KLCC PROPERTY HOLDINGS BERHAD

FINANCIAL STATEMENTS

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

The principal activities of its subsidiaries and associate are stated in Notes 7 and 8 to the financial statements respectively.

CORPORATE INFORMATION

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

Upon the completion of the listing of stapled securities on 7 May 2013, the Group now comprises:

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

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

RESULTS

	Group RM'000	Company RM'000
Profit for the year	838,920	245,070
Attributable to:		
Equity holders of the Company	284,253	245,070
Non-controlling interests relating to KLCC REIT	440,661	-
Other non-controlling interests	114,006	-
	838,920	245,070

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

RESERVES AND PROVISIONS

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

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

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2017 were as follows:

	RM'000
In respect of the financial year ended 31 December 2017 as reported in the Directors' Report in that year:	
A fourth interim dividend of 5.30%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 24 January 2018 and paid on 28 February 2018.	95,683
In respect of the financial year ended 31 December 2018:	
A first interim dividend of 2.98%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 16 May 2018 and paid on 29 June 2018.	53,799
A second interim dividend of 3.05%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 15 August 2018 and paid on 28 September 2018.	55,063
A third interim dividend of 2.99%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 13 November 2018 and paid on 28 December 2018.	53,979
	258,524

A fourth interim dividend in respect of the financial year ended 31 December 2018, of 4.63%, tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM83,587,000 will be payable on 28 February 2019.

The financial statements for the current year do not reflect this fourth interim dividend. Such dividend will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2019.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS OF THE COMPANY

Directors who served during the financial year end and up to the date of this report are:

Datuk Hashim Bin Wahir	
Datuk Ishak Bin Imam Abas	
Datuk Pragasa Moorthi A/L Krishnasamy	
Dato' Halipah Binti Esa	
Habibah Binti Abdul	
Datuk Ahmad Nizam Bin Salleh	(appointed w.e.f. on 21 December 2018)
Tengku Muhammad Taufik Bin Tengku Aziz	(appointed w.e.f. on 1 December 2018)
Farina Binti Farikhullah Khan	(appointed w.e.f. on 23 April 2018)
Datuk Manharlal A/L Ratilal	(resigned w.e.f. on 26 October 2018)
Tan Sri Mohd Sidek Bin Hassan	(resigned w.e.f. on 16 July 2018)
Augustus Ralph Marshall	(resigned w.e.f. on 12 April 2018)

The Directors who held office in the subsidiaries of the Company during the financial year and up to the date of this report (not including those directors listed above) are:

Mohainee Binti Tahir	
Annuar Marzuki Bin Abdul Aziz	
Peter James Holland Riley	
Richard Daniel Baker (Alternate Director to Craig Alan Beattie)	
Rossana Annizah binti Ahmad Rashid (Alternate Director to Peter James Holland Riley)	
Abd Aziz Bin Abd Kadir	
Kevin William Whan (Alternate Director to Craig Alan Beattie)	
Rashidah Binti Alias @ Ahmad	
Shamsudin Bin Ishak	
Brian Lap Wei Hung	
Andrew William Brien	
Harold Alan Schwartz III	
Datin Faudziah Binti Ibrahim	
Muhmat Hilme Hassan	
Andrian Lee Baker	(appointed w.e.f. on 14 November 2018)
Craig Alan Beattie	(appointed w.e.f. on 1 November 2018)
Richard Thomas Gairdner Price	(resigned w.e.f. on 14 November 2018)
Charles Stuart Dickie	(resigned w.e.f. on 31 October 2018)

The names of subsidiaries' Directors are available at the Company's registered office and the Board deems such information is included in the Company's Directors' Report by such reference and shall form part of the Company's Directors' Report.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS' INTERESTS

The Directors in office at the end of the year who have interests and deemed interest in the shares of the Company and its related corporations other than wholly-owned subsidiaries as recorded in the Register of Directors' Shareholdings are as follows:

	Number of Shares in Petronas Chemicals Group Berhad			
	Balance as at 1.1.2018/date of appointment	← Number of Shares → Bought	Sold	Balance as at 31.12.2018
Direct				
Dato' Halipah Binti Esa	10,000	-	-	10,000
Datuk Hashim Bin Wahir	16,000	-	-	16,000
Datuk Ahmad Nizam Bin Salleh	10,000	-	-	10,000
Indirect				
Dato' Halipah Binti Esa#	13,100	-	-	13,100

	Number of Shares in MISC Berhad			
	Balance as at 1.1.2018	← Number of Shares → Bought	Sold	Balance as at 31.12.2018
Indirect				
Dato' Halipah Binti Esa#	10,000	-	-	10,000

	Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad			
	Balance as at 1.1.2018	← Number of Shares → Bought	Sold	Balance as at 31.12.2018
Direct				
Dato' Halipah Binti Esa	10,000	-	-	10,000
Indirect				
Dato' Halipah Binti Esa#	10,000	-	-	10,000

	Number of Shares in Petronas Gas Berhad			
	Balance as at date of appointment	← Number of Shares → Bought	Sold	Balance as at 31.12.2018
Direct				
Datuk Ahmad Nizam Bin Salleh	2,000	-	-	2,000

Deemed interest by virtue of Director's family member's shareholding.

None of the other Directors holding office as at 31 December 2018 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors or the remuneration received by the Directors from certain related corporations), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

The Directors' benefits are as follows:

	Group RM'000	Company RM'000
Directors of the Company		
Executive*	-	-
Non-Executive:		
Fees	1,090	1,090
	1,090	1,090

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

ULTIMATE HOLDING COMPANY

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

ISSUE OF SHARES

There were no issuance of new shares during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

INDEMNIFICATION TO DIRECTORS AND OFFICERS

During the financial year, PETRONAS and its subsidiaries, including the Company, maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016. The total insured limit for the Directors' and Officers' Liability Insurance effected for the Directors and Officers of the Group was RM1,290 million per occurrence and in the aggregate. The insurance premium for the Company is RM1,000.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

Auditors' remuneration is as follows:

	Group RM'000	Company RM'000
Audit fees	603	212

Signed on behalf of the Board in accordance with a resolution of the Directors dated 24 January 2019.

Datuk Ahmad Nizam Bin Salleh

Datuk Hashim Bin Wahir

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 215 to 284 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of the results of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 24 January 2019.

Datuk Ahmad Nizam Bin Salleh

Datuk Hashim Bin Wahir

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

I, Annuar Marzuki Bin Abdul Aziz, the officer primarily responsible for the financial management of KLCC Property Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 215 to 284 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Annuar Marzuki Bin Abdul Aziz
in Kuala Lumpur, Wilayah Persekutuan
on 24 January 2019.

Annuar Marzuki Bin Abdul Aziz
(MIA Membership No. 11345)

BEFORE ME:

Commissioner for Oaths

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	5	**673,620**	667,237	**1,775**	3,253
Investment properties	6	**15,714,934**	15,667,475	**-**	-
Investment in subsidiaries	7	**-**	-	**1,371,136**	1,369,760
Investment in an associate	8	**252,973**	256,441	**99,195**	99,195
Other investment	9	**-**	-	**-**	100,000
Deferred tax assets	10	**1,225**	690	**808**	311
Other receivables	12	**418,939**	388,842	**-**	-
		17,061,691	16,980,685	**1,472,914**	1,572,519
Current Assets					
Inventories	11	**1,613**	1,743	**-**	-
Trade and other receivables	12	**59,980**	57,888	**7,873**	12,873
Other investment	9	**-**	-	**100,000**	-
Tax recoverable		**1,321**	1,984	**1,258**	1,973
Cash and bank balances	13	**735,724**	750,262	**395,749**	403,995
		798,638	811,877	**504,880**	418,841
TOTAL ASSETS		**17,860,329**	17,792,562	**1,977,794**	1,991,360
EQUITY AND LIABILITIES					
Equity Attributable to Equity Holders of the Company					
Share capital	14	**1,823,386**	1,823,386	**1,823,386**	1,823,386
Capital reserve	2.21	**2,937,256**	2,929,350	**-**	-
Retained profits	15	**243,209**	225,492	**148,108**	161,562
		5,003,851	4,978,228	**1,971,494**	1,984,948
Non-controlling interests ("NCI") relating to KLCC REIT	7	**8,091,402**	8,050,264	**-**	-
Stapled Securities holders interests in the Group		**13,095,253**	13,028,492	**1,971,494**	1,984,948
Other NCI	7	**2,029,836**	2,018,364	**-**	-
Total Equity		**15,125,089**	15,046,856	**1,971,494**	1,984,948

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Non-Current Liabilities					
Deferred revenue	16	**48,266**	41,934	**-**	-
Other long term liabilities	17	**156,132**	133,945	**-**	-
Long term borrowings	18	**1,817,166**	2,225,666	**-**	-
Deferred tax liabilities	10	**49,180**	27,935	**-**	-
		2,070,744	2,429,480	**-**	-
Current Liabilities					
Trade and other payables	19	**214,362**	268,346	**6,300**	6,412
Borrowings	18	**427,548**	25,411	**-**	-
Taxation		**22,586**	22,469	**-**	-
		664,496	316,226	**6,300**	6,412
Total Liabilities		**2,735,240**	2,745,706	**6,300**	6,412
TOTAL EQUITY AND LIABILITIES		**17,860,329**	17,792,562	**1,977,794**	1,991,360
Net asset value ("NAV")		**13,095,253**	13,028,492		
Less: Fourth interim distribution		**(83,587)**	(95,683)		
Net NAV after distribution		**13,011,666**	12,932,809		
Number of stapled securities/shares in circulation ('000)		**1,805,333**	1,805,333		
NAV per stapled security/share (RM)					
- before distribution		**7.25**	7.22		
- after distribution		**7.21**	7.16		

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	20	**1,405,941**	1,366,751	**265,824**	277,331
Operating profit	21	**1,010,891**	999,749	**229,604**	242,537
Fair value adjustments of investment properties	6	**20,050**	182,483	**-**	-
Interest income	22	**27,574**	30,597	**16,365**	16,225
Financing costs	23	**(107,710)**	(110,963)	**-**	-
Share of profit of an associate	8	**13,288**	13,465	**-**	-
Profit before tax	24	**964,093**	1,115,331	**245,969**	258,762
Tax expense	27	**(125,173)**	(101,766)	**(899)**	(1,233)
PROFIT FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME		**838,920**	1,013,565	**245,070**	257,529
Profit attributable to:					
Equity holders of the Company		**284,253**	350,256	**245,070**	257,529
NCI relating to KLCC REIT	7	**440,661**	527,644	**-**	-
		724,914	877,900	**245,070**	257,529
Other NCI	7	**114,006**	135,665	**-**	-
		838,920	1,013,565	**245,070**	257,529
Earnings per share attributable to equity holders of the Company (sen):					
Basic	28	**15.75**	19.40		
Earnings per stapled security (sen):					
Basic	28	**40.15**	48.63		

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

STATEMENT OF INCOME DISTRIBUTION TO STAPLED SECURITIES HOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group	
	2018 RM'000	**2017 RM'000**
Overall distributable income is derived as follows:		
Profit attributable to the equity holders of the Company	**284,253**	350,256
Less: Unrealised fair value adjustment attributable to the equity holders	**(7,906)**	(75,969)
	276,347	274,287
Distributable income of KLCC REIT	**421,928**	397,177
Total available for income distribution	**698,275**	671,464
Distribution to equity holders of the Company in respect of financial year ended 31 December 2018/2017:		
First interim dividend of 2.98% (2017: 3.10%)	**(53,799)**	(55,965)
Second interim dividend of 3.05% (2017: 3.16%)	**(55,063)**	(57,049)
Third interim dividend of 2.99% (2017: 3.64%)	**(53,979)**	(65,714)
Fourth interim dividend of 4.63% (2017: 5.30%)	**(83,587)**	(95,683)
	(246,428)	(274,411)
Distribution to KLCC REIT holders in respect of financial year ended 31 December 2018/2017:		
First interim income distribution of 5.72% (2017: 5.50%)	**(103,265)**	(99,293)
Second interim income distribution of 5.65% (2017: 5.44%)	**(102,001)**	(98,210)
Third interim income distribution of 5.71% (2017: 4.96%)	**(103,085)**	(89,545)
Fourth interim income distribution of 6.27% (2017: 5.05%)	**(113,194)**	(91,169)
	(421,545)	(378,217)
Balance undistributed	**30,302**	18,836

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

		← Attributable to Equity Holders of the Company →						
		Non Distributable	← Distributable →					
	Note	Share Capital 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 2018								
As previously reported		**1,823,386**	**225,492**	**2,929,350**	**4,978,228**	**8,050,264**	**2,018,364**	**15,046,856**
Effect on the adoption of new pronouncement		**-**	**(106)**	**-**	**(106)**	**(3)**	**(34)**	**(143)**
At 1 January 2018 Restated		**1,823,386**	**225,386**	**2,929,350**	**4,978,122**	**8,050,261**	**2,018,330**	**15,046,713**
Total comprehensive income for the year		**-**	**284,253**	**-**	**284,253**	**440,661**	**114,006**	**838,920**
Transfer of fair value surplus		**-**	**(7,906)**	**7,906**	**-**	**-**	**-**	**-**
Dividends paid	29	**-**	**(258,524)**	**-**	**(258,524)**	**(399,520)**	**(102,500)**	**(760,544)**
At 31 December 2018		**1,823,386**	**243,209**	**2,937,256**	**5,003,851**	**8,091,402**	**2,029,836**	**15,125,089**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

		← 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 2017		1,805,333	18,053	204,555	2,854,041	4,881,982	7,912,211	1,983,832	14,778,025
Total comprehensive income for the year		-	-	350,256	-	350,256	527,644	135,665	1,013,565
Transfer of fair value surplus		-	-	(75,309)	75,309	-	-	-	-
Dividends paid	29	-	-	(254,010)	-	(254,010)	(389,591)	(101,133)	(744,734)
Total transactions with equity holders of the Company		1,805,333	18,053	225,492	2,929,350	4,978,228	8,050,264	2,018,364	15,046,856
Transfer in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime	14	18,053	(18,053)	-	-	-	-	-	-
At 31 December 2017		1,823,386	-	225,492	2,929,350	4,978,228	8,050,264	2,018,364	15,046,856

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

		Non-Distributable		Distributable	
	Note	Share Capital RM'000	Capital Redemption Reserve RM'000	Retained Profits RM'000	Total Equity RM'000
At 1 January 2018		**1,823,386**	**-**	**161,562**	**1,984,948**
Total comprehensive income for the year		**-**	**-**	**245,070**	**245,070**
Dividends paid	29	**-**	**-**	**(258,524)**	**(258,524)**
At 31 December 2018		**1,823,386**	**-**	**148,108**	**1,971,494**
At 1 January 2017		1,805,333	18,053	158,043	1,981,429
Total comprehensive income for the year		-	-	257,529	257,529
Dividends paid	29	-	-	(254,010)	(254,010)
Total transactions with equity holders of the Company		1,805,333	18,053	161,562	1,984,948
Transfer in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime	14	18,053	(18,053)	-	-
At 31 December 2017		1,823,386	-	161,562	1,984,948

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	**964,093**	1,115,331	**245,969**	258,762
Adjustments for:				
Interest income	**(27,574)**	(30,597)	**(12,275)**	(13,424)
Profit income from Sukuk subscription	**-**	-	**(4,090)**	(2,801)
Financing costs	**107,710**	110,963	**-**	-
Accrued rental income	**(36,708)**	(54,987)	**-**	-
Depreciation of property, plant and equipment	**38,073**	33,152	**1,476**	1,592
Dividend received	**-**	-	**(243,100)**	(256,300)
Property, plant and equipment written off	**28**	-	**-**	-
Loss/(gain) on disposal of property, plant and equipment	**148**	359	**-**	(2)
Net gain on fair value adjustments of investment properties	**(20,050)**	(182,483)	**-**	-
Bad debts written off	**-**	6	**-**	-
Allowance for impairment losses	**37**	214	**-**	-
Share of profit of an associate	**(13,288)**	(13,465)	**-**	-
Operating cash flows before changes in working capital	**1,012,469**	978,493	**(12,020)**	(12,173)
Changes in working capital:				
Trade and other receivables	**3,267**	(4,589)	**(86)**	31
Amount due from subsidiaries	**-**	-	**954**	3,639
Amount due from related companies	**3,400**	3,924	**2,860**	415
Amount due from immediate holding company	**551**	(663)	**647**	(695)
Amount due to ultimate holding company	**(7,019)**	(2,429)	**4**	(1,416)
Trade and other payables	**(20,470)**	50,618	**(11)**	1,115
Inventories	**130**	187	**-**	-
Cash generated from/(used in) operations	**992,328**	1,025,541	**(7,652)**	(9,084)
Interest/profit income received	**26,532**	32,943	**15,614**	15,058
Tax paid	**(103,683)**	(104,353)	**(681)**	(3,654)
Tax refunded	**-**	18	**-**	-
Net cash generated from operating activities	**915,177**	954,149	**7,281**	2,320

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
CASH FLOWS FROM INVESTING ACTIVITIES				
Dividends received	**16,756**	33,110	**243,100**	277,370
Subscription of Sukuk	**-**	-	**-**	(100,000)
Purchase of property, plant and equipment	**(45,472)**	(63,723)	**(103)**	(225)
Subsequent expenditure on investment properties	**(31,103)**	(37,556)	**-**	-
Proceeds from disposal of property, plant and equipment	**110**	199	**-**	2
Net cash (used in)/generated from investing activities	**(59,709)**	(67,970)	**242,997**	177,147
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings	**(7,500)**	(300,000)	**-**	-
Dividends paid to shareholders	**(258,524)**	(254,010)	**(258,524)**	(254,010)
Dividends paid to other NCI	**(102,500)**	(101,133)	**-**	-
Dividends paid to NCI relating to KLCC REIT	**(399,364)**	(388,158)	**-**	-
Interest/profit expenses paid	**(102,118)**	(107,836)	**-**	-
Decrease/(increase) in deposits restricted	**7,952**	(10,016)	**-**	-
Net cash used in financing activities	**(862,054)**	(1,161,153)	**(258,524)**	(254,010)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(6,586)**	(274,974)	**(8,246)**	(74,543)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**737,017**	1,011,991	**403,995**	478,538
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 13)	**730,431**	737,017	**395,749**	403,995
The additions in investment properties and property, plant and equipment were acquired by way of:				
Cash	**59,808**	78,504	**(103)**	225
Accruals	**12,341**	16,767	**-**	-
	72,149	95,271	**(103)**	225
Cash paid for additions in prior years	**16,767**	22,775	**-**	-
Cash paid for additions in current year	**59,808**	78,504	**(103)**	225
Total cash paid for investment properties and property, plant and equipment	**76,575**	101,279	**103**	225

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

1. CORPORATE INFORMATION

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

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

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

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 24 January 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements of the Group and of the Company have also been prepared on a historical cost basis, except for investment properties and certain financial instruments that have been measured at their fair values.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

As of 1 January 2018, the Group and the Company adopted new MFRSs and amendments to MFRSs (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB") as described fully in Note 3.

2.2 Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company.

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

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Basis of Consolidation (Contd.)

Business combination

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

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

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

Non-controlling interests

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

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

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

Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Investments

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

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

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

2.4 Associates

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

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

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

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

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

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

Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transactions costs.

Unrealised profits arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially, unless cost cannot be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Goodwill

Goodwill acquired in a business combination is initially measured at cost as described in Note 2.2. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is reviewed for impairment when there is objective evidence of impairment.

2.6 Property, Plant and Equipment

Freehold land which has an unlimited life is stated at cost and is not depreciated. Projects-in-progress are stated at cost and are not depreciated as the assets are not available for use. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated on a straight line basis over the estimated useful life of the related assets.

The estimated useful life are as follows:

Hotel building	80 years
Building improvements	5 to 6 years
Furniture and fittings	5 to 10 years
Plant and equipment	4 to 10 years
Office equipment	5 years
Renovation	5 years
Motor vehicles	4 to 5 years
Crockery, linen and utensils	3 years

Costs are expenditure that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the assets to working condition for their intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.6 Property, Plant and Equipment (Contd.)

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

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

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

2.7 Investment Properties

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.8 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

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

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

2.9 Inventories

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

2.10 Cash and Cash Equivalents

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.11 Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

(i) Recognition and initial measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Company's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient, the Group and the Company initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or if the period between performance and payment is 1 year or less under practical expedient of MFRS 15, are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place ("regular way trades") are recognised on the trade date, that is the date that the Group or the Company commits to purchase or sell the asset.

(ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

(a) Financial assets at amortised cost (debt instruments)
(b) Financial assets at fair value through OCI (debt instruments)
(c) Financial assets at fair value through profit or loss

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.11 Financial Assets (Contd.)

(ii) Subsequent measurement (Contd.)

Financial assets at amortised cost

This category is the most relevant to the Group and the Company. The Group and the Company measure financial assets at amortised cost if both of the following conditions are met:

i. The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

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

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

(iii) Derecognition

A financial asset is derecognised when:

(a) The rights to receive cash flows from the asset have expired, or

(b) The Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

    i. The Group and the Company have transferred substantially all the risks and rewards of the asset, or

    ii. The Group and the Company have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Group and the Company have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Company continue to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group and the Company also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Company have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company would required to repay.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.12 Impairment of Financial Assets

The Group and the Company recognise an allowance for expected credit losses ("ECLs") for all debt instruments carried at amortised cost and fair value through OCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expect to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

The Group and the Company consider a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group and the Company may also consider a financial asset to be in default when internal or external information indicates that the Group and the Company are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.13 Provisions

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

2.14 Financial Liabilities

(i) Recognition and initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.14 Financial Liabilities (Contd.)

(ii) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group and the Company that are not designated as hedging instruments in hedge relationships as defined by MFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gain or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group and the Company have not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group and the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.15 Offsetting of Financial Instruments

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

2.16 Financing Costs

Financing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other financing costs are charged to the profit or loss as an expense in the year in which they are incurred.

2.17 Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and of the Company.

(ii) Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Obligations for contributions to defined contribution plans are recognised as an expense in the profit or loss in the year in which the related services is performed.

2.18 Taxation

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

(i) Current tax

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.18 Taxation (Contd.)

(ii) Deferred tax

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is expected to be realised or the liability is expected to be settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax provided for the investment properties of KLCC REIT is at 5% which reflects the expected manner of recovery of the investment properties.

The expected manner of recovery of the Group's other investment properties that are not within KLCC REIT is through sale to a real estate investment trust ("REIT"). No deferred tax is recognised on the fair valuation of these properties as chargeable gains accruing on the disposal of any chargeable assets to a REIT is tax exempted.

2.19 Foreign Currencies

(i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

(ii) Foreign Currency Transactions

Monetary assets and liabilities in foreign currencies at the reporting date have been translated at rates ruling on the reporting date or at the agreed exchange rate under currency exchange arrangements. Transactions in foreign currencies have been translated into RM at rates of exchange ruling on the transaction dates. Gains and losses on exchange arising from translation of monetary assets and liabilities are dealt with in the profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to RM at the foreign exchange rates ruling at the date of the transactions.

The principal exchange rates used for each respective unit of foreign currency ruling at the reporting date are as follows:

	2018 RM	2017 RM
United States Dollar	**4.13**	4.06

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.20 Share Capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

2.21 Capital Reserve

Fair value adjustments on investment property are transferred from retained profits to capital reserve and such surplus will be considered distributable upon the sale of investment property.

2.22 Revenue Recognition

(i) Rental income

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

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

(ii) Others

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group or the Company recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

i. the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

ii. the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

iii. the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.22 Revenue Recognition (Contd.)

(ii) Others (Contd.)

(a) Hotel operations

Revenue from rental of hotel rooms, sale of food and beverages and other related income are recognised upon provision of the services.

(b) Building and facilities management services

Revenue from building and facilities management is recognised when the services are performed.

(c) Car park operations

Revenue from car park operations is recognised on the accrual basis.

(d) Interest income

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

(e) Dividend income

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

2.23 Leases

Operating Leases - the Group as lessor

Assets leased out under operating leases are presented on the statement of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

2.24 Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

NOTES TO THE FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.25 Fair Value Measurement

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

(i) Financial instruments

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

(ii) Non-financial assets

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

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

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

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

3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2018, the Group and the Company have adopted the following pronouncements that are applicable and have been issued by the MASB as listed below:

Effective for annual periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 15	Revenue from Contracts with Customers: Clarifications
Amendments to MFRS 128	Investments in Associates and Joint Ventures (Annual Improvements to MFRSs 2014-2016 Cycle)
Amendments to MFRS 140	Investment Property: Transfers to Investment Property

3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTD.)

Effective for annual periods beginning on or after 1 January 2018 (Contd.)

The principal changes in accounting policies and their effects are set out below:

(i) MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group and the Company applied MFRS 9 retrospectively, with an initial application date of 1 January 2018. Under the transitional provisions of MFRS 9, the Group and the Company have elected not to restate the comparative information, which continues to be reported under MFRS 139. Differences arising from the adoption of MFRS 9 have been recognised in opening retained earnings.

(a) Classification and measurement

Under MFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's and the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's and the Company's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments solely consist of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of MFRS 9 did not have a significant impact to the Group and the Company. The following are the changes in the classification of the Group's and the Company's financial assets:

Trade receivables and other financial assets

Trade receivables and other financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortised cost.

Other investment

Other investment previously classified as held-to-maturity was measured at amortised cost using the EIR. These are now classified and measured as debt instruments at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS
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3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTD.)

Effective for annual periods beginning on or after 1 January 2018 (Contd.)

(i) MFRS 9 Financial Instruments (Contd.)

(b) Impairment

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss ("ECL") model. Under MFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

Upon adoption of MFRS 9, the Group had recognised additional impairment on the Group's trade receivables which resulted in a decrease in retained profits of RM143,000 as at 1 January 2018. The impact to the Group's impairment allowances is as below:

	Allowance for impairment under MFRS 139 as at 31.12.2017 RM'000	Additional allowance RM'000	ECL under MFRS 9 as at 1.1.2018 RM'000
Allowance for impairment losses	(603)	(143)	**(746)**

(ii) MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15 Agreements for Construction of Real Estate, IC Interpretation 18 Transfers of Assets from Customers and IC Interpretation 131 Revenue – Barter Transactions Involving Advertising Services. MFRS 15 provides a single model of accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The Group adopted MFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date.

The adoption of MFRS 15 does not have any impact to the financial statements of the Group and the Company.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical Judgement Made in Applying Accounting Policies

There are no critical judgements made by management in the process of applying the Group's and the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

4.2 Key Sources of Estimation Uncertainty

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

Fair value of investment properties

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

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

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

	Fair value Increase/(decrease)	
	2018 RM'000	2017 RM'000
Yield rate		
+ 0.25%	**(424,333)**	(405,458)
- 0.25%	**457,276**	438,795
Discount rate		
+ 0.25%	**(146,131)**	(160,430)
- 0.25%	**148,948**	166,057

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

NOTES TO THE FINANCIAL STATEMENTS

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5. PROPERTY, PLANT AND EQUIPMENT

	Lands and buildings* RM'000	Project in progress RM'000	Furniture and fittings RM'000	Plant and equipment RM'000	Office equipment RM'000	Motor vehicles RM'000	Crockery, linen and utensils RM'000	Total RM'000
Group								
At 31 December 2018								
Cost								
At 1 January 2018	631,676	22,918	131,376	153,540	80,726	1,419	9,713	1,031,368
Additions	1,360	25,204	15,170	1,366	1,417	5	218	44,740
Transfer within property, plant and equipment	5,008	(35,302)	21,050	5,114	4,130	-	-	-
Disposals	(56)	-	(11,632)	(120)	(2,973)	-	-	(14,781)
Write off	(220)	-	(3,789)	(13)	(8,197)	(5)	-	(12,224)
At 31 December 2018	637,768	12,820	152,175	159,887	75,103	1,419	9,931	1,049,103
Accumulated Depreciation								
At 1 January 2018	116,805	-	76,157	98,816	62,020	1,164	9,169	364,131
Charge for the year (Note 24)	10,024	-	12,356	9,266	6,031	107	289	38,073
Disposals	(39)	-	(11,422)	(89)	(2,973)	-	-	(14,523)
Write off	(220)	-	(3,789)	(13)	(8,171)	(5)	-	(12,198)
At 31 December 2018	126,570	-	73,302	107,980	56,907	1,266	9,458	375,483
Net Carrying Amount	511,198	12,820	78,873	51,907	18,196	153	473	673,620

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 2017								
Cost								
At 1 January 2017	621,791	19,162	123,458	153,069	73,836	1,387	9,160	1,001,863
Additions	1,344	52,323	7,528	797	1,642	42	604	64,280
Transfer within property, plant and equipment	22,012	(48,567)	16,909	-	9,646	-	-	-
Disposals	(89)	-	(7,565)	(326)	(2,267)	(10)	-	(10,257)
Write off	(13,382)	-	(8,954)	-	(2,131)	-	(51)	(24,518)
At 31 December 2017	631,676	22,918	131,376	153,540	80,726	1,419	9,713	1,031,368
Accumulated Depreciation								
At 1 January 2017	120,545	-	83,325	90,023	61,245	1,036	9,015	365,189
Charge for the year (Note 24)	10,028	-	8,532	9,052	5,197	138	205	33,152
Transfer within property, plant and equipment	(372)	-	396	-	(24)	-	-	-
Disposals	(14)	-	(7,142)	(259)	(2,267)	(10)	-	(9,692)
Write off	(13,382)	-	(8,954)	-	(2,131)	-	(51)	(24,518)
At 31 December 2017	116,805	-	76,157	98,816	62,020	1,164	9,169	364,131
Net Carrying Amount	514,871	22,918	55,219	54,724	18,706	255	544	667,237

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5. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

*** Lands and Buildings of the Group:**

	Freehold land RM'000	Hotel building RM'000	Renovation RM'000	Building improvements RM'000	Total RM'000
At 31 December 2018					
Cost					
At 1 January 2018	85,889	389,853	19,034	136,900	631,676
Additions	-	-	275	1,085	1,360
Transfer	-	-	-	5,008	5,008
Disposals	-	(56)	-	-	(56)
Write off	-	-	(220)	-	(220)
At 31 December 2018	85,889	389,797	19,089	142,993	637,768
Accumulated Depreciation					
At 1 January 2018	-	63,622	11,912	41,271	116,805
Charge for the year	-	5,444	3,245	1,335	10,024
Transfer	-	-	-	-	-
Disposals	-	(39)	-	-	(39)
Write off	-	-	(220)	-	(220)
At 31 December 2018	-	69,027	14,937	42,606	126,570
Net Carrying Amount	85,889	320,770	4,152	100,387	511,198
At 31 December 2017					
Cost					
At 1 January 2017	85,889	389,942	18,953	127,007	621,791
Additions	-	-	81	1,263	1,344
Transfer	-	-	-	22,012	22,012
Disposals	-	(89)	-	-	(89)
Write off	-	-	-	(13,382)	(13,382)
At 31 December 2017	85,889	389,853	19,034	136,900	631,676
Accumulated Depreciation					
At 1 January 2017	-	58,221	8,567	53,757	120,545
Charge for the year	-	5,415	3,345	1,268	10,028
Transfer	-	-	-	(372)	(372)
Disposals	-	(14)	-	-	(14)
Write off	-	-	-	(13,382)	(13,382)
At 31 December 2017	-	63,622	11,912	41,271	116,805
Net Carrying Amount	85,889	326,231	7,122	95,629	514,871

Property, plant and equipment of a subsidiary at carrying amount of RM648,431,000 (2017: RM638,478,000) has been pledged as securities for loan facilities as disclosed in Note 18.

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 2018						
Cost						
At 1 January 2018	**7,052**	**2,324**	**8**	**2,183**	**-**	**11,567**
Additions	**-**	**5**	**-**	**98**	**-**	**103**
Disposal/Reversal	**(93)**	**-**	**-**	**(12)**	**-**	**(105)**
At 31 December 2018	**6,959**	**2,329**	**8**	**2,269**	**-**	**11,565**
Accumulated Depreciation						
At 1 January 2018	**4,449**	**2,171**	**2**	**1,692**	**-**	**8,314**
Charge for the year (Note 24)	**1,285**	**44**	**2**	**145**	**-**	**1,476**
At 31 December 2018	**5,734**	**2,215**	**4**	**1,837**	**-**	**9,790**
Net Carrying Amount	**1,225**	**114**	**4**	**432**	**-**	**1,775**
At 31 December 2017						
Cost						
At 1 January 2017	7,052	2,240	13	1,731	420	11,456
Additions	-	84	-	32	-	116
Transfer	-	-	-	420	(420)	-
Disposal	-	-	(5)	-	-	(5)
At 31 December 2017	7,052	2,324	8	2,183	-	11,567
Accumulated Depreciation						
At 1 January 2017	3,019	2,109	5	1,594	-	6,727
Charge for the year (Note 24)	1,430	62	2	98	-	1,592
Disposal	-	-	(5)	-	-	(5)
At 31 December 2017	4,449	2,171	2	1,692	-	8,314
Net Carrying Amount	2,603	153	6	491	-	3,253

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6. INVESTMENT PROPERTIES

	Completed investment properties RM'000	IPUC land at fair value RM'000	IPUC at cost RM'000	Total RM'000
Group				
At 31 December 2018				
At 1 January 2018	**14,944,258**	**515,500**	**207,717**	**15,667,475**
Additions	**21,471**	**14**	**5,924**	**27,409**
Fair value adjustments	**15,564**	**4,486**	**-**	**20,050**
At 31 December 2018	**14,981,293**	**520,000**	**213,641**	**15,714,934**
At 31 December 2017				
At 1 January 2017	14,768,580	494,300	191,121	15,454,001
Additions	13,335	-	17,656	30,991
Transfer within investment properties	1,060	-	(1,060)	-
Fair value adjustments	161,283	21,200	-	182,483
At 31 December 2017	14,944,258	515,500	207,717	15,667,475

The following investment property is held under lease terms:

	Group	
	2018 RM'000	2017 RM'000
Completed investment property	**346,332**	344,063
IPUC land at fair value	**232,000**	232,000
IPUC at cost	**190,873**	184,949
	769,205	761,012

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

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

	Group	
	2018 RM'000	2017 RM'000
Rental income	**1,086,772**	1,066,961
Direct operating expenses of income generating investment properties	**(99,065)**	(91,985)
	987,707	974,976

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6. INVESTMENT PROPERTIES (CONTD.)

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
2018				
- Office properties	**-**	**-**	**9,242,446**	**9,242,446**
- Retail properties	**-**	**-**	**5,970,847**	**5,970,847**
- Land	**-**	**-**	**288,000**	**288,000**
	-	**-**	**15,501,293**	**15,501,293**
2017				
- Office properties	-	-	9,225,624	9,225,624
- Retail properties	-	-	5,950,634	5,950,634
- Land	-	-	283,500	283,500
	-	-	15,459,758	15,459,758

Policy on transfer between levels

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

Level 1 fair value

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

Level 2 fair value

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

Level 3 fair value

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

Transfer between Level 1, 2 and 3 fair values

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

6. INVESTMENT PROPERTIES (CONTD.)

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

	2018 RM'000	2017 RM'000
Valuation per valuers' report	**15,921,900**	15,848,600
Less: Accrued rental income	**(420,607)**	(388,842)
	15,501,293	15,459,758
Adjusted valuation on 1 January	**15,459,758**	15,262,880
Additions	**21,485**	13,335
Transfer within investment properties	**-**	1,060
Re-measurement recognised in profit or loss	**20,050**	182,483
At 31 December	**15,501,293**	15,459,758

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique	Significant unobservable inputs	Range 2018	Range 2017	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	**4.92 - 10.88**	4.92 - 9.95	- expected market rental growth was higher/(lower)
	- Reversion	**5.73 - 12.71**	5.50 - 13.80	- expected market rental growth was higher/(lower)
	- Outgoings (RM/psf/month)			
	- Term	**2.00**	1.80 - 2.00	- expected inflation rate was lower/(higher)
	- Reversion	**2.00 - 2.40**	1.80 - 2.00	- expected inflation rate was lower/(higher)
	- Void rate (%)	**5.00 - 10.00**	5.00	- void rate was lower/(higher)
	- Term yield (%)	**5.50 - 7.00**	5.50 - 6.50	- term yield rate was lower/(higher)
	- Reversionary yield (%)	**6.00 - 7.50**	6.00 - 7.00	- reversionary yield was lower/(higher)
	- Discount rate (%)	**5.50 - 7.50**	6.50	- discount rate is lower/(higher)
	Retail:			
	- Market rental rate (RM/psf/month)			
	- Term	**5.11 - 363.55**	4.73 - 451.28	- expected market rental growth was higher/(lower)
	- Reversion	**5.64 - 416.64**	4.73 - 451.28	- expected market rental growth was higher/(lower)
	- Outgoings (RM/psf/month)			
	- Term	**5.78 - 6.38**	5.27 - 6.88	- expected inflation rate was lower/(higher)
	- Reversion	**5.78 - 6.38**	5.00 - 6.56	- expected inflation rate was lower/(higher)
	- Void rate (%)	**5.00 - 7.00**	7.00 - 10.00	- void rate was lower/(higher)
	- Term yield (%)	**6.25 - 6.50**	6.50	- term yield rate was lower/(higher)
	- Reversionary yield (%)	**6.75 - 7.00**	7.00	- reversionary yield was lower/(higher)
	- Discount rate (%)	**6.25 - 7.00**	6.50 - 7.00	- discount rate is lower/(higher)

6. INVESTMENT PROPERTIES (CONTD.)

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

Valuation technique	Significant unobservable inputs	Range 2018	Range 2017	Inter-relationship between significant unobservable inputs and fair value measurement
Residual method (refer b)				The estimated fair value would increase/(decrease) if:
	- Expected rate of return (%)	**17.00**	17.00	- expected rate of return was lower/(higher)
	- Gross Development Value (RM million)	**1,519**	1,494	- gross development value was higher/(lower)
	- Gross Development Costs (RM million)	**960**	955	- gross development costs was lower/(higher)
	- Financing costs (%)	**7.00**	7.00	- financing costs was lower/(higher)
	- Discount rate (%)	**7.00**	7.00	- discount rate was lower/(higher)

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

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

Based on the current development plans, the said property is currently valued based on land at fair value with actual construction costs incurred to date.

Valuation processes applied by the Group for Level 3 fair value

The fair value of investment properties is determined by independent professional valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The independent professional valuers provide the fair value of the Group's investment properties portfolio annually. Changes in Level 3 fair values are analysed by the management annually after obtaining the valuation report from the independent professional valuers.

7. INVESTMENT IN SUBSIDIARIES

	Company 2018 RM'000	Company 2017 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	**722,583**	721,207
Capital reduction	**(780,916)**	(780,916)
Write-down in value*	**(3,296,954)**	(3,296,954)
	1,371,136	1,369,760

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

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7. INVESTMENT IN SUBSIDIARIES (CONTD.)

Details of subsidiaries are as follows:

Name of Subsidiaries	Proportion of ownership interest 2018 %	2017 %	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

	2018	2017
NCI percentage of ownership interest and voting interest	**100%**	100%
Carrying amount of NCI (RM'000)	**8,091,402**	8,050,264
Profit allocated to NCI (RM'000)	**440,661**	527,644

Summarised financial information before intra-group elimination

	2018 RM'000	2017 RM'000
Non-current assets - Investment properties	**9,190,831**	9,176,045
Non-current assets - Others	**410,454**	380,916
Current assets	**62,069**	74,758
Non-current liabilities	**(1,010,521)**	(1,481,168)
Current liabilities	**(561,431)**	(100,287)
Net assets	**8,091,402**	8,050,264
Revenue	**588,523**	585,469
Profit for the year, representing total comprehensive income	**440,661**	527,644
Cash flows generated from operating activities	**452,628**	469,129
Cash flows used in investing activities	**(4,160)**	(3,266)
Cash flows used in financing activities	**(459,543)**	(653,634)
Net decrease in cash and cash equivalents	**(11,075)**	(187,771)
Dividend paid to NCI relating to KLCC REIT	**(399,520)**	(389,591)

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7. INVESTMENT IN SUBSIDIARIES (CONTD.)

Other non-controlling interests in subsidiaries

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

	2018		
	SKSB	Other immaterial subsidiary	Total
NCI percentage of ownership interest and voting interest	**40.0%**		
Carrying amount of NCI (RM'000)	**1,957,248**	**72,588**	**2,029,836**
Profit allocated to NCI (RM'000)	**113,982**	**24**	**114,006**

	2017		
	SKSB	Other immaterial subsidiary	Total
NCI percentage of ownership interest and voting interest	40.0%		
Carrying amount of NCI (RM'000)	1,945,766	72,598	2,018,364
Profit allocated to NCI (RM'000)	134,353	1,312	135,665

Summarised financial information of significant subsidiary before intra-group elimination

SKSB	2018 RM'000	2017 RM'000
Non-current assets - Investment properties	**5,444,130**	5,424,149
Non-current assets - Others	**15,616**	13,477
Current assets	**222,131**	202,658
Non-current liabilities	**(669,392)**	(638,924)
Current liabilities	**(119,364)**	(136,945)
Net assets	**4,893,121**	4,864,415
Revenue	**472,261**	454,709
Profit for the year, representing total comprehensive income	**284,956**	335,882
Cash flows generated from operating activities	**295,261**	303,133
Cash flows used in investing activities	**(18,596)**	(15,177)
Cash flows used in financing activities	**(256,250)**	(252,833)
Net increase in cash and cash equivalents	**20,415**	35,123
Dividends paid to other NCI	**(102,500)**	(101,133)

SEC 01 SEC 02 SEC 03 SEC 04 SEC 05 SEC 06 SEC 07

8. INVESTMENT IN AN ASSOCIATE

	2018 RM'000	2017 RM'000
Group		
Unquoted shares at cost	**99,195**	99,195
Share of post-acquisition reserves	**153,778**	157,246
	252,973	256,441
Company		
Unquoted shares at cost	**99,195**	99,195

Details of the associate are as follows:

Name of Associate	Country of Incorporation	Principal Activity	Proportion of ownership interest 2018 %	2017 %
Impian Klasik Sdn Bhd ("IKSB")*	Malaysia	Property investment	**33**	33

* Audited by a firm of auditors other than Ernst & Young.

The summarised financial statements of the associate are as follows:

	2018 RM'000	2017 RM'000
Non-current assets	**770,295**	762,000
Current assets	**2,253**	18,442
Total assets	**772,548**	780,442
Non-current liabilities	**98,624**	97,664
Current liabilities	**2,340**	681
Total liabilities	**100,964**	98,345
Results		
Revenue	**50,722**	50,722
Profit for the year, representing total comprehensive income	**40,268**	40,804
Share of profit for the year	**13,288**	13,465
Other information		
- Share of dividends	**16,756**	12,040

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8. INVESTMENT IN AN ASSOCIATE (CONTD.)

Reconciliation of net assets to carrying amount as at 31 December

	2018 RM'000	2017 RM'000
Group's share of net assets	**221,623**	225,091
Goodwill	**31,350**	31,350
	252,973	256,441

9. OTHER INVESTMENT

	Company	
	2018 RM'000	2017 RM'000
Investment in Sukuk Murabahah of a subsidiary	**100,000**	100,000

The details of the Sukuk Murabahah are disclosed in Note 18(a).

10. DEFERRED TAX

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	**27,245**	29,481	**(311)**	(72)
Recognised in profit or loss (Note 27)	**20,710**	(2,236)	**(497)**	(239)
At 31 December	**47,955**	27,245	**(808)**	(311)

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts determined after appropriate offsetting are as follows:

	Group	
	2018 RM'000	2017 RM'000
Deferred tax assets	**(1,225)**	(690)
Deferred tax liabilities	**49,180**	27,935
	47,955	27,245

SEC 01 SEC 02 SEC 03 SEC 04 SEC 05 SEC 06 SEC 07

10. DEFERRED TAX (CONTD.)

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

Deferred Tax Liabilities of the Group:

	Property, plant and equipment RM'000	Investment properties RM'000	Others RM'000	Total RM'000
At 1 January 2018	**57,538**	**-**	**2,223**	**59,761**
Recognised in profit or loss	**5,533**	**21,744**	**799**	**28,076**
At 31 December 2018	**63,071**	**21,744**	**3,022**	**87,837**
At 1 January 2017	52,911	-	2,047	54,958
Recognised in profit or loss	4,627	-	176	4,803
At 31 December 2017	57,538	-	2,223	59,761

Deferred Tax Assets of the Group:

	Unused tax losses and investment tax allowances RM'000	Others RM'000	Total RM'000
At 1 January 2018	**(29,577)**	**(2,939)**	**(32,516)**
Recognised in profit or loss	**(6,539)**	**(827)**	**(7,366)**
At 31 December 2018	**(36,116)**	**(3,766)**	**(39,882)**
At 1 January 2017	(24,116)	(1,361)	(25,477)
Recognised in profit or loss	(5,461)	(1,578)	(7,039)
At 31 December 2017	(29,577)	(2,939)	(32,516)

Deferred Tax Liabilities/(Assets) of the Company:

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 January 2018	**363**	**(674)**	**(311)**
Recognised in profit or loss	**(370)**	**(127)**	**(497)**
At 31 December 2018	**(7)**	**(801)**	**(808)**
At 1 January 2017	407	(479)	(72)
Recognised in profit or loss	(44)	(195)	(239)
At 31 December 2017	363	(674)	(311)

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11. INVENTORIES

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

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-current				
Other receivables				
Accrued rental income	**418,939**	388,842	**-**	-
Current				
Trade receivables	**9,998**	11,485	**-**	-
Less: Allowance for impairment	**(770)**	(603)	**-**	-
Trade receivables, net of impairment	**9,228**	10,882	**-**	-
Other receivables				
Other receivables and deposits	**26,295**	25,377	**2,494**	1,657
Amount due from:				
Subsidiaries	**-**	-	**2,337**	4,667
Ultimate holding company	**13,556**	6,278	**-**	-
Immediate holding company	**434**	985	**314**	961
Other related companies	**10,467**	14,366	**2,728**	5,588
Total other receivables	**50,752**	47,006	**7,873**	12,873
Total	**59,980**	57,888	**7,873**	12,873

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade receivables	**9,228**	10,882	**-**	-
Other receivables	**469,691**	435,848	**-**	-
Add: Cash and bank balances (Note 13)	**735,724**	750,262	**395,749**	403,995
Less: Accrued rental income (Note 6)	**(420,607)**	(388,842)	**-**	-
Total financial assets carried at amortised cost	**794,036**	808,150	**395,749**	403,995

Amounts due from subsidiaries, ultimate holding company, immediate holding company and other related companies which arose in the normal course of business are unsecured, non-interest bearing and repayable on demand.

12. TRADE AND OTHER RECEIVABLES (CONTD.)

Offsetting of financial assets and financial liabilities

The following table provides information of financial assets and liabilities that have been set off for presentation purposes:

Group	Gross amount RM'000	Balances that are set off RM'000	Net carrying amount RM'000
Amount due from ultimate holding company			
2018	**14,806**	**(1,250)**	**13,556**
2017	13,055	(6,777)	6,278

13. CASH AND BANK BALANCES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	**439,400**	430,197	**395,574**	403,983
Cash and bank balances	**9,919**	16,244	**42**	12
Deposits with licensed banks	**286,405**	303,821	**133**	-
	735,724	750,262	**395,749**	403,995
Less: Deposits restricted	**(5,293)**	(13,245)	**-**	-
Cash and cash equivalents	**730,431**	737,017	**395,749**	403,995

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

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

Included in cash with IFSSC and cash and bank balances of the Group and of the Company are interest bearing balances amounting to RM441,799,000 (2017: RM432,062,000) and RM395,616,000 (2017: RM403,995,000) respectively.

The weighted average effective interest rates applicable to the deposits with licensed banks of the Group is 3.80% per annum (2017: 3.80% per annum).

Deposits with licensed banks of the Group have an average maturity of 34 days (2017: 35 days).

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14. SHARE CAPITAL

	Group and Company	
	Number of shares Ordinary shares '000	Amount Ordinary shares RM'000
Issued and fully paid:		
At 1 January 2018/31 December 2018	**1,805,333**	**1,823,386**
At 1 January 2017	1,805,333	1,805,333
Transfer of capital redemption reserve in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017	-	18,053
At 31 December 2017	1,805,333	1,823,386

Included in share capital is the capital redemption reserve amounting to RM18,053,000 that is available to be utilised in accordance to Section 618(3) of Companies Act, 2016 on or before 30 January 2019 (24 months from the commencement of Section 74 of Companies Act, 2016).

Stapled security:

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

15. RETAINED PROFITS

As at 31 December 2018, the Company may distribute the entire balance of the retained profits under the single-tier system.

16. DEFERRED REVENUE

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

17. OTHER LONG TERM LIABILITIES

	Group	
	2018 RM'000	2017 RM'000
Security deposit payables	**156,132**	133,945

Security deposit payables are interest-free, unsecured and refundable upon expiry of the respective lease agreements. The fair values at initial recognition were determined based on interest rates of 4.52% to 5.20% per annum.

18. BORROWINGS

	Group	
	2018 RM'000	2017 RM'000
Short term borrowings		
Secured:		
Sukuk Murabahah		
- KLCC Real Estate Investment Trust	**516,907**	16,026
Less: Sukuk Murabahah subscribed	**(100,000)**	-
	416,907	16,026
Term loans	**10,641**	9,385
	427,548	25,411
Long term borrowings		
Secured:		
Sukuk Murabahah		
- KLCC Real Estate Investment Trust	**855,000**	1,355,000
Less: Sukuk Murabahah subscribed	**-**	(100,000)
	855,000	1,255,000
- Other subsidiary	**600,000**	600,000
Term loans	**362,166**	370,666
	1,817,166	2,225,666
Total borrowings	**2,244,714**	2,251,077

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18. BORROWINGS (CONTD.)

		Group 2018 RM'000	Group 2017 RM'000
Total borrowings which are secured, comprise:			
Sukuk Murabahah		**1,971,907**	1,971,026
Less: Sukuk Murabahah subscribed		**(100,000)**	(100,000)
	(a)	**1,871,907**	1,871,026
Term loans	**(b)**	**372,807**	380,051
		2,244,714	2,251,077

The repayment schedules are as follows:

Group	Total RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000	Over 5 years RM'000
2018					
Secured					
Sukuk Murabahah	**1,871,907**	**416,907**	**-**	**400,000**	**1,055,000**
Term loans	**372,807**	**10,641**	**7,500**	**22,500**	**332,166**
	2,244,714	**427,548**	**7,500**	**422,500**	**1,387,166**
2017					
Secured					
Sukuk Murabahah	1,871,026	16,026	400,000	400,000	1,055,000
Term loans	380,051	9,385	8,500	22,500	339,666
	2,251,077	25,411	408,500	422,500	1,394,666

(a) Sukuk Murabahah

On 25 April 2014, a subsidiary of the Group completed the issuance of Sukuk Murabahah. The Sukuk Murabahah consists of Islamic Commercial Programme ("ICP") of up to RM500 million and Islamic medium term notes ("IMTN") of up to RM3 billion subject to a combined limit of RM3 billion. It is primarily secured against assignment and charge over the Finance Service Account and Revenue Account maintained by the REIT Trustee.

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 drawndown at the profit rate of 4.73% per annum and repayable in 10 years.

The Group paid its RM300 million Sukuk Murabahah upon maturity on 25 April 2017 and on the same date issued RM100 million of Sukuk Murabahah with a profit rate of 4.09% per annum and maturing on 25 April 2019. Details of the drawdown that are outstanding as at year end are as follows:

Tenure	Value (RM)	Proft rate	Maturity
2 years	100,000,000	4.09%	25 April 2019
5 years	400,000,000	4.20%	25 April 2019
7 years	400,000,000	4.55%	25 April 2021
10 years	455,000,000	4.80%	25 April 2024

The profit rate is payable semi-annually.

(b) Term loans

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

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

The term loans are repayable at RM7.5 million per annum for 7 years commencing on the 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 assets of the hotel property as disclosed in Note 5.

The loan bears an interest rate of 4.73% per annum (2017: 4.44% per annum).

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

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18. BORROWINGS (CONTD.)

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

	Sukuk Murabahah RM'000	Term loans RM'000	Dividend payable RM'000	Total RM'000
Balance at 1 January 2018	**1,871,026**	**380,051**	**-**	**2,251,077**
Changes from financing cash flows				
Repayment term loan	**-**	**(7,500)**	**-**	**(7,500)**
Dividend paid	**-**	**-**	**(760,388)**	**(760,388)**
Interest/profit paid	**(84,625)**	**(17,493)**	**-**	**(102,118)**
Total changes from financing cash flows	**(84,625)**	**(24,993)**	**(760,388)**	**(870,006)**
Other changes				
Liability-related				
Interest/profit expenses	**85,506**	**17,749**	**-**	**103,255**
Dividend payable	**-**	**-**	**760,388**	**760,388**
Total liability-related other changes	**85,506**	**17,749**	**760,388**	**863,643**
Balance at 31 December 2018	**1,871,907**	**372,807**	**-**	**2,244,714**
Balance at 1 January 2017	2,172,478	379,952	-	2,552,430
Changes from financing cash flows				
Repayment Sukuk Murabahah	(300,000)	-	-	(300,000)
Dividend paid	-	-	(743,301)	(743,301)
Interest/profit paid	(90,977)	(16,859)	-	(107,836)
Total changes from financing cash flows	(390,977)	(16,859)	(743,301)	(1,151,137)
Other changes				
Liability-related				
Interest/profit expenses	89,525	16,958	-	106,483
Dividend payable	-	-	743,301	743,301
Total liability-related other changes	89,525	16,958	743,301	849,784
Balance at 31 December 2017	1,871,026	380,051	-	2,251,077

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Trade payables	**9,204**	14,958	**75**	258
Other payables				
Other payables	**129,902**	156,494	**4,154**	4,088
Security deposits	**67,794**	89,192	**-**	-
Amount due to:				
Ultimate holding company	**3,856**	3,500	**2,071**	2,066
Immediate holding company	**446**	121	**-**	-
Other related companies	**3,160**	4,081	**-**	-
	205,158	253,388	**6,225**	6,154
Total trade and other payables	**214,362**	268,346	**6,300**	6,412
Add: Borrowings (Note 18)	**2,244,714**	2,251,077	**-**	-
Other long term liabilities (Note 17)	**156,132**	133,945	**-**	-
Total financial liabilities carried at amortised cost	**2,615,208**	2,653,368	**6,300**	6,412

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

20. REVENUE

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Property investment				
- Office	**595,762**	591,011	**-**	-
- Retail	**491,010**	475,950	**-**	-
Hotel operations	**172,375**	167,200	**-**	-
Management services	**146,794**	132,590	**22,724**	21,031
Dividend income from subsidiaries	**-**	-	**226,344**	244,260
Dividend income from associate	**-**	-	**16,756**	12,040
	1,405,941	1,366,751	**265,824**	277,331

All the revenue of the Group and of the Company are derived from the same geographical market as the Group and the Company operate predominantly in Malaysia. The services are transferred to the customers at a point in time.

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21. OPERATING PROFIT

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue (Note 20)	**1,405,941**	1,366,751	**265,824**	277,331
Cost of revenue:				
- Cost of services and goods	**(240,775)**	(219,917)	**-**	-
Gross profit	**1,165,166**	1,146,834	**265,824**	277,331
Selling and distribution expenses	**(11,409)**	(11,073)	**-**	-
Administration expenses	**(145,938)**	(139,617)	**(36,232)**	(34,795)
Other operating income	**3,072**	3,605	**12**	1
Operating profit	**1,010,891**	999,749	**229,604**	242,537

22. INTEREST INCOME

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest and profit income from:				
Deposits	**27,574**	30,597	**12,275**	13,424
Investment in Sukuk Murabahah	**-**	-	**4,090**	2,801
	27,574	30,597	**16,365**	16,225

23. FINANCING COSTS

	Group	
	2018 RM'000	2017 RM'000
Interest/profit expense on:		
Term loans	**17,749**	16,958
Sukuk Murabahah	**85,506**	89,525
Accretion of financial instruments	**4,455**	4,480
	107,710	110,963

24. PROFIT BEFORE TAX

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Employee benefits expense (Note 25)	**110,549**	104,026	**22,284**	21,183
Directors' remuneration (Note 26)	**1,090**	668	**1,090**	668
Management fee in relation to services of Executive Director (Note 26)	**1,124**	999	**1,124**	999
Auditors' remuneration				
- Audit fees	**603**	586	**212**	206
- Others	**73**	16	**26**	16
Valuation fees	**925**	927	**-**	-
Depreciation of property, plant and equipment (Note 5)	**38,073**	33,152	**1,476**	1,592
Rental of land and buildings	**3,754**	3,388	**2,883**	2,695
Rental of plant and machinery	**232**	464	**172**	249
Property, plant and equipment written off	**28**	-	**-**	-
Bad debts written off	**-**	6	**-**	-
Loss/(gain) on disposal of property, plant and equipment	**148**	359	**-**	(2)
Allowance for impairment losses	**37**	214	**-**	-

25. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Wages, salaries and others	**101,162**	95,220	**19,847**	18,950
Contributions to defined contribution plan	**9,387**	8,806	**2,437**	2,233
Total expense (Note 24)	**110,549**	104,026	**22,284**	21,183

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26. DIRECTORS' REMUNERATION

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors of the Company				
Executive*	**-**	-	**-**	-
Non-Executive:				
Fees	**1,090**	668	**1,090**	668
	1,090	668	**1,090**	668

Included in Directors' remuneration is the fee paid directly to PETRONAS in respect of the Directors who are the appointees of the ultimate holding company.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Analysis excluding benefits-in-kind:				
Total Non-Executive Directors' remuneration (Note 24)	**1,090**	668	**1,090**	668

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

	Group		Company	
	2018	2017	2018	2017
Executive Director*	**1**	1	**1**	1
Non-Executive Directors				
RMNil - RM50,000	**3**	1	**3**	1
RM50,001 - RM100,000	**-**	7	**-**	7
RM100,001 - RM150,000	**5**	-	**5**	-
RM150,001 - RM200,000	**2**	-	**2**	-

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

27. TAX EXPENSE

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Current income tax:				
Malaysian income tax	**105,630**	104,641	**1,322**	1,233
(Over)/under provision of tax in prior year	**(1,167)**	(639)	**74**	239
	104,463	104,002	**1,396**	1,472
Deferred tax (Note 10):				
Relating to origination and reversal of temporary differences	**20,455**	(4,362)	**(187)**	(56)
Under/(over) provision of deferred tax in prior year	**255**	2,126	**(310)**	(183)
	20,710	(2,236)	**(497)**	(239)
Total tax expense	**125,173**	101,766	**899**	1,233

Domestic current income tax is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	2018 RM'000	**2017 RM'000**
Group		
Profit before taxation	**964,093**	1,115,331
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	**231,382**	267,679
Expenses not deductible for tax purposes	**8,428**	8,490
Income not subject to tax	**(128,407)**	(164,662)
Effects of share of profit of an associate	**(3,189)**	(3,231)
Deferred tax recognised at different tax rates	**21,743**	-
Deferred tax assets recognised on investment tax allowances	**(3,872)**	(7,997)
Under provision of deferred tax in prior year	**255**	2,126
Over provision of taxation in prior year	**(1,167)**	(639)
Tax expense	**125,173**	101,766

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27. TAX EXPENSE (CONTD.)

	2018 RM'000	2017 RM'000
Company		
Profit before taxation	**245,969**	258,762
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	**59,033**	62,103
Expenses not deductible for tax purposes	**3,343**	3,453
Income not subject to tax	**(61,241)**	(64,379)
Over provision of deferred tax in prior year	**(310)**	(183)
Under provision of taxation in prior year	**74**	239
Tax expense	**899**	1,233

28. EARNINGS PER SHARE/STAPLED SECURITY

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

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

	2018	2017
Profit attributable to equity holders of the Company (RM'000)	**284,253**	350,256
Profit attributable to NCI relating to KLCC REIT (RM'000)	**440,661**	527,644
Profit attributable to stapled securities holders (RM'000)	**724,914**	877,900
Weighted average number of stapled securities/shares in issue ('000)	**1,805,333**	1,805,333
Basic earnings per share (sen)	**15.75**	19.40
Basic earnings per stapled security (sen)	**40.15**	48.63

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

29. DIVIDENDS

	Dividends Recognised in Year		Net Dividends per Ordinary Share	
	2018 RM'000	2017 RM'000	2018 Sen	2017 Sen
Recognised during the year:				
A fourth interim 5.30% (2016: 4.17%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2017/2016	**95,683**	75,282	**5.30**	4.17
A first interim dividend of 2.98% (2017: 3.10%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2018/2017	**53,799**	55,965	**2.98**	3.10
A second interim dividend of 3.05% (2017: 3.16%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2018/2017	**55,063**	57,049	**3.05**	3.16
A third interim dividend of 2.99% (2017: 3.64%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2018/2017	**53,979**	65,714	**2.99**	3.64
	258,524	254,010	**14.32**	14.07

A fourth interim dividend in respect of the financial year ended 31 December 2018, of 4.63%, tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM83,587,000 will be paid on 28 February 2019.

The financial statements for the current year do not reflect this fourth interim dividend. Such dividend will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

30. COMMITMENTS

(a) Capital commitments

	Group	
	2018 RM'000	2017 RM'000
Approved and contracted for		
Property, plant and equipment	**13,622**	67,176
Investment property	**51,412**	55,389
	65,034	122,565
Approved but not contracted for		
Property, plant and equipment	**116,788**	44,771
Investment property	**157,055**	129,133
	273,843	173,904

(b) Operating lease commitments - as lessor

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

	Group	
	2018 RM'000	2017 RM'000
Not later than 1 year	**910,373**	899,325
Later than 1 year but not later than 5 years	**2,433,734**	2,590,021
More than 5 years	**2,144,784**	2,696,207
	5,488,891	6,185,553

31. RELATED PARTY DISCLOSURES

(a) Controlling related party relationships are as follows:

(i) PETRONAS, the ultimate holding company, and its subsidiaries.
(ii) Subsidiaries of the Company as disclosed in Note 7.

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31. RELATED PARTY DISCLOSURES (CONTD.)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Federal Government of Malaysia:				
Property licences and taxes	**(13,320)**	(13,552)	**(2)**	-
Goods and Services Tax	**(28,051)**	(59,763)	**99**	(103)
Government of Malaysia's related entities:				
Purchase of utilities	**(20,588)**	(20,523)	**-**	-
Hotel revenue	**6,801**	4,723	**-**	-
Ultimate Holding Company:				
Rental income	**536,399**	512,028	**-**	-
Facilities management and manpower fees	**27,537**	24,604	**-**	-
Rental of car park spaces	**(7,642)**	(8,065)	**-**	-
Fees for representation on the Board of Directors*	**(133)**	(90)	**(133)**	(90)
Hotel revenue	**2,379**	1,784	**-**	-
Centralised Head Office Services charges	**(1,707)**	(2,931)	**(505)**	(441)
Immediate Holding Company:				
General management services fee payables	**(1,498)**	(1,460)	**(635)**	(674)
General management services fee receivables	**3,704**	3,107	**3,704**	3,107
Subsidiaries:				
Reimbursement of security costs	**-**	-	**(79)**	(107)
General management services fee receivable	**-**	-	**7,986**	7,403
Profit income from Sukuk Murabahah	**-**	-	**4,090**	2,801
Other Related Companies:				
Facilities management and manpower fees	**22,361**	20,265	**-**	-
General management services fee receivable	**11,029**	10,507	**11,029**	10,507
Hotel revenue	**152**	182	**-**	-
Management and incentive fees	**2,537**	2,651	**-**	-
Chilled water supply	**(27,291)**	(28,777)	**-**	-
Project management fees	**(3,207)**	(3,293)	**-**	-
Rental of car park spaces	**(5,546)**	(6,543)	**-**	-

* Fees paid directly to PETRONAS in respect of the Directors who are the appointees of the ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

31. RELATED PARTY DISCLOSURES (CONTD.)

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

The Directors of the Company are of the opinion that the above transactions and transactions detailed elsewhere were undertaken at mutually agreed terms between the parties in the normal course of business and the terms and conditions are established under negotiated terms.

Information regarding outstanding balances arising from related party transactions as at 31 December 2018 are disclosed in Notes 12 and 19.

(c) Compensation of key management personnel

Directors

The remuneration of Directors is disclosed in Note 26.

Other key management personnel

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

32. FINANCIAL INSTRUMENTS

Financial Risk Management

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

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

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

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

Credit Risk

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

32. FINANCIAL INSTRUMENTS (CONTD.)

Credit Risk (Contd.)

Receivables

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

The maximum exposure to credit risk for the Group and the Company are represented by the carrying amount of each financial asset as reported in the statement of financial position.

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

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

With respect to the trade and other receivables which have no realistic prospect of recovery, the gross carrying amounts of the credit impaired receivables will be written off (either in partial or in full).

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

	Group	
	2018 RM'000	**2017 RM'000**
Property investment		
- Office	**877**	1,363
- Retail	**1,333**	2,263
Hotel operations	**7,423**	7,195
Management services	**365**	664
	9,998	11,485
Less: Allowance for impairment losses	**(770)**	(603)
	9,228	10,882

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

32. FINANCIAL INSTRUMENTS (CONTD.)

Credit Risk (Contd.)

Recognition and measurement of impairment loss

The adoption of MFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. In determining the ECL, the probability of default assigned to each customer is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information.

There are trade receivables where the Group has not recognised any loss allowance as the trade receivables are secured by collateral and/or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

	Group	
	2018 RM'000	**2017 RM'000**
The ageing of trade receivables as at the reporting date was:		
At net:		
Not past due	**7,342**	8,658
Past due 1 to 30 days	**930**	740
Past due 31 to 60 days	**394**	279
Past due 61 to 90 days	**175**	325
Past due more than 90 days	**1,157**	1,483
	9,998	11,485
Less: Allowance for impairment losses	**(770)**	(603)
	9,228	10,882
The movement in the allowance account is as follows:		
At 1 January	**603**	1,113
Adjustment on initial application of MFRS 9 (Note 3(i)(b))	**143**	-
Opening balance under MFRS 9	**746**	1,113
Allowance for impairment	**37**	214
Allowance written off	**(13)**	(724)
At 31 December	**770**	603

Comparative amounts for 2017 represent the allowance account for impairment losses under MFRS 139.

The Group does not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2018.

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32. FINANCIAL INSTRUMENTS (CONTD.)

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises from the requirement to raise funds for the Group's businesses on an ongoing basis as a result of the existing and future commitments which are not funded from internal resources. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. As far as possible, the Group raises committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

Maturity analysis

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

	Carrying amount RM'000	Effective interest rate %	Contractual cash flow* RM'000	Within 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
31 December 2018							
Group							
Financial Liabilities							
Sukuk Murabahah	**1,871,907**	**4.41 - 4.73**	**2,205,171**	**489,869**	**68,608**	**556,139**	**1,090,555**
Term loans	**372,807**	**4.73**	**477,410**	**27,929**	**24,459**	**71,099**	**353,923**
Trade and other payables	**214,362**	**-**	**214,362**	**214,362**	**-**	**-**	**-**
Other long term liabilities	**156,132**	**4.98**	**205,713**	**-**	**52,203**	**30,667**	**122,843**
Company							
Financial Liabilities							
Trade and other payables	**6,300**	**-**	**6,300**	**6,300**	**-**	**-**	**-**
31 December 2017							
Group							
Financial Liabilities							
Sukuk Murabahah	1,871,026	4.41 - 4.73	2,284,512	85,376	476,797	577,945	1,144,394
Term loans	380,051	4.44	494,828	25,973	24,728	69,166	374,961
Trade and other payables	268,346	-	268,346	268,346	-	-	-
Other long term liabilities	133,945	4.60	178,395	-	25,348	37,405	115,642
Company							
Financial Liabilities							
Trade and other payables	6,412	-	6,412	6,412	-	-	-

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

32. FINANCIAL INSTRUMENTS (CONTD.)

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk and commodity risk.

Financial instruments affected by market risk include loans and borrowings and deposits.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

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

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Fixed rate instruments				
Financial assets	**286,405**	303,821	**133**	-
Financial liabilities	**(1,871,907)**	(1,871,026)	**-**	-
Floating rate instruments				
Financial liabilities	**(372,807)**	(380,051)	**-**	-

32. FINANCIAL INSTRUMENTS (CONTD.)

Interest Rate Risk (Contd.)

Cash flow sensitivity analysis for floating rate instruments

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following interbank offered rates:

	Change in interest rate b.p.s.	Group Profit or loss RM'000
2018		
KLIBOR	**-40**	**1,483**
KLIBOR	**+40**	**(1,483)**
2017		
KLIBOR	-40	1,513
KLIBOR	+40	(1,513)

This analysis assumes that all other variables remain constant.

Foreign Currency Risk

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

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

Fair Values

The Group's and the Company's financial instruments consist of cash and bank balances, trade and other receivables, borrowings, and trade and other payables.

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

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

This analysis assumes that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

32. FINANCIAL INSTRUMENTS (CONTD.)

Fair Values (Contd.)

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

	Fair value of financial instruments not carried at fair value				Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000
Group					
2018					
Financial liabilities					
Sukuk Murabahah	**-**	**1,845,107**	**-**	**1,845,107**	**1,871,907**
Term loans	**-**	**365,025**	**-**	**365,025**	**372,807**
2017					
Financial liabilities					
Sukuk Murabahah	-	1,824,633	-	1,824,633	1,871,026
Term loans	-	369,951	-	369,951	380,051

For financial instruments listed above, fair values have been determined by discounting expected future cash flows at market incremental lending rate for similar types of borrowings at the reporting date. There has been no transfer between Level 1, 2 and 3 fair values during the financial year.

33. CAPITAL MANAGEMENT

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

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

The debt to equity ratio as at 31 December 2018 and 31 December 2017 is as follows:

	Group	
	2018	2017
Total debt (RM'000)	**2,244,714**	2,251,077
Total equity (excluding Other NCI) (RM'000)	**13,095,253**	13,028,492
Debt equity ratio	**17:83**	17:83

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

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34. SEGMENTAL INFORMATION

(a) Reporting Format

Segment information is presented in respect of the Group's business segments.

Inter-segment transactions have been entered into in the normal course of business and have been established on commercial basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans and borrowings and expenses, and corporate assets and expenses.

The Group comprises the following main business segments:

Property investment - Office	Rental of office spaces and other related activities.
Property investment - Retail	Rental of retail spaces and other related activities.
Hotel operations	Rental of hotel rooms, the sale of food and beverages and other related activities.
Management services	Facilities management, car park operations, management of a real estate investment trust and general management services.

Details on geographical segments are not applicable as the Group operates predominantly in Malaysia.

(b) Allocation Basis and Transfer Pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. Inter-segment transactions have been entered into in the normal course of business and have been established on commercial basis. These transfers are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS
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34. SEGMENTAL INFORMATION (CONTD.)

Business Segments

31 December 2018

	Property investment - Office RM'000	Property investment - Retail RM'000	Hotel operations RM'000	Management services RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue						
Revenue from external customers	595,762	491,010	172,375	146,794	-	1,405,941
Inter-segment revenue	1,372	12,275	-	60,311	(73,958)	-
Total revenue	597,134	503,285	172,375	207,105	(73,958)	1,405,941
Results						
Operating profit	525,855	408,072	16,592	75,191	(14,819)	1,010,891
Fair value adjustment on investment properties	13,819	1,745	-	4,486	-	20,050
Financing costs						(107,710)
Interest income						27,574
Share of profit of an associate						13,288
Tax expense						(125,173)
Profit after tax but before non-controlling interests						838,920
Segment assets	10,240,824	6,214,550	690,893	84,969	376,120	17,607,356
Investment in an associate	-	-	-	99,195	153,778	252,973
Total assets						17,860,329
Total liabilities	1,567,324	812,240	430,827	40,276	(115,427)	2,735,240
Capital expenditure	10,868	17,970	39,669	3,642	-	72,149
Depreciation	792	2,170	29,457	5,654	-	38,073
Non-cash items other than depreciation	-	65	148	-	-	213

34. SEGMENTAL INFORMATION (CONTD.)

Business Segments

31 December 2017

	Property investment - Office RM'000	Property investment - Retail RM'000	Hotel operations RM'000	Management services RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue						
Revenue from external customers	591,011	475,950	167,200	132,590	-	1,366,751
Inter-segment revenue	828	12,494	-	60,168	(73,490)	-
Total revenue	591,839	488,444	167,200	192,758	(73,490)	1,366,751
Results						
Operating profit	522,994	397,894	19,824	74,229	(15,192)	999,749
Fair value adjustment on investment properties	103,106	70,177	-	9,200	-	182,483
Financing costs						(110,963)
Interest income						30,597
Share of profit of an associate						13,465
Tax expense						(101,766)
Profit after tax but before non-controlling interests						1,013,565
Segment assets	10,204,534	6,170,352	705,821	71,333	384,081	17,536,121
Investment in an associate	-	-	-	99,195	157,246	256,441
Total assets						17,792,562
Total liabilities	1,589,079	796,435	445,704	36,750	(122,262)	2,745,706
Capital expenditure	18,236	15,180	54,296	7,559	-	95,271
Depreciation	622	2,588	23,172	6,770	-	33,152
Non-cash items other than depreciation	-	220	358	1	-	579

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

35. PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and/or the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2019

MFRS 16	Leases
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Long-term Interest in Associates and Joint Ventures
Amendments to MFRS 119	Employee Benefits: Plan Amendment, Curtailment or Settlement
IC Interpretation 23	Uncertainty over Income Tax Treatments

The adoption of MFRS 16 is expected to have following impact on initial application:

(i) Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases. Nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Currently, the Group recognises operating lease on a straight-line basis over the term of the lease.

The Group and the Company have assessed the estimated impact and the initial application of MFRS 16 will not have a material impact on its opening retained earnings and its statements of financial position as at 1 January 2019.

(ii) Leases in which the Group is a lessor

The Group expects the current accounting treatment to remain. Based on the information currently available, there are no contracts that are or contain a lease in which the Group expects to reclassify as a finance lease.

Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 3	Business Combinations (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 6	Exploration for and Evaluation of Mineral Resources (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 101	Presentation of Financial Statements (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to References to the Conceptual Framework in MFRS Standards)

35. PRONOUNCEMENTS YET IN EFFECT (CONTD.)

Effective for annual periods beginning on or after 1 January 2020 (Contd.)

Amendments to MFRS 134	Interim Financial Reporting (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 138	Intangible Assets (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 22	Foreign Currency Transactions and Advance Consideration (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 132	Intangible Assets - Web Site Costs (Amendments to References to the Conceptual Framework in MFRS Standards)

Effective for annual periods beginning on or after 1 January 2021

MFRS 17	Insurance Contracts

Effective for a date yet to be confirmed

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

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

The adoption of the amendments to MFRS 128, amendments to MFRS 119 and IC Interpretation 23 does not impact the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

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

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

Effective for annual periods beginning on or after 1 January 2019

Amendments to MFRS 3	Business Combinations: Previously Held Interest in a Joint Operation (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 9	Financial Instruments: Prepayment Features with Negative Compensation
Amendments to MFRS 11	Joint Arrangements: Previously Held Interest in a Joint Operation (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 112	Income Taxes: Income Tax Consequences of Payments on Financial Instruments Classified as Equity (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 123	Borrowing Costs: Borrowing Costs Eligible for Capitalisation (Annual Improvements to MFRS 2015-2017 Cycle)

Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 2	Share-based Payment (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 14	Regulatory Deferral Accounts (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to IC Interpretation 12	Service Concession Arrangements (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine (Amendments to References to the Conceptual Framework in MFRS Standards)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD (INCORPORATED IN MALAYSIA)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of KLCC Property Holdings Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 215 to 284.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Company. The key audit matters for the audit of the financial statements of the Group are described below. These matters were addressed in the context of our audit of the financial statements of the Group as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Valuation of investment properties

As at 31 December 2018, the carrying value of the Group's investment properties carried at fair value amounted to RM15,501,293,000 which represents 87% of the Group's total assets. The Group adopts the fair value model for its investment properties. The valuation of investment properties is significant to our audit due to their magnitude, complex valuation method and high dependency on a range of estimates (amongst others, rental income data, yield rate and discount rate) which are based on current and future market or economic conditions. The Group had engaged external valuers to determine the fair value of the investment properties at the reporting date.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD (INCORPORATED IN MALAYSIA)

Key audit matters (Contd.)

Valuation of investment properties (Contd.)

Our audit procedures focused on the valuations performed by firms of independent valuers, which included, amongst others, the following procedures:

- We considered the objectivity, independence and expertise of the firms of independent valuers;
- We obtained an understanding of the methodology adopted by the independent valuers in estimating the fair value of the investment properties and assessed whether such methodology is consistent with those used in the industry;
- We had discussions with the independent valuers to obtain an understanding of the property related data used as input to the valuation models which included, amongst others, rental income data and yield rate;
- We tested the accuracy of rental income data applied in the valuation by comparing them with lease agreements and challenged the yield rate by comparing them with available industry data, taking into consideration comparability and market factors. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and held further discussions with the valuers;
- We assessed whether the discount rate used to determine the present value of the cash flows reflects the estimated market rate of return for comparable assets with similiar profile; and
- We also evaluated the Group's disclosures on those assumptions to which the outcome of the valuation is most sensitive. The Group's disclosures on the valuation sensitivity and significant assumptions used, including relationships between key unobservable inputs and fair values, are included in Notes 4.2 and 6 to the financial statements respectively.

For investment properties under construction ("IPUC"), the Group's policy is to measure them at cost until their fair value can be reliably determined or construction is completed, whichever is earlier, as disclosed in Note 2.7 to the financial statements. As at 31 December 2018, the IPUC carried at cost by the Group amounted to RM213,641,000. Our audit procedures included, amongst others, assessing the appropriateness of amounts capitalised as IPUC.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with MFRS, IFRS and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KLCC PROPERTY HOLDINGS BERHAD (INCORPORATED IN MALAYSIA)

Auditors' responsibilities for the audit of the financial statements (Contd.)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Ismed Darwis bin Bahatiar
No. 2921/04/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
24 January 2019

KLCC REAL ESTATE
INVESTMENT TRUST

FINANCIAL STATEMENTS

MANAGER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The Manager of KLCC Real Estate Investment Trust ("KLCC REIT" or "the Fund"), KLCC REIT Management Sdn Bhd ("the Manager"), has pleasure in submitting their report and the audited financial statements of the Group and of the Fund for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

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

CORPORATE INFORMATION

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

RESULTS

	Group RM'000	Fund RM'000
Profit for the year	440,661	440,667

DISTRIBUTION OF INCOME

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

	RM'000
In respect of the financial year ended 31 December 2017	
Fourth interim income distribution of 5.05% on 1,805,333,083 units, paid on 28 February 2018	91,169
In respect of the financial year ended 31 December 2018:	
First interim income distribution of 5.72% on 1,805,333,083 units, paid on 29 June 2018	103,265
Second interim income distribution of 5.65% on 1,805,333,083 units, paid on 28 September 2018	102,001
Third interim income distribution of 5.71% on 1,805,333,083 units, paid on 28 December 2018	103,085
	399,520

A fourth interim income distribution in respect of the financial year ended 31 December 2018, of 6.27% on 1,805,333,083 units amounting to an income distribution payable of RM113,194,000 will be payable on 28 February 2019.

The financial statements for the current year do not reflect this fourth interim income distribution. Such income distribution will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2019.

MANAGER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

RESERVES AND PROVISIONS

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

DIRECTORS

The Directors who have served on the Board of the Manager during the financial year and up to the date of this report are:

Datuk Hashim Bin Wahir	
Datuk Ishak Bin Imam Abas	
Datuk Pragasa Moorthi A/L Krishnasamy	
Dato' Halipah Binti Esa	
Habibah Binti Abdul	
Datuk Ahmad Nizam Bin Salleh	(appointed w.e.f. on 21 December 2018)
Tengku Muhammad Taufik Bin Tengku Aziz	(appointed w.e.f. on 1 December 2018)
Farina Binti Farikhullah Khan	(appointed w.e.f. on 23 April 2018)
Datuk Manharlal A/L Ratilal	(resigned w.e.f. on 26 October 2018)
Tan Sri Mohd Sidek Bin Hassan	(resigned w.e.f. on 16 July 2018)
Augustus Ralph Marshall	(resigned w.e.f. on 12 April 2018)

DIRECTORS OF MANAGER'S INTERESTS

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

	Number of Shares in Petronas Chemicals Group Berhad			
	Balance as at 1.1.2018/date of appointment	← Number of Shares → Bought	Sold	Balance as at 31.12.2018
Direct				
Dato' Halipah Binti Esa	**10,000**	-	-	**10,000**
Datuk Hashim Bin Wahir	**16,000**	-	-	**16,000**
Datuk Ahmad Nizam Bin Salleh	**10,000**	-	-	**10,000**
Indirect				
Dato' Halipah Binti Esa#	**13,100**	-	-	**13,100**

	Number of Shares in Petronas Gas Berhad			
	Balance as at date of appointment	← Number of Shares → Bought	Sold	Balance as at 31.12.2018
Direct				
Datuk Ahmad Nizam Bin Salleh	**2,000**	-	-	**2,000**

MANAGER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS OF MANAGER'S INTERESTS (CONTD.)

	Number of Shares in MISC Berhad			
	Balance as at 1.1.2018	Number of Shares Bought	Number of Shares Sold	Balance as at 31.12.2018
Indirect				
Dato' Halipah Binti Esa#	10,000	-	-	10,000

	Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad			
	Balance as at 1.1.2018	Number of Shares Bought	Number of Shares Sold	Balance as at 31.12.2018
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 2018 had any interest in the units of the Fund and of its related companies during the financial year.

DIRECTORS OF MANAGER'S BENEFITS

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

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

SOFT COMMISSION

There was no soft commission received by the Manager during the financial year from any broker or dealer by virtue of transactions conducted for the Fund.

MANAGER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

ULTIMATE HOLDING COMPANY

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

ISSUE OF UNITS

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

OPTIONS GRANTED OVER UNISSUED UNITS

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

OTHER STATUTORY INFORMATION

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

(i) proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts; and

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

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

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

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

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

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

MANAGER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

OTHER STATUTORY INFORMATION (CONTD.)

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

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

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

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

In the opinion of the Manager, the results of the operations of the Group and of the Fund for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

Auditors' remuneration is as follows:

	Group RM'000	Fund RM'000
Audit fees	89	84

Signed on behalf of the Board of the Manager in accordance with a resolution of the Directors of the Manager dated 24 January 2019.

Datuk Ahmad Nizam Bin Salleh

Datuk Hashim Bin Wahir

STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 319 to 371 are drawn up in accordance with the provision of the Trust Deed dated 2 April 2013, the Securities Commission's Guidelines on Real Estate Investment Trusts in Malaysia, Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2018 and of the results of their financial performance and cash flows for the year ended 31 December 2018.

For and on behalf of the Manager,
KLCC REIT MANAGEMENT SDN BHD

Signed on behalf of the Board of the Manager in accordance with a resolution of the directors of the Manager dated 24 January 2019.

Datuk Ahmad Nizam Bin Salleh

Datuk Hashim Bin Wahir

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

I, Annuar Marzuki Bin Abdul Aziz, the Officer of the Manager primarily responsible for the financial management of KLCC Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 319 to 371 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Annuar Marzuki Bin Abdul Aziz
in Kuala Lumpur, Wilayah Persekutuan
on 24 January 2019.

Annuar Marzuki Bin Abdul Aziz
(MIA Membership No. 11345)

BEFORE ME:

Commissioner for Oaths

TRUSTEE'S REPORT

To the unitholders of KLCC REIT

We have acted as Trustee of KLCC Real Estate Investment Trust ("KLCC REIT") for the financial year ended 31 December 2018. To the best of our knowledge, KLCC REIT Management Sdn Bhd ("the Manager") has managed KLCC REIT in the financial year under review in accordance to the following:

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

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

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

(i) First interim income distribution of 5.72 sen per unit distributed on 29 June 2018;
(ii) Second interim income distribution of 5.65 sen per unit distributed on 28 September 2018;
(iii) Third interim income distribution of 5.71 sen per unit distributed on 28 December 2018;
(iv) Fourth interim income distribution of 6.27 sen per unit for year ended 31 December 2018 declared and will be payable on 28 February 2019.

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

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

BERNICE K M LAU
Head, Operations

Kuala Lumpur, Malaysia

SHARIAH ADVISER'S REPORT

To the unitholders of KLCC REIT

We have acted as the Shariah Adviser of KLCC REIT. Our responsibility is to ensure that the procedures and processes employed by KLCC REIT Management Sdn Bhd and that the provisions of the Trust Deed are in accordance with Shariah principles.

In our opinion, KLCC REIT Management Sdn Bhd has managed and administered KLCC REIT in accordance with Shariah principles and complied with applicable guidelines, rulings and decisions issued by the Securities Commission pertaining to Shariah matters for the financial year ended 31 December 2018.

In addition, we also confirm that the investment portfolio of KLCC REIT:

(a) Comprises investment properties and rental income which complied with the Securities Commission Guidelines for Islamic Real Estate Investment Trust. The percentage ratio of Shariah Non-Compliant Rental for the financial year ended 31 December 2018 is 1.14%;

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

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

(d) There is no acquisition of real estate during the financial year.

For and on behalf of the Shariah Adviser
CIMB Islamic Bank Berhad

ASHRAF GOMMA ALI
Director/Regional Head, Shariah & Governance Department/Designated Person Responsible
for Shariah Advisory

Kuala Lumpur, Malaysia

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Fund 2018 RM'000	Fund 2017 RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	5	**2,385**	1,262	**2,385**	1,262
Investment properties	6	**9,190,831**	9,176,045	**9,190,831**	9,176,045
Trade and other receivables	8	**408,069**	379,654	**408,069**	379,654
Investment in subsidiary	7	**-**	-	*****	*
		9,601,285	9,556,961	**9,601,285**	9,556,961
Current Assets					
Trade and other receivables	8	**5,253**	6,867	**5,253**	6,867
Cash and bank balances	9	**56,816**	67,891	**56,703**	67,794
		62,069	74,758	**61,956**	74,661
TOTAL ASSETS		**9,663,354**	9,631,719	**9,663,241**	9,631,622
TOTAL UNITHOLDERS' FUND AND LIABILITIES					
Unitholders' Fund					
Unitholders' capital	10	**7,212,684**	7,212,684	**7,212,684**	7,212,684
Merger reserve	2.18	**6,212**	6,212	**6,212**	6,212
Capital reserve	2.17	**413,127**	422,828	**413,127**	422,828
Retained profits		**459,379**	408,540	**459,416**	408,571
Total Unitholders' Fund		**8,091,402**	8,050,264	**8,091,439**	8,050,295
Non-Current Liabilities					
Other long term liabilities	11	**93,777**	85,074	**93,777**	85,074
Amount due to a subsidiary	12	**-**	-	**855,000**	1,355,000
Financing	13	**855,000**	1,355,000	**-**	-
Deferred tax liability	14	**21,743**	-	**21,743**	-
Other payable	15	**40,001**	41,094	**40,001**	41,094
		1,010,521	1,481,168	**1,010,521**	1,481,168

* Represents RM2 in Midciti Sukuk Berhad

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

		Group		Fund	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current Liabilities					
Other payables	15	**44,524**	84,261	**44,453**	83,439
Amount due to a subsidiary	12	**-**	-	**516,828**	16,720
Financing	13	**516,907**	16,026	**-**	-
		561,431	100,287	**561,281**	100,159
Total Liabilities		**1,571,952**	1,581,455	**1,571,802**	1,581,327
TOTAL UNITHOLDERS' FUND AND LIABILITIES		**9,663,354**	9,631,719	**9,663,241**	9,631,622
Number of units in circulation ('000 units)		**1,805,333**	1,805,333	**1,805,333**	1,805,333
Net asset value ("NAV")					
- before income distribution		**8,091,402**	8,050,264	**8,091,439**	8,050,295
- after income distribution		**7,978,208**	7,959,095	**7,978,245**	7,959,126
NAV per unit (RM)					
- before income distribution		**4.48**	4.46	**4.48**	4.46
- after income distribution		**4.42**	4.41	**4.42**	4.41

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Fund 2018 RM'000	Fund 2017 RM'000
Revenue	16	**588,523**	585,469	**588,523**	585,469
Property operating expenses	17	**(30,115)**	(30,019)	**(30,109)**	(30,022)
Net property income		**558,408**	555,450	**558,414**	555,447
Fair value adjustment of investment properties	6	**12,042**	81,496	**12,042**	81,496
Profit income		**3,195**	4,733	**3,195**	4,733
		573,645	641,679	**573,651**	641,676
Management fees	18	**(45,572)**	(45,355)	**(45,572)**	(45,355)
Trustee's fees	19	**(600)**	(600)	**(600)**	(600)
Financing costs	20	**(65,069)**	(68,080)	**(65,069)**	(68,080)
Profit before tax	21	**462,404**	527,644	**462,410**	527,641
Tax expense	22	**(21,743)**	-	**(21,743)**	-
PROFIT FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME		**440,661**	527,644	**440,667**	527,641
Basic earnings per unit (sen)	23	**24.41**	29.22	**24.41**	29.22

SEC 01 SEC 02 SEC 03 SEC 04 SEC 05 SEC 06 SEC 07

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Fund	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Income Distribution				
Total comprehensive income for the financial year	**440,661**	527,644	**440,667**	527,641
Add/(less) Non cash items:				
Accrued rental income	**(28,413)**	(48,999)	**(28,413)**	(48,999)
Amortisation of deferred rental income	**(4,522)**	(4,832)	**(4,522)**	(4,832)
Amortisation of premium for Sukuk Murabahah	**130**	696	**130**	696
Deferred tax liabilities	**21,743**	-	**21,743**	-
Depreciation	**293**	108	**293**	108
Allowance for impairment losses	**69**	-	**69**	-
Accretion of financial instruments	**4,009**	4,056	**4,009**	4,056
Fair value adjustment of investment properties	**(12,042)**	(81,496)	**(12,042)**	(81,496)
	(18,733)	(130,467)	**(18,733)**	(130,467)
Total income available for distribution	**421,928**	397,177	**421,934**	397,174
Distribution to unitholders in respect of financial year 2018:				
1st interim income distribution of 5.72% (2017: 5.50%) on 1,805,333,083 units	**(103,265)**	(99,293)	**(103,265)**	(99,293)
2nd interim income distribution of 5.65% (2017: 5.44%) on 1,805,333,083 units	**(102,001)**	(98,210)	**(102,001)**	(98,210)
3rd interim income distribution of 5.71% (2017: 4.96%) on 1,805,333,083 units	**(103,085)**	(89,545)	**(103,085)**	(89,545)
4th interim income distribution of 6.27% (2017: 5.05%) on 1,805,333,083 units	**(113,194)**	(91,169)	**(113,194)**	(91,169)
Balance undistributed	**383**	18,960	**389**	18,957

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE YEAR ENDED 31 DECEMBER 2018

	Non-Distributable		← Distributable →		
	Unitholders' Capital RM'000	Merger Reserve RM'000	Capital Reserve RM'000	Retained Profits RM'000	Total Funds RM'000
As at 1 January 2018	**7,212,684**	**6,212**	**422,828**	**408,540**	**8,050,264**
Effect of the adoption of new pronouncement	**-**	**-**	**-**	**(3)**	**(3)**
As at 1 January 2018, restated	**7,212,684**	**6,212**	**422,828**	**408,537**	**8,050,261**
Total comprehensive income for the year	**-**	**-**	**-**	**440,661**	**440,661**
Transfer of fair value surplus	**-**	**-**	**(9,701)**	**9,701**	**-**
Income distributions (Note 24)	**-**	**-**	**-**	**(399,520)**	**(399,520)**
Net total comprehensive income for the year attributable to unitholders	**-**	**-**	**(9,701)**	**50,842**	**41,141**
As at 31 December 2018	**7,212,684**	**6,212**	**413,127**	**459,379**	**8,091,402**
As at 1 January 2017	7,212,684	6,212	341,332	351,983	7,912,211
Total comprehensive income for the year	-	-	-	527,644	527,644
Transfer of fair value surplus	-	-	81,496	(81,496)	-
Income distributions (Note 24)	-	-	-	(389,591)	(389,591)
Net total comprehensive income for the year attributable to unitholders	-	-	81,496	56,557	138,053
As at 31 December 2017	7,212,684	6,212	422,828	408,540	8,050,264

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 YEAR ENDED 31 DECEMBER 2018

	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 2018	**7,212,684**	**6,212**	**422,828**	**408,571**	**8,050,295**
Effect of the adoption of new pronouncement	**-**	**-**	**-**	**(3)**	**(3)**
As at 1 January 2018, restated	**7,212,684**	**6,212**	**422,828**	**408,568**	**8,050,292**
Total comprehensive income for the year	**-**	**-**	**-**	**440,667**	**440,667**
Transfer of fair value surplus	**-**	**-**	**(9,701)**	**9,701**	**-**
Income distributions (Note 24)	**-**	**-**	**-**	**(399,520)**	**(399,520)**
Net total comprehensive income for the year attributable to unitholders	**-**	**-**	**(9,701)**	**50,848**	**41,147**
As at 31 December 2018	**7,212,684**	**6,212**	**413,127**	**459,416**	**8,091,439**
As at 1 January 2017	7,212,684	6,212	341,332	352,017	7,912,245
Total comprehensive income for the year	-	-	-	527,641	527,641
Transfer of fair value surplus	-	-	81,496	(81,496)	-
Income distributions (Note 24)	-	-	-	(389,591)	(389,591)
Net total comprehensive income for the year attributable to unitholders	-	-	81,496	56,554	138,050
As at 31 December 2017	7,212,684	6,212	422,828	408,571	8,050,295

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	**462,404**	527,644	**462,410**	527,641
Adjustments for:				
Profit income	**(3,195)**	(4,733)	**(3,195)**	(4,733)
Financing costs	**65,069**	68,080	**65,069**	68,080
Accrued rental income	**(29,937)**	(48,480)	**(29,937)**	(48,480)
Depreciation of property, plant and equipment	**293**	108	**293**	108
Allowance for impairment losses	**69**	-	**69**	-
Fair value adjustments on investment properties	**(12,042)**	(81,496)	**(12,042)**	(81,496)
Operating cash flows before changes in working capital	**482,661**	461,123	**482,667**	461,120
Changes in working capital:				
Trade and other receivables	**1,532**	(3,111)	**1,532**	(3,111)
Trade and other payables	**(34,770)**	6,009	**(34,792)**	6,101
Cash generated from operations	**449,423**	464,021	**449,407**	464,110
Profit income received	**3,205**	5,108	**3,205**	5,108
Net cash generated from operating activities	**452,628**	469,129	**452,612**	469,218

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions for investment property (Note 6)	**(2,744)**	(2,205)	**(2,744)**	(2,205)
Purchase of property, plant and equipment (Note 5)	**(1,416)**	(1,061)	**(1,416)**	(1,061)
Net cash used in investing activities	**(4,160)**	(3,266)	**(4,160)**	(3,266)
CASH FLOWS FROM FINANCING ACTIVITIES				
Income distributions paid	**(399,364)**	(388,158)	**(399,364)**	(388,158)
Financing cost paid	**(60,179)**	(65,476)	**(60,179)**	(65,476)
Proceeds from issuance of Islamic Medium Term Note ("IMTN")	**-**	100,000	**-**	100,000
Repayment of IMTN	**-**	(300,000)	**-**	(300,000)
Net cash used in financing activities	**(459,543)**	(653,634)	**(459,543)**	(653,634)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(11,075)**	(187,771)	**(11,091)**	(187,682)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**67,891**	255,662	**67,794**	255,476
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 9)	**56,816**	67,891	**56,703**	67,794

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

1. CORPORATE INFORMATION

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

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

The immediate, penultimate and ultimate holding companies are KLCC Property Holdings Berhad ("KLCCP"), KLCC (Holdings) Sdn Bhd ("KLCCH") and 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 of the Manager in accordance with a resolution of the Directors of the Manager on 24 January 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs"), applicable provisions of the Deed and the Securities Commission's Guidelines on Real Estate Investment Trusts in Malaysia. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

The financial statements of the Group and of the Fund have also been prepared on a historical cost basis, except for investment properties and applicable financial instruments that have been measured at their fair values.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Basis of consolidation

Subsidiary

Subsidiary is an entity controlled by the Fund. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Business combination

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

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

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

All intercompany transactions are eliminated on consolidation and revenue and profits relate to external transactions only. Unrealised losses resulting from intercompany transactions are also eliminated unless cost cannot be recovered.

2.3 Business combination under common control

KLCC REIT applies merger accounting to account for business combinations under common control. Under the merger accounting, assets and liabilities acquired are not restated to their respective fair values but at their carrying amounts in the consolidated financial statements of the holding company. The difference between any consideration given and the aggregate carrying amounts of the assets and liabilities (at the date of the transaction) of the acquired business is recorded as merger reserve. No additional goodwill is recognised. The acquired business' results and the related assets and liabilities are recognised prospectively from the date on which the business combination between entities under common control occurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated on a straight line basis over the estimated useful life of the related assets.

Costs are expenditure that are directly attributable to the acquisition of the asset. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

The estimated useful life for the current year is as follows:

Building improvements	5 to 6 years
Office equipment	5 years

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

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

2.5 Investment

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

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.6 Investment properties

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

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

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

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

2.7 Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Fund makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

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

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

2.8 Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Fund become a party to the contractual provisions of the instrument.

(i) Recognition and initial measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Fund's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Fund have applied the practical expedient, the Group and the Fund initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or if the period between performance and payment is 1 year or less under practical expedient of MFRS 15, are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place ("regular way trades") are recognised on the trade date, that is the date that the Group or the Fund commits to purchase or sell the asset.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial assets (Contd.)

(ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

(a) Financial assets at amortised cost (debt instruments)

(b) Financial assets at fair value through OCI (debt instruments)

(c) Financial assets at fair value through profit or loss

Financial assets at amortised cost

This category is the most relevant to the Group and the Fund. The Group and the Fund measure financial assets at amortised cost if both of the following conditions are met:

i. The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

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

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

(iii) Derecognition

A financial asset is derecognised when:

(a) The rights to receive cash flows from the asset have expired, or

(b) The Group and the Fund have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

i. The Group and the Fund have transferred substantially all the risks and rewards of the asset, or

ii. The Group and the Fund have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial Assets (Contd.)

(iii) Derecognition (Contd.)

When the Group and the Fund have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Fund continue to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group and the Fund also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Fund have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Fund would required to repay.

2.10 Impairment of Financial Assets

The Group and the Fund recognise an allowance for expected credit losses ("ECLs") for all debt instruments carried at amortised cost and fair value through OCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Fund expect to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

The Group and the Fund consider a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group and the Fund may also consider a financial asset to be in default when internal or external information indicates that the Group and the Fund are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Fund. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.11 Provisions

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

2.12 Financial Liabilities

(i) Recognition and initial measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

(ii) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group and the Fund that are not designated as hedging instruments in hedge relationships as defined by MFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gain or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group and the Fund have not designated any financial liability as at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.12 Financial Liabilities (Contd.)

(ii) Subsequent measurement (Contd.)

Loans and borrowings

This is the category most relevant to the Group and the Fund. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

2.13 Offsetting of financial instruments

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

2.14 Financing costs

Financing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other financing costs are charged to the profit or loss as an expense in the year in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.15 Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

Deferred tax provided for the investment properties is at 5% which reflects the expected manner of recovery of the investment properties.

2.16 Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Fund after deducting all of its liabilities. Units are classified as equity. Dividends on units are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

2.17 Capital reserve

Fair value adjustments on investment property are transferred from retained profits to capital reserve and such surplus will be considered distributable upon the sale of investment property.

SEC 01 SEC 02 SEC 03 SEC 04 SEC 05 SEC 06 SEC 07

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.18 Merger reserve

KLCC REIT adopts merger accounting as its accounting policy to account for business combination under common control. In accordance with its policy, the difference between the fair value of the units issued as consideration and the aggregate carrying amount of assets and liabilities acquired as of the date of business combination is included in equity as merger reserve.

2.19 Revenue recognition

(i) Rental income

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

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

(ii) Others

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group or the Fund recognise revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.

Profit income

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.20 Leases

Operating leases - the Fund as lessor

Assets leased out under operating leases are presented on the statement of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

2.21 Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

2.22 Fair value measurement

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

(i) Financial instruments

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

(ii) Non-financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.22 Fair value measurement (Contd.)

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

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

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

3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2018, the Group and the Fund have adopted the following pronouncements that are applicable and have been issued by the Malaysian Accounting Standards Board ("MASB") as listed below:

Effective for annual periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 15	Revenue from Contracts with Customers: Clarifications
Amendments to MFRS 140	Investment Property: Transfers to Investment Property

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3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTD.)

Effective for annual periods beginning on or after 1 January 2018 (Contd.)

The principal changes in accounting policies and their effects are set out below:

(i) MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group and the Fund applied MFRS 9 retrospectively, with an initial application date of 1 January 2018. Under the transitional provisions of MFRS 9, the Group and the Fund have elected not to restate the comparative information, which continues to be reported under MFRS 139. Differences arising from the adoption of MFRS 9 have been recognised in opening retained earnings.

(a) Classification and measurement

Under MFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's and the Fund's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's and the Fund's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments solely consist of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of MFRS 9 did not have a significant impact to the Group and the Fund. The following are the changes in the classification of the Group's and the Fund's financial assets:

Trade receivables and other financial assets

Trade receivables and other financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortised cost.

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3. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTD.)

Effective for annual periods beginning on or after 1 January 2018 (Contd.)

(i) MFRS 9 Financial Instruments (Contd.)

(b) Impairment

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (“ECL”) model. Under MFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

Upon adoption of MFRS 9, the Group had recognised additional impairment on the Group’s trade receivables which resulted in a decrease in retained profits of RM3,000 as at 1 January 2018. The impact to the Group’s impairment allowances is as below:

	Allowance for impairment under MFRS 139 as at 31.12.2017 RM’000	Additional allowance RM’000	ECL under MFRS 9 as at 1.1.2018 RM’000
Allowance for impairment losses (Note 29)	-	(3)	**(3)**

(ii) MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfers of Assets from Customers and IC Interpretation 131, Revenue – Barter Transactions Involving Advertising Services. MFRS 15 provides a single model of accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The Group adopted MFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date.

The adoption of the MFRS 15 does not have any impact to the financial statements of the Group and the Fund.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical judgement made in applying accounting policies

There are no critical judgements made by management in the process of applying the Group’s and the Fund’s accounting policies that have a significant effect on the amounts recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)

4.2 Key sources of estimation uncertainty

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

Fair valuation of investment properties

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

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

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

	Fair value Increase/(decrease)	
	2018 RM'000	**2017 RM'000**
Yield rate		
- 0.25%	**259,557**	250,040
+ 0.25%	**(239,735)**	(229,326)
Discount rate		
- 0.25%	**133,206**	142,401
+ 0.25%	**(129,688)**	(136,676)

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

5. PROPERTY, PLANT AND EQUIPMENT

	Group/Fund			
	Building Improvements RM'000	Office Equipment RM'000	Work-in Progress RM'000	Total RM'000
At 31 December 2018				
Cost				
At 1 January 2018	**930**	**51**	**552**	**1,533**
Additions	**456**	**2**	**958**	**1,416**
Transfer	**552**	**-**	**(552)**	**-**
At 31 December 2018	**1,938**	**53**	**958**	**2,949**
Accumulated Depreciation				
At 1 January 2018	**233**	**38**	**-**	**271**
Charge for the year (Note 21)	**283**	**10**	**-**	**293**
At 31 December 2018	**516**	**48**	**-**	**564**
Net Carrying Amount	**1,422**	**5**	**958**	**2,385**
At 31 December 2017				
Cost				
At 1 January 2017	422	50	-	472
Additions	508	1	552	1,061
At 31 December 2017	930	51	552	1,533
Accumulated Depreciation				
At 1 January 2017	135	28	-	163
Charge for the year (Note 21)	98	10	-	108
At 31 December 2017	233	38	-	271
Net Carrying Amount	697	13	552	1,262

NOTES TO THE FINANCIAL STATEMENTS
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6. INVESTMENT PROPERTIES

	Group/Fund	
	2018 RM'000	**2017 RM'000**
At 1 January	**9,176,045**	9,092,344
Fair value adjustments	**12,042**	81,496
Additions during the year	**2,744**	2,205
At 31 December	**9,190,831**	9,176,045

The investment properties are stated at fair value, which have been determined based on valuations performed by an independent professional valuer. The valuation method used in determining the valuations is the investment method.

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

	Group/Fund	
	2018 RM'000	**2017 RM'000**
Rental income	**588,523**	585,469
Direct operating expenses	**(27,677)**	(28,005)
	560,846	557,464

Policy on transfer between levels

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

Level 1 fair value

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

Level 2 fair value

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

Level 3 fair value

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

Transfer between Level 1, 2 and 3 fair values

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

Fair value of investment properties is classified as Level 3.

6. INVESTMENT PROPERTIES (CONTD.)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique	Significant unobservable inputs	Range 2018	Range 2017	Inter-relationship between significant unobservable inputs and fair value measurement
Investment method (refer below)	**Office:**			The estimated fair value would increase/ (decrease) if:
	Market rental rate (RM/psf/month)			
	- Term	**8.50 - 10.88**	8.50 - 9.95	- expected market rental growth was higher/(lower)
	- Reversion	**9.00 - 12.71**	9.00 - 13.80	- expected market rental growth was higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	**2.00**	2.00	- expected inflation rate was lower/(higher)
	- Reversion	**2.00 - 2.40**	2.00	- expected inflation rate was lower/(higher)
	Void rate (%)	**5.00**	5.00	- void rate was lower/(higher)
	Term yield (%)	**5.50 - 6.00**	5.50 - 6.00	- term yield rate was lower/(higher)
	Reversionary yield (%)	**6.00 - 6.50**	6.00 - 6.50	- reversionary yield was lower/(higher)
	Discount rate (%)	**5.50 - 6.50**	6.50	- discount rate is lower/(higher)
	Retail:			The estimated fair value would increase/ (decrease) if:
	Market rental rate (RM/psf/month)			
	- Term	**6.50 - 99.23**	9.60 - 94.50	- expected market rental growth was higher/(lower)
	- Reversion	**16.51 - 115.66**	25.00	- expected market rental growth was higher/(lower)
	Outgoings (RM/psf/month)			
	- Term	**5.78**	5.65	- expected inflation rate was lower/(higher)
	- Reversion	**5.78**	6.23	- expected inflation rate was lower/(higher)
	Void rate (%)	**7.00**	10.00	- void rate was lower/(higher)
	Term yield (%)	**6.25**	6.50	- term yield rate was lower/(higher)
	Reversionary yield (%)	**6.75**	7.00	- reversionary yield was lower/(higher)
	Discount rate (%)	**6.25 - 6.75**	6.50	- discount rate is lower/(higher)

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

Valuation processes applied by the Group and the Fund for Level 3 fair value

The fair value of investment properties is determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The independent professional valuer provides the fair value of the Group's and of the Fund's investment properties portfolio annually. Changes in Level 3 fair values are analysed by the Management annually based on the valuation reports from the independent professional valuer.

NOTES TO THE FINANCIAL STATEMENTS
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6. INVESTMENT PROPERTIES (CONTD.)

Description of property	Tenure of land	Existing use	Location	Date of acquisition	Acquisition cost RM'000	Carrying value as at 31.12.2018 RM'000	Carrying value as at 31.12.2017 RM'000	Fair value as at 31.12.2018 RM'000	Fair value as at 31.12.2017 RM'000	Percentage of Net Asset Value as at 31.12.2018 %	Percentage of Net Asset Value as at 31.12.2017 %
PETRONAS Twin Towers	Freehold	Office	Kuala Lumpur	10.04.2013	6,500,000	**6,679,919**	6,672,752	**7,010,000**	6,973,000	**86.6**	86.6
Menara 3 PETRONAS	Freehold	Office & retail	Kuala Lumpur	10.04.2013	1,790,000	**1,975,605**	1,972,100	**2,052,200**	2,049,000	**25.4**	25.5
Menara ExxonMobil	Freehold	Office	Kuala Lumpur	10.04.2013	450,000	**535,307**	531,193	**536,700**	533,700	**6.6**	6.6
					8,740,000	**9,190,831**	9,176,045	**9,598,900**	9,555,700		

7. INVESTMENT IN SUBSIDIARY

	Fund 2018 RM	Fund 2017 RM
Unquoted shares at cost	**2**	2

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

Name of Subsidiary	Proportion of ownership interest 2018 %	Proportion of ownership interest 2017 %	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 2018 RM'000	Group 2017 RM'000	Fund 2018 RM'000	Fund 2017 RM'000
Non-Current				
Accrued rental income	**408,069**	379,654	**408,069**	379,654
Current				
Trade receivables	**458**	712	**458**	712
Other receivables				
Other receivables and deposits	**4,704**	6,114	**4,704**	6,114
Amount due from a fellow subsidiary	**91**	41	**91**	41
Total other receivables	**4,795**	6,155	**4,795**	6,155
Total	**5,253**	6,867	**5,253**	6,867

8. TRADE AND OTHER RECEIVABLES (CONTD.)

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade receivables	**458**	712	**458**	712
Other receivables	**4,795**	6,155	**4,795**	6,155
Add: Cash and bank balances (Note 9)	**56,816**	67,891	**56,703**	67,794
Total financial assets carried at amortised cost	**62,069**	74,758	**61,956**	74,661

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

9. CASH AND BANK BALANCES

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and bank balances	**223**	151	**145**	87
Deposits with licensed banks	**56,593**	67,740	**56,558**	67,707
	56,816	67,891	**56,703**	67,794

The weighted average effective profit rate applicable to the deposits with licensed banks at the reporting date was 3.61% per annum (2017: 3.61% per annum).

Deposits with licensed banks have an average maturity of 31 days (2017: 25 days).

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10. UNITHOLDERS' CAPITAL

	Fund			
	Number of Units		Amount	
	2018 '000	2017 '000	2018 RM'000	2017 RM'000
Issued and fully paid:				
At 1 January/31 December	**1,805,333**	1,805,333	**7,212,684**	7,212,684

Stapled Security:

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

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

As at 31 December 2018, the Manager did not hold any units in the Fund. However, parties related to the Manager held units in the Fund as follows:

	Fund			
	Number of Units		Market value	
	2018 '000	2017 '000	2018 RM'000	2017 RM'000
Direct unitholdings of parties related to the Manager				
KLCCH	**1,167,639**	1,167,639	**8,944,115**	10,088,401
PETRONAS	**194,817**	194,817	**1,492,298**	1,683,219
	1,362,456	1,362,456	**10,436,413**	11,771,620
Indirect unitholdings of parties related to the Manager				
PETRONAS	**1,167,639**	1,167,639	**8,944,115**	10,088,401

The market value of the units held by the parties related to the Manager is determined by using the closing market value of the Fund as at 31 December 2018 of RM7.66 per unit (2017: RM8.64 per unit).

11. OTHER LONG TERM LIABILITIES

	Group/Fund	
	2018 RM'000	2017 RM'000
Security deposits payable	**93,777**	85,074

Security deposits payable are interest-free, unsecured and refundable upon expiry of the respective lease agreements. The fair values at initial recognition were determined based on profit rates between 4.52% - 5.20% (2017: 4.52% - 5.20%) per annum.

12. AMOUNT DUE TO A SUBSIDIARY

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

13. FINANCING

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Short term financing				
Secured:				
Sukuk Murabahah	**516,907**	16,026	**-**	-
Long term financing				
Secured:				
Sukuk Murabahah	**855,000**	1,355,000	**-**	-
Total financing				
Secured:				
Sukuk Murabahah	**1,371,907**	1,371,026	**-**	-

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31 DECEMBER 2018

13. FINANCING (CONTD.)

Terms and debt repayment schedule

Group

	Total RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
31 December 2018					
Secured					
Sukuk Murabahah	**1,371,907**	**516,907**	**-**	**400,000**	**455,000**
31 December 2017					
Secured					
Sukuk Murabahah	1,371,026	16,026	500,000	400,000	455,000

(a) Sukuk Murabahah

Sukuk Murabahah consists of Islamic Commercial Programme ("ICP") of up to RM500 million and Islamic medium term notes ("IMTN") of up to RM3 billion subject to a combined limit of RM3 billion. It is primarily secured against assignment and charge over the Finance Service Account and Revenue Account maintained by the REIT Trustee.

The Group had paid its RM300 million Sukuk Murabahah upon maturity on 25 April 2017 and on the same date issued RM100 million of Sukuk Murabahah with a profit rate of 4.09% per annum and maturing on 25 April 2019. Details of the drawdown that are outstanding as at year end are as follows:

Tenure	Value (RM)	Profit rate	Maturity
2 years	100,000,000	4.09%	25 April 2019
5 years	400,000,000	4.20%	25 April 2019
7 years	400,000,000	4.55%	25 April 2021
10 years	455,000,000	4.80%	25 April 2024

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

13. **FINANCING (CONTD.)**

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

	Sukuk Murabahah RM'000	Dividend payable RM'000	Total RM'000
Balance at 1 January 2018	**1,371,026**	**-**	**1,371,026**
Changes from financing cash flows			
Interest paid	**(60,179)**	**-**	**(60,179)**
Income distribution paid	**-**	**(399,364)**	**(399,364)**
Total changes from financing cash flows	**(60,179)**	**(399,364)**	**(459,543)**
Other changes			
Liability-related			
Interest expense	**61,060**	**-**	**61,060**
Dividend payable	**-**	**399,364**	**399,364**
Total liability-related other changes	**61,060**	**399,364**	**460,424**
Balance at 31 December 2018	**1,371,907**	**-**	**1,371,907**
Balance at 1 January 2017	1,572,478	-	1,572,478
Changes from financing cash flows			
Repayment of IMTN	(300,000)	-	(300,000)
Proceeds from issuance of IMTN	100,000	-	100,000
Interest paid	(65,476)	-	(65,476)
Income distribution paid	-	(388,158)	(388,158)
Total changes from financing cash flows	(265,476)	(388,158)	(653,634)
Other changes			
Liability-related			
Interest expense	64,024	-	64,024
Dividend payable	-	388,158	388,158
Total liability-related other changes	64,024	388,158	452,182
Balance at 31 December 2017	1,371,026	-	1,371,026

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14. DEFERRED TAX LIABILITY

	Group/Fund	
	2018 RM'000	2017 RM'000
At 1 January	**-**	-
Recognised in profit or loss (Note 22)	**21,743**	-
At 31 December	**21,743**	-

15. OTHER PAYABLES

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-Current				
Deferred revenue	**40,001**	41,094	**40,001**	41,094
Current				
Other payables				
Other payables	**26,600**	62,417	**26,597**	62,414
Security deposits payable	**4,140**	3,029	**4,140**	3,029
Amount due to:				
Ultimate holding company	**518**	-	**518**	-
Holding company	**249**	1,805	**181**	986
Fellow subsidiaries	**12,161**	15,506	**12,161**	15,506
Other related companies	**856**	1,504	**856**	1,504
Total other payables	**44,524**	84,261	**44,453**	83,439
Add: Financing (Note 13)	**1,371,907**	1,371,026	**-**	-
Amount due to a subsidiary (Note 12)	**-**	-	**1,371,828**	1,371,720
Other long term liabilities (Note 11)	**93,777**	85,074	**93,777**	85,074
Total financial liabilities carried at amortised cost	**1,510,208**	1,540,361	**1,510,058**	1,540,233

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

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

16. REVENUE

	Group/Fund	
	2018 RM'000	2017 RM'000
Investment properties		
- Office	**557,500**	551,735
- Retail	**31,023**	33,734
	588,523	585,469

17. PROPERTY OPERATING EXPENSES

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Utilities expenses	**10,149**	10,630	**10,149**	10,630
Maintenance expenses	**9,939**	10,084	**9,939**	10,084
Quit rent and assessment	**3,441**	3,441	**3,441**	3,441
Other operating expenses	**6,586**	5,864	**6,580**	5,867
	30,115	30,019	**30,109**	30,022

18. MANAGEMENT FEES

	Group/Fund	
	2018 RM'000	2017 RM'000
Base fee	**28,820**	28,692
Performance fee	**16,752**	16,663
	45,572	45,355

The Manager will receive the following fees from KLCC REIT:

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

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

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19. TRUSTEE'S FEE

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

20. FINANCING COSTS

	Group/Fund	
	2018 RM'000	**2017 RM'000**
Profit expense:		
Sukuk Murabahah	**61,060**	64,024
Accretion of financial instruments	**4,009**	4,056
	65,069	68,080

21. PROFIT BEFORE TAX

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

	Group		Fund	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Audit fees	**89**	86	**84**	82
Valuation fees	**524**	523	**524**	523
Property manager fee	**92**	90	**92**	90
Depreciation (Note 5)	**293**	108	**293**	108
Impairment loss on trade receivables (Note 29)	**69**	-	**69**	-

22. TAX EXPENSE

Pursuant to Section 61A of the Malaysian Income Tax Act, 1967 ("Act"), income of KLCC REIT will be exempted from tax provided that at least 90% of its total taxable income (as defined in the Act) is distributed to the unitholders' in the basis period of KLCC REIT for that year of assessment within two months after the close of the financial year. If the 90% distribution condition is not complied with or the 90% distribution is not made within two months after the close of KLCC REIT financial year which forms the basis period for a year of assessment, KLCC REIT will be subject to income tax at the prevailing statutory rate on its total taxable income. Income which has been taxed at the KLCC REIT level will have tax credits attached when subsequently distributed to unitholders.

As at the date of this financial statements, KLCC REIT has declared more than 90% of its distributable income to unitholders for the financial year ended 31 December 2018 accordingly. No provision for income tax expense has been made for the year.

Public Ruling 2/2015 clarified that a REIT is not a company but a trust, thus the applicable RPGT rate is that other than of a company. According to Budget 2019, the RPGT rate for gains from the disposal of properties, in the 6th and subsequent years, has been revised from 0% to 5%, for a category of 'other than company and other than non-citizen and non-permanent resident individual'.

Deferred tax liability has been provided for the investment properties held by KLCC REIT at 5% which reflects the expected manner of recovery of the investment properties, i.e. recovered through sale.

Reconciliation of the tax expense is as follows:

	Group		Fund	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Profit before taxation	**462,404**	527,644	**462,410**	527,641
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	**110,977**	126,635	**110,978**	126,634
Expenses not deductible for tax purposes	**1,522**	1,269	**1,521**	1,269
Income not subject to tax	**(112,499)**	(127,904)	**(112,499)**	(127,903)
Deferred tax recognised at different tax rate	**21,743**	-	**21,743**	-
Tax expense	**21,743**	-	**21,743**	-

23. BASIC EARNINGS PER UNIT

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

	2018	**2017**
Profit attributable to unitholders of the Fund (RM'000)	**440,667**	527,641
Weighted average number of units in issue ('000)	**1,805,333**	1,805,333
Basic earnings per unit (sen)	**24.41**	29.22

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

24. INCOME DISTRIBUTION

	Income distribution recognised in year 2018 RM'000	Net income distribution per unit 2018 Sen	Income distribution recognised in year 2017 RM'000	Net income distribution per unit 2017 Sen
For the financial year ended 31 December 2018				
A first interim income distribution of 5.72% on 1,805,333,083 units	**103,265**	**5.72**	-	-
A second interim income distribution of 5.65% on 1,805,333,083 units	**102,001**	**5.65**	-	-
A third interim income distribution of 5.71% on 1,805,333,083 units	**103,085**	**5.71**	-	-
For the financial year ended 31 December 2017				
A first interim income distribution of 5.50% on 1,805,333,083 units	-	-	99,293	5.50
A second interim income distribution of 5.44% on 1,805,333,083 units	-	-	98,210	5.44
A third interim income distribution of 4.96% on 1,805,333,083 units	-	-	89,545	4.96
A fourth interim income distribution of 5.05% on 1,805,333,083 units	91,169	5.05	-	-
For the financial year ended 31 December 2016				
A fourth interim income distribution of 5.68% on 1,805,333,083 units	-	-	102,543	5.68
	399,520	22.13	389,591	21.58

The fourth interim income distribution in respect of the financial year ended 31 December 2018, of 6.27% on 1,805,333,083 units amounting to an income distribution payable of RM113,194,000 will be payable on 28 February 2019.

The financial statements for the current year do not reflect this fourth interim income distribution. Such income distribution will be accounted for in equity as an appropriation of profits in the financial year ending 31 December 2019.

24. INCOME DISTRIBUTION (CONTD.)

Distribution to unitholders is from the following sources:

	Group	
	2018 RM'000	2017 RM'000
Net property income	**558,408**	555,450
Profit income	**3,195**	4,733
Fair value adjustment of investment properties	**12,042**	81,496
	573,645	641,679
Less: Expenses	**(111,241)**	(114,035)
Less: Tax Expense	**(21,743)**	-
Profit for the year	**440,661**	527,644
Less: Non cash items	**(18,733)**	(130,467)
Add: Brought forward undistributed income available for distribution	**40,850**	21,890
Total available for income distribution	**462,778**	419,067
Less: Income distributed	**(308,351)**	(287,048)
Less: Income to be distributed on 28 February 2019	**(113,194)**	(91,169)
Balance undistributed income available for distribution	**41,233**	40,850
Distribution per unit (sen)	**23.35**	20.95

25. PORTFOLIO TURNOVER RATIO

	Group	
	2018	2017
Portfolio Turnover Ratio ("PTR") (times)	**Nil**	Nil

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

PTR is nil for KLCC REIT as there were no new acquisitions and disposals of investments in the portfolio of KLCC REIT since the date of establishment of 9 April 2013 to 31 December 2018 except for the initial acquisition of the investment properties together with the related assets and liabilities which was completed on 3 May 2013.

Since the basis of calculating PTR can vary among REITs, there is no consistent or coherent basis for providing an accurate comparison of KLCC REIT's PTR against other REITs.

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31 DECEMBER 2018

26. MANAGEMENT EXPENSE RATIO

	Group	
	2018 RM'000	2017 RM'000
Total trust expenses	**47,706**	47,770
Net asset value at the end of the financial year	**8,091,402**	8,050,264
Less: Fourth interim income distribution	**(113,194)**	(91,169)
Net asset value at the end of the financial year, after interim income distribution	**7,978,208**	7,959,095
Management Expense Ratio ("MER")	**0.60**	0.60

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

27. COMMITMENTS

(a) Capital commitments

	Group/Fund	
	2018 RM'000	2017 RM'000
Approved but not contracted for		
Property, plant and equipment	**207**	1,200
Investment properties	**2,000**	3,400
	2,207	4,600

(b) Operating lease commitments - as lessor

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

	Group/Fund	
	2018 RM'000	2017 RM'000
Not later than 1 year	**537,062**	521,540
Later than 1 year but not later than 5 years	**2,155,985**	2,128,778
More than 5 years	**2,144,784**	2,696,207
	4,837,831	5,346,525

28. RELATED PARTY DISCLOSURES

(a) Controlling related party relationships are as follows:

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

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

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Federal Government of Malaysia				
Goods and Service Tax ("GST")	**(13,400)**	(27,819)	**(13,400)**	(27,819)
Property licenses and other taxes	**(3,441)**	(3,441)	**(3,441)**	(3,441)
Government of Malaysia's related entities				
Purchase of utilities	**(4,398)**	(4,342)	**(4,398)**	(4,342)
Ultimate Holding Company				
Rental income	**500,149**	473,599	**500,149**	473,599
Immediate Holding Company				
Profit expense from Sukuk Murabahah	**(4,090)**	(2,801)	**(4,090)**	(2,801)
Fellow subsidiaries				
Management fees	**(45,572)**	(45,355)	**(45,572)**	(45,355)
Property management fees	**(2,116)**	(2,116)	**(2,116)**	(2,116)
Property maintenance fees	**(8,166)**	(8,151)	**(8,166)**	(8,151)
Property advertising and marketing fees	**(698)**	(660)	**(698)**	(660)
Carpark income	**883**	327	**883**	327
Other related company				
Chilled water supply	**(5,700)**	(6,070)	**(5,700)**	(6,070)

The Directors of the Manager are of the opinion that the above transactions and transactions detailed elsewhere were undertaken at mutually agreed terms between the parties in the normal course of business and the terms and conditions are established under negotiated terms.

Information regarding outstanding balances arising from related party transactions as at 31 December 2018 are disclosed in Notes 8 and 15.

NOTES TO THE FINANCIAL STATEMENTS
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29. FINANCIAL INSTRUMENTS

Financial Risk Management

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

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

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

Credit Risk

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

Receivables

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

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

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

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

29. FINANCIAL INSTRUMENTS (CONTD.)

Credit Risk (Contd.)

Receivables (Contd.)

With respect to the trade and other receivables which have no realistic prospect of recovery, the gross carrying amounts of the credit impaired receivables will be written off (either in partial or in full).

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

	Group/Fund	
	2018 RM'000	**2017 RM'000**
At net		
Current	**364**	579
Past due 1 to 30 days	**18**	87
Past due 31 to 60 days	**5**	3
Past due 61 to 90 days	**11**	18
Past due more than 90 days	**132**	25
	530	712
Trade receivables	**530**	712
Less: Impairment losses	**(72)**	-
Net trade receivable (Note 8)	**458**	712

The movements in the allowance account are as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under MFRS 139.

	Group/Fund	
	2018 RM'000	**2017 RM'000**
At 1 January		194
Adjustment on initial application of MFRS 9 (Note 3 (1)(b))	**3**	-
At 1 January, restated	**3**	194
Impairment written off	**-**	(194)
Impairment loss on trade receivables (Note 21)	**69**	-
At 31 December	**72**	-

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

29. FINANCIAL INSTRUMENTS (CONTD.)

Credit Risk (Contd.)

Receivables (Contd.)

Recognition and measurement of impairment loss

The adoption of MFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

In determining the ECL, the probability of default assigned to each customer is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information.

There are trade receivables where the Group has not recognised any loss allowance as the trade receivables are secured by collateral and /or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

The Group and the Fund do not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2018.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises from the requirement to raise funds for the Group's and the Fund's businesses on an ongoing basis as a result of the existing and future commitments which are not funded from internal resources. As part of its overall liquidity management, the Group and the Fund maintain sufficient levels of cash or cash convertible investments to meet their working capital requirements. As far as possible, the Group and the Fund raise committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

29. FINANCIAL INSTRUMENTS (CONTD.)

Liquidity Risk (Contd.)

Maturity analysis

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

31 December 2018	Carrying amount RM'000	Effective profit rate %	Contractual cash flow RM'000	Within 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Group							
Financial Liabilities							
Sukuk Murabahah	1,371,907	4.50	1,536,774	563,529	40,150	471,155	461,940
Other payables	44,524	-	44,524	44,524	-	-	-
Other long term liabilities	93,777	4.98	135,094	-	8,505	3,746	122,843
Fund							
Financial Liabilities							
Other payables	44,453	-	44,453	44,453	-	-	-
Amount due to a subsidiary	1,371,828	-	1,371,828	516,828	-	400,000	455,000
Other long term liabilities	93,777	4.98	135,094	-	8,505	3,746	122,843

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

29. FINANCIAL INSTRUMENTS (CONTD.)

Liquidity Risk (Contd.)

Maturity analysis (Contd.)

31 December 2017	Carrying amount RM'000	Effective profit rate %	Contractual cash flow RM'000	Within 1 year RM'000	1 - 2 year RM'000	2 - 5 years RM'000	More than 5 years RM'000
Group							
Financial Liabilities							
Sukuk Murabahah	1,371,026	4.50	1,535,893	16,026	546,622	489,464	483,781
Other payables	84,261	-	84,261	84,261	-	-	-
Other long term liabilities	85,074	5.01	130,453	-	5,894	7,073	117,486
Fund							
Financial Liabilities							
Other payables	83,439	-	83,439	83,439	-	-	-
Amount due to a subsidiary	1,371,720	-	1,371,720	16,720	500,000	400,000	455,000
Other long term liabilities	85,074	5.01	130,453	-	5,894	7,073	117,486

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: profit rate risk, foreign currency risk and other price risk, such as equity risk and commodity risk.

Financial instruments affected by market risk include financing and deposits.

Profit Rate Risk

Profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market profit rates. Fair value profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market profit rates. As the Group has no significant profit-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market profit rates. The Group's and the Fund's profit-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

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

29. FINANCIAL INSTRUMENTS (CONTD.)

Profit Rate Risk (Contd.)

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

	Group		Fund	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Fixed rate instruments				
Financial assets	**56,593**	67,740	**56,558**	67,707
Financial liabilities	**(1,371,907)**	(1,371,026)	**-**	-

Foreign Currency Risk

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

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

Fair Value Information

The Group's and the Fund's financial instruments consist of cash and cash equivalents, investments and financing, trade and other receivables, financing, other payables and various debt.

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

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

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

Group	Fair value of financial instruments not carried at fair value				
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Carrying amount RM'000
2018					
Financial liabilities					
Sukuk Murabahah	**-**	**1,341,313**	**-**	**1,341,313**	**1,371,907**
2017					
Financial liabilities					
Sukuk Murabahah	-	1,224,369	-	1,224,369	1,371,026

For other financial instruments listed above, fair values have been determined by discounting expected future cash flows at market incremental lending rate for similar types of financing at the reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

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 financing to total assets ratio that also complies with regulatory requirements.

The financing to total assets ratio as at 31 December 2018 is as follows:

	Group	
	2018	**2017**
Total financing (RM'000)	**1,371,907**	1,371,026
Total assets (RM'000)	**9,663,354**	9,631,719
Financing to total assets ratio	**14.2%**	14.2%

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 financing, financing 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.

31. SEGMENT INFORMATION (CONTD.)

(b) Allocation basis and transfer pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise profit-earning assets and revenue, profit-bearing financing and corporate assets and expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. Inter-segment transactions have been entered into in the normal course of business and have been established on commercial basis. These transfers are eliminated on consolidation.

Business Segments

31 December 2018

	Property investment - Office RM'000	Property investment - Retail RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue				
Revenue from external customers	557,500	31,023	-	588,523
Results				
Net property income	537,823	20,585	-	558,408
Profit income				3,195
Fair value adjustment on investment properties				12,042
Management fees				(45,572)
Trustee's fees				(600)
Financing costs				(65,069)
Tax expense				(21,743)
Profit after tax				440,661
Depreciation				293
Non-cash items other than depreciation				(19,026)
Total assets	9,010,246	653,108	-	9,663,354
Total liabilities	1,548,464	23,488	-	1,571,952

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

31. SEGMENT INFORMATION (CONTD.)

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

Business Segments (Contd.)

31 December 2017

	Property investment - Office RM'000	Property investment - Retail RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue				
Revenue from external customers	551,735	33,734	-	585,469
Results				
Net property income	532,412	23,038	-	555,450
Profit income				4,733
Fair value adjustment on investment properties				81,496
Management fees				(45,355)
Trustee's fees				(600)
Financing costs				(68,080)
Profit after tax				527,644
Depreciation				108
Non-cash items other than depreciation				(130,575)
Total assets	8,978,676	653,043	-	9,631,719
Total liabilities	1,560,888	20,567	-	1,581,455

32. PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and/or the Fund in these financial statements:

Effective for annual periods beginning on or after 1 January 2019

MFRS 16	Leases
Amendments to MFRS 123	Borrowing Costs: Borrowing Costs Eligible for Capitalisation (Annual Improvements to MFRS 2015-2017 Cycle)
IC Interpretation 23	Uncertainty over Income Tax Treatments

The adoption of MFRS 16 is expected to have following impact on initial application:

(i) Leases in which the Group is a lessee.

The Group will recognise new assets and liabilities for its operating leases. Nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Currently, the Group recognises operating lease on a straight-line basis over the term of the lease.

The Group and the Fund have assessed the estimated impact and the initial application of MFRS 16 will not have a material impact on its opening retained earnings and its statement of financial position as at 1 January 2019.

(ii) Leases in which the Group is a lessor.

The Group expects the current accounting treatment remain. Based on the information currently available, there are no contracts that are or contain a lease in which the Group expects to reclassify as a finance lease.

Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 3	Business Combinations (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 101	Presentation of Financial Statements (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 134	Interim Financial Reporting (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 138	Intangible Assets (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 132	Intangible Assets—Web Site Costs (Amendments to References to the Conceptual Framework in MFRS Standards)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

32. PRONOUNCEMENTS YET IN EFFECT (CONTD.)

Effective for annual periods beginning on or after 1 January 2021

MFRS 137	Insurance Contracts

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

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

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

Effective for annual periods beginning on or after 1 January 2019

Amendments to MFRS 9	Financial Instruments: Prepayment Features with Negative Compensation
Amendments to MFRS 3	Business Combinations: Previously Held Interest in a Joint Operation (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 11	Joint Arrangements: Previously Held Interest in a Joint Operation (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 112	Income Taxes: Income Tax Consequences of Payments on Financial Instruments Classified as Equity (Annual Improvements to MFRSs 2015-2017 Cycle)
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Long-term Interest in Associates and Joint Ventures
Amendments to MFRS 119	Employee Benefits: Plan Amendment, Curtailment or Settlement

Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 2	Share-based Payment (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 6	Exploration for and Evaluation of Mineral Resources (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to MFRS 14	Regulatory Deferral Accounts (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to IC Interpretation 12	Service Concession Arrangements (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendments to IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine (Amendments to References to the Conceptual Framework in MFRS Standards)
Amendment to IC Interpretation 22	Foreign Currency Transactions and Advance Consideration (Amendments to References to the Conceptual Framework in MFRS Standards)

33. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE FUND (CONTD.)

Effective for a date yet to be confirmed

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

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KLCC Real Estate Investment Trust ("KLCC REIT" or the "Fund"), which comprise the statements of financial position as at 31 December 2018 of the Group and of the Fund, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Fund for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 319 to 371.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Securities Commission's Guidelines on Real Estate Investment Trusts in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Fund for the current year. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Fund. The key audit matters for the audit of the financial statements of the Group are described below. These matters were addressed in the context of our audit of the financial statements of the Group as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the **Auditors' responsibilities for the audit of the financial statements** section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

Valuation of investment properties

As at 31 December 2018, the carrying value of the Group's investment properties amounted to RM9,190,831,000 which represents 95% of the Group's total assets. The Group adopts the fair value model for its investment properties. The valuation of investment properties is significant to our audit due to their magnitude, complex valuation method and high dependency on a range of estimates (amongst others, rental income data, yield rate and discount rate) which are based on current and future market or economic conditions. The Group had engaged an external valuer to determine the fair value of the investment properties at the reporting date.

Our audit procedures focused on the valuations performed by firms of independent valuers, which included, amongst others, the following procedures:

- We considered the objectivity, independence and expertise of the firms of independent valuers;
- We had discussions with the independent valuers to obtain an understanding of the property related data used as input to the valuation models which included, amongst others, rental income data and yield rate;
- We tested the accuracy of rental income data applied in the valuation by comparing them with lease agreements and challenged the yield rate by comparing them with available industry data, taking into consideration comparability and market factors. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and held further discussions with the valuers;
- We assessed whether the discount rate used to determine the present value of the cash flows reflects the estimated market rate of return for comparable assets with similiar profile; and
- We also evaluated the Group's disclosures on those assumptions to which the outcome of the valuation is most sensitive. The Group's disclosures on the valuation sensitivity and significant assumptions used, including relationships between key unobservable inputs and fair values, are included in Notes 4.2 and 6 to the financial statements respectively.

Information other than the financial statements and auditors' report thereon

The Manager of the Fund is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Fund and our auditors' report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of financial statements of the Group and of the Fund that give a true and fair view in accordance with MFRS, IFRS and the requirements of the Securities Commission's Guidelines on Real Estate Investment Trusts in Malaysia. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of the Group and of the Fund that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT
TO THE UNITHOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

Responsibilities of the Manager for the financial statements (contd.)

In preparing the financial statements of the Group and of the Fund, the Manager is responsible for assessing the Group's and the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Group or the Fund or to cease operations, or has no realistic alternative to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Fund, including the disclosures, and whether the financial statements of the Group and of the Fund represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT
TO THE UNITHOLDERS OF KLCC REAL ESTATE INVESTMENT TRUST

Auditors' responsibilities for the audit of the financial statements (Contd.)

We also provide the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Manager, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Fund for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matters

This report is made solely to the unitholders of the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
24 January 2019

Ismed Darwis bin Bahatiar
No. 02921/04/2020 J
Chartered Accountant