FINANCIAL STATEMENTS 2015

KLCC PROPERTY HOLDINGS BERHAD

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015.

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.

Upon the completion of the listing of stapled securities in prior year, the Group now comprises:

(a) the KLCC Property Holdings Berhad ("KLCCP") Group, being the Company, its existing subsidiaries and associate company; and

(b) KLCC Real Estate Investment Trust ("KLCC REIT") Group.

RESULTS

	Group	Company
	RM'000	RM'000
Profit for the year	1,403,189	272,515
Attributable to:		
Equity holders of the Company	542,751	272,515
Non-controlling interests relating to KLCC REIT	588,770	–
Other non-controlling interests	271,668	–
	1,403,189	272,515

RESERVES AND PROVISIONS

There were no material movements to and from reserves and provisions during the year, other than as disclosed in the Statements of Changes in Equity.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2014 were as follows:

	RM'000
In respect of the financial year ended 31 December 2014 as reported in the directors' report in that year:	
A fourth interim dividend of 3.89%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 26 January 2015 and paid on 27 February 2015.	70,228
In respect of the financial year ended 31 December 2015:	
A first interim dividend of 3.02%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 5 May 2015 and paid on 12 June 2015.	54,521
A second interim dividend of 3.02%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 7 August 2015 and paid on 18 September 2015.	54,521
A third interim dividend of 2.80%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 11 November 2015 and paid on 21 December 2015.	50,549
	229,819

A fourth interim dividend in respect of the financial year ended 31 December 2015, of 4.13%, tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM74,560,000 will be payable on 29 February 2016.

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
Datuk Pragasa Moorthi A/L Krishnasamy
Dato' Halipah Binti Esa
Datuk Hashim Bin Wahir
Habibah Binti Abdul

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 1.1.2015	Number of Stapled Securities		Balance as at 31.12.2015
		Bought	Sold	
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 1.1.2015	Number of Shares		Balance as at 31.12.2015
		Bought	Sold	
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 1.1.2015	Number of Shares		Balance as at 31.12.2015
		Bought	Sold	
Indirect				
Dato' Halipah Binti Esa #	10,000	–	–	10,000

DIRECTORS' INTERESTS (CONTD.)

	Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad			
	Balance as at 1.1.2015	Number of Shares		Balance as at 31.12.2015
		Bought	Sold	
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 2015 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 26 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

There are no issuance of new shares during the year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

(ii) any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors of the Company are not aware of any circumstances:

(i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

(ii) that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading; or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2015 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 21 January 2016.

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

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 124 to 187 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 2015 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 37 on page 188 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 2016.

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

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

I, Annuar Marzuki Bin Abdul Aziz, the officer primarily responsible for the financial management of KLCC Property Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 124 to 188 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Annuar Marzuki Bin Abdul Aziz
in Kuala Lumpur, Wilayah Persekutuan
on 21 January 2016.

BEFORE ME:

YM Tengku Fariddudin Bin Tengku Sulaiman
Commissioner for Oaths

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	5	**639,381**	609,675	**6,009**	6,926
Investment properties	6	**15,166,684**	14,496,150	**–**	–
Investment in subsidiaries	7	**–**	–	**1,195,494**	1,144,544
Investment in an associate	8	**265,205**	260,570	**99,195**	99,195
Deferred tax assets	9	**536**	1,530	**348**	706
Amount due from a subsidiary	10	**–**	–	**68,000**	68,000
Trade and other receivables	12	**289,588**	219,608	**–**	–
		16,361,394	15,587,533	**1,369,046**	1,319,371
Current Assets					
Inventories	11	**1,837**	2,004	**–**	–
Trade and other receivables	12	**62,921**	87,229	**29,327**	39,194
Tax recoverable		**71**	2	**–**	–
Cash and bank balances	13	**1,110,857**	1,127,072	**563,620**	565,899
		1,175,686	1,216,307	**592,947**	605,093
TOTAL ASSETS		**17,537,080**	16,803,840	**1,961,993**	1,924,464
EQUITY AND LIABILITIES					
Equity Attributable to Equity Holders of the Company					
Share capital	14	**1,805,333**	1,805,333	**1,805,333**	1,805,333
Capital redemption reserve	14	**18,053**	18,053	**18,053**	18,053
Capital reserve	2.20	**2,778,200**	2,484,919	**–**	–
Retained profits	15	**172,982**	153,331	**128,686**	85,990
		4,774,568	4,461,636	**1,952,072**	1,909,376
Non-controlling interests ("NCI") relating to KLCC REIT	7	**7,776,713**	7,564,355	**–**	–
Stapled Securities holders interests in the Group		**12,551,281**	12,025,991	**1,952,072**	1,909,376
Other NCI	7	**1,959,773**	1,822,038	**–**	–
Total Equity		**14,511,054**	13,848,029	**1,952,072**	1,909,376

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Non-Current Liabilities					
Deferred revenue	16	**46,208**	53,605	**–**	–
Other long term liabilities	17	**74,658**	68,147	**–**	–
Long term borrowings	18	**2,532,166**	2,155,000	**–**	–
Deferred tax liabilities	9	**41,530**	35,885	**–**	–
		2,694,562	2,312,637	**–**	–
Current Liabilities					
Trade and other payables	19	**278,447**	262,846	**7,993**	15,058
Borrowings	18	**28,459**	356,542	**–**	–
Taxation		**24,558**	23,786	**1,928**	30
		331,464	643,174	**9,921**	15,088
Total Liabilities		**3,026,026**	2,955,811	**9,921**	15,088
TOTAL EQUITY AND LIABILITIES		**17,537,080**	16,803,840	**1,961,993**	1,924,464

Net asset value ("NAV")	**12,551,281**	12,025,991
Less: Fourth interim distribution	**(74,560)**	(70,228)
Net NAV after distribution	**12,476,721**	11,955,763
Number of stapled securities/ shares in circulation ('000)	**1,805,333**	1,805,333
Net asset value ("NAV") per stapled security/share (RM)		
– before distribution	**6.95**	6.66
– after distribution	**6.91**	6.62

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Revenue	20	**1,340,229**	1,353,516	**284,650**	277,172
Operating profit	21	**1,004,195**	1,011,936	**253,771**	249,239
Fair value adjustment of investment properties	6	**578,839**	386,092	**–**	–
Interest income	22	**41,280**	34,030	**25,190**	18,376
Financing costs	23	**(119,624)**	(144,865)	**–**	–
Share of profit/(loss) of an associate	8	**13,665**	(6,734)	**–**	–
Profit before tax	24	**1,518,355**	1,280,459	**278,961**	267,615
Tax expense	27	**(115,166)**	(121,072)	**(6,446)**	(3,071)
PROFIT FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME		**1,403,189**	1,159,387	**272,515**	264,544
Profit attributable to:					
Equity holders of the Company		**542,751**	458,623	**272,515**	264,544
NCI relating to KLCC REIT	7	**588,770**	479,304	**–**	–
		1,131,521	937,927	**272,515**	264,544
Other non-controlling interests	7	**271,668**	221,460	**–**	–
		1,403,189	1,159,387	**272,515**	264,544
Total comprehensive income for the year comprises the following:					
Realised		**829,159**	794,354	**272,515**	264,544
Unrealised		**574,030**	365,033	**–**	–
		1,403,189	1,159,387	**272,515**	264,544
Earnings per share attributable to equity holders of the Company (sen):					
Basic	28	**30.1**	25.4		
Earnings per stapled security (sen):					
Basic	28	**62.7**	52.0		

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 2015

	Group	
	2015 **RM'000**	**2014** **RM'000**
Overall distributable income is derived as follows:		
Profit attributable to the equity holders of the Company	**542,751**	458,623
Less: Unrealised fair value adjustment attributable to the equity holders	**(293,281)**	(184,190)
	249,470	274,433
Distributable income of KLCC REIT	**391,850**	364,623
Total available for income distribution	**641,320**	639,056
Distribution to equity holders of the Company in respect of financial year ended 31 December 2015/2014:		
First interim dividend of 3.02% (2014: 3.73%)	**(54,521)**	(67,339)
Second interim dividend of 3.02% (2014: 3.29%)	**(54,521)**	(59,395)
Third interim dividend of 2.80% (2014: 3.05%)	**(50,549)**	(55,063)
Fourth interim dividend of 4.13% (2014: 3.89%)	**(74,560)**	(70,228)
	(234,151)	(252,025)
Distribution to KLCC REIT holders in respect of financial year ended 31 December 2015/2014:		
First interim income distribution of 5.32% (2014: 4.92%)	**(96,044)**	(88,822)
Second interim income distribution of 5.32% (2014: 4.76%)	**(96,044)**	(85,934)
Third interim income distribution of 5.35% (2014: 5.14%)	**(96,585)**	(92,794)
Fourth interim dividend of 5.69% (2014: 4.86%)	**(102,723)**	(87,740)
	(391,396)	(355,290)
Balance undistributed	**15,773**	31,741

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 2015

		← Attributable to Equity Holders of the Company →							
		← Non-Distributable →		← Distributable →					
	Note	Share Capital RM'000	Capital Redemption Reserve 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 2015		**1,805,333**	**18,053**	**153,331**	**2,484,919**	**4,461,636**	**7,564,355**	**1,822,038**	**13,848,029**
Total comprehensive income for the year		**–**	**–**	**542,751**	**–**	**542,751**	**588,770**	**271,668**	**1,403,189**
Transfer of fair value surplus		**–**	**–**	**(293,281)**	**293,281**	**–**	**–**	**–**	**–**
Dividends paid	29	**–**	**–**	**(229,819)**	**–**	**(229,819)**	**(376,412)**	**(133,933)**	**(740,164)**
At 31 December 2015		**1,805,333**	**18,053**	**172,982**	**2,778,200**	**4,774,568**	**7,776,713**	**1,959,773**	**14,511,054**

		← Attributable to Equity Holders of the Company →							
		← Non-Distributable →		← Distributable →					
	Note	Share Capital RM'000	Capital Redemption Reserve 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 2014		1,805,333	18,053	130,561	2,300,729	4,254,676	7,439,979	1,711,711	13,406,366
Total comprehensive income for the year		–	–	458,623	–	458,623	479,304	221,460	1,159,387
Transfer of fair value surplus		–	–	(184,190)	184,190	–	–	–	–
Dividends paid	29	–	–	(251,663)	–	(251,663)	(354,928)	(111,133)	(717,724)
At 31 December 2014		1,805,333	18,053	153,331	2,484,919	4,461,636	7,564,355	1,822,038	13,848,029

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 2015

		Non-Distributable		Distributable	
	Note	Share Capital RM'000	Capital Redemption Reserve RM'000	Retained Profits RM'000	Total Equity RM'000
At 1 January 2015		**1,805,333**	**18,053**	**85,990**	**1,909,376**
Total comprehensive income for the year		**–**	**–**	**272,515**	**272,515**
Dividends paid	29	**–**	**–**	**(229,819)**	**(229,819)**
At 31 December 2015		**1,805,333**	**18,053**	**128,686**	**1,952,072**
At 1 January 2014		1,805,333	18,053	73,109	1,896,495
Total comprehensive income for the year		–	–	264,544	264,544
Dividends paid	29	–	–	(251,663)	(251,663)
At 31 December 2014		1,805,333	18,053	85,990	1,909,376

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 2015

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	**1,287,311**	1,241,824	**17,840**	16,188
Cash payments to suppliers and employees	**(286,083)**	(318,490)	**(22,903)**	(51,128)
	1,001,228	923,334	**(5,063)**	(34,940)
Interest income from fund and other investments	**38,839**	34,913	**19,676**	8,369
Tax paid	**(107,824)**	(115,341)	**(4,190)**	(3,232)
Net cash generated from/(used in) operating activities	**932,243**	842,906	**10,423**	(29,803)
CASH FLOWS FROM INVESTING ACTIVITIES				
Dividends received	**9,030**	6,450	**267,430**	261,071
Purchase of property, plant and equipment	**(63,643)**	(27,187)	**(528)**	(3,958)
Subsequent expenditure on investment properties	**(89,371)**	(41,014)	**–**	–
Proceeds from disposal of property, plant and equipment	**88**	65	**–**	–
Subscription of shares in a subsidiary	**–**	–	**–**	(2,141)
Payment received from subsidiaries for capital reduction exercise	**–**	–	**–**	185,843
Net cash (used in)/generated from investing activities	**(143,896)**	(61,686)	**266,902**	440,815

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
CASH FLOWS FROM FINANCING ACTIVITIES				
Drawdown of borrowings	**377,166**	2,166,000	**–**	–
Repayment of borrowings	**(330,000)**	(2,003,493)	**–**	–
Dividends paid to shareholders	**(229,819)**	(251,663)	**(229,819)**	(251,663)
Dividends paid to other NCI	**(133,933)**	(111,133)	**–**	–
Dividends paid to NCI relating to KLCC REIT	**(374,563)**	(356,889)	**–**	–
Interest expenses paid	**(113,413)**	(111,576)	**–**	–
(Advances to)/Repayment from subsidiaries	**–**	–	**(49,785)**	118,901
(Increase)/Decrease in deposits restricted	**(1,248)**	2,421	**–**	–
Repayment of shareholders loan to non-controlling interest	**–**	(67,264)	**–**	–
Net cash used in financing activities	**(805,810)**	(733,597)	**(279,604)**	(132,762)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(17,463)**	47,623	**(2,279)**	278,250
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,121,900**	1,074,277	**565,899**	287,649
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 13)	**1,104,437**	1,121,900	**563,620**	565,899
The additions in investment properties and property, plant and equipment were acquired by way of:				
Cash	**137,736**	13,844	**528**	3,958
Accruals	**14,243**	15,284	**–**	(1,370)
	151,979	29,128	**528**	2,588
Cash paid for additions in prior year	**15,278**	54,357	**–**	–
Cash paid for additions in current year	**137,736**	13,844	**528**	3,958
Total cash paid for investment properties and property, plant and equipment	**153,014**	68,201	**528**	3,958

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

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated on 7 February 2004 and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Level 54, Tower 2, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

The principal place of business is located at Level 33 & 34, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur.

The immediate and ultimate holding companies of the Company are KLCC (Holdings) Sdn Bhd ("KLCCH") and Petroliam Nasional Berhad ("PETRONAS") respectively, all of which are incorporated in Malaysia.

The principal activities of the Company in the course of the financial year are investment holding, property investment and the provision of management services.

The principal activities of the subsidiaries and associate are stated in Notes 7 and 8.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 21 January 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 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 2015, 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 Standards Board ("MASB") as described fully in Note 3.

2.2 Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Basis of Consolidation (Contd.)

Subsidiaries (Contd.)

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.

Non-controlling interests

Non-controlling interests at the reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between the non-controlling interests and the equity shareholders of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Basis of Consolidation (Contd.)

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.

2.3 Investments

Long term investments in subsidiaries and an associate are stated at cost less impairment loss, if any, in the Company's financial statements. The cost of investment includes transaction cost.

The carrying amount of these investments includes fair value adjustments on shareholders loans and advances, if any.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2.4 Associates

Associates are entities in which the Group has significant influence including representation on the Board of Directors, but not control or joint control, over the financial and operating policies of the investee company.

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profits or losses and other comprehensive income of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated statement of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

When the Group's share of post-acquisition losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate investee.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with the resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Associates (Contd.)

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.

2.5 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.6 Property, Plant and Equipment (Contd.)

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the items if it is probable that the future economic benefits embodied within the part will flow to the Group and the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

The depreciable amount is determined after deducting residual value. The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the profit or loss.

2.7 Investment Properties

Investment properties are properties which are owned or held under a leasehold interest either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair value of investment properties are recognised in the profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the year in which they arise.

Where the fair value of the Investment Property Under Construction (“IPUC”) is not reliably determinable, the IPUC is measured at cost until either its fair value has been reliably determinable or construction is complete, whichever is earlier.

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”)).

2. **SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

2.8 Impairment of non-financial assets (Contd.)

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such a reversal is recognised in profit or loss.

2.9 Inventories

Inventories of saleable merchandise and operating supplies are stated at the lower of cost and net realisable value. Cost of inventories is determined using the weighted average cost method and it includes the invoiced value from suppliers, and transportation and handling costs.

2.10 Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and deposits with banks. For the purpose of cash flow statements, cash and cash equivalents include cash on hand and short term deposits with banks with an original maturity of 3 months or less, less restricted cash held in designated accounts on behalf of clients.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.11 Financial assets (Contd.)

(i) Loans and receivables (Contd.)

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.

2.12 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 have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

2. 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 Instruments: 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. The Group's and the Company's 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.

2.16 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.16 Employee Benefits (Contd.)

(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 expense on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the period, using the statutory tax rate at the reporting date, and any adjustment to tax payable in respect of previous years.

(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:

	2015 RM	2014 RM
United States Dollar	**4.29**	3.49

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 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.21 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 unless collection is in doubt, in which case it is recognised on the receipt basis.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the shorter of the entire lease term or the period to the first break option. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the related property including the accrued rent does not exceed the external valuation.

(ii) 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.

2.22 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.23 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.

2.24 Fair value measurement

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

(i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market within the bid-ask spread at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

(ii) Non-financial assets

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

When measuring the fair value of an asset or a liability, the Group/Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable input)

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2015, the Group and the Company have adopted the following pronouncements that are applicable and have been issued by the Malaysian Accounting Standards Board ("MASB") as listed below:

Effective for annual periods beginning on or after 1 July 2014

Amendments to MFRS 3	Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
Amendments to MFRS 8	Operating Segments (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 13	Fair Value Measurement (Annual Improvements 2011-2013 Cycle)
Amendments to MFRS 116	Property, Plant and Equipment and MFRS 138 Intangible Assets (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 119	Employee Benefits (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendments to MFRS 124	Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 140	Investment Property (Annual Improvements 2011-2013 Cycle)

The adoption of the abovementioned pronouncements did not have any significant financial impact to the Group and the Company.

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 Property* 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:

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)

4.2 Key Sources of Estimation Uncertainty (Contd.)

(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.

(iii) Fair value of investment properties

The Group carries its investment properties at fair value, with changes in fair values being recognised in profit or loss. The Group had engaged independent professional valuers to determine the fair values and there are no material events that affect the valuation between the valuation date and financial year end.

The determined fair value of the investment properties by the independent professional valuers is most sensitive to the estimated yield rate and 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)	
	2015 RM'000	**2014 RM'000**
Yield rate		
+ 0.25%	**(534,648)**	(491,498)
– 0.25%	**580,971**	541,720
Void rate		
+ 2.5%	**(285,428)**	(256,784)
– 2.5%	**289,133**	267,395

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

	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 2015								
Cost								
At 1 January 2015	581,791	13,621	116,308	149,286	55,923	1,309	9,155	927,393
Additions	4,573	44,205	3,779	3,042	4,434	35	216	60,284
Transfer within property, plant and equipment	32,850	(43,677)	5,195	(6,733)	12,365	–	–	–
Disposals	(74)	–	(4,960)	(1,723)	(267)	(105)	–	(7,129)
Write off	(3,218)	–	–	–	(648)	–	–	(3,866)
At 31 December 2015	615,922	14,149	120,322	143,872	71,807	1,239	9,371	976,682
Accumulated Depreciation								
At 1 January 2015	104,718	–	76,364	78,535	49,061	1,007	8,033	317,718
Charge for the year (Note 24)	8,472	–	8,334	9,431	3,235	94	926	30,492
Transfer within property, plant and equipment	–	–	–	(4,586)	4,586	–	–	–
Disposals	(74)	–	(4,896)	(1,701)	(267)	(105)	–	(7,043)
Write off	(3,218)	–	–	–	(648)	–	–	(3,866)
At 31 December 2015	109,898	–	79,802	81,679	55,967	996	8,959	337,301
Net Carrying Amount	506,024	14,149	40,520	62,193	15,840	243	412	639,381

5. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Lands and buildings* RM'000	Project in progress RM'000	Furniture and fittings RM'000	Plant and equipment RM'000	Office equipment RM'000	Motor vehicles RM'000	Crockery, linen and utensils RM'000	Total RM'000
Group								
At 31 December 2014								
Cost								
At 1 January 2014	571,952	4,205	115,553	148,051	53,027	1,074	8,829	902,691
Additions	5,333	13,832	3,306	1,412	3,226	287	326	27,722
Transfer within property, plant and equipment	4,506	(4,416)	(90)	–	–	–	–	–
Disposals	–	–	(1,596)	(177)	(71)	(52)	–	(1,896)
Write off	–	–	(865)	–	(259)	–	–	(1,124)
At 31 December 2014	581,791	13,621	116,308	149,286	55,923	1,309	9,155	927,393
Accumulated Depreciation								
At 1 January 2014	97,106	–	71,456	68,951	46,492	1,005	5,946	290,956
Charge for the year (Note 24)	7,608	–	7,144	9,760	2,899	54	2,087	29,552
Transfer within property, plant and equipment	4	–	(4)	–	–	–	–	–
Disposals	–	–	(1,540)	(176)	(71)	(52)	–	(1,839)
Write off	–	–	(692)	–	(259)	–	–	(951)
At 31 December 2014	104,718	–	76,364	78,535	49,061	1,007	8,033	317,718
Net Carrying Amount	477,073	13,621	39,944	70,751	6,862	302	1,122	609,675

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 2015					
Cost					
At 1 January 2015	**85,889**	**390,016**	**13,568**	**92,318**	**581,791**
Additions	**–**	**–**	**2,724**	**1,849**	**4,573**
Transfer	**–**	**–**	**2,473**	**30,377**	**32,850**
Disposals	**–**	**(74)**	**–**	**–**	**(74)**
Write off	**–**	**–**	**(3,218)**	**–**	**(3,218)**
At 31 December 2015	**85,889**	**389,942**	**15,547**	**124,544**	**615,922**
Accumulated Depreciation					
At 1 January 2015	**–**	**47,398**	**6,234**	**51,086**	**104,718**
Charge for the year	**–**	**5,480**	**1,999**	**993**	**8,472**
Transfer	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**(74)**	**–**	**–**	**(74)**
Write off	**–**	**–**	**(3,218)**	**–**	**(3,218)**
At 31 December 2015	**–**	**52,804**	**5,015**	**52,079**	**109,898**
Net Carrying Amount	**85,889**	**337,138**	**10,532**	**72,465**	**506,024**
At 31 December 2014					
Cost					
At 1 January 2014	85,889	390,016	6,135	89,912	571,952
Additions	–	–	3,017	2,316	5,333
Transfer	–	–	4,416	90	4,506
At 31 December 2014	85,889	390,016	13,568	92,318	581,791
Accumulated Depreciation					
At 1 January 2014	–	41,982	5,682	49,442	97,106
Charge for the year	–	5,416	552	1,640	7,608
Transfer	–	–	–	4	4
At 31 December 2014	–	47,398	6,234	51,086	104,718
Net Carrying Amount	85,889	342,618	7,334	41,232	477,073

Property, plant and equipment of a subsidiary at carrying amount of RM602,658,000 (2014: RM580,712,000) has been pledged as securities for loan facilities as disclosed in Note 18.

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 2015						
Cost						
At 1 January 2015	**7,853**	**2,119**	**5**	**2,202**	**2,096**	**14,275**
Additions	**–**	**–**	**–**	**100**	**428**	**528**
Transfer	**2,474**	**–**	**–**	**–**	**(2,474)**	**–**
Write off	**(3,218)**	**–**	**–**	**(648)**	**–**	**(3,866)**
At 31 December 2015	**7,109**	**2,119**	**5**	**1,654**	**50**	**10,937**
Accumulated Depreciation						
At 1 January 2015	**3,570**	**1,698**	**3**	**2,078**	**–**	**7,349**
Charge for the year (Note 24)	**1,175**	**211**	**1**	**58**	**–**	**1,445**
Write off	**(3,218)**	**–**	**–**	**(648)**	**–**	**(3,866)**
At 31 December 2015	**1,527**	**1,909**	**4**	**1,488**	**–**	**4,928**
Net Carrying Amount	**5,582**	**210**	**1**	**166**	**50**	**6,009**
At 31 December 2014						
Cost						
At 1 January 2014	3,437	2,965	5	2,405	3,999	12,811
Additions	–	19	–	56	2,513	2,588
Transfer	4,416	–	–	–	(4,416)	–
Write off	–	(865)	–	(259)	–	(1,124)
At 31 December 2014	7,853	2,119	5	2,202	2,096	14,275
Accumulated Depreciation						
At 1 January 2014	3,437	2,099	1	2,294	–	7,831
Charge for the year (Note 24)	133	291	2	43	–	469
Write off	–	(692)	–	(259)	–	(951)
At 31 December 2014	3,570	1,698	3	2,078	–	7,349
Net Carrying Amount	4,283	421	2	124	2,096	6,926

6. INVESTMENT PROPERTIES

	Completed investment properties RM'000	IPUC land at fair value RM'000	IPUC at cost RM'000	Total RM'000
Group				
At 31 December 2015				
At 1 January 2015	**14,220,096**	**246,500**	**29,554**	**14,496,150**
Additions	**18,558**	**–**	**73,137**	**91,695**
Transfer#	**(102,400)**	**102,400**	**–**	**–**
Fair value adjustments	**474,789**	**104,050**	**–**	**578,839**
At 31 December 2015	**14,611,043**	**452,950**	**102,691**	**15,166,684**
At 31 December 2014				
At 1 January 2014	13,864,572	220,300	23,780	14,108,652
(Reversal)/Additions	(4,368)	–	5,774	1,406
Fair value adjustments	359,892	26,200	–	386,092
At 31 December 2014	14,220,096	246,500	29,554	14,496,150

Relates to the fair value of land for the proposed development of Phase 3, Kompleks Dayabumi

The following investment properties are held under lease terms:

	2015 RM'000	2014 RM'000
Leasehold land	**170,000**	170,000
Building	**318,459**	308,339
IPUC at cost	**80,194**	7,057
	568,653	485,396

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

6. INVESTMENT PROPERTIES (CONTD.)

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

	Group 2015 RM'000	Group 2014 RM'000
Rental income	**1,059,278**	1,054,412
Direct operating expenses of income generating investment properties	**(78,058)**	(81,441)

Fair value information

Fair value of investment properties are categorised as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2015				
– Office properties	**–**	**–**	**8,951,693**	**8,951,693**
– Retail property	**–**	**–**	**5,838,000**	**5,838,000**
– Land	**–**	**–**	**274,300**	**274,300**
	–	**–**	**15,063,993**	**15,063,993**
2014				
– Office properties	–	–	8,805,096	8,805,096
– Retail property	–	–	5,415,000	5,415,000
– Land	–	–	246,500	246,500
	–	–	14,466,596	14,466,596

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can assess at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment properties, either directly or indirectly.

Transfer between Level 1, 2 and 3 fair values

There is no transfer between Level 1, 2 and 3 fair values during the financial year.

Level 3 fair value

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

6. INVESTMENT PROPERTIES (CONTD.)

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

	2015 RM'000	2014 RM'000
At 1 January	**14,466,596**	14,084,872
Addition/(reversal)	**18,558**	(4,368)
Re-measurement recognised in profit or loss	**578,839**	386,092
At 31 December	**15,063,993**	14,466,596

During the current financial year, the Group had commenced construction on the new Phase 3 of Dayabumi. The valuation of the said land has been changed from investment method to residual method.

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 2015	Range 2014	Inter-relationship between significant unobservable inputs and fair value measurement
Investment	**Office:**			The estimated fair value would increase/(decrease) if:
method	– Market rental rate (RM/psf/month)			
(refer a)	– Term	**4.50 – 9.95**	4.50 – 9.11	– expected market rental growth were higher/(lower)
	– Reversion	**5.50 – 12.34**	5.30 – 12.00	– expected market rental growth were higher/(lower)
	– Outgoings (RM/psf/month)			
	– Term	**1.86 – 1.90**	1.76 – 1.90	– expected inflation rate were lower/(higher)
	– Reversion	**1.90 – 2.05**	1.90 – 1.93	– expected inflation rate were lower/(higher)
	– Void rate (%)	**5.00**	5.00	– void rate were lower/(higher)
	– Term yield (%)	**5.50 – 6.50**	5.50 – 6.50	– term yield rate were lower/(higher)
	– Reversionary yield (%)	**6.00 – 7.00**	6.00 – 7.00	– reversionary yield were lower/(higher)
	Retail:			
	– Market rental rate (RM/psf/month)			
	– Term	**4.24 – 308.70**	4.24 – 373.80	– expected market rental growth were higher/(lower)
	– Reversion	**4.38 – 373.80**	4.38 – 373.80	– expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	– Term	**5.30 – 6.58**	5.47 – 6.67	– expected inflation rate were lower/(higher)
	– Reversion	**5.50 – 6.78**	5.98 – 6.87	– expected inflation rate were lower/(higher)
	– Void rate (%)	**3.00**	3.00	– void rate were lower/(higher)
	– Term yield (%)	**6.25 – 6.50**	6.25 – 6.50	– term yield rate were lower/(higher)
	– Reversionary yield (%)	**6.75 – 7.00**	6.75 – 7.00	– reversionary yield were lower/(higher)

6. INVESTMENT PROPERTIES (CONTD.)

Valuation technique	Significant unobservable inputs	Range 2015	Range 2014	Inter-relationship between significant unobservable inputs and fair value measurement
Residual method (refer b)	– Expected rate of return (%)	**17.00**	–	– expected rate of return is lower/(higher)
	– Gross Development Value (RM million)	**933**	–	– gross development value is higher/(lower)
	– Gross Development Costs (RM million)	**505**	–	– gross development costs is lower/(higher)
	– Financing costs (%)	**7.00**	–	– financing costs is lower/(higher)
	– Discounting rate (%)	**7.00**	–	– discounting costs is lower/(higher)

(a) Investment method entails the capitalisation of the net rent from a property. Net rent is the residue of gross annual rent less annual expenses (outgoings) required to sustain the rent with allowance for void and management fees.

(b) Residual method is used to value a property that has development potential. The value of the property will be the residual of the potential value less the construction costs and the required profit from the project.

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 the valuation report from the independent professional valuer.

7. INVESTMENT IN SUBSIDIARIES

	Company 2015 RM'000	Company 2014 RM'000
Unquoted shares at cost	**4,530,109**	4,530,109
Discount on loans to subsidiaries	**196,314**	196,314
Effects of conversion of amounts due from subsidiaries to investment	**546,941**	495,991
Capital reduction	**(780,916)**	(780,916)
Write-down in value*	**(3,296,954)**	(3,296,954)
	1,195,494	1,144,544

* The investment in certain subsidiaries have been adjusted to their recoverable amount subsequent to the disposal of their assets and liabilities to KLCC REIT.

7. INVESTMENT IN SUBSIDIARIES (CONTD.)

Details of subsidiaries are as follows:

Name of Subsidiaries	Proportion of ownership interest 2015 %	Proportion of ownership interest 2014 %	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	Inactive
KLCC Parking Management Sdn Bhd ("KPM")	**100**	100	Management of car park operations
KLCC Urusharta Sdn Bhd ("KLCCUH")	**100**	100	Facilities management
Kompleks Dayabumi Sdn Bhd ("KDSB")	**100**	100	Property investment
Midciti Resources Sdn Bhd ("MRSB")	**100**	100	Inactive
Impian Cemerlang Sdn Bhd ("ICSB")	**100**	100	Property investment
Arena Merdu Sdn Bhd ("AMSB")	**100**	100	Inactive
KLCC REIT Management Sdn Bhd ("KLCC REIT Management")	**100**	100	Management of a real estate investment trust
KLCC REIT	*****	*	To invest in a Shariah compliant portfolio or real estate assets and real estate related assets
Subsidiary of KLCC REIT			
Midciti Sukuk Berhad ("MSB")*	**100**	100	To undertake the issuance of Islamic term notes ("Sukuk") under a medium term notes programme and all matters relating to it

The country of incorporation and principal place of business of all subsidiaries is Malaysia.

7. **INVESTMENT IN SUBSIDIARIES (CONTD.)**

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

(i) the Group exercises power over KLCC REIT by virtue of its control over KLCC REIT Management, the manager of KLCC REIT; and

(ii) KLCC REIT units are stapled to the ordinary shares of the Company such that the shareholders of the Company are exposed to variable returns from its involvement with KLCC REIT and the Group has the ability to affect those returns through its power over KLCC REIT.

Non-controlling interests relating to KLCC REIT

	2015	2014
NCI percentage of ownership interest and voting interest	**100%**	100%
Carrying amount of NCI (RM'000)	**7,776,713**	7,564,355
Profit allocated to NCI (RM'000)	**588,770**	479,304

Summarised financial information before intra-group elimination

	2015 RM'000	2014 RM'000
Non-current assets – Investment properties	**9,013,234**	8,871,757
Non-current assets – Others	**286,751**	218,418
Current assets	**268,597**	246,637
Non-current liabilities	**(1,680,831)**	(1,674,933)
Current liabilities	**(111,038)**	(97,524)
Net assets	**7,776,713**	7,564,355

	2015 RM'000	2014 RM'000
Revenue	**594,791**	592,948
Profit for the year, representing total comprehensive income	**588,770**	479,304
Cash flows generated from operating activities	**476,471**	442,521
Cash flows used in investing activities	**(5,183)**	(214)
Cash flows used in financing activities	**(442,915)**	(488,421)
Net increase/(decrease) in cash and cash equivalents	**28,373**	(46,114)
Dividend paid to NCI relating to KLCC REIT	**(376,412)**	(354,928)

7. INVESTMENT IN SUBSIDIARIES (CONTD.)

Other non-controlling interests in subsidiaries

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

2015	SKSB	Other immaterial subsidiary	Total
NCI percentage of ownership interest and voting interest	**40.0%**		
Carrying amount of NCI (RM'000)	**1,887,173**	**72,600**	**1,959,773**
Profit allocated to NCI (RM'000)	**271,550**	**117**	**271,667**

2014	SKSB	Other immaterial subsidiary	Total
NCI percentage of ownership interest and voting interest	40.0%		
Carrying amount of NCI (RM'000)	1,756,596	65,442	1,822,038
Profit allocated to NCI (RM'000)	217,675	3,785	221,460

Summarised financial information of significant subsidiaries before intra-group elimination

	2015 RM'000	2014 RM'000
SKSB		
Non-current assets – Investment properties	**5,288,000**	4,870,000
Non-current assets – Others	**10,992**	25,587
Current assets	**177,122**	236,147
Non-current liabilities	**(600,399)**	(600,000)
Current liabilities	**(157,782)**	(140,244)
Net assets	**4,717,933**	4,391,490
Revenue	**395,280**	386,506
Profit for the year, representing total comprehensive income	**680,142**	540,040
Cash flows generated from operating activities	**271,062**	263,855
Cash flows used in investing activities	**(6,313)**	(294,674)
Cash flows used in financing activities	**(334,833)**	(252,833)
Net decrease in cash and cash equivalents	**(70,084)**	(283,652)
Dividends paid to other NCI	**(133,933)**	(101,133)

8. INVESTMENT IN AN ASSOCIATE

	2015 RM'000	2014 RM'000
Group		
Unquoted shares at cost	**99,195**	99,195
Share of post-acquisition reserves	**166,010**	161,375
	265,205	260,570
Company		
Unquoted shares at cost	**99,195**	99,195

Details of the associate are as follows:

			Proportion of ownership interest	
Name of Associate	**Country of Incorporation**	**Principal Activity**	**2015 %**	**2014 %**
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:

	2015 RM'000	2014 RM'000
Non-current assets	**760,000**	752,000
Current assets	**48,523**	40,748
Total assets	**808,523**	792,748
Non-current liabilities	**97,304**	91,517
Current liabilities	**2,562**	6,622
Total liabilities	**99,866**	98,139
Results		
Revenue	**45,368**	47,058
Profit for the year, representing total comprehensive income	**41,412**	71,113
Share of results for the year	**13,665**	(6,734)

In equity accounting the Group's share of results in prior year, an adjustment of RM30,200,000 representing the Group's share on the deferred tax liability of investment property was made.

8. INVESTMENT IN AN ASSOCIATE (CONTD.)

Reconciliation of net assets to carrying amount as at 31 December

	2015 RM'000	2014 RM'000
Group's share of net assets	**233,855**	229,220
Goodwill	**31,350**	31,350
	265,205	260,570

9. DEFERRED TAX

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At 1 January	**34,355**	24,227	**(706)**	(475)
Recognised in profit or loss (Note 27)	**6,639**	10,128	**358**	(231)
At 31 December	**40,994**	34,355	**(348)**	(706)

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:

	2015 RM'000	2014 RM'000
Deferred tax assets	**(536)**	(1,530)
Deferred tax liabilities	**41,530**	35,885
	40,994	34,355

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

9. DEFERRED TAX (CONTD.)

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 2015	**46,208**	**6,277**	**365**	**52,850**
Recognised in profit or loss	**1,896**	**6,815**	**382**	**9,093**
At 31 December 2015	**48,104**	**13,092**	**747**	**61,943**
At 1 January 2014	46,727	3,539	910	51,176
Recognised in profit or loss	(519)	2,738	(545)	1,674
At 31 December 2014	46,208	6,277	365	52,850

Deferred Tax Assets of the Group:

	Unused tax losses and investment tax allowances RM'000	Others RM'000	Total RM'000
At 1 January 2015	**(16,620)**	**(1,875)**	**(18,495)**
Recognised in profit or loss	**(2,623)**	**169**	**(2,454)**
At 31 December 2015	**(19,243)**	**(1,706)**	**(20,949)**
At 1 January 2014	(24,851)	(2,098)	(26,949)
Recognised in profit or loss	8,231	223	8,454
At 31 December 2014	(16,620)	(1,875)	(18,495)

Deferred Tax Liabilities/(assets) of the Company:

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 January 2015	**59**	**(765)**	**(706)**
Recognised in profit or loss	**228**	**130**	**358**
At 31 December 2015	**287**	**(635)**	**(348)**
At 1 January 2014	46	(521)	(475)
Recognised in profit or loss	13	(244)	(231)
At 31 December 2014	59	(765)	(706)

10. AMOUNT DUE FROM A SUBSIDIARY

	2015 RM'000	2014 RM'000
Long term		
Interest bearing loan	**68,000**	68,000

The interest rate charged by the Company for the interest bearing shareholder's loan is 5.07% (2014: 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	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Non-current				
Other receivables				
Accrued rental income	**289,588**	219,608	**–**	–
Current				
Trade receivables	**13,654**	11,516	**–**	–
Less: Allowance for impairment	**(645)**	(815)	**–**	–
Trade receivables, net of impairment	**13,009**	10,701	**–**	–
Other receivables				
Other receivables and deposits	**17,791**	24,552	**5,378**	8,256
Amount due from:				
Subsidiaries	**–**	–	**14,126**	20,383
Ultimate holding company	**9,232**	29,273	**–**	–
Immediate holding company	**166**	1	**159**	–
Other related companies	**22,723**	22,702	**9,664**	10,555
Total other receivables	**49,912**	76,528	**29,327**	39,194
Total	**62,921**	87,229	**29,327**	39,194

12. TRADE AND OTHER RECEIVABLES (CONTD.)

	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Trade receivables	**13,009**	10,701	**–**	–
Other receivables	**338,141**	295,060	**29,327**	39,194
Add: Cash and bank balances (Note 13)	**1,110,857**	1,127,072	**563,620**	565,899
Amount due from a subsidiary (Note 10)	**–**	–	**68,000**	68,000
Less: Accrued rental income	**(289,588)**	(219,608)	**–**	–
Total loans and receivables	**1,172,419**	1,213,225	**660,947**	673,093

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 except for the amount due from a subsidiary of RM68 million as stated in Note 10.

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			
Amount due from ultimate holding company			
2015	**10,549**	**(1,317)**	**9,232**
2014	33,202	(3,929)	29,273

13. CASH AND BANK BALANCES

	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	**37,996**	52,434	**6,480**	6,474
Cash and bank balances	**26,188**	7,601	**3**	3
Deposits with licensed banks	**1,046,673**	1,067,037	**557,137**	559,422
	1,110,857	1,127,072	**563,620**	565,899
Less: Deposits restricted	**(6,420)**	(5,172)	**–**	–
Cash and cash equivalents	**1,104,437**	1,121,900	**563,620**	565,899

13. CASH AND BANK BALANCES (CONTD.)

The Group's and the Company's cash and bank balances are held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Service Centre ("IFSSC") to enable more efficient cash management for the Group and the Company.

Included in deposits resticted are monies held on behalf of clients held in designated accounts, which represent cash calls less payments in the course of rendering building and facilities management services on behalf of clients.

Included in cash with IFSSC and cash and bank balances of the Group and the Company are interest bearing balances amounting to RM55,009,000 (2014: RM52,439,000) and RM6,480,000 (2014: RM6,474,000).

The weighted average effective interest rate applicable to the deposits with licensed banks at the reporting date was 3.85% (2014: 3.83%) per annum.

Deposits with licensed banks have an average maturity of 56 days (2014: 48 days).

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 2015/31 December 2015	**3,194,667**	**1,805,333**	**4,981,947**	**18,053**
At 1 January 2014/31 December 2014	3,194,667	1,805,333	4,981,947	18,053

	Group and Company			
	Number of Shares		← Amount →	
	Ordinary shares '000	RPS '000	Ordinary shares RM'000	RPS RM'000
Issued and fully paid:				
At 1 January 2015/31 December 2015	**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. 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.

15. RETAINED PROFITS

As at 31 December 2015, the Company may distribute the entire balance of the retained profits under the single-tier system.

16. DEFERRED REVENUE

Deferred revenue relates to the excess of the principal amount of security deposits received over their fair value which is accounted for as prepaid lease income and amortised over the lease term on a straight line basis.

17. OTHER LONG TERM LIABILITIES

	Group	
	2015 RM'000	2014 RM'000
Security deposit payables	**74,658**	68,147

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.

18. BORROWINGS

	Group 2015 RM'000	Group 2014 RM'000
Short term borrowings		
Secured:		
Sukuk Murabahah	**15,395**	13,400
Term loans	**1,664**	331,742
Unsecured:		
Revolving credit	**11,400**	11,400
	28,459	356,542

	Note	Group 2015 RM'000	Group 2014 RM'000
Long term borrowings			
Secured:			
Sukuk Murabahah			
– KLCC Real Estate Investment Trust		**1,555,000**	1,555,000
– Other subsidiary		**600,000**	600,000
Term loans		**377,166**	–
		2,532,166	2,155,000
Total borrowings			
Secured:			
Sukuk Murabahah	a	**2,170,395**	2,168,400
Term loans	b	**378,830**	331,742
Unsecured:			
Revolving credit	c	**11,400**	11,400
		2,560,625	2,511,542

18. BORROWINGS (CONTD.)

Terms and debt repayment schedule:

	Total RM'000	Under 1 year RM'000	1 – 2 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
Group					
2015					
Secured					
Sukuk Murabahah	**2,170,395**	**15,395**	**300,000**	**400,000**	**1,455,000**
Term loans	**378,830**	**1,664**	**–**	**22,500**	**354,666**
Unsecured					
Revolving credit	**11,400**	**11,400**	**–**	**–**	**–**
	2,560,625	**28,459**	**300,000**	**422,500**	**1,809,666**
2014					
Secured					
Sukuk Musharakah	2,168,400	13,400	–	700,000	1,455,000
Term loans	331,742	331,742	–	–	–
Unsecured					
Revolving credit	11,400	11,400	–	–	–
	2,511,542	356,542	–	700,000	1,455,000

(a) Sukuk Murabahah

On 25 April 2014, a subsidiary of the Group had completed the issuance of Sukuk Murabahah. The Sukuk Murabahah consists of Islamic Commercial Programme ("ICP") of up to RM500 million and Islamic medium term notes ("IMTN") of up to RM3,000 million subject to a combined limit of RM3,000 million. It is primarily secured against assignment and charge over the Finance Service Account and Revenue Account maintained by the REIT Trustee. The proceeds from the issuance of the Sukuk Murabahah is utilised to early redeem its Sukuk Musharakah. RM1,555 million has been drawndown at the following tranche and profit rates:

Tenure	Value (RM)	Profit rate	Maturity
3 years	300,000,000	3.90%	25 April 2017
5 years	400,000,000	4.20%	25 April 2019
7 years	400,000,000	4.55%	25 April 2021
10 years	455,000,000	4.80%	25 April 2024

18. BORROWINGS (CONTD.)

(a) Sukuk Murabahah (Contd.)

On 31 December 2014, a subsidiary of the Group issued Sukuk Murabahah of up to RM600 million. The Sukuk Murabahah consists of ICP of up to RM300 million and IMTN of up to RM600 million subject to a combined limit of RM600 million. It is secured against assignment and charge over the Finance Service Account of the subsidiary. The proceeds from the issuance of the Sukuk Murabahah is utilised to repay the subsidiary's term loan of RM375 million and shareholders advances. RM600 million has been drawdown at the profit rate of 4.73% per annum and repayable in 10 years.

The profit rate is payable semi-annually.

(b) Term loans

In prior year, fixed and floating rates term loans were secured by way of:

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

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

The interest rate was 4.29% per annum.

On 27 May 2015, a subsidiary of the Group has entered into a Supplemental Agreement with Public Bank Berhad to restructure the term loan with an aggregate sum of RM378 million, comprising of the following:

Type of Facilities	Revised Principal Limit (RM'000)
Term Loan Facility 1	239,540
Term Loan Facility 2	138,460

The term loans are repayable at RM7.5 million per annum for 7 years commencing on the 3rd year with the final bullet payment of the remainder in the final year.

The term loan is secured by way of a fixed charge over the hotel property as well as debenture covering all fixed and floating asset of the hotel property as disclosed in Note 5.

The loan bears an interest rate of 4.60%.

(c) Revolving credit

Interest rate ranges from 4.35% to 4.55% (2014: 3.92%) per annum 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 of 3 years from the date of first disbursement with the profit payable monthly.

Other information on financial risks of borrowings are disclosed in Note 32.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Trade payables	**15,222**	13,712	**615**	248
Other payables				
Other payables	**246,513**	227,269	**4,268**	6,429
Amount due to:				
Subsidiaries	**–**	–	**473**	–
Ultimate holding company	**4,629**	13,320	**2,636**	8,209
Immediate holding company	**544**	683	**–**	172
Other related companies	**11,539**	7,862	**1**	–
	263,225	249,134	**7,378**	14,810
Total trade and other payables	**278,447**	262,846	**7,993**	15,058
Add: Borrowings (Note 18)	**2,560,625**	2,511,542	**–**	–
Other long term liabilities (Note 17)	**74,658**	68,147	**–**	–
Total financial liabilities carried at amortised cost	**2,913,730**	2,842,535	**7,993**	15,058

Included in other payables of the Group are security deposit of RM107,991,000 (2014: RM107,553,000) 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.

20. REVENUE

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Property investment				
– Office	**590,934**	594,081	**–**	–
– Retail	**469,840**	459,351	**–**	–
Hotel operations	**155,796**	183,337	**–**	–
Management services	**123,659**	116,747	**17,220**	16,101
Dividend income from subsidiaries	**–**	–	**258,400**	254,621
Dividend income from associate	**–**	–	**9,030**	6,450
	1,340,229	1,353,516	**284,650**	277,172

21. OPERATING PROFIT

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Revenue (Note 20)	**1,340,229**	1,353,516	**284,650**	277,172
Cost of revenue:				
– Cost of services and goods	**(201,924)**	(204,278)	**–**	–
Gross profit	**1,138,305**	1,149,238	**284,650**	277,172
Selling and distribution expenses	**(11,477)**	(10,464)	**–**	–
Administration expenses	**(126,182)**	(130,006)	**(30,968)**	(26,689)
Write-down in value		–	**–**	(1,331)
Other operating income	**3,549**	3,168	**89**	87
Operating profit	**1,004,195**	1,011,936	**253,771**	249,239

22. INTEREST INCOME

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Interest income from:				
Deposits	**41,280**	34,030	**21,743**	8,334
Amount due from subsidiaries	**–**	–	**–**	6,595
Loan to a subsidiary	**–**	–	**3,447**	3,447
	41,280	34,030	**25,190**	18,376

23. FINANCING COSTS

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Interest expense on:				
Term loans	**16,602**	50,929	**–**	–
Revolving credit	**526**	298	**–**	–
Profit on Sukuk Murabahah & Sukuk Musharakah	**98,727**	86,702	**–**	–
Accretion of financial instruments	**3,769**	6,936	**–**	–
	119,624	144,865	**–**	–

24. PROFIT BEFORE TAX

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

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Employee benefits expense (Note 25)	**88,643**	88,749	**17,139**	17,234
Directors' remuneration (Note 26)	**595**	611	**595**	594
Fees for representation on the Board of Directors	**92**	104	**92**	101
Management fee in relation to services of key management personnel (Note 26)	**1,236**	938	**1,236**	938
Auditors' remuneration				
– Audit fees	**557**	544	**196**	187
– Others	**15**	102	**15**	102
Valuation fees	**1,339**	1,367	**–**	–
Depreciation of property, plant and equipment (Note 5)	**30,492**	29,552	**1,445**	469
Rental of land and buildings	**3,111**	2,122	**3,111**	2,122
Property, plant and equipment written off	**–**	173	**–**	173
Write-down on value on investment in subsidiaries	**–**	–	**–**	1,331
Bad debts written off/(recovered)	**190**	(55)	**–**	–
Gain on disposal of property, plant and equipment	**(2)**	(9)	**–**	–
Loss on realised foreign exchange	**–**	89	**–**	–
(Reversal of)/Allowance for impairment losses	**(170)**	815	**–**	–

25. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Wages, salaries and others	**80,483**	80,669	**15,235**	15,495
Contributions to defined contribution plan	**8,160**	8,080	**1,904**	1,739
	88,643	88,749	**17,139**	17,234

26. DIRECTORS' REMUNERATION

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Directors of the Company				
Executive*	**–**	–	**–**	–
Non-Executive:				
Fees	**595**	611	**595**	594
	595	611	**595**	594
Analysis excluding benefits-in-kind:				
Total non-executive directors' remuneration			**595**	594

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

	Company	
	2015	**2014**
Executive director		
RMNil	**1**	1
Non-executive directors		
RMNil – RM50,000	**–**	–
RM50,001 – RM100,000	**5**	3
RM100,001 – RM150,000	**1**	3

* The remuneration of the Executive Director is paid to KLCCH as disclosed in Note 24.

27. TAX EXPENSE

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Current income tax:				
Malaysian income tax	**108,422**	105,106	**6,347**	3,363
Under/(over) provision of tax in prior year	**105**	5,838	**(259)**	(61)
	108,527	110,944	**6,088**	3,302
Deferred tax (Note 9):				
Relating to origination and reversal of temporary differences	**6,649**	11,218	**145**	(254)
(Over)/under provision of deferred tax in prior year	**(10)**	(1,090)	**213**	23
	6,639	10,128	**358**	(231)
Total tax expense	**115,166**	121,072	**6,446**	3,071

Domestic current income tax is calculated at the statutory tax rate of 25% (2014: 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 2015 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:

	2015 RM'000	**2014 RM'000**
Group		
Profit before taxation	**1,518,355**	1,280,459
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	**379,589**	320,115
Expenses not deductible for tax purposes	**9,033**	11,810
Income not subject to tax	**(242,661)**	(206,015)
Effects of share of results of associate	**(3,416)**	1,684
Deferred tax recognised at different tax rates	**(27,474)**	(11,270)
Overprovision of deferred tax in prior year	**(10)**	(1,090)
Underprovision of taxation in prior year	**105**	5,838
Tax expense	**115,166**	121,072

27. TAX EXPENSE (CONTD.)

	2015 RM'000	2014 RM'000
Company		
Profit before taxation	**278,961**	267,615
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	**69,740**	66,904
Expenses not deductible for tax purposes	**3,667**	3,133
Income not subject to tax	**(66,909)**	(66,938)
Deferred tax recognised at different tax rates	**(6)**	10
Under provision of deferred tax in prior year	**213**	23
Overprovision of taxation in prior year	**(259)**	(61)
Tax expense	**6,446**	3,071

28. EARNINGS PER SHARE/STAPLED SECURITY

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary share in issue during the financial year.

Basic earnings per stapled security amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company and unit holders of the KLCC REIT by the weighted average number of stapled securities in issue during the financial year.

	2015	2014
Profit attributable to equity holders of the Company (RM'000)	**542,751**	458,623
Profit attributable to NCI relating to KLCC REIT (RM'000)	**588,770**	479,304
Profit attributable to stapled security holders (RM'000)	**1,131,521**	937,927
Weighted average number of stapled securities/shares in issue ('000)	**1,805,333**	1,805,333
Basic earnings per share (sen)	**30.1**	25.4
Basic earnings per stapled security (sen)	**62.7**	52.0

The Group has no potential ordinary shares in issue as at reporting date and therefore, diluted earnings per share has not been presented.

29. DIVIDENDS

	Dividends Recognised in Year		Net Dividends per Ordinary Share	
	2015 RM'000	**2014 RM'000**	**2015 Sen**	**2014 Sen**
Recognised during the year:				
A fourth interim 3.89% (2014: 3.87%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2014/2013	**70,228**	69,866	**3.89**	3.87
A first interim dividend of 3.02% (2014: 3.73%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2015/2014	**54,521**	67,339	**3.02**	3.73
A second interim dividend of 3.02% (2014: 3.29%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2015/2014	**54,521**	59,395	**3.02**	3.29
A third interim dividend of 2.80% (2014: 3.05%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2015/2014	**50,549**	55,063	**2.80**	3.05
	229,819	251,663	**12.73**	13.94

A fourth interim dividend in respect of the financial year ended 31 December 2015, of 4.13%, tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM74.6 million will be payable on 29 February 2016.

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 2016.

30. COMMITMENTS

(a) Capital commitments

	Group 2015 RM'000	Group 2014 RM'000
Approved and contracted for		
Property, plant and equipment	**27,783**	25,982
Investment property	**43,544**	31,295
	71,327	57,277
Approved but not contracted for		
Property, plant and equipment	**183,601**	77,041
Investment property	**963,446**	75,174
	1,147,047	152,215

(b) Operating lease commitments – as lessor

The Group has entered into non-cancellable commercial property leases on its investment properties. The future minimum rental receivable under these operating lease at the reporting date is as follows:

	Group 2015 RM'000	Group 2014 RM'000
Not later than 1 year	**533,277**	508,984
Later than 1 year but not later than 5 years	**2,060,210**	2,088,594
More than 5 years	**3,770,257**	4,275,150
	6,363,744	6,872,728

31. RELATED PARTY DISCLOSURES

(a) Controlling related party relationships are as follows:

(i) PETRONAS, the ultimate holding company, and its subsidiaries.

(ii) Subsidiaries of the Company as disclosed in Note 7.

31. RELATED PARTY DISCLOSURES (CONTD.)

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

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Federal Government of Malaysia				
Property licences and taxes	**(13,176)**	(13,509)	**–**	–
Goods and Services Tax	**(45,016)**	–	**269**	–
Government of Malaysia's related entities				
Purchase of utilities	**(14,659)**	(24,189)	**–**	(275)
Hotel revenue	**5,950**	4,264	**–**	–
Ultimate Holding Company:				
Rental income	**470,229**	455,624	**–**	–
Facilities management and manpower fees	**24,581**	26,351	**–**	–
Rental of carpark space	**(7,561)**	(6,290)	**–**	–
Fees for representation on the Board of Directors*	**(92)**	(104)	**(92)**	(101)
Hotel revenue	**1,202**	5,890	**–**	–
Centralised Head Office Services charges	**(1,360)**	–	**(594)**	–
Immediate Holding Company:				
General management services fee payables	**(2,739)**	(1,530)	**(1,682)**	(791)
General management services fee receivables	**2,666**	3,272	**2,666**	3,272
Manpower fees receivables	**79**	11	**–**	–

31. RELATED PARTY DISCLOSURES (CONTD.)

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

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Subsidiaries				
Reimbursement of security costs	**–**	–	**(121)**	(51)
General management services fee receivables	**–**	–	**7,429**	6,607
Interest income arising from MFRS 139	**–**	–	**–**	6,595
Interest income from shareholder's loan	**–**	–	**3,447**	3,447
Other Related Companies:				
Facilities management and manpower fees	**20,970**	24,337	**–**	–
General management services fee receivables	**7,125**	6,222	**7,125**	6,222
Management and incentive fees	**3,371**	4,827	**–**	–
Chilled water supply	**(28,356)**	(28,139)	**–**	–
Project management fees	**(10,603)**	(1,462)	**–**	–
Rental of carpark space	**(7,274)**	(7,614)	**–**	–

* Fees paid directly to PETRONAS in respect of a director who is an appointee of the ultimate holding company.

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 2015 are disclosed in Notes 12 and 19.

(c) Compensation of key management personnel

Directors

The remuneration of Directors is disclosed in Note 26.

Other key management personnel

Datuk Hashim Bin Wahir, Executive Director and Chief Executive Officer of the Company is an employee of KLCCH. KLCCH charges management fees in consideration for his services to the Company as disclosed in Note 24.

32. FINANCIAL INSTRUMENTS

Financial Risk Management

As the Company owns a diverse property portfolio, the Group and the Company are exposed to various risks that are particular to its various businesses. These risks arise in the normal course of the Group's and the Company's business.

The Group has a Risk Management Framework and Guidelines that set the foundation for the establishment of effective risk management across the Group.

The Group's and the Company's goal in risk management is to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

The Group and the Company have exposure to credit risk, liquidity risk and market risk arising from its use of financial instruments in the normal course of the Group's and the Company's business.

Credit Risk

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. Credit risk arises from its operating activities, primarily for trade receivables and long term receivables. The credit risk arising from the Group's and the Company's normal operations are controlled by individual operating units within the Group Risk Management Framework and Guidelines.

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 the Company use ageing analysis and credit limit review to monitor the credit quality of the receivables. The Company monitors the results of subsidiaries regularly. Any customers exceeding their credit limit are monitored closely. With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

32. FINANCIAL INSTRUMENTS (CONTD.)

Credit Risk (Contd.)

Receivables (Contd.)

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

	Group	
	2015 RM'000	**2014 RM'000**
Property investment		
– Office	**1,700**	1,436
– Retail	**4,404**	2,610
Hotel operations	**5,571**	6,147
Management services	**1,979**	1,323
	13,654	11,516
Less: Allowance for impairment losses (Retail)	**(645)**	(815)
	13,009	10,701

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

	Group	
	2015 RM'000	**2014 RM'000**
At net:		
Not past due	**5,268**	6,947
Past due 1 to 30 days	**4,546**	1,796
Past due 31 to 60 days	**1,111**	632
Past due 61 to 90 days	**434**	307
Past due more than 90 days	**2,295**	1,834
	13,654	11,516
Less: Allowance for impairment losses (Retail)	**(645)**	(815)
	13,009	10,701

Movement in allowance account:

	Group	
	2015 RM'000	**2014 RM'000**
At 1 January	**815**	–
Allowance of impairment	**(170)**	815
At 31 December	**645**	815

The Group does not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2015.

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.

32. FINANCIAL INSTRUMENTS (CONTD.)

Liquidity Risk (Contd.)

Maturity analysis

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

	Carrying amount RM'000	Effective interest rate %	Contractual cash flow* RM'000	Within 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
31 December 2015							
Group							
Financial Liabilities							
Sukuk Murabahah	**2,170,395**	**4.41-4.73**	**2,788,114**	**112,393**	**391,054**	**630,734**	**1,653,933**
Floating rate secured term loans	**378,830**	**4.60**	**532,506**	**19,060**	**17,350**	**72,953**	**423,143**
Revolving credit	**11,400**	**4.55**	**11,527**	**11,527**	**–**	**–**	**–**
Trade and other payables	**278,447**	**–**	**278,447**	**278,447**	**–**	**–**	**–**
Other long term liabilities	**74,658**	**4.60**	**115,538**	**–**	**9,688**	**–**	**105,850**
Company							
Financial Liabilities							
Trade and other payables	**7,993**	**–**	**7,993**	**7,993**	**–**	**–**	**–**

32. FINANCIAL INSTRUMENTS (CONTD.)

Liquidity Risk (Contd.)

Maturity analysis

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

	Carrying amount RM'000	Effective interest rate %	Contractual cash flow* RM'000	Within 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
31 December 2014							
Group							
Financial Liabilities							
Sukuk Murabahah	2,168,400	4.50	2,869,274	96,169	97,308	953,286	1,722,511
Floating rate secured term loans	331,742	4.70	337,700	337,700	–	–	–
Revolving credit	11,400	4.52	11,917	11,917	–	–	–
Trade and other payables	262,846	–	262,846	262,846	–	–	–
Other long term liabilities	68,147	4.60	115,538	–	–	9,688	105,850
Company							
Financial Liabilities							
Trade and other payables	15,058	–	15,058	15,058	–	–	–

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

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.

32. FINANCIAL INSTRUMENTS (CONTD.)

Interest Rate Risk (Contd.)

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	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Fixed rate instruments				
Financial assets	**1,046,673**	1,067,037	**557,137**	559,422
Financial liabilities	**(2,170,395)**	(2,168,400)	**–**	–
Floating rate instruments				
Financial liabilities	**(390,230)**	(343,142)	**–**	–

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
2015		
KLIBOR	**-50**	**1,943**
KLIBOR	**+50**	**(1,943)**
2014		
KLIBOR	-70	2,390
KLIBOR	+70	(2,390)

This analysis assumes that all other variables remain constant.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates predominantly in Malaysia and transacts mainly in Malaysian Ringgit. As such, it is not exposed to any significant foreign currency risk.

32. FINANCIAL INSTRUMENTS (CONTD.)

Fair Values

The Group's and the Company's financial instruments consist of cash and bank balances, 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 bank balances, trade and other receivables, trade and other payables and short term borrowings approximate their fair values due to the relatively short term nature of these financial instruments.

The carrying amount of other long term liabilities approximate its fair value amount.

This analysis assumes that all other variables remain constant.

The following table analyses financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position. The different levels have been defined as follows:

	Fair value of financial instruments not carried at fair value				Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000
Group					
2015					
Financial liabilities					
Sukuk Murabahah	**–**	**2,138,265**	**–**	**2,138,265**	**2,170,395**
Term loans	**–**	**370,527**	**–**	**370,527**	**378,830**
Revolving credit	**–**	**10,903**	**–**	**10,903**	**11,400**
2014					
Financial liabilities					
Sukuk Musharakah	–	2,138,560	–	2,138,560	2,168,400
Term loans	–	316,850	–	316,850	331,742
Revolving credit	–	10,907	–	10,907	11,400

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, 2 and 3 fair values during the financial year.

33. CAPITAL MANAGEMENT

The Group and the Company define capital as total equity and debt of the Group and the Company. The objective of the Group and the Company's capital management is to maintain an optimal capital structure and ensuring availability of funds in order to support its business and maximise shareholder value. The Group's and the Company's approach in managing capital is set out in the KLCC Group Corporate Financial Policy.

33. CAPITAL MANAGEMENT (CONTD.)

The Group and the Company monitor and maintain a prudent level of total debts to total assets ratio to optimise shareholder value and to ensure compliance with covenants under debt, shareholders' agreements and regulatory requirements if any.

The debt to equity ratio as at 31 December 2015 and 2014 is as follows:

	2015	2014
Total debt (RM'000)	**2,560,625**	2,511,542
Total equity (excluding Other NCI) (RM'000)	**12,551,281**	12,025,991
Debt equity ratio	**20:80**	17:83

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

Under the requirement of Bursa Malaysia Practice Note No.17/2005, the Company is required to maintain consolidated shareholders' equity equal to or not less than 25% of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM234 million. The Company has complied with this requirement.

34. 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 and 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.

34. SEGMENT INFORMATION (CONTD.)

(b) Allocation basis and transfer pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise 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.

Business Segments

31 December 2015

	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	590,934	469,840	155,796	123,659	–	1,340,229
Inter-segment revenue	297	16,691	–	56,008	(72,996)	–
Total revenue	591,231	486,531	155,796	179,667	(72,996)	1,340,229
Results						
Operating profit	525,852	401,697	18,213	74,216	(15,783)	1,004,195
Fair value adjustment on investment properties	156,253	422,586	–	–	–	578,839
Financing costs						(119,624)
Interest income						41,280
Share of profit of an associate						13,665
Tax expense						(115,166)
Profit after tax but before non-controlling interests						1,403,189
Segment assets	9,906,305	6,050,221	695,995	79,685	539,669	17,271,875
Investment in an associate	–	–	–	99,195	166,010	265,205
Total assets						17,537,080
Total liabilities	1,867,779	782,466	437,887	36,158	(98,264)	3,026,026
Capital expenditure	92,802	6,314	45,487	7,377	–	151,980
Depreciation	305	2,642	23,453	4,092	–	30,492
Non-cash items other than depreciation	–	19	–	(2)	–	17

34. SEGMENTAL INFORMATION (CONTD.)

Business Segments

31 December 2014

	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	594,081	459,351	183,337	116,747	–	1,353,516
Inter-segment revenue	–	12,738	–	54,582	(67,320)	–
Total revenue	594,081	472,089	183,337	171,329	(67,320)	1,353,516
Results						
Operating profit	526,907	387,730	35,920	320,367	(258,988)	1,011,936
Fair value adjustment on investment properties	95,053	291,039	–	–	–	386,092
Financing costs						(144,865)
Interest income						34,030
Share of loss of associate						(6,734)
Tax expense						(121,072)
Profit after tax but before non-controlling interests						1,159,387
Segment assets	9,582,617	5,688,310	642,229	83,508	546,606	16,543,270
Investment in an associate	–	–	–	99,195	161,375	260,570
Total assets						16,803,840
Total liabilities	1,855,543	768,408	384,590	53,794	(106,524)	2,955,811
Capital expenditure	17,688	2,595	14,954	7,703	–	42,940
Depreciation	1,197	2,119	23,082	3,154	–	29,552
Non-cash items other than depreciation	–	760	–	173	–	933

35. PRONOUNCEMENTS YET IN EFFECT

The following 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 in these financial statements:

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 7	Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012 – 2014 Cycle)
Amendments to MFRS 10	Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 12	Disclosure of Interests in Other Entities – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 101	Presentation of Financial Statements – Disclosure Initiative
Amendments to MFRS 116	Property, Plant and Equipment: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 127	Separate Financial Statements: Equity Method in Separate Financial Statements
Amendments to MFRS 128	Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvements to MFRSs 2012 – 2014 Cycle)

Effective for annual periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers

Effective for annual periods beginning on or after a date to be determined by the MASB

Amendments to MFRS 10	Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Sales or Contribution of Assets between an Investor and its Associate or Joint Venture

The adoption of the above pronouncements is not expected to have material impact on the financial statements of the Group and of the Company in the period of initial application.

36. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued pronouncements which are not effective, but for which are not relevant to the operations of the Group and of the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendments to MFRS 11	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 116	Property, Plant and Equipment – Agriculture: Bearer Plants
Amendments to MFRS 138	Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 141	Agriculture – Agriculture: Bearer Plants

37. DISCLOSURE OF REALISED AND UNREALISED PROFIT

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

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Total retained profits of the Company and its subsidiaries:				
– Realised	**736,276**	673,160	**128,686**	85,990
– Unrealised	**20,949**	18,495	**–**	–
	757,225	691,655	**128,686**	85,990
Total share of retained profits from an associate:				
– Realised	**93,215**	90,586	**–**	–
Total Group retained profits	**850,440**	782,241	**128,686**	85,990
Less: Consolidation adjustments	**(677,458)**	(628,910)	**–**	–
Total Group and Company retained profits	**172,982**	153,331	**128,686**	85,990

The fair value gain of RM2,778,200,000 (2014: RM2,484,919,000) 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
(INCORPORATED IN MALAYSIA)

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 2015 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 124 to 187.

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 judgement, 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 2015 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD
(INCORPORATED 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 37 on page 188 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.

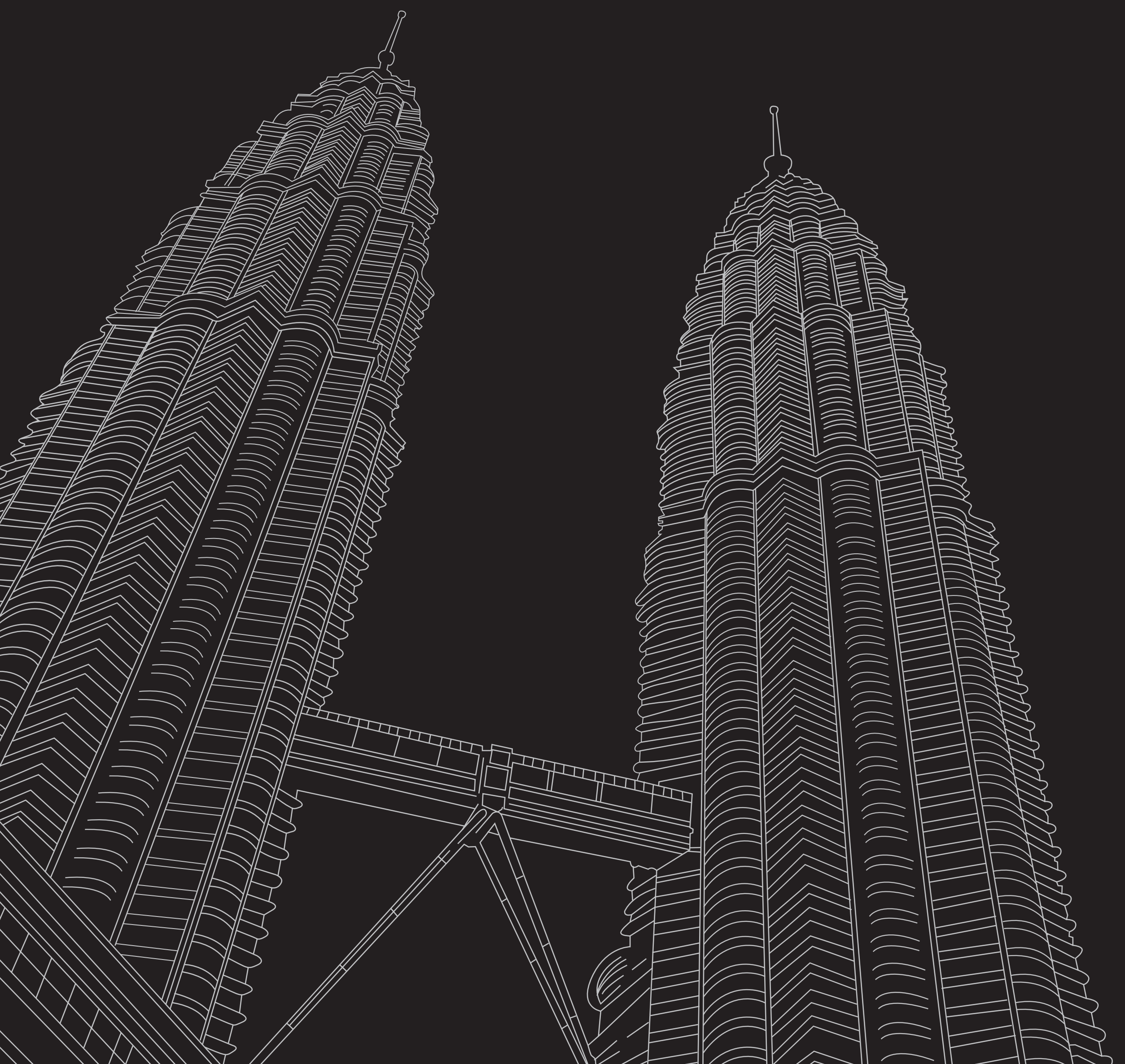
Ernst & Young
AF: 0039
Chartered Accountants

Muhammad Affan bin Daud
No. 3063/02/16(J)
Chartered Accountant

Kuala Lumpur, Malaysia
21 January 2016

FINANCIAL STATEMENTS 2015

KLCC REIT



MANAGERS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The Manager of KLCC Real Estate Investment Trust ("KLCC REIT" or "the Fund"), KLCC REIT Management Sdn Bhd ("the Manager"), has pleasure in submitting their report and the audited financial statements of the Group and of the Fund for the financial year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Fund during the financial year are investing directly and indirectly, in a Shariah-compliant portfolio of income producing Real Estate used primarily for office and retail purposes as well as Real Estate-Related Assets.

The principal activity of its subsidiary is stated in Note 7 to the financial statements.

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

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	Fund
	RM'000	RM'000
Profit for the year	588,770	588,776

DISTRIBUTION OF INCOME

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

	RM'000
In respect of the financial year ended 31 December 2014:	
Fourth interim income distribution of 4.86% on 1,805,333,083 units, paid on 27 February 2015	87,739

DISTRIBUTION OF INCOME (CONTD.)

	RM'000
In respect of the financial year ended 31 December 2015:	
First interim income distribution of 5.32% on 1,805,333,083 units, paid on 12 June 2015	96,044
Second interim income distribution of 5.32% on 1,805,333,083 units, paid on 18 September 2015	96,044
Third interim income distribution of 5.35% on 1,805,333,083 units, paid on 21 December 2015	96,585
	288,673

A fourth interim income distribution in respect of the financial year ended 31 December 2015, of 5.69%, on 1,805,333,083 units amounting to an income distribution payable of RM102,723,000 will be payable on 29 February 2016.

The financial statements for the current year do not reflect this fourth interim income distribution. Such income distribution will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2016.

No final income distribution in respect of the financial year ended 31 December 2015 will be proposed at the forthcoming Annual General Meeting.

RESERVES AND PROVISIONS

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

DIRECTORS

The Directors who have served on the Board of the Manager since the date of the last report are as follows:

Krishnan C K Menon
Datuk Ishak Bin Imam Abas
Datuk Manharlal A/L Ratilal
Augustus Ralph Marshall
Datuk Pragasa Moorthi A/L Krishnasamy
Dato' Halipah Binti Esa
Datuk Hashim Bin Wahir
Habibah Binti Abdul

DIRECTORS' OF MANAGER'S INTERESTS

The Directors in office at the end of the year who have interests in the units of the Fund and its related corporations as recorded in the Register of Directors' Shareholdings are as follows:

	Number of Stapled Securities in KLCC Property Holdings Berhad			
	Balance as at 1.1.2015	Number of Stapled Securities		Balance as at 31.12.2015
		Bought	Sold	
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 1.1.2015	Number of Shares		Balance as at 31.12.2015
		Bought	Sold	
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 1.1.2015	Number of Shares		Balance as at 31.12.2015
		Bought	Sold	
Indirect				
Dato' Halipah Binti Esa#	10,000	–	–	**10,000**

DIRECTORS' OF MANAGER'S INTERESTS (CONTD.)

	Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad			
	Balance as at 1.1.2015	Number of Shares		Balance as at 31.12.2015
		Bought	Sold	
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 2015 had any interest in the units of the Fund and of its related companies during the financial year.

DIRECTORS' OF MANAGER'S BENEFITS

During and at the end of the financial year, no Director of the Manager has received or become entitled to receive any benefit, by reason of a contract made by the Fund or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has substantial financial interest.

There were no arrangements during and at the end of the financial year, which had the object of enabling Directors of the Manager to acquire benefits by means of the acquisition of units in or debentures of the Fund or any other body corporate.

ULTIMATE HOLDING COMPANY

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

ISSUE OF UNITS

There were no changes in the issued and paid up units of the Fund during the financial year.

OPTIONS GRANTED OVER UNISSUED UNITS

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

MANAGERS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

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 adequate provision had been made for doubtful debts; and

(ii) any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

At the date of this report, the Manager is not aware of any circumstances:

(i) that would render if necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and

(ii) that would render the values attributed to the current assets in the financial statements of the Group and of the Fund misleading; or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Fund misleading or inappropriate; or

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Fund misleading.

At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Fund that has arisen since the end of the financial year and which secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Group or of the Fund that has arisen since the end of the financial year.

No contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Manager, will or may substantially affect the ability of the Group and of the Fund to meet their obligations as and when they fall due.

In the opinion of the Manager, the results of the operations of the Group and of the Fund for the financial year ended 31 December 2015 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

Signed on behalf of the Board of the Manager in accordance with a resolution of the directors of the Manager dated 21 January 2016.

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 216 to 258 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 2015 and of the results of their financial performance and cash flows for the year ended 31 December 2015.

In the opinion of the Directors, the supplementary information set out in Note 34 on page 259 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 2016.

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

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

I, Annuar Marzuki Bin Abdul Aziz, the Officer of the Manager primarily responsible for the financial management of KLCC Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 216 to 259 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Annuar Marzuki Bin Abdul Aziz
in Kuala Lumpur, Wilayah Persekutuan
on 21 January 2016

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 year ended 31 December 2015. To the best of our knowledge, KLCC REIT Management Sdn. Bhd. ("the Manager") has managed KLCC REIT in the financial year under review in accordance to the following:

(a) the limitation imposed on the investment powers of the Manager and the Trustee under the Deed, other applicable provisions of the Deed, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Capital Markets & Services Act 2007 and other applicable laws; and

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

There are four (4) income distributions made to the unitholders of KLCC REIT in the financial year under review, details of which are stated below:-

(i) First interim income distribution of 5.32 sen per unit distributed on 12 June 2015;

(ii) Second interim income distribution of 5.32 sen per unit distributed on 18 September 2015;

(iii) Third interim income distribution of 5.35 sen per unit distributed on 21 December 2015;

(iv) Fourth interim income distribution of 5.69 sen per unit for year ended 31 December 2015 declared and will be payable on 29 February 2016.

We are of the view that the distributions are consistent with the objectives of KLCC REIT.

For and on behalf of the Trustee,
MAYBANK TRUSTEES BERHAD
(Company No.: 5004-P)

BERNICE K M LAU
Head, Operations

Kuala Lumpur, Malaysia
21 January 2016

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 year ended 31 December 2015.

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

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

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

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

For CIMB Islamic Bank Berhad

ABDUL GHANI ENDUT
Group Head, Shariah & Governance Department/Designated Person Responsible for Shariah Advisory

Kuala Lumpur, Malaysia
21 January 2016

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	Group 2015 RM'000	Group 2014 RM'000	Fund 2015 RM'000	Fund 2014 RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	5	**203**	263	**203**	263
Investment properties	6	**9,013,234**	8,871,757	**9,013,234**	8,871,757
Trade and other receivables	8	**286,548**	218,155	**286,548**	218,155
Investment in subsidiary	7	**–**	–	*****	*
		9,299,985	9,090,175	**9,299,985**	9,090,175
Current Assets					
Trade and other receivables	8	**3,181**	9,594	**3,181**	9,594
Cash and bank balances	9	**265,416**	237,043	**265,167**	236,839
		268,597	246,637	**268,348**	246,433
TOTAL ASSETS		**9,568,582**	9,336,812	**9,568,333**	9,336,608
TOTAL UNITHOLDERS' FUND AND LIABILITIES					
Unitholders' Fund					
Unitholders' capital	10	**7,212,684**	7,212,684	**7,212,684**	7,212,684
Merger reserve	2.19	**6,212**	6,212	**6,212**	6,212
Capital reserve	2.18	**248,748**	119,268	**248,748**	119,268
Retained profits		**309,069**	226,191	**309,084**	226,200
Total Unitholders' Fund		**7,776,713**	7,564,355	**7,776,728**	7,564,364
Non-Current Liabilities					
Other long term liabilities	11	**67,950**	64,650	**67,950**	64,650
Amount due to a subsidiary	12	**–**	–	**1,555,000**	1,555,000
Long term financings	13	**1,555,000**	1,555,000	**–**	–
Deferred tax liability	14	**13,092**	6,277	**13,092**	6,277
Other payables	15	**44,789**	49,006	**44,789**	49,006
		1,680,831	1,674,933	**1,680,831**	1,674,933

* Represents RM2 in Midciti Sukuk Berhad

		Group		Fund	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Current Liabilities					
Other payables	15	**95,643**	84,124	**95,578**	84,066
Amount due to a subsidiary	12	**–**	–	**15,196**	13,245
Financings	13	**15,395**	13,400	**–**	–
		111,038	97,524	**110,774**	97,311
Total Liabilities		**1,791,869**	1,772,457	**1,791,605**	1,772,244
TOTAL UNITHOLDERS' FUND AND LIABILITIES		**9,568,582**	9,336,812	**9,568,333**	9,336,608
Number of units in circulation ('000 units)		**1,805,333**	1,805,333	**1,805,333**	1,805,333
Net asset value ("NAV") per unit (RM)					
– before income distribution		**4.31**	4.19	**4.31**	4.19
– after income distribution		**4.25**	4.14	**4.25**	4.14

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 YEAR ENDED 31 DECEMBER 2015

		Group		Fund	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Revenue	16	**594,791**	592,948	**594,791**	592,948
Property operating expenses	17	**(25,075)**	(28,270)	**(25,069)**	(28,265)
Net property income		**569,716**	564,678	**569,722**	564,683
Fair value adjustment of investment properties	6	**136,295**	54,757	**136,295**	54,757
Profit income		**8,422**	7,708	**8,422**	7,749
		714,433	627,143	**714,439**	627,189
Management fees	18	**(44,602)**	(44,149)	**(44,602)**	(44,149)
Trustee's fees	19	**(600)**	(600)	**(600)**	(600)
Financing costs	20	**(73,646)**	(100,361)	**(73,646)**	(100,361)
Profit before tax	21	**595,585**	482,033	**595,591**	482,079
Tax expense	22	**(6,815)**	(2,729)	**(6,815)**	(2,738)
PROFIT FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME		**588,770**	479,304	**588,776**	479,341
Total comprehensive income for the year comprises the following:					
– Realised		**459,290**	427,276	**459,296**	427,322
– Unrealised		**129,480**	52,028	**129,480**	52,019
		588,770	479,304	**588,776**	479,341
Basic earnings per unit (sen)	23				
– Realised		**25.44**	23.67	**25.44**	23.67
– Unrealised		**7.17**	2.88	**7.17**	2.88
		32.61	26.55	**32.61**	26.55

	Note	Group 2015 RM'000	Group 2014 RM'000	Fund 2015 RM'000	Fund 2014 RM'000
Income Distribution					
Total comprehensive income for the financial year		**588,770**	479,304	**588,776**	479,341
Add/(less) Non cash items:					
Accrued rental income		**(68,393)**	(83,406)	**(68,393)**	(83,406)
Amortisation of deferred rental income		**(4,214)**	(4,178)	**(4,214)**	(4,178)
Amortisation of premium for Sukuk Murabahah/Sukuk Musharakah		**1,807**	21,745	**1,807**	21,745
Deferred tax liabilities		**6,815**	2,738	**6,815**	2,738
Depreciation		**61**	37	**61**	37
Accretion of financial instruments		**3,299**	3,140	**3,299**	3,140
Fair value adjustment of investment properties		**(136,295)**	(54,757)	**(136,295)**	(54,757)
		(196,920)	(114,681)	**(196,920)**	(114,681)
Total income available for distribution		**391,850**	364,623	**391,856**	364,660
Distribution to unitholders during the year:					
1st interim income distribution of 5.32% (2014: 4.92%) on 1,805,333,083 units		**(96,044)**	(88,822)	**(96,044)**	(88,822)
2nd interim income distribution of 5.32% (2014: 4.76%) on 1,805,333,083 units		**(96,044)**	(85,934)	**(96,044)**	(85,934)
3rd interim income distribution of 5.35% (2014: 5.14%) on 1,805,333,083 units		**(96,585)**	(92,794)	**(96,585)**	(92,794)
4th interim income distribution of 5.69% (2014: 4.86%) on 1,805,333,083 units		**(102,723)**	(87,739)	**(102,723)**	(87,739)
Balance undistributed		**454**	9,334	**460**	9,371

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 YEAR ENDED 31 DECEMBER 2015

	← 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 1 January 2015	**7,212,684**	**6,212**	**119,268**	**226,191**	**7,564,355**
Total comprehensive income for the year	**–**	**–**	**–**	**588,770**	**588,770**
Transfer of fair value surplus, net of tax	**–**	**–**	**129,480**	**(129,480)**	**–**
Income distribution	**–**	**–**	**–**	**(376,412)**	**(376,412)**
Net total comprehensive income for the year attributable to unitholders	**–**	**–**	**129,480**	**82,878**	**212,358**
As at 31 December 2015	**7,212,684**	**6,212**	**248,748**	**309,069**	**7,776,713**

	← 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 1 January 2014	7,212,684	6,212	67,249	153,834	7,439,979
Total comprehensive income for the year	–	–	–	479,304	479,304
Transfer of fair value surplus, net of tax	–	–	52,019	(52,019)	–
Income distribution	–	–	–	(354,928)	(354,928)
Net total comprehensive income for the year attributable to unitholders	–	–	52,019	72,357	124,376
As at 31 December 2014	7,212,684	6,212	119,268	226,191	7,564,355

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 YEAR ENDED 31 DECEMBER 2015

	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 1 January 2015	**7,212,684**	**6,212**	**119,268**	**226,200**	**7,564,364**
Total comprehensive income for the year	**–**	**–**	**–**	**588,776**	**588,776**
Transfer of fair value surplus, net of tax	**–**	**–**	**129,480**	**(129,480)**	**–**
Income distribution	**–**	**–**	**–**	**(376,412)**	**(376,412)**
Net total comprehensive income for the year attributable to unitholders	**–**	**–**	**129,480**	**82,884**	**212,364**
As at 31 December 2015	**7,212,684**	**6,212**	**248,748**	**309,084**	**7,776,728**

	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 1 January 2014	7,212,684	6,212	67,249	153,806	7,439,951
Total comprehensive income for the year	–	–	–	479,341	479,341
Transfer of fair value surplus, net of tax	–	–	52,019	(52,019)	–
Income distribution	–	–	–	(354,928)	(354,928)
Net total comprehensive income for the year attributable to unitholders	–	–	52,019	72,394	124,413
As at 31 December 2014	7,212,684	6,212	119,268	226,200	7,564,364

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 YEAR ENDED 31 DECEMBER 2015

	Group		Fund	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	**531,319**	508,214	**531,319**	509,828
Cash payments to suppliers	**(63,341)**	(73,725)	**(63,386)**	(64,542)
	467,978	434,489	**467,933**	445,286
Profit income received	**8,493**	8,032	**8,493**	8,032
Net cash generated from operating activities	**476,471**	442,521	**476,426**	453,318
CASH FLOWS FROM INVESTING ACTIVITIES				
Cost incurred for investment property	**(5,182)**	–	**(5,182)**	–
Purchase of property, plant and equipment (Note 5)	**(1)**	(214)	**(1)**	(214)
Net cash used in investing activities	**(5,183)**	(214)	**(5,183)**	(214)
CASH FLOWS FROM FINANCING ACTIVITIES				
Income distribution paid	**(374,563)**	(354,928)	**(374,563)**	(354,928)
Financing cost paid	**(68,352)**	(74,412)	**(68,352)**	(74,412)
Decrease in deposits restricted	**–**	3,919	**–**	3,919
Proceed from issuance of Islamic Medium Term Notes ("IMTNs")	**–**	1,555,000	**–**	–
Advance received from subsidiary	**–**	–	**–**	664,040
Repayment of financings	**–**	(1,618,000)	**–**	(738,000)
Net cash used in financing activities	**(442,915)**	(488,421)	**(442,915)**	(499,381)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**28,373**	(46,114)	**28,328**	(46,277)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**237,043**	283,157	**236,839**	283,116
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 9)	**265,416**	237,043	**265,167**	236,839

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

1. CORPORATE INFORMATION

The Fund is a Malaysia-domiciled real estate investment trust constituted pursuant to the trust deed dated 2 April 2013 ("the Deed") entered into between the Manager and Maybank Trustees Berhad ("the Trustee") and was registered with the Securities Commission Malaysia on 9 April 2013. The Fund was listed on the Main Market of Bursa Malaysia Securities Berhad on 9 May 2013. The registered office of the Manager is located at Level 54, Tower 2, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

The principal place of business of the Manager is located at Level 33 & 34, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur.

The immediate, penultimate and ultimate holding companies are KLCC Property Holdings Berhad ("KLCCP"), KLCC (Holdings) Sdn Bhd ("KLCCH") and 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.

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 2016.

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.

2.2 Basis of consolidation

Subsidiary

Subsidiary is an 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Basis of consolidation (Contd.)

Business combination

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured at the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquirer's identifiable net assets at the acquisition date.

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

The Group measures goodwill as the excess of the cost of an acquisition as defined above and the fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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.

2.3 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Property, plant and equipment (Contd.)

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
Office equipments	5 years

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

An item of the property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss.

2.5 Investment

Investment in subsidiary is stated at cost less impairment loss, if any, in the Fund's financial statements. The cost of investment includes transaction cost.

On disposal of such investment, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 CGU 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 CGU 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.

2.8 Cash and cash equivalents

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial assets (Contd.)

(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 financing 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.

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.

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 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 have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

2.12 Financial liabilities

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 Instruments: 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 expense in the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the period, using the statutory tax rate at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused investment tax allowances, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused investment tax allowances, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on statutory tax rates at the reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.16 Taxation (Contd.)

(ii) Deferred tax (Contd.)

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.

2.20 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 unless collection is in doubt, in which case it is recognised on the receipt basis.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the shorter of the entire lease term or the period to the first break option. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the related property including the accrued rent does not exceed the external valuation.

(ii) Profit income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 fair value of an asset or a liability, except for lease transactions is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

(i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market prices within the bid-ask spread at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

(ii) Non-financial assets

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

When measuring the fair value of an asset or a liability, the Group and the Fund use observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable input)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.23 Fair value measurement (Contd.)

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2015, the Group and the Fund have adopted the following pronouncements that are applicable and have been issued by the Malaysian Accounting Standards Board ("MASB") as listed below:

Effective for annual periods beginning on or after 1 July 2014

Amendments to MFRS 3	Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
Amendments to MFRS 8	Operating Segments (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 13	Fair Value Measurement (Annual Improvements 2011-2013 Cycle)
Amendments to MFRS 116	Property, Plant and Equipment and MFRS 138 Intangible Assets (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 124	Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 140	Investment Property (Annual Improvements 2011-2013 Cycle)

The adoption of the abovementioned pronouncements did not have any significant financial impact to the Group and of the Fund.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 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 Property* 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. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)

4.2 Key Sources of Estimation Uncertainty

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

Fair valuation of investment properties

The Group and the Fund carry their investment properties at fair value, with changes in fair values being recognised in profit or loss. The Group and the Fund had engaged an independent professional valuer to determine the fair value and there are no material events that affect the valuation between the valuation date and financial year end.

The determined fair value of the investment properties by the independent professional valuer is most sensitive to the estimated yield rate and the void rate. The range of the term yield rate and the void rate used in the valuation is described in Note 6.

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

	Fair value Increase/(decrease)	
	2015 RM'000	**2014 RM'000**
Yield rate		
– 0.25%	**377,081**	371,504
+ 0.25%	**(344,632)**	(336,347)
Void rate		
– 2.5%	**149,211**	143,075
+ 2.5%	**(145,576)**	(136,199)

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 2015	Building Improvement RM'000	Office Equipment RM'000	Total RM'000
Cost			
At 1 January 2015	257	47	304
Additions	–	1	1
At 31 December 2015	257	48	305
Accumulated Depreciation			
At 1 January 2015	37	4	41
Charge for the year (Note 21)	47	14	61
At 31 December 2015	84	18	102
Net Carrying Amount	173	30	203

At 31 December 2014	Building Improvement RM'000	Office Equipment RM'000	Total RM'000
Cost			
At 1 January 2014	90	–	90
Additions	167	47	214
At 31 December 2014	257	47	304
Accumulated Depreciation			
At 1 January 2014	4	–	4
Charge for the year (Note 21)	33	4	37
At 31 December 2014	37	4	41
Net Carrying Amount	220	43	263

6. INVESTMENT PROPERTIES

Group/Fund

	2015 RM'000	2014 RM'000
At 1 January	**8,871,757**	8,817,000
Addition during the year	**5,182**	–
Fair value adjustments	**136,295**	54,757
At 31 December	**9,013,234**	8,871,757

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

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

Group/Fund

	2015 RM'000	2014 RM'000
Rental income	**594,791**	592,948
Direct operating expenses	**(23,341)**	(25,424)
	571,450	567,524

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can assess at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment properties, either directly or indirectly.

Transfer between Level 1, 2 and 3 fair values

There is no transfer between level 1, 2 and 3 fair values during the financial year.

6. INVESTMENT PROPERTIES (CONTD.)

Level 3 fair value

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

Fair value of investment properties is classified as Level 3.

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 2015	Range 2014	Inter-relationship between significant unobservable inputs and fair value measurement
Investment method (refer a)	**Office:**			The estimated fair value would increase/(decrease) if:
	– Market rental rate (RM/psf/month)			
	– Term	**8.0 – 10**	7.4 – 9.1	– expected market rental growth were higher/(lower)
	– Reversion	**8.3 – 12.3**	8.3 – 12.0	– expected market rental growth were higher/(lower)
	– Outgoings (RM/psf/month)			
	– Term	**1.9**	1.8	– expected inflation rate were lower/(higher)
	– Reversion	**2.1**	1.9	– expected inflation rate were lower/(higher)
	– Void rate (%)	**5.0**	5.0	– void rate were lower/(higher)
	– Term yield (%)	**5.5 – 6.0**	5.5 – 6.0	– term yield rate were lower/(higher)
	– Reversionary yield (%)	**6.0 – 6.5**	6.0 – 6.5	– reversionary yield were lower/(higher)
	Retail:			
	– Market rental rate (RM/psf/month)			
	– Term	**6.3 – 59.9**	6.00 – 57.1	– expected market rental growth were higher/(lower)
	– Reversion	**6.9 – 65.9**	7.3 – 69.2	– expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	– Term	**6.6**	6.7	– expected inflation rate were lower/(higher)
	– Reversion	**6.8**	6.9	– expected inflation rate were lower/(higher)
	– Void rate (%)	**3.0**	3.0	– void rate were lower/(higher)
	– Term yield (%)	**6.3**	6.3	– term yield rate were lower/(higher)
	– Reversionary yield (%)	**6.8**	6.8	– reversionary yield were lower/(higher)

(a) Investment Method entails the capitalisation of the net rent from a property. Net rent is the residue of gross annual rent less annual expenses (outgoings) required to sustain the rent with allowance for void and management fees.

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.

6. INVESTMENT PROPERTIES (CONTD.)

Description of property	Tenure of land	Existing use	Location	Date of acquisition	Acquisition cost RM'000	Carrying value as at 31.12.2015 RM'000	Fair value as at 31.12.2015 RM'000	Fair value as at 31.12.2014 RM'000	Percentage of Net Asset Value as at 31.12.2015 %	Percentage of Net Asset Value as at 31.12.2014 %
PETRONAS Twin Towers	Freehold	Office	Kuala Lumpur	10 April 2013	6,500,000	6,597,114	6,820,000	6,700,000	87.7	88.6
Menara 3 PETRONAS	Freehold	Office & Retail	Kuala Lumpur	10 April 2013	1,790,000	1,918,412	1,980,000	1,875,000	25.5	24.8
Menara ExxonMobil	Freehold	Office	Kuala Lumpur	10 April 2013	450,000	497,708	500,000	465,000	6.4	6.1
					8,740,000	9,013,234	9,300,000	9,040,000		

7. INVESTMENT IN A SUBSIDIARY

	Fund 2015 RM	Fund 2014 RM
Unquoted shares at cost	**2**	2

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

Name of Subsidiary	Proportion of ownership interest 2015 %	Proportion of ownership interest 2014 %	Principal Activity
Midciti Sukuk Berhad ("MSB")	**100**	100	To undertake the issuance of Islamic medium term notes ("Sukuk") under a medium term notes programme and all matters relating to it.

8. TRADE AND OTHER RECEIVABLES

	Group		Fund	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Non-Current				
Accrued rental income	**286,548**	218,155	**286,548**	218,155
Current				
Trade receivables	**867**	468	**867**	468
Other receivables				
Other receivables and deposits	**235**	7,047	**235**	7,047
Amount due from a fellow subsidiary	**2,079**	2,079	**2,079**	2,079
Total other receivables	**2,314**	9,126	**2,314**	9,126
Total	**3,181**	9,594	**3,181**	9,594

8. TRADE AND OTHER RECEIVABLES (CONTD.)

	Group		Fund	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Trade receivables	**867**	468	**867**	468
Other receivables	**2,314**	9,126	**2,314**	9,126
Add: Cash and bank balances (Note 9)	**265,416**	237,043	**265,167**	236,839
Total financings and receivables	**268,597**	246,637	**268,348**	246,433

Amount due from a fellow subsidiary which arose in the normal course of business are unsecured, non-interest bearing and repayable on demand.

9. CASH AND BANK BALANCES

	Group		Fund	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Cash and bank balances	**853**	906	**636**	733
Deposits with licensed banks	**264,563**	236,137	**264,531**	236,106
	265,416	237,043	**265,167**	236,839

The weighted average effective interest rate applicable to the deposits with licensed banks at the reporting date was 3.48% (2014: 3.27%) per annum.

Deposits with licensed banks have an average maturity of 50 (2014: 63) days.

10. UNITHOLDERS' CAPITAL

	Fund			
	Number of Units		Amount	
	2015 '000	2014 '000	2015 RM'000	2014 RM'000
Issued and fully paid:				
At 1 January/31 December	**1,805,333**	1,805,333	**7,212,684**	7,212,684

10. UNITHOLDERS' CAPITAL (CONTD.)

Stapled Security:

Stapled security means one unit in KLCC REIT is stapled to one ordinary share in KLCCP. Holders of KLCCP Group stapled securities are entitled to receive distributions and dividends as declared from time to time and are entitled to one vote per stapled security at Unitholders' and Shareholders' meetings.

Accordingly, the Fund does not have authorised unitholders' capital, or par value in respect of its issued units.

11. OTHER LONG TERM LIABILITIES

	Group/Fund	
	2015 RM'000	2014 RM'000
Security deposit payables	**67,950**	64,650

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 profit rates between 4.00% – 5.20% (2014: 4.00% – 5.20%) per annum.

12. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary relates to Sukuk undertaken by the subsidiary but utilised by the Fund. The profit expenses incurred on the financing is charged to the Fund. The short term amount due is unsecured and is repayable on demand. The long term amount due is unsecured and is not repayable within next 12 months.

13. FINANCING

	Group		Fund	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Short term financing				
Secured:				
Sukuk Murabahah	**15,395**	13,400	**–**	–
Long term financing				
Secured:				
Sukuk Murabahah	**1,555,000**	1,555,000	**–**	–
Total financing				
Secured:				
Sukuk Murabahah	**1,570,395**	1,568,400	**–**	–

13. FINANCING (CONTD.)

Terms and debt repayment schedule

Group

	Total RM'000	Under 1 year RM'000	1 – 2 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
31 December 2015					
Secured					
Sukuk Murabahah	**1,570,395**	**15,395**	**300,000**	**400,000**	**855,000**
31 December 2014					
Secured					
Sukuk Murabahah	1,568,400	13,400	–	700,000	855,000

(a) Sukuk Murabahah

On 25 April 2014, the Group had completed the issuance of Sukuk Murabahah. Sukuk Murabahah consists of Islamic Commercial Programme ("ICP") of up to RM500 million and Islamic medium term notes ("IMTN") of up to RM3,000 million subject to a combined limit of RM3,000 million. It is primarily secured against assignment and charge over the Finance Service Account and Revenue Account maintained by the REIT Trustee. The proceeds from the issuance of the Sukuk Murabahah is utilised to early redeem Sukuk Musharakah. RM1,555 million has been drawndown at the following tranche and profit rates:

Tenure	Value (RM)	Profit rate	Maturity
3 years	300,000,000	3.90%	25 April 2017
5 years	400,000,000	4.20%	25 April 2019
7 years	400,000,000	4.55%	25 April 2021
10 years	455,000,000	4.80%	25 April 2024

The profit rate is payable semi-annually and disclosed as short term financings.

14. DEFERRED TAX LIABILITY

	Group/Fund 2015 RM'000	Group/Fund 2014 RM'000
At 1 January	**6,277**	3,539
Recognised in profit or loss (Note 22)	**6,815**	2,738
At 31 December	**13,092**	6,277

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

15. OTHER PAYABLES

	Group		Fund	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Non-Current				
Deferred revenue	**44,789**	49,006	**44,789**	49,006
Current				
Other payables				
Other payables	**56,571**	48,548	**56,567**	48,547
Security deposit payables	**9,805**	9,528	**9,805**	9,528
Amount due to:				
Holding company	**3,412**	2,140	**3,351**	2,083
Fellow subsidiaries	**23,069**	22,032	**23,069**	22,032
Other related companies	**2,786**	1,876	**2,786**	1,876
Total other payables	**95,643**	84,124	**95,578**	84,066
Add: Financings (Note 13)	**1,570,395**	1,568,400	**–**	–
Amount due to a subsidiary (Note 12)	**–**	–	**1,570,196**	1,568,245
Other long term liabilities (Note 11)	**67,950**	64,650	**67,950**	64,650
Total financial liabilities carried at amortised cost	**1,733,988**	1,717,174	**1,733,724**	1,716,961

Deferred revenue relates to the excess of the principal amount of security deposits received over their fair value which is accounted for as prepaid lease income and amortised over the lease term on a straight line basis.

Security deposits of RM9,805,000 (2014: RM9,528,000) 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, fellow subsidiaries and other related companies which arose in the normal course of business are unsecured, interest free and repayable on demand.

16. REVENUE

	Group/Fund	
	2015 RM'000	**2014 RM'000**
Investment properties		
– Office	**554,410**	554,918
– Retail	**40,381**	38,030
	594,791	592,948

17. PROPERTY OPERATING EXPENSES

	Group		Fund	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Utilities expenses	**9,751**	12,609	**9,751**	12,609
Maintenance expenses	**5,752**	3,148	**5,752**	3,148
Quit rent and assessment	**3,441**	3,411	**3,441**	3,411
Other operating expenses	**6,131**	9,102	**6,125**	9,097
	25,075	28,270	**25,069**	28,265

18. MANAGEMENT FEES

	Group/Fund	
	2015 RM'000	2014 RM'000
Base fee	**27,511**	27,210
Performance fee	**17,091**	16,939
	44,602	44,149

The Manager will receive the following fees from KLCC REIT:

i) a base fee of 0.3% per annum of the total asset value of KLCC REIT (excluding cash and bank balances) at each financial year end.

ii) a performance fee of 3.00% per annum of KLCC REIT's net property income in the relevant financial year.

19. TRUSTEE'S FEE

In accordance with the Deed, an annual trusteeship fee of up to 0.025% per annum of the net asset value of KLCC REIT at each financial year end, subject to a maximum cap of RM600,000 per annum is to be paid to Trustee.

20. FINANCING COSTS

	Group/Fund	
	2015 RM'000	**2014 RM'000**
Profit expense:		
Islamic financing	**–**	14,704
Sukuk Murabahah and Sukuk Musharakah	**70,347**	82,517
Accretion of financial instruments	**3,299**	3,140
	73,646	100,361

Financing costs in prior year includes one-off charges amounting to RM26,481,000 due to early settlement of financings.

21. PROFIT BEFORE TAXATION

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

	Group		Fund	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Audit fees	**82**	78	**78**	74
Valuation fees	**900**	900	**900**	900
Property manager fee	**91**	95	**91**	95
Allowance for impairment losses	**–**	229	**–**	229
Depreciation (Note 5)	**61**	37	**61**	37

22. TAX EXPENSE

	Group		Fund	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Income tax:				
Overprovision in prior year	**–**	(9)	**–**	–
Deferred tax:				
Relating to origination of temporary difference (Note 14)	**6,815**	2,738	**6,815**	2,738
	6,815	2,729	**6,815**	2,738

22. TAX EXPENSE (CONTD.)

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 more than 95% of its distributable income to unitholders for the financial year ended 31 December 2015, no provision for income tax expense has been made during the year.

Reconciliation of the tax expense is as follows:

	Group		Fund	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Profit before taxation	**595,585**	482,033	**595,591**	482,079
Taxation at Malaysian statutory tax rate of 25%	**148,896**	120,508	**148,898**	120,520
Deferred tax recognised at different tax rate	**(27,259)**	(10,951)	**(27,259)**	(10,951)
Expenses not deductible for tax purposes	**1,367**	1,753	**1,367**	1,753
Income not subject to tax	**(116,189)**	(108,572)	**(116,191)**	(108,584)
Overprovision in prior year	**–**	(9)	**–**	–
Tax expense	**6,815**	2,729	**6,815**	2,738

23. BASIC EARNINGS PER UNIT

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

	2015	**2014**
Profit attributable to unitholders of the Fund (RM'000)	**588,776**	479,341
Weighted average number of units in issue ('000)	**1,805,333**	1,805,333
Basic earnings per unit (sen)	**32.61**	26.55

24. INCOME DISTRIBUTION

	Income distribution Recognised in Year 2015 RM'000	Net income distribution per units 2015 Sen	Income distribution Recognised in Year 2014 RM'000	Net income distribution per units 2014 Sen
For the financial year ended 31 December 2015				
A first interim income distribution of 5.32% on 1,805,333,083 units	**96,044**	**5.32**	–	–
A second interim income distribution of 5.32% on 1,805,333,083 units	**96,044**	**5.32**	–	–
A third interim income distribution of 5.35% on 1,805,333,083 units	**96,585**	**5.35**	–	–
For the financial year ended 31 December 2014				
A first interim income distribution of 4.92% on 1,805,333,083 units	**–**	**–**	88,822	4.92
A second interim income distribution of 4.76% on 1,805,333,083 units	**–**	**–**	85,934	4.76
A third interim income distribution of 5.14% on 1,805,333,083 units	**–**	**–**	92,794	5.14
A fourth interim income distribution of 4.86% on 1,805,333,083 units	**87,739**	**4.86**	–	–
For the financial year ended 31 December 2013				
A third interim income distribution of 4.84% on 1,805,333,083 units	**–**	**–**	87,378	4.84
	376,412	**20.85**	354,928	19.66

The fourth interim income distribution in respect of the financial year ended 31 December 2015, of 5.69% on 1,805,333,083 units amounting to an income distribution payable of RM102,723,000 will be payable on 29 February 2016.

The financial statements for the current year do not reflect this fourth interim income distribution. Such income distribution will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2016.

24. INCOME DISTRIBUTION (CONTD.)

Distribution to unitholders is from the following sources:

	Group	
	2015 RM'000	**2014 RM'000**
Net property income	**569,716**	564,678
Profit income	**8,422**	7,708
Fair value adjustment of investment properties	**136,295**	54,757
	714,433	627,143
Less: Expenses	**(125,663)**	(147,839)
Profit for the year	**588,770**	479,304
Less: Non cash item	**(196,920)**	(114,681)
Add: Brought forward undistributed income available for distribution	**21,240**	11,906
Total available for income distribution	**413,090**	376,529
Less: Income distributed	**(288,673)**	(267,550)
Less: Proposed income distribution	**(102,723)**	(87,739)
Balance undistributed income available for distribution	**21,694**	21,240
Distribution per unit (sen)	**21.68**	19.68

25. PORTFOLIO TURNOVER RATIO

	Group	
	2015	**2014**
Portfolio Turnover Ratio ("PTR") (times)	**Nil**	Nil

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

PTR is nil for KLCC REIT as there were no new acquisitions and disposals of investments in the portfolio of KLCC REIT since the date of establishment of 9 April 2013 to 31 December 2015 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.

26. MANAGEMENT EXPENSE RATIO

	Group	
	2015 RM'000	**2014 RM'000**
Total trust expenses	**46,915**	47,535
Net asset value at end of financial year	**7,776,713**	7,564,355
Less: Fourth interim income distribution	**(102,723)**	(87,739)
Net asset value at end of financial year, after interim income distribution	**7,673,990**	7,476,616
Management Expense Ratio ("MER")	**0.61**	0.64

The calculation of MER is based on the total fees and expenses incurred by the Group and the Fund in the financial year, including Manager's fee and Trustee's fee, auditors' remuneration, tax agent's fee, valuation fees and other Trust expenses to the net asset value (after fourth interim income distribution) at end of the respective financial year.

27. COMMITMENTS

(a) Capital commitments

	Fund	Fund
	2015 RM'000	**2014 RM'000**
Approved but not contracted for		
Property, plant and equipment	**230**	77
Investment property	**11,200**	4,250
	11,430	4,327

(b) Operating lease commitments – as lessor

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

	Group/Fund	
	2015 RM'000	**2014 RM'000**
Not later than 1 year	**500,492**	476,199
Later than 1 year but not later than 5 years	**1,952,735**	1,948,334
More than 5 years	**3,770,257**	4,275,150
	6,223,484	6,699,683

28. RELATED PARTY DISCLOSURES

(a) Controlling related party relationships are as follows:

(i) PETRONAS, the ultimate holding company, and its subsidiaries
(ii) KLCCH, the penultimate holding company, and its subsidiaries
(iii) KLCCP, the immediate holding company, and its subsidiaries
(iv) Subsidiary of the Fund as disclosed in Note 7.

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

	Group		Fund	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Federal Government of Malaysia				
Goods and Service Tax ("GST")	**(21,383)**	–	**(21,383)**	–
Property licenses and other taxes	**(3,458)**	(3,477)	**(3,458)**	(3,477)
Government of Malaysia's related entities				
Purchase of utilities	**(2,939)**	(5,872)	**(2,939)**	(5,872)
Ultimate Holding Company				
Rental income	**437,446**	422,840	**437,446**	422,840
Fellow subsidiaries				
Management fees	**(44,602)**	(44,149)	**(44,602)**	(44,149)
Property management fees	**(2,682)**	(2,861)	**(2,682)**	(2,861)
Property maintenance fees	**(6,010)**	–	**(6,010)**	–
Property advertising and marketing fees	**(683)**	–	**(683)**	–
Other related company				
Chilled water supply	**(6,355)**	(6,606)	**(6,355)**	(6,606)

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 2015 are disclosed in Notes 8 and 15.

29. FINANCIAL INSTRUMENTS

Financial Risk Management

The Group has a Risk Management Framework and Guidelines that set the foundation for the establishment of effective risk management across the Group.

The Group's and the Fund's goal in risk management is to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Fund. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

The Group and the Fund have exposure to credit risk, liquidity risk and market risk arising from its use of financial instruments in the normal course of the Group's and the Fund's business.

Credit Risk

Credit risk is the potential exposure of the Group and the Fund to losses in the event of non-performance by counterparties. Credit risk arises from its operating activities, primarily for trade receivables and long term receivables. The credit risk arising from the Group's and the Fund's normal operations are controlled by individual operating units within the Group Risk Management Framework and Guidelines.

Receivables

The Group and the Fund minimise credit risk by entering into contracts with highly credit rated counterparties and through credit approval, financial limits and on-going monitoring procedures. Counterparties credit evaluation is done systematically using quantitative and qualitative criteria on credit risks specified by individual operating units. Depending on the creditworthiness of the counterparty, the Group and the Fund may require collateral or other credit enhancements.

The maximum exposure to credit risk for the Group and the Fund are represented by the carrying amount of each financial asset.

A significant portion of these receivables are regular customers who have been transacting with the Group and in the case of the Fund, a significant portion of these receivables are related companies.

The Group and the Fund use ageing analysis and credit limit review to monitor the credit quality of the receivables. The Fund monitors the results of 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.

29. FINANCIAL INSTRUMENTS (CONTD.)

Credit Risk (Contd.)

Receivables (Contd.)

As at the end of the reporting year, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The ageing of trade receivables net of impairment amount as at the end of the reporting period is analysed below:

	Group/Fund	
	2015 RM'000	**2014 RM'000**
At net		
Current	**458**	430
Past due 1 to 30 days	**366**	8
Past due 31 to 60 days	**–**	7
Past due 61 to 90 days	**29**	5
Past due more than 90 days	**14**	18
	867	468
Trade receivables (Note 8)	**1,096**	697
Less: Impairment losses	**(229)**	(229)
	867	468
Movement in allowance account:		
At 1 January	**229**	–
Allowance of impairment	**–**	229
At 31 December	**229**	229

The Group and the Fund do not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2015.

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.

29. FINANCIAL INSTRUMENTS (CONTD.)

Liquidity Risk (Contd.)

Maturity analysis

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

31 December 2015	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							
Sukuk Murabahah	**1,570,395**	**4.41**	**1,932,461**	**83,935**	**362,674**	**545,516**	**940,336**
Other payables	**95,643**	**–**	**95,643**	**95,643**	**–**	**–**	**–**
Other long term liabilities	**112,739**	**4.60**	**115,538**	**–**	**9,688**	**–**	**105,850**
Fund							
Financial Liabilities							
Other payables	**95,578**	**–**	**95,578**	**95,578**	**–**	**–**	**–**
Amount due to a subsidiary	**1,570,196**	**–**	**1,570,196**	**15,196**	**300,000**	**400,000**	**855,000**
Other long term liabilities	**112,739**	**4.60**	**115,538**	**–**	**9,688**	**–**	**105,850**

31 December 2014	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							
Sukuk Murabahah	1,568,400	4.41	1,985,242	67,789	68,851	868,146	980,456
Other payables	84,124	–	84,124	84,124	–	–	–
Other long term liabilities	113,656	4.60	115,538	–	–	9,688	105,850
Fund							
Financial Liabilities							
Other payables	84,066	–	84,066	84,066	–	–	–
Amount due to a subsidiary	1,568,245	–	1,568,245	13,245	–	700,000	855,000
Other long term liabilities	113,656	4.60	115,538	–	–	9,688	105,850

29. 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 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 profit-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market profit rates. The Group's and the Fund's profit-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

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

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

	Group		Fund	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Fixed rate instruments				
Financial assets	**264,563**	236,137	**264,531**	236,106
Financial liabilities	**(1,570,395)**	(1,568,400)	**–**	–

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 financings, trade and other receivables, financings, other payables and various debt.

29. FINANCIAL INSTRUMENTS (CONTD.)

Fair Value Information (Contd.)

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.

The carrying amount of other long term liabilities approximate its fair value amount.

The following table analyses financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

Group	Fair value of financial instruments not carried at fair value				
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Carrying amount RM'000
2015					
Financial liabilities					
Sukuk Murabahah	**–**	**1,538,077**	**–**	**1,538,077**	**1,570,395**
2014					
Financial liabilities					
Sukuk Murabahah	–	1,538,381	–	1,538,381	1,568,400

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, 2 and 3 fair values during the financial year.

30. 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.

30. CAPITAL MANAGEMENT (CONTD.)

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

	Group	
	2015	**2014**
Total financings (RM'000)	**1,570,395**	1,568,400
Total assets (RM'000)	**9,568,582**	9,336,812
Financings to total assets ratio	**16.4%**	16.8%

The Deed provides that the Manager shall, with the approval of the Trustee, for each distribution year, 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.

31. 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 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.

31. SEGMENT INFORMATION (CONTD.)

(b) Allocation basis and transfer pricing (Contd.)

Business Segments

31 December 2015

	Property investment – Office RM'000	Property investment – Retail RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue				
Revenue from external customers	554,410	40,381	–	594,791
Results				
Net property income	539,434	30,282	–	569,716
Profit income				8,422
Fair value adjustment on investments properties				136,295
Management fees				(44,602)
Trustee's fees				(600)
Financing costs				(73,646)
Tax expense				(6,815)
Profit after tax				588,770
Total assets				9,568,582
Total liabilities				1,791,869
Depreciation				61
Non-cash items other than depreciation				(196,981)

31. SEGMENT INFORMATION (CONTD.)

(b) Allocation basis and transfer pricing (Contd.)

Business Segments (Contd.)

31 December 2014

	Property investment – Office RM'000	Property investment – Retail RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue				
Revenue from external customers	554,918	38,030	–	592,948
Results				
Net property income	538,716	25,962	–	564,678
Profit income				7,708
Fair value adjustment on investment properties				54,757
Management fees				(44,149)
Trustee's fees				(600)
Financing costs				(100,361)
Tax expense				(2,729)
Profit after tax				479,304
Total assets				9,336,812
Total liabilities				1,772,457
Depreciation				37
Non-cash items other than depreciation				(114,718)

32. PRONOUNCEMENTS YET IN EFFECT

The following 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 in these financial statements:

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 7	Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012 – 2014 Cycle)
Amendments to MFRS 10	Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 12	Disclosure of Interests in Other Entities – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 101	Presentation of Financial Statements – Disclosure Initiative
Amendments to MFRS 116	Property, Plant and Equipment: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 127	Separate Financial Statements: Equity Method in Separate Financial Statements
Amendments to MFRS 128	Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvements to MFRSs 2012 – 2014 Cycle)

Effective for annual periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers

Effective for annual periods beginning on or after a date to be determined by the MASB

Amendments to MFRS 10	Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The adoption of the above pronouncements is not expected to have material impact on the financial statements of the Group and of the Fund is the period of initial application.

33. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE FUND

The MASB has issued pronouncements which are not yet effective, but for which are 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 2016

Amendments to MFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012 – 2014 Cycle)
Amendments to MFRS 11	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 116	Property, Plant and Equipment – Agriculture: Bearer Plants
Amendments to MFRS 119	Employee Benefits (Annual Improvements 2012-2014 Cycle)
Amendments to MFRS 138	Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 141	Agriculture – Agriculture: Bearer Plants

34. DISCLOSURE OF REALISED AND UNREALISED PROFIT

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

	Group		Fund	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Total retained profits				
– Realised	**309,069**	226,191	**309,084**	226,200
– Unrealised	**–**	–	**–**	–
	309,069	226,191	**309,084**	226,200

The fair value gain of RM248,748,000 (2014: RM119,268,000) 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" of the "Fund"), which comprise the statements of financial position as at 31 December 2015 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 year ended 31 December 2015 and a summary of significant accounting policies and other explanatory note, as set out on pages 216 to 258.

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 judgement, 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 2015 and of their financial performance and cash flows for the financial year ended 31 December 2015, 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 34 on page 259 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

Muhammad Affan bin Daud
No. 3063/02/16(J)
Chartered Accountant

Kuala Lumpur, Malaysia
21 January 2016