# Financial Statements

Directors' Report **40** Statement by Directors **45** Statutory Declaration **45**

Statement of Financial Position **46** Statement of Comprehensive Income **48**

Statement of Income Distribution to Stapled Securities Holders **49**

Consolidated Statement of Changes in Equity **50** Statement of Changes in Equity **52**

Statements of Cash Flows **53** Notes to the Financial Statements **54**

Independent Auditors' Report **110**

# Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013.

## 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.

There have been no significant changes in the principal activities during the financial year.

## 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.

On 9 May 2013, the Company completed the listing of 1,805,333,083 stapled securities on the Main Market of Bursa Malaysia Securities Berhad during the year as described in Note 40 to the financial statements. As a result, the Group now comprises:

(a) the 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 | 1,032,356 | 3,768,009 |
| Attributable to: | | |
| Equity holders of the Company | 459,092 | 3,768,009 |
| Non-controlling interests relating to KLCC REIT | 366,412 | – |
| Other non-controlling interests | 206,852 | – |
| | 1,032,356 | 3,768,009 |

## 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 other than as disclosed in Note 7.

## DIVIDENDS

The amount of dividends paid by the Company since 31 December 2012 were as follows:

| | RM'000 |
|---|---|
| In respect of the financial year ended 31 December 2012 as reported in the directors' report in that year: | |
| A fourth interim dividend of 4.5%, tax exempt under single tier system on 934,074,279 ordinary shares, was declared on 21 February 2013 and paid on 20 March 2013. | 42,033 |
| In respect of the financial year ended 31 December 2013: | |
| A first interim dividend of 4.5%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 23 May 2013 and paid on 20 June 2013. | 81,240 |
| A second interim dividend of 4.26%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 21 August 2013 and paid on 19 September 2013. | 76,907 |
| A third interim dividend of 3.42%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 28 October 2013 and paid on 9 December 2013. | 61,742 |
| | 261,922 |

A fourth interim dividend in respect of the financial year ended 31 December 2013, of 3.87%, tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM69.87 million will be payable on 28 February 2014.

## DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Krishnan C K Menon
Datuk Ishak Bin Imam Abas
Datuk Manharlal A/L Ratilal
Augustus Ralph Marshall
Pragasa Moorthi A/L Krishnasamy
Dato' Halipah Binti Esa
Datuk Hashim Bin Wahir
Habibah binti Abdul (appointed w.e.f. on 26 June 2013)
Dato' Leong Ah Hin @ Leong Swee Kong (retired w.e.f. on 26 June 2013)

## DIRECTORS' INTERESTS

The Directors in office at the end of the year who have interests 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 Stapled Securities of KLCC Property Holdings Berhad and KLCC Real Estate Investment Trust | | | |
|---|---|---|---|---|
| | Balance as at 1.1.2013 | Number of Shares Bought | Number of Shares Sold | Balance as at 31.12.2013 |
| **Direct** | | | | |
| Datuk Manharlal A/L Ratilal | 5,000 | – | – | **5,000** |
| Augustus Ralph Marshall | 50,000 | – | – | **50,000** |

# DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Number of Shares in PETRONAS Chemicals Group Berhad | | | |
|---|---|---|---|---|
| | Balance as at 1.1.2013 | Number of Shares Bought | Sold | Balance as at 31.12.2013 |
| **Direct** | | | | |
| Krishnan C K Menon | 20,000 | – | – | **20,000** |
| Datuk Manharlal A/L Ratilal | 20,000 | – | – | **20,000** |
| Dato' Halipah Binti Esa | 10,000 | – | – | **10,000** |
| Datuk Hashim Bin Wahir | 16,000 | – | – | **16,000** |
| **Indirect** | | | | |
| Dato' Halipah Binti Esa # | 13,100 | – | – | **13,100** |

| | Number of Shares in MISC Berhad | | | |
|---|---|---|---|---|
| | Balance as at 1.1.2013 | Number of Shares Bought | Sold | Balance as at 31.12.2013 |
| **Indirect** | | | | |
| Dato' Halipah Binti Esa # | 10,000 | – | – | **10,000** |

| | Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad | | | |
|---|---|---|---|---|
| | Balance as at 1.1.2013 | Number of Shares Bought | Sold | Balance as at 31.12.2013 |
| **Direct** | | | | |
| Dato' Halipah Binti Esa | 10,000 | – | – | **10,000** |
| **Indirect** | | | | |
| Dato' Halipah Binti Esa # | 10,000 | – | – | **10,000** |

# *Deemed interest by virtue of director's family member's shareholding.*

None of the other Directors holding office as at 31 December 2013 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

## 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 as shown in Note 29 to the financial statements 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.

## ULTIMATE HOLDING COMPANY

The Directors regard Petroliam Nasional Berhad ("PETRONAS"), a company incorporated in Malaysia, as the ultimate holding company.

## ISSUE OF SHARES

During the financial year, the Company increased its issued and paid up ordinary share capital from RM934,074,279 to RM1,805,333,083 by way of:

(i) conversion of RM714,110,437 Redeemable Convertible Unsecured Loan Stock ("RCULS") into 360,661,836 new ordinary shares at a conversion price of RM1.98 of RCULS for every one new ordinary share of RM1 each; and

(ii) issuance of 510,596,968 new ordinary shares of RM1 each at an issue price of RM5.60 per ordinary share as purchase consideration for acquiring the remaining 49.5% equity interest in a subsidiary, Midciti Resources Sdn. Bhd., as disclosed in Note 7 to the financial statements.

As part of its corporate exercise to list 1,805,333,083 stapled securities on the Main Market of Bursa Malaysia Securities Berhad as described in Note 40, the Company undertook a bonus issue of Class A Redeemable Preference Shares ("RPS") to distribute 1,805,333,083 RPS at its par value of RM0.01 each by way of capitalisation of the Company's distributable reserve. The RPS were subsequently redeemed by the Company out of the Company's retained profits and share premium at a premium of RM3.99 per share. The bonus issue and the subsequent redemption thereof is a mechanism undertaken by the Company solely for the purpose of distributing KLCC REIT units to its entitled shareholders.

## OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the year.

## 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 there were no known bad debts and that no provision for doubtful debts was necessary; 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 if necessary to write off any bad debts or to provide any doubtful debts in the financial statements of the Group and of the Company; 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.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

## OTHER STATUTORY INFORMATION (CONTD.)

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 2013 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.

## SIGNIFICANT EVENT

The significant event is disclosed in Note 40 to the financial statements.

## AUDITORS

The auditors, Ernst & Young, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 21 January 2014.

**Krishnan C K Menon**

**Datuk Hashim Bin Wahir**

# Statement by Directors

In the opinion of the Directors, the financial statements set out on pages 46 to 108 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 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 2013 and of the results of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the supplementary information set out in Note 41 on page 109 is prepared in all material respects, in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance"), and directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 21 January 2014.

**Krishnan C K Menon**

**Datuk Hashim Bin Wahir**

Kuala Lumpur, Malaysia

# Statutory Declaration

I, Azmi Bin Yahaya, 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 46 to 109 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 Azmi Bin Yahaya )
in Kuala Lumpur, Wilayah Persekutuan )
on 21 January 2014 )

BEFORE ME:

**YM Tengku Fariddudin Bin Tengku Sulaiman**
Commissioner for Oaths

# Statement of Financial Position

AS AT 31 DECEMBER 2013

| | Note | Group 2013 RM'000 | Group 2012 RM'000 | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment | 5 | **611,735** | 598,235 | **4,980** | 1,644 |
| Investment properties | 6 | **14,108,652** | 13,807,130 | **–** | – |
| Investment in subsidiaries | 7 | **–** | – | **1,881,234** | 2,296,832 |
| Investment in an associate | 8 | **273,754** | 260,846 | **99,195** | 99,195 |
| Deferred tax assets | 9 | **911** | 783 | **475** | 383 |
| Amount due from subsidiaries | 10 | **–** | – | **180,306** | 174,452 |
| | | **14,995,052** | 14,666,994 | **2,166,190** | 2,572,506 |
| **Current Assets** | | | | | |
| Inventories | 11 | **1,568** | 1,333 | **–** | – |
| Trade and other receivables | 12 | **185,534** | 101,875 | **59,659** | 67,797 |
| Tax recoverable | | **619** | – | **39** | – |
| Cash and bank balances | 13 | **1,081,870** | 1,020,422 | **287,649** | 220,650 |
| | | **1,269,591** | 1,123,630 | **347,347** | 288,447 |
| **TOTAL ASSETS** | | **16,264,643** | 15,790,624 | **2,513,537** | 2,860,953 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity Attributable to Equity Holders of the Company** | | | | | |
| Share capital | 14 | **1,805,333** | 934,074 | **1,805,333** | 934,074 |
| Share premium | 14 | **–** | 562,324 | **–** | 562,324 |
| Capital redemption reserve | 14 | **18,053** | – | **18,053** | – |
| Redeemable convertible unsecured loan stocks (RCULS) | 15 | **–** | 687,990 | **–** | 687,990 |
| Capital reserve | 2.21 | **2,300,729** | 5,025,915 | **–** | – |
| Retained profits | 16 | **130,561** | 1,223,761 | **73,109** | 561,912 |
| | | **4,254,676** | 8,434,064 | **1,896,495** | 2,746,300 |
| Non-controlling interest ("NCI") relating to KLCC REIT | 7 | **7,439,979** | – | **–** | – |
| **Stapled Securities holders interests in the Group** | | **11,694,655** | 8,434,064 | **1,896,495** | 2,746,300 |
| Other NCI | 7 | **1,711,711** | 4,558,241 | **–** | – |
| **Total Equity** | | **13,406,366** | 12,992,305 | **1,896,495** | 2,746,300 |
| **Non-Current Liabilities** | | | | | |
| Redeemable convertible unsecured loan stocks (RCULS) | 15 | **–** | 12,870 | **–** | 12,870 |
| Deferred revenue | 17 | **52,951** | – | **–** | – |
| Other long term liabilities | 18 | **124,204** | 76,509 | **–** | – |
| Amount due to a subsidiary | 19 | **–** | – | **–** | 96,000 |
| Long term borrowings | 20 | **1,569,449** | 2,298,577 | **–** | – |
| Deferred tax liabilities | 9 | **25,138** | 35,628 | **–** | – |
| | | **1,771,742** | 2,423,584 | **–** | 108,870 |

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

| | Note | Group 2013 RM'000 | Group 2012 RM'000 | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|---|
| **Current Liabilities** | | | | | |
| Trade and other payables | 22 | **299,214** | 246,881 | **617,042** | 4,825 |
| Dividend payable | | **1,961** | – | **–** | – |
| Borrowings | 20 | **756,563** | 48,548 | **–** | – |
| Taxation | | **28,797** | 79,306 | **–** | 958 |
| | | **1,086,535** | 374,735 | **617,042** | 5,783 |
| **Total Liabilities** | | **2,858,277** | 2,798,319 | **617,042** | 114,653 |
| **TOTAL EQUITY AND LIABILITIES** | | **16,264,643** | 15,790,624 | **2,513,537** | 2,860,953 |

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Net asset value ("NAV") | **11,694,655** | 8,434,064 |
| Less: RCULS (equity portion) | **–** | (687,990) |
| **Adjusted NAV before distribution** | **11,694,655** | 7,746,074 |
| Less: Fourth interim distribution | **(69,866)** | (42,033) |
| **Adjusted NAV after distribution** | **11,624,789** | 7,704,041 |
| **Number of stapled securities/shares in circulation ('000)** | **1,805,333** | 934,074 |
| **Net asset value ("NAV") per stapled security/share** | | |
| - before distribution | **6.48** | 8.29 |
| - after distribution | **6.44** | 8.25 |

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

# Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | Group 2013 RM'000 | Group 2012 RM'000 | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|---|
| Revenue | 23 | **1,278,752** | 1,178,311 | **7,075,969** | 230,359 |
| **Operating profit** | 24 | **951,120** | 889,666 | **3,757,221** | 208,776 |
| Fair value adjustment of investment properties | 6 | **271,010** | 1,378,730 | **–** | – |
| Interest income | 25 | **35,918** | 25,682 | **15,413** | 15,259 |
| Financing costs | 26 | **(123,078)** | (124,236) | **(1,977)** | (7,091) |
| Share of profit of an associate | | **12,908** | 23,654 | **–** | – |
| **Profit before tax** | 27 | **1,147,878** | 2,193,496 | **3,770,657** | 216,944 |
| Tax expense | 30 | **(115,522)** | (209,067) | **(2,648)** | (2,756) |
| **PROFIT FOR THE YEAR REPRESENTING TOTAL COMPREHENSIVE INCOME** | | **1,032,356** | 1,984,429 | **3,768,009** | 214,188 |
| **Profit attributable to:** | | | | | |
| Equity holders of the Company | | **459,092** | 1,464,097 | **3,768,009** | 214,188 |
| NCI relating to KLCC REIT | 7 | **366,412** | – | **–** | – |
| | | **825,504** | 1,464,097 | **3,768,009** | 214,188 |
| Other non-controlling interests | 7 | **206,852** | 520,332 | **–** | – |
| | | **1,032,356** | 1,984,429 | **3,768,009** | 214,188 |
| **Total comprehensive income for the year comprises the following:** | | | | | |
| Realised | | **763,235** | 592,942 | **3,768,009** | 214,188 |
| Unrealised | | **269,121** | 1,391,487 | **–** | – |
| | | **1,032,356** | 1,984,429 | **3,768,009** | 214,188 |
| **Earnings per share attributable to equity holders of the Company (sen):** | | | | | |
| Basic | 31(a) | **29.3** | 156.7 | | |
| Diluted | 31(b) | **29.3** | 113.2 | | |
| **Earnings per stapled security** | | | | | |
| Basic | 31(a) | **52.6** | N/A | | |
| Diluted | 31(b) | **52.6** | N/A | | |

The accompanying accounting policies and explanatory notes form an integral part of, and, should be read in conjunction with, these financial statements.

# Statement of Income Distribution to Stapled Securities Holders

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Group 2013 RM'000 |
|---|---|
| Overall distributable income is derived as follows: | |
| Profit attributable to the equity holders of the Company | **459,092** |
| Less: Unrealised fair value adjustment attributable to the equity holders | **(133,194)** |
| | **325,898** |
| Distributable income of KLCC REIT | **244,609** |
| Total available for income distribution | **570,507** |
| Distribution to equity holders of the Company in respect of financial year ended 31 December 2013: | |
| First interim dividend of 4.50% paid on 20 June 2013 | **(81,240)** |
| Second interim dividend of 4.26% paid on 19 September 2013 | **(76,907)** |
| Third interim dividend of 3.42% paid on 9 December 2013 | **(61,742)** |
| Fourth interim dividend of 3.87% to be payable on 28 February 2014 | **(69,866)** |
| | **(289,755)** |
| Distribution to KLCC REIT holders in respect of financial period ended 31 December 2013: | |
| First interim income distribution of 3.19% paid on 3 October 2013 | **(57,590)** |
| Second interim income distribution of 4.86% paid on 9 December 2013 | **(87,739)** |
| Third interim income distribution of 4.84% to be payable on 28 February 2014 | **(87,378)** |
| | **(232,707)** |
| Balance undistributed | **48,045** |

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 2013

| | | Attributable to Equity Holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Non-Distributable | | | | | Distributable | | | | | |
| | Note | Share Capital RM'000 | Redeemable Preference Share RM'000 | Share Premium RM'000 | Capital Redemption Reserve RM'000 | Redeemable Convertible Unsecured Loan Stocks RM'000 | Retained Profits RM'000 | Capital Reserve RM'000 | 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 |
| **At 1 January 2013** | | 934,074 | - | 562,324 | - | 687,990 | 1,223,761 | 5,025,915 | 8,434,064 | - | 4,558,241 | 12,992,305 |
| Conversion of RCULS | 15 | 360,662 | - | 335,641 | - | (687,990) | - | - | 8,313 | - | - | 8,313 |
| Acquisition of non-controlling interest | 7 | 510,597 | - | 2,348,746 | - | - | (14,454) | - | 2,844,889 | - | (2,853,534) | (8,645) |
| Realisation of fair value surplus upon transfer of investment properties to KLCC REIT | | - | - | - | - | - | 2,858,380 | (2,858,380) | - | - | - | - |
| Bonus issue on Redeemable Preference Share ("RPS") | 14 | - | 18,053 | - | - | - | (18,053) | - | - | - | - | - |
| Redemption of RPS | 14 | - | (18,053) | (3,246,711) | 18,053 | - | (3,976,837) | - | (7,223,548) | 7,223,548 | - | - |
| Effect of transactions with NCI relating to KLCC REIT | | - | - | - | - | - | (6,212) | - | (6,212) | 6,212 | - | - |
| Stapled securities associated costs | | - | - | - | - | - | - | - | - | (10,864) | - | (10,864) |
| Total comprehensive income for the year | | - | - | - | - | - | 459,092 | - | 459,092 | 366,412 | 206,852 | 1,032,356 |
| Transfer of fair value surplus | | - | - | - | - | - | (133,194) | 133,194 | - | - | - | - |
| Dividends paid | 32 | - | - | - | - | - | (261,922) | - | (261,922) | (145,329) | (199,848) | (607,099) |
| **At 31 December 2013** | | 1,805,333 | - | - | 18,053 | - | 130,561 | 2,300,729 | 4,254,676 | 7,439,979 | 1,711,711 | 13,406,366 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

| | | Attributable to Equity Holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Non-Distributable | | | Distributable | | | | |
| | Note | Share Capital RM'000 | Share Premium RM'000 | Redeemable Convertible Unsecured Loan Stocks RM'000 | Retained Profits RM'000 | Capital Reserve RM'000 | Total Equity Attributable to Holders of the Company RM'000 | Other Non-Controlling Interests RM'000 | Total Equity RM'000 |
| **At 1 January 2012** | | 934,074 | 562,324 | 687,990 | 1,000,623 | 3,943,749 | 7,128,760 | 4,185,599 | 11,314,359 |
| Total comprehensive income for the year | | – | – | – | 1,464,097 | – | 1,464,097 | 520,332 | 1,984,429 |
| Transfer of fair value surplus | | – | – | – | (1,082,166) | 1,082,166 | – | – | – |
| Dividends paid | 32 | – | – | – | (158,793) | – | (158,793) | (147,690) | (306,483) |
| **At 31 December 2012** | | 934,074 | 562,324 | 687,990 | 1,223,761 | 5,025,915 | 8,434,064 | 4,558,241 | 12,992,305 |

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 2013

| | | ← Non-Distributable | | | | → | Distributable | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share Capital RM'000 | Redeemable Preference Share RM'000 | Share Premium RM'000 | Capital Redemption Reserve RM'000 | Redeemable Convertible Unsecured Loan Stocks RM'000 | Retained Profits RM'000 | Total Equity RM'000 |
| **At 1 January 2013** | | **934,074** | **–** | **562,324** | **–** | **687,990** | **561,912** | **2,746,300** |
| Conversion of Redeemable Convertible Unsecured Loan Stocks | 15 | **360,662** | **–** | **335,641** | **–** | **(687,990)** | **–** | **8,313** |
| Issuance of new shares | 7 | **510,597** | **–** | **2,348,746** | **–** | **–** | **–** | **2,859,343** |
| Bonus issue on Redeemable Preference Share ("RPS") | 14 | **–** | **18,053** | **–** | **–** | **–** | **(18,053)** | **–** |
| Redemption of RPS | 14 | **–** | **(18,053)** | **(3,246,711)** | **18,053** | **–** | **(3,976,837)** | **(7,223,548)** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **–** | **3,768,009** | **3,768,009** |
| Dividends paid | 32 | **–** | **–** | **–** | **–** | **–** | **(261,922)** | **(261,922)** |
| **At 31 December 2013** | | **1,805,333** | **–** | **–** | **18,053** | **–** | **73,109** | **1,896,495** |
| **At 1 January 2012** | | 934,074 | – | 562,324 | – | 687,990 | 506,517 | 2,690,905 |
| Total comprehensive income for the year | | – | – | – | – | – | 214,188 | 214,188 |
| Dividends paid | 32 | – | – | – | – | – | (158,793) | (158,793) |
| **At 31 December 2012** | | 934,074 | – | 562,324 | – | 687,990 | 561,912 | 2,746,300 |

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 2013

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Cash receipts from customers | **1,289,162** | 1,149,691 | **13,078** | 14,368 |
| Cash payments to suppliers and employees | **(233,388)** | (243,621) | **(28,595)** | (19,740) |
| | **1,055,774** | 906,070 | **(15,517)** | (5,372) |
| Interest income from fund and other investments | **35,420** | 25,108 | **6,071** | 6,314 |
| Tax paid | **(177,268)** | (142,732) | **(3,712)** | (2,405) |
| **Net cash generated from/(used in) operating activities** | **913,926** | 788,446 | **(13,158)** | (1,463) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Dividends received | **–** | 7,739 | **499,834** | 216,058 |
| Purchase of property, plant and equipment | **(38,964)** | (19,744) | **(1,994)** | (387) |
| Subsequent expenditure on investment properties | **(54,498)** | (32,472) | **–** | – |
| Proceeds from disposal of property, plant and equipment | **62** | 1,437 | **–** | – |
| Incidental cost on acquisition of non-controlling interest | **–** | – | **(8,644)** | – |
| Subscription of shares in a subsidiary | **–** | – | **(1,000)** | – |
| **Net cash (used in)/generated from investing activities** | **(93,400)** | (43,040) | **488,196** | 215,671 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Drawdown of borrowings | **–** | 28,000 | **–** | – |
| Repayment of borrowings | **(28,000)** | (28,000) | **–** | – |
| Dividends paid to shareholders | **(261,922)** | (158,793) | **(261,922)** | (158,793) |
| Dividends paid to other non-controlling interests | **(199,848)** | (147,690) | **–** | – |
| Dividends paid to non-controlling interest relating to KLCC REIT | **(143,368)** | – | **–** | – |
| Stapled securities associated cost paid | **(10,864)** | – | **–** | – |
| Interest expenses paid | **(115,076)** | (118,919) | **(6,535)** | (12,699) |
| Repayment and advances to subsidiaries | **–** | – | **(139,582)** | (23,450) |
| Decrease/(increase) in deposits restricted | **15,697** | (22,564) | **–** | – |
| **Net cash used in financing activities** | **(743,381)** | (447,966) | **(408,039)** | (194,942) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **77,145** | 297,440 | **66,999** | 19,266 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **997,132** | 699,692 | **220,650** | 201,384 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 13)** | **1,074,277** | 997,132 | **287,649** | 220,650 |
| The additions in investment properties and property, plant and equipment were acquired by way of: | | | | |
| Cash | **42,237** | 52,216 | **1,994** | 387 |
| Accruals | **34,337** | 31,097 | **1,730** | – |
| | **76,574** | 83,313 | **3,724** | 387 |
| Cash paid for additions in prior year | **51,225** | – | **–** | – |
| Cash paid for additions in current year | **42,237** | 52,216 | **1,994** | 387 |
| Total cash paid for investment properties and property, plant and equipment | **93,462** | 52,216 | **1,994** | 387 |

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 2013

## 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 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 21 January 2014.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the Companies Act, 1965 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 2013, the Group and the Company had adopted new, amendments and revised MFRS (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standard 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.

Since the beginning of the financial year, the Group has adopted MFRS 10: *Consolidated Financial Statements*, where 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.

The adoption of MFRS 10 has no significant impact to the financial statements of the Group.

## 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 acquirerr'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 profit or loss and other 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.

## 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 a 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.

## 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 expenditures 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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.

Where the fair value of the IPUC is not reliably determinable, the IPUC is measured at cost until either its fair value been reliably determinable or construction is complete, whichever is earlier.

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.

### 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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, and 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.

### 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 financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition. The Group's and the Company's financial assets are classified as loans and receivables.

**(i) Loans and receivables**

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loan and receivables. The Group's and the Company's loans and receivables include trade receivables, other receivables and deposits with licensed banks.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.12 Impairment of Financial Assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

**(i) Trade and other receivables and other financial assets carried at amortised cost**

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable become uncollectible, it is written off against the allowance account.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

### 2.13 Provisions

A provision is recognised when the Group and the Company has 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.14 Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139 *Financial Instrument: Recognition and Measurement*, are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as other financial liabilities.

**(i) Other financial liabilities**

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

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

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are amortised over the remaining term of the modified liability.

### 2.15 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.16 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 which the related services is performed.

### 2.17 Taxation

Tax 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.

**(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 realised or the liability is 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 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.18 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 Ringgit Malaysia 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 Ringgit Malaysia 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:

| | **2013 RM** | **2012 RM** |
|---|---|---|
| United States Dollar | **3.13** | 3.06 |

**2.19 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.

**2.20 Redeemable Convertible Unsecured Loan Stocks ("RCULS")**

The RCULS are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible loan stock. The difference between the proceeds of issue of the RCULS and the fair value assigned to the liability component, representing the conversion option is included in equity. The liability component is subsequently stated at amortised cost using the effective interest rate method until extinguished on conversion or redemption, whilst the value of the equity component is not adjusted in subsequent periods. Attributable transaction costs are apportioned and deducted directly from the liability and equity component based on their carrying amounts at the date of issue.

Under the effective interest rate method, the interest expense on the liability component is calculated by applying the prevailing market interest rate for a similar non-convertible loan stock to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan stocks.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(i) Rental income**

Rental income is recognised based on the accrual basis or on a straight line basis unless collection is in doubt, in which case it is recognised on the receipt basis.

**(ii) Buildings and facilities management fees**

Revenue from building and facilities management fees is recognised when the services are performed. Revenue is recognised net of sales and service tax and discount, where applicable.

**(iii) Car park operations**

Revenue from car park operations are recognised on an accrual basis.

**(iv) Interest income**

Interest income is recognised on an accrual basis using the effective interest method.

**(v) Dividend income**

Dividend income is recognised when the Group's and the Company's right to receive payment is established.

**(vi) Revenue from services**

Revenue from services rendered is recognised net of service taxes and discounts as and when the services are performed.

**(vii) Hotel operations**

Revenue from rental of hotel room, sale of food and beverage and other related income are recognised on an accrual basis.

### 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.25 Fair Value Measurement

As of 1 January 2013, the Group and the Company adopted MFRS 13: *Fair Value Measurement* which prescribed that 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 asset, 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.

In accordance with the transitional provision of MFRS 13, the Group and the Company applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Group's assets or liabilities other than the additional disclosures.

## 3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs

As of 1 January 2013, the Group and the Company have adopted the following new and revised MFRSs and IC Interpretation, Amendments to MFRSs and IC Interpretation that have been issued by the Malaysia Accounting Standards Board:

**Effective for annual periods beginning on or after 1 July 2012**

| | |
|---|---|
| Amendments to MFRS 101 | Presentation of Items of Other Comprehensive Income |

**Effective for annual periods beginning on or after 1 January 2013**

| | |
|---|---|
| MFRS 3 | Business Combinations (IFRS 3 Business Combination issued by IASB in March 2004) |
| MFRS 10 | Consolidated Financial Statements |
| MFRS 11 | Joint Arrangements |
| MFRS 12 | Disclosure of Interests in Other Entities |
| MFRS 13 | Fair Value Measurement |
| MFRS 119 | Employee Benefits (IAS 19 as amended by IASB in June 2011) |
| MFRS 127 | Separate Financial Statements |
| MFRS 127 | Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003) |
| MFRS 128 | Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011) |

## 3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED MFRSs (CONTD.)

**Effective for annual periods beginning on or after 1 January 2013 (Contd.)**

| | |
|---|---|
| IC Interpretation 20 | Stripping Costs in the Production Phase of a Surface Mine |
| Amendments to MFRS 1 | First–time Adoption of Malaysian Financial Reporting Standards - Government Loans |
| Amendments to MFRS 1 | First–time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle) |
| Amendments to MFRS 7 | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Amendments to MFRS 7 | Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures |
| Amendments to MFRS 10 | Consolidated Financial Statements, Joint Arrangement and Disclosure of Interest in other Entities: Transition Guidance (Amendments to MFRS 10, MFRS 11 and MFRS 12) |
| Amendments to MFRS 11 | Joint Arrangements: Transition Guidance |
| Amendments to MFRS 12 | Disclosure of Interests in Other Entities: Transition Guidance |
| Amendments to MFRS 101 | Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle) |
| Amendments to MFRS 116 | Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle) |
| Amendments to MFRS 132 | Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle) |
| Amendments to MFRS 134 | Interim Financial Reporting (Annual Improvements 2009-2011 Cycle) |
| Amendments to IC Interpretation 2 | Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009 - 2011 Cycle) |

The adoption of the above MFRSs, Amendments to MFRSs and IC Interpretation did not have any significant financial impact to the Group and of the Company except for:

**(i) MFRS 12: Disclosures of Interest in Other Entities**

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

**(ii) MFRS 13: Fair Value Measurement**

MFRS 13 replaces and expands the disclosure requirements about fair value measurements in other MFRS, including MFRS 7: *Financial Instruments: Disclosures*. MFRS 13: *Fair Value Measurement* establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other MFRS. It unifies the definition of fair value 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. Upon adoption of MFRS 13: *Fair Value Measurement*, the Group and the Company had included additional disclosures about fair value measurement.

In accordance with the transitional provisions of MFRS 13: *Fair Value Measurement*, the Group and the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### 4.1 Critical Judgement Made in Applying Accounting Policies

The following judgement is made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

**(i) Classification between investment properties and property, plant and equipment**

The Group has developed certain criteria based on MFRS 140: *Investment Properties* in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

### 4.2 Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**(i) Useful life of property, plant and equipment**

The Group estimates the useful life of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful life of property, plant and equipment is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful life of property, plant and equipment is based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful life of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

**(ii) Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses and investment tax allowances to the extent that it is probable that taxable profit will be available against which the losses and investment tax allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)

### 4.2 Key Sources of Estimation Uncertainty (Contd.)

#### (iii) Fair valuation of investment properties

The Group measure investment properties at fair value, with changes in fair values being recognised in profit or loss. The Group engaged an independent professional valuer to determine the fair value as at 1 November 2013. 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 the void rate. The range of the yield rate and the void rate used in the valuation is described in Note 6 to the financial statements.

The following table demonstrates the sensitivity of the fair value measurement to changes in estimated yield and void rate:

| | **Fair value Increase/(decrease) RM'000** |
|---|---|
| **Yield rate** | |
| - 0.25% | 543,000 |
| + 0.25% | (511,000) |
| **Void rate** | |
| - 2.5% | 244,000 |
| + 2.5% | (244,000) |

The other key assumptions used to determine the fair value of the investment property, are further explained in Note 6.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 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 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **At 31 December 2013** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2013 | **558,605** | **6,447** | **119,352** | **134,148** | **52,871** | **1,002** | **26,367** | **898,792** |
| Additions | **12,019** | **3,882** | **15,370** | **11,653** | **2,549** | **72** | **517** | **46,062** |
| Transfer within property, plant and equipment | **2,669** | **(6,067)** | **–** | **3,398** | **–** | **–** | **–** | **–** |
| Disposals | **–** | **–** | **(3,480)** | **–** | **(303)** | **–** | **(18,055)** | **(21,838)** |
| Write Off | **(1,341)** | **(57)** | **(15,689)** | **(1,148)** | **(2,090)** | **–** | **–** | **(20,325)** |
| At 31 December 2013 | **571,952** | **4,205** | **115,553** | **148,051** | **53,027** | **1,074** | **8,829** | **902,691** |
| **Accumulated Depreciation** | | | | | | | | |
| At 1 January 2013 | **89,327** | **–** | **83,752** | **59,527** | **45,573** | **969** | **21,409** | **300,557** |
| Charge for the year (Note 27) | **9,086** | **–** | **6,801** | **10,117** | **3,217** | **36** | **2,592** | **31,849** |
| Disposals | **–** | **–** | **(3,419)** | **–** | **(303)** | **–** | **(18,055)** | **(21,777)** |
| Write Off | **(1,307)** | **–** | **(15,678)** | **(693)** | **(1,995)** | **–** | **–** | **(19,673)** |
| At 31 December 2013 | **97,106** | **–** | **71,456** | **68,951** | **46,492** | **1,005** | **5,946** | **290,956** |
| **Net Carrying Amount** | **474,846** | **4,205** | **44,097** | **79,100** | **6,535** | **69** | **2,883** | **611,735** |
| **Group** | | | | | | | | |
| **At 31 December 2012** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2012 | 558,766 | 9,187 | 106,328 | 133,715 | 51,881 | 997 | 22,906 | 883,780 |
| Additions | 3,243 | 7,017 | 4,236 | 292 | 1,490 | 5 | 3,461 | 19,744 |
| Transfer within property, plant and equipment | (3,404) | (9,757) | 9,940 | 3,221 | – | – | – | – |
| Disposals | – | – | (1,152) | (3,080) | (500) | – | – | (4,732) |
| At 31 December 2012 | 558,605 | 6,447 | 119,352 | 134,148 | 52,871 | 1,002 | 26,367 | 898,792 |
| **Accumulated Depreciation** | | | | | | | | |
| At 1 January 2012 | 81,018 | – | 78,338 | 53,121 | 41,642 | 946 | 19,239 | 274,304 |
| Charge for the year (Note 27) | 8,309 | – | 6,547 | 8,068 | 4,423 | 23 | 2,170 | 29,540 |
| Disposals | – | – | (1,133) | (1,662) | (492) | – | – | (3,287) |
| At 31 December 2012 | 89,327 | – | 83,752 | 59,527 | 45,573 | 969 | 21,409 | 300,557 |
| **Net Carrying Amount** | 469,278 | 6,447 | 35,600 | 74,621 | 7,298 | 33 | 4,958 | 598,235 |

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

### 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 |
|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | |
| **Cost** | | | | | |
| At 1 January 2013 | **85,889** | **390,930** | **5,950** | **75,836** | **558,605** |
| Additions | **–** | **–** | **185** | **11,834** | **12,019** |
| Transfer | **–** | **–** | **–** | **2,669** | **2,669** |
| Write Off | **–** | **(914)** | **–** | **(427)** | **(1,341)** |
| At 31 December 2013 | **85,889** | **390,016** | **6,135** | **89,912** | **571,952** |
| **Accumulated Depreciation** | | | | | |
| At 1 January 2013 | **–** | **36,645** | **5,471** | **47,211** | **89,327** |
| Charge for the year | **–** | **6,251** | **211** | **2,624** | **9,086** |
| Write Off | **–** | **(914)** | **–** | **(393)** | **(1,307)** |
| At 31 December 2013 | **–** | **41,982** | **5,682** | **49,442** | **97,106** |
| **Net Carrying Amount** | **85,889** | **348,034** | **453** | **40,470** | **474,846** |
| **At 31 December 2012** | | | | | |
| **Cost** | | | | | |
| At 1 January 2012 | 85,889 | 400,783 | 5,662 | 66,432 | 558,766 |
| Additions | – | – | 288 | 2,955 | 3,243 |
| Transfer | – | (9,853) | – | 6,449 | (3,404) |
| At 31 December 2012 | 85,889 | 390,930 | 5,950 | 75,836 | 558,605 |
| **Accumulated Depreciation** | | | | | |
| At 1 January 2012 | – | 31,269 | 5,279 | 44,470 | 81,018 |
| Charge for the year | – | 5,376 | 192 | 2,741 | 8,309 |
| At 31 December 2012 | – | 36,645 | 5,471 | 47,211 | 89,327 |
| **Net Carrying Amount** | 85,889 | 354,285 | 479 | 28,625 | 469,278 |

## 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 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **At 31 December 2013** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2013 | **3,437** | **2,965** | **5** | **2,357** | **323** | **9,087** |
| Additions | **–** | **–** | **–** | **48** | **3,676** | **3,724** |
| At 31 December 2013 | **3,437** | **2,965** | **5** | **2,405** | **3,999** | **12,811** |
| **Accumulated Depreciation** | | | | | | |
| At 1 January 2013 | **3,400** | **1,802** | **1** | **2,240** | **–** | **7,443** |
| Charge for the year (Note 27) | **37** | **297** | **–** | **54** | **–** | **388** |
| At 31 December 2013 | **3,437** | **2,099** | **1** | **2,294** | **–** | **7,831** |
| **Net Carrying Amount** | **–** | **866** | **4** | **111** | **3,999** | **4,980** |
| **At 31 December 2012** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2012 | 3,437 | 2,965 | – | 2,298 | – | 8,700 |
| Additions | – | – | 5 | 59 | 323 | 387 |
| At 31 December 2012 | 3,437 | 2,965 | 5 | 2,357 | 323 | 9,087 |
| **Accumulated Depreciation** | | | | | | |
| At 1 January 2012 | 3,356 | 1,506 | – | 2,120 | – | 6,982 |
| Charge for the year (Note 27) | 44 | 296 | 1 | 120 | – | 461 |
| At 31 December 2012 | 3,400 | 1,802 | 1 | 2,240 | – | 7,443 |
| **Net Carrying Amount** | 37 | 1,163 | 4 | 117 | 323 | 1,644 |

Property, plant and equipment of a subsidiary at carrying amount of RM588,879,000 (2012: RM580,630,000) has been pledged as securities for loan facilities as disclosed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 6. INVESTMENT PROPERTIES

| Group | Completed investment properties RM'000 | IPUC at fair value RM'000 | IPUC at cost RM'000 | Total RM'000 |
|---|---|---|---|---|
| **At 31 December 2013** | | | | |
| At 1 January 2013 | **13,575,000** | **202,364** | **29,766** | **13,807,130** |
| Additions | **27,306** | **–** | **3,206** | **30,512** |
| Transfer within investment properties | **9,192** | **–** | **(9,192)** | **–** |
| Fair value adjustments | **253,074** | **17,936** | **–** | **271,010** |
| At 31 December 2013 | **13,864,572** | **220,300** | **23,780** | **14,108,652** |
| **At 31 December 2012** | | | | |
| At 1 January 2012 | 11,006,000 | 480,300 | 878,531 | 12,364,831 |
| Additions | 53,319 | – | 10,250 | 63,569 |
| Transfer within investment properties | 1,139,015 | (280,000) | (859,015) | – |
| Fair value adjustments | 1,376,666 | 2,064 | – | 1,378,730 |
| At 31 December 2012 | 13,575,000 | 202,364 | 29,766 | 13,807,130 |

The following investment properties are held under lease terms:

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Leasehold land | **170,000** | 168,500 |
| Building | **297,572** | 266,500 |
| IPUC at cost | **1,581** | 7,271 |
| | **469,153** | 442,271 |

The investment properties are stated at fair value, which have been determined based on valuations as at 1 November 2013 performed by an independent professional valuer. There are no material events that will affect the valuation between the valuation date and financial year end. The valuation methods used in determining the valuations are the investment method and comparison method.

Investment properties of certain subsidiaries with a carrying value of RM6,837,000,000 (2012: RM6,641,921,000) have been pledged as securities for loan facilities disclosed in Note 20.

The following are recognised in profit or loss in respect of investment properties:

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Rental income | **1,014,073** | 909,224 |
| Direct operating expenses of income generating investment properties | **(96,390)** | (92,514) |

## 6. INVESTMENT PROPERTIES (CONTD.)

**Fair value information**

Fair value of investment properties are categorised as follows:

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1 RM'000** | **Level 2 RM'000** | **Level 3 RM'000** | **Total RM'000** |
| Group | | | | |
| - Office properties | – | – | 8,842,572 | 8,842,572 |
| - Retail property | – | – | 5,022,000 | 5,022,000 |
| - Land | – | 220,300 | – | 220,300 |
| | – | 220,300 | 13,864,572 | 14,084,872 |

**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 property, either directly or indirectly.

Level 2 fair value of land has been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

**Transfer between Level 1 and 2 fair values**

There is no transfer between Level 1 and 2 fair values during the financial year.

**Level 3 fair value**

Level 3 fair value is estimated using unobservable inputs for the investment property.

## 6. INVESTMENT PROPERTIES (CONTD.)

**Level 3 fair value (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 |
|---|---|---|---|
| Investment method (refer below) | **Office:** | | The estimated fair value would increase/(decrease) if: |
| | - Market rental rate (RM/psf/month) | 4.0 - 11.5 | - expected market rental growth were higher/(lower) |
| | - Outgoings (RM/psf/month) | 1.4 - 2.8 | - expected inflation rate were (higher)/lower |
| | - Void rate (%) | 5.0 - 10.0 | - void rate were (higher)/lower |
| | - Term yield (%) | 5.0 - 7.0 | - Term yield rate were (higher)/lower |
| | - Reversionary yield (%) | 5.5 - 7.5 | - Reversionary yield were (higher)/lower |
| | **Retail:** | | |
| | - Market rental rate (RM/psf/month) | 4.3 - 361.2 | - expected market rental growth were higher/(lower) |
| | - Outgoings (RM/psf/month) | 5.1 | - expected inflation rate were (higher)/lower |
| | - Void rate (%) | 5.0 | - void periods were shorter/(longer) |
| | - Term yield (%) | 6.5 - 7.3 | - Term yield rate was (higher)/lower |
| | - Reversionary yield (%) | 7.0 - 7.8 | - Reversionary yield were (higher)/lower |

Investment Method entails the capitalization of the net return 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.

The following table shows a reconciliation of Level 3 fair values:

| | RM'000 |
|---|---|
| At 1 January 2013 | **13,575,000** |
| Addition | **27,306** |
| Transfer within investment properties | **9,192** |
| Re-measurement recognised in profit or loss | **253,074** |
| At 31 December 2013 | **13,864,572** |

**Valuation processes applied by the Group for Level 3 fair value**

The fair value of investment properties is determined by an independent professional 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 investment properties portfolio annually. Changes in Level 3 fair values are analysed by the management annually after obtaining valuation report from the independent professional valuer.

## 7. INVESTMENT IN SUBSIDIARIES

| | | Company | |
|---|---|---|---|
| | | 2013 | 2012 |
| | | RM'000 | RM'000 |
| Unquoted shares at cost | | **4,530,109** | 1,661,121 |
| Discount on loans to subsidiaries | | **196,314** | 196,314 |
| Effects of conversion of amounts due from subsidiaries to investment | | **450,434** | 439,397 |
| Write-down in value | (i) | **(3,295,623)** | – |
| | | **1,881,234** | 2,296,832 |

**(i) Write-down in value**

The investments in certain subsidiaries have been adjusted to their recoverable amount subsequent to the disposal of their assets and liabilities to KLCC REIT as described in Note 40 to the financial statements. There is no financial impact to the Group as KLCC REIT is a subsidiary of the Company and is consolidated in the Group's financial statements.

**Acquisition of non-controlling interest**

On 10 April 2013, the Company acquired the remaining 49.5% equity interest in MRSB from its non-controlling interest for a total puchase consideration of RM2.86 billion satisfied via issuance of 510,596,958 new ordinary shares at issue price of RM5.60 per ordinary shares. As a result, MRSB became a wholly-owned subsidiary of the Company. On the date of acquisition, the carrying value of the additional interest acquired was RM2.85 billion. The difference between the consideration and the book value of the interest acquired of RM14.4 million is reflected in equity.

**Subscription of additional shares issued by a subsidiary**

The Company subscribed for 1,000,000 ordinary shares of KLCC REIT Management Sdn Bhd at RM1.00 each for a cash consideration of RM1,000,000.

Details of subsidiaries which are incorporated in Malaysia are as follows:

| Name of Subsidiaries | Proportion of ownership interest 2013 % | 2012 % | Principal Activities |
|---|---|---|---|
| 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 | Property investment |
| KLCC Parking Management Sdn Bhd ("KPM") | **100** | 100 | Management of car park operations |
| KLCC Urusharta Sdn Bhd ("KLCCUH") | **100** | 100 | Facilities management |

## 7. INVESTMENT IN SUBSIDIARIES (CONTD.)

| Name of Subsidiaries | Proportion of ownership interest 2013 % | 2012 % | Principal Activities |
|---|---|---|---|
| Kompleks Dayabumi Sdn Bhd ("KDSB") | **100** | 100 | Property investment |
| Midciti Resources Sdn Bhd ("MRSB") | **100** | 50.5 | Property investment |
| Impian Cemerlang Sdn Bhd ("ICSB") | **100** | 100 | Property investment |
| Arena Merdu Sdn Bhd ("AMSB") | **100** | 100 | Property investment |
| KLCC REIT Management Sdn Bhd ("KLCC REIT Management") | **100** | 100 | Management of a real estate investment trust |
| KLCC Real Estate Investment Trust ("KLCC REIT") | * | – | Property investment |
| **Subsidiary of KLCC REIT** | | | |
| Midciti Sukuk Berhad ("MSB") * | **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.

* Whilst the Group has no ownership interests in KLCC REIT, the Directors have deemed it to be a subsidiary as:

(i) the Group exercise 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.

## 7. INVESTMENT IN SUBSIDIARIES (CONTD.)

**Non-controlling interests relating to KLCC REIT**

| | 2013 |
|---|---|
| **NCI percentage of ownership interest and voting interest** | **100%** |
| Carrying amount of NCI (RM'000) | **7,439,979** |
| Profit allocated to NCI (RM'000) | **366,412** |

**Summarised financial information before intra-group elimination**

| **As at 31 December** | **RM'000** |
|---|---|
| Non-current assets - Investment properties | **8,817,000** |
| Non-current assets - Others | **86** |
| Current assets | **427,209** |
| Non-current liabilities | **(1,356,504)** |
| Current liabilities | **(447,812)** |
| Net assets | **7,439,979** |
| **Year ended 31 December** | |
| Revenue | **393,473** |
| Profit for the year, representing total comprehensive income | **366,412** |
| Cash flows from operating activities | **405,953** |
| Cash flows from investing activities | **79,144** |
| Cash flows from financing activities | **(198,981)** |
| Net increase in cash and cash equivalents | **286,116** |
| Dividend paid to NCI relating to KLCC REIT | **(143,368)** |

**Other non-controlling interests in subsidiaries**

The Group's subsidiaries that have material other non-controlling interests ("NCI") are as follows:

| | | 2013 | |
|---|---|---|---|
| | **SKSB** | **Other immaterial subsidiary** | **Total** |
| **NCI percentage of ownership interest and voting interest** | **40.0%** | | |
| Carrying amount of NCI (RM'000) | **1,640,055** | **71,656** | **1,711,711** |
| Profit allocated to NCI (RM'000) | **164,648** | **42,204** | **206,852** |

## 7. INVESTMENT IN SUBSIDIARIES (CONTD.)

**Summarised financial information of significant subsidiaries before intra-group elimination**

| **As at 31 December** | **SKSB 2013 RM'000** |
|---|---|
| Non-current assets - Investment properties | **4,580,000** |
| Non-current assets - Others | **22,689** |
| Current assets | **146,845** |
| Non-current liabilities | **(132,864)** |
| Current liabilities | **(516,533)** |
| Net assets | **4,100,137** |
| **Year ended 31 December** | |
| Revenue | **353,761** |
| Profit for the year, representing total comprehensive income | **411,622** |
| Cash flows from operating activities | **264,797** |
| Cash flows from investing activities | **5,240** |
| Cash flows from financing activities | **(380,588)** |
| Net increase in cash and cash equivalents | **(110,551)** |
| Dividend paid to other NCI | **138,033** |

| | **2012** | | | |
|---|---|---|---|---|
| | **SKSB** | **MRSB** | **Other immaterial subsidiary** | **Total** |
| **NCI percentage of ownership interest and voting interest** | 40.0% | 49.5% | | |
| Carrying amount of NCI (RM'000) | 1,613,439 | 2,868,982 | 75,820 | 4,558,241 |
| Profit allocated to NCI (RM'000) | 343,280 | 166,736 | 10,316 | 520,332 |

## 7. INVESTMENT IN SUBSIDIARIES (CONTD.)

**Summarised financial information of significant subsidiaries before intra-group elimination**

| | 2012 | |
|---|---|---|
| | **SKSB** | **MRSB** |
| **As at 31 December** | **RM'000** | **RM'000** |
| Non-current assets - Investment properties | 4,400,000 | 6,500,000 |
| Non-current assets - Others | 23,290 | – |
| Current assets | 248,946 | 201,777 |
| Non-current liabilities | (503,445) | (849,526) |
| Current liabilities | (135,193) | (56,328) |
| Net assets | 4,033,598 | 5,795,923 |
| **Year ended 31 December** | | |
| Revenue | 326,142 | 356,974 |
| Profit for the year, representing total comprehensive income | 858,200 | 336,841 |
| Cash flows from operating activities | 248,406 | 287,108 |
| Cash flows from investing activities | (12,069) | – |
| Cash flows from financing activities | (170,832) | (194,477) |
| Net increase in cash and cash equivalents | 65,505 | 92,631 |
| Dividend paid to NCI | 68,333 | 79,357 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 8. INVESTMENT IN AN ASSOCIATE

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| **Group** | | |
| Unquoted shares at cost | **99,195** | 99,195 |
| Share of post-acquisition reserves | **174,559** | 161,651 |
| | **273,754** | 260,846 |
| **Company** | | |
| 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 2013 % | 2012 % |
|---|---|---|---|---|
| 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:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| Non-current assets | **716,000** | 711,000 |
| Current assets | **32,296** | 13,369 |
| Total assets | **748,296** | 724,369 |
| Non-current liabilities | **–** | 7,724 |
| Current liabilities | **13,738** | 21,204 |
| Total liabilities | **13,738** | 28,928 |
| **Results** | | |
| Revenue | **46,273** | 45,284 |
| Profit for the year, representing total comprehensive income | **39,116** | 71,681 |
| **Reconciliation of net assets to carrying amount as at 31 December** | | |
| Group's share of net assets | **242,404** | 229,496 |
| Goodwill | **31,350** | 31,350 |
| | **273,754** | 260,846 |

## 9. DEFERRED TAX

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| At 1 January | **(34,845)** | (1,519) |
| Recognised in profit or loss (Note 30) | **10,618** | (33,326) |
| At 31 December | **(24,227)** | (34,845) |

| | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|
| At 1 January | **(383)** | (326) |
| Recognised in profit or loss (Note 30) | **(92)** | (57) |
| At 31 December | **(475)** | (383) |

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 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Deferred tax assets | **(911)** | (783) |
| Deferred tax liabilities | **25,138** | 35,628 |
| | **24,227** | 34,845 |

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 property RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|---|
| At 1 January 2013 | **38,088** | **12,513** | **16,115** | **66,716** |
| Recognised in profit or loss | **8,639** | **(8,974)** | **(15,205)** | **(15,540)** |
| At 31 December 2013 | **46,727** | **3,539** | **910** | **51,176** |
| At 1 January 2012 | 40,627 | – | 5,049 | 45,676 |
| Recognised in profit or loss | (2,539) | 12,513 | 11,066 | 21,040 |
| At 31 December 2012 | 38,088 | 12,513 | 16,115 | 66,716 |

## 9. DEFERRED TAX (CONTD.)

**Deferred Tax Assets of the Group:**

| | Unused tax losses and investment tax allowances RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| At 1 January 2013 | **(30,465)** | **(1,406)** | **(31,871)** |
| Recognised in profit or loss | **5,614** | **(692)** | **4,922** |
| At 31 December 2013 | **(24,851)** | **(2,098)** | **(26,949)** |
| At 1 January 2012 | (42,621) | (1,536) | (44,157) |
| Recognised in profit or loss | 12,156 | 130 | 12,286 |
| At 31 December 2012 | (30,465) | (1,406) | (31,871) |

**Deferred Tax Liabilities/(Assets) of the Company:**

| | Property, plant and equipment RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| At 1 January 2013 | **33** | **(416)** | **(383)** |
| Recognised in profit or loss | **13** | **(105)** | **(92)** |
| At 31 December 2013 | **46** | **(521)** | **(475)** |
| At 1 January 2012 | 90 | (416) | (326) |
| Recognised in profit or loss | (57) | – | (57) |
| At 31 December 2012 | 33 | (416) | (383) |

## 10. AMOUNT DUE FROM SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2013 RM'000 | 2012 RM'000 |
| Interest free loan | **112,306** | 106,452 |
| Interest bearing loan | **68,000** | 68,000 |
| | **180,306** | 174,452 |

The interest free amount due from subsidiaries which was fair valued under MFRS 139 are unsecured and repayable within 2 years (2012: 3 years). The interest rate assumed by the Company is 5.50% (2012: 5.50%) per annum.

The interest rate charged by the Company for the interest bearing shareholder's loan is 5.07% (2012: 5.07%) per annum.

## 11. INVENTORIES

The inventories comprise general merchandise and operating supplies, and are stated at cost.

## 12. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| **Current** | | | | |
| **Trade receivables** | **10,331** | 9,751 | **–** | – |
| **Other receivables** | | | | |
| Other receivables and deposits | **12,694** | 8,594 | **5,435** | 2,018 |
| Amount due from: | | | | |
| Subsidiaries | **–** | – | **47,709** | 62,065 |
| Ultimate holding company | **11,144** | 24,786 | **–** | – |
| Immediate holding company | **702** | – | **702** | 446 |
| Other related companies | **15,914** | 12,075 | **5,813** | 3,268 |
| Total other receivables | **40,454** | 45,455 | **59,659** | 67,797 |
| **Other current assets** | | | | |
| Accrued rental income | **134,749** | 46,669 | **–** | – |
| Total | **185,534** | 101,875 | **59,659** | 67,797 |
| Trade receivables | **10,331** | 9,751 | **–** | – |
| Other receivables | **40,454** | 45,455 | **59,659** | 67,797 |
| Add: Cash and bank balances (Note 13) | **1,081,870** | 1,020,422 | **287,649** | 220,650 |
| Amount due from subsidiaries (Note 10) | **–** | – | **180,306** | 174,452 |
| Total loans and receivables | **1,132,655** | 1,075,628 | **527,614** | 462,899 |

Amount 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.

*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:

| | Gross amount RM'000 | Balances that are set off RM'000 | Net carrying amount RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2013** | | | |
| Amount due from ultimate holding company | **13,560** | **(2,416)** | **11,144** |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 13. CASH AND BANK BALANCES

| | Group 2013 RM'000 | Group 2012 RM'000 | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|
| Cash and bank balances | **7,223** | 12,641 | **196** | 504 |
| Deposits with licensed banks | **1,074,647** | 1,007,781 | **287,453** | 220,146 |
| | **1,081,870** | 1,020,422 | **287,649** | 220,650 |
| Less: Deposits restricted | **(7,593)** | (23,290) | **–** | – |
| Cash and cash equivalents | **1,074,277** | 997,132 | **287,649** | 220,650 |

Included in deposits restricted are:

(i) 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,

(ii) deposits with licensed banks pledged for credit facilities granted to the Group as set out in Notes 20 and 21 to the financial statements.

## 14. SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | Number of Stapled Securities/Shares | | Amount | |
| | Ordinary shares '000 | RPS '000 | Ordinary shares RM'000 | RPS RM'000 |
| **Authorised:** | | | | |
| At 1 January 2013/31 December 2012 | 5,000,000 | – | 5,000,000 | – |
| Reclassified during the year | (1,805,333) | 1,805,333 | (18,053) | 18,053 |
| At 31 December 2013 | **3,194,667** | **1,805,333** | **4,981,947** | **18,053** |

| | Number of Shares | | Amount | | |
|---|---|---|---|---|---|
| | Ordinary shares '000 | RPS '000 | Ordinary shares RM'000 | RPS RM'000 | Share premium RM'000 |
| **Issued and fully paid:** | | | | | |
| At 1 January 2013/31 December 2012 | 934,074 | – | 934,074 | – | 562,324 |
| Conversion of RCULS | 360,662 | – | 360,662 | – | 335,641 |
| Acquisition of NCI (Note 7) | 510,597 | – | 510,597 | – | 2,348,746 |
| Bonus issue of RPS | – | 1,805,333 | – | 18,053 | – |
| Redemption of RPS | – | (1,805,333) | – | (18,053) | (3,246,711) |
| At 31 December 2013 | **1,805,333** | **–** | **1,805,333** | **–** | **–** |

## 14. SHARE CAPITAL (CONTD.)

**Redeemable Preference Shares ("RPS"):**

The bonus issue of RPS and subsequent redemption thereof is a mechanism undertaken by the Company to distribute the KLCC REIT units to its entitled shareholders as described in Note 40 to the financial statements. The RPS rank pari passu among themselves and may not be converted into ordinary shares.

Subsequent to the redemption, the par value of the RPS of RM18 million was transferred to the Capital Redemption Reserve.

**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.

**Issue of shares:**

During the financial year, the Company increased its issued and paid up ordinary share capital from RM934,074,279 to RM1,805,333,083 by way of:

(i) conversion of RM714,110,437 Redeemable Convertible Unsecured Loan Stock ("RCULS") into 360,661,836 new ordinary shares at a conversion price of RM1.98 of RCULS for every one new ordinary share of RM1 each; and

(ii) issuance of 510,596,968 new ordinary shares of RM1 each at an issue price of RM5.60 per ordinary share as purchase consideration of acquiring the remaining 49.5% equity interest in a subsidiary.

As part of the corporate exercise to list 1,805,333,083 stapled securities on the main market of Bursa Malaysia Security Berhad, the Company undertook a bonus issue of Redeemable Preference Shares ("RPS") to distribute 1,805,333,083 RPS at its par value of RM0.01 each by way of capitalisation of the Company's distributable reserve. The RPS were subsequently redeemed by the Company at a premium of RM3.99 per share out of the Company's retained profits and share premium. The bonus issue and the subsequent redemption thereof is a mechanism undertaken by the Company solely for the purpose of distributing KLCC REIT units to its entitled shareholders.

## 15. REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("RCULS")

Total RCULS of RM714,110,437 were issued on 9 August 2004 at its nominal value of RM1 each as settlement of the net amounts owing by certain subsidiaries to KLCCH and part settlement and purchase consideration for the acquisition of certain subsidiaries during the financial year ended 31 March 2005.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 15. REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("RCULS") (CONTD.)

The terms of the RCULS before the conversion are as follows:

(a) Conversion rights - the registered holder of the RCULS will have the option at any time during the conversion period to convert the RCULS at the conversion price into new ordinary shares of RM1 each in the Company.

(b) Conversion price - RM1.98 of RCULS for every one new ordinary share of RM1 each.

(c) Conversion period - period commencing after the fifth anniversary of the issue date.

(d) Unless the RCULS have been previously converted into New Ordinary Shares or redeemed by the Company, the RCULS will be redeemed in full on maturity date in 2014. The holder of the RCULS, KLCCH, gave a written undertaking to the Company on its intention to exercise its rights to convert its entire holdings in the RCULS to equity at any time after expiry of the 5th anniversary, subject to the terms and conditions governing the RCULS.

(e) The RCULS is interest free for the first 3 years and thereafter, bears interest of 1% per annum.

(f) The new ordinary shares to be allotted and issued upon conversion of the RCULS will rank pari passu in all respects with the existing ordinary shares of the Company other than as may be specified in a resolution approving the distribution of dividends prior to their conversion.

On 10 April 2013, KLCCH issued a conversion notice to the Company exercising its right to convert the RM714,110,437 RCULS into 360,661,836 new ordinary shares. The RCULS conversion was completed on 25 April 2013.

The RCULS, a compound instrument, had been split between the liability component and the equity component as follows:

| | Note | Group and Company 2013 RM'000 | 2012 RM'000 |
|---|---|---|---|
| Liability component | (i) | **–** | 12,870 |
| Equity component | | **–** | 687,990 |
| | | **–** | 700,860 |

| | 2013 | 2012 |
|---|---|---|
| (i) Liability component | | |
| As at 1 January | **12,870** | 18,479 |
| Interest expense recognised during the year (Note 26) | **372** | 1,552 |
| Payment made during the year | **(4,929)** | (7,161) |
| Conversion of RCULS | **(8,313)** | – |
| As at 31 December | **–** | 12,870 |

## 16. RETAINED PROFITS

As at 31 December 2013, the Company may distribute the entire balance of the retained profits under the single tier system.

## 17. 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 straightline basis.

## 18. OTHER LONG TERM LIABILITIES

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | **RM'000** | **RM'000** |
| Security deposit payables | **60,565** | 16,188 |
| Advances from corporate shareholders of subsidiaries | **63,639** | 60,321 |
| | **124,204** | 76,509 |

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 4.00% to 5.20% per annum.

The advances from corporate shareholders are interest free and unsecured with a repayment period of 15 years (2012: 15 years). The fair value at initial recognition was determined based on an interest rate of 5.50% (2012: 5.50%) per annum.

## 19. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary in prior year relates to a loan taken by the subsidiary but utilised by the Company. The interest incurred on the loan was charged to the Company. The weighted average effective interest rate on the loan as at the reporting date was 5.50% (2012: 5.50%) per annum. The balance has been fully settled by the Company in current year.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 20. BORROWINGS

| | Note | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|---|
| **Short term borrowings** | | | |
| Secured: | | | |
| Private debt securities | 21 | **288,493** | 15,676 |
| Islamic debt facility - Ijarah Muntahiyah Bit Tamleek | | **1,568** | 1,532 |
| Term loans | | **466,102** | 30,940 |
| Unsecured: | | | |
| Revolving credit | | **400** | 400 |
| | | **756,563** | 48,548 |
| **Long term borrowings** | | | |
| Secured: | | | |
| Private debt securities | 21 | **579,449** | 845,084 |
| Islamic debt facility - Ijarah Muntahiyah Bit Tamleek | | **660,000** | 660,000 |
| Term loans | | **330,000** | 793,493 |
| | | **1,569,449** | 2,298,577 |
| **Total borrowings** | | | |
| Secured: | | | |
| Private debt securities | 21 | **867,942** | 860,760 |
| Islamic debt facility - Ijarah Muntahiyah Bit Tamleek | | **661,568** | 661,532 |
| Term loans | | **796,102** | 824,433 |
| Unsecured: | | | |
| Revolving credit | | **400** | 400 |
| | | **2,326,012** | 2,347,125 |

### Terms and debt repayment schedule as at 31 December 2013

| Group | Total RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 3 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|
| **Secured** | | | | | |
| Private debt securities | 867,942 | 288,493 | – | 490,795 | 88,654 |
| Islamic debt facility | 661,568 | 1,568 | – | 660,000 | – |
| Term loans | 796,102 | 466,102 | 330,000 | – | – |
| **Unsecured** | | | | | |
| Revolving credit | 400 | 400 | – | – | – |
| | 2,326,012 | 756,563 | 330,000 | 1,150,795 | 88,654 |

## 20. BORROWINGS (CONTD.)

**Terms and debt repayment schedule as at 31 December 2012**

| Group | Total RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 3 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|
| **Secured** | | | | | |
| Private debt securities | 860,760 | 15,676 | 252,176 | 263,419 | 329,489 |
| Islamic debt facility | 661,532 | 1,532 | – | 660,000 | – |
| Term loans | 824,433 | 30,940 | 793,493 | – | – |
| **Unsecured** | | | | | |
| Revolving credit | 400 | 400 | – | – | – |
| | 2,347,125 | 48,548 | 1,045,669 | 923,419 | 329,489 |

**(i) Term loans**

Fixed and floating rates term loans are secured by way of:

(i) a fixed charge over the hotel property as well as debenture covering all fixed and floating asset of the property as disclosed in Note 5; and

(ii) a fixed charge over certain investment properties as disclosed in Note 6

These loans have interest rates which ranges from 4.10% to 7.0% per annum.

**(ii) Islamic debt facility (Ijarah Muntahiyah Bit Tamleek)**

This Islamic financing loan consists of fixed and floating rate term financing and revolving credit facilities.

The credit facilities are for a tenure of 7 years with a bullet repayment at the end of the tenure. The profit rate for Tranche 1 is fixed which ranges from 5.06% to 5.32%. The profit rate for Tranche 2 is calculated on 0.75% per annum above the lender's cost of funds for the first 3 years and 0.6% per annum above the lender's cost of funds for the remaining 4 years. The profit rate for Tranche 2 calculated in current year is between the range of 4.17% to 4.18%. The profit rate calculated for the revolving credit in current year is between the range of 4.05% to 4.27%. Security is by way of a charge over an investment property of the Group as disclosed in Note 6 and assignment of rental and insurance proceeds.

**(iii) Revolving credit**

Interest rate ranges from 3.89% to 3.92% (2012: 3.92%) which is based on 0.45% per annum above lender's cost of funds. The revolving credit has a facility limit of RM25 million with a tenure period of 3 years from the date of the first disbursement with profit payable monthly.

Other information on financial risks of borrowings are disclosed in Note 35.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 21. PRIVATE DEBT SECURITIES

The Private Debt Securities ("PDS") issued by the Group comprise:

| | 2013 RM'000 | 2012 RM'000 |
|---|---|---|
| **Secured:** | | |
| Sukuk Musharakah | **867,942** | 860,760 |
| Facilities as at 31 December | | |
| Due within 1 year | **288,493** | 15,676 |
| Due more than 1 year | **579,449** | 845,084 |
| | **867,942** | 860,760 |

The Sukuk has a coupon rate of between 3.53% and 4.25% per annum and is payable semi-annually. It is primarily secured against Assignment of Designated Account, Assignment of Insurance/Takaful and rental receivable on its investment property of a subsidiary in accordance with a Head Lease Agreement ("the Agreement") between a subsidiary and PETRONAS.

## 22. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| **Current** | | | | |
| **Trade payables** | **10,296** | 8,180 | **–** | – |
| **Other payables** | | | | |
| Other payables | **267,595** | 220,993 | **6,103** | 3,288 |
| Amount due to: | | | | |
| Subsidiaries | **–** | – | **602,894** | 398 |
| Ultimate holding company | **10,195** | 7,220 | **8,045** | 1,139 |
| Immediate holding company | **149** | – | **–** | – |
| Other related companies | **10,979** | 10,488 | **–** | – |
| | **288,918** | 238,701 | **617,042** | 4,825 |
| Total trade and other payables | **299,214** | 246,881 | **617,042** | 4,825 |
| Add: Borrowings (Note 20) | **2,326,012** | 2,347,125 | **–** | – |
| Other long term liabilities (Note 18) | **124,204** | 76,509 | **–** | – |
| Total financial liabilities carried at amortised cost | **2,749,430** | 2,670,515 | **617,042** | 4,825 |

Included in other payables of the Group are security deposit of RM103,689,000 (2012: RM98,592,000) held in respect of tenancies of retail and office building. These deposits are short term in nature and refundable upon termination of the respective lease agreements.

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.

## 23. REVENUE

| | Group 2013 RM'000 | Group 2012 RM'000 | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|
| Property investment | | | | |
| - Office | **589,791** | 520,246 | **–** | – |
| - Retail | **424,282** | 388,978 | **–** | – |
| Hotel operations | **165,115** | 174,326 | **–** | – |
| Management services | **99,564** | 94,761 | **13,023** | 14,301 |
| Dividend income from subsidiaries | **–** | – | **7,062,946** | 208,318 |
| Dividend income from associate | **–** | – | **–** | 7,740 |
| | **1,278,752** | 1,178,311 | **7,075,969** | 230,359 |

## 24. OPERATING PROFIT

| | Group 2013 RM'000 | Group 2012 RM'000 | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|
| Revenue (Note 23) | **1,278,752** | 1,178,311 | **7,075,969** | 230,359 |
| Cost of revenue: | | | | |
| - Cost of services and goods | **(206,796)** | (178,810) | **–** | – |
| Gross profit | **1,071,956** | 999,501 | **7,075,969** | 230,359 |
| Selling and distribution expenses | **(10,022)** | (9,782) | **–** | – |
| Write-down in value | **–** | – | **(3,295,623)** | – |
| Administration expenses | **(118,427)** | (107,260) | **(23,180)** | (21,651) |
| Other operating income | **7,613** | 7,207 | **55** | 68 |
| Operating profit | **951,120** | 889,666 | **3,757,221** | 208,776 |

## 25. INTEREST INCOME

| | Group 2013 RM'000 | Group 2012 RM'000 | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|
| Interest income from: | | | | |
| Deposits | **35,918** | 25,682 | **6,111** | 6,262 |
| Amount due from subsidiaries | **–** | – | **5,855** | 5,550 |
| Loan to a subsidiary | **–** | – | **3,447** | 3,447 |
| | **35,918** | 25,682 | **15,413** | 15,259 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 26. FINANCING COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest expense on: | | | | |
| Term loans | **75,672** | 77,958 | **–** | – |
| Revolving credit | **21** | – | **–** | – |
| Profit on private debt securities | **41,836** | 41,094 | **–** | – |
| RCULS (Note 15) | **372** | 1,552 | **372** | 1,552 |
| Accretion of MFRS 139 instruments | **5,177** | 3,632 | **–** | – |
| Amount due to a subsidiary | **–** | – | **1,605** | 5,539 |
| | **123,078** | 124,236 | **1,977** | 7,091 |

## 27. PROFIT BEFORE TAXATION

The following amounts have been included in arriving at profit before taxation:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Employee benefits expense (Note 28) | **81,252** | 74,527 | **15,109** | 13,923 |
| Directors' remuneration (Note 29) | **604** | 592 | **604** | 592 |
| Fees for representation on the Board of Directors | **91** | 97 | **91** | 97 |
| Management fee in relation to services of key management personnel (Note 29) | **758** | 715 | **758** | 715 |
| Auditors' remuneration | | | | |
| - Audit fees | **514** | 455 | **176** | 166 |
| - Others | **70** | 91 | **44** | 67 |
| Valuation fees | **1,550** | 1,550 | **–** | – |
| Depreciation of property, plant and equipment (Note 5) | **31,849** | 29,540 | **388** | 461 |
| Rental of land and buildings | **–** | – | **1,589** | 1,471 |
| Bad debts written off | **–** | 81 | **–** | – |
| Property, plant and equipment written off | **652** | – | **–** | – |
| Write-down in value on investment in subsidiaries | **–** | – | **3,295,623** | – |
| Loss on disposal of property, plant and equipment | **–** | 8 | **–** | – |
| Other rental income | **(3,212)** | (2,894) | **–** | – |

## 28. EMPLOYEE BENEFITS EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Wages, salaries and others | **74,619** | 68,571 | **13,644** | 12,549 |
| Contributions to defined contribution plan | **6,633** | 5,956 | **1,465** | 1,374 |
| | **81,252** | 74,527 | **15,109** | 13,923 |

## 29. DIRECTORS' REMUNERATION

| | Group and Company 2013 RM'000 | Group and Company 2012 RM'000 |
|---|---|---|
| Directors of the Company | | |
| Executive * | | |
| Benefits-in-kind | **–** | – |
| Non-Executive: | | |
| Fees | **604** | 592 |
| | **604** | 592 |
| Analysis excluding benefits-in-kind: | | |
| Total non-executive directors' remuneration | **604** | 592 |

The number of Directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

| | 2013 | 2012 |
|---|---|---|
| Executive director | | |
| RMNil | **1** | 1 |
| Non-executive directors | | |
| RMNil - RM50,000 | **2** | – |
| RM50,001 - RM100,000 | **4** | 5 |
| RM100,001 - RM150,000 | **1** | 1 |

* *The remuneration of the Executive Director is paid to KLCC (Holdings) Sdn Bhd as disclosed in Note 27.*

## 30. TAX EXPENSE

| | Group 2013 RM'000 | Group 2012 RM'000 | Company 2013 RM'000 | Company 2012 RM'000 |
|---|---|---|---|---|
| Current income tax: | | | | |
| Malaysian income tax | **127,998** | 175,741 | **2,799** | 2,813 |
| Over provision of tax in prior year | **(1,858)** | – | **(59)** | – |
| | **126,140** | 175,741 | **2,740** | 2,813 |

### 30. TAX EXPENSE (CONTD.)

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Deferred tax (Note 9) | | | | |
| Relating to origination and reversal of temporary differences | **(7,587)** | 32,837 | **(86)** | (57) |
| (Over)/under provision of deferred tax in prior year | **(3,031)** | 489 | **(6)** | – |
| | **(10,618)** | 33,326 | **(92)** | (57) |
| Total tax expense | **115,522** | 209,067 | **2,648** | 2,756 |

Domestic current income tax is calculated at the statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 24% from the current year's rate of 25%, effective year of assessment 2016. The computation of deferred tax as at 31 December 2013 has reflected these changes.

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:

| | 2013 | 2012 |
|---|---|---|
| | RM'000 | RM'000 |
| **Group** | | |
| Profit before taxation | **1,147,878** | 2,193,496 |
| Taxation at Malaysian statutory tax rate of 25% (2012: 25%) | **286,970** | 548,374 |
| Expenses not deductible for tax purposes | **14,305** | 11,226 |
| Income not subject to tax | **(126,144)** | (345,108) |
| Effects of share of results of associate | **(3,227)** | (5,914) |
| Deferred tax recognised at different tax rates | **(14,158)** | – |
| Deferred tax liability derecognised upon disposal of investment properties to KLCC REIT | **(41,656)** | – |
| Deferred tax assets not recognised on unabsorbed capital allowances | **4,321** | – |
| (Over)/under provision of deferred tax in prior year | **(3,031)** | 489 |
| Over provision of taxation in prior year | **(1,858)** | – |
| Tax expense | **115,522** | 209,067 |
| **Company** | | |
| Profit before taxation | **3,770,657** | 216,944 |
| Taxation at Malaysian statutory tax rate of 25% (2012: 25%) | **942,664** | 54,236 |
| Income not subject to tax | **(1,767,176)** | (51,838) |
| Expenses not deductible for tax purposes | **827,225** | 358 |
| Over provision of deferred tax in prior year | **(6)** | – |
| Over provision of taxation in prior year | **(59)** | – |
| Tax expense | **2,648** | 2,756 |

### 31. EARNINGS PER SHARE/STAPLED SECURITY

**(a) Basic**

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 unit holders of the KLCC REIT by the weighted average number of stapled securities in issue during the financial year.

| | 2013 | 2012 |
|---|---|---|
| Profit attributable to equity holders of the Company (RM'000) | **459,092** | 1,464,097 |
| Profit attributable to NCI relating to KLCC REIT (RM'000) | **366,412** | – |
| Profit attributable to stapled security holders (RM'000) | **825,504** | 1,464,097 |
| Weighted average number of stapled securities/shares in issue ('000) * | **1,569,019** | 934,074 |
| Basic earnings per share (sen) | **29.3** | 156.7 |
| Basic earnings per stapled security (sen) | **52.6** | N/A |

**(b) Diluted**

For the purpose of calculating diluted earnings per share, the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares/stapled security in issue during the financial year have been adjusted for the dilutive effects of the RCULS.

| | 2013 | 2012 |
|---|---|---|
| Profit attributable to ordinary equity holders of the Company (RM'000) | **459,092** | 1,464,097 |
| After-tax effect of interest on RCULS (RM'000) | **–** | 1,164 |
| Profit attributable to equity holders of the Company (RM'000) | **459,092** | 1,465,261 |
| Profit attributable to NCI relating to KLCC REIT (RM'000) | **366,412** | – |
| Profit attributable to stapled security holders (RM'000) | **825,504** | 1,465,261 |
| Weighted average number of stapled securities/shares in issue ('000) * | **1,569,019** | 934,074 |
| Adjustment for assumed conversion of RCULS ('000) | **–** | 360,662 |
| Weighted average number of stapled securities/shares in issue and issuable ('000) | **1,569,019** | 1,294,736 |
| Diluted earnings per share (sen) | **29.3** | 113.2 |
| Diluted earnings per stapled security (sen) | **52.6** | N/A |

* *The weighted average number of stapled securities/shares takes into account the weighted average effect of RCULS conversion and acquisition of NCI during the year.*

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 32. DIVIDENDS

| | Dividends Recognised in Year | | Net Dividends per Ordinary Share | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | Sen | Sen |
| **Recognised during the year:** | | | | |
| A fourth interim (2012: A second interim) dividend of 4.5% (2012: 5.0%) on 934,074,279 ordinary shares for financial year ended 31 December 2012/2011 | **42,033** | 46,704 | **4.50** | 5.00 |
| A first interim dividend of 4.5% (2012: 4.0%) on 1,805,333,083 (2012: 934,074,279) ordinary shares for financial year ended 31 December 2013/2012 | **81,240** | 37,363 | **4.50** | 4.00 |
| A second interim dividend of 4.26% (2012: 4.0%) on 1,805,333,083 (2012: 934,074,279) ordinary shares for financial year ended 31 December 2013/2012 | **76,907** | 37,363 | **4.26** | 4.00 |
| A third interim dividend of 3.42% (2012: 4.0%) on 1,805,333,083 (2012: 934,074,279) ordinary shares for financial year ended 31 December 2013/2012 | **61,742** | 37,363 | **3.42** | 4.00 |
| | **261,922** | 158,793 | **16.68** | 17.00 |

A fourth interim dividend in respect of the financial year ended 31 December 2013, of 3.87%, tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM69.87 million will be payable on 28 February 2014.

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 2014.

## 33. COMMITMENTS

### (a) Capital commitments

| | Group 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| **Approved and contracted for** | | |
| Property, plant and equipment | **13,209** | 29,032 |
| Investment property | **8,384** | 42,513 |
| | **21,593** | 71,545 |
| **Approved but not contracted for** | | |
| Property, plant and equipment | **42,014** | 30,635 |
| Investment property | **26,299** | 38,705 |
| | **68,313** | 69,340 |

### (b) Operating lease commitments - as lessor

The Group has entered into a 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 2013 RM'000 | Group 2012 RM'000 |
|---|---|---|
| Not later than 1 year | **462,127** | 457,443 |
| Later than 1 year but not later than 5 years | **1,923,935** | 1,907,046 |
| More than 5 years | **4,788,578** | 5,267,593 |
| | **7,174,640** | 7,632,082 |

## 34. 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.

**(b) Other than as disclosed elsewhere in the notes to the financial statements, the significant related party transactions are as follows:**

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| **Federal Government of Malaysia** | | | | |
| Property licences and taxes | **(11,763)** | (8,716) | **–** | – |
| **Government of Malaysia's related entities** | | | | |
| Purchase of utilities | **(30,889)** | (26,158) | **(250)** | (250) |
| Hotel revenue | **3,511** | 4,166 | **–** | – |
| **Ultimate Holding Company:** | | | | |
| Rental income | **519,204** | 365,053 | **–** | – |
| Facilities management and manpower fees | **15,771** | 13,816 | **–** | – |
| Rental of carpark space | **(7,051)** | (5,649) | **–** | – |
| Fees for representation on the Board of Directors* | **(91)** | (97) | **(91)** | (97) |
| Hotel revenue | **3,439** | 5,467 | **–** | – |
| **Subsidiaries** | | | | |
| Interest expense | **–** | – | **(1,605)** | (5,539) |
| Rental expense | **–** | – | **(1,589)** | (1,471) |
| Reimbursement of security costs | **–** | – | **(51)** | (48) |
| General management services fee | **–** | – | **6,055** | 6,024 |
| Interest income arising from MFRS 139 | **–** | – | **5,855** | 5,550 |
| Interest income from shareholder's loan | **–** | – | **3,447** | 3,447 |
| **Other Related Companies:** | | | | |
| Facilities management and manpower fees | **19,247** | 15,396 | **–** | – |
| General management services fee | **6,969** | 7,476 | **6,969** | 7,476 |
| Lease rental | **23,612** | 22,725 | **–** | – |
| Management and incentive fees | **2,847** | 2,458 | **–** | – |
| Chilled water supply | **(25,492)** | (27,596) | **–** | – |
| Interest expense | **(372)** | (1,552) | **(372)** | (1,552) |
| Project management fees | **(2,275)** | (2,813) | **–** | – |
| Rental of carpark space | **(5,961)** | (5,197) | **–** | – |

* *Fees paid directly to Petroliam Nasional Berhad ("PETRONAS") in respect of a director who is appointee of the ultimate holding company.*

## 34. 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 2013 are disclosed in Notes 12 and 22.

**(c) Compensation of key management personnel**

**Directors**

The remuneration of Directors is disclosed in Note 29.

**Other key management personnel**

Datuk Hashim Bin Wahir, Executive Director and Chief Executive Officer of the Company is an employee of KLCC (Holdings) Sdn Bhd ("KLCCH"). KLCCH charges management fees in consideration for his services to the Company as disclosed in Note 27.

## 35. FINANCIAL INSTRUMENTS

### Financial Risk Management

As the Company owns a diverse property portfolio, the Group and 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.

## 35. 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.

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 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.

The exposure of credit risk for receivables at the reporting date by business segment was:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | **RM'000** | **RM'000** |
| Property investment | | |
| - Office | **1,823** | 1,801 |
| - Retail | **748** | – |
| Hotel operations | **6,462** | 6,779 |
| Management services | **1,298** | 1,171 |
| | **10,331** | 9,751 |

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | **RM'000** | **RM'000** |
| The ageing of trade receivables as at the reporting date was: | | |
| Not past due | **7,263** | 6,984 |
| Past due 1 to 30 days | **1,543** | 1,083 |
| Past due 31 to 60 days | **662** | 1,288 |
| Past due 61 to 90 days | **332** | 208 |
| Past due more than 90 days | **531** | 188 |
| | **10,331** | 9,751 |

The Group does not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2013.

The Group has not made any allowance for impairment due to the good credit standing of the debtors.

## 35. 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:

| 31 December 2013<br>Group | Carrying amount<br>RM'000 | Effective interest rate<br>% | Contractual cash flow *<br>RM'000 | Within 1 year<br>RM'000 | 1-2 years<br>RM'000 | 2-5 years<br>RM'000 | More than 5 years<br>RM'000 |
|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | |
| Fixed rate secured term loans | **454,581** | **6.25** | **480,801** | **480,801** | **–** | **–** | **–** |
| Floating rate secured term loans | **341,521** | **4.10** | **359,142** | **23,693** | **335,449** | **–** | **–** |
| Revolving credit | **400** | **3.89** | **404** | **404** | **–** | **–** | **–** |
| Private Debt Securities | **867,942** | **3.87** | **992,885** | **311,627** | **24,174** | **556,520** | **100,564** |
| Fixed rate Islamic debt facility | **300,513** | **5.14** | **351,206** | **15,599** | **15,599** | **320,008** | **–** |
| Floating rate Islamic debt facility | **361,055** | **4.15** | **415,522** | **14,973** | **14,983** | **385,596** | **–** |
| Trade and other payables | **299,214** | **–** | **299,214** | **299,214** | **–** | **–** | **–** |
| **Company** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Trade and other payables | **617,042** | **–** | **617,042** | **617,042** | **–** | **–** | **–** |

| 31 December 2012<br>Group | Carrying amount<br>RM'000 | Effective interest rate<br>% | Contractual cash flow *<br>RM'000 | Within 1 year<br>RM'000 | 1-2 years<br>RM'000 | 2-5 years<br>RM'000 | More than 5 years<br>RM'000 |
|---|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | | |
| Fixed rate secured term loans | 472,853 | 6.69 | 531,372 | 49,491 | 481,881 | – | – |
| Floating rate secured term loans | 351,580 | 4.12 | 384,985 | 24,215 | 23,879 | 336,891 | – |
| Revolving credit | 400 | 3.92 | 400 | 400 | – | – | – |
| Private Debt Securities | 860,760 | 3.87 | 1,035,185 | 34,253 | 313,958 | 331,875 | 355,099 |
| Fixed rate Islamic debt facility | 300,470 | 5.35 | 382,096 | 15,594 | 15,556 | 46,968 | 303,978 |
| Floating rate Islamic debt facility | 361,062 | 4.20 | 427,487 | 73,843 | 12,565 | 37,938 | 303,141 |
| Trade and other payables | 246,881 | – | 246,881 | 246,881 | – | – | – |
| **Company** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Intercompany loan | 96,000 | 5.50 | 102,911 | 22,807 | 80,104 | – | – |
| Trade and other payables | 4,825 | – | 4,825 | 4,825 | – | – | – |

* *The contractual cash flow is inclusive of the principal and interest but excluding interest accretion due to MFRS 139 measurement.*

## 35. 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 | |
|---|---|---|---|---|
| | **2013 RM'000** | **2012 RM'000** | **2013 RM'000** | **2012 RM'000** |
| **Fixed rate instruments** | | | | |
| Financial assets | **1,074,647** | 1,007,781 | **287,453** | 220,146 |
| Financial liabilities | **(1,623,029)** | (1,634,483) | **–** | (96,000) |
| **Floating rate instruments** | | | | |
| Financial liabilities | **(702,983)** | (712,642) | **–** | – |

**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 |
|---|---|---|
| **2013** | | |
| KLIBOR | **-60** | 4,202 |
| KLIBOR | **+60** | (4,202) |
| **2012** | | |
| KLIBOR | -60 | 3,900 |
| KLIBOR | +60 | (3,900) |

This analysis assumes that all other variables remain constant.

## 35. FINANCIAL INSTRUMENTS (CONTD.)

**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 cash equivalents, investments and loans, trade and other receivables, borrowings, trade and other payables and various debt and currency management instruments.

The carrying amounts of cash and cash equivalents, 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.

This analysis assumes that all other variables remain constant.

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:

| Group 2013 | Fair value of financial instruments not carried at fair value | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Carrying amount |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Financial liabilities** | | | | | |
| Term loans | **–** | **790,392** | **–** | **790,392** | **796,102** |
| Islamic debt facility | **–** | **637,577** | **–** | **637,577** | **661,568** |
| Revolving credit | **–** | **400** | **–** | **400** | **400** |
| Private debt securities | **–** | **870,805** | **–** | **870,805** | **867,942** |

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 borrowings at the reporting date. There has been no transfers between Level 1 and Level 2 fair values during the financial year.

## 36. 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 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 maximises 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 and shareholders' agreements and regulatory requirements if any.

## 36. CAPITAL MANAGEMENT (CONTD.)

The debt to equity ratio as at 31 December 2013 and 2012 is as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| Total debt (RM'000) | **2,326,102** | 2,347,125 |
| Total equity (excluding Other NCI) (RM'000) | **11,694,655** | 8,434,064 |
| Debt equity ratio | **17:83** | 22:78 |

There were no changes in the Group's and the Company's approach to capital management during the year.

## 37. SEGMENT 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, borrowings and expenses, and corporate assets and expenses.

The Group comprises the following main business segments:

| | |
|---|---|
| Property investment - Office | Rental of office space and other related activities. |
| Property investment - Retail | Rental of retail space 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.

## 37. SEGMENT INFORMATION (CONTD.)

**Business Segments**
**31 December 2013**

| | 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 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Revenue from external customers | 589,791 | 424,282 | 165,115 | 99,564 | – | 1,278,752 |
| Inter-segment revenue | 1,251 | 14,687 | – | 40,634 | (56,572) | – |
| Total revenue | 591,042 | 438,969 | 165,115 | 140,198 | (56,572) | 1,278,752 |
| **Results** | | | | | | |
| Operating profit | 516,132 | 367,705 | 32,986 | 57,078 | (22,781) | 951,120 |
| Fair value adjustment on investment properties | 147,314 | 123,696 | – | – | – | 271,010 |
| Financing costs | | | | | | (123,078) |
| Interest income | | | | | | 35,918 |
| Share of profit of associate | | | | | | 12,908 |
| Tax expense | | | | | | (115,522) |
| Profit after tax but before non-controlling interests | | | | | | 1,032,356 |
| Segment assets | 10,366,485 | 5,196,837 | 715,054 | 59,485 | (346,972) | 15,990,889 |
| Investment in an associate | – | – | – | 99,195 | 174,559 | 273,754 |
| **Total assets** | | | | | | 16,264,643 |
| **Total liabilities** | 1,971,173 | 665,871 | 432,538 | 644,828 | (856,133) | 2,858,277 |
| Capital expenditure | 736 | 1,600 | 32,389 | 11,337 | – | 46,062 |
| Depreciation | 2,697 | 2,056 | 24,078 | 3,018 | – | 31,849 |
| Non-cash items other than depreciation | 548 | 103 | – | 8 | – | 659 |

## 37. SEGMENT INFORMATION (CONTD.)

**Business Segments**
**31 December 2012**

| | 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 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Revenue from external customers | 520,246 | 388,978 | 174,326 | 94,761 | – | 1,178,311 |
| Inter-segment revenue | 1,153 | 1,664 | – | 11,037 | (13,854) | – |
| Total revenue | 521,399 | 390,642 | 174,326 | 105,798 | (13,854) | 1,178,311 |
| **Results** | | | | | | |
| Operating profit | 499,476 | 325,663 | 40,755 | 30,896 | (7,124) | 889,666 |
| Fair value adjustment on investment properties | 729,178 | 649,552 | – | – | – | 1,378,730 |
| Financing costs | | | | | | (124,236) |
| Interest income | | | | | | 25,682 |
| Share of profit of associate | | | | | | 23,654 |
| Tax expense | | | | | | (209,067) |
| Profit after tax but before non-controlling interests | | | | | | 1,984,429 |
| Segment assets | 9,439,738 | 5,189,911 | 721,916 | 71,637 | 106,576 | 15,529,778 |
| Investment in an associate | – | – | – | 99,195 | 161,651 | 260,846 |
| **Total assets** | | | | | | 15,790,624 |
| **Total liabilities** | 1,825,563 | 748,276 | 422,726 | 140,633 | (338,879) | 2,798,319 |
| Capital expenditure | 137 | 1,634 | 14,127 | 3,859 | – | 19,757 |
| Depreciation | 2,951 | 2,206 | 22,989 | 1,394 | – | 29,540 |
| Non-cash items other than depreciation | – | 81 | – | 8 | – | 89 |

## 38. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT

The following new and revised MFRSs, amendments and IC interpretations (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board will become effective in future financial reporting periods and have not been adopted by the Group and/or the Company:

**Effective for annual periods beginning on or after 1 January 2014**

| | |
|---|---|
| Amendments to MFRS 10 | Investment Entities |
| Amendments to MFRS 12 | Investment Entities |
| Amendments to MFRS 127 | Investment Entities |
| Amendments to MFRS 132 | Financial Instruments: Presentation<br>- Offsetting Financial Assets and Financial Liabilities |
| Amendments to MFRS 136 | Recoverable Amount Disclosures for Non-financial Assets |
| Amendments to MFRS 139 | Novation of Derivatives and Continuation of Hedge Accounting |

**Effective for annual periods beginning on or after 1 January 2015**

| | |
|---|---|
| MFRS 9 | Financial Instruments (2009) |
| MFRS 9 | Financial Instruments (2010) |

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.

## 39. NEW PRONOUNCEMENT(S) NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued an IC interpretation which is not yet effective. However, it is not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

**Effective for annual periods beginning on or after 1 January 2014**

| | |
|---|---|
| IC Interpretation 21 | Levies |

## 40. SIGNIFICANT EVENT DURING THE YEAR

On 9 May 2013, the Company completed its corporate exercise in relation to the creation of stapled securities comprising units in a Real Estate Investment Trust ("REIT") which were stapled together with the ordinary shares of the Company and listed on the Main Market of Bursa Malaysia Securities Berhad with the objective of optimising shareholders' value. An overview of the corporate exercise is set out below:

(a) The acquisition of 49.5% interest in Midciti Resources Sdn Bhd for a total purchase consideration of RM2.86 billion was completed on 10 April 2013.

(b) The transfer of investment properties held via its wholly-owned subsidiaries, namely the PETRONAS Twin Towers, Menara ExxonMobil and Menara 3 PETRONAS into KLCC REIT, including the associated rights and benefits and the related assets and liabilities, for a total purchase consideration of RM8.82 billion to be satisfied by the issuance of KLCC REIT units ("Units") and assumption of debt obligations and liabilities. The acquisition by KLCC REIT was completed on 2 May 2013 in respect of Menara 3 PETRONAS and on 3 May 2013 in respect of PETRONAS Twin Towers and Menara ExxonMobil.

(c) The distribution of Units to the entitled shareholders by way of bonus issue of 1,805,333,083 RPS at its par value of RM0.01 each by way of capitalisation of the Company's distributable reserve on 6 May 2013, and subsequent redemption by the Company out of its retained profits and share premium at a premium of RM3.99 per share on 7 May 2013. This resulted in each entitled shareholder holding one Unit for every one existing ordinary share in the Company ("KLCCP Shares").

(d) The restructuring of KLCCP Group into a stapled structure ("KLCCP Stapled Group") took place on 7 May 2013 where the KLCCP Shares were stapled together with the Units on one for one basis, via a stapling deed entered into between the Company, the REIT Manager and the REIT Trustee in forming the stapled securities ("Stapled Securities").

(e) The resultant Stapled Securities of the KLCCP Stapled Group, each comprising one KLCCP Share and one Unit, were quoted and traded as one security on the Main Market of Bursa Securities on 9 May 2013.

Stapling is a legal concept which involves two or more securities being contractually bound together, usually via a stapling deed. By stapling one KLCCP share with one Unit, the two securities must be attached as "stapled" together, so that one cannot trade without the other.

## 41. DISCLOSURE OF REALISED AND UNREALISED PROFIT

The breakdown of the retained profits of the Group and the Company into realised and unrealised profits is presented as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Total retained profits of the Company and its subsidiaries: | | | | |
| - Realised | **581,238** | 2,880,873 | **73,109** | 561,912 |
| - Unrealised | **26,949** | 31,871 | **–** | – |
| | **608,187** | 2,912,744 | **73,109** | 561,912 |
| Total share of retained profits from an associate: | | | | |
| - Realised | **85,449** | 74,191 | **–** | – |
| Total Group retained profits | **693,636** | 2,986,935 | **73,109** | 561,912 |
| Less: Consolidation adjustments | **(563,075)** | (1,763,174) | **–** | – |
| Total Group and Company retained profits | **130,561** | 1,223,761 | **73,109** | 561,912 |

The fair value gain of RM2,300,729,000 on the remeasurement of investment properties is regarded as an unrealised gain and has been classified under Capital Reserve in the financial statements.

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

# Independent Auditors' Report

TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of KLCC Property Holdings Berhad, which comprise the statements of financial position as at 31 December 2013 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 a summary of significant accounting policies and other explanatory information, as set out on pages 46 to 108.

*Directors' responsibility for the financial statements*

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

c) The auditors' reports on the accounts of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 41 on page 109 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia 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

**Ahmad Zahirudin bin Abdul Rahim**
No. 2607 / 12 / 14 (J)
Chartered Accountant

Kuala Lumpur, Malaysia
21 January 2014

# Financial Statements

Manager's Report **50** Statement by the Manager **54** Statutory Declaration **54**

Trustee's Report **55** Shariah Adviser's Report **56** Statements of Financial Position **57**

Statements of Comprehensive Income **58** Consolidated Statement of Changes in Net Asset Value **60**

Statement of Changes in Net Asset Value **61** Statements of Cash Flows **62**

Notes to the Financial Statements **63** Independent Auditors' Report **100**

# Manager's Report

FOR THE PERIOD ENDED 31 DECEMBER 2013

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 period ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The principal activities of the Fund during the financial period 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.

There have been no significant changes in the principal activities during the financial period.

## CORPORATE INFORMATION

The Fund is a Malaysia-domiciled real estate investment trust constituted pursuant to the trust deed dated 2 April 2013 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 Fund is located at Level 54, Tower 2, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

## RESULTS

| | Group<br>RM'000 | Fund<br>RM'000 |
|---|---|---|
| Profit for the period | 366,412 | 366,384 |

## DISTRIBUTION OF INCOME

The amount of income distributions paid by the Fund were as follows:

| | RM'000 |
|---|---|
| In respect of the financial period ended 31 December 2013: | |
| First interim income distribution of 3.19% on 1,805,033,083 units, declared on 21 August 2013 and paid on 3 October 2013. | 57,590 |
| Second interim income distribution of 4.86% on 1,805,033,083 units, declared on 29 October 2013 and paid on 9 December 2013. | 87,739 |
| | 145,329 |

A third interim income distribution in respect of the financial period ended 31 December 2013, of 4.84%, on 1,805,333,083 units amounting to an income distribution payable of RM87,378,000 will be payable on 28 February 2014.

## RESERVES AND PROVISIONS

There were no material movements to and from reserves and provisions during the period, other than as disclosed in the Statements of Changes in Net Asset Value.

## DIRECTORS

The Directors who have serve on the Board of the Manager, since the date of establishment of KLCC REIT are as follows:

| | |
|---|---|
| Krishnan C K Menon | (First Director) |
| Datuk Ishak Bin Imam Abas | (First Director) |
| Datuk Manharlal A/L Ratilal | (First Director) |
| Augustus Ralph Marshall | (First Director) |
| Pragasa Moorthi A/L Krishnasamy | (First Director) |
| Dato' Halipah Binti Esa | (First Director) |
| Datuk Hashim Bin Wahir | (First Director) |
| Habibah Binti Abdul | (appointed on 26 June 2013) |
| Dato' Leong Ah Hin @ Leong Swee Kong | (First Director, resigned on 26 June 2013) |

## DIRECTORS' OF MANAGER'S INTERESTS

The Directors in office at the end of the period 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 Stapled Securities in KLCC Property Holdings Berhad | | | |
|---|---|---|---|---|
| | Balance as at 9.4.2013 (date of establishment) | Number of Stapled Securities Bought | Number of Stapled Securities Sold | Balance as at 31.12.2013 |
| **Direct** | | | | |
| Datuk Manharlal A/L Ratilal | 5,000 | – | – | **5,000** |
| Augustus Ralph Marshall | 50,000 | – | – | **50,000** |

| | Number of Shares in PETRONAS Chemicals Group Berhad | | | |
|---|---|---|---|---|
| | Balance as at 9.4.2013 (date of establishment) | Number of Shares Bought | Number of Shares Sold | Balance as at 31.12.2013 |
| **Direct** | | | | |
| Krishnan C K Menon | 20,000 | – | – | **20,000** |
| Datuk Manharlal A/L Ratilal | 20,000 | – | – | **20,000** |
| Dato' Halipah Binti Esa | 10,000 | – | – | **10,000** |
| Datuk Hashim Bin Wahir | 16,000 | – | – | **16,000** |
| **Indirect** | | | | |
| Dato' Halipah Binti Esa # | 13,100 | – | – | **13,100** |

## MANAGER'S REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2013

| | Number of Shares in MISC Berhad | | | |
|---|---|---|---|---|
| | Balance as at 9.4.2013 (date of establishment) | Number of Shares Bought | Number of Shares Sold | Balance as at 31.12.2013 |
| **Indirect** | | | | |
| Dato' Halipah Binti Esa # | 10,000 | – | – | **10,000** |

| | Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad | | | |
|---|---|---|---|---|
| | Balance as at 9.4.2013 (date of establishment) | Number of Shares Bought | Number of Shares Sold | Balance as at 31.12.2013 |
| **Direct** | | | | |
| Dato' Halipah Binti Esa | 10,000 | – | – | **10,000** |
| **Indirect** | | | | |
| Dato' Halipah Binti Esa # | 10,000 | – | – | **10,000** |

# *Deemed interest by virtue of director's family member's shareholding.*

None of the other Directors holding office as at 31 December 2013 had any interest in the units of the Fund and of its related companies during the financial period.

### DIRECTORS' OF 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.

### 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 period.

### OPTIONS GRANTED OVER UNISSUED UNITS

No options were granted to any person to take up unissued units of the Fund during the period.

## 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 that no provision for doubtful debts was necessary; 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 are not aware of any circumstances:

(i) that would render if necessary to write off any bad debts or to provide any doubtful debts in the financial statements of the Group and of the Fund; 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.

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 period 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 period.

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 period ended 31 December 2013 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 period and the date of this report.

## AUDITORS

The auditors, Ernst & Young, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of the Manager in accordance with a resolution of the Directors of the Manager dated 21 January 2014.

**Krishnan C K Menon** **Datuk Hashim Bin Wahir**

# Statement by the Manager

In the opinion of the Directors of the Manager, the financial statements set out on pages 57 to 99 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 2013 and of the results of their financial performance and cash flows for the period from date of establishment on 9 April 2013 to 31 December 2013.

In the opinion of the Directors, the supplementary information set out in Note 36 on page 99 is prepared in all material respects, in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and directive of Bursa Malaysia Securities Berhad.

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 21 January 2014.

**Krishnan C K Menon** **Datuk Hashim Bin Wahir**

Kuala Lumpur, Malaysia

# Statutory Declaration

I, Azmi Bin Yahaya, 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 57 to 99 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 at Kuala Lumpur )
in Wilayah Persekutuan )
on 21 January 2014 )

BEFORE ME:

**YM Tengku Fariddudin Bin Tengku Sulaiman**
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 period ended 31 December 2013. To the best of our knowledge, KLCC REIT Management Sdn. Bhd. ("the Manager") has managed KLCC REIT in the financial period 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;

(b) the valuation of KLCC REIT is carried out in accordance with the Deed and other regulatory requirements; and

(c) the creation of units is carried out in accordance with the Deed and other regulatory requirements.

First interim income distribution of 3.19 sen per unit has been distributed to the unitholders of KLCC REIT on 3 October 2013, second interim income distribution of 4.86 sen per unit has been distributed to the unitholders of KLCC REIT on 9 December 2013 and third interim income distribution of 4.84 sen per unit being income distribution for the period ended 31 December 2013 will be payable on 28 February 2014.

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**

**BERNICE K M LAU**
Head, Operations

Kuala Lumpur, Malaysia
21 January 2014

# 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 period ended 31 December 2013.

In addition, we also confirm that the investment portfolio of KLCC REIT is Shariah-compliant, which comprises:

(a) Investment properties and rental income derived from them which complied with the Securities Commission Guidelines for Islamic Real Estate Investment Trust;

(b) Equity securities listed on Bursa Malaysia Securities Berhad which have been classified as Shariah-compliant by Shariah Advisory Council of the Securities Commission; and

(c) Cash placement and liquid assets, which are placed in Shariah-compliant investments and/or instruments.

(d) Shariah-compliant financings with the exception of one conventional term loan. However, both the Shariah Adviser and Shariah Advisory Council of Securities Commission have given exemption from the refinancing of this loan to Islamic financing as it will expire in March 2014.

For CIMB Islamic Bank Berhad

**ABDUL GHANI ENDUT**
Head Shariah Department/Designated Person Responsible for Shariah Advisory

Kuala Lumpur, Malaysia
21 January 2014

# Statements of Financial Position

AS AT 31 DECEMBER 2013

| | Note | Group 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 5 | **86** | **86** |
| Investment properties | 6 | **8,817,000** | **8,817,000** |
| Investment in a subsidiary | 7 | **–** | **–** |
| | | **8,817,086** | **8,817,086** |
| **Current Assets** | | | |
| Trade and other receivables | 8 | **140,133** | **140,133** |
| Cash and bank balances | 9 | **287,076** | **287,035** |
| | | **427,209** | **427,168** |
| **TOTAL ASSETS** | | **9,244,295** | **9,244,254** |
| **TOTAL UNITHOLDERS' FUND AND LIABILITIES** | | | |
| **Unitholders' Fund** | | | |
| Unitholders' capital | 10 | **7,212,684** | **7,212,684** |
| Merger reserve | 10 | **6,212** | **6,212** |
| Capital reserve | 2.18 | **67,249** | **67,249** |
| Retained profits | | **153,834** | **153,806** |
| **Total Unitholders' Fund** | | **7,439,979** | **7,439,951** |
| **Non-Current Liabilities** | | | |
| Other long term liabilities | 11 | **60,565** | **60,565** |
| Amount due to a subsidiary | 12 | **–** | **868,192** |
| Long term financings | 13 | **1,239,449** | **660,000** |
| Deferred tax liability | 15 | **3,539** | **3,539** |
| Deferred revenue | 16 | **52,951** | **52,951** |
| | | **1,356,504** | **1,645,247** |
| **Current Liabilities** | | | |
| Other payables | 16 | **78,661** | **78,407** |
| Provision for taxation | | **9** | **–** |
| Financings | 13 | **369,142** | **80,649** |
| | | **447,812** | **159,056** |
| **Total Liabilities** | | **1,804,316** | **1,804,303** |
| **TOTAL UNITHOLDERS' FUND AND LIABILITIES** | | **9,244,295** | **9,244,254** |
| **Number of units in circulation ('000 units)** | | **1,805,333** | **1,805,333** |
| **Net asset value ("NAV") per unit (RM)** | | | |
| - before income distribution | | **4.12** | **4.12** |
| - after income distribution | | **4.07** | **4.07** |

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 FINANCIAL PERIOD FROM DATE OF ESTABLISHMENT ON 9 APRIL 2013 TO 31 DECEMBER 2013

| | Note | Group As at 9.4.2013 (date of establishment) to 31.12.2013 RM'000 | Fund As at 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|---|---|
| Revenue | 17 | **393,473** | **393,473** |
| Property operating expenses | 18 | **(16,853)** | **(16,849)** |
| **Net property income** | | **376,620** | **376,624** |
| Fair value adjustment of investment properties | 6 | **70,788** | **70,788** |
| Profit income | | **5,107** | **5,066** |
| | | **452,515** | **452,478** |
| Management fees | 19 | **(29,055)** | **(29,055)** |
| Trustee's fees | 20 | **(400)** | **(400)** |
| Financing costs | 21 | **(53,100)** | **(53,100)** |
| **Profit before tax** | 22 | **369,960** | **369,923** |
| Tax expense | 23 | **(3,548)** | **(3,539)** |
| **PROFIT FOR THE PERIOD, REPRESENTING TOTAL COMPREHENSIVE INCOME** | | **366,412** | **366,384** |
| **Total comprehensive income for the period comprises the following:** | | | |
| - Realised | | **299,163** | **299,135** |
| - Unrealised | | **67,249** | **67,249** |
| | | **366,412** | **366,384** |
| **Basic earnings per unit (sen)** | 24 | | |
| - Realised | | **16.57** | **16.57** |
| - Unrealised | | **3.73** | **3.73** |
| | | **20.30** | **20.30** |

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL PERIOD FROM DATE OF ESTABLISHMENT ON 9 APRIL 2013 TO 31 DECEMBER 2013

| | Group As at 9.4.2013 (date of establishment) to 31.12.2013 RM'000 | Fund As at 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|---|
| **Income Distribution** | | |
| Total comprehensive income for the financial period | **366,412** | **366,384** |
| Add/(less) Non cash items: | | |
| Accrued rental income | **(58,718)** | **(58,718)** |
| Amortisation of deferred rental income | **(2,227)** | **(2,227)** |
| Amortisation of transaction cost for Private Debts Securities | **4,785** | **4,785** |
| Deferred tax liabilities | **3,539** | **3,539** |
| Depreciation | **4** | **4** |
| Accretion of financial instruments | **1,606** | **1,606** |
| Fair value adjustment of investment properties | **(70,788)** | **(70,788)** |
| | **(121,799)** | **(121,799)** |
| Total available for income distribution | **244,613** | **244,585** |
| Distribution to unitholders during the period: | | |
| 1st interim income distribution of 3.19% on 1,805,033,083 units for period from 9 April 2013 to 30 June 2013 | **(57,590)** | **(57,590)** |
| 2nd interim income distribution of 4.86% on 1,805,033,083 units for period from 1 July 2013 to 30 September 2013 | **(87,739)** | **(87,739)** |
| 3rd interim income distribution of 4.84% on 1,805,033,083 units for period from 1 October 2013 to 31 December 2013 | **(87,378)** | **(87,378)** |
| Balance undistributed | **11,906** | **11,878** |

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 FINANCIAL PERIOD FROM DATE OF ESTABLISHMENT ON 9 APRIL 2013 TO 31 DECEMBER 2013

| | Non-Distributable | | ← Distributable → | | |
|---|---|---|---|---|---|
| | Unitholders' Capital RM'000 | Merger Reserve RM'000 | Capital Reserve RM'000 | Retained Profits RM'000 | Total Funds RM'000 |
| **As at 9 April 2013 (date of establishment)** | – | – | – | – | – |
| Total comprehensive income for the period | – | – | – | 366,412 | 366,412 |
| Transfer of fair value surplus, net of tax | – | – | 67,249 | (67,249) | – |
| Income distribution | – | – | – | (145,329) | (145,329) |
| Net total comprehensive income for the period attributable to unitholders | – | – | 67,249 | 153,834 | 221,083 |
| **Unitholders' transactions** | | | | | |
| Units issued as satisfaction of part of the purchase consideration for properties acquired with related assets and liabilities | 7,223,548 | – | – | – | 7,223,548 |
| Effect of fair value adjustment for acquisition of investment properties* | – | 6,212 | – | – | 6,212 |
| Stapled securities associated costs | (10,864) | – | – | – | (10,864) |
| Increase in net assets resulting from unitholders' transactions | 7,212,684 | 6,212 | – | – | 7,218,896 |
| **As at 31 December 2013** | **7,212,684** | **6,212** | **67,249** | **153,834** | **7,439,979** |

* *KLCC REIT adopts merger accounting as its accounting policy to account for business combinations under common control. In accordance with its policy, the difference between the fair value of the investment properties and the aggregate carrying amounts of the net assets and liabilities acquired as of the date of the business combination is included in merger reserve.*

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 Net Asset Value

FOR THE FINANCIAL PERIOD FROM DATE OF ESTABLISHMENT ON 9 APRIL 2013 TO 31 DECEMBER 2013

| | Non-Distributable | | ← Distributable → | | |
|---|---|---|---|---|---|
| | Unitholders' Capital RM'000 | Merger Reserve RM'000 | Capital Reserve RM'000 | Retained Profits RM'000 | Total Funds RM'000 |
| **As at 9 April 2013 (date of establishment)** | – | – | – | – | – |
| Total comprehensive income for the period | – | – | – | 366,384 | 366,384 |
| Transfer of fair value surplus, net of tax | – | – | 67,249 | (67,249) | – |
| Income distribution | – | – | – | (145,329) | (145,329) |
| Net total comprehensive income for the period attributable to unitholders | – | – | 67,249 | 153,806 | 221,055 |
| **Unitholders' transactions** | | | | | |
| Units issued as satisfaction of part of the purchase consideration for properties acquired with related assets and liabilities | 7,223,548 | – | – | – | 7,223,548 |
| Effect of fair value adjustment for acquisition of investment properties* | – | 6,212 | – | – | 6,212 |
| Stapled securities associated costs | (10,864) | – | – | – | (10,864) |
| Increase in net assets resulting from unitholders' transactions | 7,212,684 | 6,212 | – | – | 7,218,896 |
| **As at 31 December 2013** | 7,212,684 | 6,212 | 67,249 | 153,806 | 7,439,951 |

* *KLCC REIT adopts merger accounting as its accounting policy to account for business combinations under common control. In accordance with its policy, the difference between the fair value of the investment properties and the aggregate carrying amounts of the net assets and liabilities acquired as of the date of the business combination is included in merger reserve.*

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 FINANCIAL PERIOD FROM DATE OF ESTABLISHMENT ON 9 APRIL 2013 TO 31 DECEMBER 2013

| | Group 9.4.2013 (date of establishment) to 31.12.2013 RM'000 | Fund 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts from customers | 425,761 | 425,761 |
| Cash payments to suppliers | (24,368) | (24,368) |
| | 401,393 | 401,393 |
| Profit income received | 4,560 | 4,519 |
| **Net cash generated from operating activities** | 405,953 | 405,912 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net cash inflow on acquisition (Note 10) | 79,234 | 79,234 |
| Purchase of property, plant and equipment (Note 5) | (90) | (90) |
| **Net cash generated from investing activities** | 79,144 | 79,144 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Income distribution paid | (145,329) | (145,329) |
| Financing cost paid | (41,828) | (41,828) |
| Increase in deposits restricted | (3,919) | (3,919) |
| Stapled securities associated cost | (10,864) | (10,864) |
| **Net cash used in financing activities** | (201,940) | (201,940) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 283,157 | 283,116 |
| **CASH AND CASH EQUIVALENTS AT THE DATE OF ESTABLISHMENT** | – | – |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (NOTE 9)** | 283,157 | 283,116 |

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 2013

## 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 immediate, penultimate and ultimate holding companies are KLCC Property Holdings Berhad ("KLCCP"), KLCC (Holdings) Sdn Bhd ("KLCCH") and Petroliam 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. There have been no significant changes in the nature of principal activities during the financial period.

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 in accordance with a resolution of the Directors on 21 January 2014.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group and the Fund have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs"), applicable provisions of the Trust Deed and 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Basis of consolidation

**Subsidiary**

Subsidiary is entity controlled by the Fund. The financial statements of 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.

A subsidiary is an entity controlled by the Fund. Control exists when the Fund has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All inter-company 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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.

### 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 | 5-6 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.

## 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")).

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent from other assets and groups.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.8 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, and balances and short term deposits with an original maturity of 3 months or less.

### 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 financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Fund determine the classification of their financial assets at initial recognition. The Group's and the Fund's financial assets are classified as financings and receivables.

**(i) Financings and receivables**

The Group's and the Fund's financings and receivables include trade receivables, other receivables and deposits with licensed banks.

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loan and receivables.

Subsequent to initial recognition, financings and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financings and receivables are derecognised or impaired, and through the amortisation process.

Financings and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

### 2.10 Impairment of financial assets

The Group and the Fund assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

**(i) Trade and other receivables and other financial assets carried at amortised cost**

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Fund consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Fund's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.10 Impairment of financial assets (contd.)

#### (i) Trade and other receivables and other financial assets carried at amortised cost (contd.)

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable become uncollectible, it is written off against the allowance account.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

### 2.11 Provisions

A provision is recognised when the Group and the Fund has 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

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139 *Financial Instrument: Recognition and Measurement*, are recognised in the statement of financial position when, and only when, the Group and the Fund become a party to the contractual provisions of the financial instrument. The Group's and the Fund's financial liabilities are classified as other financial liabilities.

#### (i) Other financial liabilities

The Group's and the Fund's other financial liabilities include trade payables, other payables and financings.

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

Financings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Financings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.12 Financial liabilities (contd.)

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are amortised over the remaining term of the modified liability.

### 2.13 Amortised cost of financial instruments

Amortised cost is computed using the effective interest rate method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

### 2.14 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

### 2.15 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.

### 2.16 Taxation

Tax 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 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.16 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 realised or the liability is settled, based on statutory tax rates 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.

### 2.17 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.

### 2.18 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.

### 2.19 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.20 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(i) Rental income**

Rental income is recognised based on the accrual basis or on a straight line basis unless collection is in doubt, in which case it is recognised on the receipt basis.

**(ii) Profit income**

Profit income is recognised on an accrual basis using the effective interest method.

### 2.21 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.

### 2.22 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.

### 2.23 Fair value measurement

The Group and the Fund adopt MFRS 13 *Fair Value Measurement* which prescribed that the fair value of an asset or a liability, except for lease transactions, MFRS 13 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 asset, 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.

## 3. CRITICAL JUDGEMENT MADE IN APPLYING ACCOUNTING POLICIES

The following is the judgement made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

**Classification between investment properties and property, plant and equipment**

The Fund has developed certain criteria based on MFRS 140 *Investment Properties* in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Fund would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Fair valuation of investment properties**

The Group and the Fund carrying its investment properties at fair value, with changes in fair values being recognised in profit or loss. The Group and the Fund engaged an independent professional valuer to determine the fair value as at 1 November 2013. 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 the void rate. The range of the term yield rate and the void rate used in the valuation is described in Note 6 to the financial statements.

The following table demonstrates the sensitivity of the fair value measurement to changes in estimated term yield rate and void rate and its corresponding sensitivity result in a higher or lower fair value measurement:

| | Fair value Increase/(decrease) RM'000 |
|---|---|
| **Yield rate** | |
| - 0.25% | 379,000 |
| + 0.25% | (348,000) |
| **Void rate** | |
| - 2.5% | 119,000 |
| + 2.5% | (109,000) |

The other key assumptions used to determine the fair value of the investment properties, are further explained in Note 6.

## 5. PROPERTY, PLANT AND EQUIPMENT

**Group/Fund**

| At 31 December 2013 | Building Improvement RM'000 |
|---|---|
| **Cost** | |
| At 9 April 2013 (date of establishment) | – |
| Additions | 90 |
| At 31 December 2013 | 90 |
| **Accumulated Depreciation** | |
| At 9 April 2013 (date of establishment) | – |
| Charge for the year (Note 22) | 4 |
| At 31 December 2013 | 4 |
| **Net Carrying Amount** | 86 |

## 6. INVESTMENT PROPERTIES

**Group/Fund**

| | Total RM'000 |
|---|---|
| **At 31 December 2013** | |
| At 9 April 2013 (date of establishment) | – |
| Acquisition of investment properties (Note 10) | 8,746,212 |
| Fair value adjustments | 70,788 |
| At 31 December 2013 | 8,817,000 |

The investment properties are stated at fair value, which have been determined based on valuations as at 1 November 2013 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 method used in determining the valuations is the investment method.

Investment properties of the Group and the Fund with a carrying value of RM2,257,000,000 have been pledged as securities for financing facilities disclosed in Note 13.

## 6. INVESTMENT PROPERTIES (CONTD.)

The following are recognised in profit and loss in respect of the investment properties:

| | Group 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|
| Rental and parking income | **393,473** | **393,473** |
| Direct operating expenses: | | |
| - Income generating investment properties | **(16,853)** | **(16,849)** |
| | **376,620** | **376,624** |

**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 observeable for the investment property, either directly or indirectly.

Level 2 fair values of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

**Transfer between Level 1 and 2 fair values**

There is no transfer between Level 1 and 2 fair values during the financial period.

**Level 3 fair value**

Level 3 fair value is estimated using unobservable inputs for the investment property.

## 6. INVESTMENT PROPERTIES (CONTD.)

**Fair value information**

Fair value of invesment properties are categorised as follows:

| | 2013<br>Level 3<br>RM'000 |
|---|---|
| **Group/Fund** | |
| - Office properties | **8,375,000** |
| - Retail property | **442,000** |
| | **8,817,000** |

The following table shows a reconciliation of Level 3 fair values:

| | 2013<br>RM'000 |
|---|---|
| At 9 April 2013 (date of establishment) | **–** |
| Acquisition of investment properties | **8,746,212** |
| Re-measurement recognised in profit or loss | **70,788** |
| At 31 December 2013 | **8,817,000** |

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 |
|---|---|---|---|
| Investment method (refer below) | **Office:** | | The estimated fair value would increase/(decrease) if: |
| | - Market rental rate (RM/psf/month) | 7.7 - 11.5 | - expected market rental growth were higher/(lower) |
| | - Outgoings (RM/psf/month) | 1.4 - 2.8 | - expected inflation rate were (higher)/lower |
| | - Void rate (%) | 5.0 - 10.0 | - void rate were (higher)/lower |
| | - Term yield (%) | 5.5 - 5.7 | - Term yield rate were (higher)/lower |
| | - Reversionary yield (%) | 5.0 - 7.0 | - Reversionary yield were (higher)/lower |
| | **Retail:** | | |
| | - Market rental rate (RM/psf/month) | 19.4 - 65.0 | - expected market rental growth were higher/(lower) |
| | - Outgoings (RM/psf/month) | 5.1 | - expected inflation rate were (higher)/lower |
| | - Void rate (%) | 5.0 | - void periods were shorter/(longer) |
| | - Term yield (%) | 6.5 | - Term yield rate was (higher)/lower |
| | - Reversionary yield (%) | 7.0 | - Reversionary yield were (higher)/lower |

Investment Method entails the capitalization of the net return 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 external, independent property valuers, 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 report from the independent professional valuer.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 7. INVESTMENT IN A SUBSIDIARY

| | Fund 2013 RM |
|---|---|
| Unquoted shares at cost | 2 |

During the financial period, KLCC REIT subscribed 100% equity interest in Midciti Sukuk Berhad for a cash consideration of RM2. The subscription of this subsidiary did not have any material effects on the financial results and financial position of the Fund.

Details the of subsidiary which is incorporated in Malaysia is as follows:

| Name of Subsidiaries | Proportion of ownership interest 2013 % | Principal Activity |
|---|---|---|
| Midciti Sukuk Berhad ("MSB") | 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 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|
| **Current** | | |
| **Trade receivables** | 1,283 | 1,283 |
| **Other receivables** | | |
| Other receivables and deposits | 2,015 | 2,015 |
| Amount due from a fellow subsidiary | 2,087 | 2,087 |
| Total other receivables | 4,102 | 4,102 |
| **Other current assets** | | |
| Accrued rental income | 134,748 | 134,748 |
| Total | 140,133 | 140,133 |
| Trade receivables | 1,283 | 1,283 |
| Other receivables | 4,102 | 4,102 |
| Add: Cash and cash equivalents (Note 9) | 287,076 | 287,035 |
| Total financings and receivables | 292,461 | 292,420 |

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 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|
| Cash and bank balances | 514 | 473 |
| Deposits with licensed banks | 286,562 | 286,562 |
| | 287,076 | 287,035 |
| Less: Deposits restricted | (3,919) | (3,919) |
| Cash and cash equivalents | 283,157 | 283,116 |

Deposits with licensed banks of the Group amounting to RM3,919,000 is pledged for credit facilities granted to the Group as set out in Note 13 to the financial statements.

## 10. UNITHOLDERS' CAPITAL

| | Group/Fund | |
|---|---|---|
| | Number of Units 2013 '000 | Amount 2013 RM'000 |
| **Issued and fully paid:** | | |
| Creation of units | 1,805,333 | 7,223,548 |
| Less: Stapled securities associated cost | – | (10,864) |
| Unitholder's capital | 1,805,333 | 7,212,684 |

**Stapled Security:**
Stapled security means one unit in KLCC REIT 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 Trust does not have authorised unitholders' capital, or par value in respect of its issued units.

## 10. UNITHOLDERS' CAPITAL (CONTD.)

**Business combination**

On 10 April 2013, the Trustee had, on behalf of the Fund, entered into the Sales and Purchase Agreement ("SPAs") with Midciti Resources Sdn Bhd, Arena Johan Sdn Bhd and Arena Merdu Sdn Bhd (the "Vendors"), for the acquisition of PETRONAS Twin Towers, Menara ExxonMobil and Menara 3 PETRONAS, together with the associated rights and benefits and the related assets and liabilities ("Acquisition") for a total purchase consideration of RM7,223,547,639. The Acquisition of the investment properties by the Fund are accounted as a business combination under common control using merger accounting.

The carrying amount of the identifiable assets and liabilities acquired from the Vendors as at the date of acquisition were as follows:

| | Note | Carrying amount RM'000 |
|---|---|---|
| **Assets** | | |
| Investment properties | 6 | 8,746,212 |
| Accrued rental income | | 75,988 |
| Cash and bank balances | | 79,234 |
| | | 8,901,434 |
| **Liabilities** | | |
| Deposit payable | | (23,590) |
| Deferred rental income | | (48,533) |
| Financings | | (1,599,551) |
| | | (1,671,674) |
| Net identifiable assets | | 7,229,760 |

**Total cost of business combination**

| | RM'000 |
|---|---|
| 1,805,333,083 units issued at RM4.00 | 7,212,684 |
| Stapled securities associated cost | 10,864 |
| Total cost of business combination | 7,223,548 |

As part of the cost of business combination, the Fund had issued 1,805,333,083 units at RM4.00 each.

## 10. UNITHOLDERS' CAPITAL (CONTD.)

The effect of the acquisition on cashflow is as follows:

| | RM'000 |
|---|---|
| Total cost of business combination | 7,223,548 |
| Less: non-cash consideration | (7,223,548) |
| Consideration settled in cash | – |
| Less: Cash and cash equivalents acquired | (79,234) |
| Net cash inflow on acquisition | (79,234) |

**Merger reserve arising on acquisition**

| | |
|---|---|
| Fair value of KLCC REIT units | 7,223,548 |
| Less: Carrying amount of net assets acquired | (7,229,760) |
| Merger reserve | (6,212) |

## 11. OTHER LONG TERM LIABILITIES

| | Group/Fund<br>2013<br>RM'000 |
|---|---|
| Security deposit payables | **60,565** |

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 between 4.00% - 5.20% per annum.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 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 amount due is unsecured and is not repayable within next 12 months.

## 13. FINANCINGS

| | Note | Group 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|---|
| **Short term financings** | | | |
| Secured: | | | |
| Private debt securities | 14 | **288,493** | **–** |
| Islamic debt facility | | | |
| - Ijarah Muntahiyah Bit Tamleek | | **1,568** | **1,568** |
| Term loan | | **79,081** | **79,081** |
| | | **369,142** | **80,649** |
| **Long term financings** | | | |
| Secured: | | | |
| Private debt securities | 14 | **579,449** | **–** |
| Islamic debt facility | | | |
| - Ijarah Muntahiyah Bit Tamleek | | **660,000** | **660,000** |
| | | **1,239,449** | **660,000** |
| **Total financings** | | | |
| Secured: | | | |
| Private debt securities | 14 | **867,942** | **–** |
| Islamic debt facility | | | |
| - Ijarah Muntahiyah Bit Tamleek | | **661,568** | **661,568** |
| Term loan | | **79,081** | **79,081** |
| | | **1,608,591** | **740,649** |

## 13. FINANCINGS (CONTD.)

**Terms and debt repayment schedule as at 31 December 2013**

| Group | Total RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 3 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|
| **Secured** | | | | | |
| Private debt securities | 867,942 | 288,493 | – | 497,732 | 81,717 |
| Islamic debt facility | 661,568 | 1,568 | – | 660,000 | – |
| Term loan | 79,081 | 79,081 | – | – | – |
| | 1,608,591 | 369,142 | – | 1,157,732 | 81,717 |

| Fund | Total RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 3 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|
| **Secured** | | | | | |
| Islamic debt facility | 661,568 | 1,568 | – | 660,000 | – |
| Term loan | 79,081 | 79,081 | – | – | – |
| | 740,649 | 80,649 | – | 660,000 | – |

**(i) Term loan**

Interest on this loan is charged at a fixed rate of 5.50% per annum and is secured by way of a secured charge over certain investment property of the Fund as disclosed in Note 6.

**(ii) Islamic debt facility (Ijarah Muntahiyah Bit Tamleek)**

This Islamic financing consists of fixed and floating rate term financing and revolving credit facilities.

The credit facilities are for a tenure of 7 years with a bullet payment at the end of the tenure. The profit rate for Tranche 1 is fixed which ranges from 5.06% to 5.32%. The profit rate for Tranche 2 is calculated on 0.75% per annum above the financier's cost of funds for the first 3 years and 0.6% per annum above the financier's cost of funds for the remaining 4 years. The profit rate for Tranche 2 calculated in current period is between the range of 4.17% to 4.18%. The profit rate calculated for the revolving credit in current period is between the range of 4.05% to 4.27%. Security is by way of a charge over certain investment properties of the Fund as disclosed in Note 6 and assignment of rental and insurance/ Takaful proceeds from the investment properties.

Other information on financial risks of financings are disclosed in Note 30.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 14. PRIVATE DEBT SECURITIES

The Private Debt Securities ("PDS") issued by the Group comprise:

| | Group 2013 RM'000 |
|---|---|
| **Secured:** | |
| Sukuk Musharakah | **867,942** |
| Facilities as at 31 December | |
| Due within 1 year | **288,493** |
| Due more than 1 year | **579,449** |
| | **867,942** |

The PDS issued by the Group is a Sukuk Musharakah that carries a profit rate of between 3.53% and 4.25% per annum and is payable semi-annually. It is primarily secured against the Assignment of a Designated Account, Assignment of Insurance/ Takaful and rental receivable on its investment property of a subsidiary in accordance with Head Lease Agreement ("the Agreement") between a subsidiary and PETRONAS.

## 15. DEFERRED TAX LIABILITY

| | Group/Fund 2013 RM'000 |
|---|---|
| At 9 April 2013 (date of establishment) | **–** |
| Recognised in profit or loss | **3,539** |
| At 31 December 2013 | **3,539** |

The deferred tax liability relates to fair value adjustments of investment properties which are expected to be recovered through sale after 5 years.

## 16. OTHER PAYABLES

| | Group 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|
| **Non-Current** | | |
| **Deferred revenue** | **52,951** | **52,951** |
| **Current** | | |
| **Other payables** | | |
| Other payables | 50,615 | 50,411 |
| Security deposit payables | 8,411 | 8,411 |
| Amount due to: | | |
| Holding company | 139 | 89 |
| Other related companies | 19,496 | 19,496 |
| | 78,661 | 78,407 |
| Total other payables | 78,661 | 78,407 |
| Add: Financings (Note 13) | 1,608,591 | 740,649 |
| Other long term liabilities (Note 11) | 60,565 | 60,565 |
| Total financial liabilities carried at amortised cost | 1,747,817 | 879,621 |

Deferred revenue relates to the excess of the principal amount of long term security deposit over the fair value which is accounted for as prepaid lease income and amortised over the lease term on a straightline basis.

Security deposits of RM8,411,000 held are in respect of tenancies of retail and office building. The deposits are short term in nature and refundable upon termination of the respective lease agreements.

Amount due to holding company and other related companies which arose in the normal course of business are unsecured, interest free and repayable on demand.

## 17. REVENUE

| | Group/Fund 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|
| Investment properties | |
| - Office | 369,062 |
| - Retail | 24,411 |
| | 393,473 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 18. PROPERTY OPERATING EXPENSES

| | Group 9.4.2013 (date of establishment) to 31.12.2013 RM'000 | Fund 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|---|
| Utilities expenses | **8,084** | **8,084** |
| Maintenance expenses | **1,876** | **1,876** |
| Quit rent and assessment | **1,838** | **1,838** |
| Other operating expenses | **5,055** | **5,051** |
| | **16,853** | **16,849** |

## 19. MANAGEMENT FEES

| | Group/Fund 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|
| Base fee | **17,744** |
| Performance fee | **11,311** |
| | **29,055** |

The Manager is entitled to receive the following fees from KLCC REIT:

i) a base fee of up to 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 up to 3.00% per annum of KLCC REIT's net property income in the relevant financial period.

## 20. 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.

## 21. FINANCING COSTS

| | Group/Fund 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|
| Interest/Profit expense: | |
| Term loan and Islamic financing | 23,427 |
| Profit expense on private debt securities | 28,067 |
| Accretion of financial instruments | 1,606 |
| | 53,100 |

## 22. PROFIT BEFORE TAXATION

The following amounts have been included in arriving at profit before taxation:

| | Group 9.4.2013 (date of establishment) to 31.12.2013 RM'000 | Fund 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|---|
| Audit fees | 74 | 70 |
| Valuation fees | 1,150 | 1,150 |
| Property management fee | 60 | 60 |
| Depreciation | 4 | 4 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 23. TAX EXPENSE

| | Group 9.4.2013 (date of establishment) to 31.12.2013 RM'000 | Fund 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|---|
| Current period income tax | **9** | **–** |
| Deferred tax: | | |
| Relating to origination of temporary difference | **3,539** | **3,539** |
| | **3,548** | **3,539** |

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 KLCC REIT has declared 95% of its distributable income to unitholders for financial period ended 31 December 2013, no provision for income tax expense has been made for the current period.

Reconciliation of the tax expense is as follows:

| | Group 9.4.2013 (date of establishment) to 31.12.2013 RM'000 | Fund 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|---|
| Profit before taxation | **369,960** | **369,923** |
| Taxation at Malaysian statutory tax rate of 25% | **92,490** | **92,481** |
| Deferred tax recognised at different tax rate | **(14,158)** | **(14,158)** |
| Expenses not deductible for tax purposes | **895** | **895** |
| Income not subject to tax | **(75,679)** | **(75,679)** |
| Tax expense | **3,548** | **3,539** |

## 24. BASIC EARNINGS PER UNIT

Basic earnings per unit amounts are calculated by dividing profit for the period attributable to unitholders of the Fund by the weighted average number of units in issue during the financial period.

| | As at 9.4.2013 (date of establishment) to 31.12.2013 |
|---|---|
| Profit attributable to unitholders of the Fund (RM'000) | **366,384** |
| Weighted average number of units in issue ('000) | **1,805,333** |
| Basic earnings per unit (sen) | **20.30** |

## 25. INCOME DISTRIBUTION

| | Income distribution recognised in year 2013 RM'000 | Net income distribution per unit 2013 Sen |
|---|---|---|
| **Recognised during the year:** | | |
| A first interim income distribution of 3.19% on 1,805,033,083 units | **57,590** | **3.19** |
| A second interim income distribution of 4.86% on 1,805,033,083 units | **87,739** | **4.86** |
| | **145,329** | **8.05** |

The third interim income distribution in respect of the financial period ended 31 December 2013, of 4.84% on 1,805,333,083 units amounting to an income distribution payable of RM87.4 million will be payable on 28 February 2014.

The financial statements for the current year do not reflect this third interim income distribution. Such income distribution will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2014.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 26. PORTFOLIO TURNOVER RATIO

| | Group 2013 |
|---|---|
| Portfolio Turnover Ratio ("PTR") (times) | – |

The calculation of PTR is based on the average of the total acquisitions of investments by the Group for the period to the average net asset value during the financial period.

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 2013 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.

## 27. MANAGEMENT EXPENSE RATIO

| | Group 9.4.2013 (date of establishment) to 31.12.2013 RM'000 |
|---|---|
| Total trust expenses | 99,408 |
| Net asset value at end of financial period | 7,439,979 |
| Less: Third interim income distribution | (87,378) |
| Net asset value at end of financial period, after third interim income distribution | 7,352,601 |
| Management Expense Ratio ("MER") | 1.35 |

The calculation of MER is based on the total fees and expenses incurred by the Group and the Fund in the period, including Manager's fee and Trustee's fee to the net asset value (after third interim income distribution) at end of the financial period.

## 28. COMMITMENTS

### (a) Capital commitments

| | Fund 2013 RM'000 |
|---|---|
| **Approved but not contracted for** | |
| Property, plant and equipment | **520** |
| Investment property | **2,375** |
| | **2,895** |

### (b) Operating lease commitments - as lessor

The Group has entered into a commercial property lease on its investment properties. This non-cancellable lease has been renewed in current year. The future minimum rental receivable under this non-cancellable operating lease at the reporting date is as follows:

| | Group/Fund 2013 RM'000 |
|---|---|
| Not later than 1 year | **462,127** |
| Later than 1 year but not later than 5 years | **1,923,935** |
| More than 5 years | **4,788,578** |
| | **7,174,640** |

## 29. 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 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|
| **Federal Government of Malaysia** | | |
| Property licenses and taxes | (1,883) | (1,883) |
| **Government of Malaysia's related entities** | | |
| Purchase of utilities | (4,012) | (4,012) |
| **Ultimate Holding Company** | | |
| Rental income | 281,705 | 281,705 |
| **Fellow Subsidiary** | | |
| Management fees | (29,055) | (29,055) |
| **Other Related Company** | | |
| Chilled water supply | (3,965) | (3,965) |
| **Subsidiary** | | |
| Financing cost | – | (28,067) |

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 2013 are disclosed in Notes 8 and 16.

## 30. 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 Fund use ageing analysis and credit limit review to monitor the credit quality of the receivables. The Fund 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.

## 30. FINANCIAL INSTRUMENTS (CONTD.)

**Credit Risk (Contd.)**

Receivables (contd.)

The exposure of credit risk for receivables at the reporting date by business segment was:

| | Group/Fund 2013 RM'000 |
|---|---|
| Property investment | |
| - Office | **944** |
| - Retail | **339** |
| | **1,283** |

The ageing of trade receivables as at the reporting date was:

| | |
|---|---|
| Not past due | **1,105** |
| Past due 1 to 30 days | **1** |
| Past due 31 to 60 days | **–** |
| Past due 61 to 90 days | **176** |
| Past due more than 90 days | **1** |
| | **1,283** |

The Group and the Fund does not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2013.

The Group and the Fund has not made any allowance for impairment due to the good credit standing of the debtors.

**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 maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. As far as possible, the Group and the Fund raises committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

## 30. FINANCIAL INSTRUMENTS (CONTD.)

**Liquidity Risk (Contd.)**

**Maturity analysis**

The table below summarises the maturity profile of the Group and Fund's financial liabilities as at the reporting date based on undiscounted contractual payments:

| 31 December 2013 | 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 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Fixed rate secured term loan | 79,081 | 5.50 | 80,104 | 80,104 | – | – | – |
| Private debt securities | 867,942 | 3.87 | 992,885 | 311,627 | 24,174 | 556,520 | 100,564 |
| Fixed rate Islamic debt facility | 300,513 | 5.14 | 401,377 | 18,082 | 383,295 | – | – |
| Floating rate Islamic debt facility | 361,055 | 4.17 | 415,552 | 14,973 | 14,983 | 385,596 | – |
| Other payables | 78,661 | – | 78,661 | 78,661 | – | – | – |
| **Fund** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Fixed rate secured term loan | 79,081 | 5.50 | 80,104 | 80,104 | – | – | – |
| Fixed rate Islamic debt facility | 300,513 | 5.14 | 401,377 | 18,082 | – | 383,295 | – |
| Floating rate Islamic debt facility | 361,055 | 4.17 | 415,552 | 14,973 | 14,983 | 385,596 | – |
| Other payables | 78,407 | – | 78,407 | 78,407 | – | – | – |

**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 financings 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 and the Fund's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

The Group's and the Fund's interest rate risk arises primarily from interest-bearing financings. Financings at floating rates expose the Group to cash flow interest rate risk. Financings obtained at fixed rates expose the Group and the Fund to fair value interest rate risk. The Group and the Fund manages its profit expense rate exposure through a balanced portfolio of fixed and floating rate financings.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

## 30. FINANCIAL INSTRUMENTS (CONTD.)

### Interest Rate Risk (Contd.)

The interest rate profile of the Group's and the Fund's interest-bearing financial instruments based on carrying amount as at reporting date was:

| | Group 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial assets | **286,562** | **286,562** |
| Financial liabilities | **(1,247,536)** | **(379,594)** |
| **Floating rate instruments** | | |
| Financial liabilities | **(361,055)** | **(361,055)** |

### 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 |
|---|---|---|
| **31.12.2013** | | |
| KLIBOR | **+ 60** | **(1,800)** |
| KLIBOR | **- 60** | **1,800** |

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 and the Fund operates 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 loans, trade and other receivables, financings, other payables and various debt.

The carrying amounts of cash and cash equivalents, trade and other receivables, other payables and short term financings approximate their fair values due to the relatively short term nature of these financial instruments.

## 30. FINANCIAL INSTRUMENTS (CONTD.)

### Fair Value Information (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:

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, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable input)

| Group 2013 | Fair value of financial instruments not carried at fair value | | | | Carrying amount |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Financial liabilities** | | | | | |
| Term loan | – | **74,903** | – | **74,903** | **79,081** |
| Islamic debt facility | – | **637,577** | – | **637,577** | **661,568** |
| Private debt securities | – | **870,805** | – | **870,805** | **867,942** |

| Fund 2013 | Fair value of financial instruments not carried at fair value | | | | Carrying amount |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Financial liabilities** | | | | | |
| Term loan | – | **74,903** | – | **74,903** | **79,081** |
| Islamic debt facility | – | **637,577** | – | **637,577** | **661,568** |

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 financings at the reporting date.

There has been no transfers between Level 1 and Level 2 fair values during the financial period.

## 31. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to provide unitholders with regular and stable distributions which is supported by the Group's strategy of improving returns from its property portfolio and capital growth, while maintaining an appropriate capital structure. The Manager intends to continue with the strategies currently adopted by the Group to increase the income and consequently, the value of its property portfolio for continued growth through (i) active asset management strategy and (ii) acquisition growth strategy.

The Group's capital is represented by its unitholders' fund in the statement of financial position. The capital requirements imposed on the Group is to ensure it maintains a healthy gearing ratio of maximum 50% of the total asset value at the time the financing is incurred, in addition to complying with the financial covenants prescribed by financial institutions as stated in the Facility Agreements. The Directors of the Manager will monitor and are determined to maintain an optimal gearing ratio that will provide an ideal financings to total assets ratio that also complies with regulatory requirements.

The financings to total assets ratio as at 31 December 2013 is as follows:

| | **Group 2013** |
|---|---|
| Total financings (RM'000) | **1,608,591** |
| Total assets (RM'000) | **9,244,295** |
| Financings to total assets ratio | **17%** |

The Deed provides that the Manager shall, with the approval of the Trustee, for each distribution period, distribute all (or such other percentage as determined by the Manager at its absolute discretion) of the Group's distributable income. It is the intention of the Manager to distribute at least 90% of the Group's distributable income on a quarterly basis or such other intervals as the Manager may determine at its absolute discretion.

For the period from the establishment date, 9 April 2013 to 31 December 2013, the Group will distribute at least 95% of its distributable income within two months from the end of the financial period ending 31 December 2013. Based on the prospectus in respect of the listing of and quotation for 1,805,333,083 stapled securities on the Main Market of Bursa Malaysia Securities Berhad on 9 May 2013, the Manager intends to distribute at least 95% of the Group's distributable income for the period from date of establishment to 31 December 2014.

The actual proportion of distributable income distributed to unitholders beyond 31 December 2014, which shall be at the absolute discretion of the Manager, may be greater than 90% of the Group's distributable income to the extent that the Manager believes it is appropriate, having regard to the Group's funding requirements, other capital management considerations and the availability of funds.

## 32. SEGMENT INFORMATION

**(a) Reporting format**

Segment information is presented in respect of the Group's and the Fund'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 profit-earning assets and revenue, profit-bearing financings, financings and expenses, and corporate assets and expenses.

The Group and the Fund comprises the following main business segments:

| | |
|---|---|
| Property investment - Office | Rental of office space and other related activities. |
| Property investment - Retail | Rental of retail space and other related activities. |

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 profit-earning assets and revenue, profit-bearing financings, financings 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.

## 32. SEGMENT INFORMATION (CONTD.)

**(b) Allocation basis and transfer pricing (contd.)**

**Business Segments**

**31 December 2013**

| | Property investment - Office RM'000 | Property investment - Retail RM'000 | Elimination/ Adjustment RM'000 | Consolidated RM'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Revenue from external customers | 28,533 | 24,411 | – | 52,944 |
| **Results** | | | | |
| Net property income | 359,699 | 16,921 | – | 376,620 |
| Profit income | | | | 5,107 |
| Fair value adjustment on investment properties | | | | 70,788 |
| Management fees | | | | (29,055) |
| Trustee's fees | | | | (400) |
| Financing costs | | | | (53,100) |
| Tax expense | | | | (3,548) |
| Profit after tax | | | | 366,412 |
| **Total assets** | | | | 9,244,295 |
| **Total liabilities** | | | | 1,804,316 |
| Depreciation | | | | 4 |
| Non-cash items other than depreciation | | | | (121,803) |

## 33. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT

The following new and revised MFRSs, amendments and IC interpretations (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board will become effective in future financial reporting periods and have not been adopted by the Group and/or the Fund:

**Effective for annual periods beginning on or after 1 January 2014**

| | |
|---|---|
| Amendments to MFRS 10 | Investment Entities |
| Amendments to MFRS 127 | Investment Entities |
| Amendments to MFRS 132 | Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities |
| Amendments to MFRS 136 | Recoverable Amount Disclosures for Non-financial Assets |
| Amendments to MFRS 139 | Novation of Derivatives and Continuation of Hedge Accounting |

**Effective for annual periods beginning on or after 1 January 2015**

| | |
|---|---|
| MFRS 9 | Financial Instruments (2009) |
| MFRS 9 | Financial Instruments (2010) |

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.

## 34. NEW PRONOUNCEMENT(S) NOT APPLICABLE TO THE GROUP AND THE FUND

The MASB has issued an IC interpretation which is not yet effective, but for which is not relevant to the operations of the Group and the Fund and hence, no further disclosure is warranted.

**Effective for annual periods beginning on or after 1 January 2014**

| | |
|---|---|
| IC Interpretation 21 | Levies |

## 35. COMPARATIVE FIGURES

No comparative figures are presented as this is the first set of financial statements of KLCC REIT prepared by the Manager since KLCC REIT was estalished on 9 April 2013.

## 36. DISCLOSURE OF REALISED AND UNREALISED PROFIT

The breakdown of the retained profits of the Group and the Fund into realised and unrealised profits is presented as follows:

| | Group 2013 RM'000 | Fund 2013 RM'000 |
|---|---|---|
| Total retained profits | | |
| - Realised | **153,834** | **153,806** |
| - Unrealised | **–** | **–** |
| | **153,834** | **153,806** |

The fair value gain of RM67,249,000 on the remeasurement of investment properties, net of tax, is regarded as an unrealised gain and has been classified under capital reserve in the financial statements.

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

# Independent Auditors' Report

TO THE UNIT HOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

## REPORT ON THE FINANCIAL STATEMENTS

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 2013 of the Group and of the Fund, and the statements of comprehensive income, statements of changes in net asset value and statements of cash flows of the Group and of the Fund for the period from 9 April 2013 (date of establishment) to 31 December 2013 , and a summary of significant accounting policies and other explanatory information, as set out on pages 57 to 99.

*Manager's and Trustee's responsibility for the financial statements*

The Manager of the Group and of the Fund is responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and 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 that are free from material misstatement, whether due to fraud or error. The trustee is responsible for ensuring that the Manager maintains proper accounting and other records that are necessary to enable true and fair presentation of these financial statements.

*Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation of financial statements that give a true and fair view 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 Fund's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2013 and of their financial performance and cash flows for the financial period from 9 April 2013 (date of establishment) to 31 December 2013, in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Securities Commission's Guidelines on Real Estate Investment Trusts in Malaysia.

### OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 36 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The Manager is responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

### 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

**Ahmad Zahirudin bin Abdul Rahim**
No. 2607 / 12 / 14 (J)
Chartered Accountant

Kuala Lumpur, Malaysia
21 January 2014