173)
Changes in working capital:				
Trade and other receivables	<b>3,267</b>	(4,589)	<b>(86)</b>	31
Amount due from subsidiaries	-	-	<b>954</b>	3,639
Amount due from related companies	<b>3,400</b>	3,924	<b>2,860</b>	415
Amount due from immediate holding company	<b>551</b>	(663)	<b>647</b>	(695)
Amount due to ultimate holding company	<b>(7,019)</b>	(2,429)	<b>4</b>	(1,416)
Trade and other payables	<b>(20,470)</b>	50,618	<b>(11)</b>	1,115
Inventories	<b>130</b>	187	-	-
Cash generated from/(used in) operations	<b>992,328</b>	1,025,541	<b>(7,652)</b>	(9,084)
Interest/profit income received	<b>26,532</b>	32,943	<b>15,614</b>	15,058
Tax paid	<b>(103,683)</b>	(104,353)	<b>(681)</b>	(3,654)
Tax refunded	-	18	-	-
<b>Net cash generated from operating activities</b>	<b>915,177</b>	954,149	<b>7,281</b>	2,320

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Dividends received	16,756	33,110	243,100	277,370
Subscription of Sukuk	-	-	-	(100,000)
Purchase of property, plant and equipment	(45,472)	(63,723)	(103)	(225)
Subsequent expenditure on investment properties	(31,103)	(37,556)	-	-
Proceeds from disposal of property, plant and equipment	110	199	-	2
<b>Net cash (used in)/generated from investing activities</b>	<b>(59,709)</b>	<b>(67,970)</b>	<b>242,997</b>	<b>177,147</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of borrowings	(7,500)	(300,000)	-	-
Dividends paid to shareholders	(258,524)	(254,010)	(258,524)	(254,010)
Dividends paid to other NCI	(102,500)	(101,133)	-	-
Dividends paid to NCI relating to KLCC REIT	(399,364)	(388,158)	-	-
Interest/profit expenses paid	(102,118)	(107,836)	-	-
Decrease/(increase) in deposits restricted	7,952	(10,016)	-	-
<b>Net cash used in financing activities</b>	<b>(862,054)</b>	<b>(1,161,153)</b>	<b>(258,524)</b>	<b>(254,010)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,586)</b>	<b>(274,974)</b>	<b>(8,246)</b>	<b>(74,543)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>737,017</b>	<b>1,011,991</b>	<b>403,995</b>	<b>478,538</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 13)</b>	<b>730,431</b>	<b>737,017</b>	<b>395,749</b>	<b>403,995</b>
The additions in investment properties and property, plant and equipment were acquired by way of:				
Cash	59,808	78,504	(103)	225
Accruals	12,341	16,767	-	-
	<b>72,149</b>	<b>95,271</b>	<b>(103)</b>	<b>225</b>
Cash paid for additions in prior years	16,767	22,775	-	-
Cash paid for additions in current year	59,808	78,504	(103)	225
Total cash paid for investment properties and property, plant and equipment	<b>76,575</b>	<b>101,279</b>	<b>103</b>	<b>225</b>

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated on 7 February 2004 and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Level 54, Tower 2, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

The principal place of business is located at Level 33 & 34, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur.

The immediate and ultimate holding companies of the Company are KLCC (Holdings) Sdn Bhd ("KLCCH") and Petroliam Nasional Berhad ("PETRONAS") respectively, all of which are incorporated in Malaysia.

The principal activities of the Company in the course of the financial year are investment holding, property investment and the provision of management services.

The principal activities of the subsidiaries and associate are stated in Notes 7 and 8.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 24 January 2019.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements of the Group and of the Company have also been prepared on a historical cost basis, except for investment properties and certain financial instruments that have been measured at their fair values.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

As of 1 January 2018, the Group and the Company adopted new MFRSs and amendments to MFRSs (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB") as described fully in Note 3.

### 2.2 Basis of Consolidation

#### Subsidiaries

Subsidiaries are entities controlled by the Company.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.



# NOTES TO THE FINANCIAL STATEMENTS

## 31 DECEMBER 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### 2.2 Basis of Consolidation (Contd.)

##### Business combination

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured at the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquirer's identifiable net assets at the acquisition date.

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

The Group measures goodwill as the excess of the cost of an acquisition as defined above and the fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

##### Non-controlling interests

Non-controlling interests at the reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between the non-controlling interests and the equity shareholders of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

##### Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.3 Investments

Long term investments in subsidiaries and an associate are stated at cost less impairment loss, if any, in the Company's financial statements. The cost of investment includes transaction cost.

The carrying amount of these investments includes fair value adjustments on shareholders loans and advances, if any.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

### 2.4 Associates

Associates are entities in which the Group has significant influence including representation on the Board of Directors, but not control or joint control, over the financial and operating policies of the investee company.

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profits or losses and other comprehensive income of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated statement of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

When the Group's share of post-acquisition losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate investee.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with the resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured.

Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transactions costs.

Unrealised profits arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially, unless cost cannot be recovered.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.5 Goodwill

Goodwill acquired in a business combination is initially measured at cost as described in Note 2.2. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is reviewed for impairment when there is objective evidence of impairment.

### 2.6 Property, Plant and Equipment

Freehold land which has an unlimited life is stated at cost and is not depreciated. Projects-in-progress are stated at cost and are not depreciated as the assets are not available for use. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated on a straight line basis over the estimated useful life of the related assets.

The estimated useful life are as follows:

Hotel building	80 years
Building improvements	5 to 6 years
Furniture and fittings	5 to 10 years
Plant and equipment	4 to 10 years
Office equipment	5 years
Renovation	5 years
Motor vehicles	4 to 5 years
Crockery, linen and utensils	3 years

Costs are expenditure that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the assets to working condition for their intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.6 Property, Plant and Equipment (Contd.)

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the items if it is probable that the future economic benefits embodied within the part will flow to the Group and the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

The depreciable amount is determined after deducting residual value. The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the profit or loss.

### 2.7 Investment Properties

Investment properties are properties which are owned or held under a leasehold interest either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair value of investment properties are recognised in the profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the year in which they arise.

Where the fair value of the Investment Property Under Construction ("IPUC") is not reliably determinable, the IPUC is measured at cost until either its fair value has been reliably determinable or construction is complete, whichever is earlier.

# NOTES TO THE FINANCIAL STATEMENTS

## 31 DECEMBER 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### 2.8 Impairment of Non-Financial Assets

The Group 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, the Group 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 first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other 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 a reversal is recognised in profit or loss.

#### 2.9 Inventories

Inventories of saleable merchandise and operating supplies are stated at the lower of cost and net realisable value. Cost of inventories is determined using the weighted average cost method and it includes the invoiced value from suppliers, and transportation and handling costs.

#### 2.10 Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and deposits with banks. For the purpose of cash flow statements, cash and cash equivalents include cash on hand and short term deposits with banks with an original maturity of 3 months or less, less restricted cash held in designated accounts on behalf of clients.

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.11 Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

#### (i) Recognition and initial measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Company's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient, the Group and the Company initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or if the period between performance and payment is 1 year or less under practical expedient of MFRS 15, are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Company'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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place ("regular way trades") are recognised on the trade date, that is the date that the Group or the Company commits to purchase or sell the asset.

#### (ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- (a) Financial assets at amortised cost (debt instruments)
- (b) Financial assets at fair value through OCI (debt instruments)
- (c) Financial assets at fair value through profit or loss



# NOTES TO THE FINANCIAL STATEMENTS

## 31 DECEMBER 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### 2.11 Financial Assets (Contd.)

##### (ii) Subsequent measurement (Contd.)

###### Financial assets at amortised cost

This category is the most relevant to the Group and the Company. The Group and the Company measure financial assets at amortised cost if both of the following conditions are met:

- i. The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

##### (iii) Derecognition

A financial asset is derecognised when:

- (a) The rights to receive cash flows from the asset have expired, or
- (b) The Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - i. The Group and the Company have transferred substantially all the risks and rewards of the asset, or
  - ii. The Group and the Company have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Group and the Company have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Company continue to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group and the Company also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Company have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company would be required to repay.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****2.12 Impairment of Financial Assets**

The Group and the Company recognise an allowance for expected credit losses (“ECLs”) for all debt instruments carried at amortised cost and fair value through OCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expect to receive, discounted at an approximation of the original EIR. 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.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). 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 ECL).

For trade receivables, the Group and the Company apply a simplified approach in calculating ECLs. Therefore, the Group and the Company do not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Group and the Company 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.

The Group and the Company consider a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group and the Company may also consider a financial asset to be in default when internal or external information indicates that the Group and the Company are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**2.13 Provisions**

A provision is recognised when the Group and the Company have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

**2.14 Financial Liabilities****(i) Recognition and initial measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s and the Company’s financial liabilities include trade and other payables and loans and borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.14 Financial Liabilities (Contd.)

#### (ii) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

#### **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 are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group and the Company that are not designated as hedging instruments in hedge relationships as defined by MFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gain or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group and the Company have not designated any financial liability as at fair value through profit or loss.

#### **Loans and borrowings**

This is the category most relevant to the Group and the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

#### (iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.



# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.15 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### 2.16 Financing Costs

Financing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other financing costs are charged to the profit or loss as an expense in the year in which they are incurred.

### 2.17 Employee Benefits

#### (i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and of the Company.

#### (ii) Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Obligations for contributions to defined contribution plans are recognised as an expense in the profit or loss in the year in which the related services is performed.

### 2.18 Taxation

Tax expense on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

#### (i) Current tax

Current tax expense is the expected tax payable on the taxable income for the period, using the statutory tax rate at the reporting date, and any adjustment to tax payable in respect of previous years.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.18 Taxation (Contd.)

#### (ii) Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused investment tax allowances, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused investment tax allowances, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is expected to be realised or the liability is expected to be settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax provided for the investment properties of KLCC REIT is at 5% which reflects the expected manner of recovery of the investment properties.

The expected manner of recovery of the Group's other investment properties that are not within KLCC REIT is through sale to a real estate investment trust ("REIT"). No deferred tax is recognised on the fair valuation of these properties as chargeable gains accruing on the disposal of any chargeable assets to a REIT is tax exempted.

### 2.19 Foreign Currencies

#### (i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

#### (ii) Foreign Currency Transactions

Monetary assets and liabilities in foreign currencies at the reporting date have been translated at rates ruling on the reporting date or at the agreed exchange rate under currency exchange arrangements. Transactions in foreign currencies have been translated into RM at rates of exchange ruling on the transaction dates. Gains and losses on exchange arising from translation of monetary assets and liabilities are dealt with in the profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to RM at the foreign exchange rates ruling at the date of the transactions.

The principal exchange rates used for each respective unit of foreign currency ruling at the reporting date are as follows:

	2018 RM	2017 RM
United States Dollar	4.13	4.06

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****2.20 Share Capital**

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

**2.21 Capital Reserve**

Fair value adjustments on investment property are transferred from retained profits to capital reserve and such surplus will be considered distributable upon the sale of investment property.

**2.22 Revenue Recognition****(i) Rental income**

Rental income is recognised based on the accrual basis unless collection is in doubt, in which case it is recognised on the receipt basis.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight line basis over the shorter of the entire lease term or the period to the first break option. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the related property including the accrued rent does not exceed the external valuation.

**(ii) Others**

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group or the Company recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- i. the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- ii. the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- iii. the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.



# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.22 Revenue Recognition (Contd.)

#### (ii) Others (Contd.)

##### (a) Hotel operations

Revenue from rental of hotel rooms, sale of food and beverages and other related income are recognised upon provision of the services.

##### (b) Building and facilities management services

Revenue from building and facilities management is recognised when the services are performed.

##### (c) Car park operations

Revenue from car park operations is recognised on the accrual basis.

##### (d) Interest income

Interest income is recognised on the accrual basis using the effective interest method.

##### (e) Dividend income

Dividend income is recognised when the Group's and the Company's right to receive payment is established.

### 2.23 Leases

#### Operating Leases - the Group as lessor

Assets leased out under operating leases are presented on the statement of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

### 2.24 Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****2.25 Fair Value Measurement**

Fair value of an asset or a liability, except for lease transactions, is determined as 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

**(i) Financial instruments**

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market within the bid-ask spread at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

**(ii) Non-financial assets**

For non-financial assets, the fair value measurement 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.

When measuring the fair value of an asset or a liability, the Group and the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable input).

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

**3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS**

As of 1 January 2018, the Group and the Company have adopted the following pronouncements that are applicable and have been issued by the MASB as listed below:

**Effective for annual periods beginning on or after 1 January 2018**

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 15	Revenue from Contracts with Customers: Clarifications
Amendments to MFRS 128	Investments in Associates and Joint Ventures (Annual Improvements to MFRSs 2014-2016 Cycle)
Amendments to MFRS 140	Investment Property: Transfers to Investment Property

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTD.)

### Effective for annual periods beginning on or after 1 January 2018 (Contd.)

The principal changes in accounting policies and their effects are set out below:

#### (i) MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group and the Company applied MFRS 9 retrospectively, with an initial application date of 1 January 2018. Under the transitional provisions of MFRS 9, the Group and the Company have elected not to restate the comparative information, which continues to be reported under MFRS 139. Differences arising from the adoption of MFRS 9 have been recognised in opening retained earnings.

#### (a) Classification and measurement

Under MFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's and the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's and the Company's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments solely consist of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of MFRS 9 did not have a significant impact to the Group and the Company. The following are the changes in the classification of the Group's and the Company's financial assets:

#### Trade receivables and other financial assets

Trade receivables and other financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortised cost.

#### Other investment

Other investment previously classified as held-to-maturity was measured at amortised cost using the EIR. These are now classified and measured as debt instruments at amortised cost.



## NOTES TO THE FINANCIAL STATEMENTS

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**3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTD.)****Effective for annual periods beginning on or after 1 January 2018 (Contd.)****(i) MFRS 9 Financial Instruments (Contd.)****(b) Impairment**

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss ("ECL") model. Under MFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

Upon adoption of MFRS 9, the Group had recognised additional impairment on the Group's trade receivables which resulted in a decrease in retained profits of RM143,000 as at 1 January 2018. The impact to the Group's impairment allowances is as below:

	Allowance for impairment under MFRS 139 as at 31.12.2017 RM'000	Additional allowance RM'000	ECL under MFRS 9 as at 1.1.2018 RM'000
Allowance for impairment losses	(603)	(143)	<b>(746)</b>

**(ii) MFRS 15 Revenue from Contracts with Customers**

MFRS 15 replaces the guidance in MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15 Agreements for Construction of Real Estate, IC Interpretation 18 Transfers of Assets from Customers and IC Interpretation 131 Revenue – Barter Transactions Involving Advertising Services. MFRS 15 provides a single model of accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The Group adopted MFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date.

The adoption of MFRS 15 does not have any impact to the financial statements of the Group and the Company.

# NOTES TO THE FINANCIAL STATEMENTS

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## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### 4.1 Critical Judgement Made in Applying Accounting Policies

There are no critical judgements made by management in the process of applying the Group's and the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

### 4.2 Key Sources of Estimation Uncertainty

The key assumption 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 amount of assets and liabilities within the next financial year is discussed below:

#### Fair value of investment properties

The Group carries its investment properties at fair value, with changes in fair values being recognised in profit or loss. The Group had engaged independent professional valuers to determine the fair values 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 discount rate. The range of the yield rate and the discount rate used in the valuation is described in Note 6.

The following table demonstrates the sensitivity of the fair value measurement to changes in estimated yield rate and discount rate:

	Fair value	
	Increase/(decrease)	
	2018	2017
	RM'000	RM'000
<b>Yield rate</b>		
+ 0.25%	(424,333)	(405,458)
- 0.25%	457,276	438,795
<b>Discount rate</b>		
+ 0.25%	(146,131)	(160,430)
- 0.25%	148,948	166,057

The other key assumptions used to determine the fair value of the investment properties are further explained in Note 6.

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## NOTES TO THE FINANCIAL STATEMENTS

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## 5. PROPERTY, PLANT AND EQUIPMENT

	Lands and buildings* RM'000	Project in progress RM'000	Furniture and fittings RM'000	Plant and equipment RM'000	Office equipment RM'000	Motor vehicles RM'000	Crockery, linen and utensils RM'000	Total RM'000
<b>Group</b>								
<b>At 31 December 2018</b>								
<b>Cost</b>								
At 1 January 2018	631,676	22,918	131,376	153,540	80,726	1,419	9,713	1,031,368
Additions	1,360	25,204	15,170	1,366	1,417	5	218	44,740
Transfer within property, plant and equipment	5,008	(35,302)	21,050	5,114	4,130	-	-	-
Disposals	(56)	-	(11,632)	(120)	(2,973)	-	-	(14,781)
Write off	(220)	-	(3,789)	(13)	(8,197)	(5)	-	(12,224)
At 31 December 2018	637,768	12,820	152,175	159,887	75,103	1,419	9,931	1,049,103
<b>Accumulated Depreciation</b>								
At 1 January 2018	116,805	-	76,157	98,816	62,020	1,164	9,169	364,131
Charge for the year (Note 24)	10,024	-	12,356	9,266	6,031	107	289	38,073
Disposals	(39)	-	(11,422)	(89)	(2,973)	-	-	(14,523)
Write off	(220)	-	(3,789)	(13)	(8,171)	(5)	-	(12,198)
At 31 December 2018	126,570	-	73,302	107,980	56,907	1,266	9,458	375,483
<b>Net Carrying Amount</b>	511,198	12,820	78,873	51,907	18,196	153	473	673,620

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 5. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Lands and buildings* RM'000	Project in progress RM'000	Furniture and fittings RM'000	Plant and equipment RM'000	Office equipment RM'000	Motor vehicles RM'000	Crockery, linen and utensils RM'000	Total RM'000
<b>Group</b>								
<b>At 31 December 2017</b>								
<b>Cost</b>								
At 1 January 2017	621,791	19,162	123,458	153,069	73,836	1,387	9,160	1,001,863
Additions	1,344	52,323	7,528	797	1,642	42	604	64,280
Transfer within property, plant and equipment	22,012	(48,567)	16,909	-	9,646	-	-	-
Disposals	(89)	-	(7,565)	(326)	(2,267)	(10)	-	(10,257)
Write off	(13,382)	-	(8,954)	-	(2,131)	-	(51)	(24,518)
At 31 December 2017	631,676	22,918	131,376	153,540	80,726	1,419	9,713	1,031,368
<b>Accumulated Depreciation</b>								
At 1 January 2017	120,545	-	83,325	90,023	61,245	1,036	9,015	365,189
Charge for the year (Note 24)	10,028	-	8,532	9,052	5,197	138	205	33,152
Transfer within property, plant and equipment	(372)	-	396	-	(24)	-	-	-
Disposals	(14)	-	(7,142)	(259)	(2,267)	(10)	-	(9,692)
Write off	(13,382)	-	(8,954)	-	(2,131)	-	(51)	(24,518)
At 31 December 2017	116,805	-	76,157	98,816	62,020	1,164	9,169	364,131
<b>Net Carrying Amount</b>	514,871	22,918	55,219	54,724	18,706	255	544	667,237

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## NOTES TO THE FINANCIAL STATEMENTS

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## 5. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

## \* Lands and Buildings of the Group:

	Freehold land RM'000	Hotel building RM'000	Renovation RM'000	Building improvements RM'000	Total RM'000
<b>At 31 December 2018</b>					
<b>Cost</b>					
At 1 January 2018	85,889	389,853	19,034	136,900	631,676
Additions	-	-	275	1,085	1,360
Transfer	-	-	-	5,008	5,008
Disposals	-	(56)	-	-	(56)
Write off	-	-	(220)	-	(220)
At 31 December 2018	85,889	389,797	19,089	142,993	637,768
<b>Accumulated Depreciation</b>					
At 1 January 2018	-	63,622	11,912	41,271	116,805
Charge for the year	-	5,444	3,245	1,335	10,024
Transfer	-	-	-	-	-
Disposals	-	(39)	-	-	(39)
Write off	-	-	(220)	-	(220)
At 31 December 2018	-	69,027	14,937	42,606	126,570
<b>Net Carrying Amount</b>	<b>85,889</b>	<b>320,770</b>	<b>4,152</b>	<b>100,387</b>	<b>511,198</b>
<b>At 31 December 2017</b>					
<b>Cost</b>					
At 1 January 2017	85,889	389,942	18,953	127,007	621,791
Additions	-	-	81	1,263	1,344
Transfer	-	-	-	22,012	22,012
Disposals	-	(89)	-	-	(89)
Write off	-	-	-	(13,382)	(13,382)
At 31 December 2017	85,889	389,853	19,034	136,900	631,676
<b>Accumulated Depreciation</b>					
At 1 January 2017	-	58,221	8,567	53,757	120,545
Charge for the year	-	5,415	3,345	1,268	10,028
Transfer	-	-	-	(372)	(372)
Disposals	-	(14)	-	-	(14)
Write off	-	-	-	(13,382)	(13,382)
At 31 December 2017	-	63,622	11,912	41,271	116,805
<b>Net Carrying Amount</b>	<b>85,889</b>	<b>326,231</b>	<b>7,122</b>	<b>95,629</b>	<b>514,871</b>

Property, plant and equipment of a subsidiary at carrying amount of RM648,431,000 (2017: RM638,478,000) has been pledged as securities for loan facilities as disclosed in Note 18.

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Renovation RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment RM'000	Project in progress RM'000	Total RM'000
<b>Company</b>						
<b>At 31 December 2018</b>						
<b>Cost</b>						
At 1 January 2018	7,052	2,324	8	2,183	-	11,567
Additions	-	5	-	98	-	103
Disposal/Reversal	(93)	-	-	(12)	-	(105)
At 31 December 2018	6,959	2,329	8	2,269	-	11,565
<b>Accumulated Depreciation</b>						
At 1 January 2018	4,449	2,171	2	1,692	-	8,314
Charge for the year (Note 24)	1,285	44	2	145	-	1,476
At 31 December 2018	5,734	2,215	4	1,837	-	9,790
<b>Net Carrying Amount</b>	<b>1,225</b>	<b>114</b>	<b>4</b>	<b>432</b>	<b>-</b>	<b>1,775</b>
<b>At 31 December 2017</b>						
<b>Cost</b>						
At 1 January 2017	7,052	2,240	13	1,731	420	11,456
Additions	-	84	-	32	-	116
Transfer	-	-	-	420	(420)	-
Disposal	-	-	(5)	-	-	(5)
At 31 December 2017	7,052	2,324	8	2,183	-	11,567
<b>Accumulated Depreciation</b>						
At 1 January 2017	3,019	2,109	5	1,594	-	6,727
Charge for the year (Note 24)	1,430	62	2	98	-	1,592
Disposal	-	-	(5)	-	-	(5)
At 31 December 2017	4,449	2,171	2	1,692	-	8,314
<b>Net Carrying Amount</b>	<b>2,603</b>	<b>153</b>	<b>6</b>	<b>491</b>	<b>-</b>	<b>3,253</b>

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## NOTES TO THE FINANCIAL STATEMENTS

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## 6. INVESTMENT PROPERTIES

	Completed investment properties RM'000	IPUC land at fair value RM'000	IPUC at cost RM'000	Total RM'000
<b>Group</b>				
<b>At 31 December 2018</b>				
At 1 January 2018	14,944,258	515,500	207,717	15,667,475
Additions	21,471	14	5,924	27,409
Fair value adjustments	15,564	4,486	-	20,050
At 31 December 2018	14,981,293	520,000	213,641	15,714,934
<b>At 31 December 2017</b>				
At 1 January 2017	14,768,580	494,300	191,121	15,454,001
Additions	13,335	-	17,656	30,991
Transfer within investment properties	1,060	-	(1,060)	-
Fair value adjustments	161,283	21,200	-	182,483
At 31 December 2017	14,944,258	515,500	207,717	15,667,475

The following investment property is held under lease terms:

	Group	
	2018 RM'000	2017 RM'000
Completed investment property	346,332	344,063
IPUC land at fair value	232,000	232,000
IPUC at cost	190,873	184,949
	769,205	761,012

The investment properties are stated at fair value, which have been determined based on valuations performed by an independent professional valuer. There are no material events that affect the valuation between the valuation date and financial year end. The valuation methods used in determining the valuations are the investment method, residual method and comparison method.

The following are recognised in profit or loss in respect of investment properties:

	Group	
	2018 RM'000	2017 RM'000
Rental income	1,086,772	1,066,961
Direct operating expenses of income generating investment properties	(99,065)	(91,985)
	987,707	974,976

# NOTES TO THE FINANCIAL STATEMENTS

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## 6. INVESTMENT PROPERTIES (CONTD.)

### Fair value information

Fair value of investment properties are categorised as follows:

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<b>2018</b>				
- Office properties	-	-	9,242,446	9,242,446
- Retail properties	-	-	5,970,847	5,970,847
- Land	-	-	288,000	288,000
	-	-	15,501,293	15,501,293
<b>2017</b>				
- Office properties	-	-	9,225,624	9,225,624
- Retail properties	-	-	5,950,634	5,950,634
- Land	-	-	283,500	283,500
	-	-	15,459,758	15,459,758

### Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

### Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can assess at the measurement date.

### Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment properties, either directly or indirectly.

### Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

### Transfer between Level 1, 2 and 3 fair values

There is no transfer between Level 1, 2 and 3 fair values during the financial year.



## NOTES TO THE FINANCIAL STATEMENTS

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## 6. INVESTMENT PROPERTIES (CONTD.)

The following table shows a reconciliation of Level 3 fair values:

	2018	2017
	RM'000	RM'000
Valuation per valuers' report	15,921,900	15,848,600
Less: Accrued rental income	(420,607)	(388,842)
	15,501,293	15,459,758
Adjusted valuation on 1 January	15,459,758	15,262,880
Additions	21,485	13,335
Transfer within investment properties	-	1,060
Re-measurement recognised in profit or loss	20,050	182,483
At 31 December	15,501,293	15,459,758

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique	Significant unobservable inputs	Range		Inter-relationship between significant unobservable inputs and fair value measurement
		2018	2017	
Investment method (refer a)	<b>Office:</b>			The estimated fair value would increase/(decrease) if:
	- Market rental rate (RM/psf/month)			
	- Term	4.92 - 10.88	4.92 - 9.95	- expected market rental growth was higher/(lower)
	- Reversion	5.73 - 12.71	5.50 - 13.80	- expected market rental growth was higher/(lower)
	- Outgoings (RM/psf/month)			
	- Term	2.00	1.80 - 2.00	- expected inflation rate was lower/(higher)
	- Reversion	2.00 - 2.40	1.80 - 2.00	- expected inflation rate was lower/(higher)
	- Void rate (%)	5.00 - 10.00	5.00	- void rate was lower/(higher)
	- Term yield (%)	5.50 - 7.00	5.50 - 6.50	- term yield rate was lower/(higher)
	- Reversionary yield (%)	6.00 - 7.50	6.00 - 7.00	- reversionary yield was lower/(higher)
	- Discount rate (%)	5.50 - 7.50	6.50	- discount rate is lower/(higher)
	<b>Retail:</b>			
	- Market rental rate (RM/psf/month)			
	- Term	5.11 - 363.55	4.73 - 451.28	- expected market rental growth was higher/(lower)
	- Reversion	5.64 - 416.64	4.73 - 451.28	- expected market rental growth was higher/(lower)
	- Outgoings (RM/psf/month)			
	- Term	5.78 - 6.38	5.27 - 6.88	- expected inflation rate was lower/(higher)
	- Reversion	5.78 - 6.38	5.00 - 6.56	- expected inflation rate was lower/(higher)
	- Void rate (%)	5.00 - 7.00	7.00 - 10.00	- void rate was lower/(higher)
	- Term yield (%)	6.25 - 6.50	6.50	- term yield rate was lower/(higher)
	- Reversionary yield (%)	6.75 - 7.00	7.00	- reversionary yield was lower/(higher)
	- Discount rate (%)	6.25 - 7.00	6.50 - 7.00	- discount rate is lower/(higher)

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 6. INVESTMENT PROPERTIES (CONTD.)

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. (Contd.)

Valuation technique	Significant unobservable inputs	Range		Inter-relationship between significant unobservable inputs and fair value measurement
		2018	2017	
Residual method (refer b)	- Expected rate of return (%)	<b>17.00</b>	17.00	The estimated fair value would increase/(decrease) if: - expected rate of return was lower/(higher)
	- Gross Development Value (RM million)	<b>1,519</b>	1,494	- gross development value was higher/(lower)
	- Gross Development Costs (RM million)	<b>960</b>	955	- gross development costs was lower/(higher)
	- Financing costs (%)	<b>7.00</b>	7.00	- financing costs was lower/(higher)
	- Discount rate (%)	<b>7.00</b>	7.00	- discount rate was lower/(higher)

(a) 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.

(b) Residual method is used to value a property that has development potential. The value of the property will be the residual of the potential value less the construction costs and the required profit from the project.

Based on the current development plans, the said property is currently valued based on land at fair value with actual construction costs incurred to date.

### Valuation processes applied by the Group for Level 3 fair value

The fair value of investment properties is determined by independent professional valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The independent professional valuers provide the fair value of the Group's investment properties portfolio annually. Changes in Level 3 fair values are analysed by the management annually after obtaining the valuation report from the independent professional valuers.

## 7. INVESTMENT IN SUBSIDIARIES

	Company	
	2018 RM'000	2017 RM'000
Unquoted shares at cost	<b>4,530,109</b>	4,530,109
Discount on loans to subsidiaries	<b>196,314</b>	196,314
Effects of conversion of amounts due from subsidiaries to investment	<b>722,583</b>	721,207
Capital reduction	<b>(780,916)</b>	(780,916)
Write-down in value*	<b>(3,296,954)</b>	(3,296,954)
	<b>1,371,136</b>	1,369,760

\* The investment in certain subsidiaries have been adjusted to their recoverable amount subsequent to the disposal of their assets and liabilities to KLCC REIT.

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## NOTES TO THE FINANCIAL STATEMENTS

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**7. INVESTMENT IN SUBSIDIARIES (CONTD.)**

Details of subsidiaries are as follows:

Name of Subsidiaries	Proportion of ownership interest		Principal Activities
	2018 %	2017 %	
Suria KLCC Sdn Bhd ("SKSB")	60	60	Ownership and management of a shopping centre and the provision of business management services
Asas Klasik Sdn Bhd ("AKSB")	75	75	Property investment in a hotel
Arena Johan Sdn Bhd ("AJSB")	100	100	Inactive
KLCC Parking Management Sdn Bhd ("KPM")	100	100	Management of car park operations
KLCC Urusharta Sdn Bhd ("KLCCUH")	100	100	Facilities management
Kompleks Dayabumi Sdn Bhd ("KDSB")	100	100	Property investment
Midciti Resources Sdn Bhd ("MRSB")	100	100	Inactive
Impian Cemerlang Sdn Bhd ("ICSB")	100	100	Property investment
Arena Merdu Sdn Bhd ("AMSB")	100	100	Inactive
KLCC REIT Management Sdn Bhd ("KLCC REIT Management")	100	100	Management of a real estate investment trust
KLCC REIT	*	*	To invest in a Shariah compliant portfolio or real estate assets and real estate related assets
<b>Subsidiary of KLCC REIT</b>			
Midciti Sukuk Berhad ("MSB")*	100	100	To undertake the issuance of Islamic term notes ("Sukuk") under a medium term notes programme and all matters relating to it

The country of incorporation and principal place of business of all subsidiaries is Malaysia.

# NOTES TO THE FINANCIAL STATEMENTS

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## 7. INVESTMENT IN SUBSIDIARIES (CONTD.)

- \* Whilst the Group has no ownership interests in KLCC REIT, the Directors have deemed it to be a subsidiary as:
- (i) the Group exercises power over KLCC REIT by virtue of its control over KLCC REIT Management, the manager of KLCC REIT; and
  - (ii) KLCC REIT units are stapled to the ordinary shares of the Company such that the shareholders of the Company are exposed to variable returns from its involvement with KLCC REIT and the Group has the ability to affect those returns through its power over KLCC REIT.

### Non-controlling interests relating to KLCC REIT

	2018	2017
<b>NCI percentage of ownership interest and voting interest</b>	<b>100%</b>	100%
Carrying amount of NCI (RM'000)	<b>8,091,402</b>	8,050,264
Profit allocated to NCI (RM'000)	<b>440,661</b>	527,644

### Summarised financial information before intra-group elimination

	2018 RM'000	2017 RM'000
Non-current assets - Investment properties	<b>9,190,831</b>	9,176,045
Non-current assets - Others	<b>410,454</b>	380,916
Current assets	<b>62,069</b>	74,758
Non-current liabilities	<b>(1,010,521)</b>	(1,481,168)
Current liabilities	<b>(561,431)</b>	(100,287)
Net assets	<b>8,091,402</b>	8,050,264
Revenue	<b>588,523</b>	585,469
Profit for the year, representing total comprehensive income	<b>440,661</b>	527,644
Cash flows generated from operating activities	<b>452,628</b>	469,129
Cash flows used in investing activities	<b>(4,160)</b>	(3,266)
Cash flows used in financing activities	<b>(459,543)</b>	(653,634)
Net decrease in cash and cash equivalents	<b>(11,075)</b>	(187,771)
Dividend paid to NCI relating to KLCC REIT	<b>(399,520)</b>	(389,591)

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## 7. INVESTMENT IN SUBSIDIARIES (CONTD.)

## Other non-controlling interests in subsidiaries

The Group's subsidiaries that have material other non-controlling interests are as follows:

	SKSB	2018 Other immaterial subsidiary	Total
<b>NCI percentage of ownership interest and voting interest</b>	40.0%		
Carrying amount of NCI (RM'000)	1,957,248	72,588	2,029,836
Profit allocated to NCI (RM'000)	113,982	24	114,006

	SKSB	2017 Other immaterial subsidiary	Total
<b>NCI percentage of ownership interest and voting interest</b>	40.0%		
Carrying amount of NCI (RM'000)	1,945,766	72,598	2,018,364
Profit allocated to NCI (RM'000)	134,353	1,312	135,665

## Summarised financial information of significant subsidiary before intra-group elimination

SKSB	2018 RM'000	2017 RM'000
Non-current assets - Investment properties	5,444,130	5,424,149
Non-current assets - Others	15,616	13,477
Current assets	222,131	202,658
Non-current liabilities	(669,392)	(638,924)
Current liabilities	(119,364)	(136,945)
Net assets	4,893,121	4,864,415
Revenue	472,261	454,709
Profit for the year, representing total comprehensive income	284,956	335,882
Cash flows generated from operating activities	295,261	303,133
Cash flows used in investing activities	(18,596)	(15,177)
Cash flows used in financing activities	(256,250)	(252,833)
Net increase in cash and cash equivalents	20,415	35,123
Dividends paid to other NCI	(102,500)	(101,133)

# NOTES TO THE FINANCIAL STATEMENTS

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## 8. INVESTMENT IN AN ASSOCIATE

	2018 RM'000	2017 RM'000
<b>Group</b>		
Unquoted shares at cost	99,195	99,195
Share of post-acquisition reserves	153,778	157,246
	<b>252,973</b>	256,441
<b>Company</b>		
Unquoted shares at cost	99,195	99,195

Details of the associate are as follows:

Name of Associate	Country of Incorporation	Principal Activity	Proportion of ownership interest	
			2018 %	2017 %
Impian Klasik Sdn Bhd ("IKSB")*	Malaysia	Property investment	33	33

\* Audited by a firm of auditors other than Ernst & Young.

The summarised financial statements of the associate are as follows:

	2018 RM'000	2017 RM'000
Non-current assets	770,295	762,000
Current assets	2,253	18,442
Total assets	<b>772,548</b>	780,442
Non-current liabilities	98,624	97,664
Current liabilities	2,340	681
Total liabilities	<b>100,964</b>	98,345
<b>Results</b>		
Revenue	50,722	50,722
Profit for the year, representing total comprehensive income	40,268	40,804
Share of profit for the year	<b>13,288</b>	13,465
Other information		
- Share of dividends	<b>16,756</b>	12,040

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## NOTES TO THE FINANCIAL STATEMENTS

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**8. INVESTMENT IN AN ASSOCIATE (CONTD.)****Reconciliation of net assets to carrying amount as at 31 December**

	2018 RM'000	2017 RM'000
Group's share of net assets	221,623	225,091
Goodwill	31,350	31,350
	<b>252,973</b>	256,441

**9. OTHER INVESTMENT**

	Company	
	2018 RM'000	2017 RM'000
Investment in Sukuk Murabahah of a subsidiary	100,000	100,000

The details of the Sukuk Murabahah are disclosed in Note 18(a).

**10. DEFERRED TAX**

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	27,245	29,481	(311)	(72)
Recognised in profit or loss (Note 27)	20,710	(2,236)	(497)	(239)
At 31 December	<b>47,955</b>	27,245	<b>(808)</b>	(311)

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts determined after appropriate offsetting are as follows:

	Group	
	2018 RM'000	2017 RM'000
Deferred tax assets	(1,225)	(690)
Deferred tax liabilities	49,180	27,935
	<b>47,955</b>	27,245

# NOTES TO THE FINANCIAL STATEMENTS

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## 10. DEFERRED TAX (CONTD.)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

### Deferred Tax Liabilities of the Group:

	Property, plant and equipment RM'000	Investment properties RM'000	Others RM'000	Total RM'000
At 1 January 2018	57,538	-	2,223	59,761
Recognised in profit or loss	5,533	21,744	799	28,076
At 31 December 2018	63,071	21,744	3,022	87,837
At 1 January 2017	52,911	-	2,047	54,958
Recognised in profit or loss	4,627	-	176	4,803
At 31 December 2017	57,538	-	2,223	59,761

### Deferred Tax Assets of the Group:

	Unused tax losses and investment tax allowances RM'000	Others RM'000	Total RM'000
At 1 January 2018	(29,577)	(2,939)	(32,516)
Recognised in profit or loss	(6,539)	(827)	(7,366)
At 31 December 2018	(36,116)	(3,766)	(39,882)
At 1 January 2017	(24,116)	(1,361)	(25,477)
Recognised in profit or loss	(5,461)	(1,578)	(7,039)
At 31 December 2017	(29,577)	(2,939)	(32,516)

### Deferred Tax Liabilities/(Assets) of the Company:

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 January 2018	363	(674)	(311)
Recognised in profit or loss	(370)	(127)	(497)
At 31 December 2018	(7)	(801)	(808)
At 1 January 2017	407	(479)	(72)
Recognised in profit or loss	(44)	(195)	(239)
At 31 December 2017	363	(674)	(311)

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## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**11. INVENTORIES**

The inventories comprise general merchandise and operating supplies, and are stated at cost.

**12. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Non-current</b>				
<b>Other receivables</b>				
Accrued rental income	418,939	388,842	-	-
<b>Current</b>				
<b>Trade receivables</b>	9,998	11,485	-	-
Less: Allowance for impairment	(770)	(603)	-	-
Trade receivables, net of impairment	9,228	10,882	-	-
<b>Other receivables</b>				
Other receivables and deposits	26,295	25,377	2,494	1,657
Amount due from:				
Subsidiaries	-	-	2,337	4,667
Ultimate holding company	13,556	6,278	-	-
Immediate holding company	434	985	314	961
Other related companies	10,467	14,366	2,728	5,588
Total other receivables	50,752	47,006	7,873	12,873
<b>Total</b>	<b>59,980</b>	<b>57,888</b>	<b>7,873</b>	<b>12,873</b>

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade receivables	9,228	10,882	-	-
Other receivables	469,691	435,848	-	-
Add: Cash and bank balances (Note 13)	735,724	750,262	395,749	403,995
Less: Accrued rental income (Note 6)	(420,607)	(388,842)	-	-
Total financial assets carried at amortised cost	794,036	808,150	395,749	403,995

Amounts due from subsidiaries, ultimate holding company, immediate holding company and other related companies which arose in the normal course of business are unsecured, non-interest bearing and repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 12. TRADE AND OTHER RECEIVABLES (CONTD.)

*Offsetting of financial assets and financial liabilities*

The following table provides information of financial assets and liabilities that have been set off for presentation purposes:

Group	Gross amount RM'000	Balances that are set off RM'000	Net carrying amount RM'000
<b>Amount due from ultimate holding company</b>			
2018	14,806	(1,250)	13,556
2017	13,055	(6,777)	6,278

## 13. CASH AND BANK BALANCES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash with PETRONAS Integrated				
Financial Shared Services Centre	439,400	430,197	395,574	403,983
Cash and bank balances	9,919	16,244	42	12
Deposits with licensed banks	286,405	303,821	133	-
	<b>735,724</b>	750,262	<b>395,749</b>	403,995
Less: Deposits restricted	(5,293)	(13,245)	-	-
Cash and cash equivalents	<b>730,431</b>	737,017	<b>395,749</b>	403,995

The Group's and the Company's cash and bank balances are held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Service Centre ("IFSSC") to enable more efficient cash management for the Group and the Company.

Included in deposits restricted are monies held on behalf of clients held in designated accounts, which represent cash calls less payments in the course of rendering building and facilities management services on behalf of clients.

Included in cash with IFSSC and cash and bank balances of the Group and of the Company are interest bearing balances amounting to RM441,799,000 (2017: RM432,062,000) and RM395,616,000 (2017: RM403,995,000) respectively.

The weighted average effective interest rates applicable to the deposits with licensed banks of the Group is 3.80% per annum (2017: 3.80% per annum).

Deposits with licensed banks of the Group have an average maturity of 34 days (2017: 35 days).

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## NOTES TO THE FINANCIAL STATEMENTS

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**14. SHARE CAPITAL**

	Group and Company	
	Number of shares Ordinary shares '000	Amount Ordinary shares RM'000
<b>Issued and fully paid:</b>		
At 1 January 2018/31 December 2018	<b>1,805,333</b>	<b>1,823,386</b>
At 1 January 2017	1,805,333	1,805,333
Transfer of capital redemption reserve in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017	-	18,053
At 31 December 2017	1,805,333	1,823,386

Included in share capital is the capital redemption reserve amounting to RM18,053,000 that is available to be utilised in accordance to Section 618(3) of Companies Act, 2016 on or before 30 January 2019 (24 months from the commencement of Section 74 of Companies Act, 2016).

**Stapled security:**

Stapled security means one ordinary share in the Company stapled to one unit in KLCC REIT ("Unit"). Holders of KLCCP Stapled Group securities are entitled to receive distributions and dividends declared from time to time and are entitled to one vote per stapled security at Shareholders' and Unitholders' meetings.

**15. RETAINED PROFITS**

As at 31 December 2018, the Company may distribute the entire balance of the retained profits under the single-tier system.

**16. DEFERRED REVENUE**

Deferred revenue relates to the excess of the principal amount of security deposits received over their fair value which is accounted for as prepaid lease income and amortised over the lease term on a straight line basis.

# NOTES TO THE FINANCIAL STATEMENTS

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## 17. OTHER LONG TERM LIABILITIES

	Group	
	2018 RM'000	2017 RM'000
Security deposit payables	156,132	133,945

Security deposit payables are interest-free, unsecured and refundable upon expiry of the respective lease agreements. The fair values at initial recognition were determined based on interest rates of 4.52% to 5.20% per annum.

## 18. BORROWINGS

	Group	
	2018 RM'000	2017 RM'000
<b>Short term borrowings</b>		
<b>Secured:</b>		
Sukuk Murabahah		
- KLCC Real Estate Investment Trust	516,907	16,026
Less: Sukuk Murabahah subscribed	(100,000)	-
	416,907	16,026
Term loans	10,641	9,385
	427,548	25,411
<b>Long term borrowings</b>		
<b>Secured:</b>		
Sukuk Murabahah		
- KLCC Real Estate Investment Trust	855,000	1,355,000
Less: Sukuk Murabahah subscribed	-	(100,000)
	855,000	1,255,000
- Other subsidiary	600,000	600,000
Term loans	362,166	370,666
	1,817,166	2,225,666
<b>Total borrowings</b>	<b>2,244,714</b>	<b>2,251,077</b>

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## NOTES TO THE FINANCIAL STATEMENTS

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## 18. BORROWINGS (CONTD.)

	Group	
	2018 RM'000	2017 RM'000
<b>Total borrowings which are secured, comprise:</b>		
Sukuk Murabahah	1,971,907	1,971,026
Less: Sukuk Murabahah subscribed	(100,000)	(100,000)
<b>(a)</b>	<b>1,871,907</b>	1,871,026
Term loans	<b>(b) 372,807</b>	380,051
	<b>2,244,714</b>	2,251,077

The repayment schedules are as follows:

Group	Total RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000	Over 5 years RM'000
<b>2018</b>					
<b>Secured</b>					
Sukuk Murabahah	1,871,907	416,907	-	400,000	1,055,000
Term loans	372,807	10,641	7,500	22,500	332,166
	<b>2,244,714</b>	<b>427,548</b>	<b>7,500</b>	<b>422,500</b>	<b>1,387,166</b>
<b>2017</b>					
<b>Secured</b>					
Sukuk Murabahah	1,871,026	16,026	400,000	400,000	1,055,000
Term loans	380,051	9,385	8,500	22,500	339,666
	2,251,077	25,411	408,500	422,500	1,394,666

**(a) Sukuk Murabahah**

On 25 April 2014, a subsidiary of the Group completed the issuance of Sukuk Murabahah. The Sukuk Murabahah consists of Islamic Commercial Programme ("ICP") of up to RM500 million and Islamic medium term notes ("IMTN") of up to RM3 billion subject to a combined limit of RM3 billion. It is primarily secured against assignment and charge over the Finance Service Account and Revenue Account maintained by the REIT Trustee.

# NOTES TO THE FINANCIAL STATEMENTS

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## 18. BORROWINGS (CONTD.)

### (a) Sukuk Murabahah (contd.)

On 31 December 2014, a subsidiary of the Group issued Sukuk Murabahah of up to RM600 million. The Sukuk Murabahah consists of ICP of up to RM300 million and IMTN of up to RM600 million subject to a combined limit of RM600 million. It is secured against assignment and charge over the Finance Service Account of the subsidiary. The proceeds from the issuance of the Sukuk Murabahah is utilised to repay the subsidiary's term loan of RM375 million and shareholders advances. RM600 million has been drawdown at the profit rate of 4.73% per annum and repayable in 10 years.

The Group paid its RM300 million Sukuk Murabahah upon maturity on 25 April 2017 and on the same date issued RM100 million of Sukuk Murabahah with a profit rate of 4.09% per annum and maturing on 25 April 2019. Details of the drawdown that are outstanding as at year end are as follows:

Tenure	Value (RM)	Profit rate	Maturity
2 years	100,000,000	4.09%	25 April 2019
5 years	400,000,000	4.20%	25 April 2019
7 years	400,000,000	4.55%	25 April 2021
10 years	455,000,000	4.80%	25 April 2024

The profit rate is payable semi-annually.

### (b) Term loans

On 27 May 2015, a subsidiary of the Group entered into a Supplemental Agreement with Public Bank Berhad to restructure the term loan with an aggregate sum of RM378 million, comprising the following:

Type of Facilities	Revised Principal Limit (RM'000)
Term Loan Facility 1	239,540
Term Loan Facility 2	138,460

The term loans are repayable at RM7.5 million per annum for 7 years commencing on the 3<sup>rd</sup> year with the final bullet payment of the remainder in the final year.

The term loan is secured by way of a fixed charge over the hotel property as well as debenture covering all fixed and floating assets of the hotel property as disclosed in Note 5.

The loan bears an interest rate of 4.73% per annum (2017: 4.44% per annum).

Other information on financial risks of borrowings are disclosed in Note 32.

## NOTES TO THE FINANCIAL STATEMENTS

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## 18. BORROWINGS (CONTD.)

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

	Sukuk Murabahah RM'000	Term loans RM'000	Dividend payable RM'000	Total RM'000
<b>Balance at 1 January 2018</b>	<b>1,871,026</b>	<b>380,051</b>	<b>-</b>	<b>2,251,077</b>
<b>Changes from financing cash flows</b>				
Repayment term loan	-	(7,500)	-	(7,500)
Dividend paid	-	-	(760,388)	(760,388)
Interest/profit paid	(84,625)	(17,493)	-	(102,118)
<b>Total changes from financing cash flows</b>	<b>(84,625)</b>	<b>(24,993)</b>	<b>(760,388)</b>	<b>(870,006)</b>
<b>Other changes</b>				
Liability-related				
Interest/profit expenses	85,506	17,749	-	103,255
Dividend payable	-	-	760,388	760,388
<b>Total liability-related other changes</b>	<b>85,506</b>	<b>17,749</b>	<b>760,388</b>	<b>863,643</b>
<b>Balance at 31 December 2018</b>	<b>1,871,907</b>	<b>372,807</b>	<b>-</b>	<b>2,244,714</b>
<b>Balance at 1 January 2017</b>	<b>2,172,478</b>	<b>379,952</b>	<b>-</b>	<b>2,552,430</b>
<b>Changes from financing cash flows</b>				
Repayment Sukuk Murabahah	(300,000)	-	-	(300,000)
Dividend paid	-	-	(743,301)	(743,301)
Interest/profit paid	(90,977)	(16,859)	-	(107,836)
<b>Total changes from financing cash flows</b>	<b>(390,977)</b>	<b>(16,859)</b>	<b>(743,301)</b>	<b>(1,151,137)</b>
<b>Other changes</b>				
Liability-related				
Interest/profit expenses	89,525	16,958	-	106,483
Dividend payable	-	-	743,301	743,301
<b>Total liability-related other changes</b>	<b>89,525</b>	<b>16,958</b>	<b>743,301</b>	<b>849,784</b>
<b>Balance at 31 December 2017</b>	<b>1,871,026</b>	<b>380,051</b>	<b>-</b>	<b>2,251,077</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## 19. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Trade payables</b>	<b>9,204</b>	14,958	<b>75</b>	258
<b>Other payables</b>				
Other payables	<b>129,902</b>	156,494	<b>4,154</b>	4,088
Security deposits	<b>67,794</b>	89,192	-	-
Amount due to:				
Ultimate holding company	<b>3,856</b>	3,500	<b>2,071</b>	2,066
Immediate holding company	<b>446</b>	121	-	-
Other related companies	<b>3,160</b>	4,081	-	-
	<b>205,158</b>	253,388	<b>6,225</b>	6,154
Total trade and other payables	<b>214,362</b>	268,346	<b>6,300</b>	6,412
Add: Borrowings (Note 18)	<b>2,244,714</b>	2,251,077	-	-
Other long term liabilities (Note 17)	<b>156,132</b>	133,945	-	-
Total financial liabilities carried at amortised cost	<b>2,615,208</b>	2,653,368	<b>6,300</b>	6,412

Amount due to subsidiaries, ultimate holding company, immediate holding company and other related companies which arose in the normal course of business are unsecured, interest-free and repayable on demand.

## 20. REVENUE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Property investment				
- Office	<b>595,762</b>	591,011	-	-
- Retail	<b>491,010</b>	475,950	-	-
Hotel operations	<b>172,375</b>	167,200	-	-
Management services	<b>146,794</b>	132,590	<b>22,724</b>	21,031
Dividend income from subsidiaries	-	-	<b>226,344</b>	244,260
Dividend income from associate	-	-	<b>16,756</b>	12,040
	<b>1,405,941</b>	1,366,751	<b>265,824</b>	277,331

All the revenue of the Group and of the Company are derived from the same geographical market as the Group and the Company operate predominantly in Malaysia. The services are transferred to the customers at a point in time.

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## NOTES TO THE FINANCIAL STATEMENTS

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**21. OPERATING PROFIT**

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue (Note 20)	1,405,941	1,366,751	265,824	277,331
Cost of revenue:				
- Cost of services and goods	(240,775)	(219,917)	-	-
Gross profit	1,165,166	1,146,834	265,824	277,331
Selling and distribution expenses	(11,409)	(11,073)	-	-
Administration expenses	(145,938)	(139,617)	(36,232)	(34,795)
Other operating income	3,072	3,605	12	1
Operating profit	1,010,891	999,749	229,604	242,537

**22. INTEREST INCOME**

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest and profit income from:				
Deposits	27,574	30,597	12,275	13,424
Investment in Sukuk Murabahah	-	-	4,090	2,801
	27,574	30,597	16,365	16,225

**23. FINANCING COSTS**

	Group	
	2018 RM'000	2017 RM'000
Interest/profit expense on:		
Term loans	17,749	16,958
Sukuk Murabahah	85,506	89,525
Accretion of financial instruments	4,455	4,480
	107,710	110,963

# NOTES TO THE FINANCIAL STATEMENTS

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## 24. PROFIT BEFORE TAX

The following amounts have been included in arriving at profit before tax:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Employee benefits expense (Note 25)	<b>110,549</b>	104,026	<b>22,284</b>	21,183
Directors' remuneration (Note 26)	<b>1,090</b>	668	<b>1,090</b>	668
Management fee in relation to services of Executive Director (Note 26)	<b>1,124</b>	999	<b>1,124</b>	999
Auditors' remuneration				
- Audit fees	<b>603</b>	586	<b>212</b>	206
- Others	<b>73</b>	16	<b>26</b>	16
Valuation fees	<b>925</b>	927	-	-
Depreciation of property, plant and equipment (Note 5)	<b>38,073</b>	33,152	<b>1,476</b>	1,592
Rental of land and buildings	<b>3,754</b>	3,388	<b>2,883</b>	2,695
Rental of plant and machinery	<b>232</b>	464	<b>172</b>	249
Property, plant and equipment written off	<b>28</b>	-	-	-
Bad debts written off	-	6	-	-
Loss/(gain) on disposal of property, plant and equipment	<b>148</b>	359	-	(2)
Allowance for impairment losses	<b>37</b>	214	-	-

## 25. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Wages, salaries and others	<b>101,162</b>	95,220	<b>19,847</b>	18,950
Contributions to defined contribution plan	<b>9,387</b>	8,806	<b>2,437</b>	2,233
Total expense (Note 24)	<b>110,549</b>	104,026	<b>22,284</b>	21,183

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**26. DIRECTORS' REMUNERATION**

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors of the Company				
Executive*	-	-	-	-
Non-Executive:				
Fees	1,090	668	1,090	668
	<b>1,090</b>	<b>668</b>	<b>1,090</b>	<b>668</b>

Included in Directors' remuneration is the fee paid directly to PETRONAS in respect of the Directors who are the appointees of the ultimate holding company.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Analysis excluding benefits-in-kind:				
Total Non-Executive Directors' remuneration (Note 24)	<b>1,090</b>	<b>668</b>	<b>1,090</b>	<b>668</b>

The number of Directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

	Group		Company	
	2018	2017	2018	2017
Executive Director*	1	1	1	1
Non-Executive Directors				
RMNil - RM50,000	3	1	3	1
RM50,001 - RM100,000	-	7	-	7
RM100,001 - RM150,000	5	-	5	-
RM150,001 - RM200,000	2	-	2	-

\* The remuneration of the Executive Director is paid to KLCCH as disclosed in Note 24.

# NOTES TO THE FINANCIAL STATEMENTS

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## 27. TAX EXPENSE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current income tax:				
Malaysian income tax	<b>105,630</b>	104,641	<b>1,322</b>	1,233
(Over)/under provision of tax in prior year	<b>(1,167)</b>	(639)	<b>74</b>	239
	<b>104,463</b>	104,002	<b>1,396</b>	1,472
Deferred tax (Note 10):				
Relating to origination and reversal of temporary differences	<b>20,455</b>	(4,362)	<b>(187)</b>	(56)
Under/(over) provision of deferred tax in prior year	<b>255</b>	2,126	<b>(310)</b>	(183)
	<b>20,710</b>	(2,236)	<b>(497)</b>	(239)
Total tax expense	<b>125,173</b>	101,766	<b>899</b>	1,233

Domestic current income tax is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	2018 RM'000	2017 RM'000
<b>Group</b>		
Profit before taxation	<b>964,093</b>	1,115,331
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	<b>231,382</b>	267,679
Expenses not deductible for tax purposes	<b>8,428</b>	8,490
Income not subject to tax	<b>(128,407)</b>	(164,662)
Effects of share of profit of an associate	<b>(3,189)</b>	(3,231)
Deferred tax recognised at different tax rates	<b>21,743</b>	-
Deferred tax assets recognised on investment tax allowances	<b>(3,872)</b>	(7,997)
Under provision of deferred tax in prior year	<b>255</b>	2,126
Over provision of taxation in prior year	<b>(1,167)</b>	(639)
Tax expense	<b>125,173</b>	101,766

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**27. TAX EXPENSE (CONTD.)**

	2018 RM'000	2017 RM'000
<b>Company</b>		
Profit before taxation	<b>245,969</b>	258,762
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	<b>59,033</b>	62,103
Expenses not deductible for tax purposes	<b>3,343</b>	3,453
Income not subject to tax	<b>(61,241)</b>	(64,379)
Over provision of deferred tax in prior year	<b>(310)</b>	(183)
Under provision of taxation in prior year	<b>74</b>	239
Tax expense	<b>899</b>	1,233

**28. EARNINGS PER SHARE/STAPLED SECURITY**

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary share in issue during the financial year.

Basic earnings per stapled security amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company and unitholders of the KLCC REIT by the weighted average number of stapled securities in issue during the financial year.

	2018	2017
Profit attributable to equity holders of the Company (RM'000)	<b>284,253</b>	350,256
Profit attributable to NCI relating to KLCC REIT (RM'000)	<b>440,661</b>	527,644
Profit attributable to stapled securities holders (RM'000)	<b>724,914</b>	877,900
Weighted average number of stapled securities/shares in issue ('000)	<b>1,805,333</b>	1,805,333
Basic earnings per share (sen)	<b>15.75</b>	19.40
Basic earnings per stapled security (sen)	<b>40.15</b>	48.63

The Group has no potential ordinary shares in issue as at reporting date and therefore, diluted earnings per share has not been presented.

# NOTES TO THE FINANCIAL STATEMENTS

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## 29. DIVIDENDS

	Dividends		Net Dividends	
	Recognised in Year		per Ordinary Share	
	2018	2017	2018	2017
	RM'000	RM'000	Sen	Sen
<b>Recognised during the year:</b>				
A fourth interim 5.30% (2016: 4.17%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2017/2016	<b>95,683</b>	75,282	<b>5.30</b>	4.17
A first interim dividend of 2.98% (2017: 3.10%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2018/2017	<b>53,799</b>	55,965	<b>2.98</b>	3.10
A second interim dividend of 3.05% (2017: 3.16%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2018/2017	<b>55,063</b>	57,049	<b>3.05</b>	3.16
A third interim dividend of 2.99% (2017: 3.64%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2018/2017	<b>53,979</b>	65,714	<b>2.99</b>	3.64
	<b>258,524</b>	254,010	<b>14.32</b>	14.07

A fourth interim dividend in respect of the financial year ended 31 December 2018, of 4.63%, tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM83,587,000 will be paid on 28 February 2019.

The financial statements for the current year do not reflect this fourth interim dividend. Such dividend will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2019.

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## NOTES TO THE FINANCIAL STATEMENTS

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**30. COMMITMENTS****(a) Capital commitments**

	Group	
	2018 RM'000	2017 RM'000
<b>Approved and contracted for</b>		
Property, plant and equipment	13,622	67,176
Investment property	51,412	55,389
	<b>65,034</b>	122,565
<b>Approved but not contracted for</b>		
Property, plant and equipment	116,788	44,771
Investment property	157,055	129,133
	<b>273,843</b>	173,904

**(b) Operating lease commitments - as lessor**

The Group has entered into non-cancellable commercial property leases on its investment properties. The future minimum rental receivable under these operating leases at the reporting date is as follows:

	Group	
	2018 RM'000	2017 RM'000
Not later than 1 year	910,373	899,325
Later than 1 year but not later than 5 years	2,433,734	2,590,021
More than 5 years	2,144,784	2,696,207
	<b>5,488,891</b>	6,185,553

**31. RELATED PARTY DISCLOSURES****(a) Controlling related party relationships are as follows:**

- (i) PETRONAS, the ultimate holding company, and its subsidiaries.
- (ii) Subsidiaries of the Company as disclosed in Note 7.

# NOTES TO THE FINANCIAL STATEMENTS

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## 31. RELATED PARTY DISCLOSURES (CONTD.)

- (b) Other than as disclosed elsewhere in the notes to the financial statements, the significant related party transactions are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Federal Government of Malaysia:</b>				
Property licences and taxes	(13,320)	(13,552)	(2)	-
Goods and Services Tax	(28,051)	(59,763)	99	(103)
<b>Government of Malaysia's related entities:</b>				
Purchase of utilities	(20,588)	(20,523)	-	-
Hotel revenue	6,801	4,723	-	-
<b>Ultimate Holding Company:</b>				
Rental income	536,399	512,028	-	-
Facilities management and manpower fees	27,537	24,604	-	-
Rental of car park spaces	(7,642)	(8,065)	-	-
Fees for representation on the Board of Directors*	(133)	(90)	(133)	(90)
Hotel revenue	2,379	1,784	-	-
Centralised Head Office Services charges	(1,707)	(2,931)	(505)	(441)
<b>Immediate Holding Company:</b>				
General management services fee payables	(1,498)	(1,460)	(635)	(674)
General management services fee receivables	3,704	3,107	3,704	3,107
<b>Subsidiaries:</b>				
Reimbursement of security costs	-	-	(79)	(107)
General management services fee receivable	-	-	7,986	7,403
Profit income from Sukuk Murabahah	-	-	4,090	2,801
<b>Other Related Companies:</b>				
Facilities management and manpower fees	22,361	20,265	-	-
General management services fee receivable	11,029	10,507	11,029	10,507
Hotel revenue	152	182	-	-
Management and incentive fees	2,537	2,651	-	-
Chilled water supply	(27,291)	(28,777)	-	-
Project management fees	(3,207)	(3,293)	-	-
Rental of car park spaces	(5,546)	(6,543)	-	-

\* Fees paid directly to PETRONAS in respect of the Directors who are the appointees of the ultimate holding company.

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# NOTES TO THE FINANCIAL STATEMENTS

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## 31. RELATED PARTY DISCLOSURES (CONTD.)

**(b) Other than as disclosed elsewhere in the notes to the financial statements, the significant related party transactions are as follows: (Contd.)**

The Directors of the Company are of the opinion that the above transactions and transactions detailed elsewhere were undertaken at mutually agreed terms between the parties in the normal course of business and the terms and conditions are established under negotiated terms.

Information regarding outstanding balances arising from related party transactions as at 31 December 2018 are disclosed in Notes 12 and 19.

**(c) Compensation of key management personnel**

**Directors**

The remuneration of Directors is disclosed in Note 26.

**Other key management personnel**

Datuk Hashim Bin Wahir, Executive Director and Chief Executive Officer of the Company is an employee of KLCCH. KLCCH charges management fees in consideration for his services to the Company as disclosed in Note 24.

## 32. FINANCIAL INSTRUMENTS

**Financial Risk Management**

As the Company owns a diverse property portfolio, the Group and the Company are exposed to various risks that are particular to its various businesses. These risks arise in the normal course of the Group's and the Company's business.

The Group has a Risk Management Framework and Guidelines that set the foundation for the establishment of effective risk management across the Group.

The Group's and the Company's goal in risk management is to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

The Group and the Company have exposure to credit risk, liquidity risk and market risk arising from its use of financial instruments in the normal course of the Group's and the Company's business.

**Credit Risk**

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. Credit risk arises from its operating activities, primarily for trade receivables and long term receivables. The credit risk arising from the Group's and the Company's normal operations are controlled by individual operating units within the Group Risk Management Framework and Guidelines.

# NOTES TO THE FINANCIAL STATEMENTS

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## 32. FINANCIAL INSTRUMENTS (CONTD.)

### Credit Risk (Contd.)

#### Receivables

The Group and the Company minimise credit risk by entering into contracts with highly credit rated counterparties and through credit approval, financial limits and on-going monitoring procedures. Counterparties credit evaluation is done systematically using quantitative and qualitative criteria on credit risks specified by individual operating units. Depending on the creditworthiness of the counterparty, the Group and the Company may require collateral or other credit enhancements.

The maximum exposure to credit risk for the Group and the Company are represented by the carrying amount of each financial asset as reported in the statement of financial position.

A significant portion of these receivables are regular customers who have been transacting with the Group and in the case of the Company, a significant portion of these receivables are related companies.

The Group and the Company use ageing analysis and credit limit review to monitor the credit quality of the receivables. The Company monitors the results of subsidiaries regularly. Any customers exceeding their credit limit are monitored closely. With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

With respect to the trade and other receivables which have no realistic prospect of recovery, the gross carrying amounts of the credit impaired receivables will be written off (either in partial or in full).

The exposure of credit risk for receivables at the reporting date by business segment was:

	Group	
	2018 RM'000	2017 RM'000
Property investment		
- Office	877	1,363
- Retail	1,333	2,263
Hotel operations	7,423	7,195
Management services	365	664
	<b>9,998</b>	11,485
Less: Allowance for impairment losses	(770)	(603)
	<b>9,228</b>	10,882

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## NOTES TO THE FINANCIAL STATEMENTS

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**32. FINANCIAL INSTRUMENTS (CONTD.)****Credit Risk (Contd.)**Recognition and measurement of impairment loss

The adoption of MFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. In determining the ECL, the probability of default assigned to each customer is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information.

There are trade receivables where the Group has not recognised any loss allowance as the trade receivables are secured by collateral and/or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

	Group	
	2018 RM'000	2017 RM'000
The ageing of trade receivables as at the reporting date was:		
At net:		
Not past due	7,342	8,658
Past due 1 to 30 days	930	740
Past due 31 to 60 days	394	279
Past due 61 to 90 days	175	325
Past due more than 90 days	1,157	1,483
	<b>9,998</b>	11,485
Less: Allowance for impairment losses	<b>(770)</b>	(603)
	<b>9,228</b>	10,882
The movement in the allowance account is as follows:		
At 1 January	603	1,113
Adjustment on initial application of MFRS 9 (Note 3(i)(b))	143	-
Opening balance under MFRS 9	<b>746</b>	1,113
Allowance for impairment	37	214
Allowance written off	<b>(13)</b>	(724)
At 31 December	<b>770</b>	603

Comparative amounts for 2017 represent the allowance account for impairment losses under MFRS 139.

The Group does not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2018.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 32. FINANCIAL INSTRUMENTS (CONTD.)

### Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises from the requirement to raise funds for the Group's businesses on an ongoing basis as a result of the existing and future commitments which are not funded from internal resources. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. As far as possible, the Group raises committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

### Maturity analysis

The table below summarises the maturity profile of the Group's and Company's financial liabilities as at the reporting date based on undiscounted contractual payments:

	Carrying amount RM'000	Effective interest rate %	Contractual cash flow* RM'000	Within 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
<b>31 December 2018</b>							
<b>Group</b>							
<b>Financial Liabilities</b>							
Sukuk Murabahah	1,871,907	4.41 - 4.73	2,205,171	489,869	68,608	556,139	1,090,555
Term loans	372,807	4.73	477,410	27,929	24,459	71,099	353,923
Trade and other payables	214,362	-	214,362	214,362	-	-	-
Other long term liabilities	156,132	4.98	205,713	-	52,203	30,667	122,843
<b>Company</b>							
<b>Financial Liabilities</b>							
Trade and other payables	6,300	-	6,300	6,300	-	-	-
<b>31 December 2017</b>							
<b>Group</b>							
<b>Financial Liabilities</b>							
Sukuk Murabahah	1,871,026	4.41 - 4.73	2,284,512	85,376	476,797	577,945	1,144,394
Term loans	380,051	4.44	494,828	25,973	24,728	69,166	374,961
Trade and other payables	268,346	-	268,346	268,346	-	-	-
Other long term liabilities	133,945	4.60	178,395	-	25,348	37,405	115,642
<b>Company</b>							
<b>Financial Liabilities</b>							
Trade and other payables	6,412	-	6,412	6,412	-	-	-

\* The contractual cash flow is inclusive of the principal and interest but excluding interest accretion due to MFRS 139 measurement.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**32. FINANCIAL INSTRUMENTS (CONTD.)****Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk and commodity risk.

Financial instruments affected by market risk include loans and borrowings and deposits.

**Interest Rate Risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group manages its interest rate exposure through a balanced portfolio of fixed and floating rate borrowings.

The interest rate profile of the Group's and the Company's interest-bearing financial instruments, based on carrying amount as at reporting date was:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Fixed rate instruments</b>				
Financial assets	286,405	303,821	133	-
Financial liabilities	(1,871,907)	(1,871,026)	-	-
<b>Floating rate instruments</b>				
Financial liabilities	(372,807)	(380,051)	-	-

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 32. FINANCIAL INSTRUMENTS (CONTD.)

### Interest Rate Risk (Contd.)

#### Cash flow sensitivity analysis for floating rate instruments

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following interbank offered rates:

	Change in interest rate b.p.s.	Group Profit or loss RM'000
<b>2018</b>		
KLIBOR	-40	1,483
KLIBOR	+40	(1,483)
<b>2017</b>		
KLIBOR	-40	1,513
KLIBOR	+40	(1,513)

This analysis assumes that all other variables remain constant.

### Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates predominantly in Malaysia and transacts mainly in Malaysian Ringgit. As such, it is not exposed to any significant foreign currency risk.

### Fair Values

The Group's and the Company's financial instruments consist of cash and bank balances, trade and other receivables, borrowings, and trade and other payables.

The carrying amounts of cash and bank balances, trade and other receivables, trade and other payables and short term borrowings approximate their fair values due to the relatively short term nature of these financial instruments.

The carrying amount of other long term liabilities approximate its fair value amount.

This analysis assumes that all other variables remain constant.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**32. FINANCIAL INSTRUMENTS (CONTD.)****Fair Values (Contd.)**

The following table analyses financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position. The different levels have been defined as follows:

	Fair value of financial instruments not carried at fair value				Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	
<b>Group</b>					
<b>2018</b>					
<b>Financial liabilities</b>					
Sukuk Murabahah	-	1,845,107	-	1,845,107	1,871,907
Term loans	-	365,025	-	365,025	372,807
<b>2017</b>					
<b>Financial liabilities</b>					
Sukuk Murabahah	-	1,824,633	-	1,824,633	1,871,026
Term loans	-	369,951	-	369,951	380,051

For financial instruments listed above, fair values have been determined by discounting expected future cash flows at market incremental lending rate for similar types of borrowings at the reporting date. There has been no transfer between Level 1, 2 and 3 fair values during the financial year.

**33. CAPITAL MANAGEMENT**

The Group and the Company define capital as total equity and debt of the Group and the Company. The objective of the Group's and the Company's capital management is to maintain an optimal capital structure and ensuring availability of funds in order to support its business and maximise shareholder value. The Group's and the Company's approach in managing capital is set out in the KLCC Group Corporate Financial Policy.

The Group and the Company monitor and maintain a prudent level of total debts to total assets ratio to optimise shareholder value and to ensure compliance with covenants under debt, shareholders' agreements and regulatory requirements, if any.

The debt to equity ratio as at 31 December 2018 and 31 December 2017 is as follows:

	Group	
	2018	2017
Total debt (RM'000)	2,244,714	2,251,077
Total equity (excluding Other NCI) (RM'000)	13,095,253	13,028,492
Debt equity ratio	17:83	17:83

There were no changes in the Group's and the Company's approach to capital management during the year.

# NOTES TO THE FINANCIAL STATEMENTS

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## 34. SEGMENTAL INFORMATION

### (a) Reporting Format

Segment information is presented in respect of the Group's business segments.

Inter-segment transactions have been entered into in the normal course of business and have been established on commercial basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans and borrowings and expenses, and corporate assets and expenses.

The Group comprises the following main business segments:

Property investment - Office	Rental of office spaces and other related activities.
Property investment - Retail	Rental of retail spaces and other related activities.
Hotel operations	Rental of hotel rooms, the sale of food and beverages and other related activities.
Management services	Facilities management, car park operations, management of a real estate investment trust and general management services.

Details on geographical segments are not applicable as the Group operates predominantly in Malaysia.

### (b) Allocation Basis and Transfer Pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. Inter-segment transactions have been entered into in the normal course of business and have been established on commercial basis. These transfers are eliminated on consolidation.

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## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 34. SEGMENTAL INFORMATION (CONTD.)

## Business Segments

31 December 2018

	Property investment - Office RM'000	Property investment - Retail RM'000	Hotel operations RM'000	Management services RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
<b>Revenue</b>						
Revenue from external customers	595,762	491,010	172,375	146,794	-	1,405,941
Inter-segment revenue	1,372	12,275	-	60,311	(73,958)	-
<b>Total revenue</b>	<b>597,134</b>	<b>503,285</b>	<b>172,375</b>	<b>207,105</b>	<b>(73,958)</b>	<b>1,405,941</b>
<b>Results</b>						
Operating profit	525,855	408,072	16,592	75,191	(14,819)	1,010,891
Fair value adjustment on investment properties	13,819	1,745	-	4,486	-	20,050
Financing costs						(107,710)
Interest income						27,574
Share of profit of an associate						13,288
Tax expense						(125,173)
Profit after tax but before non-controlling interests						<b>838,920</b>
Segment assets	10,240,824	6,214,550	690,893	84,969	376,120	17,607,356
Investment in an associate	-	-	-	99,195	153,778	252,973
<b>Total assets</b>						<b>17,860,329</b>
<b>Total liabilities</b>	<b>1,567,324</b>	<b>812,240</b>	<b>430,827</b>	<b>40,276</b>	<b>(115,427)</b>	<b>2,735,240</b>
Capital expenditure	10,868	17,970	39,669	3,642	-	72,149
Depreciation	792	2,170	29,457	5,654	-	38,073
Non-cash items other than depreciation	-	65	148	-	-	213

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 34. SEGMENTAL INFORMATION (CONTD.)

### Business Segments

31 December 2017

	Property investment - Office RM'000	Property investment - Retail RM'000	Hotel operations RM'000	Management services RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
<b>Revenue</b>						
Revenue from external customers	591,011	475,950	167,200	132,590	-	1,366,751
Inter-segment revenue	828	12,494	-	60,168	(73,490)	-
<b>Total revenue</b>	<b>591,839</b>	<b>488,444</b>	<b>167,200</b>	<b>192,758</b>	<b>(73,490)</b>	<b>1,366,751</b>
<b>Results</b>						
Operating profit	522,994	397,894	19,824	74,229	(15,192)	999,749
Fair value adjustment on investment properties	103,106	70,177	-	9,200	-	182,483
Financing costs						(110,963)
Interest income						30,597
Share of profit of an associate						13,465
Tax expense						(101,766)
Profit after tax but before non- controlling interests						<u>1,013,565</u>
Segment assets	10,204,534	6,170,352	705,821	71,333	384,081	17,536,121
Investment in an associate	-	-	-	99,195	157,246	<u>256,441</u>
<b>Total assets</b>						<u><b>17,792,562</b></u>
<b>Total liabilities</b>						
Capital expenditure	18,236	15,180	54,296	7,559	-	95,271
Depreciation	622	2,588	23,172	6,770	-	33,152
Non-cash items other than depreciation	-	220	358	1	-	579

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 35. PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and/or the Company in these financial statements:

### Effective for annual periods beginning on or after 1 January 2019

MFRS 16	Leases
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Long-term Interest in Associates and Joint Ventures
Amendments to MFRS 119	Employee Benefits: Plan Amendment, Curtailment or Settlement
IC Interpretation 23	Uncertainty over Income Tax Treatments

The adoption of MFRS 16 is expected to have following impact on initial application:

(i) Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases. Nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Currently, the Group recognises operating lease on a straight-line basis over the term of the lease.

The Group and the Company have assessed the estimated impact and the initial application of MFRS 16 will not have a material impact on its opening retained earnings and its statements of financial position as at 1 January 2019.

(ii) Leases in which the Group is a lessor

The Group expects the current accounting treatment to remain. Based on the information currently available, there are no contracts that are or contain a lease in which the Group expects to reclassify as a finance lease.

### Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 3	Business Combinations (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 6	Exploration for and Evaluation of Mineral Resources (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 101	Presentation of Financial Statements (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to References to the Conceptual Framework in MFRS Standards)

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 35. PRONOUNCEMENTS YET IN EFFECT (CONTD.)

### Effective for annual periods beginning on or after 1 January 2020 (Contd.)

Amendments to MFRS 134	Interim Financial Reporting (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 138	Intangible Assets (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 22	Foreign Currency Transactions and Advance Consideration (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 132	Intangible Assets - Web Site Costs (Amendments to References to the Conceptual Framework in MFRS Standards)

### Effective for annual periods beginning on or after 1 January 2021

MFRS 17	Insurance Contracts
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### Effective for a date yet to be confirmed

Amendments to MFRS 10	Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The adoption of the above pronouncements is not expected to have material impact on the financial statements of the Group and of the Company in the period of initial application.

The adoption of the amendments to MFRS 128, amendments to MFRS 119 and IC Interpretation 23 does not impact the Group and the Company.

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## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**36. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY**

The MASB has issued pronouncements which are not effective, but for which are not relevant to the operations of the Group and of the Company and hence, no further disclosure is warranted.

**Effective for annual periods beginning on or after 1 January 2019**

Amendments to MFRS 3	Business Combinations: Previously Held Interest in a Joint Operation (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 9	Financial Instruments: Prepayment Features with Negative Compensation
Amendments to MFRS 11	Joint Arrangements: Previously Held Interest in a Joint Operation (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 112	Income Taxes: Income Tax Consequences of Payments on Financial Instruments Classified as Equity (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 123	Borrowing Costs: Borrowing Costs Eligible for Capitalisation (Annual Improvements to MFRS 2015-2017 Cycle)

**Effective for annual periods beginning on or after 1 January 2020**

Amendments to MFRS 2	Share-based Payment (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 14	Regulatory Deferral Accounts (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to IC Interpretation 12	Service Concession Arrangements (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine (Amendments to References to the Conceptual Framework in MFRS Standards)

# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD (INCORPORATED IN MALAYSIA)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of KLCC Property Holdings Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company 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 215 to 284.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their 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 Companies Act, 2016 in 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 the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Company. The key audit matters for the audit of the financial statements of the Group are described below. These matters were addressed in the context of our audit of the financial statements of the Group 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*

As at 31 December 2018, the carrying value of the Group's investment properties carried at fair value amounted to RM15,501,293,000 which represents 87% of the Group's total assets. The Group adopts the fair value model for its investment properties. The valuation of investment properties is significant to our audit due to their magnitude, complex valuation method and high dependency on a range of estimates (amongst others, rental income data, yield rate and discount rate) which are based on current and future market or economic conditions. The Group had engaged external valuers to determine the fair value of the investment properties at the reporting date.

# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD (INCORPORATED IN MALAYSIA)

### Key audit matters (Contd.)

#### *Valuation of investment properties (Contd.)*

Our audit procedures focused on the valuations performed by firms of independent valuers, which included, amongst others, the following procedures:

- We considered the objectivity, independence and expertise of the firms of independent valuers;
- We obtained an understanding of the methodology adopted by the independent valuers in estimating the fair value of the investment properties and assessed whether such methodology is consistent with those used in the industry;
- 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 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. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and held further discussions with the valuers;
- 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; and
- We also evaluated the Group's disclosures on those assumptions to which the outcome of the valuation is most sensitive. The Group's disclosures on the valuation sensitivity and significant assumptions used, including relationships between key unobservable inputs and fair values, are included in Notes 4.2 and 6 to the financial statements respectively.

For investment properties under construction ("IPUC"), the Group's policy is to measure them at cost until their fair value can be reliably determined or construction is completed, whichever is earlier, as disclosed in Note 2.7 to the financial statements. As at 31 December 2018, the IPUC carried at cost by the Group amounted to RM213,641,000. Our audit procedures included, amongst others, assessing the appropriateness of amounts capitalised as IPUC.

### Information other than the financial statements and auditors' report thereon

The directors of the Company 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 the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company 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 the Group and of the Company, 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 the Group and of the Company 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 in this regard.

# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD (INCORPORATED IN MALAYSIA)

### Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with MFRS, IFRS and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company'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 directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company, 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. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, 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 the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 the Group's or the Company'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 the Group and of the Company 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 the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.



# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD (INCORPORATED IN MALAYSIA)

### Auditors' responsibilities for the audit of the financial statements (Contd.)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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 the directors 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 the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year 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 members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

#### Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

24 January 2019

#### Ismed Darwis bin Bahatlar

No. 2921/04/2020 J

Chartered Accountant



SEC 01

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# THE PLACE TO STAY

The epitome of luxury, with breathtaking views, best-in-class lifestyle facilities and a convenient central location. Elevating the hotel experience which transcends accommodation, Mandarin Oriental, Kuala Lumpur's legendary quality services provide a tailor-made stay with dining, lounging and social indulgence brought to new heights. Here, you will quickly discover why everyone is a fan





/ **GUEST,**  
MANDARIN ORIENTAL,  
KUALA LUMPUR  
(MOKL HOTEL)  
/

The MOKL Hotel never fails to impress me with the highest level of service across all departments, the quality of its rooms, the excellent food and the efficiency and friendliness of its staff. MOKL Hotel is the best hotel I have ever stayed at

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# KLCC REIT

## SALIENT FEATURES

<b>Name of Fund</b>	KLCC Real Estate Investment Trust (KLCC REIT)
<b>Fund Type</b>	Income and Growth
<b>Fund Category</b>	Islamic Real Estate Investment Trust
<b>Duration of Fund/Termination Date</b>	<p>The earlier of:</p> <ul style="list-style-type: none"> <li>• 999 years falling on 8 April 3012</li> <li>• The date on which KLCC REIT is terminated by the Trustee or the Manager, in circumstances as set out under provisions of the Trust Deed dated 2 April 2013</li> </ul>
<b>Approved Fund Size</b>	1,805,333,085 units
<b>Market Capitalisation</b>	RM13,828,851,431 (as at 31 December 2018)
<b>Investment Objective</b>	To provide the unitholders with regular and stable distributions, improving returns from property portfolio and capital growth, while maintaining an appropriate capital structure
<b>Investment Policy</b>	To invest, directly and indirectly, in a Shariah-compliant portfolio of income producing Real Estate used primarily for office and retail purposes in Malaysia and overseas
<b>Distribution Policy</b>	<p>95% of KLCC REIT's distributable income for FY2013 &amp; FY2014 and at least 90% for each subsequent financial year</p> <p>Distributions are made on a quarterly basis</p>
<b>Gearing Policy</b>	Up to 50% of total asset value of the Fund
<b>Listing Date</b>	9 May 2013
<b>Stock Name</b>	KLCC
<b>Stock Code</b>	5235SS

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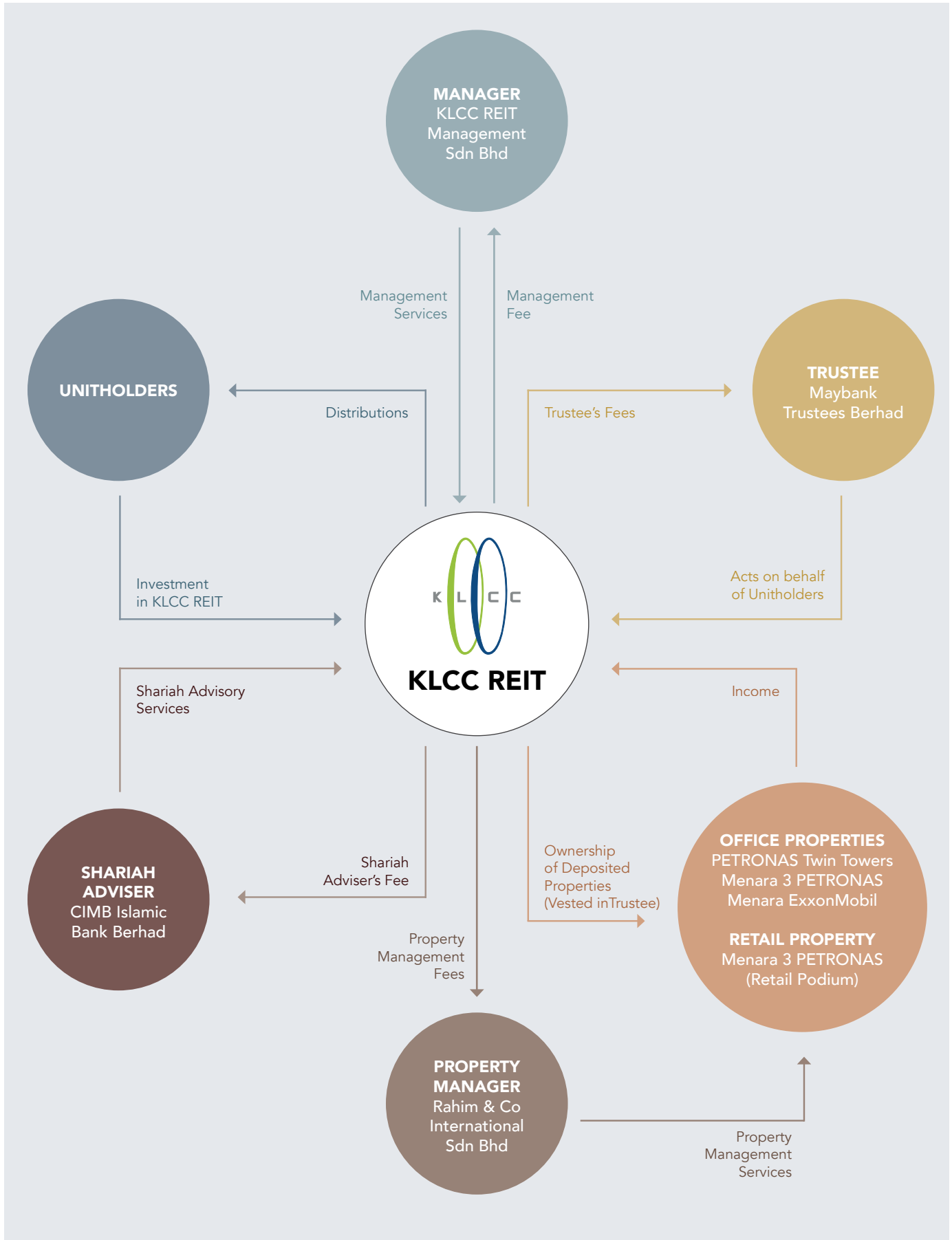
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# KLCC REIT STRUCTURE





# PROFILE OF SHARIAH ADVISER

## About The Shariah Adviser, CIMB Islamic Bank Berhad ("CIMB Islamic")

As Shariah Adviser to KLCCP Stapled Group, CIMB Islamic is providing necessary advice to ensure that KLCCP Stapled Group and the businesses of such are Shariah-compliant.

CIMB Islamic is CIMB Group's global Islamic banking and finance services franchise. It offers innovative and comprehensive Shariah-compliant financial solutions in investment banking, consumer banking, asset management, private banking and wealth management. It is headquartered in Kuala Lumpur, Malaysia and offers consumer banking, wholesale banking, asset management products and services which comply with Shariah principles. It is part of the fifth largest banking group in ASEAN.

CIMB Islamic is licensed under the Malaysia's Islamic Financial Services Act 2013 and an approved Shariah Adviser as per Registration of Shariah Advisers Guidelines issued by Securities Commission. This enables CIMB Islamic to provide a wide range of products and services to commercial, corporate, and institutional customers across ASEAN, the Middle East, South Asia, North Asia, and major international financial centres. Its products and operations are managed in strict compliance with Shariah principles under the guidance of the CIMB Islamic Shariah Committee, which comprises the world's leading Islamic scholars.

CIMB Islamic are free from any conflict of interest with the KLCC REIT, which could impair their objectivity and independence.

CIMB Islamic has not been convicted for offences within the past 5 years or been imposed of any penalty by the regulatory bodies relevant to the REIT during the financial year.

## Profile of Designated Person responsible for Shariah matters relating to KLCCP Stapled Group

In relation to Shariah matters, the designated person responsible for the Company and fund investment activities under KLCCP Stapled Group is Ashraf Gomma Ali. He is the Regional Head of Shariah & Governance, Group Islamic Banking, CIMB Group.

Ashraf Gomma Ali joined CIMB in April 2017 as Director and Head, Shariah & Governance Department. Previously, he was attached to the Shariah Advisory and Governance Department of National Commercial Bank(NCB) Jeddah, Saudi Arabia for more than six years. There, he was the Shariah Assurance Manager. He was actively involved in Shariah advisory activities of the Bank with specialty in treasury, corporate, retail and capital markets as Shariah subject matter expert. He was also involved in transaction structuring and documentation of 20 billion SAR of corporate deals and also Shariah Lead on development of a full suite (over 30) of Islamic alternative treasury products for hedging and structures investments covering alternatives to all conventional products.

He now leads the overall functions of Shariah & Governance Department which is responsible to provide the Shariah advisory for all types of Islamic products both to the CIMB Group and external parties in asset & fund management, investment & corporate banking, retail & commercial banking, treasury & structured products, takaful, private equity and etc.

He is currently a Shariah Supervisory Board Member of University Bank, Ann Arbor, MI which had completed a full analysis of the Murabahah Home finance product and issued a certificate of compliance.

He is also a Certified Shariah Auditor and Advisor AAOIFI and ACI Treasury Dealer Certificate ACI-The Financial Markets Association.

He holds a Bachelor of Finance (Hons) from the University of Maryland, College Park, MD, USA and a Bachelor of Shariah (Hons) from the University of Umm Al Qura, Mecca, Saudi Arabia as well as Master in Islamic Finance Practice from International Centre for Education in Islamic Finance (INCEIF), Kuala Lumpur, Malaysia.

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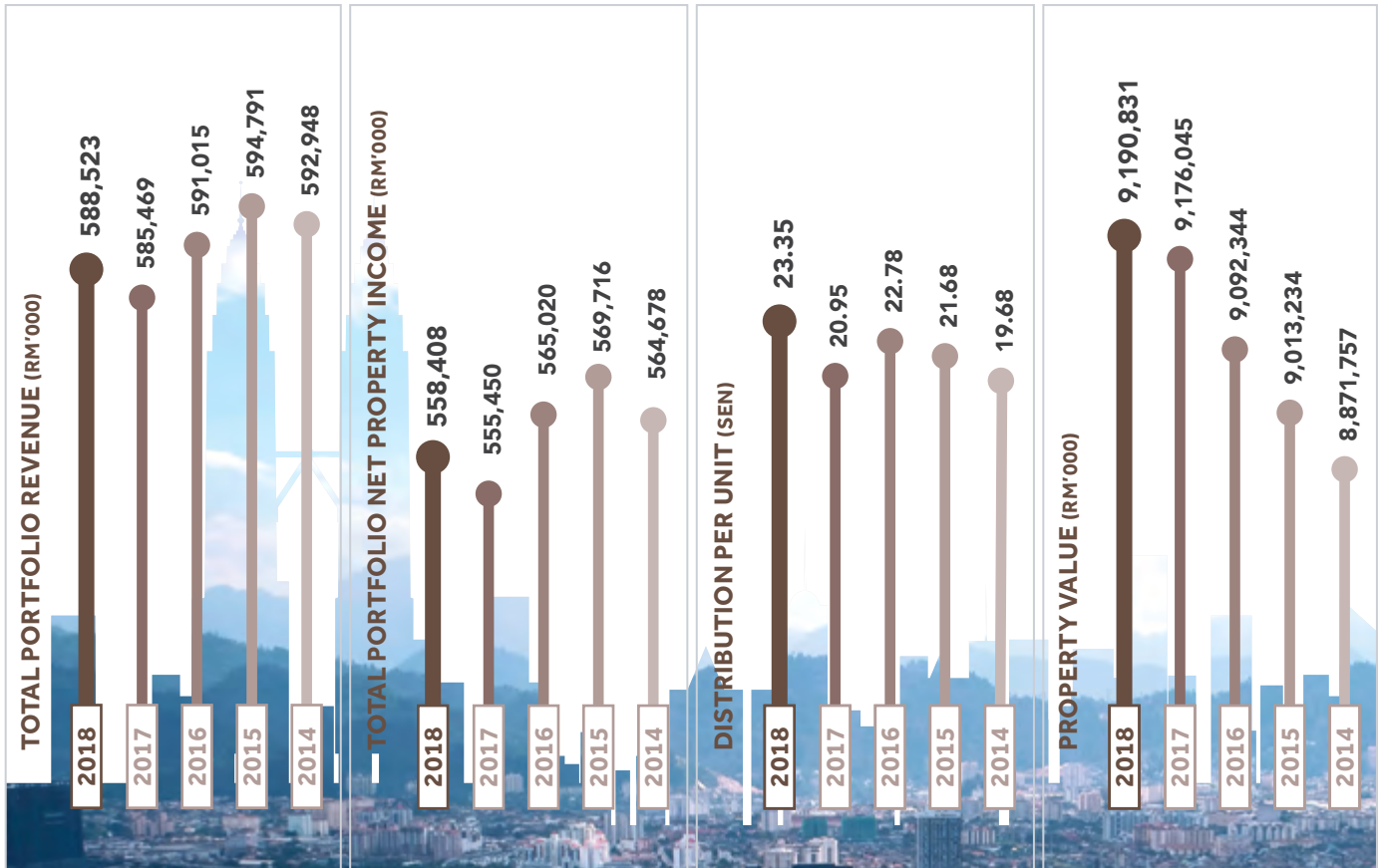
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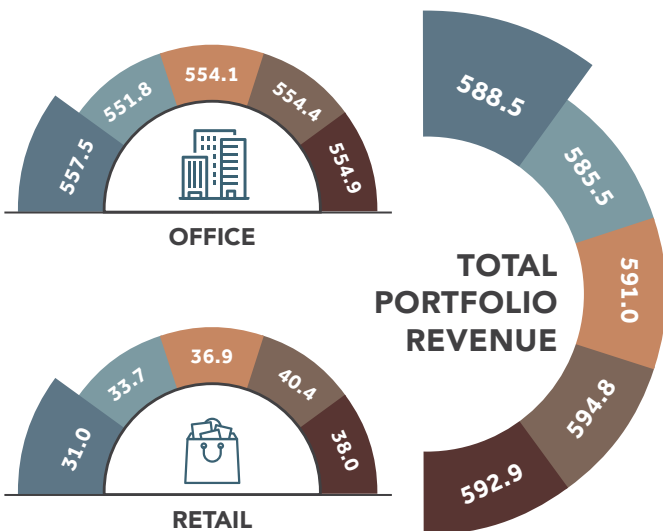
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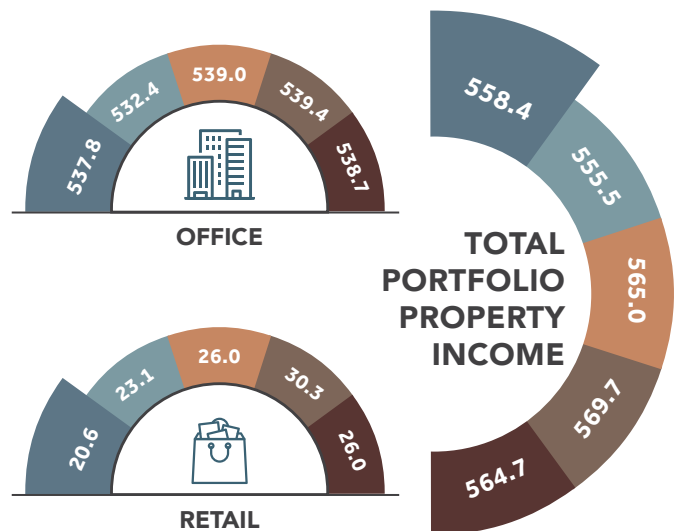
# KLCC REIT FINANCIAL HIGHLIGHTS



SEGMENTAL REVENUE  
(RM'mil)



NET PROPERTY INCOME  
(RM'mil)



● 2018 ● 2017 ● 2016 ● 2015 ● 2014

# KLCC REIT

## VALUE ADDED STATEMENT

	2018 RM'000	2017 RM'000
Total turnover	588,523	585,469
Profit income	3,195	4,733
Fair value adjustments of investment properties	12,042	81,496
Operating and tax expenses	(51,858)	(30,019)
	<b>551,902</b>	<b>641,679</b>
<b>Reconciliation</b>		
Profit for the year	440,661	527,644
Finance costs	65,069	68,080
Managers fees	45,572	45,355
Trustee fees	600	600
	<b>551,902</b>	<b>641,679</b>
<b>Value distributed</b>		
<b>Trust expenses</b>		
Managers fees	45,572	45,355
Trustee fees	600	600
<b>Providers of capital</b>		
Finance costs	65,069	68,080
Income distribution	399,520	389,591
<b>Reinvestment and growth</b>		
Undistributed income	50,842	56,557
Capital reserve*	(9,701)	81,496
	<b>551,902</b>	<b>641,679</b>

\* Capital reserve represents the fair valuation gain on properties which is only distributable upon disposal of investment property

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# KLCC REIT FUND PERFORMANCE

## STATEMENT OF COMPREHENSIVE INCOME

Key Data & Financial Ratios	2018	2017	2016	2015	2014
Revenue (RM'000)	<b>588,523</b>	585,469	591,015	594,791	592,948
Net Property Income (RM'000)	<b>558,408</b>	555,450	565,020	569,716	564,678
Total Comprehensive Income: (RM'000)					
- Realised	<b>450,362</b>	446,148	454,349	459,290	427,276
- Unrealised	<b>(9,701)</b>	81,496	92,584	129,480	52,028
Income Available for Distribution (realised) (RM'000)	<b>421,928</b>	397,177	411,451	391,850	364,623
Income Distribution (RM'000)	<b>421,545<sup>1</sup></b>	378,217	411,255	391,396	355,289
Distribution per Unit (DPU) (sen)	<b>23.35</b>	20.95	22.78	21.68	19.68
Distribution Yield <sup>2</sup> (%)	<b>4.83</b>	4.18	4.30	4.91	5.01
Basic Earnings per Unit (sen)	<b>24.41</b>	29.22	30.30	32.61	26.55
Management expense ratio <sup>3</sup> (%)	<b>0.60</b>	0.60	0.61	0.61	0.64

## STATEMENT OF FINANCIAL POSITION

Key Data & Financial Ratios	As at 31 Dec 18	As at 31 Dec 17	As at 31 Dec 16	As at 31 Dec 15	As at 31 Dec 14
Investment Properties (RM'000)	<b>9,190,831</b>	9,176,045	9,092,344	9,013,234	8,871,757
Total Assets (RM'000)	<b>9,663,354</b>	9,631,719	9,683,102	9,568,582	9,336,812
Total Financings (RM'000)	<b>1,371,907</b>	1,371,026	1,572,478	1,570,395	1,568,400
Total Liabilities (RM'000)	<b>1,571,952</b>	1,581,455	1,770,891	1,791,869	1,772,457
Total Unitholders' Fund (RM'000)	<b>8,091,402</b>	8,050,264	7,912,211	7,776,713	7,564,355
Total Net Asset Value (NAV) (RM'000)	<b>8,091,402</b>	8,050,264	7,912,211	7,776,713	7,564,355
Net Asset Value (NAV) per unit:					
- before distribution (RM)	<b>4.48</b>	4.46	4.38	4.31	4.19
- after distribution (RM)	<b>4.42</b>	4.41	4.33	4.25	4.14
Highest NAV per unit (RM)	<b>4.52</b>	4.46	4.38	4.31	4.19
Lowest NAV per unit (RM)	<b>4.45</b>	4.37	4.29	4.16	4.09
Gearing Ratio (%)	<b>14.2</b>	14.2	16.2	16.4	16.8
Average Cost of Debt (%)	<b>4.50</b>	4.50	4.41	4.41	4.41
Debt Service Cover Ratio (times)	<b>8.6</b>	9.1	8.7	9.7	3.8

<sup>1</sup> Includes the 2018 fourth income distribution payable on 28 February 2019.

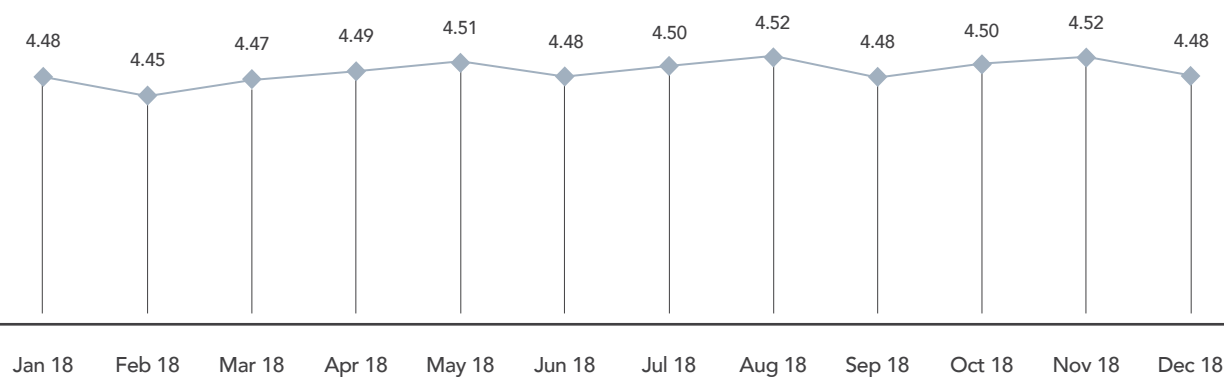
<sup>2</sup> Based on DPU of KLCCP Stapled Group of 37.00 sen (2017: 36.15 sen) and the closing price of KLCC Stapled Securities of RM7.66 (2017: RM8.64) as KLCC REIT units are stapled with KLCCP ordinary shares and traded as a single price quotation.

<sup>3</sup> Ratio of total fees and expenses incurred in operating KLCC REIT including Manager's fee, Trustee's fee, auditor's remuneration, tax agent's fee, valuation fees and other Trust expenses to the NAV of KLCC REIT.

Past performance is not necessarily an indication of future performance as market conditions may change over time.

# KLCC REIT FUND PERFORMANCE

## NET ASSET VALUE PER UNIT (RM)



## TRADING PRICE PERFORMANCE OF KLCC STAPLED SECURITIES<sup>1</sup>

Trading Summary	2018	2017	2016	2015	2014
Stapled Securities Closing Price at 31 December (RM)	<b>7.66</b>	8.64	8.30	7.06	6.71
Highest traded price for the year (RM)	<b>8.00</b>	8.64	8.30	7.30	7.00
Lowest traded price for the year (RM)	<b>6.88</b>	7.70	6.80	6.62	5.47
Capital Appreciation (%)	<b>(11.3)</b>	4.1	17.6	5.2	14.7
Annual Total Return (%) <sup>2</sup>	<b>(6.5)</b>	8.3	21.9	10.1	19.7
Average Total Return (3 years) (%)	<b>7.9</b>	13.4	17.2	9.2	-
Average Total Return (5 years) (%)	<b>10.7</b>	-	-	-	-
Number of Stapled Securities ('000)	<b>1,805,333</b>	1,805,333	1,805,333	1,805,333	1,805,333
Market Capitalisation (RM'000)	<b>13,828,851</b>	15,598,077	14,984,264	12,745,651	12,113,784

<sup>1</sup> The trading price performance of KLCC REIT is based on the price performance of KLCC Stapled Securities as KLCC REIT units are stapled with KLCCP ordinary shares and traded as a single price quotation.

<sup>2</sup> Annual total return comprises capital appreciation from 1 January 2018 to 31 December 2018 of -11.3% (2017: 4.1%) and distribution yield of KLCCP Stapled Group of 4.83% (2017: 4.18%).

Past performance is not necessarily an indication of future performance as market conditions may change over time.

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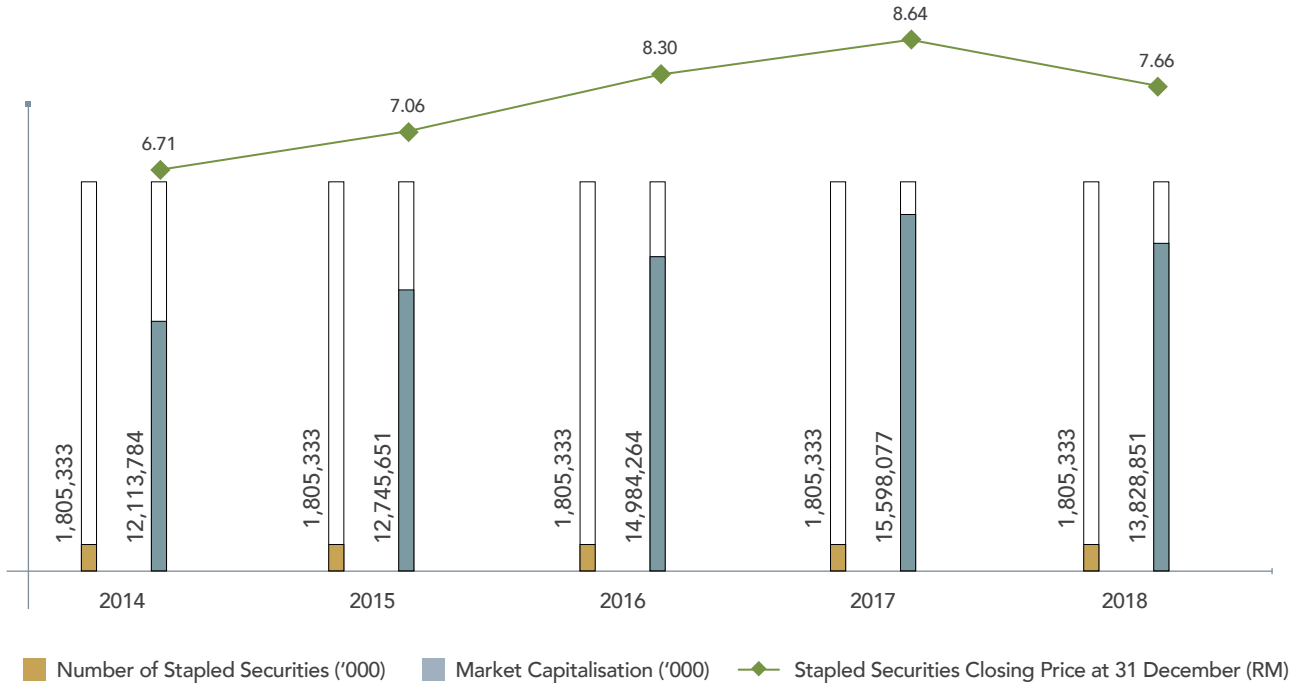
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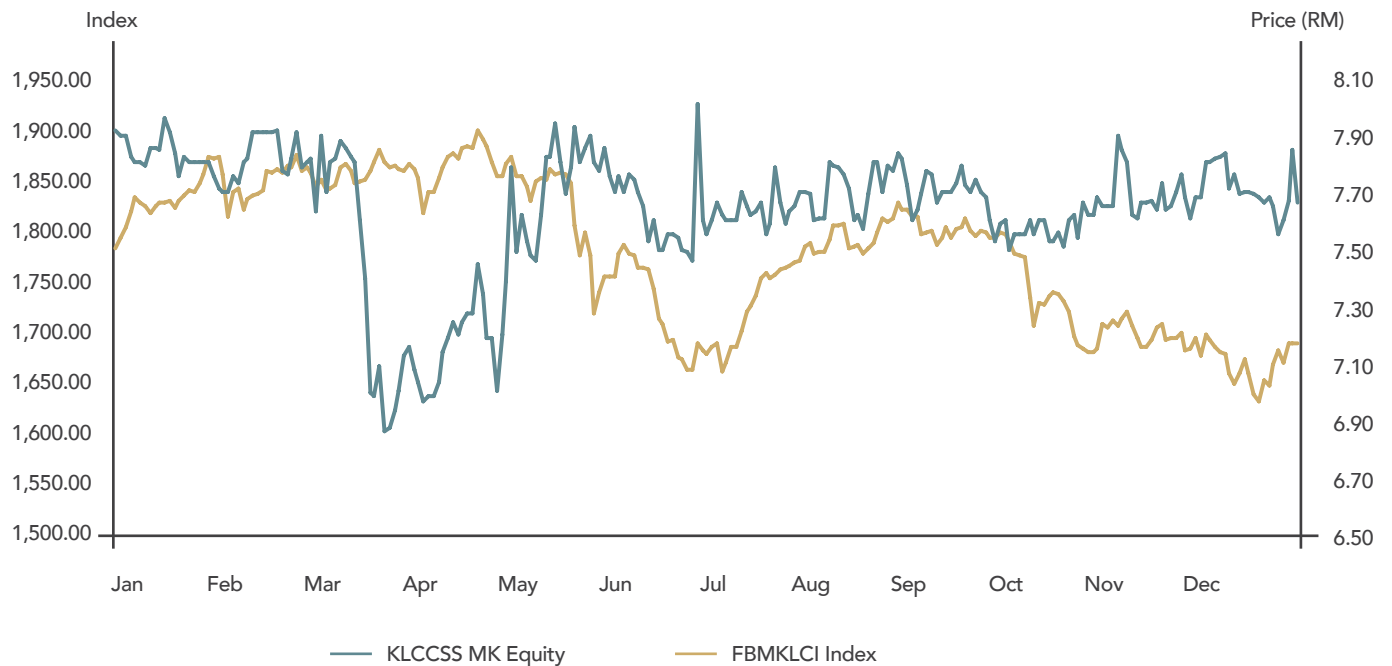
# KLCC REIT FUND PERFORMANCE

| KLCC REAL ESTATE INVESTMENT TRUST |

## MARKET CAPITALISATION, SHARE PRICE PERFORMANCE AND NUMBER OF STAPLED SECURITIES



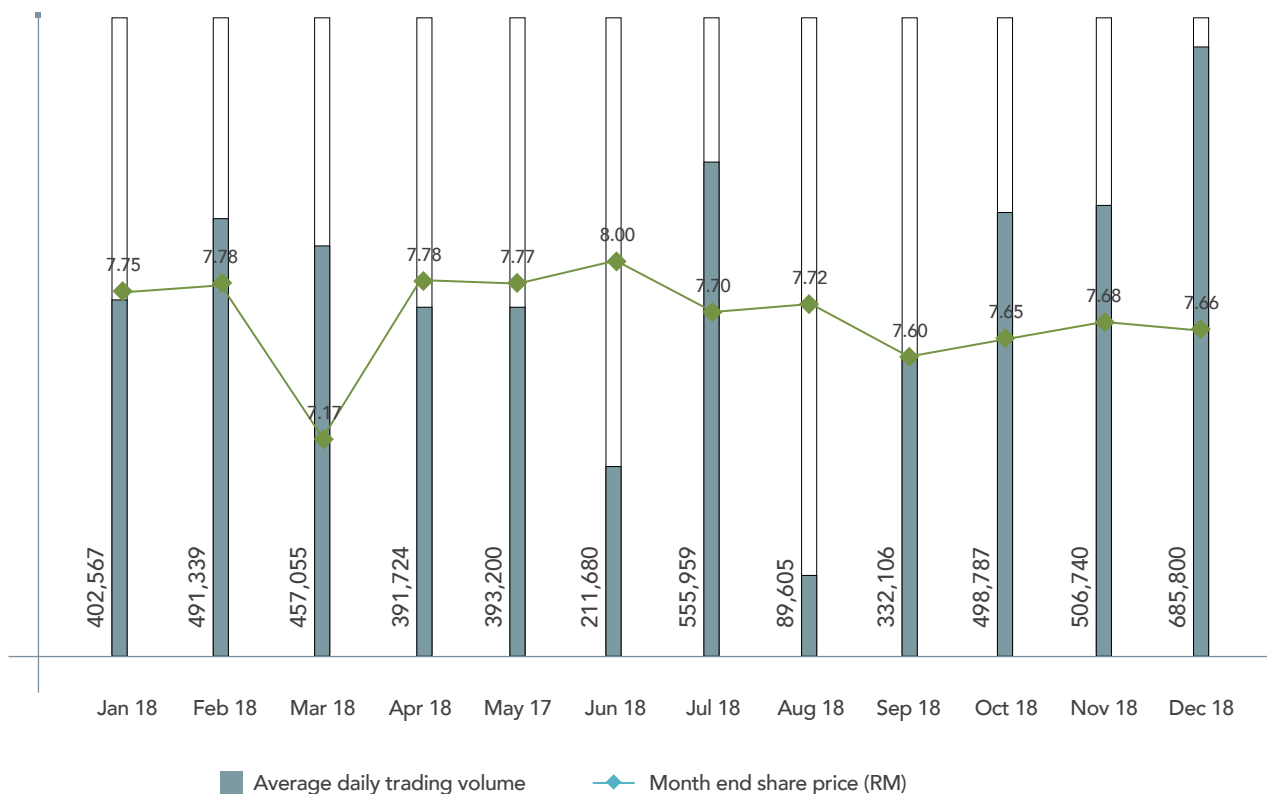
## KLCC STAPLED SECURITIES PRICE VS FTSE BURSA MALAYSIA KLCI INDEX PERFORMANCE BENCHMARK



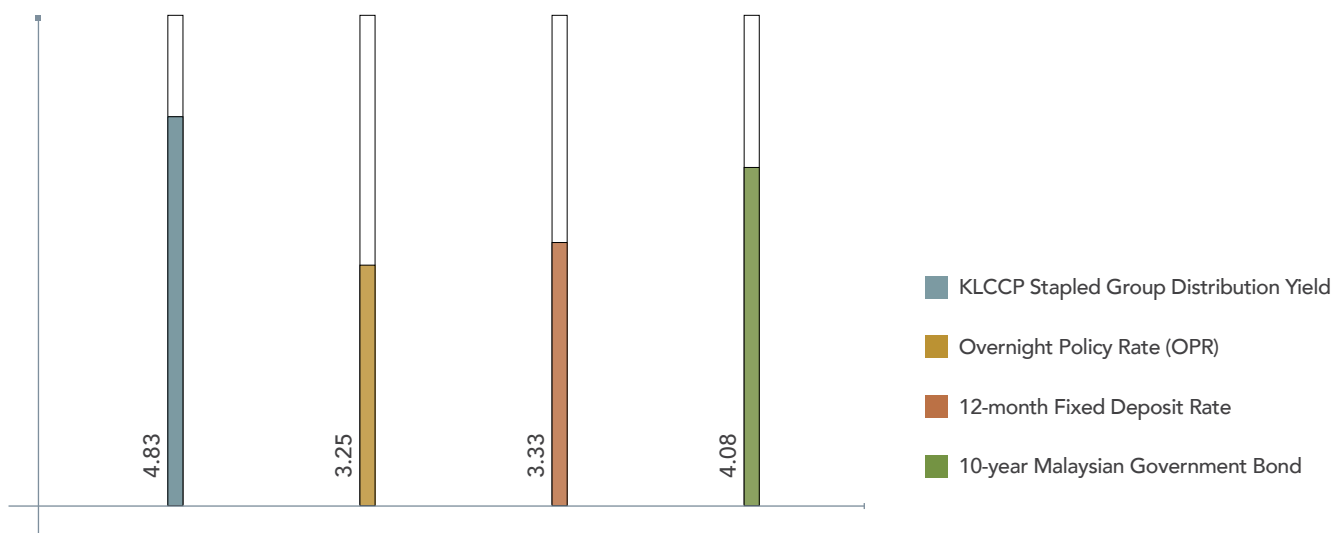
Past performance is not necessarily an indication of future performance as market conditions may change over time.

# KLCC REIT FUND PERFORMANCE

## KLCC STAPLED SECURITIES MONTHLY TRADING PERFORMANCE



## COMPARATIVE YIELD AS AT 31 DECEMBER 2018 (%)



Source: Bank Negara website

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# MANAGER'S FINANCIAL AND OPERATIONAL REVIEW



**The Manager of KLCC Real Estate Investment Trust ("KLCC REIT or the Fund"), KLCC REIT Management Sdn Bhd ("the Manager"), has pleasure in submitting their financial and operational review for the year ended 31 December 2018.**

## PRINCIPAL ACTIVITY AND INVESTMENT OBJECTIVES

KLCC REIT is an Islamic Real Estate Investment Trust established to own and invest primarily in Shariah compliant real estate for office and retail purposes. The Fund was constituted by the Deed dated 2 April 2013 entered into between the Manager and Maybank Trustees Berhad ("the Trustee"). The Deed was registered and lodged with the Securities Commission (SC) on 9 April 2013 and the Fund was listed on the Main Board of Bursa Malaysia Securities Berhad on 9 May 2013.

The key objective of the Fund is to provide unitholders with stable distributions of income supported by KLCC REIT's strategy of improving returns from its property portfolio and capital growth.

## INVESTMENT STRATEGIES

The Manager is focused on active asset management and acquisition growth strategy to provide regular and stable distributions to unitholders and ensure capital growth and improved returns from its property portfolio.

### Active asset management strategy

Continue to optimise the rental and occupancy rates and the Net Lettable Area (NLA) of the properties in order to improve the returns from KLCC REIT's property portfolio.

### Acquisition growth strategy

Acquire real estate that fit with KLCC REIT's investment policy and strategy to enhance the returns to the unitholders and capitalise on opportunities for future income and Net Asset Value (NAV) growth.

## OVERVIEW OF PROPERTY PORTFOLIO

KLCC REIT is an office-focused diversified REIT with a high profile and well established office and retail property portfolio. KLCC REIT comprise three unique prime office assets - the iconic PETRONAS Twin Towers, Menara ExxonMobil and Menara 3 PETRONAS. The retail podium of Menara 3 PETRONAS represents the retail segment of KLCC REIT which leverages Suria KLCC's reputation as a premier shopping destination in the country.

The properties with a combined NLA of over 4.55 million sq. ft. are located in the prime area of Kuala Lumpur City Centre, popularly known as KLCC, within the 100-acre KLCC Development, ranked among the largest real-estate developments in the world. The integrated commercial development within the KLCC Precinct is a combination of prime Grade A offices, premier retail outlets, 4 to 5 star hotels, high-end residential, MICE (meeting, incentives, convention and exhibition) facilities and world-class entertainment fronting a lush KLCC Park.

## Key Highlights

- Upward rental revision to the lease for PETRONAS Twin Towers which took effect in October 2018 and full year impact from the uplift in rental rate for Menara 3 PETRONAS in December 2017
- Full year rental impact for Menara ExxonMobil from the full occupancy following the two-month vacancy in 2017 upon the return of 40% building space at the lease expiry
- Secured 5 new tenants on board for the retail podium of Menara 3 PETRONAS, improving occupancy to 84% from 80%

## Financial Review

		2018 (RM'mil)	2017 (RM'mil)	Growth (%)
Revenue		<b>588.5</b>	585.5	0.5
Net property income		<b>558.4</b>	555.5	0.5
Profit for the year*		<b>450.4</b>	446.2	0.9
Income available for distribution*		<b>421.9</b>	397.2	6.2
Income distribution*		<b>421.5</b>	378.2	11.4
Earnings per unit* (EPU)	Sen	<b>24.90</b>	24.70	0.8
Distribution per unit (DPU)	Sen	<b>23.35</b>	20.95	11.5
Net asset value (NAV) per unit	RM	<b>4.48</b>	4.46	0.4

\* Excluding fair value adjustment

## MANAGER'S FINANCIAL AND OPERATIONAL REVIEW

KLCC REIT continued to deliver a stable performance, despite the uncertainty in the global, domestic and equity markets resulting in cautious market sentiments, further heightened by the ongoing macroeconomic headwinds in the industry sectors. In January 2018, Bank Negara Malaysia (BNM) raised its Overnight Policy Rate (OPR) by 25bps to 3.25%, after holding the rate steady at 3.00% since July 2016. The hike in OPR led to perceived negativity on REITs earnings from higher borrowing costs and in-turn resulted in the decline of the Bursa Malaysia REIT Index.

For the financial year ended 31 December 2018, KLCC REIT portfolio of assets reported revenue of RM588.5 million contributing 41.9% of KLCCP Stapled Group's revenue whilst profit for the year represented 46.7% of the PBT for KLCCP Stapled Group. The 6.2% increase in income available for distribution is mainly attributable to the full year impact from the rental rate uplift for Menara 3 PETRONAS effective December 2017 and for PETRONAS Twin Towers in October 2018. Net asset value improved from RM4.46 per unit as at 31 December 2017 to RM4.48 per unit as at year end, after taking into account the fair value adjustment of RM12.0 million. Underpinned by the steady performance during the year, KLCC REIT distributed 23.35 sen to the unitholders, a significant 11.5% higher than 2017. This represented a 99.9% pay-out of distributable income with a total income distribution of RM421.5 million to the unitholders for the financial year 2018.

	Revenue (RM'mil)		Net Property Income (RM'mil)		Profit for the Year * (RM'mil)	
	2018	2017	2018	2017	2018	2017
PETRONAS Twin Towers	423.9	424.2	422.1	422.7	338.8	336.8
Menara ExxonMobil	45.5	39.8	27.9	22.1	22.3	16.6
Menara 3 PETRONAS	88.1	87.8	87.8	87.6	75.4	75.7
<b>Total for Office Segment</b>	<b>557.5</b>	<b>551.8</b>	<b>537.8</b>	<b>532.4</b>	<b>436.5</b>	<b>429.1</b>
Menara 3 PETRONAS (Retail Podium)	31.0	33.7	20.6	23.1	13.9	17.1
<b>Total for Retail Segment</b>	<b>31.0</b>	<b>33.7</b>	<b>20.6</b>	<b>23.1</b>	<b>13.9</b>	<b>17.1</b>
<b>Total</b>	<b>588.5</b>	<b>585.5</b>	<b>558.4</b>	<b>555.5</b>	<b>450.4</b>	<b>446.2</b>

\* Excluding fair value adjustment

The performance of the three investment properties generated total net property income (excluding fair value adjustment) of RM558.4 million, representing a contribution of 96% from the office segment and 4% from retail. PETRONAS Twin Towers remained KLCC REIT's highest revenue contributor at 72% or RM423.9 million, with net property income of RM422.1 million, representing 76% of total net property income. The office segment continued to be the core building block of long term value and stability for KLCC REIT, with its defined cashflow returns to the unitholders.

### Office segment

The Kuala Lumpur office property sector remained lackluster during the year as new completions continued to outstrip demand with the addition of approximately 2.5 million sq ft in 2018, higher than the 2.4 million sq ft which came in the preceding year. The impending high supply of in-coming office space in the long-term is likely to cause a subdued-to-negative effect on office rents with vacancy rates expected to rise.

Despite the office supply glut, our high quality asset office portfolio continued to drive stable growth. We were able to mitigate the industry challenges backed by our strong and robust office lease portfolio with quality tenants. The Triple Net Lease tenancies for PETRONAS Twin Towers and Menara 3 PETRONAS shields KLCC REIT from the soft market conditions as all property expenses and outgoings are borne by the tenants, thereby limiting impact to earnings. Both these leases contributed to 95% of the office segment, delivering steady earning streams for the REIT, boosted by their full occupancy. During the year, rental uplift was seen for the PETRONAS Twin Towers which took effect in October 2018. Menara ExxonMobil with its 2 tenants, ExxonMobil Exploration and Production Malaysia Inc and PETRONAS saw the impact from the generation of full year rental following the expiry of lease and the tenant transitioning in 2017.



## MANAGER'S FINANCIAL AND OPERATIONAL REVIEW

### Retail segment

The retail podium of Menara 3 PETRONAS which forms part of our landmark mall Suria KLCC, represents the Fund's retail segment. Premised on the positioning to deliver "Always Something New" to the customers, and aligning to the rapid evolution of the retail landscape, we continued to evolve the shopping experience through a wider array of retail offerings including food & beverage (F&B), fashion and jewellery. During the year, the retail podium of Menara 3 PETRONAS saw 5 new tenants come on board, namely De Beers, dUck, Thai Odyssey Spa & Café, K Fry and EP (Elegant Prosper). Another exciting addition on the ground and first floors of the retail podium is a new anchor tenant, Babel, which is a new to market luxury wellness concept, scheduled to open in quarter two 2019. This proved positive with improved occupancy to 84% compared to 80% a year ago.

After 6 months in the ephemeral boutique, Chanel reopened its monolithic expansion with a brand-new duplex flagship

and façade. The new store offers bright and spacious rooms of ready-to-wear, shoes, handbags and a selection of watches and fine jewellery pieces. Alongside Chanel is De Beers, who also launched their new flagship and double story façade.

In 2018, the retail segment registered total revenue of RM31.0 million and net property income of RM20.6 million. The drop compared to 2017 is mainly due to the tenant transitioning and timing of commencement of rental, which will kick in in 2019.

With the advent of technology, shift to on-line shopping and maturing retail markets, Suria KLCC as the retail manager has remained focused in delivering the best retail space capturing the strongest consumer markets. Our high-quality portfolio coupled with our highly experienced retail leasing, research and leadership team takes pride in understanding its customers' needs, curating the mall in the best possible manner to deliver a shopping experience tailored to customer preferences.

### Assets and Liabilities

The Fund continues to maintain a strong balance sheet with unitholders' funds growing to RM8.1 billion and net asset per unit improving to RM4.48.

	2018 (RM'mil)	2017 (RM'mil)	Variance (%)
<b>ASSETS</b>			
Investment properties	9,190.8	9,176.0	0.2
Receivables	413.4	386.5	7.0
Cash and bank balances	56.8	67.9	(16.3)
Others	2.4	1.3	84.6
	<b>9,663.4</b>	<b>9,631.7</b>	
<b>LIABILITIES</b>			
Borrowings	1,371.9	1,371.0	0.1
Others	200.1	210.5	(5.0)
	<b>1,572.0</b>	<b>1,581.5</b>	
<b>Unitholders' Fund</b>	<b>8,091.4</b>	<b>8,050.2</b>	<b>0.5</b>
<b>Net asset value per unit (NAV per unit)</b>	RM <b>4.48</b>	<b>4.46</b>	<b>0.5</b>

The trade receivables are primarily accrued operating lease income recognised which continues to increase over the term of the lease. The accrued revenue was as a result of the straight lining effect of recognition of the step-up rates in the triple net lease arrangements whereby all future revenue of the tenancy locked-in period is accounted for in constant amounts across the entire lease period. The decrease in cash and bank balances of RM11.1 million is mainly due to higher income distribution paid during the year amounting to RM399.4 million compared with RM388.2 million as at 31 December 2017.

## MANAGER'S FINANCIAL AND OPERATIONAL REVIEW

### MARKET VALUE OF INVESTMENT PROPERTIES

For the year under review, KLCC REIT's portfolio recorded an investment property revaluation gain of RM43.2 million, based on professional valuation performed by an independent valuer, Cheston International (KL) Sdn Bhd. In line with MFRS 140 Investment Property, adjustments need to be made to accrued operating lease income and additions during the year to avoid double counting of assets, hence only RM12.0 million is recognised as fair value adjustment. The movements of fair values are tabulated below:

Property	Market Value		Carrying Value	
	31 Dec 2018 RM'mil	31 Dec 2017 RM'mil	31 Dec 2018 RM'mil	31 Dec 2017 RM'mil
PETRONAS Twin Towers	7,010.0	6,973.0	6,679.9	6,672.7
Menara ExxonMobil	536.7	533.7	535.3	531.2
Menara 3 PETRONAS	2,052.2	2,049.0	1,975.6	1,972.1
<b>Total</b>	<b>9,598.9</b>	<b>9,555.7</b>	<b>9,190.8</b>	<b>9,176.0</b>

### OPERATIONAL REVIEW

#### Asset Management

The Manager adopts a proactive approach towards asset management and enhancement initiatives to ensure a leading market position within the segment and locale it operates in, while maintaining the iconic stature and performance of our premium Grade-A portfolio of assets. The efforts were recognised at TheEdgeProperty.com – Malaysia's Best Managed Property Awards 2018, where Menara 3 PETRONAS bagged the Gold Award for Below 10 Years Mixed Development Category.

Each of our assets has an environmental management system in place to track and monitor performance, to ensure the operations meet industry practices. During the year, the Energy Asset Committee was formed, as part of our energy management agenda in line with addressing asset performance within the Group. The ultimate goal of this Committee is to establish an energy consumption baseline and benchmark against similar facilities as well as to identify energy cost reduction opportunities.

Focused and continuous efforts are ongoing towards achieving the full Green Building Index Certification (GBI) for PETRONAS Twin Towers and Menara 3 PETRONAS. The initiatives during the year include replacement of secondary valve for heat exchanger at PETRONAS Twin Towers, retrofitting programmable lighting controller to LED lighting and installation of variable speed drive (VSD) to regulate water pump at Menara 3 PETRONAS. The Manager is also working diligently towards stabilisation of building data collection with full GBI Certification now expected by first half of 2019.

**TheEdgeProperty.com –  
Malaysia's Best  
Managed Property Awards  
2018**

**Gold Award For  
Below 10 Years  
Mixed Development  
Category**

**Menara 3  
PETRONAS**



It is also crucially important that we build high performing workplaces that respond to the evolving needs of our tenants, workplaces that foster greater communication, collaboration and flexibility and are adaptive to the rapid changes in technology. Given that, for the past year, we have been actively working with our tenant, PETRONAS to transform their office spaces into a "Workplace for Tomorrow". In this second year of the transformation journey, 56 floors were completed in 3 batches for PETRONAS Tower 1, PETRONAS Tower 2 and Menara 3 PETRONAS resulting in 52% overall completion.

## MANAGER'S FINANCIAL AND OPERATIONAL REVIEW

### Capital Management

The Manager continues to practice a disciplined approach to capital management which ensures we maintain a strong balance sheet and limit the exposure of fluctuations of interest. As at 31 December 2018, KLCC REIT's borrowings stood at RM1.4 billion with an average cost of debt of 4.5%. With gearing at 14.2%, one of the lowest gearings amongst the Malaysian REITs, KLCC REIT has significant debt headroom to support cost-effective financing for future growth and capitalise on the investment opportunities as they arise.

Average maturity period has been shortened to 2.6 years following the repayment of the first tranche of the Islamic Medium Term Notes under the KLCC REIT's Sukuk Murabahah Programme amounting RM300.0 million in April 2017.

		2018	2017
Total borrowings	RM'mil	<b>1,371.9</b>	1,371.0
Average cost of debt	%	<b>4.5</b>	4.5
Fixed: Floating	ratio	<b>100:0</b>	100:0
Average maturity period	years	<b>2.6</b>	3.6
Debt service cover ratio	times	<b>8.6</b>	9.1
Gearing ratio	%	<b>14.2</b>	14.2
RAM Rating of Sukuk		<b>AAA</b>	AAA

### Income Distribution

Despite the challenges faced during the year, the Manager remained committed to enhance value to its unitholders and distributed 99.9% of its distributable income for the financial year 2018.

Based on the total income available for distribution of RM421.9 million, the Manager had recommended and the Trustee had approved a total income distribution of 23.35 sen for the year ended 31 December 2018.

Income Distribution	Income Distribution per unit (sen)	Income Distribution (RM'mil)	Remarks
First Interim Distribution	5.72	103.3	Paid on 29 June 2018
Second Interim Distribution	5.65	102.0	Paid on 28 September 2018
Third Interim Distribution	5.71	103.1	Paid on 28 December 2018
Fourth Interim Distribution	6.27	113.2	To be paid on 28 February 2019
<b>Total</b>	<b>23.35</b>	<b>421.6</b>	

### MARKET REVIEW

2018 can be summed up as one of mixed fortunes for both Malaysia and across the globe. Global economic growth was dampened by the volatility in the equity markets with capital outflows from emerging markets, decelerating economic growth and the unfolding of the trade tensions, amongst others.

At home, Malaysia saw an unprecedented election outcome with a new Government elected. The domestic equity market also experienced bouts of volatility due to uncertainties following the outcome of GE14. Market sentiments were affected by the series of policy changes, weak commodity price as well as the reintroduction of SST, to replace the GST.

 For more information, please refer to the Market Report on page 30-40.

## MANAGER'S FINANCIAL AND OPERATIONAL REVIEW

### Office Market Overview

Office supply in Klang Valley continued to remain under pressure in 2018 with no near term catalysts to boost demand and take-up, exacerbated by an oversupply of office space in the market that is expected to continue in the near to medium term. Limited demand drivers and changing nature of market dynamics business (i.e. work from home, e-commerce, and the rise in sharing of economy) have contributed to the falling occupancy rates.

 For more information, please refer to the Market Report on page 33-36.

### Retail Market Overview

With the heightened consumer sentiment following the zerorisation of the GST in June 2018 short-lived due to the re-introduction of the SST in September 2018, consumers have been generally cautious with their spending in 2018. This resulted in the retail landscape continuing to face strong headwinds further heightened by the competition in an already crowded market. With the emergence and growing popularity of e-commerce and digital platforms, the retail segment has been banking on securing tenants with services and experience factor – F&B, beauty & dermatology, sports & entertainment, to remain competitive. Nevertheless, average prime gross rents of selected prime shopping centres have remained resilient.

 For more information, please refer to the Market Report on page 36-38.

### OUTLOOK

2019 is expected to be a challenging year for the equity markets as corporates are adjusting to the new policy and political landscape post GE14, as well as the reality of rising interest rates which places a dampener on the REITs' sector. Given the expectations of no interest rate hikes in 2019, the prospects for MREITs is expected to be slightly better than in 2018. As the global volatility and uncertainty are likely to continue in the coming year, MREITs could in fact be favoured in the market, provided they offer good and stable dividends.

Amid increasing new office supply, our office portfolio will continue to hold steady, backed by the locked-in long term leases with high quality tenants. The Manager will continue to increase property value through asset enhancement initiatives ("AEIs") and organic growth. With the growing number of technological initiatives, a sustained strong employment market and continuing recovery in tourist and retail sales, the retail market is expected to gain further momentum in 2019. Our retail podium at Menara 3 PETRONAS will continue to leverage on Suria KLCC's branding and strategy to continuously refresh its brand offerings providing a complete shopping, dining and entertainment experience.

The Manager believes that our premium quality portfolio and continued drive for excellence will anchor KLCC REIT's strategy of stable income growth and long term capital appreciation for unitholders.

### MATERIAL LITIGATION

The Manager is not aware of any material litigation since the balance sheet date as at 31 December 2018 up to the date of this report.

### CIRCUMSTANCES WHICH MATERIALLY AFFECT THE INTERESTS OF UNITHOLDERS

The Manager is not aware of any circumstances which materially affect the interests of unitholders.

### DIRECTORS OF THE MANAGER'S BENEFITS

During and at the end of the financial period, no Director of the Manager has received or become entitled to receive any benefit, by reason of a contract made by the Fund or a related corporate with the Director or with a firm of which the Director is a member, or with a company in which the Director has substantial financial interest.

There were no arrangements during and at the end of the financial period, which had the object of enabling Directors of the Manager to acquire benefits by means of the acquisition of units in or debentures of the Fund or any other body corporate.

### MANAGER'S FEE

For the financial year ended 31 December 2018, the Manager's fee comprised the following:

1. Base fee of RM28.8 million which is calculated at 0.3% per annum of Total Asset Value (excluding cash and bank balances)
2. Performance fee of RM16.8 million, calculated at 3.0% per annum of Net Property Income

The Manager's total management fee of RM45.6 million represents 0.6% of NAV of KLCC REIT.

Except for expenses incurred for the general overheads and costs of services which the Manager is expected to provide, or falling within the normal expertise of the Manager, the Manager has the right to be reimbursed the fees, costs, charges, expenses and outgoings incurred by it that are directly related and necessary to the business of KLCC REIT.

### SOFT COMMISSION

During the year, the Manager did not receive any soft commission from its broker, by virtue of transactions conducted by the Fund.





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# MANAGER'S REPORT

## FOR THE YEAR ENDED 31 DECEMBER 2018

The Manager of KLCC Real Estate Investment Trust ("KLCC REIT" or "the Fund"), KLCC REIT Management Sdn Bhd ("the Manager"), has pleasure in submitting their report and the audited financial statements of the Group and of the Fund for the financial year ended 31 December 2018.

### PRINCIPAL ACTIVITIES

The principal activities of the Fund during the financial year are investing directly and indirectly, in a Shariah-compliant portfolio of income producing real estate used primarily for office and retail purposes as well as real estate related assets.

The principal activity of its subsidiary is stated in Note 7 to the financial statements.

### CORPORATE INFORMATION

The Fund is a Malaysia-domiciled real estate investment trust constituted pursuant to the Trust Deed dated 2 April 2013 entered between the Manager and Maybank Trustees Berhad ("the Trustee") and was registered with the Securities Commission Malaysia on 9 April 2013. The Fund was listed on the Main Market of Bursa Malaysia Securities Berhad on 9 May 2013. The registered office of the Manager is located at Level 54, Tower 2, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

### RESULTS

	Group RM'000	Fund RM'000
Profit for the year	440,661	440,667

### DISTRIBUTION OF INCOME

The amount of income distributions paid by the Fund were as follows:

	RM'000
In respect of the financial year ended 31 December 2017	
Fourth interim income distribution of 5.05% on 1,805,333,083 units, paid on 28 February 2018	91,169
In respect of the financial year ended 31 December 2018:	
First interim income distribution of 5.72% on 1,805,333,083 units, paid on 29 June 2018	103,265
Second interim income distribution of 5.65% on 1,805,333,083 units, paid on 28 September 2018	102,001
Third interim income distribution of 5.71% on 1,805,333,083 units, paid on 28 December 2018	103,085
	<u>399,520</u>

A fourth interim income distribution in respect of the financial year ended 31 December 2018, of 6.27% on 1,805,333,083 units amounting to an income distribution payable of RM113,194,000 will be payable on 28 February 2019.

The financial statements for the current year do not reflect this fourth interim income distribution. Such income distribution will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2019.



## MANAGER'S REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### RESERVES AND PROVISIONS

There were no material movements to and from reserves and provisions during the year, other than as disclosed in the Statements of Changes in Net Asset Value.

#### DIRECTORS

The Directors who have served on the Board of the Manager during the financial year and up to the date of this report are:

Datuk Hashim Bin Wahir	
Datuk Ishak Bin Imam Abas	
Datuk Pragasa Moorthi A/L Krishnasamy	
Dato' Halipah Binti Esa	
Habibah Binti Abdul	
Datuk Ahmad Nizam Bin Salleh	(appointed w.e.f. on 21 December 2018)
Tengku Muhammad Taufik Bin Tengku Aziz	(appointed w.e.f. on 1 December 2018)
Farina Binti Farikhullah Khan	(appointed w.e.f. on 23 April 2018)
Datuk Manharlal A/L Ratilal	(resigned w.e.f. on 26 October 2018)
Tan Sri Mohd Sidek Bin Hassan	(resigned w.e.f. on 16 July 2018)
Augustus Ralph Marshall	(resigned w.e.f. on 12 April 2018)

#### DIRECTORS OF MANAGER'S INTERESTS

The Directors in office at the end of the year who have interests in the units of the Fund and its related corporations as recorded in the Register of Directors' Shareholdings are as follows:

Number of Shares in Petronas Chemicals Group Berhad				
	Balance as at 1.1.2018/date of appointment	← Number of Shares →		Balance as at 31.12.2018
		Bought	Sold	
<b>Direct</b>				
Dato' Halipah Binti Esa	10,000	-	-	10,000
Datuk Hashim Bin Wahir	16,000	-	-	16,000
Datuk Ahmad Nizam Bin Salleh	10,000	-	-	10,000
<b>Indirect</b>				
Dato' Halipah Binti Esa <sup>#</sup>	13,100	-	-	13,100
Number of Shares in Petronas Gas Berhad				
	Balance as at date of appointment	← Number of Shares →		Balance as at 31.12.2018
		Bought	Sold	
<b>Direct</b>				
Datuk Ahmad Nizam Bin Salleh	2,000	-	-	2,000

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## MANAGER'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS OF MANAGER'S INTERESTS (CONTD.)

	Number of Shares in MISC Berhad			
	Balance as at 1.1.2018	← Number of Shares → Bought Sold		Balance as at 31.12.2018
<b>Indirect</b>				
Dato' Halipah Binti Esa <sup>#</sup>	10,000	-	-	10,000
	Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad			
	Balance as at 1.1.2018	← Number of Shares → Bought Sold		Balance as at 31.12.2018
<b>Direct</b>				
Dato' Halipah Binti Esa	10,000	-	-	10,000
<b>Indirect</b>				
Dato' Halipah Binti Esa <sup>#</sup>	10,000	-	-	10,000

<sup>#</sup> Deemed interest by virtue of director's family member's shareholding.

None of the other Directors holding office as at 31 December 2018 had any interest in the units of the Fund and of its related companies during the financial year.

### DIRECTORS OF MANAGER'S BENEFITS

During and at the end of the financial year, no Director of the Manager has received or become entitled to receive any benefit, by reason of a contract made by the Fund or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has substantial financial interest.

There were no arrangements during and at the end of the financial year, which had the object of enabling Directors of the Manager to acquire benefits by means of the acquisition of units in or debentures of the Fund or any other body corporate.

### SOFT COMMISSION

There was no soft commission received by the Manager during the financial year from any broker or dealer by virtue of transactions conducted for the Fund.

## MANAGER'S REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### ULTIMATE HOLDING COMPANY

The Directors regard Petroliam Nasional Berhad ("PETRONAS"), a company incorporated in Malaysia, as the ultimate holding company.

#### ISSUE OF UNITS

There were no changes in the issued and paid up units of the Fund during the financial year.

#### OPTIONS GRANTED OVER UNISSUED UNITS

No options were granted to any person to take up unissued units of the Fund during the year.

#### OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Fund were made out, the Manager took reasonable steps to ascertain that:

- (i) proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts; and
- (ii) any current assets which were unlikely to realise their value 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.

At the date of this report, the Manager is not aware of any circumstances:

- (i) that would render it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
- (ii) that would render the values attributed to the current assets in the financial statements of the Group and of the Fund misleading; or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Fund misleading or inappropriate; or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Fund misleading.

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## MANAGER'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

### OTHER STATUTORY INFORMATION (CONTD.)

At the date of this report, there does not exist:

- (i) any charge on the assets of the Group or of the Fund that has arisen since the end of the financial year and which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group or of the Fund that has arisen since the end of the financial year.

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, in the opinion of the Manager, will or may substantially affect the ability of the Group and of the Fund to meet their obligations as and when they fall due.

In the opinion of the Manager, the results of the operations of the Group and of the Fund for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

### AUDITORS

The auditors, Ernst & Young, have indicated their willingness to accept re-appointment.

Auditors' remuneration is as follows:

	Group RM'000	Fund RM'000
Audit fees	89	84

Signed on behalf of the Board of the Manager in accordance with a resolution of the Directors of the Manager dated 24 January 2019.

**Datuk Ahmad Nizam Bin Salleh**

**Datuk Hashim Bin Wahir**

## STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 319 to 371 are drawn up in accordance with the provision of the Trust Deed dated 2 April 2013, the Securities Commission's Guidelines on Real Estate Investment Trusts in Malaysia, Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2018 and of the results of their financial performance and cash flows for the year ended 31 December 2018.

For and on behalf of the Manager,

**KLCC REIT MANAGEMENT SDN BHD**

Signed on behalf of the Board of the Manager in accordance with a resolution of the directors of the Manager dated 24 January 2019.

**Datuk Ahmad Nizam Bin Salleh**

**Datuk Hashim Bin Wahir**

Kuala Lumpur, Malaysia

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# STATUTORY DECLARATION

I, Annuar Marzuki Bin Abdul Aziz, the Officer of the Manager primarily responsible for the financial management of KLCC Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 319 to 371 are to the best of my knowledge and belief, 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 Annuar Marzuki Bin Abdul Aziz  
in Kuala Lumpur, Wilayah Persekutuan  
on 24 January 2019.

Annuar Marzuki Bin Abdul Aziz  
(MIA Membership No. 11345 )

BEFORE ME:

Commissioner for Oaths

# TRUSTEE'S REPORT

## To the unitholders of KLCC REIT

We have acted as Trustee of KLCC Real Estate Investment Trust ("KLCC REIT") for the financial year ended 31 December 2018. To the best of our knowledge, KLCC REIT Management Sdn Bhd ("the Manager") has managed KLCC REIT 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 Deed, other applicable provisions of the Deed, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Capital Markets & Services Act 2007 and other applicable laws; and
- (b) the valuation of KLCC REIT is carried out in accordance with the Deed and other regulatory requirements.

There are four (4) income distributions to the unitholders of KLCC REIT in the financial year under review, details of which are stated below:

- (i) First interim income distribution of 5.72 sen per unit distributed on 29 June 2018;
- (ii) Second interim income distribution of 5.65 sen per unit distributed on 28 September 2018;
- (iii) Third interim income distribution of 5.71 sen per unit distributed on 28 December 2018;
- (iv) Fourth interim income distribution of 6.27 sen per unit for year ended 31 December 2018 declared and will be payable on 28 February 2019.

We are of the view that the distributions are consistent with the objectives of KLCC REIT.

For and on behalf of the Trustee,  
**MAYBANK TRUSTEES BERHAD**  
 (Company No.: 5004-P)

**BERNICE K M LAU**  
 Head, Operations

Kuala Lumpur, Malaysia

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# SHARIAH ADVISER'S REPORT

## To the unitholders of KLCC REIT

We have acted as the Shariah Adviser of KLCC REIT. Our responsibility is to ensure that the procedures and processes employed by KLCC REIT Management Sdn Bhd and that the provisions of the Trust Deed are in accordance with Shariah principles.

In our opinion, KLCC REIT Management Sdn Bhd has managed and administered KLCC REIT in accordance with Shariah principles and complied with applicable guidelines, rulings and decisions issued by the Securities Commission pertaining to Shariah matters for the financial year ended 31 December 2018.

In addition, we also confirm that the investment portfolio of KLCC REIT:

- (a) Comprises investment properties and rental income which complied with the Securities Commission Guidelines for Islamic Real Estate Investment Trust. The percentage ratio of Shariah Non-Compliant Rental for the financial year ended 31 December 2018 is 1.14%;
- (b) KLCCP Stapled Securities is listed on Bursa Malaysia Securities Berhad which have been classified as Shariah-compliant by Shariah Advisory Council of the Securities Commission;
- (c) Cash placement and liquid assets, which are placed in Shariah-compliant investments and/or instruments; and
- (d) There is no acquisition of real estate during the financial year.

For and on behalf of the Shariah Adviser  
CIMB Islamic Bank Berhad

### **ASHRAF GOMMA ALI**

Director/Regional Head, Shariah & Governance Department/Designated Person Responsible  
for Shariah Advisory

Kuala Lumpur, Malaysia

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Group		Fund	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	5	2,385	1,262	2,385	1,262
Investment properties	6	9,190,831	9,176,045	9,190,831	9,176,045
Trade and other receivables	8	408,069	379,654	408,069	379,654
Investment in subsidiary	7	-	-	*	*
		<b>9,601,285</b>	9,556,961	<b>9,601,285</b>	9,556,961
<b>Current Assets</b>					
Trade and other receivables	8	5,253	6,867	5,253	6,867
Cash and bank balances	9	56,816	67,891	56,703	67,794
		<b>62,069</b>	74,758	<b>61,956</b>	74,661
<b>TOTAL ASSETS</b>		<b>9,663,354</b>	9,631,719	<b>9,663,241</b>	9,631,622
<b>TOTAL UNITHOLDERS' FUND AND LIABILITIES</b>					
<b>Unitholders' Fund</b>					
Unitholders' capital	10	7,212,684	7,212,684	7,212,684	7,212,684
Merger reserve	2.18	6,212	6,212	6,212	6,212
Capital reserve	2.17	413,127	422,828	413,127	422,828
Retained profits		459,379	408,540	459,416	408,571
<b>Total Unitholders' Fund</b>		<b>8,091,402</b>	8,050,264	<b>8,091,439</b>	8,050,295
<b>Non-Current Liabilities</b>					
Other long term liabilities	11	93,777	85,074	93,777	85,074
Amount due to a subsidiary	12	-	-	855,000	1,355,000
Financing	13	855,000	1,355,000	-	-
Deferred tax liability	14	21,743	-	21,743	-
Other payable	15	40,001	41,094	40,001	41,094
		<b>1,010,521</b>	1,481,168	<b>1,010,521</b>	1,481,168

\* Represents RM2 in Midciti Sukuk Berhad

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## STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Group		Fund	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Current Liabilities</b>					
Other payables	15	44,524	84,261	44,453	83,439
Amount due to a subsidiary	12	-	-	516,828	16,720
Financing	13	516,907	16,026	-	-
		561,431	100,287	561,281	100,159
<b>Total Liabilities</b>		<b>1,571,952</b>	1,581,455	<b>1,571,802</b>	1,581,327
<b>TOTAL UNITHOLDERS' FUND AND LIABILITIES</b>		<b>9,663,354</b>	9,631,719	<b>9,663,241</b>	9,631,622
<b>Number of units in circulation ('000 units)</b>		<b>1,805,333</b>	1,805,333	<b>1,805,333</b>	1,805,333
<b>Net asset value ("NAV")</b>					
- before income distribution		8,091,402	8,050,264	8,091,439	8,050,295
- after income distribution		7,978,208	7,959,095	7,978,245	7,959,126
<b>NAV per unit (RM)</b>					
- before income distribution		4.48	4.46	4.48	4.46
- after income distribution		4.42	4.41	4.42	4.41

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

# STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Group		Fund	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	16	588,523	585,469	588,523	585,469
Property operating expenses	17	(30,115)	(30,019)	(30,109)	(30,022)
<b>Net property income</b>		<b>558,408</b>	<b>555,450</b>	<b>558,414</b>	<b>555,447</b>
Fair value adjustment of investment properties	6	12,042	81,496	12,042	81,496
Profit income		<b>3,195</b>	<b>4,733</b>	<b>3,195</b>	<b>4,733</b>
		<b>573,645</b>	<b>641,679</b>	<b>573,651</b>	<b>641,676</b>
Management fees	18	(45,572)	(45,355)	(45,572)	(45,355)
Trustee's fees	19	(600)	(600)	(600)	(600)
Financing costs	20	(65,069)	(68,080)	(65,069)	(68,080)
<b>Profit before tax</b>	21	<b>462,404</b>	<b>527,644</b>	<b>462,410</b>	<b>527,641</b>
Tax expense	22	(21,743)	-	(21,743)	-
<b>PROFIT FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME</b>		<b>440,661</b>	<b>527,644</b>	<b>440,667</b>	<b>527,641</b>
<b>Basic earnings per unit (sen)</b>	23	<b>24.41</b>	<b>29.22</b>	<b>24.41</b>	<b>29.22</b>

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# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Income Distribution</b>				
Total comprehensive income for the financial year	<b>440,661</b>	527,644	<b>440,667</b>	527,641
Add/(less) Non cash items:				
Accrued rental income	<b>(28,413)</b>	(48,999)	<b>(28,413)</b>	(48,999)
Amortisation of deferred rental income	<b>(4,522)</b>	(4,832)	<b>(4,522)</b>	(4,832)
Amortisation of premium for Sukuk Murabahah	<b>130</b>	696	<b>130</b>	696
Deferred tax liabilities	<b>21,743</b>	-	<b>21,743</b>	-
Depreciation	<b>293</b>	108	<b>293</b>	108
Allowance for impairment losses	<b>69</b>	-	<b>69</b>	-
Accretion of financial instruments	<b>4,009</b>	4,056	<b>4,009</b>	4,056
Fair value adjustment of investment properties	<b>(12,042)</b>	(81,496)	<b>(12,042)</b>	(81,496)
	<b>(18,733)</b>	(130,467)	<b>(18,733)</b>	(130,467)
Total income available for distribution	<b>421,928</b>	397,177	<b>421,934</b>	397,174
Distribution to unitholders in respect of financial year 2018:				
1 <sup>st</sup> interim income distribution of 5.72% (2017: 5.50%) on 1,805,333,083 units	<b>(103,265)</b>	(99,293)	<b>(103,265)</b>	(99,293)
2 <sup>nd</sup> interim income distribution of 5.65% (2017: 5.44%) on 1,805,333,083 units	<b>(102,001)</b>	(98,210)	<b>(102,001)</b>	(98,210)
3 <sup>rd</sup> interim income distribution of 5.71% (2017: 4.96%) on 1,805,333,083 units	<b>(103,085)</b>	(89,545)	<b>(103,085)</b>	(89,545)
4 <sup>th</sup> interim income distribution of 6.27% (2017: 5.05%) on 1,805,333,083 units	<b>(113,194)</b>	(91,169)	<b>(113,194)</b>	(91,169)
Balance undistributed	<b>383</b>	18,960	<b>389</b>	18,957

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE

FOR THE YEAR ENDED 31 DECEMBER 2018

	Non-Distributable		Distributable		Total Funds RM'000
	Unitholders' Capital RM'000	Merger Reserve RM'000	Capital Reserve RM'000	Retained Profits RM'000	
<b>As at 1 January 2018</b>	<b>7,212,684</b>	<b>6,212</b>	<b>422,828</b>	<b>408,540</b>	<b>8,050,264</b>
Effect of the adoption of new pronouncement	-	-	-	(3)	(3)
<b>As at 1 January 2018, restated</b>	<b>7,212,684</b>	<b>6,212</b>	<b>422,828</b>	<b>408,537</b>	<b>8,050,261</b>
Total comprehensive income for the year	-	-	-	440,661	440,661
Transfer of fair value surplus	-	-	(9,701)	9,701	-
Income distributions (Note 24)	-	-	-	(399,520)	(399,520)
Net total comprehensive income for the year attributable to unitholders	-	-	(9,701)	50,842	41,141
<b>As at 31 December 2018</b>	<b>7,212,684</b>	<b>6,212</b>	<b>413,127</b>	<b>459,379</b>	<b>8,091,402</b>
<b>As at 1 January 2017</b>	<b>7,212,684</b>	<b>6,212</b>	<b>341,332</b>	<b>351,983</b>	<b>7,912,211</b>
Total comprehensive income for the year	-	-	-	527,644	527,644
Transfer of fair value surplus	-	-	81,496	(81,496)	-
Income distributions (Note 24)	-	-	-	(389,591)	(389,591)
Net total comprehensive income for the year attributable to unitholders	-	-	81,496	56,557	138,053
<b>As at 31 December 2017</b>	<b>7,212,684</b>	<b>6,212</b>	<b>422,828</b>	<b>408,540</b>	<b>8,050,264</b>

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

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# STATEMENT OF CHANGES IN NET ASSET VALUE

## FOR THE YEAR ENDED 31 DECEMBER 2018

	Non-Distributable		Distributable		Total Funds RM'000
	Unitholders' Capital RM'000	Merger Reserve RM'000	Capital Reserve RM'000	Retained Profits RM'000	
<b>As at 1 January 2018</b>	<b>7,212,684</b>	<b>6,212</b>	<b>422,828</b>	<b>408,571</b>	<b>8,050,295</b>
Effect of the adoption of new pronouncement	-	-	-	(3)	(3)
<b>As at 1 January 2018, restated</b>	<b>7,212,684</b>	<b>6,212</b>	<b>422,828</b>	<b>408,568</b>	<b>8,050,292</b>
Total comprehensive income for the year	-	-	-	440,667	440,667
Transfer of fair value surplus	-	-	(9,701)	9,701	-
Income distributions (Note 24)	-	-	-	(399,520)	(399,520)
Net total comprehensive income for the year attributable to unitholders	-	-	(9,701)	50,848	41,147
<b>As at 31 December 2018</b>	<b>7,212,684</b>	<b>6,212</b>	<b>413,127</b>	<b>459,416</b>	<b>8,091,439</b>
<b>As at 1 January 2017</b>	7,212,684	6,212	341,332	352,017	7,912,245
Total comprehensive income for the year	-	-	-	527,641	527,641
Transfer of fair value surplus	-	-	81,496	(81,496)	-
Income distributions (Note 24)	-	-	-	(389,591)	(389,591)
Net total comprehensive income for the year attributable to unitholders	-	-	81,496	56,554	138,050
<b>As at 31 December 2017</b>	<b>7,212,684</b>	<b>6,212</b>	<b>422,828</b>	<b>408,571</b>	<b>8,050,295</b>

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

# STATEMENTS OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax	462,404	527,644	462,410	527,641
Adjustments for:				
Profit income	(3,195)	(4,733)	(3,195)	(4,733)
Financing costs	65,069	68,080	65,069	68,080
Accrued rental income	(29,937)	(48,480)	(29,937)	(48,480)
Depreciation of property, plant and equipment	293	108	293	108
Allowance for impairment losses	69	-	69	-
Fair value adjustments on investment properties	(12,042)	(81,496)	(12,042)	(81,496)
<b>Operating cash flows before changes in working capital</b>	<b>482,661</b>	<b>461,123</b>	<b>482,667</b>	<b>461,120</b>
Changes in working capital:				
Trade and other receivables	1,532	(3,111)	1,532	(3,111)
Trade and other payables	(34,770)	6,009	(34,792)	6,101
Cash generated from operations	449,423	464,021	449,407	464,110
Profit income received	3,205	5,108	3,205	5,108
<b>Net cash generated from operating activities</b>	<b>452,628</b>	<b>469,129</b>	<b>452,612</b>	<b>469,218</b>

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## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions for investment property (Note 6)	(2,744)	(2,205)	(2,744)	(2,205)
Purchase of property, plant and equipment (Note 5)	(1,416)	(1,061)	(1,416)	(1,061)
<b>Net cash used in investing activities</b>	<b>(4,160)</b>	<b>(3,266)</b>	<b>(4,160)</b>	<b>(3,266)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Income distributions paid	(399,364)	(388,158)	(399,364)	(388,158)
Financing cost paid	(60,179)	(65,476)	(60,179)	(65,476)
Proceeds from issuance of Islamic Medium Term Note ("IMTN")	-	100,000	-	100,000
Repayment of IMTN	-	(300,000)	-	(300,000)
<b>Net cash used in financing activities</b>	<b>(459,543)</b>	<b>(653,634)</b>	<b>(459,543)</b>	<b>(653,634)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(11,075)</b>	<b>(187,771)</b>	<b>(11,091)</b>	<b>(187,682)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>67,891</b>	<b>255,662</b>	<b>67,794</b>	<b>255,476</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 9)</b>	<b>56,816</b>	<b>67,891</b>	<b>56,703</b>	<b>67,794</b>

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 1. CORPORATE INFORMATION

The Fund is a Malaysia-domiciled real estate investment trust constituted pursuant to the Trust Deed dated 2 April 2013 (“the Deed”) entered into between the Manager and Maybank Trustees Berhad (“the Trustee”) and was registered with the Securities Commission Malaysia on 9 April 2013. The Fund was listed on the Main Market of Bursa Malaysia Securities Berhad on 9 May 2013. The registered office of the Manager is located at Level 54, Tower 2, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

The principal place of business of the Manager is located at Level 33 & 34, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur.

The immediate, penultimate and ultimate holding companies are KLCC Property Holdings Berhad (“KLCCP”), KLCC (Holdings) Sdn Bhd (“KLCCH”) and Petroliaam Nasional Berhad (“PETRONAS”) respectively, all of which are incorporated and domiciled in Malaysia.

The principal activities of the Fund are investing directly and indirectly, in a Shariah-compliant portfolio of income producing real estate used primarily for office and retail purposes as well as real estate related assets.

The principal activity of its subsidiary is stated in Note 7 to the financial statements.

The financial statements were authorised for issue by the Board of Directors of the Manager in accordance with a resolution of the Directors of the Manager on 24 January 2019.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group and of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards (“IFRSs”), applicable provisions of the Deed and the Securities Commission’s Guidelines on Real Estate Investment Trusts in Malaysia. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

The financial statements of the Group and of the Fund have also been prepared on a historical cost basis, except for investment properties and applicable financial instruments that have been measured at their fair values.

The financial statements are presented in Ringgit Malaysia (“RM”) and all values are rounded to the nearest thousand (RM’000) except when otherwise indicated.

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Basis of consolidation

#### Subsidiary

Subsidiary is an entity controlled by the Fund. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

#### Business combination

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured at the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquirer's identifiable net assets at the acquisition date.

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

The Group measures goodwill as the excess of the cost of an acquisition as defined above and the fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

All intercompany transactions are eliminated on consolidation and revenue and profits relate to external transactions only. Unrealised losses resulting from intercompany transactions are also eliminated unless cost cannot be recovered.

### 2.3 Business combination under common control

KLCC REIT applies merger accounting to account for business combinations under common control. Under the merger accounting, assets and liabilities acquired are not restated to their respective fair values but at their carrying amounts in the consolidated financial statements of the holding company. The difference between any consideration given and the aggregate carrying amounts of the assets and liabilities (at the date of the transaction) of the acquired business is recorded as merger reserve. No additional goodwill is recognised. The acquired business' results and the related assets and liabilities are recognised prospectively from the date on which the business combination between entities under common control occurred.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated on a straight line basis over the estimated useful life of the related assets.

Costs are expenditure that are directly attributable to the acquisition of the asset. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the items if it is probable that the future economic benefits embodied within the part will flow to the Fund and its cost can be measured reliably. The net book value of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

The estimated useful life for the current year is as follows:

Building improvements	5 to 6 years
Office equipment	5 years

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

An item of the property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss.

### 2.5 Investment

Investment in subsidiary is stated at cost less impairment loss, if any, in the Fund's financial statements. The cost of investment includes transaction cost.

On disposal of such investment, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.6 Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair value of investment properties are recognised in the profit or loss in the year in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group 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 when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the year in which they arise.

### 2.7 Impairment of non-financial assets

The Fund 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, the Fund 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 first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other 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 a reversal is recognised in profit or loss.

### 2.8 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short term deposits with an original maturity of 3 months or less.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.9 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Fund become a party to the contractual provisions of the instrument.

#### (i) Recognition and initial measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Fund's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Fund have applied the practical expedient, the Group and the Fund initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or if the period between performance and payment is 1 year or less under practical expedient of MFRS 15, are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Fund'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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place ("regular way trades") are recognised on the trade date, that is the date that the Group or the Fund commits to purchase or sell the asset.

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.9 Financial assets (Contd.)

#### (ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- (a) Financial assets at amortised cost (debt instruments)
- (b) Financial assets at fair value through OCI (debt instruments)
- (c) Financial assets at fair value through profit or loss

#### Financial assets at amortised cost

This category is the most relevant to the Group and the Fund. The Group and the Fund measure financial assets at amortised cost if both of the following conditions are met:

- i. The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

#### (iii) Derecognition

A financial asset is derecognised when:

- (a) The rights to receive cash flows from the asset have expired, or
- (b) The Group and the Fund have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - i. The Group and the Fund have transferred substantially all the risks and rewards of the asset, or
  - ii. The Group and the Fund have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.9 Financial Assets (Contd.)

#### (iii) Derecognition (Contd.)

When the Group and the Fund have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Fund continue to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group and the Fund also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Fund have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Fund would require to repay.

### 2.10 Impairment of Financial Assets

The Group and the Fund recognise an allowance for expected credit losses ("ECLs") for all debt instruments carried at amortised cost and fair value through OCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Fund expect to receive, discounted at an approximation of the original EIR. 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.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). 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 ECL).

For trade receivables, the Group and the Fund apply a simplified approach in calculating ECLs. Therefore, the Group and the Fund do not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Group and the Fund 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.

The Group and the Fund consider a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group and the Fund may also consider a financial asset to be in default when internal or external information indicates that the Group and the Fund are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Fund. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.11 Provisions

A provision is recognised when the Group and the Fund have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### 2.12 Financial Liabilities

#### (i) Recognition and initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's and the Fund's financial liabilities include trade and other payables and loans and borrowings.

#### (ii) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

##### **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 are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group and the Fund that are not designated as hedging instruments in hedge relationships as defined by MFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gain or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group and the Fund have not designated any financial liability as at fair value through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

## 31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.12 Financial Liabilities (Contd.)

#### (ii) Subsequent measurement (Contd.)

##### Loans and borrowings

This is the category most relevant to the Group and the Fund. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

#### (iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

### 2.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### 2.14 Financing costs

Financing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other financing costs are charged to the profit or loss as an expense in the year in which they are incurred.

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# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.15 Taxation

Tax expense in the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

#### (i) Current tax

Current tax expense is the expected tax payable on the taxable income for the period, using the statutory tax rate at the reporting date, and any adjustment to tax payable in respect of previous years.

#### (ii) Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused investment tax allowances, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused investment tax allowances, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is expected to be realised or the liability is expected to be settled, based on statutory tax rates and the tax laws that have been enacted at the reporting date.

Deferred tax provided for the investment properties is at 5% which reflects the expected manner of recovery of the investment properties.

### 2.16 Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Fund after deducting all of its liabilities. Units are classified as equity. Dividends on units are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

### 2.17 Capital reserve

Fair value adjustments on investment property are transferred from retained profits to capital reserve and such surplus will be considered distributable upon the sale of investment property.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.18 Merger reserve

KLCC REIT adopts merger accounting as its accounting policy to account for business combination under common control. In accordance with its policy, the difference between the fair value of the units issued as consideration and the aggregate carrying amount of assets and liabilities acquired as of the date of business combination is included in equity as merger reserve.

### 2.19 Revenue recognition

#### (i) Rental income

Rental income is recognised based on the accrual basis unless collection is in doubt, in which case it is recognised on the receipt basis.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight line basis over the shorter of the entire lease term or the period to the first break option. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the related property including the accrued rent does not exceed the external valuation.

#### (ii) Others

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group or the Fund recognise revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- (b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.

#### Profit income

Profit income is recognised on an accrual basis using the effective profit method.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.20 Leases

#### Operating leases - the Fund as lessor

Assets leased out under operating leases are presented on the statement of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

### 2.21 Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

### 2.22 Fair value measurement

The fair value of an asset or a liability, except for lease transactions, is determined as 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

#### (i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market prices within the bid-ask spread at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

#### (ii) Non-financial assets

For non-financial assets, the fair value measurement 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.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.22 Fair value measurement (Contd.)

When measuring the fair value of an asset or a liability, the Group and the Fund use observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable input).

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

## 3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2018, the Group and the Fund have adopted the following pronouncements that are applicable and have been issued by the Malaysian Accounting Standards Board ("MASB") as listed below:

### Effective for annual periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 15	Revenue from Contracts with Customers: Clarifications
Amendments to MFRS 140	Investment Property: Transfers to Investment Property

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## 3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTD.)

### Effective for annual periods beginning on or after 1 January 2018 (Contd.)

The principal changes in accounting policies and their effects are set out below:

#### (i) MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group and the Fund applied MFRS 9 retrospectively, with an initial application date of 1 January 2018. Under the transitional provisions of MFRS 9, the Group and the Fund have elected not to restate the comparative information, which continues to be reported under MFRS 139. Differences arising from the adoption of MFRS 9 have been recognised in opening retained earnings.

#### (a) Classification and measurement

Under MFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's and the Fund's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's and the Fund's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments solely consist of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of MFRS 9 did not have a significant impact to the Group and the Fund. The following are the changes in the classification of the Group's and the Fund's financial assets:

#### Trade receivables and other financial assets

Trade receivables and other financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortised cost.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTD.)

#### Effective for annual periods beginning on or after 1 January 2018 (Contd.)

##### (i) MFRS 9 Financial Instruments (Contd.)

##### (b) Impairment

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss ("ECL") model. Under MFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

Upon adoption of MFRS 9, the Group had recognised additional impairment on the Group's trade receivables which resulted in a decrease in retained profits of RM3,000 as at 1 January 2018. The impact to the Group's impairment allowances is as below:

	Allowance for impairment under MFRS 139 as at 31.12.2017 RM'000	Additional allowance RM'000	ECL under MFRS 9 as at 1.1.2018 RM'000
Allowance for impairment losses (Note 29)	-	(3)	(3)

##### (ii) MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfers of Assets from Customers and IC Interpretation 131, Revenue – Barter Transactions Involving Advertising Services. MFRS 15 provides a single model of accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The Group adopted MFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date.

The adoption of the MFRS 15 does not have any impact to the financial statements of the Group and the Fund.

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

#### 4.1 Critical judgement made in applying accounting policies

There are no critical judgements made by management in the process of applying the Group's and the Fund's accounting policies that have a significant effect on the amounts recognised in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)****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 amount of assets and liabilities within the next financial year is discussed below:

**Fair valuation of investment properties**

The Group and the Fund carry their investment properties at fair value, with changes in fair values being recognised in profit or loss. The Group and the Fund had engaged an independent professional valuer 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 valuer is most sensitive to the estimated yield rate and discount rate. The range of the yield rate and the discount rate used in the valuation is described in Note 6.

The following table demonstrates the sensitivity of the fair value measurement to changes in estimated term yield rate, discount rate and its corresponding sensitivity result in a higher or lower fair value measurement:

	Fair value	
	Increase/(decrease)	
	2018	2017
	RM'000	RM'000
<b>Yield rate</b>		
- 0.25%	259,557	250,040
+ 0.25%	(239,735)	(229,326)
<b>Discount rate</b>		
- 0.25%	133,206	142,401
+ 0.25%	(129,688)	(136,676)

The other key assumptions used to determine the fair value of the investment properties, are further explained in Note 6.

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. PROPERTY, PLANT AND EQUIPMENT

	Group/Fund			Total RM'000
	Building Improvements RM'000	Office Equipment RM'000	Work-in Progress RM'000	
<b>At 31 December 2018</b>				
<b>Cost</b>				
At 1 January 2018	930	51	552	1,533
Additions	456	2	958	1,416
Transfer	552	-	(552)	-
At 31 December 2018	1,938	53	958	2,949
<b>Accumulated Depreciation</b>				
At 1 January 2018	233	38	-	271
Charge for the year (Note 21)	283	10	-	293
At 31 December 2018	516	48	-	564
<b>Net Carrying Amount</b>	<b>1,422</b>	<b>5</b>	<b>958</b>	<b>2,385</b>
<b>At 31 December 2017</b>				
<b>Cost</b>				
At 1 January 2017	422	50	-	472
Additions	508	1	552	1,061
At 31 December 2017	930	51	552	1,533
<b>Accumulated Depreciation</b>				
At 1 January 2017	135	28	-	163
Charge for the year (Note 21)	98	10	-	108
At 31 December 2017	233	38	-	271
<b>Net Carrying Amount</b>	<b>697</b>	<b>13</b>	<b>552</b>	<b>1,262</b>

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## NOTES TO THE FINANCIAL STATEMENTS

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**6. INVESTMENT PROPERTIES**

	Group/Fund	
	2018 RM'000	2017 RM'000
At 1 January	9,176,045	9,092,344
Fair value adjustments	12,042	81,496
Additions during the year	2,744	2,205
At 31 December	9,190,831	9,176,045

The investment properties are stated at fair value, which have been determined based on valuations performed by an independent professional valuer. The valuation method used in determining the valuations is the investment method.

The following are recognised in profit or loss in respect of the investment properties:

	Group/Fund	
	2018 RM'000	2017 RM'000
Rental income	588,523	585,469
Direct operating expenses	(27,677)	(28,005)
	560,846	557,464

**Policy on transfer between levels**

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

**Level 1 fair value**

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can assess at the measurement date.

**Level 2 fair value**

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment properties, either directly or indirectly.

**Level 3 fair value**

Level 3 fair value is estimated using unobservable inputs for the investment property.

**Transfer between Level 1, 2 and 3 fair values**

There is no transfer between level 1, 2 and 3 fair values during the financial year.

Fair value of investment properties is classified as Level 3.

# NOTES TO THE FINANCIAL STATEMENTS

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## 6. INVESTMENT PROPERTIES (CONTD.)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique	Significant unobservable inputs	Range		Inter-relationship between significant unobservable inputs and fair value measurement
		2018	2017	
Investment method (refer below)	<b>Office:</b>			The estimated fair value would increase/(decrease) if:
	Market rental rate (RM/psf/month)			
	- Term	<b>8.50 - 10.88</b>	8.50 - 9.95	- expected market rental growth was higher/(lower)
	- Reversion	<b>9.00 - 12.71</b>	9.00 - 13.80	- expected market rental growth was higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	<b>2.00</b>	2.00	- expected inflation rate was lower/(higher)
	- Reversion	<b>2.00 - 2.40</b>	2.00	- expected inflation rate was lower/(higher)
	Void rate (%)	<b>5.00</b>	5.00	- void rate was lower/(higher)
	Term yield (%)	<b>5.50 - 6.00</b>	5.50 - 6.00	- term yield rate was lower/(higher)
	Reversionary yield (%)	<b>6.00 - 6.50</b>	6.00 - 6.50	- reversionary yield was lower/(higher)
	Discount rate (%)	<b>5.50 - 6.50</b>	6.50	- discount rate is lower/(higher)
	<b>Retail:</b>			The estimated fair value would increase/(decrease) if:
	Market rental rate (RM/psf/month)			
	- Term	<b>6.50 - 99.23</b>	9.60 - 94.50	- expected market rental growth was higher/(lower)
	- Reversion	<b>16.51 - 115.66</b>	25.00	- expected market rental growth was higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	<b>5.78</b>	5.65	- expected inflation rate was lower/(higher)
	- Reversion	<b>5.78</b>	6.23	- expected inflation rate was lower/(higher)
	Void rate (%)	<b>7.00</b>	10.00	- void rate was lower/(higher)
	Term yield (%)	<b>6.25</b>	6.50	- term yield rate was lower/(higher)
	Reversionary yield (%)	<b>6.75</b>	7.00	- reversionary yield was lower/(higher)
	Discount rate (%)	<b>6.25 - 6.75</b>	6.50	- 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.

### Valuation processes applied by the Group and the Fund for Level 3 fair value

The fair value of investment properties is determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The independent professional valuer provides the fair value of the Group's and of the Fund's investment properties portfolio annually. Changes in Level 3 fair values are analysed by the Management annually based on the valuation reports from the independent professional valuer.

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## NOTES TO THE FINANCIAL STATEMENTS

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## 6. INVESTMENT PROPERTIES (CONTD.)

Description of property	Tenure of land	Existing use	Location	Date of acquisition	Acquisition cost RM'000	Carrying value as at	Carrying value as at	Fair value as at	Fair value as at	Percentage of Net Asset Value as at	
						31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 %	31.12.2017 %
PETRONAS Twin Towers	Freehold	Office	Kuala Lumpur	10.04.2013	6,500,000	6,679,919	6,672,752	7,010,000	6,973,000	86.6	86.6
Menara 3 PETRONAS	Freehold	Office & retail	Kuala Lumpur	10.04.2013	1,790,000	1,975,605	1,972,100	2,052,200	2,049,000	25.4	25.5
Menara ExxonMobil	Freehold	Office	Kuala Lumpur	10.04.2013	450,000	535,307	531,193	536,700	533,700	6.6	6.6
					8,740,000	9,190,831	9,176,045	9,598,900	9,555,700		

## 7. INVESTMENT IN SUBSIDIARY

	Fund	
	2018 RM	2017 RM
Unquoted shares at cost	2	2

Details of the subsidiary which is incorporated in Malaysia are as follows:

Name of Subsidiary	Proportion of ownership interest		Principal Activity
	2018 %	2017 %	
Midciti Sukuk Berhad ("MSB")	100	100	To undertake the issuance of Islamic medium term notes ("Sukuk") under a medium term notes programme and all matters relating to it.

## 8. TRADE AND OTHER RECEIVABLES

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Non-Current</b>				
Accrued rental income	408,069	379,654	408,069	379,654
<b>Current</b>				
<b>Trade receivables</b>	458	712	458	712
<b>Other receivables</b>				
Other receivables and deposits	4,704	6,114	4,704	6,114
Amount due from a fellow subsidiary	91	41	91	41
Total other receivables	4,795	6,155	4,795	6,155
Total	5,253	6,867	5,253	6,867

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 8. TRADE AND OTHER RECEIVABLES (CONTD.)

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade receivables	458	712	458	712
Other receivables	4,795	6,155	4,795	6,155
Add: Cash and bank balances (Note 9)	56,816	67,891	56,703	67,794
Total financial assets carried at amortised cost	62,069	74,758	61,956	74,661

Amount due from a fellow subsidiary which arose in the normal course of business are unsecured, non-interest bearing and repayable on demand.

## 9. CASH AND BANK BALANCES

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and bank balances	223	151	145	87
Deposits with licensed banks	56,593	67,740	56,558	67,707
	56,816	67,891	56,703	67,794

The weighted average effective profit rate applicable to the deposits with licensed banks at the reporting date was 3.61% per annum (2017: 3.61% per annum).

Deposits with licensed banks have an average maturity of 31 days (2017: 25 days).

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## 10. UNITHOLDERS' CAPITAL

	Fund			
	Number of Units		Amount	
	2018 '000	2017 '000	2018 RM'000	2017 RM'000
<b>Issued and fully paid:</b>				
At 1 January/31 December	<b>1,805,333</b>	1,805,333	<b>7,212,684</b>	7,212,684

**Stapled Security:**

Stapled security means one unit in KLCC REIT is stapled to one ordinary share in KLCCP. Holders of KLCCP Group stapled securities are entitled to receive distributions and dividends as declared from time to time and are entitled to one vote per stapled security at Unitholders' and Shareholders' meetings.

Accordingly, the Fund does not have authorised unitholders' capital, or par value in respect of its issued units.

As at 31 December 2018, the Manager did not hold any units in the Fund. However, parties related to the Manager held units in the Fund as follows:

	Fund			
	Number of Units		Market value	
	2018 '000	2017 '000	2018 RM'000	2017 RM'000
<b>Direct unitholdings of parties related to the Manager</b>				
KLCCH	<b>1,167,639</b>	1,167,639	<b>8,944,115</b>	10,088,401
PETRONAS	<b>194,817</b>	194,817	<b>1,492,298</b>	1,683,219
	<b>1,362,456</b>	1,362,456	<b>10,436,413</b>	11,771,620
<b>Indirect unitholdings of parties related to the Manager</b>				
PETRONAS	<b>1,167,639</b>	1,167,639	<b>8,944,115</b>	10,088,401

The market value of the units held by the parties related to the Manager is determined by using the closing market value of the Fund as at 31 December 2018 of RM7.66 per unit (2017: RM8.64 per unit).

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## 11. OTHER LONG TERM LIABILITIES

	Group/Fund	
	2018 RM'000	2017 RM'000
Security deposits payable	93,777	85,074

Security deposits payable are interest-free, unsecured and refundable upon expiry of the respective lease agreements. The fair values at initial recognition were determined based on profit rates between 4.52% - 5.20% (2017: 4.52% - 5.20%) per annum.

## 12. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary relates to Sukuk undertaken by the subsidiary but utilised by the Fund. The profit expenses incurred on the financing is charged to the Fund. The short term amount due is unsecured and is repayable on demand. The long term amount due is unsecured and is not repayable within the next 12 months.

## 13. FINANCING

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Short term financing</b>				
Secured:				
Sukuk Murabahah	516,907	16,026	-	-
<b>Long term financing</b>				
Secured:				
Sukuk Murabahah	855,000	1,355,000	-	-
<b>Total financing</b>				
Secured:				
Sukuk Murabahah	1,371,907	1,371,026	-	-

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**13. FINANCING (CONTD.)****Terms and debt repayment schedule****Group**

	<b>Total RM'000</b>	<b>Under 1 year RM'000</b>	<b>1 - 2 years RM'000</b>	<b>2 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>
<b>31 December 2018</b>					
<b>Secured</b>					
Sukuk Murabahah	<b>1,371,907</b>	<b>516,907</b>	<b>-</b>	<b>400,000</b>	<b>455,000</b>
<b>31 December 2017</b>					
<b>Secured</b>					
Sukuk Murabahah	1,371,026	16,026	500,000	400,000	455,000

**(a) Sukuk Murabahah**

Sukuk Murabahah consists of Islamic Commercial Programme ("ICP") of up to RM500 million and Islamic medium term notes ("IMTN") of up to RM3 billion subject to a combined limit of RM3 billion. It is primarily secured against assignment and charge over the Finance Service Account and Revenue Account maintained by the REIT Trustee.

The Group had paid its RM300 million Sukuk Murabahah upon maturity on 25 April 2017 and on the same date issued RM100 million of Sukuk Murabahah with a profit rate of 4.09% per annum and maturing on 25 April 2019. Details of the drawdown that are outstanding as at year end are as follows:

<b>Tenure</b>	<b>Value (RM)</b>	<b>Profit rate</b>	<b>Maturity</b>
2 years	100,000,000	4.09%	25 April 2019
5 years	400,000,000	4.20%	25 April 2019
7 years	400,000,000	4.55%	25 April 2021
10 years	455,000,000	4.80%	25 April 2024

The profit rate is payable semi-annually and disclosed as short term financing.

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## 13. FINANCING (CONTD.)

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

	Sukuk Murabahah RM'000	Dividend payable RM'000	Total RM'000
<b>Balance at 1 January 2018</b>	<b>1,371,026</b>	<b>-</b>	<b>1,371,026</b>
<b>Changes from financing cash flows</b>			
Interest paid	(60,179)	-	(60,179)
Income distribution paid	-	(399,364)	(399,364)
<b>Total changes from financing cash flows</b>	<b>(60,179)</b>	<b>(399,364)</b>	<b>(459,543)</b>
<b>Other changes</b>			
Liability-related			
Interest expense	61,060	-	61,060
Dividend payable	-	399,364	399,364
<b>Total liability-related other changes</b>	<b>61,060</b>	<b>399,364</b>	<b>460,424</b>
<b>Balance at 31 December 2018</b>	<b>1,371,907</b>	<b>-</b>	<b>1,371,907</b>
<b>Balance at 1 January 2017</b>	<b>1,572,478</b>	<b>-</b>	<b>1,572,478</b>
<b>Changes from financing cash flows</b>			
Repayment of IMTN	(300,000)	-	(300,000)
Proceeds from issuance of IMTN	100,000	-	100,000
Interest paid	(65,476)	-	(65,476)
Income distribution paid	-	(388,158)	(388,158)
<b>Total changes from financing cash flows</b>	<b>(265,476)</b>	<b>(388,158)</b>	<b>(653,634)</b>
<b>Other changes</b>			
Liability-related			
Interest expense	64,024	-	64,024
Dividend payable	-	388,158	388,158
<b>Total liability-related other changes</b>	<b>64,024</b>	<b>388,158</b>	<b>452,182</b>
<b>Balance at 31 December 2017</b>	<b>1,371,026</b>	<b>-</b>	<b>1,371,026</b>

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## 14. DEFERRED TAX LIABILITY

	Group/Fund	
	2018 RM'000	2017 RM'000
At 1 January	-	-
Recognised in profit or loss (Note 22)	21,743	-
At 31 December	21,743	-

## 15. OTHER PAYABLES

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Non-Current</b>				
<b>Deferred revenue</b>	<b>40,001</b>	41,094	<b>40,001</b>	41,094
<b>Current</b>				
<b>Other payables</b>				
Other payables	26,600	62,417	26,597	62,414
Security deposits payable	4,140	3,029	4,140	3,029
Amount due to:				
Ultimate holding company	518	-	518	-
Holding company	249	1,805	181	986
Fellow subsidiaries	12,161	15,506	12,161	15,506
Other related companies	856	1,504	856	1,504
Total other payables	44,524	84,261	44,453	83,439
Add: Financing (Note 13)	1,371,907	1,371,026	-	-
Amount due to a subsidiary (Note 12)	-	-	1,371,828	1,371,720
Other long term liabilities (Note 11)	93,777	85,074	93,777	85,074
Total financial liabilities carried at amortised cost	1,510,208	1,540,361	1,510,058	1,540,233

Deferred revenue relates to the excess of the principal amount of security deposits received over their fair value which is accounted for as prepaid lease income and amortised over the lease term on a straight line basis.

Amount due to ultimate holding company, holding company, fellow subsidiaries and other related companies which arose in the normal course of business are unsecured, interest-free and repayable on demand.

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## 16. REVENUE

	Group/Fund	
	2018 RM'000	2017 RM'000
Investment properties		
- Office	557,500	551,735
- Retail	31,023	33,734
	<b>588,523</b>	585,469

## 17. PROPERTY OPERATING EXPENSES

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Utilities expenses	10,149	10,630	10,149	10,630
Maintenance expenses	9,939	10,084	9,939	10,084
Quit rent and assessment	3,441	3,441	3,441	3,441
Other operating expenses	6,586	5,864	6,580	5,867
	<b>30,115</b>	30,019	<b>30,109</b>	30,022

## 18. MANAGEMENT FEES

	Group/Fund	
	2018 RM'000	2017 RM'000
Base fee	28,820	28,692
Performance fee	16,752	16,663
	<b>45,572</b>	45,355

The Manager will receive the following fees from KLCC REIT:

- i) a base fee of 0.3% per annum of the total asset value of KLCC REIT (excluding cash and bank balances) at each financial year end.
- ii) a performance fee of 3.00% per annum of KLCC REIT's net property income in the relevant financial year.

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**19. TRUSTEE'S FEE**

In accordance with the Deed, an annual trusteeship fee of up to 0.025% per annum of the net asset value of KLCC REIT at each financial year end, subject to a maximum cap of RM600,000 per annum is to be paid to Trustee.

**20. FINANCING COSTS**

	Group/Fund	
	2018 RM'000	2017 RM'000
Profit expense:		
Sukuk Murabahah	61,060	64,024
Accretion of financial instruments	4,009	4,056
	<b>65,069</b>	68,080

**21. PROFIT BEFORE TAX**

The following amounts have been included in arriving at profit before tax:

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Audit fees	89	86	84	82
Valuation fees	524	523	524	523
Property manager fee	92	90	92	90
Depreciation (Note 5)	293	108	293	108
Impairment loss on trade receivables (Note 29)	69	-	69	-

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## 22. TAX EXPENSE

Pursuant to Section 61A of the Malaysian Income Tax Act, 1967 ("Act"), income of KLCC REIT will be exempted from tax provided that at least 90% of its total taxable income (as defined in the Act) is distributed to the unitholders' in the basis period of KLCC REIT for that year of assessment within two months after the close of the financial year. If the 90% distribution condition is not complied with or the 90% distribution is not made within two months after the close of KLCC REIT financial year which forms the basis period for a year of assessment, KLCC REIT will be subject to income tax at the prevailing statutory rate on its total taxable income. Income which has been taxed at the KLCC REIT level will have tax credits attached when subsequently distributed to unitholders.

As at the date of this financial statements, KLCC REIT has declared more than 90% of its distributable income to unitholders for the financial year ended 31 December 2018 accordingly. No provision for income tax expense has been made for the year.

Public Ruling 2/2015 clarified that a REIT is not a company but a trust, thus the applicable RPGT rate is that other than of a company. According to Budget 2019, the RPGT rate for gains from the disposal of properties, in the 6<sup>th</sup> and subsequent years, has been revised from 0% to 5%, for a category of 'other than company and other than non-citizen and non-permanent resident individual'.

Deferred tax liability has been provided for the investment properties held by KLCC REIT at 5% which reflects the expected manner of recovery of the investment properties, i.e. recovered through sale.

Reconciliation of the tax expense is as follows:

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit before taxation	<b>462,404</b>	527,644	<b>462,410</b>	527,641
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	<b>110,977</b>	126,635	<b>110,978</b>	126,634
Expenses not deductible for tax purposes	<b>1,522</b>	1,269	<b>1,521</b>	1,269
Income not subject to tax	<b>(112,499)</b>	(127,904)	<b>(112,499)</b>	(127,903)
Deferred tax recognised at different tax rate	<b>21,743</b>	-	<b>21,743</b>	-
Tax expense	<b>21,743</b>	-	<b>21,743</b>	-

## 23. BASIC EARNINGS PER UNIT

Basic earnings per unit amounts are calculated by dividing profit for the year attributable to unitholders of the Fund by the weighted average number of units in issue during the financial year.

	2018	2017
Profit attributable to unitholders of the Fund (RM'000)	<b>440,667</b>	527,641
Weighted average number of units in issue ('000)	<b>1,805,333</b>	1,805,333
Basic earnings per unit (sen)	<b>24.41</b>	29.22

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## 24. INCOME DISTRIBUTION

	Income distribution recognised in year 2018 RM'000	Net income distribution per unit 2018 Sen	Income distribution recognised in year 2017 RM'000	Net income distribution per unit 2017 Sen
<b>For the financial year ended 31 December 2018</b>				
A first interim income distribution of 5.72% on 1,805,333,083 units	103,265	5.72	-	-
A second interim income distribution of 5.65% on 1,805,333,083 units	102,001	5.65	-	-
A third interim income distribution of 5.71% on 1,805,333,083 units	103,085	5.71	-	-
<b>For the financial year ended 31 December 2017</b>				
A first interim income distribution of 5.50% on 1,805,333,083 units	-	-	99,293	5.50
A second interim income distribution of 5.44% on 1,805,333,083 units	-	-	98,210	5.44
A third interim income distribution of 4.96% on 1,805,333,083 units	-	-	89,545	4.96
A fourth interim income distribution of 5.05% on 1,805,333,083 units	91,169	5.05	-	-
<b>For the financial year ended 31 December 2016</b>				
A fourth interim income distribution of 5.68% on 1,805,333,083 units	-	-	102,543	5.68
	399,520	22.13	389,591	21.58

The fourth interim income distribution in respect of the financial year ended 31 December 2018, of 6.27% on 1,805,333,083 units amounting to an income distribution payable of RM113,194,000 will be payable on 28 February 2019.

The financial statements for the current year do not reflect this fourth interim income distribution. Such income distribution will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2019.

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## 24. INCOME DISTRIBUTION (CONTD.)

Distribution to unitholders is from the following sources:

	Group	
	2018 RM'000	2017 RM'000
Net property income	558,408	555,450
Profit income	3,195	4,733
Fair value adjustment of investment properties	12,042	81,496
	<b>573,645</b>	641,679
Less: Expenses	(111,241)	(114,035)
Less: Tax Expense	(21,743)	-
Profit for the year	440,661	527,644
Less: Non cash items	(18,733)	(130,467)
Add: Brought forward undistributed income available for distribution	40,850	21,890
Total available for income distribution	462,778	419,067
Less: Income distributed	(308,351)	(287,048)
Less: Income to be distributed on 28 February 2019	(113,194)	(91,169)
Balance undistributed income available for distribution	41,233	40,850
Distribution per unit (sen)	23.35	20.95

## 25. PORTFOLIO TURNOVER RATIO

	Group	
	2018	2017
Portfolio Turnover Ratio ("PTR") (times)	Nil	Nil

The calculation of PTR is based on the average of the total acquisitions of investments by the Group for the year to the average net asset value during the financial year.

PTR is nil for KLCC REIT as there were no new acquisitions and disposals of investments in the portfolio of KLCC REIT since the date of establishment of 9 April 2013 to 31 December 2018 except for the initial acquisition of the investment properties together with the related assets and liabilities which was completed on 3 May 2013.

Since the basis of calculating PTR can vary among REITs, there is no consistent or coherent basis for providing an accurate comparison of KLCC REIT's PTR against other REITs.

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**26. MANAGEMENT EXPENSE RATIO**

	Group	
	2018 RM'000	2017 RM'000
Total trust expenses	47,706	47,770
Net asset value at the end of the financial year	8,091,402	8,050,264
Less: Fourth interim income distribution	(113,194)	(91,169)
Net asset value at the end of the financial year, after interim income distribution	7,978,208	7,959,095
Management Expense Ratio ("MER")	0.60	0.60

The calculation of MER is based on the total fees and expenses incurred by the Group and the Fund in the financial year, including Manager's fee and Trustee's fee, auditors' remuneration, tax agent's fee, valuation fees and other Trust expenses to the net asset value (after the fourth interim income distribution) at the end of the respective financial year.

**27. COMMITMENTS****(a) Capital commitments**

	Group/Fund	
	2018 RM'000	2017 RM'000
<b>Approved but not contracted for</b>		
Property, plant and equipment	207	1,200
Investment properties	2,000	3,400
	2,207	4,600

**(b) Operating lease commitments - as lessor**

The Group has entered into non-cancellable commercial property lease on its investment properties. The future minimum rental receivable under this non-cancellable operating lease at the reporting date is as follows:

	Group/Fund	
	2018 RM'000	2017 RM'000
Not later than 1 year	537,062	521,540
Later than 1 year but not later than 5 years	2,155,985	2,128,778
More than 5 years	2,144,784	2,696,207
	4,837,831	5,346,525

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## 28. RELATED PARTY DISCLOSURES

### (a) Controlling related party relationships are as follows:

- (i) PETRONAS, the ultimate holding company, and its subsidiaries.
- (ii) KLCCH, the penultimate holding company, and its subsidiaries.
- (iii) KLCCP, the immediate holding company, and its subsidiaries.
- (iv) Subsidiary of the Fund as disclosed in Note 7.

### (b) Other than as disclosed elsewhere in the notes to the financial statements, the significant related party transactions are as follows:

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Federal Government of Malaysia</b>				
Goods and Service Tax ("GST")	(13,400)	(27,819)	(13,400)	(27,819)
Property licenses and other taxes	(3,441)	(3,441)	(3,441)	(3,441)
<b>Government of Malaysia's related entities</b>				
Purchase of utilities	(4,398)	(4,342)	(4,398)	(4,342)
<b>Ultimate Holding Company</b>				
Rental income	500,149	473,599	500,149	473,599
<b>Immediate Holding Company</b>				
Profit expense from Sukuk Murabahah	(4,090)	(2,801)	(4,090)	(2,801)
<b>Fellow subsidiaries</b>				
Management fees	(45,572)	(45,355)	(45,572)	(45,355)
Property management fees	(2,116)	(2,116)	(2,116)	(2,116)
Property maintenance fees	(8,166)	(8,151)	(8,166)	(8,151)
Property advertising and marketing fees	(698)	(660)	(698)	(660)
Carpark income	883	327	883	327
<b>Other related company</b>				
Chilled water supply	(5,700)	(6,070)	(5,700)	(6,070)

The Directors of the Manager are of the opinion that the above transactions and transactions detailed elsewhere were undertaken at mutually agreed terms between the parties in the normal course of business and the terms and conditions are established under negotiated terms.

Information regarding outstanding balances arising from related party transactions as at 31 December 2018 are disclosed in Notes 8 and 15.



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## 29. FINANCIAL INSTRUMENTS

### Financial Risk Management

The Group has a Risk Management Framework and Guidelines that set the foundation for the establishment of effective risk management across the Group.

The Group's and the Fund's goal in risk management is to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Fund. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

The Group and the Fund have exposure to credit risk, liquidity risk and market risk arising from its use of financial instruments in the normal course of the Group's and the Fund's business.

### Credit Risk

Credit risk is the potential exposure of the Group and the Fund to losses in the event of non-performance by counterparties. Credit risk arises from its operating activities, primarily for trade receivables and long term receivables. The credit risk arising from the Group's and the Fund's normal operations are controlled by individual operating units within the Group Risk Management Framework and Guidelines.

#### Receivables

The Group and the Fund minimise credit risk by entering into contracts with highly credit rated counterparties and through credit approval, financial limits and on-going monitoring procedures. Counterparties credit evaluation is done systematically using quantitative and qualitative criteria on credit risks specified by individual operating units. Depending on the creditworthiness of the counterparty, the Group and the Fund may require collateral or other credit enhancements.

The maximum exposure to credit risk for the Group and the Fund are represented by the carrying amount of each financial asset.

A significant portion of these receivables are regular customers who have been transacting with the Group and in the case of the Fund, a significant portion of these receivables are related companies.

The Group and the Fund use ageing analysis and credit limit review to monitor the credit quality of the receivables. The Fund monitors the results of its subsidiary regularly. Any customers exceeding their credit limit are monitored closely. With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

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## 29. FINANCIAL INSTRUMENTS (CONTD.)

### Credit Risk (Contd.)

#### Receivables (Contd.)

With respect to the trade and other receivables which have no realistic prospect of recovery, the gross carrying amounts of the credit impaired receivables will be written off (either in partial or in full).

As at the end of the reporting year, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The ageing of trade receivables net of impairment losses as at the end of the reporting period is analysed below:

	Group/Fund	
	2018 RM'000	2017 RM'000
<b>At net</b>		
Current	364	579
Past due 1 to 30 days	18	87
Past due 31 to 60 days	5	3
Past due 61 to 90 days	11	18
Past due more than 90 days	132	25
	<b>530</b>	712
Trade receivables	530	712
Less: Impairment losses	(72)	-
Net trade receivable (Note 8)	<b>458</b>	712

The movements in the allowance account are as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under MFRS 139.

	Group/Fund	
	2018 RM'000	2017 RM'000
At 1 January		194
Adjustment on initial application of MFRS 9 (Note 3 (1)(b))	3	-
At 1 January, restated	3	194
Impairment written off	-	(194)
Impairment loss on trade receivables (Note 21)	69	-
At 31 December	<b>72</b>	-

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## 29. FINANCIAL INSTRUMENTS (CONTD.)

### Credit Risk (Contd.)

#### Receivables (Contd.)

#### Recognition and measurement of impairment loss

The adoption of MFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

In determining the ECL, the probability of default assigned to each customer is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information.

There are trade receivables where the Group has not recognised any loss allowance as the trade receivables are secured by collateral and /or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

The Group and the Fund do not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2018.

### Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises from the requirement to raise funds for the Group's and the Fund's businesses on an ongoing basis as a result of the existing and future commitments which are not funded from internal resources. As part of its overall liquidity management, the Group and the Fund maintain sufficient levels of cash or cash convertible investments to meet their working capital requirements. As far as possible, the Group and the Fund raise committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

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## 29. FINANCIAL INSTRUMENTS (CONTD.)

### Liquidity Risk (Contd.)

#### Maturity analysis

The table below summarises the maturity profile of the Group's and the Fund's financial liabilities as at the reporting date based on undiscounted contractual payments:

31 December 2018	Carrying amount RM'000	Effective profit rate %	Contractual cash flow RM'000	Within 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
<b>Group</b>							
<b>Financial Liabilities</b>							
Sukuk Murabahah	1,371,907	4.50	1,536,774	563,529	40,150	471,155	461,940
Other payables	44,524	-	44,524	44,524	-	-	-
Other long term liabilities	93,777	4.98	135,094	-	8,505	3,746	122,843
<b>Fund</b>							
<b>Financial Liabilities</b>							
Other payables	44,453	-	44,453	44,453	-	-	-
Amount due to a subsidiary	1,371,828	-	1,371,828	516,828	-	400,000	455,000
Other long term liabilities	93,777	4.98	135,094	-	8,505	3,746	122,843

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## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**29. FINANCIAL INSTRUMENTS (CONTD.)****Liquidity Risk (Contd.)****Maturity analysis (Contd.)**

31 December 2017	Carrying amount RM'000	Effective profit rate %	Contractual cash flow RM'000	Within 1 year RM'000	1 - 2 year RM'000	2 - 5 years RM'000	More than 5 years RM'000
<b>Group</b>							
<b>Financial Liabilities</b>							
Sukuk Murabahah	1,371,026	4.50	1,535,893	16,026	546,622	489,464	483,781
Other payables	84,261	-	84,261	84,261	-	-	-
Other long term liabilities	85,074	5.01	130,453	-	5,894	7,073	117,486
<b>Fund</b>							
<b>Financial Liabilities</b>							
Other payables	83,439	-	83,439	83,439	-	-	-
Amount due to a subsidiary	1,371,720	-	1,371,720	16,720	500,000	400,000	455,000
Other long term liabilities	85,074	5.01	130,453	-	5,894	7,073	117,486

**Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: profit rate risk, foreign currency risk and other price risk, such as equity risk and commodity risk.

Financial instruments affected by market risk include financing and deposits.

**Profit Rate Risk**

Profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market profit rates. Fair value profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market profit rates. As the Group has no significant profit-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market profit rates. The Group's and the Fund's profit-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

The Group's and the Fund's profit rate risk arises primarily from profit-bearing financing. Financing at variable rates expose the Group to cash flow profit rate risk. Financing obtained at fixed rates expose the Group and the Fund to fair value profit rate risk. The Group and the Fund manage their profit expense rate exposure through a balanced portfolio of fixed and variable rate financing.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 29. FINANCIAL INSTRUMENTS (CONTD.)

### Profit Rate Risk (Contd.)

The profit rate profile of the Group's and the Fund's profit-bearing financial instruments based on carrying amount as at reporting date was:

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Fixed rate instruments</b>				
Financial assets	56,593	67,740	56,558	67,707
Financial liabilities	(1,371,907)	(1,371,026)	-	-

### Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group and the Fund operate predominantly in Malaysia and transacts mainly in Malaysian Ringgit. As such, it is not exposed to any significant foreign currency risk.

### Fair Value Information

The Group's and the Fund's financial instruments consist of cash and cash equivalents, investments and financing, trade and other receivables, financing, other payables and various debt.

The carrying amounts of cash and cash equivalents, trade and other receivables, other payables and short term financing approximate their fair values due to the relatively short term nature of these financial instruments.

The carrying amount of other long term liabilities approximate its fair value amount.

The following table analyses financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

Group	Fair value of financial instruments not carried at fair value				Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	
<b>2018</b>					
<b>Financial liabilities</b>					
Sukuk Murabahah	-	1,341,313	-	1,341,313	1,371,907
<b>2017</b>					
<b>Financial liabilities</b>					
Sukuk Murabahah	-	1,224,369	-	1,224,369	1,371,026

For other financial instruments listed above, fair values have been determined by discounting expected future cash flows at market incremental lending rate for similar types of financing at the reporting date.

There has been no transfer between Level 1, 2 and 3 fair values during the financial year.

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# NOTES TO THE FINANCIAL STATEMENTS

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## 31. SEGMENT INFORMATION (CONTD.)

### (b) Allocation basis and transfer pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise profit-earning assets and revenue, profit-bearing financing and corporate assets and expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. Inter-segment transactions have been entered into in the normal course of business and have been established on commercial basis. These transfers are eliminated on consolidation.

### Business Segments

31 December 2018

	Property investment - Office RM'000	Property investment - Retail RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
<b>Revenue</b>				
Revenue from external customers	557,500	31,023	-	588,523
<b>Results</b>				
Net property income	537,823	20,585	-	558,408
Profit income				3,195
Fair value adjustment on investment properties				12,042
Management fees				(45,572)
Trustee's fees				(600)
Financing costs				(65,069)
Tax expense				(21,743)
Profit after tax				440,661
Depreciation				293
Non-cash items other than depreciation				(19,026)
<b>Total assets</b>	<b>9,010,246</b>	<b>653,108</b>	<b>-</b>	<b>9,663,354</b>
<b>Total liabilities</b>	<b>1,548,464</b>	<b>23,488</b>	<b>-</b>	<b>1,571,952</b>

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## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**31. SEGMENT INFORMATION (CONTD.)****(b) Allocation basis and transfer pricing (Contd.)****Business Segments (Contd.)****31 December 2017**

	Property investment - Office RM'000	Property investment - Retail RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
<b>Revenue</b>				
Revenue from external customers	551,735	33,734	-	585,469
<b>Results</b>				
Net property income	532,412	23,038	-	555,450
Profit income				4,733
Fair value adjustment on investment properties				81,496
Management fees				(45,355)
Trustee's fees				(600)
Financing costs				(68,080)
Profit after tax				527,644
Depreciation				108
Non-cash items other than depreciation				(130,575)
<b>Total assets</b>	<b>8,978,676</b>	<b>653,043</b>	<b>-</b>	<b>9,631,719</b>
<b>Total liabilities</b>	<b>1,560,888</b>	<b>20,567</b>	<b>-</b>	<b>1,581,455</b>



# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 32. PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and/or the Fund in these financial statements:

### Effective for annual periods beginning on or after 1 January 2019

MFRS 16	Leases
Amendments to MFRS 123	Borrowing Costs: Borrowing Costs Eligible for Capitalisation (Annual Improvements to MFRS 2015-2017 Cycle)
IC Interpretation 23	Uncertainty over Income Tax Treatments

The adoption of MFRS 16 is expected to have following impact on initial application:

#### (i) Leases in which the Group is a lessee.

The Group will recognise new assets and liabilities for its operating leases. Nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Currently, the Group recognises operating lease on a straight-line basis over the term of the lease.

The Group and the Fund have assessed the estimated impact and the initial application of MFRS 16 will not have a material impact on its opening retained earnings and its statement of financial position as at 1 January 2019.

#### (ii) Leases in which the Group is a lessor.

The Group expects the current accounting treatment remain. Based on the information currently available, there are no contracts that are or contain a lease in which the Group expects to reclassify as a finance lease.

### Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 3	Business Combinations (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 101	Presentation of Financial Statements (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 134	Interim Financial Reporting (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 138	Intangible Assets (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 132	Intangible Assets—Web Site Costs (Amendments to References to the Conceptual Framework in MFRS Standards)

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 32. PRONOUNCEMENTS YET IN EFFECT (CONTD.)

### Effective for annual periods beginning on or after 1 January 2021

MFRS 137	Insurance Contracts
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The adoption of the above pronouncements is not expected to have material impact on the financial statements of the Group and of the Fund in the period of initial application.

## 33. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE FUND

The MASB has issued pronouncements which are not effective, but for which are not relevant to the operations of the Group and of the Fund and hence, no further disclosure is warranted.

### Effective for annual periods beginning on or after 1 January 2019

Amendments to MFRS 9	Financial Instruments: Prepayment Features with Negative Compensation
Amendments to MFRS 3	Business Combinations: Previously Held Interest in a Joint Operation (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 11	Joint Arrangements: Previously Held Interest in a Joint Operation (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 112	Income Taxes: Income Tax Consequences of Payments on Financial Instruments Classified as Equity (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Long-term Interest in Associates and Joint Ventures
Amendments to MFRS 119	Employee Benefits: Plan Amendment, Curtailment or Settlement

### Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 2	Share-based Payment (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 6	Exploration for and Evaluation of Mineral Resources (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 14	Regulatory Deferral Accounts (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to IC Interpretation 12	Service Concession Arrangements (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 22	Foreign Currency Transactions and Advance Consideration (Amendments to References to the Conceptual Framework in MFRS Standards)

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 33. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE FUND (CONTD.)

### Effective for a date yet to be confirmed

Amendments to MFRS 10	Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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# INDEPENDENT AUDITORS' REPORT

## TO THE UNITHOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of KLCC Real Estate Investment Trust ("KLCC REIT" or the "Fund"), which comprise the statements of financial position as at 31 December 2018 of the Group and of the Fund, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Fund 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 319 to 371.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2018, and of their 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 Securities Commission's Guidelines on Real Estate Investment Trusts in 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 the Group and of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Fund for the current year. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Fund. The key audit matters for the audit of the financial statements of the Group are described below. These matters were addressed in the context of our audit of the financial statements of the Group 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.

## INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

### Valuation of investment properties

As at 31 December 2018, the carrying value of the Group's investment properties amounted to RM9,190,831,000 which represents 95% of the Group's total assets. The Group adopts the fair value model for its investment properties. The valuation of investment properties is significant to our audit due to their magnitude, complex valuation method and high dependency on a range of estimates (amongst others, rental income data, yield rate and discount rate) which are based on current and future market or economic conditions. The Group had engaged an external valuer to determine the fair value of the investment properties at the reporting date.

Our audit procedures focused on the valuations performed by firms of independent valuers, which included, amongst others, the following procedures:

- We considered the objectivity, independence and expertise of the firms of independent valuers;
- 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 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. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and held further discussions with the valuers;
- 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; and
- We also evaluated the Group's disclosures on those assumptions to which the outcome of the valuation is most sensitive. The Group's disclosures on the valuation sensitivity and significant assumptions used, including relationships between key unobservable inputs and fair values, are included in Notes 4.2 and 6 to the financial statements respectively.

### Information other than the financial statements and auditors' report thereon

The Manager of the Fund is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Fund and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Fund 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 the Group and of the Fund, 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 the Group and of the Fund 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 in this regard.

### Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of financial statements of the Group and of the Fund that give a true and fair view in accordance with MFRS, IFRS and the requirements of the Securities Commission's Guidelines on Real Estate Investment Trusts in Malaysia. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of the Group and of the Fund that are free from material misstatement, whether due to fraud or error.



# INDEPENDENT AUDITORS' REPORT

## TO THE UNITHOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

### **Responsibilities of the Manager for the financial statements (contd.)**

In preparing the financial statements of the Group and of the Fund, the Manager is responsible for assessing the Group's and the Fund'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 the Group or the Fund or to cease operations, or has no realistic alternative to do so.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Fund 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. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Fund, 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 the Group's and the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Fund'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 the Group and of the Fund 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 the Group or the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Fund, including the disclosures, and whether the financial statements of the Group and of the Fund 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 or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Manager 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.

# INDEPENDENT AUDITORS' REPORT

## TO THE UNITHOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

### Auditors' responsibilities for the audit of the financial statements (Contd.)

We also provide the Manager 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 the Manager, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Fund for the current year 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 the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

### Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

24 January 2019

### Ismed Darwis bin Bahatlar

No. 02921/04/2020 J

Chartered Accountant

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# ANALYSIS OF SHAREHOLDINGS AND UNITHOLDINGS AS AT 18 JANUARY 2019

For the purpose of Main Market Listing Requirements of Bursa Malaysia Securities Berhad, both KLCC Property Holdings Berhad ("KLCCP") and KLCC Real Estate Investment Trust ("KLCC REIT") are classified as "listed issuers".

Listed Issuer	: KLCC Property Holdings Berhad
Issued Share Capital	: 1,805,333,083 Ordinary Shares
No. of Shareholders	: 5,718
Voting Rights	: One vote for each share

Listed Issuer	: KLCC Real Estate Investment Trust
Approved Fund Size	: 1,805,333,085 Units
Total Issued Units	: 1,805,333,083 Units
No. of Unitholders	: 5,718
Voting Rights	: One vote for each unit

Under the "stapled" structure, all ordinary shares of KLCCP are stapled together with all units of KLCC REIT ("Stapled Securities"). Therefore, the information on Distribution of the Stapled Securities Holdings, Directors' Interest in Listed Issuers, Substantial Stapled Securities Holders of the Listed Issuers and Thirty Largest Stapled Securities Holders stated below is based on Stapled Securities structure.

## DISTRIBUTION OF STAPLED SECURITIES HOLDINGS

Size of Stapled Securities Holdings	No. of Stapled Securities Held	(%)	No. of Stapled Securities Holders	(%)
Less than 100	8,009	0.000	928	16.229
100 to 1,000	1,569,409	0.086	2,558	44.735
1,001 to 10,000	6,835,092	0.378	1,740	30.430
10,001 to 100,000	11,816,285	0.654	335	5.858
100,001 to less than 5% of issued stapled securities	422,648,505	23.411	154	2.693
5% and above of issued stapled securities	1,362,455,783	75.468	3	0.052
<b>Total</b>	<b>1,805,333,083</b>	<b>100.000</b>	<b>5,718</b>	<b>100.000</b>

## ANALYSIS OF SHAREHOLDINGS AND UNITHOLDINGS

### DIRECTORS' INTERESTS IN THE LISTED ISSUERS

None of the Directors of the Listed Issuers have any interest in the Stapled Securities.

### DIRECTORS' INTERESTS IN RELATED CORPORATIONS

PETRONAS Chemicals Group Berhad				
Name	Direct		Indirect	
	No. of Shares	(%)	No. of Shares	(%)
Datuk Ahmad Nizam bin Salleh	10,000	0.000	-	-
Dato' Halipah binti Esa	10,000	0.000	13,100*	0.000
Datuk Hashim bin Wahir	16,000	0.000	-	-

\* Deemed interest by virtue of Dato' Halipah's family members' shareholding.

PETRONAS Gas Berhad				
Name	Direct		Indirect	
	No. of Shares	(%)	No. of Shares	(%)
Datuk Ahmad Nizam bin Salleh	2,000	0.000	-	-

MISC Berhad				
Name	Direct		Indirect	
	No. of Shares	(%)	No. of Shares	(%)
Dato' Halipah binti Esa	-	-	10,000 *	0.000

\* Deemed interest by virtue of Dato' Halipah's family members' shareholding.

Malaysia Marine and Heavy Engineering Holdings Berhad				
Name	Direct		Indirect	
	No. of Shares	(%)	No. of Shares	(%)
Dato' Halipah binti Esa	10,000	0.000	10,000*	0.000

\* Deemed interest by virtue of Dato' Halipah's family members' shareholding.

### SUBSTANTIAL STAPLED SECURITIES HOLDERS OF THE LISTED ISSUERS

Name	Direct		Indirect	
	No. of Stapled Securities Held	(%)	No. of Stapled Securities Held	(%)
1. KLCC (Holdings) Sdn Bhd	1,167,638,804	64.677	-	-
2. CIMB Group Nominees (Tempatan) Sdn Bhd [Exempt AN for Petroliaam Nasional Berhad]	194,816,979	10.791	1,167,638,804*	64.677

# Deemed interest in 1,167,638,804 stapled securities held by KLCC (Holdings) Sdn Bhd by virtue of PETRONAS 100% direct interest in KLCC (Holdings) Sdn Bhd.

## ANALYSIS OF SHAREHOLDINGS AND UNITHOLDINGS

### THIRTY LARGEST STAPLED SECURITIES HOLDERS

No.	Name	No. of Stapled Securities	(%)
1.	KLCC (HOLDINGS) SDN BHD	617,700,294	34.215
2.	KLCC (HOLDINGS) SDN BHD	549,938,510	30.461
3.	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD (EXEMPT AN FOR PETROLIAM NASIONAL BERHAD)	194,816,979	10.791
4.	AMANAHRAYA TRUSTEES BERHAD (AMANAHA SAHAM BUMIPUTERA)	86,508,200	4.791
5.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD (EMPLOYEES PROVIDENT FUND BOARD)	62,314,275	3.451
6.	VALUECAP SDN BHD	37,254,400	2.063
7.	AMANAHRAYA TRUSTEES BERHAD (AMANAHA SAHAM MALAYSIA)	18,236,200	1.010
8.	AMANAHRAYA TRUSTEES BERHAD (AMANAHA SAHAM MALAYSIA 3)	17,111,400	0.947
9.	AMANAHRAYA TRUSTEES BERHAD (AMANAHA SAHAM MALAYSIA 2 – WAWASAN)	15,194,200	0.841
10.	PERMODALAN NASIONAL BERHAD	14,615,000	0.809
11.	MAYBANK NOMINEES (TEMPATAN) SDN BHD (MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240))	13,000,000	0.720
12.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD (EXEMPT AN FOR AIA BHD)	10,823,500	0.599
13.	AMANAHRAYA TRUSTEES BERHAD (AMANAHA SAHAM BUMIPUTERA 2)	9,246,000	0.512
14.	AMANAHRAYA TRUSTEES BERHAD (PUBLIC ISLAMIC DIVIDEND FUND)	7,572,000	0.419
15.	HSBC NOMINEES (ASING) SDN BHD (JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND)	7,425,346	0.411
16.	CARTABAN NOMINEES (TEMPATAN) SDN BHD (PAMB FOR PRULINK EQUITY FUND)	6,637,800	0.367
17.	HSBC NOMINEES (ASING) SDN BHD (JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND)	6,091,100	0.337
18.	HSBC NOMINEES (TEMPATAN) SDN BHD (HSBC (M) TRUSTEE BHD FOR ZURICH LIFE INSURANCE MALAYSIA BERHAD (LIFE PAR))	5,907,200	0.327
19.	AMANAHRAYA TRUSTEES BERHAD (PUBLIC ITTIKAL SEQUEL FUND)	5,200,300	0.288
20.	MAYBANK NOMINEES (TEMPATAN) SDN BHD (MTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI) (419455))	4,620,500	0.255
21.	AMANAHRAYA TRUSTEES BERHAD (AMANAHA SAHAM BUMIPUTERA 3 – DIDIK)	4,114,200	0.227
22.	AMANAHRAYA TRUSTEES BERHAD (ASN UMBRELLA FOR ASN EQUITY 3)	3,742,900	0.207
23.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD (EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN))	3,650,600	0.202



## ANALYSIS OF SHAREHOLDINGS AND UNITHOLDINGS

No.	Name	No. of Stapled Securities	(%)
24.	PERTUBUHAN KESELAMATAN SOSIAL	3,644,083	0.201
25.	AMANAHRAYA TRUSTEES BERHAD (PUBLIC ISLAMIC EQUITY FUND)	3,486,700	0.193
26.	AMANAHRAYA TRUSTEES BERHAD (ASN UMBRELLA FOR ASN IMBANG (MIXED ASSET BALANCED) 2)	3,256,400	0.180
27.	CITIGROUP NOMINEES (ASING) SDN BHD (CNBY FOR DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO OF DFA INVESTMENT DIMENSIONS GROUP INC)	3,151,500	0.174
28.	AMANAHRAYA TRUSTEES BERHAD (PUBLIC ISLAMIC SELECT ENTERPRISES FUND)	2,984,600	0.165
29.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD (EMPLOYEES PROVIDENT FUND BOARD (AMUNDI))	2,400,000	0.132
30.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD (KUMPULAN WANG PERSARAAN (DIPERBADANKAN)(MIDF ABSR EQ))	2,370,300	0.131

# LIST OF PROPERTIES OF KLCCP STAPLED GROUP AS AT 31 DECEMBER 2018

## 1) KLCC Property Holdings Berhad

Registered Owner	Particulars of land title	Date of Revaluation (Tenure)	Description/ Existing use	Land area (sq m)	Built-up area (sq m)	Age of building	Audited net carrying amount as at 31.12.2018 (RM mil)
Suria KLCC Sdn Bhd	Grant 43698 Lot 170, Seksyen 58, Town & District of Kuala Lumpur	25.10.18 (Freehold)	A 6 storey retail centre (Suria KLCC)/ Shopping Centre	28,160	143,569	20 years	5,444.1*
Asas Klasik Sdn Bhd	Grant 43700 Lot 172, Seksyen 58, Town & District of Kuala Lumpur	3.12.18 (Freehold)	An international class hotel comprising hotel rooms and service apartments (Mandarin Oriental, Kuala Lumpur)/Hotel	8,094	92,783	20 years	648.4
Impian Cemerlang Sdn Bhd	Grant 43701, Lot 173, Seksyen 58, Town of Kuala Lumpur	9.10.2018 (Freehold)	Vacant Land	5,726	-	-	310.8*
Kompleks Dayabumi Sdn Bhd	Lot 38 and Lot 45, all within Seksyen 70, Town & District of Kuala Lumpur held under title no. PN 2395 and PN 33471 respectively	22.10.2018 (Leasehold of 99 year expiring on 27.1.2079)	A 36-storey office building (Menara Dayabumi) and a parcel of vacant contiguous commercial land/ Office building	Lot 38: 52 sq m	125,988	36 years	769.2**
				Lot 39: 2,166 sq m			
	Lot 45: 25,790 sq m						
	Lot 51: 1,331 sq m						
PN 4073, Lot 39, Seksyen 70, Town & District of Kuala Lumpur	22.10.2018 (Leasehold interest for 99 years expiring on 9.11.2081)						
PN 32233, Lot 51, Seksyen 70, Town & District of Kuala Lumpur	22.10.2018 (Leasehold of 98 years expiring on 21.1.2079)			<b>Total: 29,339 sq m</b>			

## LIST OF PROPERTIES OF KLCCP STAPLED GROUP

### 2) KLCC Real Estate Investment Trust

Registered Owner	Particulars of land title	Date of Revaluation (Tenure)	Description/ Existing use	Land area (sq m)	Built-up area (sq m)	Age of building	Audited net carrying amount as at 31.12.2018 (RM mil)
Maybank Trustees Berhad as trustee of KLCC Real Estate Investment Trust	Grant 43685 Lot 157, Seksyen 58, Town & District of Kuala Lumpur	17.10.18 (Freehold)	A 29 storey office building with 3 basement levels (Menara ExxonMobil)/ Office building	3,999	74,369	22 years	535.3*
Maybank Trustees Berhad as trustee of KLCC Real Estate Investment Trust	Grant 43699 Lot 171, Seksyen 58, Town & District of Kuala Lumpur	17.10.18 (Freehold)	A 58-storey office tower (Menara 3 PETRONAS) cum shopping podium and basement car park/ Office building & retail podium	4,302	155,296	7 years	1,975.6*
Maybank Trustees Berhad as trustee of KLCC Real Estate Investment Trust	Grant 43697 Lot 169, Seksyen 58, Town & District of Kuala Lumpur	18.10.18 (Freehold)	Two 88-storey office towers (PETRONAS Twin Towers)/Office building	21,740	510,917	21 years	6,679.9*

\* Investment Properties stated at fair value

\*\* Investment Properties stated at fair value and IPUC stated at cost

# NOTICE OF ANNUAL GENERAL MEETING

## KLCC PROPERTY HOLDINGS BERHAD

(Co. No. 641576-U)  
(Incorporated in Malaysia)

## KLCC REAL ESTATE INVESTMENT TRUST

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

NOTICE IS HEREBY GIVEN THAT the Sixth Annual General Meeting ("6<sup>th</sup> AGM") of KLCC Real Estate Investment Trust ("KLCC REIT") and the Sixteenth Annual General Meeting ("16<sup>th</sup> AGM") of KLCC Property Holdings Berhad (the "Company" or "KLCCP") will be held concurrently at the Sapphire Room, Level 1, Mandarin Oriental Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia on 3 April 2019, Wednesday at 10.30 a.m. for the following purposes:

### A. KLCC REIT

#### AS ORDINARY BUSINESS:

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 of KLCC REIT together with the Reports attached thereon.

(Please refer to  
Note 7)

#### AS SPECIAL BUSINESS:

To consider and if thought fit, to pass, with or without modifications, the following resolution:

2. Proposed Unitholders' Mandate to Issue New Units pursuant to Paragraph 6.59 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

"THAT pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") and the approval of the relevant regulatory authorities, where such approval is required and subject to passing of Resolution VII of KLCCP, approval be and is hereby given to the Directors of KLCC REIT Management Sdn Bhd, the manager for KLCC REIT (the "**Manager**"), to issue new units in KLCC REIT ("**New Units**") from time to time to such persons and for such purposes and upon such terms and conditions as the Directors of the Manager may in their absolute discretion deem fit, provided that the number of New Units to be issued, when aggregated with the number of units in KLCC REIT issued during the preceding 12 months, must not exceed 10% of the total number of units issued of KLCC REIT for the time being and provided further that such corresponding number of new ordinary shares in KLCCP equal to the number of New Units shall be issued and every one New Unit shall be stapled to one new ordinary share upon issuance to such persons ("**Proposed KLCC REIT Mandate**") and the Directors of the Manager be and are hereby also empowered to obtain the approval for the listing of and quotation for such new stapled securities comprising ordinary shares in KLCCP stapled together with the units in KLCC REIT ("**Stapled Securities**") on the Main Market of Bursa Securities.

THAT such approval shall continue to be in force until:

- (i) the conclusion of the next Annual General Meeting of the unitholders held after the approval was given;
- (ii) the expiration of the period within which the next Annual General Meeting of the unitholders is required to be held after the approval was given; or
- (iii) revoked or varied by resolution passed by the unitholders in a unitholders' meeting,

## NOTICE OF ANNUAL GENERAL MEETING

whichever is the earlier.

THAT the New Units to be issued pursuant to the Proposed KLCC REIT Mandate shall, upon issue and allotment, rank pari passu in all respects with the existing units of KLCC REIT, except that the New Units will not be entitled to any income distribution, right, benefit, entitlement and/or any other distributions, in respect of which the entitlement date is prior to the date of allotment of such New Units.

THAT authority be and is hereby given to the Directors of the Manager and Maybank Trustees Berhad (the "Trustee"), acting for and on behalf of KLCC REIT, to give effect to the Proposed KLCC REIT Mandate with full powers to assent to any conditions, modifications, variations and/or amendments as they may deem fit in the best interest of KLCC REIT and/or as may be imposed by the relevant authorities.

AND FURTHER THAT the Directors of the Manager and the Trustee, acting for and on behalf of KLCC REIT, be and are hereby authorised to implement, finalise, complete and take all necessary steps and to do all acts (including execute such documents as may be required), deeds and things in relation to the Proposed KLCC REIT Mandate."

**Resolution 1**

### B. KLCCP

#### AS ORDINARY BUSINESS:

3. To receive the Audited Financial Statements for the financial year ended 31 December 2018 of the Company and the Reports of the Directors and Auditors thereon. (Please refer to Note 9)
4. To re-elect the following Directors who retire pursuant to the Company's Articles of Association, constituting part of the Constitution of the Company ("Constitution"):
  - (i) Datuk Ahmad Nizam bin Salleh
  - (ii) Tengku Muhammad Taufik
  - (iii) Pn. Farina binti Farikhullah Khan
  - (iv) Datuk Pragasa Moorthi a/l Krishnasamy
  - (v) Dato' Halipah binti Esa (Please refer to Note 10)
5. To approve the payment of the following Directors' fees and benefits payable to Non-Executive Directors with effect from 4 April 2019 until the next Annual General Meeting to be held in 2020 of the Company. Resolution V

**Resolution I  
Resolution II  
Resolution III  
Resolution IV**

Category	Non-Executive Chairman	Non-Executive Directors
<b>The Company</b>	<b>(RM per annum)</b>	<b>(RM per annum)</b>
Directors' Retainer Fees	240,000	120,000
Petrol Allowance	6,000	6,000
	<b>(RM per attendance)</b>	<b>(RM per attendance)</b>
Attendance fee/ Tele-Conferencing fee	3,500	3,500
<b>The Manager</b>	<b>(RM per attendance)</b>	<b>(RM per attendance)</b>
Attendance fee/ Tele-Conferencing fee	3,500	3,500



## NOTICE OF ANNUAL GENERAL MEETING

6. To re-appoint Messrs. Ernst & Young as Auditors of the Company and to authorise the Directors to fix the Auditors' remuneration.

**Resolution VI**

### **AS SPECIAL BUSINESS:**

To consider and if thought fit, to pass the following resolutions:

7. Authority to Issue Shares of the Company pursuant to Sections 75 and 76 of the Companies Act, 2016

"THAT pursuant to Sections 75 and 76 of the Companies Act, 2016, Main Market Listing Requirements of Bursa Securities and the approval of the relevant regulatory authorities, where such approval is required and subject to passing of Resolution 1 of KLCC REIT, the Directors of the Company be and are hereby authorised to issue ordinary shares in the capital of the Company ("**New Ordinary Shares**") from time to time to such persons and for such purposes and upon such terms and conditions as the Directors may in their absolute discretion deem fit, provided that the total number of such New Ordinary Shares to be issued, pursuant to this resolution, when aggregated with the total number of any such ordinary shares issued during the preceding 12 months does not exceed 10% of the total number of issued shares of the Company for the time being (excluding any treasury shares) and provided further that such corresponding number of New Units in KLCC REIT equal to the number of New Ordinary Shares shall be issued and every one New Ordinary Share shall be stapled to one New Unit upon issuance to such persons ("**Proposed KLCCP Mandate**") and that the Directors be and are hereby also empowered to obtain the approval from Bursa Securities for the listing of and quotation for such new Stapled Securities on the Main Market of Bursa Securities.

THAT such approval shall continue to be in force until:

- (i) the conclusion of the next Annual General Meeting of the Company held after the approval was given;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required to be held after the approval was given; or
- (iii) revoked or varied by resolution passed by the shareholders of the Company in a general meeting,

whichever is the earlier.

THAT the New Ordinary Shares to be issued pursuant to the Proposed KLCCP Mandate shall, upon issue and allotment, rank *pari passu* in all respects with the existing ordinary shares of the Company, except that the New Ordinary Shares will not be entitled to any dividend, right, benefit, entitlement and/or any other distributions, in respect of which the entitlement date is prior to the date of allotment of such New Ordinary Shares.

THAT authority be and is hereby given to the Directors of the Company, to give effect to the Proposed KLCCP Mandate with full powers to assent to any conditions, modifications, variations and/or amendments as they may deem fit in the best interest of the Company and/or as may be imposed by the relevant authorities.

AND FURTHER THAT the Directors of the Company, be and are hereby authorised to implement, finalise, complete and take all necessary steps and to do all acts (including execute such documents as may be required), deeds and things in relation to the Proposed KLCCP Mandate."

**Resolution VII**

## NOTICE OF ANNUAL GENERAL MEETING

8. Proposed Alteration of the existing Memorandum and Articles of Association by replacing with a new Constitution of the Company

“THAT approval be and is hereby given to the Company to alter the whole of the existing Memorandum and Articles of Association of the Company by replacing with a new Constitution of the Company as set out in **Appendix A** with effect from the date of passing this special resolution AND THAT the Board of Directors of the Company be and is hereby authorised to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities, and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing.”

**Special  
Resolution**

9. To transact any other business for which due notice has been given.

FURTHER NOTICE IS HEREBY GIVEN THAT for the purpose of determining a holder of the Stapled Securities who shall be entitled to attend the 6<sup>th</sup> AGM of KLCC REIT and the 16<sup>th</sup> AGM of KLCCP, the Manager and/or the Trustee and KLCCP shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Paragraph 17 of Schedule 1 of the Trust Deed dated 2 April 2013 entered into between the Manager and the Trustee, Articles 57(1) and 57(2) of KLCCP's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 22 March 2019 and only a Depositor whose name appears on such Record of Depositors shall be entitled to attend, speak and vote at the said meetings.

BY ORDER OF THE BOARD

**Abd Aziz bin Abd Kadir** (LS0001718)  
**Yeap Kok Leong** (MAICSA 0862549)  
Company Secretaries

Kuala Lumpur  
28 February 2019

## NOTICE OF ANNUAL GENERAL MEETING

### Notes:

1. A holder of the Stapled Securities entitled to attend and vote at the meetings is entitled to appoint not more than 2 proxies to attend and, to vote in his stead. A proxy may but need not be a holder of the Stapled Securities. There shall be no restriction as to the qualification of the proxy.
2. Where a holder of the Stapled Securities is an authorised nominee, it may appoint at least one proxy but not more than 2 proxies in respect of each securities account it holds with ordinary shares of the Company and units of KLCC REIT standing to the credit of the said securities account.
3. Where a holder of the Stapled Securities is an exempt authorised nominee which holds Stapled Securities for multiple beneficial owners in one securities account ("omnibus 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. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
4. Where a holder of the Stapled Securities or the authorised nominee appoints 2 proxies, or where an exempt authorised nominee appoints 2 or more proxies, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
5. A corporation which is a holder of the Stapled Securities may by resolution of its Directors or other governing body authorised such person as it thinks fit to act as its representative at the meetings. If the appointor is a corporation, this form must be executed under its Common Seal or rubber stamp (if the corporation does not have a common seal) or under the hand of its attorney.

If this proxy form is signed by the attorney duly appointed under the power of attorney, it should be accompanied by a statement reading "*signed under Power of Attorney which is still in force, no notice of revocation having been received*". A copy of the power of attorney which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised should be enclosed with the proxy form.

6. The form of proxy must be deposited at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 24 hours before the time appointed for holding the meetings or any adjournment thereof.

### 7. Explanatory Note for Item 1

This agenda item is meant for discussion only as in accordance with the provision of Paragraph 13.18(b) of Guidelines on Listed Real Estate Investment Trusts, a formal approval on the Audited Financial Statements of KLCC REIT from the holders of the Stapled Securities is not required. Hence, this item is not put forward to the holders of the Stapled Securities for voting.

### 8. Explanatory Note for Item 2

Subject to passing of Resolution VII of the Company, the proposed Resolution 1, if passed, will grant a renewed mandate to the Manager of KLCC REIT to issue New Units from time to time provided that the number of the New Units to be issued, when aggregated with the number of units issued during the preceding 12 months, must not exceed 10% of the total number of units issued of KLCC REIT for the time being and provided further that such corresponding number of New Ordinary Shares in the Company equal to the number of New Units shall be issued and every one New Unit shall be stapled to one New Ordinary Share upon issuance. The Proposed KLCC REIT Mandate, unless revoked or varied at a unitholders' meeting, will expire at the conclusion of the next AGM of unitholders of KLCC REIT.

The Proposed KLCC REIT Mandate will allow the Manager the flexibility to issue New Units to raise funds to finance future investments, acquisitions and capital expenditure to enhance the value of KLCC REIT and/or to refinance existing debt as well as for working capital purposes, subject to the relevant laws and regulations. With the Proposed KLCC REIT Mandate, delays and further costs involved in convening separate general meetings to approve such issue of units to raise funds can be avoided.

As at the date of this Notice, no New Units have been issued pursuant to the mandate granted to the Directors of the Manager at the 5<sup>th</sup> AGM of KLCC REIT.

## NOTICE OF ANNUAL GENERAL MEETING

### 9. Explanatory Note for Item 3

This agenda item is meant for discussion only as the provision of Sections 248(2) and 340(1) of the Companies Act, 2016 does not require a formal approval of the holders of the Stapled Securities for the Audited Financial Statements of the Company. Hence, this item is not put forward to the holders of the Stapled Securities for voting.

### 10. Explanatory Note for Item 4(v)

Dato' Halipah binti Esa who retires pursuant to the Constitution of the Company, has indicated to the Company that she would not seek re-election at the 16<sup>th</sup> AGM of the Company. Therefore, Dato' Halipah binti Esa shall cease to be a Director of the Company at the conclusion of the 16<sup>th</sup> AGM.

### 11. Explanatory Note for Item 5

The holders of Stapled Securities at the last AGM held on 12 April 2018 approved the Non-Executive Directors' ("NEDs") fees and benefits as per the table disclosed in Item 5 above effective 1 January 2018 until the AGM of the Company to be held in 2019 i.e. 16<sup>th</sup> AGM ("Directors' Remuneration 2018/2019").

A total of RM1,089,754 of Non-Executive Directors' fees and benefits were incurred for the Company for the financial year ended 31 December 2018 and the details of payment are enumerated on page 196 of the Annual Report 2018 of KLCCP Stapled Group.

Nomination and Remuneration Committees ("NRCs") of the Company and the Manager (a wholly-owned subsidiary of the Company) had reviewed the Directors' Remuneration for the NEDs for the period from 4 April 2019 until the next AGM to be held in 2020 and recommended that the said Directors' Remuneration shall remain unchanged as per Directors' Remuneration 2018/2019. The respective Boards of Directors of the Company and the Manager endorsed the respective NRCs' recommendations.

Resolution V on the proposed Directors' fees and benefits to be approved by the holders of the Stapled Securities is pursuant to Section 230(1)(b) of the Companies Act, 2016.

The members of the Board and Board Committees of the Manager are only remunerated for Attendance/ Tele-Conferencing when the meetings of the Manager are held on a different date than the meetings of the Board and Board Committees of the Company.

### 12. Explanatory Note for Item 7

Subject to passing of Resolution 1 of KLCC REIT, the proposed Resolution VII, if passed, will grant a renewed mandate and provide flexibility for the Company to empower the Directors to issue New Ordinary Shares from time to time, provided that the total number of such New Ordinary Shares to be issued, when aggregated with the total number of any such ordinary shares issued during the preceding 12 months does not exceed 10% of the total number of issued shares of the Company for the time being (excluding any treasury shares) should the need arise and provided further that such corresponding number of New Units equal to the number of New Ordinary Shares shall be issued and every one New Ordinary Share shall be stapled to one New Unit upon issuance.

In order to avoid any delay and costs involved in convening a general meeting to approve such issuance of ordinary shares, the approval is a renewed mandate given to the Directors as the Board is always looking into prospective areas and seeking opportunities to broaden the operating base, increase earnings potential of the Company, raise funds to finance future investments, acquisitions and capital expenditure to enhance the value of the Company and/or to refinance existing debt as well as for working capital purposes which may involve the issue of new ordinary shares. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

As at the date of this Notice, the Company did not issue any New Ordinary Shares pursuant to the mandate granted to the Directors at its 15<sup>th</sup> AGM.

### 13. Explanatory Note for Item 8

The proposed alteration of the whole of existing Memorandum and Articles of Association ("Constitution") of the Company ("Proposed Amendments") by replacing with a new Constitution of the Company as set out in **Appendix A** is to ensure the compliance with the amended Main Market Listing Requirements of Bursa Securities and to provide clarity and consistency with the amendments that arise from the Companies Act 2016.

The **Appendix A** on the proposed New Constitution of the Company, which is circulated together with the Notice of 16<sup>th</sup> AGM dated 28 February 2019, shall take effect once the proposed Special Resolution has been passed by a majority of not less than seventy-five per centum (75%) of such holders of the Stapled Securities who are entitled to vote and do vote in person or by proxy at the 16<sup>th</sup> AGM.

# ADMINISTRATIVE DETAILS

## KLCC REIT 6<sup>th</sup> ANNUAL GENERAL MEETING AND KLCCP 16<sup>th</sup> ANNUAL GENERAL MEETING

**DATE** - 3 April 2019  
**TIME** - 10.30 a.m.  
**PLACE** - Sapphire Room, Level 1, Mandarin Oriental, Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia

### Registration

- Registration will start at 8.15 a.m. and the Annual General Meetings (AGMs) will start punctually at 10.30 a.m. We strongly encourage you to come early to facilitate registration.
- Please ascertain which registration counter you should approach to register yourself for the meetings and join the queue accordingly.
- Please produce your original Identity Card (MyKad) or passport (for foreigners) to the registration staff for verification. Please make sure you collect your MyKad or passport thereafter. KLCCP will not be responsible for any lost MyKad or Passport.
- Upon verification and registration:
  - Please sign on the Attendance List and an **identification wristband** will be provided at the registration counter; and
  - If you are attending the AGM as a shareholder as well as proxy, you will be registered once and will only be given one identification wristband to enter the meeting hall. No person will be allowed to enter the meeting hall without wearing the identification wristband. There will be no replacement in the event that you lose/misplace the identification wristband. The said wristband has passcode printed which will be required for electronic voting purpose.
- Once you have collected your **identification wristband** (for voting purpose) and signed the Attendance List, please proceed for refreshment at the Ballroom foyer.
- No person will be allowed to register on behalf of another person even with the original MyKad or passport of that other person.
- The registration counters will only handle verification for identities and registration. If you have any queries, please proceed to the Help Desk.

### Registration Help Desk

- The Registration Help Desk handles revocation of proxy's appointment and/or any clarification or enquiry.

### Car Park and Parking Redemption Counter

- After registration for attendance of the KLCC REIT 6<sup>th</sup> AGM and the KLCCP 16<sup>th</sup> AGM, you are advised to approach the Parking Redemption Counter to exchange your parking ticket for free parking provided by the Company for cars parked only at the following locations in KLCC:

Locations	Enquiry Contact
Mandarin Oriental, Kuala Lumpur	03-2179 8898
KLCC Basement Car Park	03-2392 8585
Kuala Lumpur Convention Centre Car Park	03-2333 2945
Lot D1 Open Car Park (adjacent to Mandarin Oriental, Kuala Lumpur)	03-2392 8585



## ADMINISTRATIVE DETAILS

### Proxy

10. A member entitled to attend and vote is entitled to appoint proxy/proxies, to attend and vote instead of him. If you are unable to attend the meetings and wish to appoint a proxy to vote on your behalf, please submit your Form of Proxy in accordance with the notes and instructions printed therein.
11. If you wish to attend the meetings yourself, please do not submit the Form of Proxy. You will not be allowed to attend the meetings together with a proxy appointed by you.
12. If you have submitted your Form of Proxy prior to the meetings and subsequently decided to attend the meetings yourself, please proceed to the Registration Help Desk to revoke the appointment of your proxy.
13. Please ensure that the Form of Proxy is deposited at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn. Bhd. not less than twenty-four (24) hours before the time appointed for holding the meetings.

### Corporate Member

14. Any corporate member who wishes to appoint a representative instead of a proxy to attend the meetings should lodge the certificate of appointment under the seal of the corporation, at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn. Bhd. not less than twenty-four (24) hours before the time appointed for holding the meetings.

### General Meeting Record of Depositors

15. For the purpose of determining who shall be entitled to attend the KLCC REIT 6<sup>th</sup> AGM and KLCCP 16<sup>th</sup> AGM, KLCCRM and the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Paragraph 17 of Schedule 1 of the Trust Deed, Articles 57(1) and 57(2) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 22 March 2019 and only a depositor whose name appears on such Record of Depositors shall be entitled to attend the said meetings.

### Refreshment

16. Light Refreshment shall be provided.

### AGM Enquiry

17. For enquiry prior to the KLCC REIT 6<sup>th</sup> AGM and KLCCP 16<sup>th</sup> AGM, please contact the following during office hours:
 

(a) Investor Relations and Business Development Department, KLCCP	(Tel 03-2783 6000) (G/L)
(b) Share Registrar – Tricor Investor & Issuing House Services Sdn Bhd	(Tel 03-2783 9299) (G/L)

### Annual Report 2018

18. The KLCCP STAPLED GROUP Annual Report 2018 is available on Bursa Malaysia's website at [www.bursamalaysia.com](http://www.bursamalaysia.com) under Company Announcements and also at the KLCC website at [www.klcc.com.my](http://www.klcc.com.my).

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# PROXY FORM



**KLCC PROPERTY HOLDINGS BERHAD**  
(Co. No. 641576-U)  
(Incorporated in Malaysia)

**KLCC REAL ESTATE INVESTMENT TRUST**  
(a real estate investment trust constituted under the laws of Malaysia)

No. of Stapled Securities held	CDS Account No.

\*I/We \_\_\_\_\_  
(Full Name as per NRIC/Certificate of Incorporation)

Company No./NRIC No. (new) \_\_\_\_\_ (old) \_\_\_\_\_

of \_\_\_\_\_

\_\_\_\_\_  
(Full Address)

being a \*holder/holders of the Stapled Securities of KLCC PROPERTY HOLDINGS BERHAD ("Company") and KLCC REAL ESTATE INVESTMENT TRUST ("KLCC REIT"), hereby appoint:

## 1. PROXY "A"

Full Name (In Block)	Proportion of shareholdings	
	No. of Stapled Securities	%
NRIC/Passport No.		
Address		

\* and/or failing him (\*delete as appropriate)

## 2. PROXY "B"

Full Name (In Block)	Proportion of shareholdings	
	No. of Stapled Securities	%
NRIC/Passport No.		
Address		

or failing him/them, the CHAIRMAN OF THE MEETINGS as \*my/our \*proxy/proxies to vote for \*me/us and on \*my/our behalf at the Sixth Annual General Meeting ("6<sup>th</sup> AGM") of KLCC REIT and the Sixteenth Annual General Meeting ("16<sup>th</sup> AGM") of the Company to be held concurrently at the Sapphire Room, Level 1, Mandarin Oriental, Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia on 3 April 2019, Wednesday at 10.30 a.m. and at any adjournment thereof.

Please indicate with an "X" in the appropriate box against each resolution how you wish your vote to be cast. If you do not indicate how you wish your proxy to vote on any resolution, the proxy shall vote as he/she thinks fit, or at his/her discretion, abstain from voting.

Resolution	PROXY "A"		PROXY "B"	
	For	Against	For	Against
<b>KLCC REIT</b>				
Proposed unitholders' mandate to issue new units pursuant to Paragraph 6.59 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad	<b>1</b>			
<b>KLCCP</b>				
Re-election of Datuk Ahmad Nizam bin Salleh	<b>I</b>			
Re-election of Tengku Muhammad Taufik	<b>II</b>			
Re-election of Pn. Farina binti Farikhullah Khan	<b>III</b>			
Re-election of Datuk Pragasa Moorthi a/l Krishnasamy	<b>IV</b>			
Directors' fees and benefits payable to Non-Executive Directors with effect from 4 April 2019 until the next Annual General Meeting to be held in 2020 of the Company	<b>V</b>			
Re-appointment of Messrs Ernst & Young as Auditors and to authorise the Directors to fix the Auditors' remuneration	<b>VI</b>			
Authority to issue shares of the Company pursuant to Sections 75 and 76 of the Companies Act, 2016	<b>VII</b>			
Proposed Alteration of the existing Memorandum and Articles of Association by replacing with a new Constitution of the Company	<b>Special Resolution</b>			

Contact Number: \_\_\_\_\_

\_\_\_\_\_  
Signature of holder(s) of the Stapled Securities or  
Common Seal

Dated: \_\_\_\_\_

\* Strike out whichever is not desired.

**Notes:**

1. A holder of the stapled securities comprising ordinary shares in the Company stapled together with the units in KLCC REIT ("Stapled Securities") entitled to attend and vote at the meetings is entitled to appoint not more than 2 proxies to attend and, to vote in his stead. A proxy may but need not be a holder of the Stapled Securities. There shall be no restriction as to the qualification of the proxy.
2. Where a holder of the Stapled Securities is an authorised nominee, it may appoint at least one proxy but not more than 2 proxies in respect of each securities account it holds with ordinary shares of the Company and units of KLCC REIT standing to the credit of the said securities account.
3. Where a holder of the Stapled Securities is an exempt authorised nominee which holds Stapled Securities for multiple beneficial owners in one securities account ("omnibus 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. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
4. Where a holder of the Stapled Securities or the authorised nominee appoints 2 proxies, or where an exempt authorised nominee appoints 2 or more proxies, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
5. A corporation which is a holder of the Stapled Securities may by resolution of its Directors or other governing body authorised such person as it thinks fit to act as its representative at the meetings. If the appointor is a corporation, this form must be executed under its Common Seal or rubber stamp (if the corporation does not have a common seal) or under the hand of its attorney.  
  
If this proxy form is signed by the attorney duly appointed under the power of attorney, it should be accompanied by a statement reading "*signed under Power of Attorney which is still in force, no notice of revocation having been received*". A copy of the power of attorney which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised should be enclosed with the proxy form.
6. The form of proxy must be deposited at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 24 hours before the time appointed for holding the meetings or any adjournment thereof.
7. For the purpose of determining a holder of the Stapled Securities who shall be entitled to attend the 6<sup>th</sup> AGM of KLCC REIT and the 16<sup>th</sup> AGM of the Company, KLCC REIT Management Sdn Bhd ("Manager") and/or Maybank Trustees Berhad ("Trustee") and the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Paragraph 17 of Schedule 1 of the Trust Deed dated 2 April 2013 entered into between the Manager and the Trustee, Articles 57(1) and 57(2) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 22 March 2019 and only a Depositor whose name appears on such Record of Depositors shall be entitled to attend, speak and vote at the said meetings.

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Share Registrar

**Tricor Investor & Issuing House Services Sdn Bhd (11324-H)**

Unit 32-01, Level 32,  
Tower A, Vertical Business Suite,  
Avenue 3, Bangsar South,  
No. 8, Jalan Kerinchi,  
59200 Kuala Lumpur

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# CORPORATE DIRECTORY

## KLCC PROPERTY HOLDINGS BERHAD

Levels 33 & 34, Menara Dayabumi  
Kompleks Dayabumi  
Jalan Sultan Hishamuddin  
50050 Kuala Lumpur  
Malaysia  
Telephone : 603 2783 6000  
Facsimile : 603 2783 7810  
Website : [www.klcc.com.my](http://www.klcc.com.my)  
E-mail : [info@klcc.com.my](mailto:info@klcc.com.my)

## KLCC PARKING MANAGEMENT SDN BHD

Level P2, Tower 1  
PETRONAS Twin Towers  
Kuala Lumpur City Centre  
50088 Kuala Lumpur  
Malaysia  
Telephone : 603 2392 8585  
603 2392 8448  
Facsimile : 603 2392 8407  
Website : [www.parking.klcc.com.my](http://www.parking.klcc.com.my)  
E-mail : [klccparking@klcc.com.my](mailto:klccparking@klcc.com.my)

## KLCC URUSHARTA SDN BHD

Level P1, Tower 2  
PETRONAS Twin Towers  
Kuala Lumpur City Centre  
50088 Kuala Lumpur  
Malaysia  
Telephone : 603 2392 8768  
Facsimile : 603 2382 1037  
Website : [www.klcc.com.my](http://www.klcc.com.my)  
E-mail : [info@klcc.com.my](mailto:info@klcc.com.my)

## KLCC REIT MANAGEMENT SDN BHD

Levels 33 & 34, Menara Dayabumi  
Kompleks Dayabumi  
Jalan Sultan Hishamuddin  
50050 Kuala Lumpur  
Malaysia  
Telephone : 603 2783 6000  
Facsimile : 603 2783 7810  
Website : [www.klcc.com.my](http://www.klcc.com.my)  
E-mail : [info@klcc.com.my](mailto:info@klcc.com.my)

## MANDARIN ORIENTAL, KUALA LUMPUR

Kuala Lumpur City Centre  
P.O. Box 10905  
50088 Kuala Lumpur  
Malaysia  
Telephone : 603 2380 8888  
Facsimile : 603 2380 8833  
Website : [www.mandarinoriental.com](http://www.mandarinoriental.com)  
E-mail : [mokul-sales@mohg.com](mailto:mokul-sales@mohg.com)

## SURIA KLCC SDN BHD

Level 13, Menara Darussalam  
No 12, Jalan Pinang  
50450, Kuala Lumpur  
Malaysia  
Telephone : 603 2382 3434  
Facsimile : 603 2382 2838  
Website : [www.suriaklcc.com.my](http://www.suriaklcc.com.my)  
E-mail : [info@suriaklcc.com.my](mailto:info@suriaklcc.com.my)



**[www.klcc.com.my](http://www.klcc.com.my)**

**KLCC PROPERTY HOLDINGS BERHAD (641576-U)**  
**KLCC REAL ESTATE INVESTMENT TRUST**

Levels 33 & 34, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur  
TEL: (03) 2783 6000 FAX: (03) 2783 7810 email: [info@klcc.com.my](mailto:info@klcc.com.my)