Management Discussion and Analysis

RM15 billion
High quality investment portfolio

#1 Largest
Malaysian REIT

Strong balance sheet with
RM18 billion
total assets

OVERVIEW

Business and Operations

KLCCP and KLCC REIT, collectively known as KLCCP Stapled Group is Malaysia's largest self-managed stapled security that invests, develops, owns and manages a stable of iconic and quality assets. KLCCP Stapled Group became the first ever Shariah compliant stapled structure in Malaysia upon the listing of KLCC Stapled Securities (KLCCSS) on 9 May 2013. As a constituent of the FBM KLCI Index, KLCCSS trades under the REIT sector of the Index as a single price quotation. With a market capitalisation of RM15.0 billion as at 31 December 2016, KLCCP Stapled Group constitutes 34% of the market capitalisation of the Malaysian REIT segment.

With our core business in property investment and development, KLCCP Stapled Group has a diverse property portfolio strategically located within the Kuala Lumpur City Centre comprising prime Grade-A office buildings, a leading retail mall and a luxury hotel. The stabilised and wholly-owned assets namely, PETRONAS Twin Towers, Menara ExxonMobil and Menara 3 PETRONAS are under KLCC REIT and the non-wholly owned assets and assets with development and redevelopment potential, Suria KLCC, MOKL Hotel and a vacant land (Lot D1) are in KLCCP. KLCCP also has a 33% stake in Menara Maxis.

#25 Largest
company by market capitalisation on FBM KLCI as at 31 December 2016

1st
Malaysian REIT included on FTSE4Good Bursa Malaysia Index

Potential pipeline of assets within the group for
future growth

KLCCP Stapled Group

(KLCC Stapled Securities trade as a single security on Bursa Malaysia)

KLCC REIT — Common Board of Directors and Management — **KLCCP**

REIT Portfolio

- PETRONAS Twin Towers (100%)
- Menara ExxonMobil (100%)
- Menara 3 PETRONAS (100%)

Property Portfolio

- Suria KLCC (60%)
- Mandarin Oriental, Kuala Lumpur (75%)
- Kompleks Dayabumi (100%)
- Menara Maxis (33%)
- Vacant Land (Lot D1) (100%)

Management Services

- Property Management (KLCC Urusharta Sdn Bhd)
- REIT Manager (KLCC REIT Management Sdn Bhd)
- Car Park Operator (KLCC Parking Management Sdn Bhd)

KLCCP Stapled Group's supporting activities which complement the property portfolio are in facility management and car parking management services, under KLCC Urusharta Sdn Bhd (KLCCUH) and KLCC Parking Management Sdn Bhd (KPM) respectively. The REIT Manager who is engaged to manage and administer KLCC REIT is internal and resides within KLCCP as a 100% owned subsidiary.

The stapled structure benefits from the tax profile of a REIT structure through relevant tax exemptions and provides access to stable REIT distributions and capital growth while benefiting from development of potential assets and organic growth in KLCCP.

The operations of KLCCP Stapled Group remained relatively stable during the year in spite of the challenges from the intensifying competition of the hospitality and retail sectors and the oversupply in the office market.

Objectives and Strategies

With a vision of becoming the leading real estate investment group of choice, the performance of KLCCP Stapled Group is mainly driven by sustainable growth, asset management, cost management and service level improvements. KLCCP Stapled Group's stance on risk-averse and strong fundamentals of locked-in tenancies, premium property locations, high quality tenants and high standards of facilities management continue to underpin the sustainability of KLCCP Stapled Group. We remain focused on cost efficiencies and service level improvements and continue to capitalise on opportunities for growth.

Testament to our commitment in delivering value and growth, KLCCP Stapled Group's strategies are aimed at enhancing value to the holders of Stapled Securities through significant accretion in distribution.

With a tough operating environment in 2016, KLCCP Stapled Group continued to be sensitive and vigilant to changes in the external environment, while focusing on our core competencies in our key market segments in order to remain competitive in undertaking our investment decisions. We remained steadfast to deliver stable and sustainable returns to the holders of Stapled Securities.

Sustainable Growth

- Leveraging on ownership of premier assets
- Growth potential from existing and new development and acquisitions

Asset Management

- Sustaining asset quality initiatives to preserve pristine condition of properties for longer term prospects

Cost Management

- Cost containment for greater cost efficiency and improved earnings

Service Level Improvements

- Tenant satisfaction
- Triple Net Lessee Initiatives
- Green Initiatives

FINANCIAL REVIEW

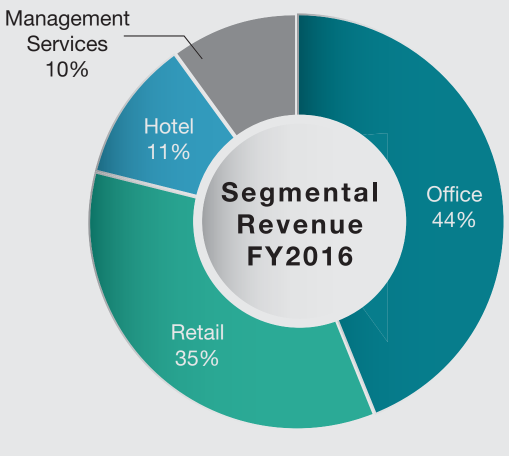
For the financial year ended 31 December 2016, KLCCP Stapled Group's revenue was consistent with that of 2015 at RM1.34 billion though profit attributable to equity holders dipped marginally. This was attributable to the resilient office and retail segments which was offset by the significant decline in the hotel segment in a year of sluggish domestic consumption–led economic growth and weaker market demand in the hospitality sector.

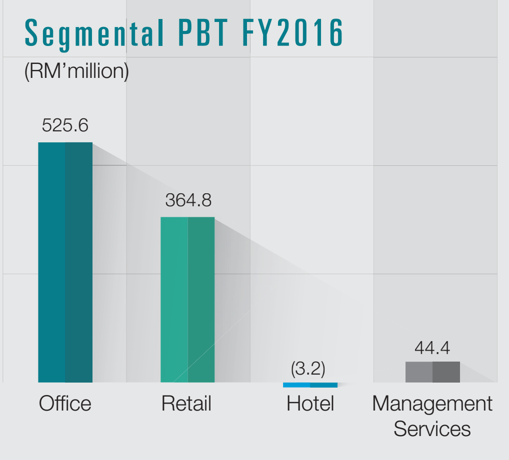
	FY2016 RM'000	FY2015 RM'000	Growth %
Revenue	**1,343.5**	1,340.2	0.2
Profit before tax*	**931.6**	937.5	(0.6)
Profit for the year*	**826.8**	829.2	(0.3)
Profit attributable to equity holders*	**719.0**	724.5	(0.8)
Earnings per stapled security* (sen)	**39.8**	40.1	(0.8)
Distribution per stapled security (sen)	**35.65**	34.65	2.9

* *excluding fair value adjustments*

Key Highlights

- Conversion of atrium spaces into additional office space in Menara Dayabumi, added into existing Triple Net Lease Agreement with PETRONAS
- Top line growth in retail segment from new tenants and renewal of tenancies with positive rental reversion
- Performance of MOKL Hotel impacted by soft overall market of hotel's key segments, competition from newly opened hotels and commencement of guestroom renovations
- One-off write-off of furniture and fittings in two of MOKL Hotel outlets and scaled down Meeting, Incentives, Conferences and Exhibitions (MICE) events impacted the financial performance of the hotel segment





The office segment remained the major revenue contributor to KLCCP Stapled Group's revenue with contributions of 44% whilst retail maintained its contribution at 35%. The hotel contribution saw a decline to 11% from 12% the year before, whilst management services continued to complement the property portfolio with an increased contribution of 10%.

PBT of the office, retail and management services segments remained resilient and consistent with 2015 though the poor performance of the hotel segment coupled with the write-off of the furniture and fittings of MOKL Hotel's outlets, Sultan Lounge and Casbah in the sum of RM2.5 million resulted in a loss.

Office Segment

Revenue remained stable at RM591.0 million. The conversion of the four levels of atrium spaces in Menara Dayabumi into additional office spaces of 43,184 sq. ft. net lettable area (NLA) was added into the existing Triple Net Lease Agreement with PETRONAS with effect from September 2016. PBT excluding fair value adjustments remained stable.

PROPERTY	REVENUE			PROFIT BEFORE TAX *(Excluding fair value adjustments)*		
	FY2016 RM'mil	FY2015 RM'mil	Growth %	FY2016 RM'mil	FY2015 RM'mil	Growth %
PETRONAS Twin Towers	**423.5**	423.5	–	**368.2**	368.5	(0.1)
Menara 3 PETRONAS	**88.1**	88.1	(0.1)	**87.9**	86.7	1.4
Menara ExxonMobil	**42.5**	42.8	(0.6)	**28.6**	29.2	(2.1)
Menara Dayabumi	**36.9**	36.5	1.1	**30.0**	29.5	1.7
Menara Maxis*	**–**	–	–	**10.9**	11.7	(6.8)
Total Office Segment	**591.0**	590.9	–	**525.6**	525.6	–

* *Share of results of associate*

The three portfolio of assets under KLCC REIT, namely PETRONAS Twin Towers, Menara 3 PETRONAS and Menara ExxonMobil contributed 94% of the revenue and 92% of the PBT of the office segment. The office property under KLCCP, Menara Dayabumi contributed 6% of the revenue and PBT respectively whilst the remaining 2% of PBT represents the share of results of associate from Menara Maxis.

PETRONAS Twin Towers remained the highest revenue contributor in the office segment at 72% or RM423.5 million, with PBT of RM368.2 million, representing 70% of total office segment PBT. The stable cashflows and resilient rental income with 100% occupancy in all our office portfolio continue to underpin the overall performance of the office segment.

Retail Segment

The retail segment comprises Suria KLCC and the retail podium of Menara 3 PETRONAS. Revenue from our retail segment remained stable with an increase of 1.2% from RM469.8 million in 2015 to RM475.3 million due to the higher rental rates from new tenants and rent reviews becoming effective during the year. PBT excluding fair value adjustments stood at RM364.8 million, a marginal decrease from 2015.

PROPERTY	REVENUE			PROFIT BEFORE TAX *(Excluding fair value adjustments)*		
	FY2016 RM'mil	FY2015 RM'mil	Growth %	FY2016 RM'mil	FY2015 RM'mil	Growth %
Suria KLCC	**438.4**	429.4	2.1	**344.7**	344.8	–
Menara 3 PETRONAS (Retail Podium)	**36.9**	40.4	(8.6)	**20.1**	22.7	(11.5)
Total Retail Segment	**475.3**	469.8	1.2	**364.8**	367.5	(0.7)

Suria KLCC registered a 2% growth in top-line revenue with a relatively stable PBT margin of 79%. The retail podium of Menara 3 PETRONAS saw a decline in its revenue and PBT also owing to the decline in the occupancy levels. Suria KLCC contributed 92% revenue of the retail segment with the retail podium of Menara 3 PETRONAS contributing 8%, whilst PBT contribution to the retail segment was 95% and 5% respectively.

During the current financial year, Suria KLCC recognised compensation received from a tenant arising from the court decision in their favour. Excluding this, PBT of Suria KLCC registered a decline of 1.5% mainly due to the drop in average occupancy from 98% to 96% as a result of the ongoing tenant remixing particularly in level 1 of the mall. This was crucial for our retail asset to remain relevant with the changing consumer preferences and to also stay ahead of the intense competition in the retail landscape.

Hotel Segment

The performance of the hotel segment, represented by MOKL Hotel was significantly impacted by the softer corporate demand and increased competition from new luxury hotels. The commencement of the renovation to the Club rooms and Suites in June 2016, further impacted the overall performance of the hotel. The hotel segment registered a total revenue of RM149.5 million, a decline of 4.0% from 2015 and a loss before tax of RM3.2 million compared to a PBT of RM4.0 million in 2015. The PBT was significantly impacted by the scaled down MICE events and the write-off of furniture and fittings of Sultan Lounge and Casbah to make way for a new concept to attract a younger leisure market.

Food and Beverage (F&B) which constitutes 44% of the hotel revenue continued to enjoy a strong local following, however it saw a reduction of 6% from 2015 due to reduced hotel occupancy and less large scale banqueting. The closure of Sultan Lounge and Casbah also resulted in slower growth for the F&B segment, further amplified by the exceptional banqueting year in 2015 where MOKL Hotel benefited from the ASEAN Ministerial Meeting, CIMB Invest Malaysia Kuala Lumpur and the Oil and Gas Asia event, amongst others. The highly successful 3-Star Michelin Pop-up at the Mandarin Grill was also a major contributing factor to the higher F&B performance in 2015.

Management Services

The management services segment comprising facilities management, car parking management and REIT Management continues to complement the property portfolio of KLCCP Stapled Group in delivering premium facilities management services in maintaining the iconic stature and performance of the assets within KLCCP Stapled Group. Parking and facility management account for approximately 45% respectively whilst 10% is contributed from the general management services provided to our related companies.

For the financial year 2016, management services revenue contribution totaled RM127.8 million, an increase of 3.3% from the previous year and constituted 10% of KLCCP Stapled Group's revenue. The higher revenue was mainly contributed from additional facilities management services of properties under KLCC (Holdings) Sdn Bhd (KLCCH) in Kerteh, Terengganu, east coast of Malaysia. PBT showed an increase of 9.6% from RM44.4 million last year on the back of higher revenue and cost savings efforts.

Operating Expenses

KLCCP Stapled Group continued its discipline and efforts to manage costs in ensuring continuous value enhancement to the holders of Stapled Securities. As a result of the implementation of the Minimum Wage Order 2016 by the government with effect from July 2016, the operating expenses for KLCCP Stapled Group increased by 2.4%, impacting our hotel segment. With KLCCP Stapled Group exercising financial prudence in managing its overheads, operating expenses remained consistent with that of 2015, excluding the hotel segment.

Fair Value of Investment Properties and Profit Attributable to Equity Holders

Our asset portfolio retained its overall resilience which saw our investment properties increase recognition of fair value gain by RM171.1 million. With the fair value gain, KLCCP Stapled Group achieved profit attributable to equity holders of RM886.0 million. Excluding the effects of the fair value gain and impacted by the challenging market environment of the hotel segment, the profit attributable to equity holders declined marginally from RM724.5 million in 2015 to RM719.0 million in 2016.

Distribution per Stapled Security

In spite of the lower profit attributable to equity holders recorded in 2016, KLCCP Stapled Group distributed 95% of its distributable income, higher than our commitment of at least 90%. KLCCP Stapled Group's distribution per stapled security grew 2.9% from 34.65 sen in 2015 to 35.65 sen in 2016. This translates to a full year dividend payment of RM643.6 million to the holders of Stapled Securities, from RM625.5 million in 2015. This is in line with our pursuit of creating value and improving returns in our journey towards harnessing the full potential of KLCC Stapled Securities.

Total Assets and Equity Attributable to holders of Stapled Securities

KLCCP Stapled Group's balance sheet remained in a healthy position providing a conducive business environment for future development and long term stability. Our total assets continued to strengthen to RM17.8 billion, a 1.4% growth from 31 December 2015, inclusive of the appreciation in fair value of the investment properties. The higher total assets resulted in net asset value per stapled security increasing to RM7.09 from RM6.95 in the preceding financial year, representing a corresponding growth of 2.0%. The equity attributable to the holders of Stapled Securities saw a similar growth, increasing from RM12.6 billion as at 31 December 2015 to RM12.8 billion in 2016.

BUSINESS AND OPERATIONS REVIEW

KLCCP Stapled Group's operating business segments are broadly categorised into four segments namely, office, retail, hotel and management services.

OFFICE

No. of assets	NLA (sq. ft.)	Occupancy	Revenue contribution by segment
4	5.1 million	100%	44%
FY2015: 4	FY2015: 5.0 million	FY2015: 100%	FY2015: 44%

KLCCP Stapled Group's sustained performance was driven broadly by our strong asset stability of our office segment underpinned by the high occupancy and long term leases which generated recurring income and cashflow.

Our office portfolio comprises PETRONAS Twin Towers, Menara 3 PETRONAS, Menara ExxonMobil located within the Kuala Lumpur City Centre and Menara Dayabumi which is located within the older central commercial area of Kuala Lumpur. These premium Grade-A office portfolio with an NLA of 5.1 million sq. ft. are valued at RM9.6 billion and boast 100% occupancy as at 31 December 2016.

PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi are on a Triple Net Lease Agreement with PETRONAS whilst Menara ExxonMobil is on a long term lease agreement with ExxonMobil Exploration and Production Malaysia Inc.

Industry Landscape and Operating Challenges

During the year, the office market in Kuala Lumpur was clouded with challenges caused by the huge office supply in the pipeline and slower business expansion causing a mismatch in supply and demand. The uncertainty in the market and particularly in the oil and gas sector raised concerns on our tenancies with the oil and gas tenants and the potential growth going forward upon expiry of tenancies with PETRONAS and ExxonMobil. The trending down of rental rates for Grade-A office buildings in the city centre also exerted pressure on other office building owners in order to maintain occupancy.

We were able to mitigate these challenges as our existing leases with PETRONAS have low risk exposure as PETRONAS Twin Towers and Menara 3 PETRONAS are on a 15-year tenure with high quality tenant, shielding it from the soft market conditions. Nevertheless, KLCCP Stapled Group stepped up the ante with its robust leasing efforts to attract and retain quality tenants within our buildings. Our leasing team also diligently engaged with PETRONAS and ExxonMobil on their space planning requirements to ensure our occupancy levels of the buildings are maintained.

Strategies and Initiatives for the year

In 2016, we continued to focus on the asset enhancement initiatives for Kompleks Dayabumi to rejuvenate the 30-year old building and to gain competitive advantage. Our diligence on our asset enhancement initiatives for Menara Dayabumi saw the completion of the Phase 2 extension in April 2016, which was embarked on in quarter three of 2015. This involved the conversion of the atrium spaces of levels 2 to 5 of Menara Dayabumi into additional 43,184 sq. ft. of NLA office space. The Phase 3 redevelopment of Kompleks Dayabumi progressed with substructure works following the demolition of the City Point podium in 2015.

KLCCP Stapled Group worked diligently towards securing the renewal of tenancy for Menara ExxonMobil which expired in January 2017. The new lease agreement post expiry has been successfully executed for a tenure of 9+3+3+3 years. This will augur well for the continued long term stable income from the office segment and maintain our high occupancy levels.

In our call towards sustainable development, all our development within KLCCP Stapled Group are moving towards dual compliance with Green Building Index (GBI) and MSC status. Following the attainment of the Provisional GBI certification under Gold Rating and Silver Rating for PETRONAS Twin Towers and Menara 3 PETRONAS respectively in April 2015, our facility management team continued its implementation of initiatives towards obtaining full certification of GBI by 2018.

Impact on Future Activities

With the office market expected to remain restrained as business operating environments remain difficult, securing a quality anchor tenant and pressure to secure high occupancy rates is expected to persist. We are working towards further strengthening our leasing capabilities and pursuing aggressive initiatives to attract and retain quality tenants with tailored tenancy packages to suit potential tenant needs and widening the tenant selection criteria in light of the slower expansion in the oil and gas and banking industry.

Menara ExxonMobil's new lease with effect from February 2017 will see ExxonMobil Exploration and Production Malaysia Inc. retaining 60% of the said building. We have identified potential new tenants to occupy the remaining 40%. Though we anticipate a downtime during this transition period, we will work towards minimising the downtime to maintain the 100% occupancy of the building.

RETAIL

No. of assets	NLA (sq. ft.)	Average Occupancy	Revenue contribution by segment
2	1.2million	96%	35%
FY2015: 2	FY2015: 1.2 million	FY2015: 98%	FY2015: 35%

The retail landscape came under pressure with substantial changes due to the confluence of external factors, namely weakness in domestic retail spend, intense competition for tenants and changing consumer preferences and behaviour. In spite of these challenges and keener competition, our retail portfolio comprising Suria KLCC and the retail podium of Menara 3 PETRONAS maintained its resilience and preserved its status as one of the top tourism hotspots in Kuala Lumpur.

Suria KLCC has been able to command premium rental rates relative to the industry, even amid the currently lethargic economic conditions. The average rental reversion stood at 5% on renewed leases despite the slower retail market. The high proportion of fixed rental rates within its overall lease structure provides stable cashflow visibility, particularly when the retail sector is expected to remain challenging with soft rental reversions.

Industry Landscape and Operating Challenges

2016 was indeed a challenging year for the retail segment as we witnessed retailers consolidating globally and being more cautious in committing to new space and spending on capital expenditure. In spite of the improvement in Consumer Sentiment Index from 63.8 in 2015 to 69.8 in 2016, the weakening ringgit eroded the spending power of consumers. Rental reversions were also challenged in light of the subdued retail sales.

With focus on enhancing the shopping experience for its customers, Suria KLCC was able to see growth in its customer footfall exceeding 48 million. Albeit the lower occupancy at 96% compared to 98% in 2015 due to the tenant remixing exercises, the Moving Annual Turnover grew 10% to RM2.5 billion, the highest sales growth ever registered. This is testament to Suria KLCC's efforts in frequent engagement with its tenants in keeping them abreast with the new retail landscape and changes to consumer needs and demands to weather the tough operating conditions.

Strategies and Initiatives for the year

In the last 12 months, Suria KLCC reshuffled some of the mall's tenants, to better reflect current shopping trends and pave the way for newer brands. Suria KLCC saw the formation of a luxury men's zone on Level 1 as planned with the opening of Dior Homme, Hugo Boss, Dunhill, Coach Men, Boggi Milano, Brooks Brothers, Truefitt & Hill, Mont Blanc, Rolex, Omega and Rimowa. With its strong brand image and experienced retail team, Suria KLCC saw 24 new tenants come on board and was also able to secure several new key brands, namely Saint Laurent, Dior (ladies) and Marc Jacobs which opened on the ground floor.

With the ongoing remixing at Level 1, several of the existing tenants were identified to be relocated from Level 1 to Level 2, namely GUESS, Sacoor Brothers, Massimo Dutti and Fred Perry. The relocation of these brands were in line with our plans to further enhance the fashion element for this level.

There were also several tenant upgrades and retrofit-out which raised shoppers' experience to a whole new level with trend-setting concept stores, aligning with shopper demand. With "new" being the key, this involved a mixture of elements – new insights, the concept, the products and the services. Guardian Malaysia launched its trend-setting concept store, the first in Asia at Suria KLCC, with offerings of shop-in-shop concept for cosmetics, health and pharmacy.

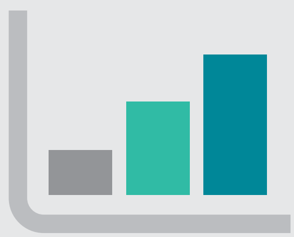
The retail podium of Menara 3 PETRONAS which leverages on Suria KLCC's reputation as a premier shopping destination in the country, focused on expansion of current tenants, identifying and working with strong and reputable potential tenants and repositioning of offerings towards food and beverage.

These initiatives are aimed at strengthening our retail segment's competitive advantage and maintaining its edge in light of the challenging and competitive retail landscape.

Impact on Future Activities

Given that the retail industry has been experiencing slower growth in the last 2 years, the sector's overall performance is expected to remain subdued. Keener competition arising from the scheduled debut of an additional 3.9 million sq. ft. of retail space by 2017 is also expected to affect the ability of new and less prominent malls to raise their rental rates and maintain their margins.

Suria KLCC will continue to focus on creating dedicated precincts, attracting new-to-market brands in various categories. We will complete the Level 1 luxury women's zone and Level 2 High Fashion precinct. To draw larger crowds to the upper floors of the Mall, the tenant mix of Level 3 will focus on fashion brands targeted at younger shoppers.



Suria KLCC was able to see growth in its customer footfall exceeding

48 million

HOTEL

No. of assets	No. of rooms	Average Occupancy	Revenue contribution by segment
1	632	47%	11%
FY2015: 1	FY2015: 632	FY2015: 48%	FY2015: 12%

MOKL Hotel faced an extremely challenging year with the soft overall market which significantly impacted MOKL Hotel's key segments from the lack of large scale banqueting events and the intense competition from completion of newly opened and renovated luxury hotels. The closure of MOKL Hotel's two outlets, Sultan Lounge and Casbah and the commencement of the renovation to the Club rooms and Suites, further impacted the overall performance and occupancy of the hotel.

Nevertheless, MOKL Hotel continued its award winning reputation and bagged 15 awards during the year, receiving Malaysia's Leading Hotel 2016 – World Travel Awards, World's Top 100 Hotels – Robb Report & Institutional Investor, Best Hotel in Malaysia – International Hotel Awards, Top 15 Hotels in Southeast Asia – Conde Naste Traveler, Excellence Award – RAWR Awards Malaysia Convention and Exhibition Associations, 5-star Gold Award – Kuala Lumpur Mayor's Tourism Award and ASEAN Green Hotel Award amongst others.

Industry Landscape and Operating Challenges

The sluggish economic environment in the luxury hotels' three key markets of oil and gas, finance and government caused significant corporate travel and entertainment restrictions. The corporates' belt-tightening also created a culture of 'avoiding luxury' as several shareholder events moved to down-market venues. City-wide conventions were significantly reduced from 2015 when large scale events such as the ASEAN Ministers meetings and International Olympic Congress boosted city-wide events business in the previous year. In spite of the negative headwinds, visitor arrivals to Malaysia have increased by over 7% in 2016, largely due to leisure travelers, including good growth from China with the visa-free entry process.

Stiff competition from MOKL Hotel's competitor set was another contributing factor which impacted the hotel's performance. 2016 saw the completion of Ritz Carlton's full hotel renovation and the launch of its new product followed by the opening of the new St Regis with the city's premier quality rooms and extensive banqueting facilities. New serviced apartments and AirBnB accomodation also posed competition as they aggressively pursued hotel guests, particularly long stay corporate guests, with their spacious modern apartment concept at 5-star hotel room rates.

In order to tackle the oversupply of hotels in the market, the Local Authority, Dewan Bandaraya Kuala Lumpur enforced a freeze on approval of hotel licenses in Kuala Lumpur in February 2016. This involved hotels ranging from the 6-star establishments to budget hotels and was timely to allow the market to improve occupancy and avoid a price war amongst the hotels with the stiff competition.

The Minimum Wage Order 2016 which raised the minimum wage from RM900 to RM1,000 came into effect in July 2016. This was a move by the government to boost labour income and help improve the economy in achieving the high-income developed nation status. This implementation saw its impact on the operating expenses of the hospitality industry, particularly payroll costs which will impact the hotel segment by approximately RM1 million per annum moving forward.

Strategies and Initiatives for the year

In order to mitigate the many challenges faced, MOKL Hotel implemented a comprehensive action plan to sustain its operations through active promotional residential packages, strong focus on F&B restaurant promotions, launch of F&B loyalty programme Elite Club and formed new marketing alliances for KLCC Precinct.

MOKL Hotel leveraged on its renovated meeting rooms and recreational facilities at Levels 2 and 3 respectively and aggressively promoted the newly renovated areas in banqueting and the AQUA Restaurant and Bar.

A new Peter Burwash Tennis Centre was launched in September 2016 to further enhance the Level 3 recreation offerings and to differentiate the hotel from its competitors.

With Sultan Lounge and Casbah facing competition from newer clubs in the city and in order to attract a younger leisure crowd for the rooms, MOKL Hotel outsourced the renovation of these two outlets to a Singaporean company to conceptualise and re-launch the two new clubs in that space. The clubs called KYO and REN were launched on 16 December 2016. The F&B component of MOKL Hotel's revenue was impacted by 16% due to the closure of these two outlets during the year.

After 18 years in operation, MOKL Hotel commenced its final phase of the masterplan refurbishment. The long-awaited guestrooms renovation which commenced in June 2016, will be undertaken in phases to avoid disruption to the hotel operations and is expected to continue until mid-2018. The first phase of the guest room renovation commenced with the Club rooms and the Suites, targeted to be completed by mid-2017.

Impact on Future Activities

With slow recovery due to depressed market conditions, MOKL Hotel will continue to pursue markets outside of its traditional reliance on the corporate markets lead by the oil and gas and finance industries. The hotel will leverage on its renovated facilities on Levels 2 and 3 and the new Suites and Club rooms as they come on line. Focusing on enticing promotions and cost control to maximise F&B contribution will also help to compensate soft room sales.

The guestrooms renovation will continue throughout 2017 with four floors being renovated at a time and single buffer floors above and below to minimise noise transmission to guest occupied floors.

The hotel will continue with its active sales and marketing action plan and also implement a comprehensive re-launch marketing plan as the new phases of rooms come on line. A very active promotional programme has been planned to keep the hotel lively with many activities to generate top of mind awareness levels for its diverse F&B offerings.

MOKL Hotel continued its **award winning reputation** and bagged 15 awards during the year...

MANAGEMENT SERVICES

No. of facilities managed	No. of car park bays managed	Revenue contribution by segment
20	11,873	10%
FY2015: 19	FY2015: 13,559	FY2015: 9%

Facility management and car parking management are the two income streams in the management services segment. KLCC Urusharta Sdn Bhd (KLCCUH) undertakes the management of all the office buildings within the KLCCP Stapled Group portfolio, common facilities and common estate which include KLCC Park, all within KLCC Development and also various PETRONAS facilities. KLCC Parking Management Sdn Bhd (KPM) provides parking management services befitting the standard required for the portfolio of assets within the KLCC Group of Companies. KPM also addresses the parking demands of the facilities and ensure the operations complement the integrated needs of the retail, office tenants, hotel and convention centre and provides advisory services to owners and operators on the practical, functional and aesthetic aspects of car park facilities.

During the year, KPM successfully achieved the integrated management certification comprising ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 which marked the continued determination and commitment in providing the highest quality in the delivery of services to customers, in accordance with its commitments under the Quality Management Systems. KPM also received recognition for demonstrating best practices and continuously monitoring safety and health of our workers at sites, when it bagged the MOSPHA Gold Award for the second consecutive year.

Industry Landscape and Operating Challenges

In a rising cost environment, KLCCUH's main challenge for the year included keeping operating costs of maintaining the buildings down without impacting the overall performance of the buildings for their clients. With periodical review of critical systems in our building leading to higher upgrading and replacement cost and currency fluctuation impacting cost of imported equipment and systems, KLCCUH exercised financial prudence in managing the overheads. With focus on driving down energy consumption in the assets and leveraging on manpower between facilities to better manage costs, KLCCUH maintained its operating costs for 2016, consistent with 2015.

With the sluggish economic and retail landscape affecting consumer confidence and sentiment, KPM faced challenges in managing the impact to the car count in the North-West Development car park site, as consumers were already cautious on spending in light of the lingering effects of GST implementation in 2015 and the rising cost of living. With commitment in ensuring the parking experience for customers are kept at high standards and an increase in car count of 7.3%, KPM saw increased revenue and PBT of 1.1% and 1.6% respectively from 2015.

Strategies and Initiatives for the year

KLCCUH and KPM contribute 10% of KLCCP Stapled Group's revenue and continued to improve operational efficiency and deliver quality services in tandem with the needs of its clients.

Our facility management team focused on the Green Building initiatives for PETRONAS Twin Towers and Menara 3 PETRONAS. With the achievement of the Provisional GBI Certification in 2015, the team worked towards meeting the GBI points and operational needs. This entailed upgrading of the Building Management System, in particular the Energy Management System component to track and control energy consumption, for both the buildings and the implementation of office LED and motion sensors in the staircases at PETRONAS Twin Towers.

KLCCUH also expanded its client base by providing facility management services to the properties under KLCCH in Kerteh, Terengganu, comprising offices, residential, clinics and the MITI building in Kuala Lumpur. The provision of facility management services for the MITI building will be KLCCUH's first, outside the KLCC Group of Companies. As global security threats are on the rise and as the KLCC Development is within the iconic belt, KLCCUH undertook a review of the KLCC Precinct Security Master Plan to enhance the Security Surveillance System and HELP Points within the KLCC Precinct Common Area.

In providing a parking experience from "just parking" to a "car park that cares", KPM installed a Customer Satisfaction Kiosk in the second quarter of 2016 to ascertain the level of customer satisfaction from transient and season card holders. KPM achieved a customer satisfaction of 64% for 2016. In order to reduce regular cash handling by car park personnel, KPM embarked on the implementation of a wireless credit card system for payment from customers which was fully operational from April 2016. KPM also implemented number tagged auto-pay machines to allow customers to correctly identify their exit points. With safety of their customers in mind, KPM placed pedestrian crossing and speed humps at the busiest entry and exits of the mall and at most intersections in the parking site to enable pedestrians to cross safely across the flow of vehicular traffic.

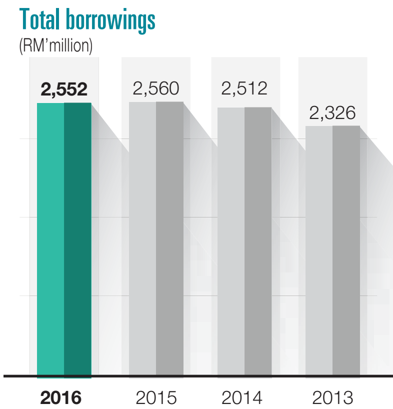
Impact on Future Activities

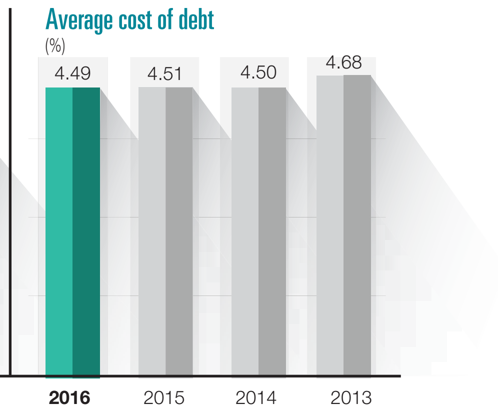
The performance of this segment is reliant upon the value generated through the service delivery to clients and customers, coupled with effective cost management. With customers' reliance on KLCCUH and KPM to deliver high standards of services, the management services segment will continue to implement initiatives to improve customer experience and to optimise the operations and maintenance cost in maintaining the performance of the assets to complement the property portfolio of KLCCP Stapled Group.

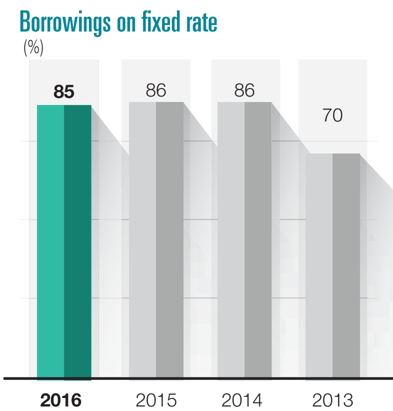
CAPITAL MANAGEMENT

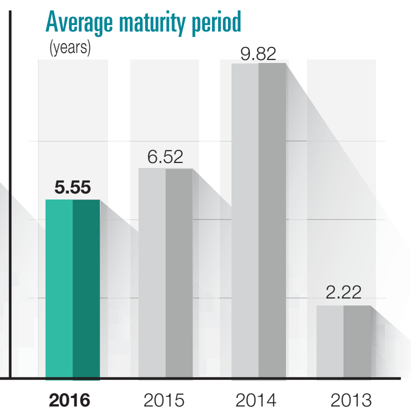
KLCCP Stapled Group practices prudent capital management of cost of funds and refinancing risks to meet capital requirements, expectations from the holders of Stapled Securities and to support KLCC REIT's strategic objectives. In 2014, KLCC REIT and Suria KLCC proactively restructured its existing facilities with the establishment of Sukuk Murabahah Programmes with combined limit of RM3 billion and RM600 million respectively which were rated AAA by RAM Ratings. In 2015, Asas Klasik Sdn Bhd, a 75% owned subsidiary of KLCC, which owns MOKL Hotel, restructured its existing borrowings of RM330 million into two restructured term loan facilities in the aggregate sum of RM378 million.

In respect to the ongoing projects, the MOKL Hotel guest room renovations is being funded from internal funds and the existing term loan facilities, whilst the substructure works for the Phase 3 redevelopment of City Point podium is being financed through internal cash and advance from KLCCP.

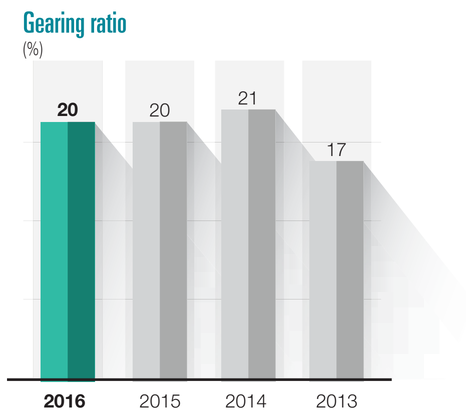








KLCCP Stapled Group **practices prudent capital management** of cost of funds and refinancing risks to meet capital requirements



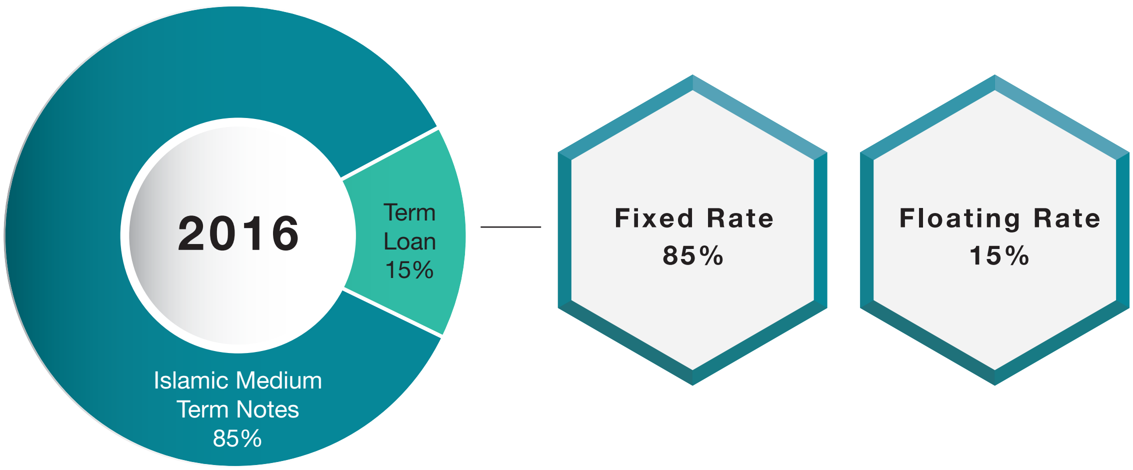
As at 31 December 2016, our outstanding borrowings stood at RM2,552 million remaining constant with that of 2015 as the drawdown of the term loan facilities for the renovations at MOKL Hotel was offset by the repayment of the revolving credit under Kompleks Dayabumi. Total gearing for KLCCP Stapled Group is at 20% with average cost of debt at 4.5%. 85% of our borrowings remain on fixed rate and the average maturity period stands at 5.6 years.

KLCC REIT still has unutilised facility from the RM3 billion Sukuk established amounting to RM1.4 billion. The sizeable debt headroom provides KLCCP Stapled Group financial flexibility to tap into debt market in the future. We will continue our diligence on capital management and maintain a well-staggered debt maturity profile to meet the investment needs in line with our strategies and enable a stable dividend payout to the holders of Stapled Securities.

KLCC REIT Sukuk Murabahah Programme	SURIA KLCC Sukuk Murabahah Programme	Mandarin Oriental, Kuala Lumpur Term Loan Facilities
• Combined limit of RM3 billion • Tenure of 3-10 years maturing 2024 • Rated AAA/Stable/P1	• Combined limit of RM600 million • Tenure of 10 years maturing 2024 • Rated AAA/Stable/P1	• Aggregate principal sum of RM378 million • Tenure of 10 years maturing 2025

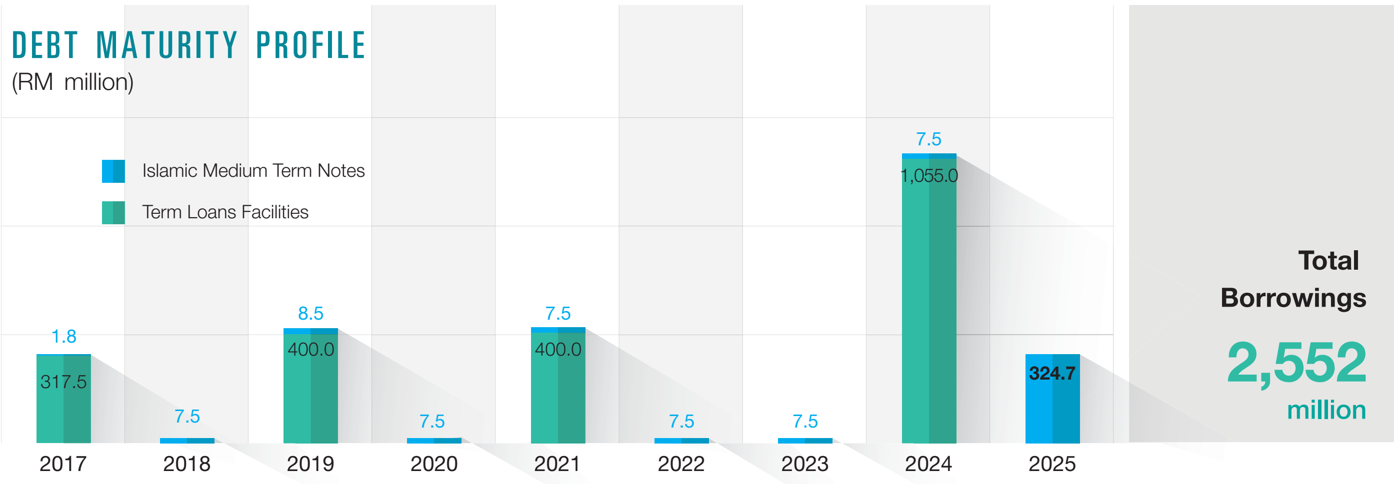
SOURCES OF BORROWINGS

(%)



DEBT MATURITY PROFILE

(RM million)



RISK MANAGEMENT

The Boards are committed in maintaining effective risk management practices to achieve the objectives and strategies set for KLCCP Stapled Group. The risk management activities are carried out annually as discussed in the Statement of Risk Management and Internal Control on pages 139 to 143. The framework enable the Boards to continuously identify, assess and manage the risk that affects the respective business segments within KLCCP Stapled Group.

The risks identified are continuously monitored and regularly evaluated with proper mitigation action plan developed to manage the risks at an acceptable level.

Key Financial Risk Factors

Credit Risk

Our credit risk arises primarily from our receivables that is inherent in our operating segments. The credit risk of KLCCP Stapled Group is controlled in our respective operating segments within the overall Group Risk Management Framework and Guidelines.

A significant portion of our receivables are from our office segments which contribute to 44% of our revenue. Our office segments are secured with long term leases with creditable tenants where the leases are paid timely. For the retail segment, tenants are reviewed thoroughly for their financial strength prior to offering tenancy spaces. Similarly, the hotel segment also reviews their customers which are provided credit limit to ensure timely collection of the payment obligations due.

Ageing analysis and credit limit review is used to monitor the receivables regularly and where debt is past due, appropriate actions are taken to recover them through discussions or legal means.

Liquidity Risk

Liquidity risk is the risk that the funds of the group will not be able to meet its financial obligations. As part of the overall liquidity management, KLCCP Stapled Group maintains adequate cash and bank balances to meet its working requirements.

KLCC REIT had also established a RM3 billion Sukuk Murabahah programme in 2014 of which only RM1,555 million was drawn down to date. With the debt headroom, KLCCP Stapled Group's capital commitments can be funded from the said programme and will not impact the internal funds to be used for working capital requirements. With the debt-to-equity ratio still relatively low at 20%, KLCCP Stapled Group will be able to tap on its financial strength to obtain short or medium term borrowings should the need arise.

Interest Rate Risk

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

KLCCP Stapled Group does not have significant interest bearing financial assets with exposure to interest rate mainly arising from borrowing. We maintain a high fixed rate borrowing of 85% of our total debt to mitigate the risk of interest rate movement. A 40 basis point (bps) movement in interest rate will result in a change in finance costs by RM1.5 million and impact the distribution per stapled security by 0.08 sen.

Foreign Currency Risk

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

We maintain a **high fixed rate borrowing** of 85% of our total debt to mitigate the risk of interest rate movement.

PROSPECTS

With expectations of global economy overcoming uncertainty, shocks and disruptions with qualitative growth, material risks will still emanate from policies and political uncertainties which will carry into 2017. Domestically, a moderate pace of growth is anticipated against the modest but healthy growth in global economy.

Intensifying competition from the hospitality and retail segments and the oversupply in the office market will continue to be of concern. Nevertheless, we will continue to re-position our assets to compete on our potential and quality and provide stable income for the long term.

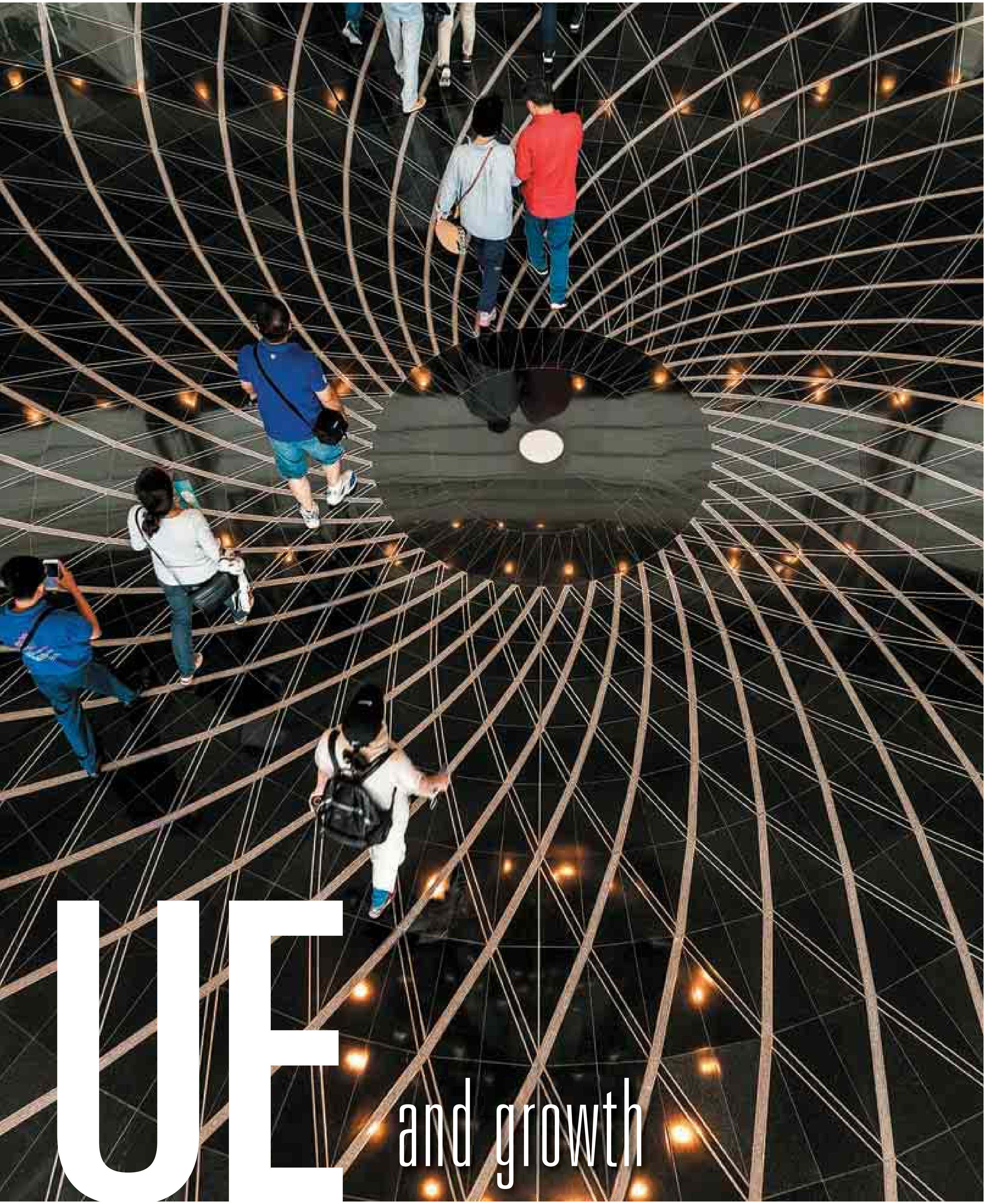
Our office performance will remain stable on the back on locked-in long term tenancies with high quality tenants. We will continue to strengthen our leasing capabilities and pursue aggressive initiatives to attract and retain quality tenants.

The retail segment is expected to remain stable as the retail landscape is expected to gradually improve in 2017. However, rental reversions are anticipated to remain relatively soft in light of the persisting challenges in the market. Suria KLCC will continue to leverage on its location, proximity and access to customers and focus on further enhancing overall customer shopping experience by creating dedicated precincts and securing key tenants and global flagship stores.

The slower pace industry outlook and the intense competition will continue to be a challenge for the hotel segment. Whilst our hospitality segment will continue to face stiff competition from the new players in the market, MOKL Hotel will continue to position itself to pursue markets outside of its traditional reliance on the corporate markets lead with an active promotional food and beverage programme whilst delivering a superlative hotel experience. The newly renovated Club rooms and Suites are expected to come on stream by mid-2017 and with the expected completion of the full renovation of the guest rooms by 2018, MOKL Hotel will be placed in good stead with a thorough makeover in order to frame it with a competitive advantage.

In spite of the challenges to come, KLCCP Stapled Group is well positioned to deliver profitable growth from our core business segments and remain responsive to the opportunities and vagaries of the market.

Delivering VAL



UE and growth

KLCCP Stapled Group is committed to enhancing long term value for holders of Stapled Securities through investor positioning and effective communication with the investment community to project consistent brand equity to the market.

Investor Relations

2016 proved to be an eventful year for the Investor Relations team (IR Team) in view of the events which transpired in the financial markets and the Malaysian REITs sector. The Overnight Policy Rate cut by Bank Negara, proposed liberalisation of the REIT Guidelines by Securities Commission Malaysia, volatility in the bond yields and the challenges amidst a slower economic growth coupled with sluggish market sentiments were among factors which necessitated substantial stakeholder engagement.

KLCCP Stapled Group recognises the value in transparent and open communication with our stakeholders, consistent with commercial confidentiality and regulatory considerations. This year, our IR Team focused on clear, consistent and continued communication to keep investor confidence high and maximise shareholder value. Our aim was to optimise the understanding of the investment community on our strategies, competitive position, financials and strategic progress.

COMMITTED TO CORPORATE TRANSPARENCY AND INVESTOR RELATIONS (IR) EXCELLENCE

7th Most Transparent KLCI Constituent

With our commitment to maintain high standards of transparency and disclosure of information to stakeholders, KLCCP Stapled Group was voted the 7th Most Transparent KLCI constituent in Focus Malaysia's ranking of the top 30 KLCI constituents in Malaysia, improving our score from 75% in 2015 to 80% in 2016. This marks the second consecutive year KLCCP Stapled Group was voted in 7th position, maintaining our top 10 ranking.

Top 100 companies for Minority Shareholder Watchdog Group (MSWG) Good Disclosures

KLCCP Stapled Group was also included in MSWG's Top 100 companies for demonstrating good disclosures and best practices in corporate governance, pursuant to MSWG's Malaysia-ASEAN Corporate Governance Awards 2016.

IR Benchmarking Excellence

The strength of our IR Benchmarking best practices received recognition from the industry when KLCCP Stapled Group was awarded the Best Senior Management IR Support and Most Organised Investor Relations by Alpha Southeast Asia at the Annual Southeast Asia's Institutional Investor Awards for Corporates. KLCCP Stapled Group was also a recipient of the Gold Award in The Asset Awards 2016 for excellence in Governance, CSR and Investor Relations Benchmarking.

At the 6th Malaysia Investor Relations Awards organised by the Malaysian Investor Relations Association ("MIRA"), KLCCP Stapled Group was nominated under 6 categories under the Large Cap sector – Best Company for IR, Best CEO for IR, Best CFO for IR, Best IR Professional, Best IR Website and Most Improved Service from IR Team. Over 2,200 members of the buy and sell-sides participated in the MIRA IR survey, which was a collaboration between MIRA and NASDAQ. The increased nominations marked another milestone in KLCCP Stapled Group's journey in upholding high standards of corporate governance transparency and best IR practices.

7th Most Transparent KLCI Constituent by Focus Malaysia

Best Senior Management IR Support and Most Organised Investor Relations

Excellence in Governance, CSR and Investor Relations Benchmarking (Gold Award)

PROACTIVE ENGAGEMENT WITH THE INVESTMENT COMMUNITY

At KLCCP Stapled Group, our management team continues to take a proactive approach in engaging with the investing community. Throughout 2016, we engaged with the investment community through various channels including one-on-one and small group meetings, teleconferences, analysts' briefing, dialogues with institutional investors, property tours and at the annual general meetings.

INVESTOR CONFERENCES/ CORPORATE ACCESS

12-13 April 2016
Invest Malaysia 2016
Kuala Lumpur

1-2 June 2016
Citi ASEAN, C-Suite Forum 2016
Singapore

26 July 2016
CIMB Malaysia REITs Corporate Access Day
Kuala Lumpur

27 July 2016
Nomura – Malaysia FOCUS
Kuala Lumpur

25 & 26 August 2016
JP Morgan Asia Yield 1x1 Forum
Tokyo

ANNUAL GENERAL MEETING

13 April 2016
- 13th Annual General Meeting of KLCCP
- 3rd Annual General Meeting of KLCCRM

Kuala Lumpur

One-on-one and Small Group Meetings

With the MREITs strong defensive qualities due to their stability and high yielding nature, REITs were the flavour of the year in a lackluster earnings growth environment. This was evident in the uptick in requests for investor meetings with senior management. In 2016, the management and IR Team engaged with 136 investors in 32 meetings. This included meetings with 48 foreign analysts and fund managers covering Singapore, Japan, Hong Kong, United Kingdom and United States of America. This platform also enlightened our potential new investors to better understand our business strategies, financial and operational performance and prospects. We were also delighted to be re-acquainted with many existing investors who continued to engage with us for updates on KLCCP Stapled Group's initiatives for the year and our mitigation of challenges faced.

Investor Conferences/Corporate Access

KLCCP Stapled Group maintains close connection with its stakeholders through conferences and corporate access, locally and internationally. Since 2014, KLCCP Stapled Group actively participated in Bursa Malaysia's Invest Malaysia Conferences which aims to showcase the country as ASEAN's Multinational Marketplace. On the international front, the IR Team participated in two conferences, in Singapore and Japan. With REITs in the spotlight throughout 2016, we had the privilege of participating in two Corporate Access events here in Kuala Lumpur, showcasing Malaysian REITs. This provided an opportunity for us to enhance our quality and depth of dialogue with our existing and potential investors and allowed us to share insights on KLCC Stapled Securities' performance, growth strategies, operating environment and outlook.

Quarterly Analysts' Briefings

In line with our timely release of quarterly results announcement, KLCCP Stapled Group hosts analysts' briefings bi-annually via a face-to-face meet up, for our half year and full year results. The event is typically attended by our sell-side and buy-side analysts who appreciate the open interaction with Management and the opportunity to gain insights from industry leaders.

The briefings are also intended to provide timely dissemination of the financial results of KLCCP Stapled Group and to facilitate the research analysts to produce their analyses and reports. These communication documents namely the presentation pack, financial results and stock information are simultaneously made available on our corporate website for the benefit of the investing community.

Annual General Meeting (AGM)

Retail investors are also an important part of our outreach efforts and the Management continues to engage them at our general meetings. We proactively encourage holders of Stapled Securities' participation in the AGM, by attendance or voting.

We are committed to constructive use of the AGM for the Board, Chairman and Directors to meet with the holders of Stapled Securities, hear their views and answer their questions. The AGM is the primary platform for direct two-way interaction between the holders of Stapled Securities, the Boards and Management of KLCCP and KLCCRM. At the 13th AGM of KLCCP and the 3rd AGM of KLCCRM held on 13 April 2016, all Directors were present in person to engage directly with, and be accountable to the holders of Stapled Securities for the stewardship of KLCCP and KLCC REIT. The CEO presented the highlights and achievements of KLCCP Stapled Group's financial and operational performance for the year, sustainability matters and the business outlook for the year to come.

Property Tour

During the year, KLCCP Stapled Group conducted 5 property tours covering the Skybridge (Level 42) and Observation Deck (Level 86) at the PETRONAS Twin Towers, Menara 3 PETRONAS, Menara ExxonMobil, Suria KLCC and MOKL Hotel, particularly for the foreign investors and fund managers and our local institutional investors. This provided the investors with first-hand experience of our operations, technical capabilities and upcoming development within the KLCC Precinct. We also hosted a tour of the Malaysian Petroleum Club at Level 42 of the PETRONAS Twin Towers for 25 of our analysts.

Corporate Website

Corporate websites serve as essential platforms for an organisation's information and messages to the shareholders. Our IR Team continues to enhance informative content and navigability features of the corporate website. The website is regularly updated with latest financial results, annual reports, presentation materials and announcements to Bursa Malaysia Securities Berhad of KLCCP and KLCC REIT respectively.

In 2016, the IR Team launched the Sustainability page in our corporate website which went live in May 2016. This page enables our stakeholders to obtain insights on our goals, approach and management of sustainability issues covering the themes of economic, environmental and social. We also enhanced the Investor Relations page with a fresh look for the landing page with features including Calendar of Events and information on daily and historical share price and volume of trading.

Analysts' Coverage

We continue to nurture and build upon our strategy of having active equity analyst coverage and maintain strong links with our sell-side research analysts. We are well covered by 13 analysts, including 4 foreign houses who provide extensive coverage and exposure to the investment community. We place importance on the reports by the analysts, industry and media and closely monitor them in improving our IR practices.

IR PERCEPTION STUDY

In order to gauge our improvement in our IR efforts and IR benchmarking excellence, we conducted an IR perception study with 50 of our research analysts, fund managers and investors for the second consecutive year to gather investors' perception on our senior management accessibility, impression of IR Team, quality and depth of briefings and meetings, peer comparison and sustainability practices. This was to provide Management with a better understanding of the views and concerns of the investors and identify areas for improvement in communication and disclosures. We scored on overall satisfaction of 81%, improving from 78% in 2015. We thank our analysts and fund managers for participating and giving their honest feedback as we remain committed in the continuous improvement of our efforts for well-informed decision making to achieve fair valuation of KLCCSS.

Moving into the new financial year, KLCCP Stapled Group's IR strategy will continue to focus on transparent, accessible and credible communication with our investors in achieving best of IR practices. We will continue to enhance our IR efforts and proactively engage our investing community with information on an equal basis, promptly and in a clear and consistent manner.

RESEARCH HOUSE

1. AffinHwang Capital
2. AllianceDBS Research
3. CIMB Investment Bank
4. Citi Singapore
5. Hong Leong Investment Bank
6. JP Morgan Securities (Malaysia)
7. KAF Seagroatt & Campbell Securities
8. Kenanga Investment
9. Macquarie Capital Securities
10. Maybank Investment Bank
11. MIDF Amanah Investment
12. RHB Research Institute
13. UOBKayHian Pte Ltd

Market Report

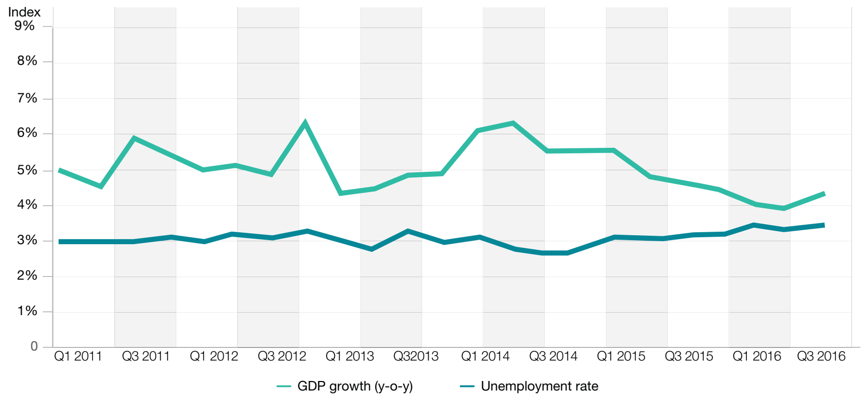
On the supply side, the construction sector led the growth league with y-o-y growth of 7.9% in Q3 2016, underpinned by infrastructure projects and real estate developments. This is followed by services (6.1%), manufacturing (4.2%) and mining (3.6%). However, the agricultural sector contracted by 5.9% y-o-y due to the lagged impact of El-Nino on palm oil output. In terms of sector composition, the services and manufacturing sectors have always been anchoring the economic activities, accounted for 54% and 23% of the GDP in 2015 respectively.

While the domestic fundamentals remained solid, businesses are cautious amid global economic uncertainties and sluggish external environment. This has resulted in slowing hiring activities, with unemployment rate edged up slightly to 3.5% in Q3 from 3.4% in Q2 2016, as labour force growth continued to outpace job creation.

1 ECONOMY

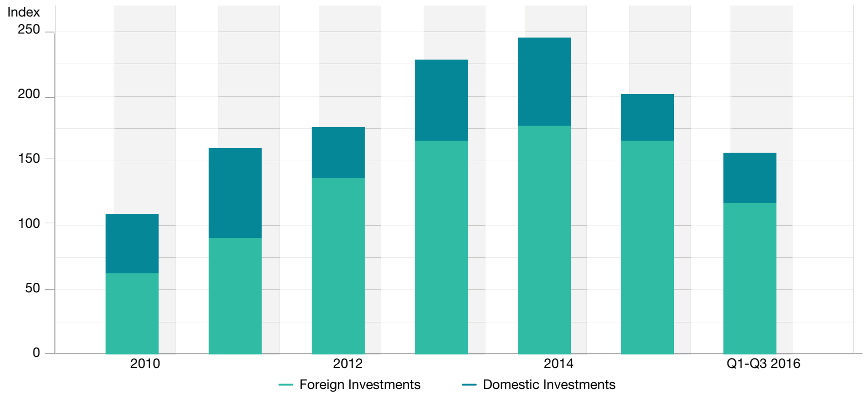
The year 2016 saw the global economic landscape marked by several economic and political events such as the US presidential election, European Union membership referendum in the UK, and China's economic slowdown, which have collectively stirred uncertainties among the investors and policy makers. Despite the stronger economic headwinds, the Malaysian economy remained on the growth trajectory albeit at a slower pace. It delivered a y-o-y growth of 4.3% in Q3 2016, after expanding at a decelerating rate for five consecutive quarters. This was driven mainly by the 6.0% y-o-y growth in private sector demand, supported by continued expansion in private consumption (6.4%) and private investment (4.7%). In contrast, demand from the public sector rose marginally by 0.3% y-o-y, with 3.1% growth in public consumption dragged down by a 3.8% decline in public investment. Net exports improved in Q3 2016, but this was largely due to a fall in imports.

Figure 1.1: GDP Growth and Unemployment Rate



Source: Department of Statistics Malaysia, Bank Negara Malaysia, 2016

Figure 1.2: Approved Investments, RM billion



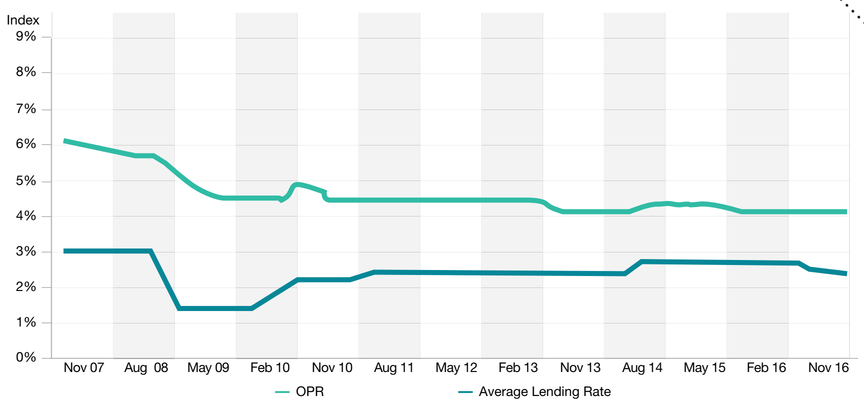
Source: Malaysian Investment Development Authority, 2016

A total of RM150.8 billion of investments were approved during the period between January and September 2016, 3.7% lower than the RM156.6 billion recorded during the corresponding period in 2015. This can be mainly attributed to the drop in investments in primary and manufacturing sectors, which offset the higher investments in the service sector. The World Economic Forum ranked Malaysia as the 25th most competitive economy in the world in its Global Competitiveness Report 2016 – 2017.

Headline inflation, as measured by the annual percentage change in Consumer Price Index, rose 2.1% in 2016 for the second consecutive year. This was largely due to the lower petrol prices which offset the higher inflation recorded in food and non-alcoholic beverages. Given the projected hike in crude oil prices, Bank Negara Malaysia (BNM) expects a higher inflation rate for the year 2017.

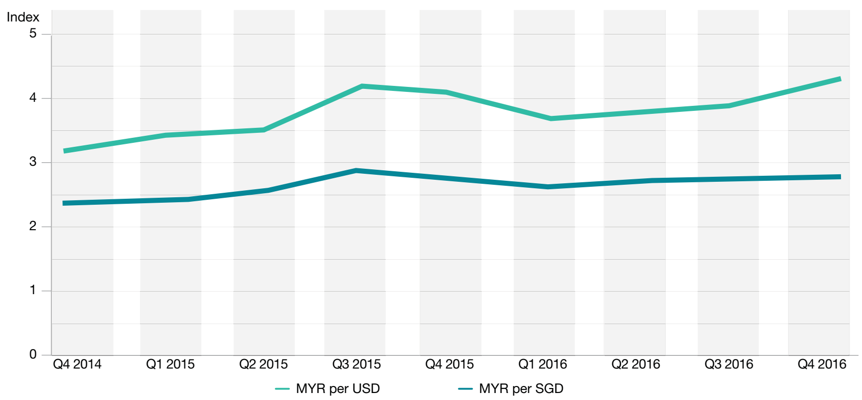
In July 2016, BNM lowered its Overnight Policy Rate (OPR) from 3.25% to 3.00%, given the moderate inflation coupled with the global market volatility heightened by Brexit. Consequently, average lending rate has declined. The reduction in OPR, the first since 2009, is expected to boost private consumption and investments, as consumers and investors will benefit from lower interest rate.

Figure 1.3: Overnight Policy Rate



Source: Bank Negara Malaysia, 2016

Figure 1.4: Exchange Rate, End of Quarter



Source: Bank Negara Malaysia, 2016

Expectations of Donald Trump's expansionary fiscal policies and Federal Reserve interest rate hike have resulted in capital outflows, leading to depreciation of emerging market currencies, including the Ringgit. Despite the resilient domestic fundamentals, Ringgit is likely to remain under pressure in 2017.

Moving forward, the domestic demand will continue to anchor the economic growth. In addition, the economy will also benefit from the expected hike in commodity prices. For the year 2017, the World Bank projected the GDP to grow at 4.3%.

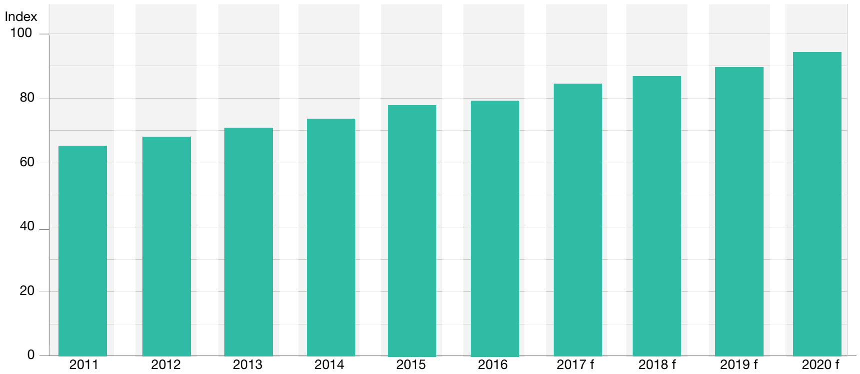
2 OFFICE

The office market continued to labour under the weight of continuing high supply completions and moderate net absorption rate, with no short term expectation of a quick recovery in sight. Total supply of office space stood at 78.5 million sq ft as of 2016, following the completion of 2.5 million sq ft during the year, a decline of 40% from the 4.2 million sq ft completed in 2015.

With higher absorption of 2.85 million sq ft in 2016 (2015: 1.76 million sq ft), vacancy rate marginally decreased to 18% (2015: 19%). This relatively high average vacancy figure reflected the overall poor health of the sector and is at least some 15 percentage point lower from what is considered to be a healthy market state. The sector has been rather badly affected by the end of the oil and gas sector boom during the second half of 2014 which saw the consolidation of companies as oil price fell to a low of US$25 per barrel from its peak of US$100+ in 2014. With a growing reputation and its position as a regional oil hub, Kuala Lumpur office market suffered as result.

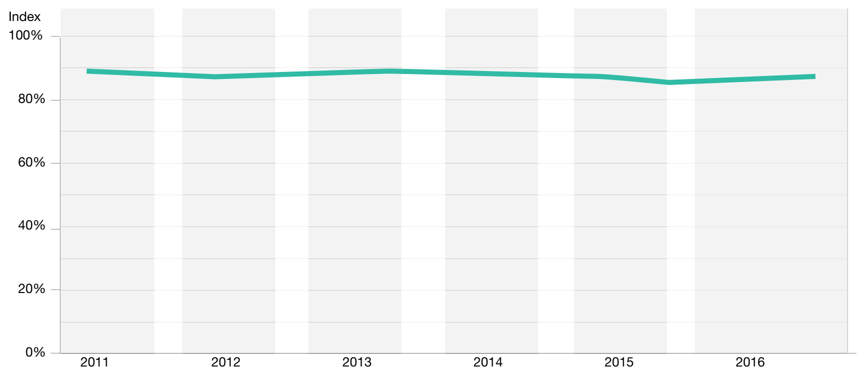
New completions continued to dampen recovery, as new buildings compete strongly for tenants, especially scarce major tenants such as multinational corporations (MNCs) that would provide an anchor to build up market shares, whether from new setups or relocations. Total projected and confirmed supply, i.e. those under construction is estimated at 14.7 million sq ft over the next four years, thus averaging 3.68 million sq ft per annum, historically on the high side of the range. Amongst these will be some of the tallest buildings globally, including TRX Signature Tower by Mulia Group (92 floors with 2.65 million sq ft), at Tun Razak Exchange where the new financial centre is being planned, and Merdeka PNB 118 (118 floors with 2.2 million sq ft).

Figure 2.1: Office Stock in Kuala Lumpur



Source: NTL Research & Consulting, 2017

Figure 2.2: Office Occupancy Rate in Kuala Lumpur



Source: NTL Research & Consulting, 2017

On the demand side, continued growth in the Service sector at 5.6% y-o-y over the first nine months of 2016 provided new support. The Business Process Outsourcing (BPO) segment is a particularly promising segment and seemed to have gained some momentum in driving demand since the liberalisation of the Multimedia Super Corridor (MSC) status from the core areas of Cyberjaya to other parts of the Klang Valley. Invest KL, an investment promotion agency has also been partially successfully in attracting new “regional headquarters” to town. Some of the major office movements in 2016 are GE at Nu Tower 2, MyCEB at Bank Rakyat Twins Tower and Vads to Menara TH Glomac.

Blurring the market equation reflecting the CBD's dominance as the commercial centre are the sprouting of multiple new sub-commercial centres of recent years, mainly in suburban areas, and now partially driven by the new MRT lines. Locations such as Bangsar South, KL Sentral and MidValley are now seen as viable options. Other aspiring and emerging projects are not far behind, such as KL Eco City, PJ Sentral, KWASA Damansara, and Pusat Bandar Damansara.

Figure 2.3: Selected New Office Developments in Kuala Lumpur

Office Buildings	Location	Net Lettable Area (sq ft)	Expected Completion
JKG Tower	Jalan Raja Laut	396,820	2017
Menara KEN	Taman Tun Dr Ismail	215,278	2017
Public Mutual Tower	Jalan Raja Chulan	400,000	2017
Bangsar Trade Centre	Bangsar	112,000	2017
3 Towers	Jalan Ampang	290,000	2017
South Point	Mid Valley	375,000	2017
KL Eco City (3 boutique office towers & 1 strata office tower)	Jalan Bangsar	1,232,000	2017
KL Eco City (Corporate Office Tower 1 & 2)	Jalan Bangsar	1,056,000	2017
KL Gateway	Jalan Kerinchi	730,000	2017
Etiqa Bangsar	Jalan Bangsar	494,000	2018
Equatorial Plaza	Jalan Sultan Ismail	851,642	2018
Menara Felcra	Jalan Semarak	1,121,234	2018
TRX Signature Tower	Tun Razak Exchange	2,650,000	2019
Sapura Tower	Jalan Kia Peng	1,180,000	2020
Cititower	Jalan Ampang	1,400,000	2020
Merdeka PNB 118	Jalan Hang Jebat	2,200,000	2020
TOTAL		**14,703,974**	

Source: NTL Research & Consulting, 2017

Rental rate movement has been anaemic, and range bound, to say the least, since 2008. If it is any consolation, Kuala Lumpur office rent remains very competitive globally, coming up in the top 10 in terms of ranking from the bottom in most international surveys. Part of this was due to the continued weak exchange rate vis-a-vis the US Dollar. Current prime office rents range from RM7-13 per sq ft on a gross basis, with average at RM6.25 per sq ft. Unlike other regional cities, rental trend in Kuala Lumpur is relatively stable, slow to adapt to the lopsided economic fundamentals of its present reality, and maintaining a momentum of its own.

Capital value is stable despite the weaker market prospect with no selling pressure. Several major enbloc office buildings were transacted at between RM800-900 per sq ft mark, with the landmark transaction for the year being Menara CapSquare. It was sold at RM849 per sq ft, with three years of rental guarantee, at 6%. There are now more launches of prime strata offices to cater to retail investors with prices set at completed benchmark projects such as Menara Bangkok Bank, Mercu Summer Suites and Q Sentral ranging from about RM1,000 per sq ft to a high of RM1,500 per sq ft.

As the most premier office buildings in Kuala Lumpur, The PETRONAS Twin Towers and the newer PETRONAS Tower 3 continue to set the benchmark for prestige and presence in KLCC business district in the last 18 years. Housing mainly the national oil corporation, PETRONAS as both master tenant on longer term lease and a major occupier, and a limited number of 3rd party subtenants, the buildings' performance are essentially unaffected by the general oversupply malaise affecting the market and its nearest competitors. Despite losing its status as the tallest building in the world some years ago, this position is unlikely to be assailed anytime soon by the new and taller local competitors coming in the horizon.

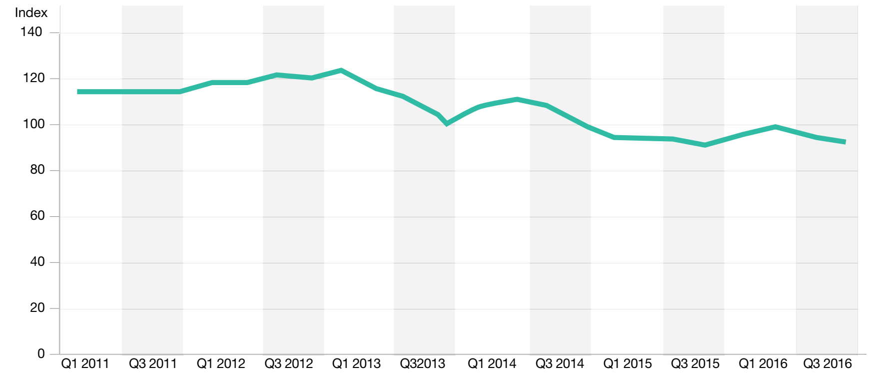
With GDP growth a shadow of its pre-1998 years and expected to marginally only improve to 4.3% in 2017, it may take some time for the market to recover to match pending new supply. As such office building owners will need to compete aggressively in a tenant market for some time to come, whether this take the form of offering competitive rentals to retaining existing tenants, or generous rent free periods to capturing new tenants to build up occupancy for the newer buildings.

3 RETAIL

The retail sector was beset by the continuing impact of GST on households since its implementation in April 2015, and the increasing cost of living especially in urban areas as a result of the imposition of the consumption tax and the removal of subsidies by the Government. Despite this, private consumption is critical in driving retail growth due to a cutback in public consumption as the Public Sector tried to rein in fiscal deficit to the promised target of 3.1%. Consumers' sentiment was gloomy, as indicated by the barometer Consumer Sentiments Index which reached its lowest point in Q4 2015 and remains below the 100-point threshold. The lower income households were specially affected despite being mitigated by Brim handouts.

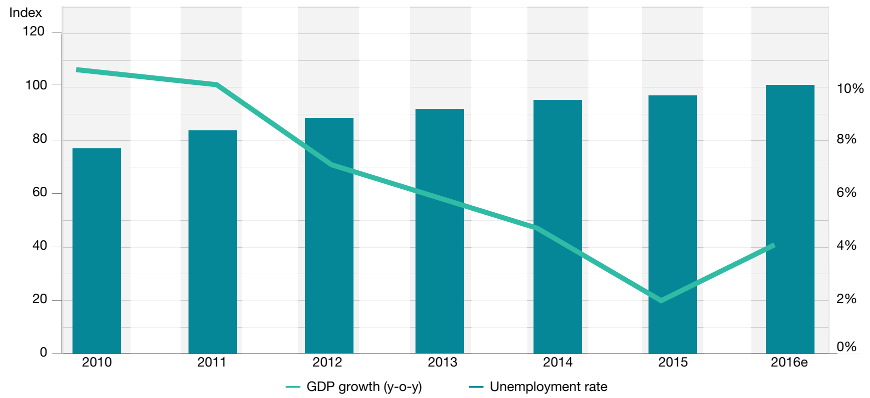
With no sign of an improving consumer sentiment as the year came to a close, the Retail Group Malaysia (RGM) revised downward the projected growth in retail turnover for 2016 twice to 3%. Retail sales growth registered at 1.6% for the first nine months of 2016, with a y-o-y decline of 4.4% in Q1, bouncing back in Q2 at 7.5% and had a dismal Q3 at 1.9% with no Hari Raya buying to cheer up sales.

Figure 3.1: Consumer Sentiments Index



Source: Malaysian Institute of Economic Research, 2016

Figure 3.2: Malaysia Annual Retail Sales, RM billion



Source: Retail Group Malaysia, 2016

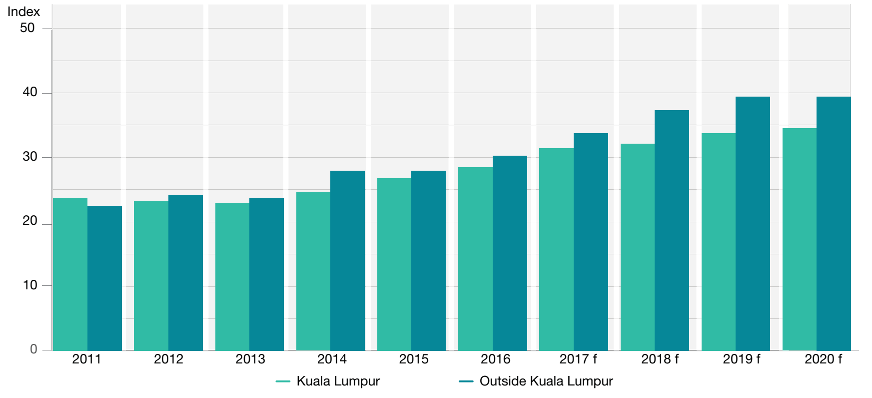
Several key constraints on the retail sale remain on the longer term, and these include growing income inequality, slow growth in workers' productivity and its impact on salary growth, high household debt to GDP ratio of 89% which is partially due to high cost of housing, and limited availability of skilled and talent workers to climb up the value chain and attract new investments that will provide high value jobs.

Total supply of retail space stood at 58.7 million sq ft as of 2016, 28.8 million of which are those located within Kuala Lumpur. New completion of 4.16 million sq ft was noted in the year of which 2.32 million sq ft were those located within the capital city. Major malls completed were Pavilion Elite and Sunway Velocity in Kuala Lumpur, The Starling in Petaling Jaya, and a new Aeon Mall in Shah Alam. The market will see continuing new supply despite growing signs of market disequilibrium and oversupply. Already a few of the new malls that were recently completed in the past 5 years are already under stress to stabilise and perform at an acceptable level of returns on investment. Physical stores are also increasingly losing market share to online shopping as internet retailing gained higher adoption especially amongst the young, and this threat can only grow from its current low base.

Aggravating this will be supply pipelines of some 15.6 million sq ft in the next four years. Major malls under construction include Bukit Bintang City Centre, and TRX which all aspire to be regional in size and scope of their offerings in an increasing more competitive environment. Joining this medley of retail formats will be the factory outlet malls, of which another two will be scheduled for the next two years, Horizon Village Outlets and Genting Premium Outlets, whilst Mitsui has announced and started an expansion plan adding 60 shops to the existing 130 stores by 2018. A sign of the trying time is that landlords' incentives which include fit out contributions and rent free periods are starting to be the "new normal" to tie in commitment of new tenants for new malls.

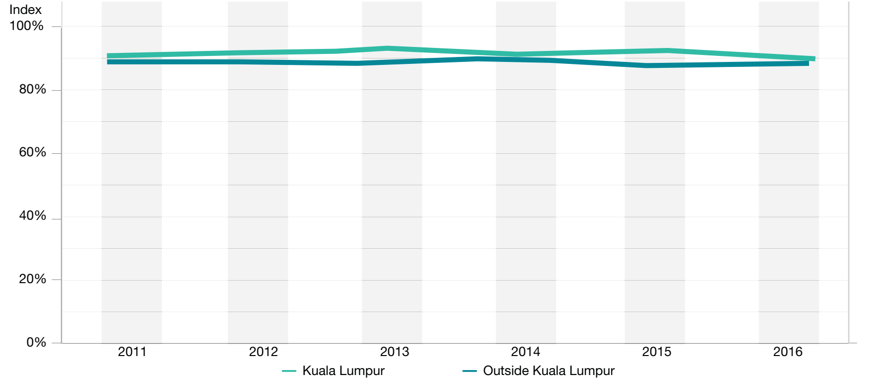
Retail malls in Kuala Lumpur recorded an average occupancy rate of 89.5%, compared to malls located outside Kuala Lumpur where occupancy rates averaged at 85.2%. Overall, occupancy rate continued to tread marginally downward, with average vacancy rate at 12.7%, up from 11.5% y-o-y, and will see more pressure going forward, as leasing up period of new completions will be longer than usual. To improve commitment rate and reasonable occupancy at opening date, new malls' opening is being push back, with incentives and rent free period of up to six months provided.

Figure 3.3: Retail Stock in Klang Valley



Source: NTL Research & Consulting, 2017

Figure 3.4: Retail Occupancy Rate in Klang Valley



Source: NTL Research & Consulting, 2017

An analysis of several MREITs retail portfolio based on the first three quarters performances indicated rental growth range from flat to low single digit unlike in the past where for premium malls, high single to low double digits increases were the norm. In 2016 the overall gross rental range of prime malls is between a low of RM16.10 per sq. ft. to a high of about RM30.00 per sq. ft.

Despite the more competitive landscape, these prime and established malls continued to perform well in terms of their ability to attract domestic shoppers and foreign visitors, over the last few years whilst maintaining a high occupancy and growing their revenues, albeit at a slower rate. The emerging threat on a mid to longer term of planned new and better malls such as at TRX and BBCC will certainly bite into market shares, and test their resilience to sustain past successes. When such arises, Suria KLCC's unique position within the KLCC commercial district should partially shield it compared to other malls.

On capital value, prices were noted to be stable. There were no major transactions of malls noted within the Klang Valley compared to 2015. However, several malls are actively up for offer, reflecting the trying time, including Quill City Mall and Empire Shopping Gallery in Subang Jaya.

Prices achieved in 2015 then ranged from a high of RM1,159 per sq ft for Da:men USJ to RM711 per sq ft for The Intermark Mall, both subjected to rental guarantees of sorts provided by the sellers. Revaluations at Pavilion Mall, Mid Valley Megamall and The Garden Mall are at RM3,354 per sq ft, RM1,995 per sq ft and RM1,542 per sq ft respectively. Prime malls are expected to be trading at around the low 6.0% – 6.5% yield.

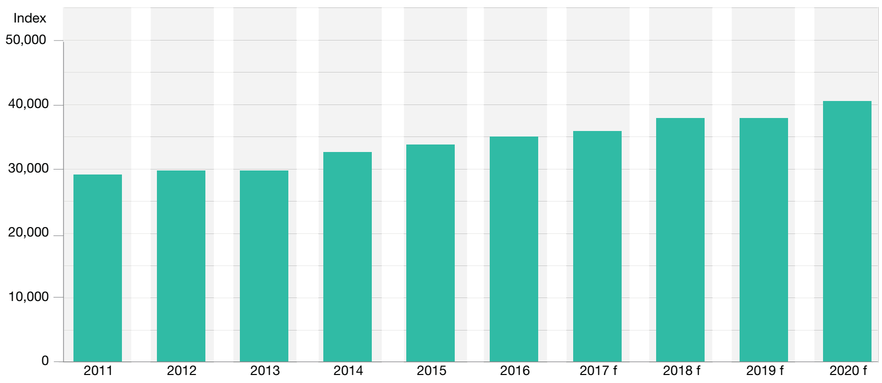
Whilst consumer confidence is unlikely to drop further, economic uncertainties and external events will continue to cloud consumer sentiment. The possibilities of an election year in 2017 will also place a damper on normal shopping patterns and habits.

4 HOTEL

Tourist arrivals in Malaysia have declined from its 2014 peak with 27.4 million to 25.7 million in 2015, despite the weakened Ringgit. However, the period between January and October 2016 showed signs of recovery as Malaysia hosted 22.1 million tourists, 4.4% higher than the 21.1 million recorded during the corresponding period in 2015. For the full year 2016, tourist arrivals is projected to increase by 4%, bringing a total receipt of RM82.13 billion.

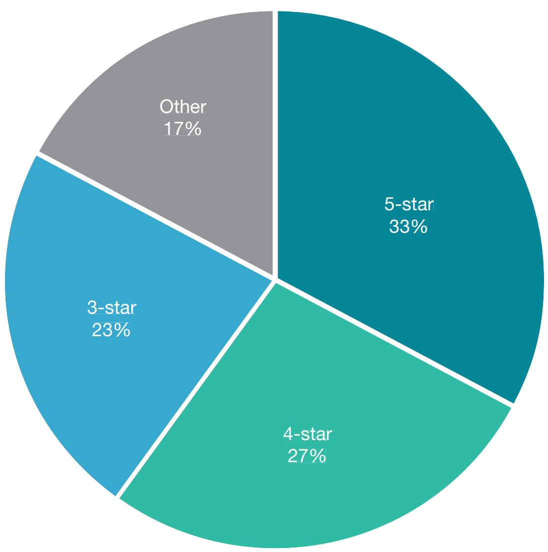
Growth in tourist arrivals was largely driven by leisure travellers, as the economic uncertainties have contributed to prudent spending on business travel and entertainment. This is particularly evident in the oil and gas, finance and public sectors, which are the key drivers for the Kuala Lumpur luxury hotel market. Competition in the luxury market continues to stiffen, with the opening of 208-room The St Regis by Starwood, relaunch of the newly-refurbished The Ritz-Carlton (364 rooms), and upcoming hotels including Banyan Tree Signatures, Royale Pavilion, Four Seasons Place and W Kuala Lumpur. Emergence of branded serviced apartments and AirBnB rentals pose threats to the market share of luxury hotels in the long stay travellers and family segment.

Figure 4.1: Hotel Stock in Kuala Lumpur



Source: NAPIC, 2016; NTL Research & Consulting, 2017

Figure 4.2: Hotel Rooms by Star Rating



Source: NAPIC, 2016; NTL Research & Consulting, 2017

In response to the slower economic growth and intensifying competition, many luxury hotels have embarked on aggressive marketing and promotion campaigns in a bid to maintain their market position. Consequently, average room rate (ARR) of the luxury hotels in Kuala Lumpur has declined by 3.3% to RM605 per night in 2016. This gave rise to a higher occupancy rate of 73.5% (2015: 65%), resulting in higher revenue per available room (RevPar). Looking ahead, upward movement in average room rate is likely to be limited in the short term, given the supply of over 5,000 rooms slated for completions by 2020. Acknowledging the fear of oversupply, the Kuala Lumpur City Hall has announced in February 2016 that there will be a freeze on the issuance of hotel operating licences.

Capital values for 4 and 5-star hotels in 2016 is in the range of RM800,000 – RM1,000,000. IGB Corporation disposed its 910-room Renaissance Kuala Lumpur at RM765 million, which translated to RM841,000 per room, while Aseana sold its 4-star Aloft KL Sentral at RM861,000 per room. Capitalisation rate for prime hotels is estimated at 5.0% – 6.0%.

Despite the concern on the prospect of oversupply, the outlook remains positive in the medium term, as the weakened Ringgit will strengthen Malaysia's position as an attractive regional destination. In addition, the government's effort in attracting multinational corporations (MNCs) to locate their regional hub in Kuala Lumpur will give rise to higher demand from business travelers. According to the Kuala Lumpur Tourism Master Plan 2015 – 2025, total number of hotel guests is projected to increase to 16 million in 2025, with a longer average length of stay of 5.5 days, compared to 3.1 days in 2013.

Nawawi Tie Leung

Figure 4.3: Selected New Luxury Hotel Developments in Kuala Lumpur

Hotels	Location	No. of Rooms	Expected Completion
Banyan Tree Signatures	Jalan Raja Chulan	43 suites	2017
Royale Pavilion	Jalan Raja Chulan	337	2017
Four Seasons Place	Jalan Ampang	209	2018
The RuMa Hotel	Jalan Kia Peng	253	2018
W Hotel	Jalan Ampang	150	2018
Fairmont Raffles	Jalan Ampang	750	2020
Bukit Bintang City Centre	Jalan Hang Tuah	359	2020
So Sofitel	Jalan Ampang	207	2020
Kempinski Hotel	Jalan Conlay	261	2020
TOTAL		**2,569**	

Source: NTL Research & Consulting, 2017

Note:
This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, Nawawi Tie Leung can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproduction should be credited to Nawawi Tie Leung.

Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date Of Acquisition	10 April 2013
Acquisition Price	RM6,500,000,000
Title	GRN 43697, Lot 169, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Tenure	Freehold
Age of building	20 years
Encumbrances	Nil
Lease/Tenancy Profile	Leased to a single lessee, Petroliam Nasional Berhad vide a Triple Net Lease Agreement for a term of 15 years, expiring 30 September 2027
Net Book Value as at 31 December 2016	RM6,656,432,932
Appraised Value	RM6,918,000,000
Date of Valuation	31 December 2016
Independent Valuer	Nawawi Tie Leung Property Consultants Sdn Bhd

PETRONAS Twin Towers is a world landmark and Malaysia's symbol of success. The Towers have won numerous awards in building design, namely the FIABCI Malaysia Property Award 2001, FIABCI Prix d'excellence 2002 and the Aga Khan Award for Architecture 2004.

PETRONAS Twin Towers is the first phase of the KLCC Development, located at the north-western corner of the 100-acre prime land situated in the commercial hub of Kuala Lumpur. The Twin Towers stand majestically at 452 metres above street level with the pinnacles reaching a height of about 73.5 metres.

A prime A-Class office building comprising two identical 88-storey office towers (namely, Tower 1 and Tower 2), the PETRONAS Twin Towers are linked by a 58.4 metre sky bridge at levels 41 and 42. The unique double deck sky bridge which stands at 170 metres above street level is the highest double deck bridge in the world. The towers are designed with intelligent Building Management System (BMS) and Building Control System (BCS) features. PETRONAS Twin Towers are part of Malaysia's Multimedia Super Corridor (MSC) and Tower 2 of PETRONAS Twin Towers has been accorded the Malaysia MSC Cybercentre status.

The iconic towers also house a 864-seat concert hall known as Dewan Filharmonik PETRONAS, the PETRONAS Twin Towers Visit where visitors can tour the sky bridge at Level 41 and the viewing deck at Level 86 of Tower 2 and the PETRONAS Twin Towers Gift Shop.

Ongoing Initiatives

Following the achievement of the Provisional Green Building Index (GBI) Malaysia certification under Gold Rating in April 2015, we continued to implement initiatives during the year towards obtaining full GBI certification by 2018. This involved upgrading of the Energy Management System component to track and control energy consumption and the implementation of office LED and motion sensors in the staircase.

Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date Of Acquisition	10 April 2013
Acquisition Price	RM1,790,000,000
Title	GRN 43699, Lot 171, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Tenure	Freehold
Age of building	5 years
Encumbrances	Nil
Lease/Tenancy Profile	Office Tower, Menara 3 PETRONAS is leased to a single lessee, Petroliam Nasional Berhad vide Triple Net Lease Agreement for a term of 15 years, expiring on 14 December 2026. Retail Podium, Menara 3 PETRONAS is tenanted to various retailers on a 3 to 5 year term tenancy
Net Book Value as at 31 December 2016	RM1,931,070,892
Appraised Value	RM2,000,000,000
Date of Valuation	31 December 2016
Independent Valuer	Nawawi Tie Leung Property Consultants Sdn Bhd

Menara 3 PETRONAS complements the 88-storey PETRONAS Twin Towers as the existing development within the KLCC Precinct. The 59-storey Menara 3 PETRONAS is located on a 1.06 acre site of the KLCC's Northwest Development.

At 267 metres, the tower consists of 53-storey offices above the podium block, six levels of retail and four levels basement car park. The six floors of retail podium are seamlessly connected to Suria KLCC, the premier shopping centre in Kuala Lumpur.

The building is equipped with intelligent Building Management System (BMS) and Building Control System (BCS) features.

Ongoing Initiatives

Following the achievement of the Provisional Green Building Index (GBI) Malaysia certification under Silver Rating in April 2015, we continued to implement initiatives during the year towards obtaining full GBI certification by 2018. This involved upgrading of the Energy Management System component to track and control energy consumption.

Menara ExxonMobil is a 29-storey office building which houses the ExxonMobil group of companies in Malaysia. Menara ExxonMobil is strategically located at the south-eastern portion of the KLCC Development and enjoys an uninterrupted view of the PETRONAS Twin Towers and KLCC Park. The rectangular-shaped building has a central service core and a virtually column-free interior.

Rising 126 metres above street-level, Menara ExxonMobil has 23 office levels and one level which house the recreational facilities including squash courts, gymnasium, rooms for indoor games and a cafeteria. The first to the fifth floors together with three levels of basement, provide 524 parking bays.

Location	Kuala Lumpur City Centre, 50088 Kuala Lumpur
Date Of Acquisition	10 April 2013
Acquisition Price	RM450,000,000
Title	GRN 43685, Lot 157, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Tenure	Freehold
Age of building	20 years
Encumbrances	Nil
Lease/Tenancy Profile	Leased to a single lessee, ExxonMobil Exploration and Production Malaysia Inc on a 5-year term expiring 31 January 2017. New lease commenced on 1 February 2017 for a 9-year term expiring on 31 January 2026 with an option to renew for further 3 successive terms of 3 years each (3 years + 3 years + 3 years)
Net Book Value as at 31 December 2016	RM504,840,441
Appraised Value	RM505,000,000
Date of Valuation	31 December 2016
Independent Valuer	Nawawi Tie Leung Property Consultants Sdn Bhd

Location	Kuala Lumpur City Centre, 50500 Kuala Lumpur
Date Of Acquisition	31 May 2004
Title	PN 2395, PN 4073, PN 33471, PN 32233, Lot 38, 39, 45 & 51 Seksyen 70, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Tenure	Leasehold interest for 99 years expiring 9 November 2081
Age of building	34 years
Encumbrances	Nil
Lease/Tenancy Profile	Leased to a single lessee, Petroliam Nasional Berhad vide a Triple Net Lease Agreement for a term of 15 years, expiring 31 December 2031
Net Book Value as at 31 December 2016	RM718,448,000
Appraised Value	RM723,353,000
Date of Valuation	31 December 2016
Independent Valuer	Nawawi Tie Leung Property Consultants Sdn Bhd

Kompleks Dayabumi is an integrated office development with complementary retail podium located within the former Central Business District of Kuala Lumpur. The building comprises a 36-storey purpose-built office building (known as Menara Dayabumi) and a parcel of contiguous commercial land which was previously the site of City Point podium. The City Point podium was demolished in 2015 to make way for the proposed Dayabumi Phase 3 development.

Menara Dayabumi has undergone several asset initiatives to rejuvenate the more than 30-year-old building, which will bode well with the River of Life Project under the Government's Transformation Programme. To-date, Menara Dayabumi has seen the upgrading of the lift lobbies and common areas, upgrading of the MISC Recreational Club, auditorium, development of the new corporate lobby and the renovation of retail area.

In 2016, conversion of the atrium spaces into additional office areas was completed and this marked the completion and refurbishment of Menara Dayabumi which enhanced the positioning of this building as a prime Grade-A office building.

Ongoing Initiatives

Following the demolition of the City Point podium in 2015, we embarked on the substructure works which will see completion by 2017.

Location	Kuala Lumpur City Centre, 50500 Kuala Lumpur
Date Of Acquisition	31 May 2004
Title	GRN 43698 Lot 170, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Tenure	Freehold
Age of building	18 years
Encumbrances	Charged twice by Suria KLCC to Lembaga Kumpulan Simpanan Pekerja, registered on 19 December 1996 and 12 February 1998 respectively
Lease/Tenancy Profile	Tenanted to various retailers on a 3 to 5-year term tenancy
Net Book Value as at 31 December 2016	RM5,346,141,000
Appraised Value	RM5,350,000,000
Date of Valuation	28 October 2016
Independent Valuer	Cheston International Sdn Bhd

Suria KLCC is Malaysia's premier shopping destination located in the Kuala Lumpur City Centre. It offers an array of goods and services to please and pamper the needs of shoppers from fashion, entertainment, arts and culture to local delicacies and international gourmets.

Set in the heart of Kuala Lumpur's Golden Triangle, Suria KLCC is surrounded by hotels, office buildings, a scenic park and the KLCC Lake Symphony Fountains, promising hours of leisurely pleasure. It also provides a unique combination of nature, arts and culture, and education set against peaceful surroundings and state-of-the-art amenities. Galeri PETRONAS featuring various art exhibits and PETROSAINS, an interactive Science Discovery Centre are located in Suria KLCC. The centre is also linked to the world-class Dewan Filharmonik PETRONAS, the country's 864 seats concert hall.

There are six levels of retail outlets, each level of a distinctive character and style. Anchor tenants are Isetan, Parkson Grand, Tanjong Golden Village and Marks & Spencer. Stores unique to Suria KLCC include Alexander McQueen, DIOR Homme, Boggi Milano, Chanel, Brioni, Coach Men, Mont Blanc, Rolex, Giorgio Armani, Farah Khan, Aseana, Kinokuniya, De Beers, Balenciaga, MaxMara, Harrods, Harrods Café, Patek Philippe, Versace Collection, French Sole, Carolina Herrera, M Marini and Dolce & Gabbana.

Location	Kuala Lumpur City Centre, 50500 Kuala Lumpur
Date Of Acquisition	31 May 2004
Title	GRN 43700 Lot 172, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Tenure	Freehold
Age of building	18 years
Encumbrances	Charged by Asas Klasik Sdn Bhd to Public Bank Berhad, registered on 12 June 2008
Net Book Value as at 31 December 2016	RM565,300,000
Appraised Value	RM900,000,000
Date of Valuation	11 November 2016
Independent Valuer	Cheston International Sdn Bhd

Set between the flowering gardens of the City Centre Park and the dramatic heights of the PETRONAS Twin Towers, Mandarin Oriental, Kuala Lumpur (MOKL Hotel) is a five-star luxury hotel with impressive views, fabulous facilities and a convenient central location.

An epitome of luxury, the 32-storey MOKL Hotel has 632 rooms, including 41 suites and 40 serviced apartments that are elegantly furnished and fitted with finest amenities. It also offers meeting and convention facilities as well as function rooms.

The hotel has five restaurants serving a range of cuisines, three bars and a bakery. The facilities include a spa, a fitness centre, an outdoor infinity pool, tennis courts and indoor golf simulators.

To-date, MOKL Hotel completed the refurbishment of the lobby, upgrading of the ballrooms, all day dining, lounge, club floors, meetings areas and the recreational facilities. In 2016, MOKL Hotel commenced the final phase of the renovation addressing the guest rooms.

Ongoing Initiatives

Phase one of the guest room renovation commenced with the Club room and the Suites, targeted to be completed by mid-2017.

Menara Maxis is a 49-storey modern office building located adjacent to the PETRONAS Twin Towers and Suria KLCC. Completed in the first quarter of 1998, Menara Maxis is the headquarters of the Tanjong Public Limited Company group of companies, Maxis Communications Berhad and their associate companies.

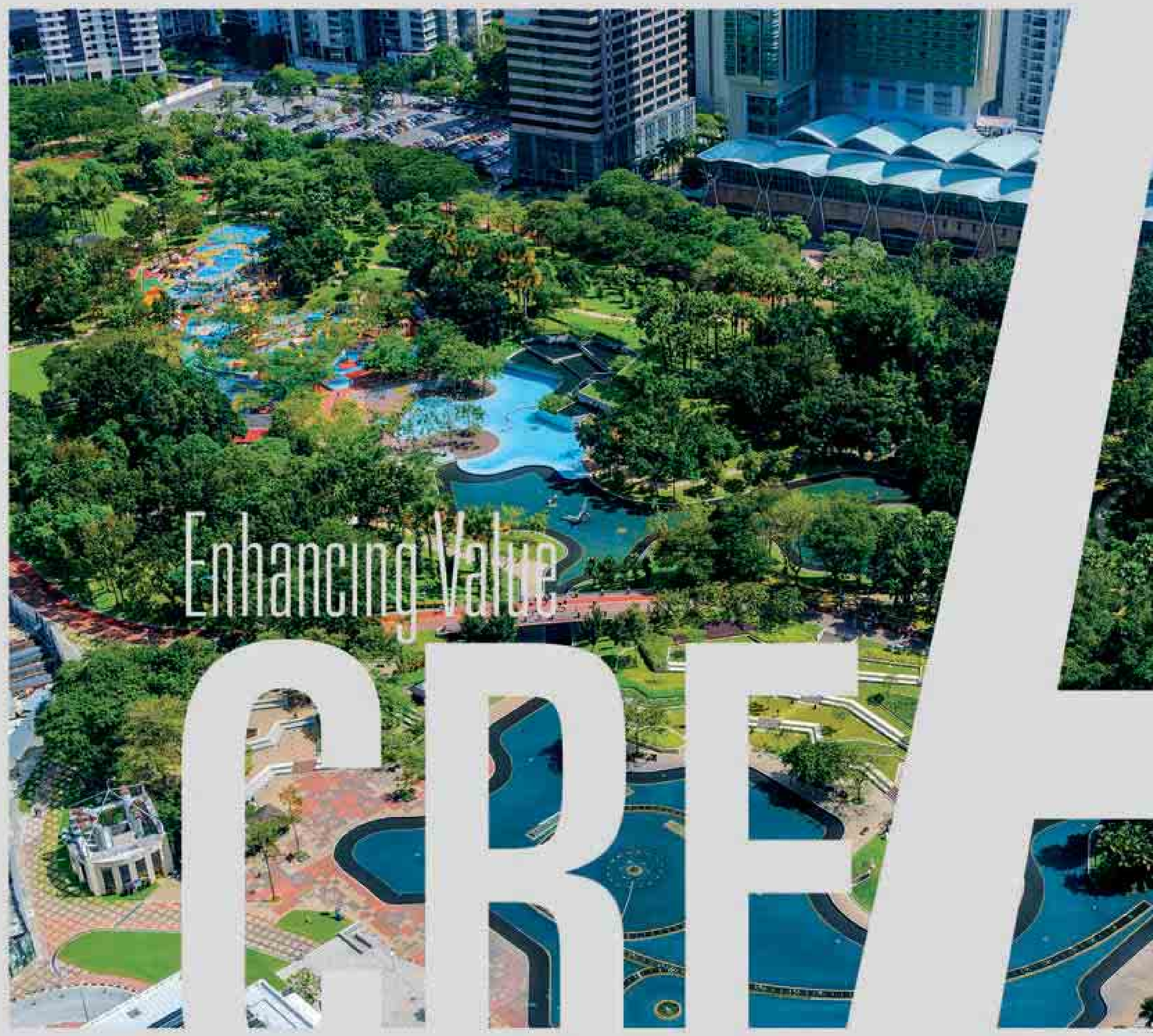
With its elegantly curved façade fronting Jalan Ampang, Menara Maxis provides 49,054 sq. m. of net lettable office space area. Glazed with sun-shades, the building is a tall slender structure with floors that set back towards the top of the building at levels 37, 39, 42 and 45 to create a "stepping" effect. Above the 37th floor, the building creates a unique series of terraces that provide the occupants with a dramatic and breathtaking view of the KLCC Park. The building incorporates a unique "porte cochere" at the front entrance supported by four internally-lit columns.

Location	Kuala Lumpur City Centre, 50500 Kuala Lumpur
Date Of Acquisition	31 May 2004
Title	GRN 43696 Lot 168, Seksyen 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Tenure	Freehold
Age of building	18 years
Encumbrances	Nil
Lease/Tenancy Profile	Leased between Impian Klasik Sdn Bhd and Tanjung City Centre Property Management Sdn Bhd vide a Triple Net Lease Agreement for a term of 15 years, expiring 1 June 2028
Appraised Value	RM760,000,000
Date of Valuation	31 December 2016
Independent Valuer	Jones Lang Wootton

Property Portfolio

Property	PETRONAS Twin Towers	Menara 3 PETRONAS	Menara ExxonMobil	Menara Dayabumi	Menara Maxis	Suria KLCC	Mandarin Oriental KL	Total
Land Area (sq. ft.)	234,007	46,306	43,045	315,803	46,597	303,112	87,123	**1,075,993**
Gross Floor Area (sq. ft.)	4,693,756	1,500,814	559,520	1,077,093	805,937	1,545,310	998,706	**11,181,136**
Gross Floor Area – carpark (sq. ft.)	2,065,000[1]	170,782	240,981	313,036	–	–	29,000	**2,818,799**
Net Lettable Area (sq. ft.)								
Office	3,195,544	812,806	395,851	650,297	537,085	–	–	**5,591,583**
Retail	–	132,101	–	–	–	1,144,850	–	**1,276,951**
Car Park bays	4,889[1]	193	524	529	–	–	389	**6,524**
Occupancy as at 31 December 2016 (%)								
Office	100	100	100	100	91	–	–	**99**
Average FY2016 occupancy (%)								
Retail	–	89	–	–	–	96	–	**95**
Hotel	–	–	–	–	–	–	47	**47**

[1] *North-West Development Car Park, shared by PETRONAS Twin Towers, Suria KLCC and Menara Maxis*



Enhancing Value

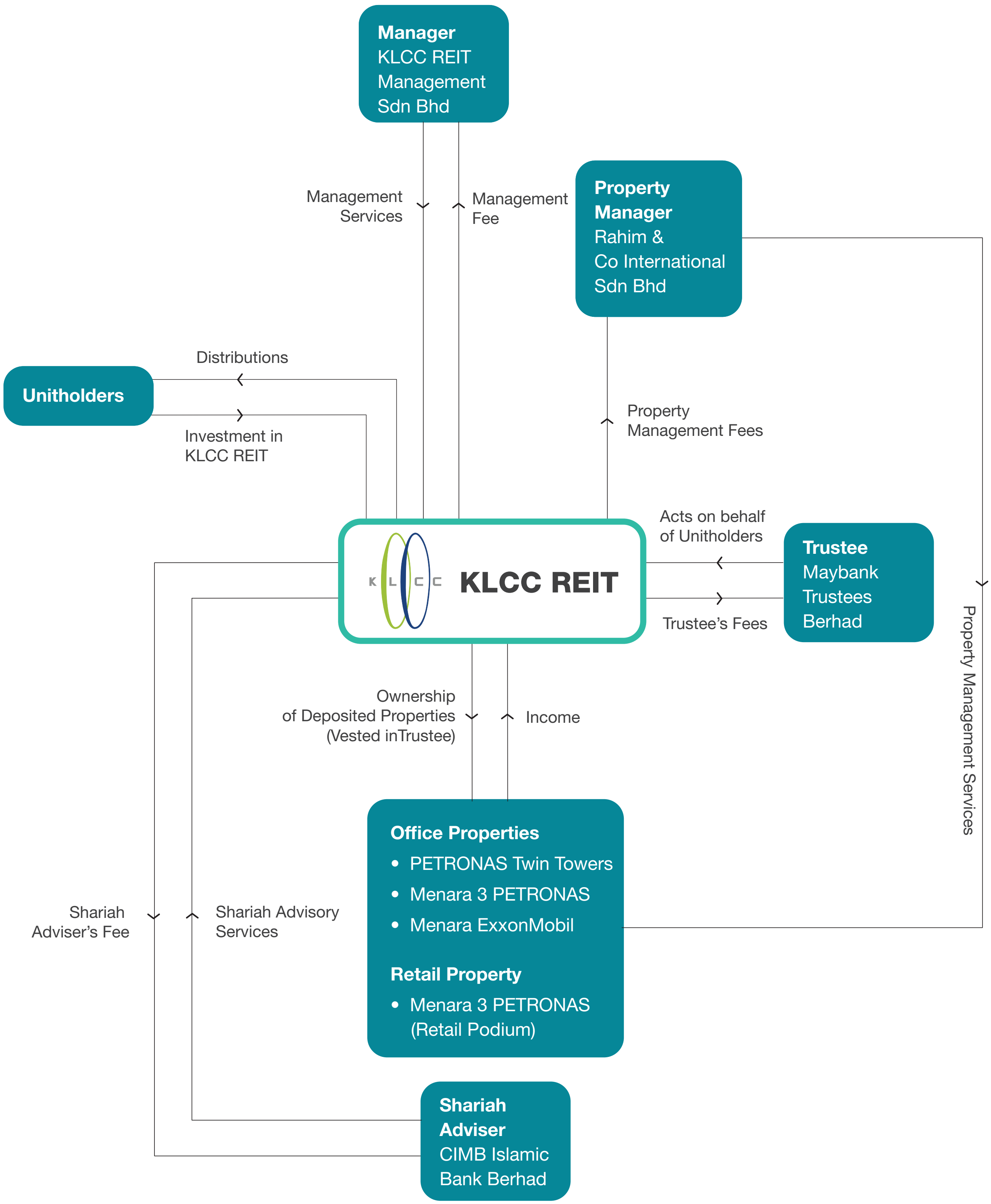
CRE

We are committed to enhancing long-term value through investor positioning and effective communication with the investment community to project consistent brand equity to the market. Sustaining competitive advantage.

KLCC REIT Salient Features

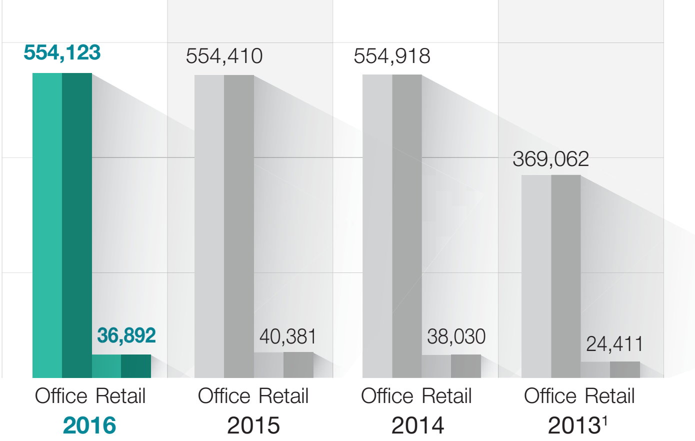
Name of Fund	KLCC Real Estate Investment Trust (KLCC REIT)
Fund Type	Income and Growth
Fund Category	Islamic Real Estate Investment Trust
Duration of Fund/Termination Date	The earlier of: • 999 years falling on 8 April 3012 • The date on which KLCC REIT is terminated by the Trustee or the Manager, in circumstances as set out under provisions of the Trust Deed dated 2 April 2013
Approved Fund Size	1,805,333,085 units
Market Capitalisation	RM14,984,264,606 (as at 31 December 2016)
Investment Objective	To provide the unitholders with regular and stable distributions, improving returns from property portfolio and capital growth, while maintaining an appropriate capital structure
Investment Policy	To invest, directly and indirectly, in a Shariah-compliant portfolio of income producing Real Estate used primarily for office and retail purposes in Malaysia and overseas
Distribution Policy	95% of KLCC REIT's distributable income for FY2013 & FY2014 and at least 90% for each subsequent financial year Distributions are made on a quarterly basis
Gearing Policy	Up to 50% of total asset value of the Fund
Listing Date	9 May 2013
Stock Name	KLCC
Stock Code	5235SS

KLCC REIT Structure

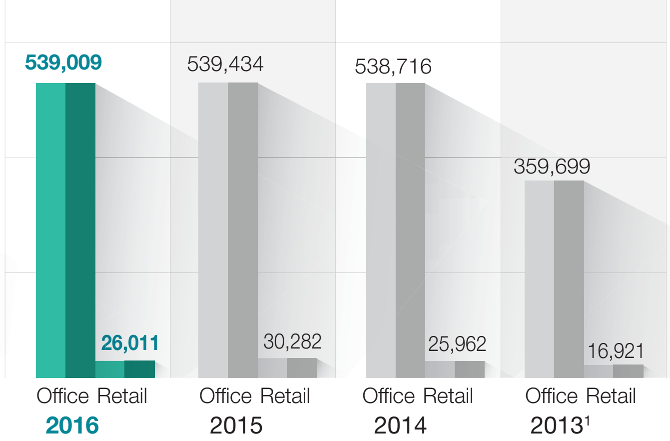


KLCC REIT Financial Highlights

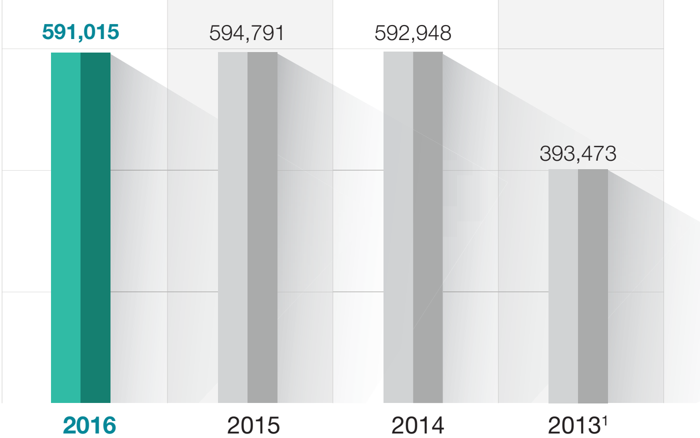
REVENUE
(RM'000)



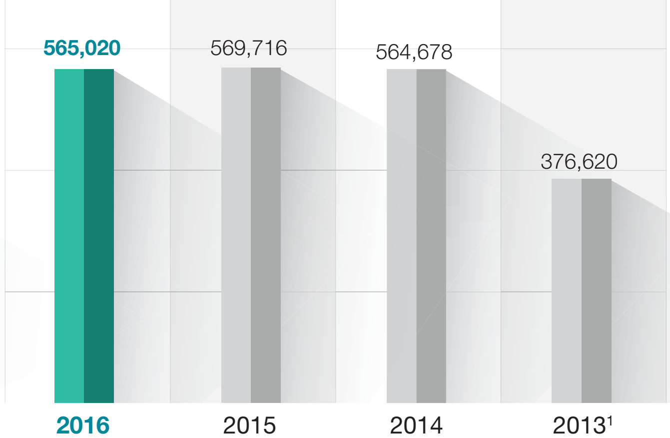
NET PROPERTY INCOME
(RM'000)



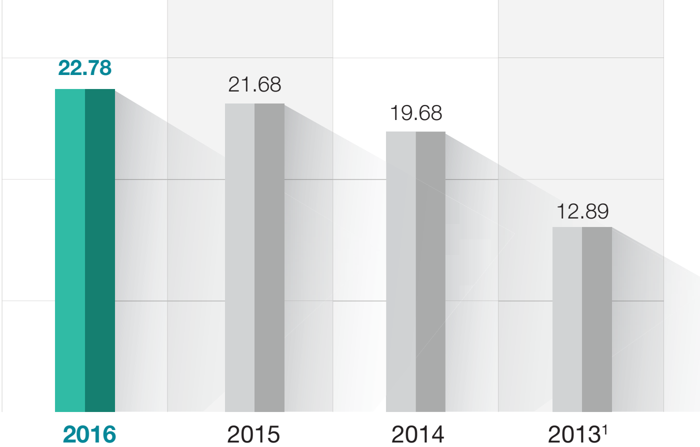
TOTAL PORTFOLIO REVENUE
(RM'000)



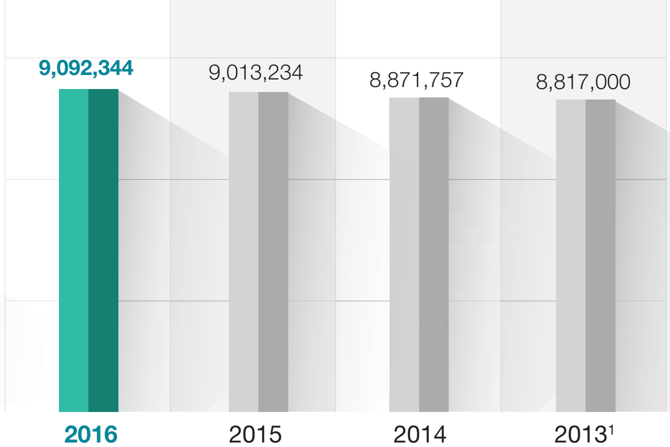
TOTAL PORTFOLIO NET PROPERTY INCOME
(RM'000)



DISTRIBUTION PER UNIT (DPU)
(Sen)



INVESTMENT PROPERTIES
(RM'000)



1 KLCC REIT was established on 9 April 2013 and the acquisition of the properties was completed prior to the listing date of 9 May 2013. The financial results reported refers to the period from 9 April 2013 to 31 December 2013.

KLCC REIT Value Added Statement

	2016 RM'000	2015 RM'000
Total Turnover	**591,015**	594,791
Interest income	**9,685**	8,422
Fair value adjustments on investment properties	**79,492**	136,295
Operating and tax expenses	**(12,903)**	(31,890)
Total Value Added	**667,289**	707,618
Reconciliation:		
Profit for the year	**546,933**	588,770
Finance costs	**74,091**	73,646
Management fees	**45,665**	44,602
Trustee's fees	**600**	600
Total Value Added	**667,289**	707,618
VALUE DISTRIBUTED		
Trust expenses		
Management fees	**45,665**	44,602
Trustee's fees	**600**	600
Providers of capital		
Finance costs	**74,091**	73,646
Income distribution	**411,435**	376,412
Reinvestment and growth		
Undistributed income	**42,914**	82,878
Capital reserve*	**92,584**	129,480
	667,289	707,618

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

KLCC REIT Fund Performance

STATEMENT OF COMPREHENSIVE INCOME – KEY DATA & FINANCIAL RATIOS

	FY2016	FY2015	FY2014	FP2013[1]
Revenue (RM'000)	**591,015**	594,791	592,948	393,473
Net Property Income (RM'000)	**565,020**	569,716	564,678	376,620
Total Comprehensive Income: (RM'000)				
– Realised	**454,349**	459,290	427,276	299,163
– Unrealised	**92,584**	129,480	52,028	67,249
Income Available for Distribution (realised) (RM'000)	**411,451**	391,850	364,623	244,163
Income Distribution (RM'000)	**411,255**[2]	391,396	355,289	232,707
Distribution per unit (DPU) (sen)	**22.78**	21.68	19.68	12.89
Annualised (DPU) (sen)	**22.78**	21.68	19.68	19.34
Distribution Yield[3] (%)	**4.30**	4.91	5.01	4.95
Basic Earnings per unit (sen)	**30.30**	32.61	26.55	20.30
Management expense ratio[4] (%)	**0.61**	0.61	0.64	0.42

STATEMENT OF FINANCIAL POSITION – KEY DATA & FINANCIAL RATIOS

	As at 31 Dec 2016	As at 31 Dec 2015	As at 31 Dec 2014	As at 31 Dec 2013
Investment Properties (RM'000)	**9,092,344**	9,013,234	8,871,757	8,817,000
Total Assets (RM'000)	**9,683,102**	9,568,582	9,336,812	9,244,295
Total Financings (RM'000)	**1,572,478**	1,570,395	1,568,400	1,608,591
Total Liabilities (RM'000)	**1,770,891**	1,791,869	1,772,457	1,804,316
Total Unitholders' Fund (RM'000)	**7,912,211**	7,776,713	7,564,355	7,439,979
Total Net Asset Value (NAV) (RM'000)	**7,912,211**	7,776,713	7,564,355	7,439,979
Net Asset Value (NAV) per unit:				
– before distribution (RM)	**4.38**	4.31	4.19	4.12
– after distribution (RM)	**4.33**	4.25	4.14	4.07
Highest NAV per unit (RM)	**4.38**	4.31	4.19	4.12
Lowest NAV per unit (RM)	**4.29**	4.16	4.09	4.03
Gearing Ratio (%)	**16.2**	16.4	16.8	17.4
Average Cost of Debt (%)	**4.41**	4.41	4.41	4.26
Debt Service Cover Ratio (times)	**8.7**	9.7	3.8	9.9

1 KLCC REIT was established on 9 April 2013 and the acquisition of the properties was completed prior to the listing date of 9 May 2013. The financial results reported refers to the period from 9 April 2013 to 31 December 2013.

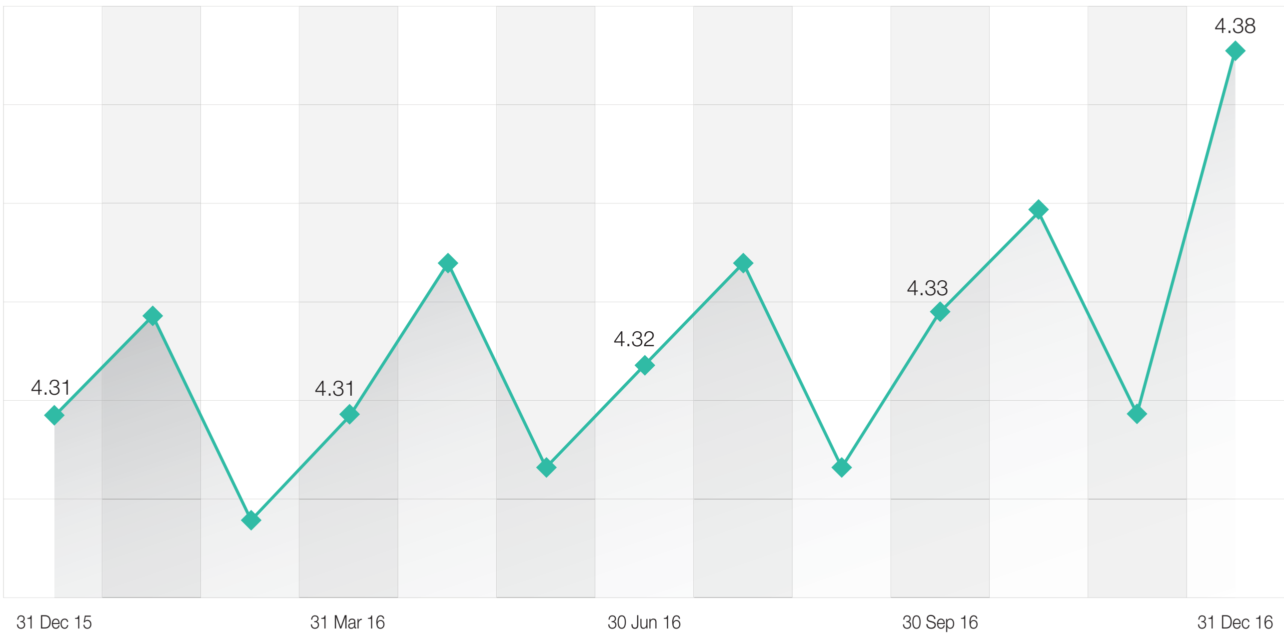
2 Includes the 2016 fourth income distribution payable on 28 February 2017.

3 Based on DPU of KLCCP Stapled Group of 35.65 sen (2015: 34.65 sen) and the closing price of KLCC Stapled Securities of RM8.30 (2015: RM7.06) as KLCC REIT units are stapled with KLCCP ordinary shares and traded as a single price quotation.

4 Ratio of total fees and expenses incurred in operating KLCC REIT including Manager's fee, Trustee's fee, auditors' remuneration, tax agent's fee, valuation fees and other Trust expenses to the NAV of KLCC REIT.

Past performance is not necessarily an indication of future performance as market conditions may change over time

NET ASSET VALUE PER UNIT (RM)



TRADING PRICE PERFORMANCE OF KLCC STAPLED SECURITIES[1]

	FY2016	FY2015	FY2014	FP2013[2]
Stapled Securities Closing Price at 31 December (RM)	**8.30**	7.06	6.71	5.85
Highest traded price for the year (RM)	**8.30**	7.30	7.00	7.68
Lowest traded price for the year (RM)	**6.80**	6.62	5.47	5.72
Capital Appreciation (%)	**17.6**	5.2	14.7	(7.1)[3]
Annual Total Return (%)[4]	**21.9**	10.1	19.7	(2.2)
Average Total Return (3 years) (%)	**17.2**	9.2	–	–
Number of Stapled Securities ('000)	**1,805,333**	1,805,333	1,805,333	1,805,333
Market Capitalisation (RM'000)	**14,984,264**	12,745,651	12,113,784	10,561,198

1 The trading price performance of KLCC REIT is based on the price performance of KLCC Stapled Securities as KLCC REIT units are stapled with KLCCP ordinary shares and traded as a single price quotation.

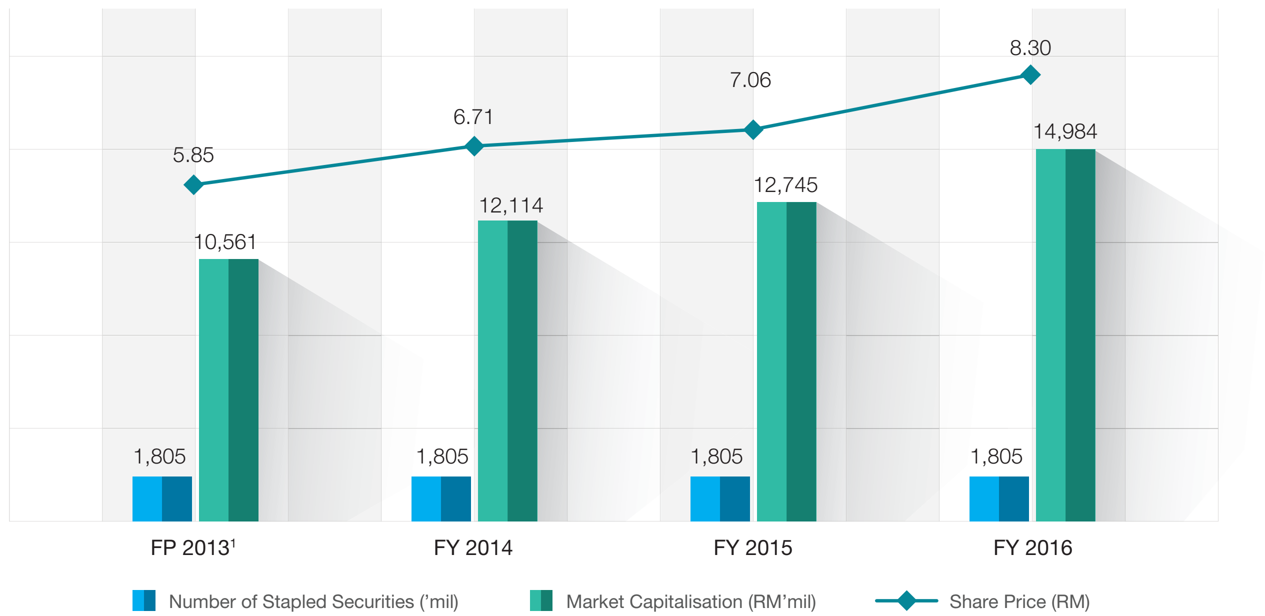
2 KLCC REIT was established on 9 April 2013 and the acquisition of the properties was completed prior to the date of 9 May 2013. The financial results reported refers to the period from 9 April 2013 to 31 December 2013.

3 This relates to capital appreciation based on price performance from 31 December 2012 of RM6.30 to 31 December 2013 of RM5.85.

4 Annual total return comprises capital appreciation from 31 December 2015 to 31 December 2016 of 17.6% (2015: 5.2%) and distribution yield of KLCCP Stapled Group of 4.30% (2015: 4.91%).

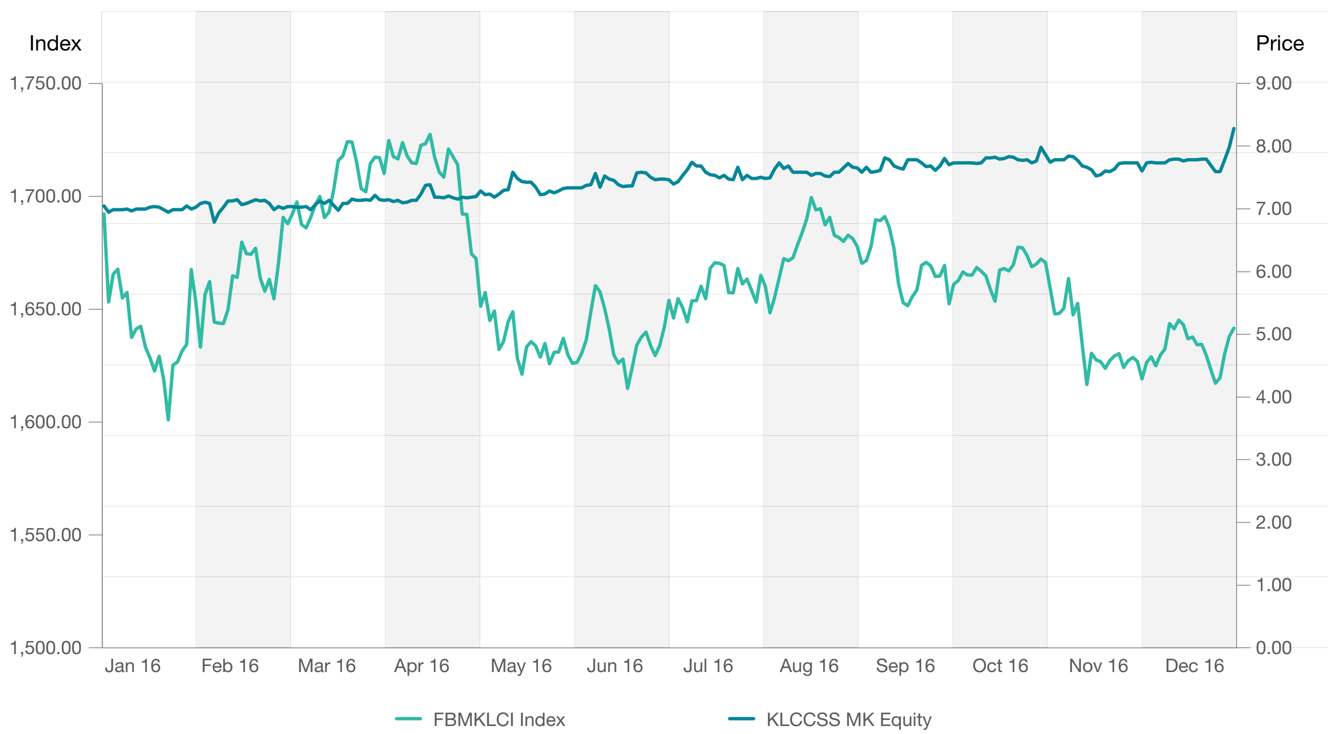
Past performance is not necessarily an indication of future performance as market conditions may change over time

MARKET CAPITALISATION, SHARE PRICE AND NUMBER OF STAPLED SECURITIES



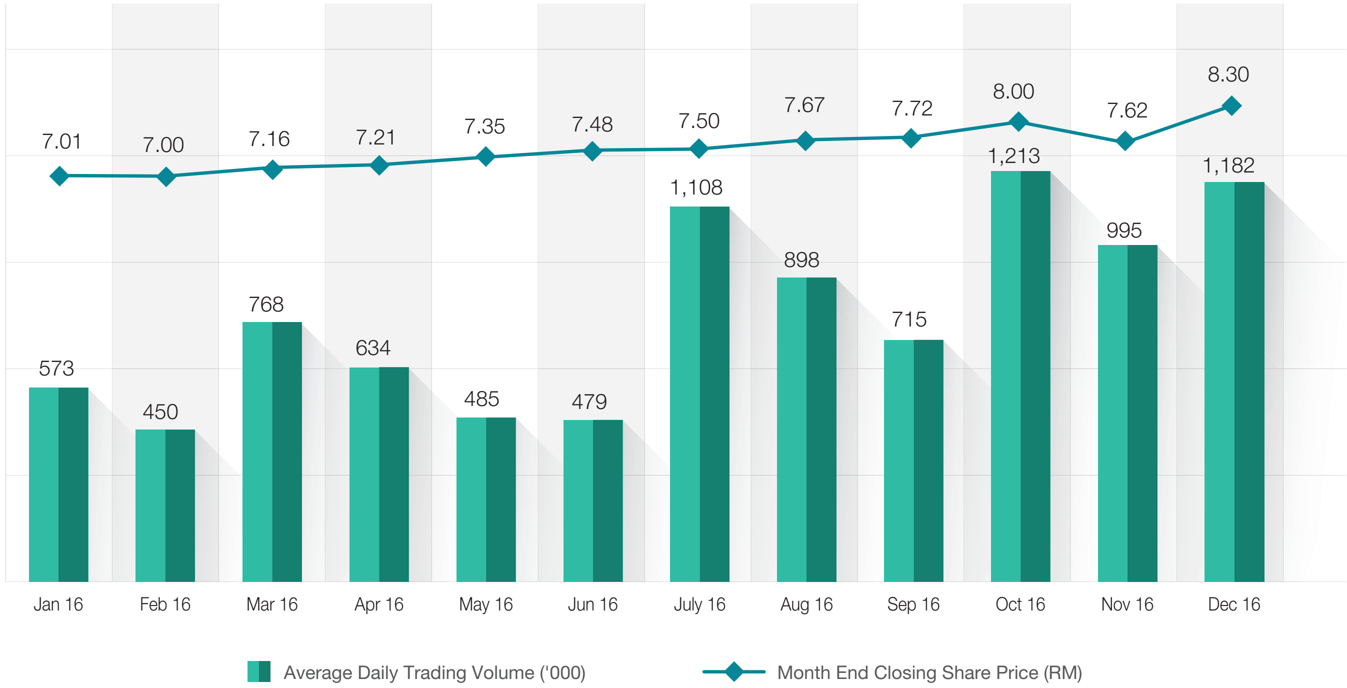
1 KLCC REIT was established on 9 April 2013 and the acquisition of the properties was completed prior to the listing date of 9 May 2013. The financial results reported refers to the period from 9 April 2013 to 31 December 2013.

KLCC STAPLED SECURITIES PRICE VS FTSE BURSA MALAYSIA KLCI INDEX PERFORMANCE BENCHMARK

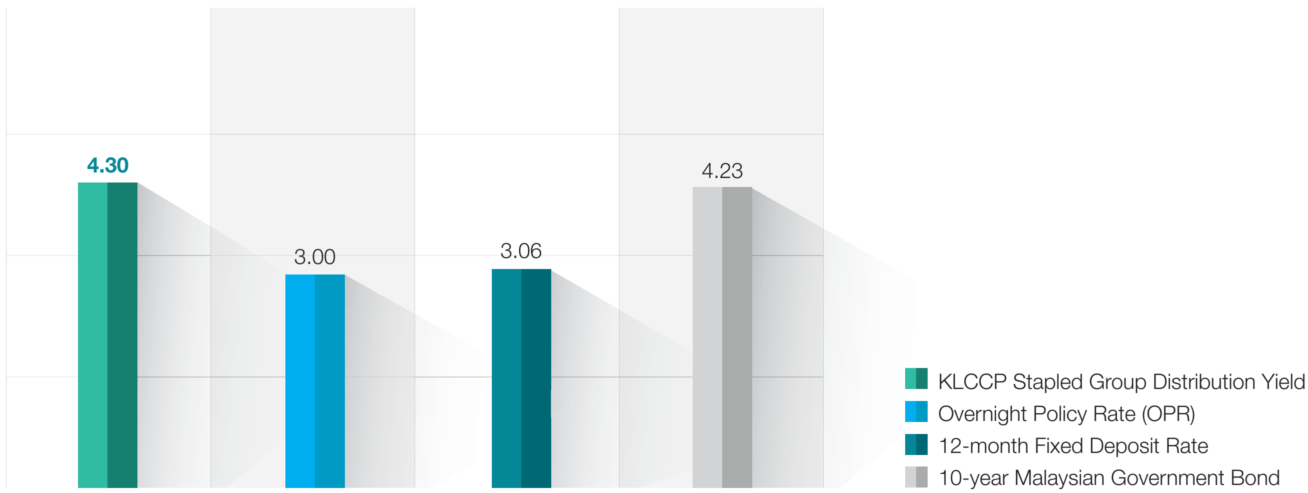


Past performance is not neccesarily an indication of future performance as market conditions may change over time.

KLCC STAPLED SECURITIES MONTHLY TRADING PERFORMANCE



COMPARATIVE YIELDS AS AT 31 DECEMBER 2016 (%)



Source: Bloomberg, Bank Negara Malaysia

The Manager of KLCC Real Estate Investment Trust ("KLCC REIT or the Fund"), KLCC REIT Management Sdn Bhd ("the Manager"), has pleasure in submitting their financial and operational review for the year ended 31 December 2016.

Manager's Financial and Operational Review

PRINCIPAL ACTIVITY AND INVESTMENT OBJECTIVES

KLCC REIT is an Islamic Real Estate Investment Trust established to own and invest primarily in Shariah compliant real estate for office and retail purposes. The Fund was constituted by the Deed dated 2 April 2013 entered into between the Manager and Maybank Trustees Berhad ("the Trustee"). The Deed was registered and lodged with the Securities Commission ("SC") on 9 April 2013. The Fund, stapled with KLCC Property Holdings Berhad ("KLCCP") was listed on the Main Board of Bursa Malaysia Securities Berhad on 9 May 2013.

The key objective of the Fund is to provide unitholders with stable distributions of income supported by KLCC REIT's strategy of improving returns from its property portfolio and capital growth.

INVESTMENT STRATEGIES

The Manager is focused on active asset management and acquisition growth strategy to provide regular and stable distributions to unitholders and ensure capital growth and improved returns from its property portfolio.

Active Asset Management Strategy

Continue to optimise the rental and occupancy rates and the Net Lettable Area ("NLA") of the properties in order to improve the returns from KLCC REIT's property portfolio.

Acquisition Growth Strategy

Acquire real estate that fits with KLCC REIT's investment policy and strategy to enhance the returns to the unitholders and capitalise on opportunities for future income and Net Asset Value ("NAV") growth based on appropriate risk and returns.

PROPERTY PORTFOLIO

KLCC REIT is a diversified REIT with office and retail property in its stable of portfolios. KLCC REIT comprises three unique prime commercial assets - the iconic PETRONAS Twin Towers, Menara ExxonMobil and Menara 3 PETRONAS. The retail podium of Menara 3 PETRONAS represents the retail segment of KLCC REIT which leverages on Suria KLCC's reputation as a premier shopping destination in the country.

The properties are located within the Kuala Lumpur City Centre, popularly known as KLCC, the Central Business District of the bustling Kuala Lumpur City. The properties have a combined NLA of over 4.54 million sq. ft. within the 100-acre KLCC Development which ranks among the largest real estate developments in the world. The integrated commercial development within the KLCC Precinct is a landmark of prime A-Class offices, premier retail, 4 to 5-star hotels, high-end residential, M.I.C.E (meeting, incentives, convention and exhibition facilities) and world-class entertainment fronting a lush KLCC Park.

FINANCIAL REVIEW

		FY 2016	FY 2015	Growth (%)
Revenue	RM'mil	**591.0**	594.8	(0.6)
Net property income	RM'mil	**565.0**	569.7	(0.8)
Income available for distribution	RM'mil	**411.5**	391.9	5.0
Income distribution	RM'mil	**411.3**	391.4	5.1
Earnings per unit (EPU)	Sen	**30.30**	32.61	(7.1)
Net asset value (NAV) per unit	RM	**4.38**	4.31	1.6
Distribution per unit (DPU)	Sen	**22.78**	21.68	5.1

As we review the financial year ended 31 December 2016, navigating the uncertainties of the slower economic growth coupled with sluggish market sentiments to remain competitive proved to be challenging. The KLCC REIT portfolio of assets generated stable revenue of RM591.0 million which contributed 44% of KLCCP Stapled Group's revenue while total net property income, representing 51% of the PBT for KLCCP Stapled Group, was at RM565.0 million, a marginal decline from 2015.

NAV improved from RM4.31 per unit as at 31 December 2015 to RM4.38 per unit as at year end, after taking into account the fair value adjustments of RM79.5 million. In line with our commitment to enhance value through accretion in distribution for the unitholders and despite a slower growth in overall topline performance, we distributed 100% of our total income available for distribution for financial year 2016, consistent with last year. KLCC REIT achieved a DPU of 22.78 sen, exceeding the DPU of 21.68 sen in 2015.

	Revenue (RM'mil)		**Net Property Income (RM'mil)**		**Total Comprehensive Income (excluding fair value adjustments) (RM'mil)**	
	FY 2016	**FY 2015**	**FY 2016**	**FY 2015**	**FY 2016**	**FY 2015**
PETRONAS Twin Towers	**423.5**	423.5	**422.4**	422.1	**334.7**	335.4
Menara ExxonMobil	**42.5**	42.8	**28.9**	29.4	**22.8**	23.7
Menara 3 PETRONAS	**88.1**	88.1	**87.7**	87.9	**78.3**	77.5
Total for Office Segment	**554.1**	554.4	**539.0**	539.4	**435.8**	436.6
Menara 3 PETRONAS (Retail Podium)	**36.9**	40.4	**26.0**	30.3	**18.5**	22.7
Total for Retail Segment	**36.9**	40.4	**26.0**	30.3	**18.5**	22.7
Total	**591.0**	594.8	**565.0**	569.7	**454.3**	459.3

The performance of these three investment properties generated total comprehensive income (excluding fair value adjustments) of RM454.3 million, representing a contribution of 96% from the office segment and 4% from retail. PETRONAS Twin Towers remained KLCC REIT's highest revenue contributor at 71.7% or RM423.5 million, with net property income of RM422.4 million, representing 74.8% of total net property income.

Office Segment

The office segment of KLCC REIT properties continued to deliver a steady earnings stream in 2016 with revenue of RM554.1 million and net property income of RM539.0 million. The three properties in the office segment retained their full occupancy during the year with long term leases to high quality single lessees.

The mismatch in the supply and demand for office spaces and slower business expansion of the oil and gas and banking players continued to exert pressure on occupancy and rental rates in Greater Kuala Lumpur (Greater KL). With PETRONAS Twin Towers and Menara 3 PETRONAS on a 15-year tenure with locked-in rental rates and the Triple Net Lease arrangement for both these properties wherein the tenants meet all the property outgoings, KLCC REIT is relatively shielded from the soft market conditions.

Menara ExxonMobil is on a long term lease agreement with ExxonMobil Exploration and Production Malaysia Inc. ("EMEPMI") which expired in January 2017. In a climate of office market oversupply and downsizing of operations for the oil and gas industry, the Manager successfully executed a new long term lease agreement with EMEPMI for a tenure of 9+3+3+3 years.

Retail Segment

The retail podium of Menara 3 PETRONAS which represents the Fund's retail segment, registered a total revenue of RM36.9 million and net property income of RM26.0 million, a drop of 8.7% and 14.2% respectively compared to 2015. This was attributable to the drop in occupancy from 93% in 2015 to 86% in 2016. The retail segment contributed 6.2% and 4.6% of KLCC REIT's revenue and net property income respectively.

The retail podium of Menara 3 PETRONAS leverages on Suria KLCC's reputation as a premier shopping destination in the country. The retail landscape for 2016 reflected sluggish market sentiments due to increased cost of living, continuing after-effects of GST implementation and low consumer confidence. Nevertheless, Suria KLCC as the retail manager stepped up its engagement with the tenants and supported them with extensive research on changing demographics and shopper preferences on weathering the challenging retail sector. The retail podium at Menara 3 PETRONAS focused on enhancing the shopping experience for its customers, identifying and working with strong and reputable tenants and continuing on its core strength in refining the tenant mix.

With the retail sector expected to show marginal improvement in 2017, the retail podium of Menara 3 PETRONAS is expected to strengthen its contribution to KLCC REIT's performance with the retail team's efforts in increasing occupancy back to its optimum level, with the introduction of more premium food outlets to spur vibrancy.

MARKET VALUE OF INVESTMENT PROPERTIES

Property valuations as at 31 December 2016 recorded a market value of RM9.4 billion from RM9.3 billion the previous year. Whilst the increase in market value was RM123 million, the Fund recognised a fair value adjustment of RM79.5 million. This translated to marginal improvement in NAV per unit from RM4.31 to RM4.38 per unit as at 31 December 2016.

Property	Market Value @31 Dec 2016 RM'000	Market Value @31 Dec 2015 RM'000
PETRONAS Twin Towers	6,918,000	**6,820,000**
Menara ExxonMobil	505,000	**500,000**
Menara 3 PETRONAS	2,000,000	**1,980,000**
Total	9,423,000	**9,300,000**

OPERATIONAL REVIEW

Asset Management

Asset management plays a vital role in complementing the property portfolio of KLCC REIT in maintaining the iconic stature and performance of the assets. The Manager continues to sustain asset quality initiatives to preserve the pristine condition of the properties for continuity towards longer term prospects.

The new lease agreement for Menara ExxonMobil which took effect from February 2017 saw ExxonMobil releasing 40% of the building space. The Manager has identified potential new tenants to occupy the space released by ExxonMobil, though a downtime is expected during this transition period. Nevertheless, the Manager is working towards minimising the downtime in order to maintain 100% occupancy for the building.

KLCC REIT continues to enhance the property operational efficiency with respect to energy reduction and waste minimisation to realise savings in driving profit and extracting value from the portfolio. Following the achievement of the Provisional Green Building Index ("GBI") Certification for PETRONAS Twin Towers and Menara 3 PETRONAS in 2015, the Manager continued to implement initiatives during the year towards obtaining full GBI certification by 2018. This involved upgrading of the Energy Management System component to track and control energy consumption for both buildings and the implementation of office LED and motion sensors in the staircases at PETRONAS Twin Towers.

Capital Management

The Manager continues to adopt a prudent capital management strategy to meet capital requirements and to support KLCC REIT's strategic objectives. As at 31 December 2016, KLCC REIT's borrowings stood at RM1.5 billion with an average cost of debt of 4.4%. With average term to maturity of 3.91 years and gearing at 16.2%, KLCC REIT has sizeable debt headroom to support cost-effective financing for future growth and take advantage when investment opportunities arise.

		FY 2016	FY 2015
Total borrowings	RM'mil	**1,572.5**	1,570.4
Average Cost of Debt	%	**4.41**	4.41
Fixed: Floating	ratio	**100:0**	100:0
Average maturity period	years	**3.91**	4.91
Gearing ratio	%	**16.2**	16.4

The Manager will continue to actively manage the utilisation of capital and the cost of funds and refinancing risks to ensure stable dividend pay-out.

Income Distribution

Despite the tougher macroeconomic environment, the Manager remained committed to enhance value through accretion in distribution to its unitholders. KLCC REIT distributed 100% of its distributable income for financial year 2016.

With total comprehensive income available for distribution of RM411.5 million, the Manager had recommended, and the Trustee had approved, a total income distribution of 22.78 sen per unit totaling RM411.3 million for the year ended 31 December 2016.

Income Distribution	Income Distribution per unit (sen)	Income Distribution (RM'000)	Remarks
First Interim Distribution	5.75	103,807	Paid on 15 June 2016
Second Interim Distribution	5.69	102,723	Paid on 13 September 2016
Third Interim Distribution	5.66	102,182	Paid on 14 December 2016
Fourth Interim Distribution	5.68	102,543	To be paid on 28 February 2017
Total	**22.78**	**411,255**	

MARKET REVIEW

2016 has been a tough year with weak global trade, financial markets having to navigate Brexit, unorthodox monetary policy stances and wild swings on equity prices, currencies and bond yields. The global economy continued to experience moderate growth with modest economic activity in the advanced economies. Policy issues in major economies continued to pose uncertainties to the global growth prospects.

Domestically, the country was affected by the global slowdown and saw a surprise OPR cut by Bank Negara Malaysia (BNM) raising concerns on growth, the sharp foreign outflows from Malaysia impacting yields of the 10-year Malaysian Government Securities (MGS), the weakening of the Ringgit and lingering effects of the GST which weighed down on consumer demand.

Real GDP growth for 2016 is expected to be modest between at 4.0% – 4.5%. Overall, domestic demand grew at a more moderate pace, as the sustained growth in private sector activity was more than offset by the slower growth in public spending. The renewed consumer confidence level built since early of the year failed to maintain its momentum and hit a low of 73.6%. Headline inflation rose 2.1% in 2016, due to the high base effect caused by the implementation of the GST in April 2015 and the sluggish recovery in crude oil prices (2015: 2.1%). (Source: Bank Negara Malaysia, Malaysian Institute of Economic Research).

With uncertainty in the global financial markets coupled with lower interest rates, the MREIT sector remained appealing to investors in view of its defensive and high yielding nature. In 2016, the MREIT sector delivered a commendable performance and outperformed the FBMKLCI by 14%. The proposed liberalisation of the REIT Guidelines by Securities Commission Malaysia which includes raising the threshold for REITs acquiring under-construction assets and allowing REITs to undertake property development and acquire vacant land is anticipated to be implemented by early 2017. This should be positive for the sector as undertaking greenfield projects would be seen as another avenue for growth to enjoy higher yields.

Office Market Overview

The Kuala Lumpur office was clouded with challenges, caused by hue office space supply in the pipeline and slower business expansion. The lack of impetus for growth in terms of demand and the prevailing challenging economic, business and property market environment continued to weigh on the subsector resulting in lackluster absorption rate. The average vacancy rate in Greater KL hit a historic high of 20.3% in 2016. Though rental rates have been stagnant since 2014 following the drop in oil prices, downward pressure on rental rates continue to mount given the oversupply of Grade A offices and the downsizing of oil and gas firms as well as the financial services groups.

With 5.8 million sq. ft. of office supply coming on stream in 2017 and another 14 million sq. ft. in Greater KL from the upcoming office developments between 2018 to 2020, the office market is expected to remain lackluster and restrained. Pressure will mount on rents and occupancy rates as supply and demand mismatch worsens. The office market is expected to be more tenant-led as existing and new tenants may take advantage of the subdued market to re-negotiate rents whilst landlords of existing and newly completed buildings compete to retain and attract new tenants. In spite of the oversupply in the office market, office space in prime areas is expected to remain resilient, particularly new grade-A offices with green building certifications. It is hopeful that the on-going Klang Valley Mass Rapid Transit (KVMRT) project, which remains on track for full completion by 2017 may lead to higher demand for decentralised office spaces.

Retail Market Overview

The retail landscape remained sluggish during the year plagued by cutbacks in consumer spending, weakened ringgit and continuing after-effects from GST which saw the Consumer Sentiment Index remained below the threshold level of confidence, despite a rebound to 72.9 points in 1Q2016. Retail sales continued to be impacted by rising cost of living amid a slowdown in the economy and weak job market. With consumers continuing to hold back on spending and the weak performance in 1Q2016, the Retail Group Malaysia (RGM) revised their sales growth rate for 2016 from 4.0% to 3.5%. The retail malls occupancy rates have been trending down on the back of influx of supply and a more challenging market though they remain healthy at above 80% levels with prime and more established malls maintaining occupancy above 90%. Average prime rents remained flat as the continuous sluggish retail sales hamper rent growth, leading to slower rental reversions.

Positive prospects during the year included the increase in tourist arrivals and the entry of international brands, in particular Korean brands such as Shoopen, Belif, SPAO, and MIXXO. International fast-fashion retailers such as H&M, Uniqlo and Cotton On continue to expand amid intense competition, with the negotiation of better leasing terms. With Greater KL retail space expected to exceed 60 million sq. ft. by end-2017, competition in the retail market will heighten, contributing to an anticipated drop in average occupancy rate from 90% to 85%, with a possibility to stabilise and recover in 2018. The upcoming MRT and LRT lines criss-crossing the Klang Valley will be a game changer for shopping malls and retail outlets. The market is also experiencing a shift in retail, with deeper market penetration via e-commerce, currently contributing less than 2.5% of all retail sales.

(Source: Knight Frank, Real Estate Highlights, 1H 2016 & Savills World Research, Asian Cities Report, Kuala Lumpur Retail, 2H 2016, Frost & Sullivan, 2016)

OUTLOOK

Looking ahead, the overall global economic conditions will continue to be challenging with expectations to see a degree of stabilisation likely to be bolstered by recovery in commodity prices. Government's efforts at mitigating the lingering effects of GST and pick up in tourist arrivals which looks set to continue into 2017 will likely be positive in driving private consumption amid continued weakness in domestic sentiment due to the rising cost of living. Despite external headwinds to stay dominant and a continuous cautious tone in investing, the MREITs sector is expected to remain resilient with positive rental reversions to drive income growth amid sustained occupancy rates.

The Manager will continue to seek long-term value for KLCC REIT's unitholders by maximising returns and mitigating risks from the external environment. The locked-in long term leases for our office segment will augment the stability and underpin the steady recurring income. The Manager will manage the transition period of Menara ExxonMobil's lease post expiry in January 2017 to maintain the full occupancy of the building and the office segment collectively. Retail at Menara 3 PETRONAS will continue to leverage on Suria KLCC's network and expertise in leasing to strengthen occupancy and improve contribution to KLCC REIT's performance and growth.

MATERIAL LITIGATION

The Manager is not aware of any material litigation since the balance sheet date as at 31 December 2016 up to the date of this report.

CIRCUMSTANCES WHICH MATERIALLY AFFECT THE INTERESTS OF UNITHOLDERS

The Manager is not aware of any circumstances which materially affect the interests of unitholders.

DIRECTORS OF THE MANAGER'S BENEFITS

During and at the end of the financial 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 corporate with the Director or with a firm of which the Director is a member, or with a company in which the Director has substantial financial interest.

There were no arrangements during and at the end of the financial 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.

MANAGER'S FEE

For the financial year ended 31 December 2016, the Manager's fee comprised the following:

1. Base fee of RM28.7 million which is calculated at 0.3% per annum of Total Asset Value
2. Performance fee of RM17.0 million, calculated at 3.0% per annum of Net Property Income

The Manager's total management fee of RM45.7 million represents 0.6% of NAV of KLCC REIT.

Save for expenses incurred for the general overheads and costs of services which the Manager is expected to provide, or falling within the normal expertise of the Manager, the Manager has the right to be reimbursed the fees, costs, charges, expenses and outgoings incurred by it that are directly related and necessary to the business of KLCC REIT.

SOFT COMMISSION

During the year, the Manager did not receive any soft commission from its broker, by virtue of transactions conducted by the Fund.

The Boards are responsible for directing and supervising KLCCP Stapled Group's business and affairs, and that their principal responsibilities are consistent with the best practices as prescribed under the MCCG 2012 and the REIT Guidelines.

Corporate Governance Statement

This Corporate Governance Statement ("Statement") of KLCCP Stapled Group demonstrates the Boards of Directors of:

((i) KLCC Property Holdings Berhad's ("KLCCP" or "the Company"); and

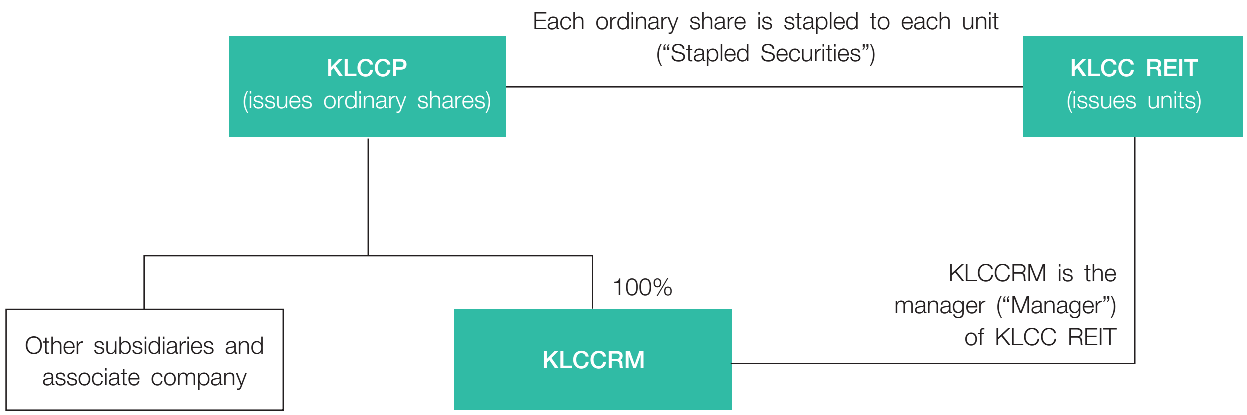
(ii) KLCC REIT Management Sdn Bhd's ("KLCCRM") as the manager of KLCC Real Estate Investment Trust ("KLCC REIT"),

continuous commitment to high standards of corporate governance in discharging their responsibilities to protect and enhance interests of the holders of the stapled securities through the application of best practices of corporate governance at all times.

KLCC REIT is an Islamic REIT established in Malaysia and constituted by a trust deed dated 2 April 2013 ("Deed") entered into between KLCCRM and Maybank Trustees Berhad ("Trustee") and registered with Securities Commission Malaysia ("SC") on 9 April 2013.

On 2 April 2013, KLCCRM, a wholly-owned subsidiary of KLCCP, the Trustee and KLCCP had entered into a stapling deed ("Stapling Deed") to characterise the relationship as each unit in KLCC REIT being "stapled" to a share issued by KLCCP. By virtue of the Stapling Deed, the Boards of KLCCP and KLCCRM are common and have the same number of Directors.

KLCCP Stapled Group structure is as follows:



The Stapled Securities have been listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") since 9 May 2013.

In this Statement, the respective Boards report on the manner in which KLCCP Stapled Group has adopted and applied the principles and best practices as set out in the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), the governance standards prescribed in the Main Market Listing Requirements of Bursa Securities ("MMLR") and Guidelines on Real Estate Investment Trusts ("REIT Guidelines") issued by the SC in connection with all activities conducted for KLCCP Stapled Group throughout the year under review.

A. BOARDS OF DIRECTORS

(1) Roles and Responsibilities of the Boards

The Boards are responsible for overseeing the overall management of KLCCP Stapled Group. They are led by experienced and knowledgeable Board members whose wide range of expertise ensures the business direction and continued performance of KLCCP Stapled Group.

The Boards are responsible for directing and supervising KLCCP Stapled Group's business and affairs, and that their principal responsibilities are consistent with the best practices as prescribed under the MCCG 2012 and the REIT Guidelines. These include:

(a) For KLCCP:

(i) reviewing and adopting the strategic plans for KLCCP Stapled Group;

(ii) overseeing the proper conduct of KLCCP Stapled Group's business (including budgetary approval and all other financial matters);

(iii) ensuring that sound policies, procedures and practices are implemented;

(iv) overseeing the development and implementation of a communications policy for KLCCP Stapled Group;

(v) ensuring KLCCP Stapled Group's principal risks are identified and mitigated, and appropriate measures implemented to manage these risks;

(vi) formulating and ensuring the implementation of an appropriate succession policy for senior management positions;

(vii) overseeing their business operations and evaluating whether these are being properly managed;

(viii) reviewing the adequacy and integrity of KLCCP Stapled Group's management information and internal control system, compliance with relevant laws and regulations; and

(ix) determining and approving the dividends to holders of Stapled Securities.

(b) For KLCCRM:

(i) reviewing and adopting the strategic plans for KLCC REIT;

(ii) overseeing the proper conduct of KLCC REIT's business (including budgetary approval and all other financial matters);

(iii) ensuring that sound policies, procedures and practices are implemented;

(iv) overseeing the development and implementation of a communications policy for KLCC REIT;

(v) ensuring KLCC REIT's principal risks are identified and mitigated, and appropriate measures are implemented to manage these risks;

(vi) formulating and ensuring the implementation of an appropriate succession policy for senior management positions;

(vii) overseeing its business operations and evaluating whether these are being properly managed;

(viii) reviewing the adequacy and integrity of KLCC REIT's management information and internal control system;

(ix) guiding the corporate strategies and directions of the Manager (including acquisition and divestment of the total assets of KLCC REIT);

(x) overseeing the proper conduct of KLCCRM (including budgetary approval and all other financial matters);

(xi) ensuring compliance with all relevant laws and regulations; and

(xii) determining and approving income distributions to holders of Stapled Securities and payments of management fees to the Manager.

Each Board has a formal schedule of matters reserved for decisions, including the overall strategies and direction, acquisition and disposal of assets, approval of major capital expenditure projects and significant financial matters of KLCCP Stapled Group.

There is a clear division of roles and responsibilities between the Chairman, Chief Executive Officer ("CEO") and Non-Executive Directors of the respective Boards. The Chairman, an Independent Director of the Company and KLCCRM, is primarily responsible for the orderly conduct and function of the Boards.

The CEO is responsible for the day-to-day running of the KLCCP Stapled group's businesses, implementation of the Board's policies and making decisions related to operational matters. In managing the business affairs, he is assisted by the Management of KLCCP Stapled Group. The tasks of the CEO are described in his performance scorecard, which are reviewed and evaluated annually by a special committee comprised representatives from both Boards.

The Non-Executive Directors ensure that the strategies proposed by the Management are fully deliberated and examined, taking into account the long term interests of the stakeholders and the overall KLCCP Stapled Group's strategies and direction. They also contribute to the formulation of policies and procedures based on their expertise and experience. Being independent of the Management, they ensured that no single individual or group dominates the Board's decision-making process.

Pursuant to the requirements of the MCCG 2012, the Board of KLCCP has adopted its Board Charter on 27 November 2012. The Board Charter, which clearly sets out the roles and responsibilities of the Board, Chairman, CEO and the Board Committees, is available on the corporate website of KLCCP for easy access by holders of the Stapled Securities and the public alike. The Board Charter shall be periodically reviewed as and when necessary.

As KLCCRM is wholly owned by KLCCP, the Board, Chairman, CEO and Board Committees of KLCCRM are also guided by the Board Charter of KLCCP.

The Boards acknowledge their roles in establishing a corporate culture comprising ethical conduct within the KLCCP Stapled Group. The Boards are guided by the PETRONAS Code of Conduct and Business Ethics ("PETRONAS CoBE") which sets out the standard of behaviour and ethical conduct that must be complied with by the KLCCP Stapled Group. At the same time, the KLCCP Stapled Group has also adopted the PETRONAS' Whistle-blowing Policy and the Anti Bribery & Corruption Manual which provide and facilitate appropriate communication and feedback channels between KLCCP Stapled Group and its employees. The link to the PETRONAS CoBE, which includes the Whistle-blowing Policy and the Anti Bribery & Corruption Manual, is available on KLCCP's corporate website.

As and when changes are made to PETRONAS CoBE, Whistle-blowing Policy and the Anti Bribery & Corruption Manual of PETRONAS, KLCCP Stapled Group will adopt the said changes.

KLCCP Stapled Group has implemented a Memorandum on Insider Trading whereby Directors and employees of KLCCP Stapled Group are prohibited from trading in the Stapled Securities particularly when they are in possession of price sensitive information and knowledge of facts which have not been publicly announced.

Notices on closed period for trading in Stapled Securities are sent to the Directors and principal officers on a quarterly basis specifying the timeframe during which the Directors and principal officers are prohibited from dealing in Stapled Securities and to comply with relevant requirements governing their trading in securities during closed period.

The Boards are also reminded not to deal in Stapled Securities when price sensitive information is shared with them on any proposed transactions presented to them.

KLCCP Stapled Group has put in place a Memorandum on Related Party Transactions ("RPTs") to ensure RPTs within KLCCP Stapled Group are being carried out fairly and are not detrimental to the interest of minority holders of Stapled Securities.

(2) Board Composition and Balance

Each Board currently consists of 8 members, one of whom is an Executive Director while the other 7 are Non-Executive Directors. Four of the Non-Executive Directors fulfil the criteria of independence, including the Chairman, as defined in the MMLR, while the remaining 3 Non-Executive Directors are Non-Independent Directors.

The majority of the Independent Non-Executive Directors, including the Chairman, provides the necessary checks and balances in the Boards' exercise of their functions by facilitating an independent evaluation of the Boards' decisions and decision-making process.

KLCCP Board has approved the Board Diversity Policy in August 2016 which is also applicable to KLCCRM. The Policy aspires to ensure the mix and profiles of the Board members of KLCCP and KLCCRM, in terms of age, ethnicity and gender, provide the necessary range of perspectives, experiences and expertise required to achieve effective stewardship and management. With a truly diverse and inclusive board, the Board members will leverage on differences in thoughts, perspectives, knowledge, skills, regional and industry experiences, cultural and geographical background, age, ethnicity and gender which will ensure that KLCCP retains its competitive advantage. The Boards will strive to maintain the pursuit of its target of 30% women directors on both Boards in line with the country's aspirational target of 30% representation of women directors. Currently, there are 2 female Directors on each Board.

The Nominating and Remuneration Committees are tasked to determine the benefits of diversity underpinned by meritocracy in order to maintain an optimum mix of skills, knowledge and experience of the Boards.

The Board Diversity Policy is available on the corporate website of KLCCP.

(3) Independence

The Boards are satisfied with the level of independence demonstrated by the Directors throughout the year and their ability to act in the best interest of the KLCCP Stapled Group.

Recommendations of the MCCG 2012 state that the tenure of an Independent Director should not exceed a cumulative term of 9 years. However, an Independent Director may continue to serve the Boards subject to the Independent Director's re-designation as Non-Independent Non-Executive Director. In the event the

Boards intend to retain the Director as independent after a cumulative term of 9 years, justifications from the Boards and shareholders' approval at a general meeting are required.

In adhering to recommended corporate governance practices, the Boards stand guided by the Recommendations of the MCCG 2012 to limit the tenure of Independent Director to a maximum of 9 years.

The holders of Stapled Securities had, at the AGM of KLCCP held on 13 April 2016, approved the continuing in office of Mr Augustus Ralph Marshall and Dato' Halipah binti Esa as Independent Directors of KLCCP until the conclusion of the next AGM of KLCCP.

KLCCP Board recommends the following 2 Independent Directors to continue to serve as Independent Directors subject to the approval from the holders of the Stapled Securities at the forthcoming AGM of KLCCP:

Mr Augustus Ralph Marshall and Dato' Halipah binti Esa, who will have served as Independent Directors of KLCCP for a cumulative period of 12 years and 11 years as of 31 August 2017 and 28 February 2018 respectively.

The justifications for Mr Augustus Ralph Marshall and Dato' Halipah binti Esa to continue to serve as Independent Directors of KLCCP are that they have:

(a) fulfilled the criteria under the definition of Independent Director as defined under the MMLR;

(b) ensured effective checks and balances in the proceedings of KLCCP Board;

(c) actively participated in KLCCP Board's deliberations, provided objectivity in decision-making and independent opinion to KLCCP Board;

(d) vast experience in a diverse range of businesses and therefore would be able to provide constructive opinions. They have provided objectivity in decision-making processes through unbiased and independent views;

(e) exercised due care during their tenure as Independent Directors of KLCCP and carried out their duties in the best interests of the holders of the Stapled Securities; and

(f) devoted sufficient time and attention to their responsibilities as Independent Directors of KLCCP.

Currently, none of the Independent Directors of KLCCRM has served the Board for more than 9 years as KLCCRM was only incorporated on 5 December 2012.

(4) Board Meetings

All Directors are encouraged to declare their time commitment to the Boards and to notify the Chairman of each Board before accepting any new directorships in other public listed companies and that the new directorships would not unduly affect their time commitments and responsibilities to the Boards. The Boards believe that all members must be equally responsible for their overall core responsibilities.

The Boards meet at least quarterly to, inter alia, approve the strategic plans and direction for KLCCP Stapled Group, the annual business plans and budgets, operational and financial performance reports, investment and capital expenditures, quarterly reports and to review the performance of KLCCP Stapled Group. Additional meetings are convened on an ad hoc basis to deliberate on urgent and important matters. Sufficient notices are duly given for all scheduled and additional meetings of the Boards.

During the year under review, a total of 5 Board meetings of KLCCP and KLCCRM were held respectively. The proceedings of all meetings of the Boards, the Audit Committees and Nomination and Remuneration Committees, including all issues raised, enquiries made and responses thereto, were also presented and recorded in the minutes of the respective Boards', Audit Committees' and Nomination and Remuneration Committees' meetings. Where necessary, decisions have been taken by way of circular resolutions.

The attendance of the Board members of KLCCP and KLCCRM is as follows:

	No. of Meetings Attended	
Directors	**KLCCP**	**KLCCRM**
Executive		
Datuk Hashim bin Wahir	5/5	5/5
Non-Executive		
Krishnan CK Menon *(Chairman)*	4/5	4/5
Datuk Manharlal a/l Ratilal	4/5	4/5
Datuk Ishak bin Imam Abas	5/5	5/5
Augustus Ralph Marshall	4/5	4/5
Dato' Halipah binti Esa	5/5	5/5
Habibah binti Abdul	5/5	5/5
Datuk Pragasa Moorthi a/l Krishnasamy	5/5	5/5

(5) Supply of Information

To facilitate the proper discharge of their duties, complete and unimpeded access to information relating to KLCCP Stapled Group is made available to the Boards at all times. Further details or clarifications regarding Board meetings' agenda items are timely furnished to the Boards as they may require.

The agenda and Board meetings' papers, including progress reports on business operations, details of business propositions, quarterly reports and new guidelines issued by Bursa Securities, are circulated to the Boards within a reasonable time before a Board meeting is convened to allow sufficient time for perusal. Minutes of all Board meetings are also circulated to the Boards prior to their confirmation at the following Board meetings.

The Boards may obtain all information pertaining to KLCCP Stapled Group from the respective Management. The Boards may also seek advice from the Management concerned as they may require, and are able to interact directly with them regarding any aspect of KLCCP Stapled Group's operations or businesses under its purview.

The Management is also invited to attend Board meetings to give an update of their respective functions and to discuss on issues that may be raised by the Directors.

Additionally, the Directors may obtain independent professional advice at KLCCP Stapled Group's expense through an agreed procedure on specific issues that would aid in their deliberations and arrival at a decision that would benefit KLCCP Stapled Group.

In order to ensure effective functioning of the Boards, the Company Secretaries regularly update and advise the Boards on new statutory and regulatory requirements relating to the discharge of their duties and responsibilities.

The Company Secretaries also play an advisory role to the Boards in relation to KLCCP's and KLCCRM's constitutions, policies and procedures, and compliance with the relevant legislations and regulatory requirements. Every member of the Boards has ready and unrestricted access to the advice and services of the Company Secretaries.

The Company Secretaries attend all Board meetings and ensure that the deliberations and decisions made by the Boards are accurately minuted, and the records of the proceedings of the Board meetings are properly kept.

(6) Board Committees

The Boards of KLCCP and KLCCRM have established committees ("Board Committees") that are entrusted with specific responsibilities to oversee KLCCP Stapled Group's affairs. The Board Committees are granted the authority to act on each Board's behalf in accordance with their respective Terms of Reference ("TOR").

(a) Audit Committees ("ACs")

The Chairman of the ACs reports to the respective Boards at Board meetings on pertinent issues that have been raised at the meetings of the ACs, and highlights to Directors the integral areas as expressed by the ACs. The details of the activities of the ACs of KLCCP and KLCCRM respectively are set out in pages 145 to 147 of this Annual Report.

(b) Nomination and Remuneration Committees ("NRCs")

The NRCs of KLCCP and KLCCRM comprise exclusively Non-Executive Directors, the majority of whom is Independent Non-Executive Directors. Both NRCs are chaired by Dato' Halipah binti Esa who is designated as the Senior Independent Non-Executive Director.

The composition of both NRCs is as follows:

(i) **Dato' Halipah binti Esa**
Chairperson/Non-Executive and Independent Director

(ii) **Datuk Manharlal a/l Ratilal**
Member/Non-Executive and Non-Independent Director

(iii) **Habibah binti Abdul**
Member/Non-Executive and Independent Director

During the year, a total of 3 meetings were held for each of KLCCP NRC and KLCCRM NRC respectively. The attendance of the members of both NRCs is as follows:

	No. of Meetings Attended	
Committee Members	**KLCCP**	**KLCCRM**
Dato' Halipah binti Esa *(Chairperson)*	3/3	3/3
Datuk Manharlal a/l Ratilal	3/3	2/3
Habibah binti Abdul	3/3	3/3

Both NRCs' roles and responsibilities are governed by their respective TORs which can be obtained from the corporate website of KLCCP.

During the year, the NRCs deliberated the results of the 2015 Performance Assessment on Board and Board Committees. In addition, the NRCs also have carried out the 2016 Performance Assessment on Board and Board Committees of both KLCCP and KLCCRM based on the following criteria:

Board	• Structure; • Operations and Interaction; • Communication; and • Roles and Responsibilities
Audit Committee	• Terms of Reference and Composition; • Skills and Competencies; • Meeting Administration and Conduct; • Board Communication; • Internal Audit; and • External Audit.
Nomination & Remuneration Committee	• Terms of Reference and Composition; • Skills and Competencies; • Meeting Administration and Conduct; • Board Communication; • Nominating Matters; and • Remuneration Matters.

The Performance Assessment also includes evaluating the performance of individual Directors as well as assessing the independence of Independent Directors. For Succession Planning, the NRC of KLCCP deliberated the report on the assessment and review of the organisation structure and succession management. The assessment was jointly undertaken in 2 phases by an external consultant and the Management. The first phase involved identifying critical positions' requirements whilst phase 2 focused on identifying potential successors for these critical positions and strengthening leadership capabilities.

(7) Re-Appointment and Re-Election of Directors

The Articles of Association of KLCCP and KLCCRM provide that at every AGM, at least one-third of all Directors for the time being and those appointed during the financial year shall retire from office but shall be eligible for re-election in line with the MMLR. The Articles of Association further provide that all Directors are subject to retirement by rotation once every 3 years but shall be eligible for re-election.

There was no appointment of a new Director during the year. However, any new appointment of Directors will be guided by the respective TORs of the NRCs.

(8) Training and Development of Directors

The Boards recognise the importance of attending and participating in training and development activities in order to broaden their perspectives and to keep abreast of developments in the market place and new statutory and regulatory requirements which would enable them to fulfil their responsibilities.

During the year under review, the Directors have attended relevant development and training programmes according to their individual needs to enhance their ability in discharging their duties and responsibilities more effectively which are as follows:

Directors	Trainings Attended
Krishnan C K Menon	• PETRONAS Directors' Training – Audit Committee Conference 2016 – Setting the Right Tone • 5th PETRONAS BAC Forum • Internal Control and Fraud Prevention Seminar 2016 by Federal of Public Listed Companies Bhd – Combatting Internal Fraud by Implementing Internal Control Mechanisms • PETRONAS Advance 2 Directors' Training – PETRONAS Board Excellence – Effective Strategy for Stakeholders Management • The Director's Role in Protecting the Company Corruption Seminar by Malaysian Institute of Corporate Governance – Cost, Risk and Brand
Datuk Hashim bin Wahir	• PETRONAS Directors' Training – The New Companies Bill 2015 • Invest Malaysia 2016 Conference • Workshop with Design Consultant Kon Pederson Fox in New York, U.S.A. for Mixed Development Lots L, L1, M & N • Corporate Governance Breakfast Series by Bursa Malaysia – Thought Leadership Session for Directors • 2017 Budget & Its Impact on Capital Market
Datuk Manharlal a/l Ratilal	• Best Practices of Board Effectiveness, PETRONAS • Opening Ceremony for The Offshore Technology Conference Asia (OTC Asia) 2016, PETRONAS • MISC Annual Planning Forum • 5th PETRONAS BAC Forum • PETRONAS Board Excellence: Effective Strategy for Stakeholders Management

Directors	Trainings Attended
Datuk Ishak bin Imam Abas	• Corporate Governance Breakfast Series with Directors: Anti-Corruption & Integrity-Foundation of Corporate Sustainability by Bursa Malaysia • How to Built or Burn Trust in an Organisation
Augustus Ralph Marshall	• Building Lean Enterprise and Innovation Culture • Technology Disruption and Impact on Media Sector by Citigroup
Dato' Halipah binti Esa	• Improving Board Risk Oversight Effectiveness by Bursa Malaysia • Audit Committee Seminar for the Public & Private Sectors 2016 – Improving Audit Effectiveness • Practitioners & Board of Directors Guide to the Effective & Pratical Implementation of ISO 31000 & Related Standards • Sustainability Engagement Series for Directors/Chief Executive Officers by Bursa Malaysia • Global Conference 2016 on Enterprise Risk Management & Power Disruption
Datuk Pragasa Moorthi a/l Krishnasamy	• Construction Programming by Mapletree, Singapore
Habibah binti Abdul	• Financial Institution Director Education ("FIDE") Forum – Impact of New Accounting Standard on Banks – What Directors Should be Aware of. A Dialogue with Darrel Scott, International Accounting Standards Board ("IASB") Board Member • Fide Forum – Board's Strategic Leadership – Innovation & Growth in Uncertain Times by Ram Charan • National Tax Seminar 2016 • MIA Conference 2016 – Malaysian Institute of Accountants

B. DIRECTORS' REMUNERATION

In determining directors' fee and meeting allowances as well as meeting allowances for the AC and NRC (collectively "Directors' Remuneration"), KLCCP and KLCCRM adhere to the policies and procedures set by the respective Boards as recommended by the NRCs of KLCCP and KLCCRM.

KLCCP Directors' Remuneration is subject to approval by the holders of Stapled Securities at the KLCCP AGM to be recommended by KLCCP Board.

Members of the Board, the AC and NRC of KLCCRM are entitled to meeting allowances only as long as their meetings are held on a different date than the meetings of the Board, AC and NRC of KLCCP.

For the year under review, a total of RM22,000 was paid to the Board members of KLCCRM for an additional meeting which was not held together with the board meeting of KLCCP.

Datuk Hashim bin Wahir, the Executive Director cum CEO of KLCCP and KLCCRM, is an employee of KLCC (Holdings) Sdn Bhd ("KLCCH"). KLCCP will reimburse KLCCH for the services rendered by the CEO in the form of management fees. During the year under review, KLCCP reimbursed KLCCH an amount of RM1,107,000.00 for his services.

The Directors' Remuneration for the Non-Independent Non-Executive Director, Datuk Manharlal A/L Ratilal, who is also an employee of PETRONAS, is paid directly to PETRONAS as fees for his representation at KLCCP and KLCCRM Boards.

Analysis on the number of directors whose remuneration falls in each successive band of RM50,000 distinguishing between executive and non-executive directors is disclosed in page 256 of this Annual Report.

For the year under review, the breakdown of the Directors' Remuneration of KLCCP and the Group is tabulated below:

(A) KLCCP

	Director's Fee (RM)	Board Meeting Allowance* (RM)	Audit Committee Meeting Allowance* (RM)	Nomination & Remuneration Meeting Allowance* (RM)	Total (RM)
Executive Director					
Datuk Hashim bin Wahir	n/a	n/a	n/a	n/a	n/a
Non-Executive Directors					
Krishnan C K Menon	108,000	16,000	n/a	n/a	124,000
Datuk Manharlal a/l Ratilal	72,000	12,000	6,000	6,000	96,000#
Datuk Ishak bin Imam Abas	72,000	15,000	n/a	n/a	87,000
Augustus Ralph Marshall	72,000	12,000	9,000	n/a	93,000
Dato' Halipah binti Esa	72,000	15,000	8,000	9,000	104,000
Datuk Pragasa Moorthi a/l Krishnasamy	72,000	15,000	n/a	n/a	87,000
Habibah binti Abdul	72,000	15,000	8,000	6,000	101,000
Total	**540,000**	**100,000**	**31,000**	**21,000**	**692,000**

(B) GROUP

	Director's Fee (RM)	Board Meeting Allowance* (RM)	Audit Committee Meeting Allowance* (RM)	Nomination & Remuneration Meeting Allowance* (RM)	Total (RM)
Executive Director					
Datuk Hashim bin Wahir	n/a	n/a	n/a	n/a	n/a
Non-Executive Directors					
Krishnan C K Menon	108,000	20,000	n/a	n/a	128,000
Datuk Manharlal a/l Ratilal	72,000	15,000	6,000	6,000	99,000#
Datuk Ishak bin Imam Abas	72,000	18,000	n/a	n/a	90,000
Augustus Ralph Marshall	72,000	15,000	9,000	n/a	96,000
Dato' Halipah binti Esa	72,000	18,000	8,000	9,000	107,000
Datuk Pragasa Moorthi a/l Krishnasamy	72,000	18,000	n/a	n/a	90,000
Habibah binti Abdul	72,000	18,000	8,000	6,000	104,000
Total	**540,000**	**122,000**	**31,000**	**21,000**	**714,000**

* *Meeting allowances depend on the number of meetings attended by the Board/AC/NRC members.*

Fees paid directly to PETRONAS in respect of a Director who is an appointee of PETRONAS.

(C) RELATIONSHIP WITH HOLDERS OF STAPLED SECURITIES AND INVESTORS

(1) Communication between KLCCP, KLCCRM and Investors

The Boards recognise the importance of maintaining transparency and accountability to their stakeholders. As such, the Boards consistently ensure the supply of clear, comprehensive and timely information to their stakeholders via annual reports as well as various disclosures including quarterly financial results of KLCCP Stapled Group which provide investors with up-to-date financial information of KLCCP Stapled Group.

All corporate disclosures take into account the prevailing legislative restrictions and requirements as well as investors' need for timely release of price-sensitive information such as the financial performance results, material disposals/acquisitions, and significant corporate proposals.

In all circumstances, KLCCP and KLCCRM are conscious of the timeliness in providing material information about KLCCP Stapled Group and continually stress the importance of timely and equal dissemination of information to stakeholders.

The Management of KLCCP and KLCCRM have conducted financial performance briefing for the investor community and issued press statements in conjunction with the announcements of the quarterly results of KLCCP Stapled Group. Announcements for public release by KLCCP and KLCCRM are not only intended to promote dissemination of financial and non-financial information of KLCCP Stapled Group to the holders of Stapled Securities and investors, but also to keep them updated on the progress and development of the business and affairs as well as strategic developments of KLCCP Stapled Group.

In addition to the mandatory disclosure requirements by Bursa Securities as well as other required corporate disclosures, information on KLCCP Stapled Group and minutes of general meetings of KLCCP and KLCC REIT can be accessed through KLCCP's corporate website.

(2) Annual General Meeting ("AGM")

The Boards regard the AGM as the important forum for effective communication and proactive engagement with the holders of Stapled Securities. Holders of Stapled Securities will be informed at the commencement of the AGMs that all resolutions set out in the notice of the AGM will be voted by poll. Holders of Stapled Securities will be accorded ample opportunity and time to raise questions and concerns, and the Directors and Management of KLCCP and KLCCRM will provide appropriate answers and clarifications. A detailed presentation of KLCCP Stapled Group's operations and financial results is undertaken by the CEO prior to the commencement of the proceedings of the AGMs. The external auditors of KLCCP and KLCC REIT will also be present during the AGMs to provide their professional and independent advice.

Responses to the queries received from the Minority Shareholders Watchdog Group ("MSWG") and Employees Provident Fund ("EPF") on KLCCP Stapled Group's business were shared with all holders of Stapled Securities attending the AGMs.

The AGM notices of KLCCP and KLCC REIT together with the Form of Proxy are given to the holders of Stapled Securities more than 21 days before the AGMs, which give them sufficient time to prepare themselves to attend the AGMs or to appoint a proxy to attend and vote on their behalf. Any item of special business included in the notices of the AGMs will be accompanied by an explanation of the effects of the proposed resolution. Separate resolutions are tabled for different transactions and the Chairman declares the outcome of the resolutions voted upon.

The Boards will consider the use of electronic voting for both show of hands and polling, to facilitate greater shareholders' participation after taking into consideration its reliability, applicability, cost and efficiency.

(3) Corporate Disclosure Policy

KLCCP and KLCCRM have each put in place a Corporate Disclosure Policy in compliance with MCCG 2012.

(D) ACCOUNTABILITY AND AUDIT

(1) Financial Reporting

In order to provide timely, transparent and up-to-date disclosure of KLCCP Stapled Group's overall performance, the Boards have to ensure that a balanced, clear and meaningful assessment of the financial position and prospects of KLCCP Stapled Group are presented in all the disclosures made to the holders of Stapled Securities, investors and the regulatory authorities through various announcements on quarterly financial results, annual reports and press releases.

The Boards are assisted by the respective ACs to oversee KLCCP Stapled Group's financial reporting process and the quality of the same. The ACs review and monitor the integrity of the interim and annual financial statements of KLCCP Stapled Group.

The ACs also review the aptness of KLCCP Stapled Group's accounting policies and the changes thereto as well as the implementation of these policies.

The Chairman of the ACs as well as its members are professional individuals. Together, they have vast experience and skills in accounting and finance as well as other fields of expertise, and are highly-qualified to formulate and review the integrity and reliability of KLCCP Stapled Group's financial statements prior to recommending the same to the Boards for approval.

The Boards are responsible for ensuring that the KLCCP Stapled Group's audited financial statements comply with Malaysian Financial Reporting Standards, the Companies Act, 1965 and the MMLR and any other applicable legislations and regulations.

The Statement by the Directors, the Manager's Report and the Statement by the Manager in relation to the preparation of the financial statements of KLCCP Stapled Group are set out on page 209 and pages 280 to 285 of this Annual Report.

(2) Related Party Transactions

All related party transactions or potential conflict of interest situations of KLCCP Stapled Group are subject to regular periodic review by the ACs prior to recommendation to the Boards to ensure compliance of the MMLR and/or the REIT Guidelines.

(3) Internal Control

The Boards have overall responsibility for maintaining a sound system of internal controls of KLCCP Stapled Group that provides reasonable assurance of effective and efficient business operations, compliance with laws and regulations as well as internal procedures and guidelines.

During their quarterly meetings, the ACs review the effectiveness of the system of internal controls of KLCCP Stapled Group. The review covers financial, operational and compliance controls as well as risk management functions.

The Statement on Risk Management and Internal Control, which provides an overview of the state of the internal control within KLCCP Stapled Group, is set out on pages 139 to 143 of this Annual Report.

(4) Relationship with External Auditors

KLCCP Stapled Group has established transparent and appropriate relationship with the external auditors through the respective ACs. From time to time, the external auditors will highlight matters that require further attention of the respective ACs and the Boards. The Boards have obtained assurance from the external auditors on their independence in discharging their duties throughout the conduct of the audit engagement.

The respective ACs meet with the external auditors to discuss their audit plans, fees, audit findings and their reviews of KLCCP Stapled Group's financial statements. The meetings are held in the presence of the CEO and the Management.

The respective ACs also meet with the external auditors once annually or whenever necessary without the presence of the CEO and the Management. In addition, the external auditors are present at the AGMs to provide their professional and independent clarification on issues and concerns raised by the holders of Stapled Securities.

A summary of the work of the ACs during the year under review, including the evaluation of the independent audit process, are set out in the AC Report on pages 145 to 146 of this Annual Report.

The details of fees paid/payable to the external auditors for the year for statutory audit and other services rendered to KLCCP Stapled Group are set out below:

	KLCCP Stapled Group RM'000*	KLCCP RM'000	KLCCRM RM'000	KLCC REIT RM'000#
Fees paid/payable to Messrs. Ernst & Young:				
• Statutory Audit	586	206	10	86
• Other Services	16	16	–	–
Total	**602**	**222**	**10**	**86**

* *inclusive of fees paid by other subsidiaries of KLCCP*

\# *inclusive of fees paid by Midciti Sukuk Berhad*

The Boards believe that the provision of these services by the external auditors to KLCCP Stapled Group was cost effective and efficient due to their knowledge and understanding of the operations of KLCCP Stapled Group, and they did not compromise their independence and objectivity.

The KLCCP Stapled Group has incorporated policies and procedures governing the circumstances in which contracts for non-audit services are to be entered with external auditors.

(E) INTERNAL AUDIT FUNCTION

The internal audit function is undertaken by the Group Internal Audit Division ("GIAD") of KLCCH which provides assurance on the efficiency and effectiveness of the internal control systems implemented by KLCCP Stapled Group. To support the ACs in discharging their responsibilities, the Head of GIAD of KLCCH reports directly to the ACs.

Further details of the internal audit activities are set out in the Audit Committee Report and Statement on Risk Management and Internal Control of this Annual Report.

(F) RISK MANAGEMENT

Details of risk management activities of KLCCP Stapled Group are set out in the Statement on Risk Management and Internal Control of this Annual Report.

(G) SUSTAINABILITY STATEMENT

A statement of KLCCP Stapled Group's management of material economic, environmental and social risks and opportunities is set out in the Sustainability Statement of this Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 20 January 2017.

The Boards of KLCCP and KLCCRM are responsible and committed to maintain a sound and effective risk management and internal control system of KLCCP group and KLCC REIT.

Statement on Risk Management and Internal Control

The system encompasses risk management, organisation policies and processes, corporate governance, financial information integrity, operational and regulatory controls. The system is designed to manage and not to eliminate all inherent risks associated with the business as well as any weaknesses in the processes and policies of KLCCP Stapled Group. An effective and sound risk management and internal control system is important for KLCCP Stapled Group to achieve its business strategies and objectives.

RISK MANAGEMENT

The Boards have established sound risk management practices to safeguard KLCCP Stapled Group's business interest from risk events that may impede the achievement of its business strategies and growth opportunities besides providing assurances to all stakeholders.

KLCC Group Enterprise Risk Management ("ERM") Framework ("Framework") outlines the risk policy, risk governance and structure, risk measurement and risk operations and system for KLCCP Stapled Group. The Boards have implemented the ERM processes to identify, assess, monitor, report and mitigate risks impacting KLCCP Stapled Group's business and supporting activities in accordance with ISO 31000:2009 – Principles and Guidelines on Implementation.

In supporting the risk governance structure and effective implementation of the ERM, KLCCP Stapled Group has established appropriate risk operations mechanism covering the areas of system, processes, reporting of risks, knowledge management and assurance activities.

The Risk Management Oversight Structure sets out the structure used to assign responsibility for risk management and facilitates the process for assessing and communicating risk issues from operational levels to the Boards. The structure consists of the Boards, ACs and the Management represented by Management Committee ("MC") and Risk Management Committee ("RMC"). The structure allows for effective strategic risk communication to take place between the Boards, ACs and the Management on a quarterly basis.

The Boards are responsible for the overall risk oversight for KLCCP Stapled Group. The Boards' roles include identifying and approving the key principal risks for KLCCP Stapled Group and ensuring the implementation of appropriate and prudent systems to manage the identified risks.

The ACs provide advice to the Boards on risk matters. This includes reviewing the adequacy and effectiveness of risk management, internal control system and key control processes as adopted by KLCCP Stapled Group.

The RMC serves as a central platform of KLCCP Stapled Group to assist the Management in identifying principal risks, reviewing and recommending frameworks, methodologies, measurement, providing guidance and direction in the implementation and institutionalisation of risk management practices and providing assurance on effective implementation of risk management on a group wide basis.

The RMC comprises key personnel from respective disciplines within the KLCCP Stapled Group to undertake the review process of all risk management matters before submission to the ACs and the Boards for deliberation and approval.

The RMC in discharging its risk management function, is assisted by the Group Risk Management of KLCCP in managing the principal risks, providing assurance on effectiveness of the risk management framework for KLCCP Stapled Group and also promotes sound risk management practices to enhance risk management culture across KLCCP Stapled Group.

The MC reviews and recommends the effectiveness of the risk assessment and risk management policies and practices to ensure adequacy of the system is in place to effectively monitor and manage those risks.

Risk Profiling

A risk profiling exercise was conducted to ensure that KLCCP Stapled Group's risk exposures are properly mitigated and updated to reflect the current economic environment and new regulations imposed by the government which impacted KLCCP Stapled Group's risk exposures.

The likelihood and impact of the risks have been assessed and evaluated against KLCCP Stapled Group's risk appetite and tolerance level while appropriate key risk indicators and mitigation plans have been identified for the risks. The status of the principal risks and key risk indicator performances are then reported to the RMC, ACs and the Boards for their deliberation and guidance on a quarterly basis.

During the year under review, the Boards have carried out the following:

(i) Annual review of its risk profile in compliance with the ERM Framework where the risk profile was reviewed, assessed and updated to safeguard KLCCP Stapled Group's investment and key business activities and to ensure the risk exposures are relevant and up to date taking into account emerging risks;

(ii) Annual review of risk profile for entities under KLCCP Stapled Group such as KLCC Parking Management Sdn Bhd and KLCC Urusharta Sdn Bhd; and

(iii) Risk assessment on project basis to identify all potential risks that may impact the implementation and completion of the projects.

KLCCP Stapled Group has identified the following principal risks which are critical to the success of KLCCP Stapled Group's business objectives:

- Human Capital
- Security
- Finance
- Market
- Asset Management
- Project Management (KLCCP only)
- Supplier
- Health, Safety & Environment
- Facilities Management

The Corporate Risk Profile is monitored via the INTERISK system, a risk management tool which provides complete risk overview of the organisation for reporting to the Boards. It is a web-enabled system where users are able to access the organisation risk profile on a real-time basis anytime and anywhere.

Business Continuity Plan

The Business Continuity Plan ("BCP") was established which aims to provide guidance in resuming key business functions in the event crisis occurs that has a major or catastrophic impact on business in terms of financial, operation and reputation.

During the year under review, BCP simulation exercises for specific identified scenarios were carried out to ensure practicality of the BCP for its implementation during crisis. The BCP simulation exercises include testing of the recovery strategy at virtual office and the effectiveness of identified Primary and Alternate Workforce for business resumption of the Critical Business Function.

The web-based storage was introduced to support the continuity of business in the event of crisis to enable the critical business function to retrieve the working data elsewhere.

Concerns on all principal risks are shared with the Group Internal Audit Division ("GIAD") of KLCC (Holdings) Sdn Bhd ("KLCCH") which then uses the risk assessment reports as reference to develop the annual audit plans for KLCCP Stapled Group. Risk awareness sharing sessions are regularly conducted for all levels of staff as part of the ongoing initiative to sustain risk awareness and risk management capabilities to inculcate risk management culture within the KLCCP Stapled Group.

INTERNAL CONTROL PROCESSES

The Boards continue to uphold and implement strong control structure and environment with the following key control processes to identify, evaluate and manage weaknesses of KLCCP Stapled Group's internal control system:

1) The Boards meet at least quarterly and have set a schedule of matters, which is required to be deliberated and approved by the Boards, thus ensuring that the Boards maintain full and effective supervision over the control processes;

2) The CEO of KLCCP and KLCCRM leads the presentation of board papers and provides comprehensive information and explanation for each discussion paper. In arriving at any decision, on recommendation by the Management, a thorough deliberation and discussion by the Boards is a prerequisite;

3) Updates on KLCCP Stapled Group's operations and performance are provided to the Boards at every meeting and the CEO also reports on any significant changes in the business operations and risk profiles of KLCCP Stapled Group. In addition, the CEO and the Chief Financial Officer/Chief Investment Officer ("CFO") of KLCCP (who is also the Head of Investment/Head of Finance ("Head of Investment") of KLCCRM) assure the Boards that adequate processes and controls are in place for the preparation of quarterly and annual financial statements;

4) KLCCP Stapled Group has an organisational structure with defined lines of responsibilities, delegation of authority and accountability. A hierarchical reporting structure has been established to provide documentary and auditable trail of accountability. In this respect, Limits of Authority Manuals are in place to define the lines of accountability and responsibility in relation to KLCCP Stapled Group's operations and functions;

5) KLCCP Stapled Group adopts the PETRONAS Code of Conduct and Business Ethics ("CoBE") to ensure that Directors, Management and employees, and third parties, when performing any work or services for KLCCP Stapled Group, will act ethically and remain above board at all times and their individual behaviour is in line with the PETRONAS Shared Values, i.e. Loyalty, Professionalism, Integrity and Cohesiveness.

   The detailed policy statements on the standards of behaviour and ethical conduct of the PETRONAS CoBE can be accessed at KLCCP's corporate website;

6) KLCCP Stapled Group undertakes annual planning and budgeting exercise including development of business strategies for forthcoming years and establishes key performance indicators for each business segment to achieve. Variance against budgets are analysed and reported on a quarterly basis to the Boards;

7) KLCCP Stapled Group's strategic directions are also reviewed annually taking into consideration changes in market conditions and significant business risks;

8) The CFO and Head of Investment report to the AC of KLCCP and AC of KLCCRM respectively that the accounting policies and procedures as set out in the Accounting Procedures Manual are in place and applied consistently to ensure that the financial statements are in compliance with the Malaysian Financial Reporting Standards and the relevant regulatory disclosure requirements; and

9) For the associate company, it is done via representation on the associate company's board. Information on the financial performance of the associate company is provided monthly.

INTERNAL AUDIT

The review of the risk management and internal control system of KLCCP Stapled Group is undertaken by the GIAD of KLCCH, which provides assurance on the efficiency and effectiveness of the internal control systems as implemented by KLCCP Stapled Group to support the ACs of KLCCP and KLCCRM in discharging their governance responsibilities. Governed by the respective KLCCP and KLCCRM Internal Audit Charters, the GIAD of KLCCH is independent of the activities they audit and perform their duties with impartiality, proficiency and due professional care.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the internal control system to manage risks faced by KLCCP Stapled Group. The ACs also had full access to the services and advice of the internal auditors and on quarterly basis received reports on all audits that were performed.

Adequacy and effectiveness of the internal control is assessed by adopting a systematic and risk based approach in reviewing KLCCP Stapled Group's businesses and operational controls, risk management and governance processes.

The External Auditors have performed limited assurance procedures on this Statement on Risk Management and Internal Control ("Statement") in accordance with *Malaysian Approved Standard on Assurance Engagements, ISAE 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and Recommended Practice Guide 5 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report.*

They have reported to the Boards that nothing has come to their attention that causes them to believe the Statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of *Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers* ("SRMICG") nor is the Statement factually inaccurate.

The Boards are of the view that KLCCP Stapled Group's internal control system is sound and effective to safeguard the stapled securities holders' investment, the interests of customers, employees and other stakeholders, and KLCCP Stapled Group's assets.

As recommended by the SRMICG, the respective Boards have received assurances from the CEO and CFO/Head of Investment that KLCCP Stapled Group's risk management and internal control system is operating effectively in all material aspects based on the processes as approved by the Boards.

This Statement is made in accordance with the resolution of the Board of Directors on 20 January 2017.

Audit Committees Report

(A) FORMATION

The Audit Committees ("ACs") of KLCCP and KLCCRM were established on 9 July 2004 and 12 December 2012 by the Boards of Directors of KLCCP and KLCCRM respectively.

(B) COMPOSITION

The members of the ACs of KLCCP and KLCCRM are the same and each AC comprises a majority of Independent Non-Executive Directors. The composition of the ACs is as follows:

(i) **Augustus Ralph Marshall**
Chairman/Non-Executive and Independent Director

(ii) **Datuk Manharlal a/l Ratilal**
Member/Non-Executive and Non-Independent Director

(iii) **Dato' Halipah binti Esa**
Member/Non-Executive and Independent Director

(iv) **Habibah binti Abdul**
Member/Non-Executive and Independent Director

(C) MEETINGS AND ATTENDANCE

During the year under review, a total of 4 meetings of the AC of KLCCP and KLCCRM were held respectively.

The attendance of the members of the ACs is as follows:

	No. of Meetings Attended	
Committee Members	**KLCCP**	**KLCCRM**
Augustus Ralph Marshall (Chairman)	3/4	3/4
Datuk Manharlal a/l Ratilal	3/4	3/4
Dato' Halipah binti Esa	4/4	4/4
Habibah binti Abdul	4/4	4/4

Meetings of the ACs were held with the presence of the CEO, CFO and Head of Investment, GIAD of KLCCH, and the external auditors as and when required.

(D) SUMMARY OF THE WORK OF THE AUDIT COMMITTEES

The ACs are collectively responsible in assisting the Boards in corporate governance and compliance of the KLCCP Stapled Group. A summary of the work and key matters considered by the ACs during the financial year ended 31 December 2016 are described below:-

(1) Internal Audit:

(a) Reviewed and approved the annual audit plans prepared by GIAD of KLCCH for activities to be undertaken for FY2017;

(b) Reviewed the quarterly internal audit status reports prepared by GIAD which highlighted the audit issues and recommendations as well as the Management's responses thereto.

Discussed with the Management on actions to be taken to improve the system of internal control based on improvement opportunities identified in the internal audit reports.

Further, the ACs also monitored and reviewed the progress of agreed corrective action items on audit findings to ensure all audit issues are resolved within the agreed stipulated period;

(c) During the first quarter of FY2016, KLCCP AC reviewed the results of the Balance Sorecard of GIAD for FY2015 and approved the Balance Scorecard of GIAD for FY2016. The Mid-Year Performance Review of GIAD for the first 6 months of FY2016 was presented to KLCCP AC; and

(d) Endorsed the appointment of the new Head of GIAD effective 1 July 2016 to replace the former Head of GIAD who retired at the end of June 2016.

(2) Financial Statements and Reporting:

(a) Reviewed and discussed the unaudited quarterly financial results of the KLCCP Stapled Group with the Management and recommended the same for the Boards' consideration and approval before releasing to Bursa Securities. The review was to ensure compliance with the MMLR, Malaysian Financial Reporting Standards, the Companies Act, 1965, REIT Guidelines and any other applicable legislations and regulations;

(b) Reviewed and discussed the audited financial statements with the external auditors and the Management. Having satisfied that the financial statements and reports complied with the relevant accounting standards and other applicable laws and regulations, the ACs recommended the same for the Boards' consideration and approvals;

(c) The ACs discussed the key audit matters raised by the external auditors with the Management and the disclosure thereof in the Auditors' Report for the financial year ended 31 December 2016 for KLCCP Stapled Group, which is in line with the requirements of the new International Standards on Auditing 701; and

(d) Recommended to the Boards of KLCCP and KLCCRM (as approved by the Trustee) for approvals on dividends and income distributions respectively for payment to the holders of Stapled Securities.

(3) Risk Review:

(a) Reviewed the adequacy and effectiveness of risk management, internal control system and key control processes as adopted by KLCCP Stapled Group;

(b) Reviewed KLCCP Stapled Group's risk exposures on an annual basis to ensure the risk exposures are properly mitigated and updated in the Corporate Risk Profile and recommended the same for the Boards' consideration and approvals; and

(c) Reviewed the quarterly key risk indicators' results for the identified risks and recommended the same for Boards' endorsement.

(4) External Audit:

(a) Reviewed the external auditors' scope of work, audit plans and fees for the year under review. Prior to the audit, representatives from the external auditors presented their audit strategies and plans;

(b) Discussed with the external auditors on the Audited Financial Statements for the financial year ended 31 December 2016 particularly on the major issues that arose during the course of the audit and their resolution, key accounting and audit adjustments as well as the unadjusted differences identified during the audit;

(c) Discussed issues arising from financial audits and any other matter the external auditors may wish to discuss (in the absence of the Management where necessary); and

(d) Reviewed the independence and objectivity of the external auditors and their services rendered including non-audit services:

- For KLCCP, the AC made recommendations to the Board for the re-appointment of the external auditors and approvals of their audit and non-audit fees.
- In respect of KLCCRM, the AC recommended the appointment and remuneration of the external auditors of KLCC REIT upon the approval of the Trustee of KLCC REIT.

(5) Related Party Transactions and Conflict of Interest:

(a) Reviewed, the potential conflict of interest, related party transactions and recurrent related party transactions entered into by the KLCCP Stapled Group based on the following requirements and practices:

(i) The MMLR, REIT Guidelines and other applicable laws and regulations;

(ii) On arm's-length basis and under normal commercial terms;

(iii) In the best interest of the holders of Stapled Securities;

(iv) Interested Directors abstained from voting at Board Meetings;

(v) Disclosed to the holders of Stapled Securities via Bursa Announcements, Quarterly Reports and Annual Report (if applicable); and

(vi) Approved by the Trustee (for KLCC REIT only).

(b) The AC of KLCCP took note that there were no conflict of interest situations for operational matters as reported in the recurrent related party transactions of KLCCP Group by the Management at its quarterly meetings.

(E) TERMS OF REFERENCE ("TOR")

The ACs are granted the authority to act on each Board's behalf in accordance with their respective TOR which are available at KLCCP's corporate website.

(F) INTERNAL AUDIT FUNCTION

The ACs are supported by GIAD of KLCCH in discharging the internal audit function of KLCCP Stapled Group. Governed by the respective KLCCP and KLCCRM Internal Audit Charters, GIAD of KLCCH maintained their independence, impartiality, and proficiency and due professional care by having their plans and reports directly under the purview of the ACs.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the internal control systems to manage risk exposures of the KLCCP Stapled Group. GIAD of KLCCH adopts risk-based approach in executing the planning, reviews and assessments, steered by internal policies, procedures and the Internal Control – Integrated Framework issued by COSO (The Committee of Sponsoring Organizations of the Treadway Commission).

The ACs also had full access to the services and advice of the internal auditors and received reports on all audits that were performed.

During the financial year ended 31 December 2016, GIAD of KLCCH has executed the following internal audit works:

(1) Conducted reviews and assessments based on the approved FY2016 annual audit plans covering the areas of:

- Facility management, retail & commercial leasing, parking management, finance and procurement for Menara 3 PETRONAS;
- Risk management activities for KLCCP Stapled Group under KLCCP Group Risk Management;
- Hotel operations and project management on the refurbishment of Mandarin Oriental Kuala Lumpur; and
- Governance and controls of company secretarial and legal functions for KLCCP Stapled Group;

(2) Conducted regular follow up with the Management on agreed corrective actions taken on outstanding audit issues to ensure key risks and weaknesses were addressed effectively and timely, where the status of implementation of the said agreed corrective actions are reported to the ACs on quarterly basis; and

(3) Prepared annual audit plans for FY2017 to ensure that all high risk areas in significant businesses and support units were identified and audited for the ACs' deliberations and approvals;

The resulting reports from GIAD of KLCCH, including findings, recommendations and management responses, were presented to the ACs.

Both Management of KLCCP and KLCCRM are responsible to ensure that necessary agreed corrective actions are taken and resolved within the required timeframe.

The total costs incurred for the internal audit activities of KLCCP Stapled Group for the year was RM499,000.00 and RM151,000.00 for KLCCP and KLCC REIT respectively.

Further details of the activities of GIAD of KLCCH are set out in the Statement on Risk Management and Internal Control of this Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 20 January 2017.

The information set out below is disclosed in compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and Guidelines on Real Estate Investment Trusts of Securities Commission Malaysia.

Additional Compliance Information

(I) AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees paid or payable to the external auditors for the financial year ended 31 December 2016 are as follows:

RM'000	KLCCP Stapled Group (Total)	KLCCP	KLCCRM	KLCC REIT
Audit fees	586	206	10	86
Non-audit fees *	16	16	–	–

* *The non-audit fees incurred with respect to the review of Statement on Risk Management and Internal Control.*

(II) MATERIAL CONTRACTS

There were no material contracts or loans entered into by KLCCP, KLCCP's subsidiaries or KLCC REIT involving the interest of the directors or major stapled securities holders or the management company of KLCC REIT, either still subsisting at the end of the financial year ended 31 December 2016 or entered into since the end of the previous period, except as disclosed in the Prospectus of KLCCP Stapled Securities dated 7 May 2013 and the respective audited financial statements of KLCCP and KLCC REIT.

(III) UTILISATION OF PROCEEDS

KLCCP and KLCC REIT did not raise funds through any corporate proposals during the financial year.

(IV) SANCTIONS AND/OR PENALTIES

During the financial year, there were no sanctions and/or penalties imposed by the relevant authorities on KLCC REIT, the management company of KLCC REIT as well as its directors pursuant to the Guidelines on REIT issued by Securities Commission Malaysia.

(V) RECURRENT RELATED PARTY TRANSACTION ("RRPT")

Both KLCCP and KLCC REIT did not seek any mandate from the holders of Stapled Securities on RRPT during the financial year.

SUSTAINABILITY STATEMENT

We aim to deliver financial value and societal benefits by balancing the commercial objectives with the environment and social needs of our stakeholders

Sustainability and Strategy

At KLCCP Stapled Group, our goal is to conduct our business activities in a socially and environmentally responsible manner. This includes maintaining high standards of conduct for maximising long term value creation, essentially in benefiting our stakeholders.

Our business strategy takes into perspective the risks and opportunities affecting the industry and organisation, while keeping abreast of evolving stakeholder expectations in the discipline of sustainability, such as climate change and social risks including human rights. We are focused in our efforts to address the material sustainable matters of KLCCP Stapled Group across our five prority areas – environmental stewardship, security, safety and health, our people, reliable partner and corporate governance. We endeavour to make good progress in our sustainability journey moving forward.

Going the EXTRA MILE

to help shape a better tomorrow

Context

The real estate industry is evolving rapidly, driven by growing rates of urbanisation, alongside changing customer demographics. This coupled with the technological evolution redefines market dynamics, in parallel to the shifting environmental and social landscape. Consequently, resulting in greater interest among stakeholders for new-age real estate investments, ranging from design to materials used and operational efficiency of buildings.

The challenges facing today's real estate industry in Malaysia include:

- Increased competitiveness in office market impacting net absorption rate
- Continued impact of Goods and Services Tax and volatile capital markets and commodity prices dampening consumer sentiment
- Intensifying competition from incoming supply of retail and hotels impacting market share

Approach

As our business is centered on real estate development, investment and management, we focus on how we manage our operations, mitigate our risks and grow our business to create competitive advantage whilst leveraging on the changes in the external environment, creating long term growth and stakeholder value. This entails maximising performance of our assets and investments, and managing expectations of our stakeholders, namely our tenants, shoppers, guests, suppliers, employees and contractors.

Our focus on sustainability is shaped by five priority areas reflecting the FTSE4Good themes and indicators for the construction and real estate sector and taking into consideration our unique business requirements, wider industry landscape while being mindful of stakeholder requirements.

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

CORPORATE GOVERNANCE

Upholding transparency in our actions and disclosures, ensuring high standards of governance, business ethics and integrity in our operations

ENVIRONMENTAL STEWARDSHIP

Striving for improved environmental practices and operational sustainability

SECURITY, SAFETY AND HEALTH

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

OUR PEOPLE

Nurturing a diverse and talented workforce to drive business growth strategies

RELIABLE PARTNER

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

We embed sustainability in all our business operations. Participation by top management and employees is vital to the successful implementation of the **strategies for sustainable development.**

SCOPE OF REPORTING

KLCCP Stapled Group's Sustainability Report highlights the non-financial performance and initiatives across our five priority areas from January to December 2016.

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

GOVERNANCE STRUCTURE

In our journey towards sustainability, we recognise the need for a governance model that is able to supervise the formulation and execution of sustainable strategies for the organisation. In line with Bursa Malaysia's Main Market Listing Requirement under the Amended Listing Requirements for Sustainability Statement, KLCCP Stapled Group undertook the maiden step in establishing its Sustainability Governance Structure.

This involved the formation of KLCCP Stapled Group's Sustainability Steering Committee (SSC) to ensure accountability, oversight and review in the identification and management of sustainability matters within the organisation. The members were carefully selected to create a team of diverse area of expertise covering all facets of KLCCP Stapled Group's business operations. The joint-chairman of the SSC, have the overall responsibility of overseeing the corporate sustainability strategy and progress of the KLCCP Stapled Group's sustainability performance, identifying and prioritising material sustainability matters, reviewing and endorsing policies, practices, targets and achievements for key sustainability issues and ensures regulatory sustainability requirements and reporting are met.

The SSC is supported by a working committee in ensuring sustainability is considered and integrated throughout our business operations. The SSC reports on a bi-annual basis to the Chief Executive Officer (CEO) who is responsible for driving the implementation of sustainability strategy for KLCCP Stapled Group and reports the progress to the Boards. The Boards represent the highest authority and is ultimately accountable for managing sustainability matters in KLCCP Stapled Group. The governance structure will facilitate regular reporting on sustainability matters to CEO with updates to the Board.

KLCCP Stapled Group Sustainability Governance Structure

SUSTAINABILITY FRAMEWORK

In managing the risks and opportunities which supports the business strategies, goals and aspirations, we developed a Sustainability Framework which encapsulates our principles on sustainability and aligns to our five priority areas. We took into perspective our strategic and operational risk profile and opportunities presented by the changing business environment, particularly in the real estate and construction industry. Premised on the PETRONAS' Corporate Sustainability Framework, we adapted it to our context and framed the KLCCP Stapled Group Corporate Sustainability Framework which embodies eight focused areas, comprising Shareholder Value, Corporate Social Investment, Climate Change, Natural Resource Use, Health, Safety and Environment, Workforce Development, Human Rights and Governance and Business Ethics.

KLCCP STAPLED GROUP SUSTAINABLE DEVELOPMENT

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

CORPORATE SUSTAINABILITY FRAMEWORK

Governance and Business Ethics Safeguarding the organisation's integrity and trustworthiness in delivering value through strong governance mechanisms and ethical business practices	**Climate Change** Strengthening our assets' resilience against climate impacts and managing energy efficiency **Natural Resource Use** Promoting optimum use of environmentally-friendly materials in our properties, operations through efficient processes and application of technology	**Health, Safety and Environment** Ensure our properties and services are in accordance with all legal requirements and industry best practices to safeguard the health, safety and wellbeing of employees, contractors, tenants, shoppers, hotel guests, communities and local environment	**Workforce Development** Equipping our workforce with skills and mindset to deliver sustained high performance **Human Rights** Respecting human rights in our areas of operations, complying to our code of conduct and business ethics and all legal requirements	**Shareholder Value** Delivering returns to our holders of Stapled Securities through long-term creation of economic value **Corporate Social Investment** Investing in sustainable initiatives to contribute to the wellbeing of society

PRIORITY AREAS

CORPORATE GOVERNANCE Upholding transparency in our actions and disclosures ensuring high standards of governance, business ethics and integrity in our operations	**ENVIRONMENTAL STEWARDSHIP** Striving for improved environmental practices and operational sustainability	**SECURITY, SAFETY AND HEALTH** Protecting our assets, operating reliably, effectively and efficiently across the Health, Safety and Environment (HSE) social spheres	**OUR PEOPLE** Nurturing a diverse and talented workforce to drive business growth strategies	**RELIABLE PARTNER** Strengthening financial position, business competitiveness and spurring socio-economic growth

IDENTIFYING MATERIALITY

KLCCP Stapled Group identified the material sustainable matters by taking into account the potential risks in our business activities in light of the social and environmental needs and the economic factors impacting the real estate industry. Our material areas were also identified based on inputs from both our internal and external stakeholders through observation and enquiries received. An internal materiality assessment was carried out to map out our sustainability matters.

Step 1: Issue Identification

The materiality process began by identifying which of the sustainability issues are important to our external and internal stakeholders from a combination of internal and external source documents and analysis of megatrends relevant to the industry. We benchmarked against our real estate and REIT players, both globally and locally to identify the sustainability matters that are common to the real estate and construction sector. As a constituent of FTSE4Good Bursa Malaysia Index, our identification of material areas were also based on the FTSE4Good themes and indicators for the real estate and construction sector which we fall under. The identification step was also aligned to the boundaries in which we operate in and determined if the issues were within or outside our direct operational control. The stakeholders considered for the development of the list of sustainability issues were:

Internal: Employees
External: Suppliers and Service Providers, Customers and Consumers, Shareholders/Investors/Business Partners, Government/Local Authorities, Regulators, Community and Media

Step 2: Prioritisation

Prioritisation is the process of determining how important the identified topics are to our stakeholders and to us. We translated the issues into sustainability risks and opportunities to determine which are material. Based on the identification process, we then engaged with the SSC and narrowed down the list of relevant sustainability issues for KLCCP Stapled Group based on the significant Economic, Environmental and Social (EES) impact to the organisation and the matters that substantively influence the decisions of stakeholders. With that, we identified 12 material sustainable matters for KLCCP Stapled Group.

Step 3: Materiality Assessment

To begin the Materiality Assessment process, the SSC identified the internal departments to solicit feedback on material issues from an internal business and external stakeholder perspective. The participants included representatives from the areas of Development and Leasing, Facilities Management, HSE, Procurement, Legal, Corporate Communications, Investor Relations and Business Development and our retail and hotel operations. The participants were requested to rank the importance of these 12 shorlisted material issues based on the five priority areas and in accordance to the impact on the external and internal stakeholders. Based on the degree of impact of either high, medium or low, the scores were given a weighting factor and were plotted on a materiality matrix using the average internal and external score.

Step 4: Review and Feedback

The final materiality matrix was presented to the SSC for review and feedback, and subsequently presented to CEO and the Boards. It was agreed that KLCCP Stapled Group would proceed with this list of sustainable matters for the 2016 Sustainability Report.

Identified Material Sustainable Matters

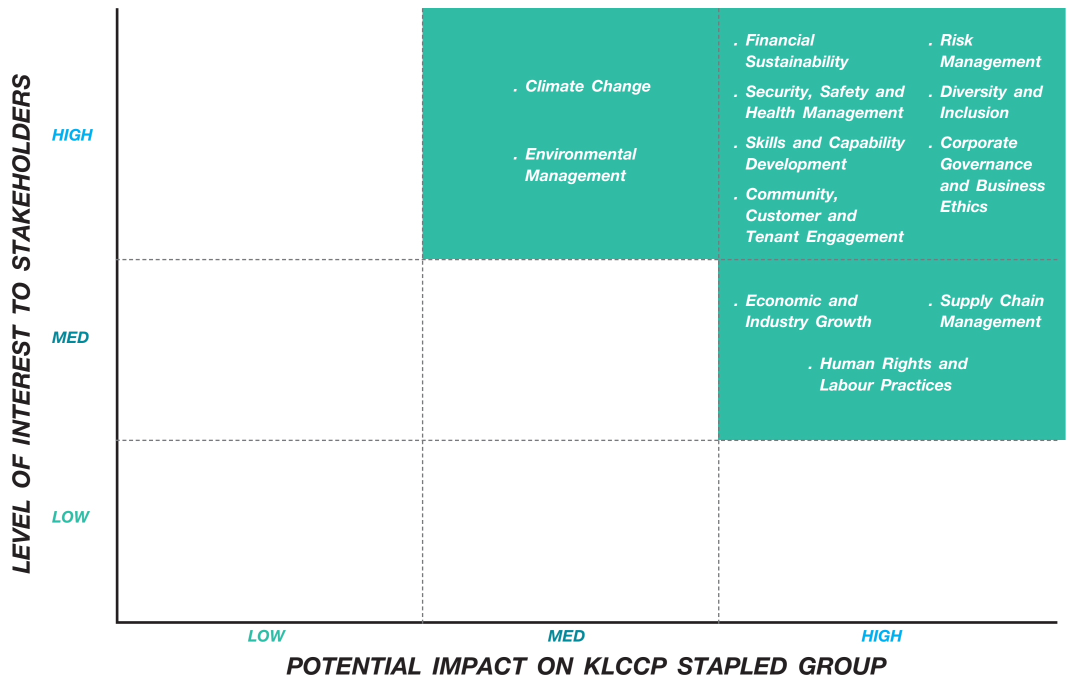
MATERIAL SUSTAINABLE MATTERS	PRIORITY AREAS	KEY INDICATORS
Economic		
Financial Sustainability	Reliable Partner	• Returns to holders of Stapled Securities
Economic and Industry Growth	Reliable Partner	• Current or expected impacts on communities and local economies
Environmental		
Climate Change	Environmental Stewardship	• Scope 1 and 2 emissions (mt$CO_{2\text{-}e}$) • Total energy consumed (kWh) • Use of renewable energy (kWh) • Energy reduction achieved as a result of conservation and efficiency initiatives
Environmental Management	Environmental Stewardship	• Total volume of water used (m^3) • Total volume of hazardous waste generated (tonnes) • Total volume of hazardous waste disposed (tonnes) • Total waste intensity (kg per room) and waste diversion (%) • Product innovation to reduce impacts (e.g. eco-friendly, less chemicals/toxic subtances) • Assessment of new and existing suppliers to identify environmental impacts
Social		
Community, Customer and Tenant Engagement	Reliable Partner	• Total amount invested in the community (RM)
Supply Chain Management	Reliable Partner	• Assessment of new and existing suppliers to identify potential negative social impacts • Procurement spent on local supplies (%)
Security, Safety and Health Management	Security, Safety and Health	• Number of workers undergoing safety and health training • Number of fatalities • Loss Time Injury Frequency (LTIF), Loss Time Injury Incidents (LTI), Loss of Primary Containment (LOPC) • HSE organisational chart and HSE committee
Skills and Capability Development	Our People	• Number of employees sent for training • Average training hours per employee • Amount invested in learning and development programmes (RM)
Diversity and Inclusion	Our People	• Number/percentage of employees by gender, age group, ethnicity

MATERIAL SUSTAINABLE MATTERS	PRIORITY AREAS	KEY INDICATORS
Social		
Human Rights and Labour Practices	Our People	• Compliance to legislations on welfare and rights of employees, workers and service providers • Employee benefits • Number of discrimination incidents • Number of child/forced labour incidents • Number of grievances on human rights issues
Corporate Governance and Business Ethics	Corporate Governance	• Separate Non-Executive Chairman and CEO • Commitment to gender diversity on the board • Number of Directors • Number of Independent Directors on the board • Number of women on the board • Anti bribery/corruption commitment statement
Risk Management	Corporate Governance	• Reference made to external standards to inform the risk management system and reporting transparency • Describes the risk management framework • Prepares for major Environmental, Social and Governance (ESG) catastrophic events and incidents

Note: Key indicators are with reference to Bursa Malaysia's and FTSE4Good's Sustainability Reporting Guidelines and benchmarked against industry's best practices.

We have identified 12 material matters for KLCCP Stapled Group and these are further classified into sub-specific areas which we have detailed more comprehensively in the rest of the report.

Materiality Matrix



Results of Our Materiality Assessment

The materiality assessment is illustrated in the materiality matrix on page 157, whereby the areas highlighted in the green quadrant represent the material sustainable matters to KLCCP Stapled Group. We will revisit and reassess our material sustainable matters towards a more comprehensive assessment to further enhance our reporting in the future.

Sustainability Roadmap

Having performed the materiality assessment and identified the significant aspects for KLCCP Stapled Group, the SSC together with the working committee, developed a Sustainability Roadmap with targets and measures as mile markers, towards our sustainability journey. The Sustainability Roadmap sets out specific targets for the KLCCP Stapled Group as a whole covering Governance, Environmental Stewardship and Social for the period from 2016 to 2018, against a 2015 baseline. It defines quantitative targets and concrete measures to be undertaken. This represents our conscious commitment through which the organisation as a whole is continuously improving societal and economic performance.

STAKEHOLDER MANAGEMENT

KLCCP Stapled Group recognises stakeholder management as an important aspect to ensure transparency and accountability. Communication with stakeholders is imperative in understanding and managing their expectations and provide new perspectives in generating positive impact to the organisation. With expectations changing rapidly in the real estate industry, investors, community, regulators and other stakeholders are continuously seeking for greater levels of transparency with respect to the economic, environment and social issues. We continue to engage and manage our stakeholders' needs and expectations, taking into consideration their viewpoints towards more tangible business value creation.

KLCCP Stapled Group has a diverse group of stakeholders comprising both internal and external stakeholders whom we have been engaging with through the various communication channels to identify and understand the issues that are most important to them. Demonstrated below are our key stakeholder groups, our engagement methods and their areas of interest.

STAKEHOLDER GROUP	ENGAGEMENT METHOD	FREQUENCY OF ENGAGEMENT	LEADING AREAS OF INTEREST
Suppliers and Service Providers	• Face-to-face meetings • Evaluation/Performance Review • Corporate presentations • Supplier training programmes • Signing ceremonies	• Ad-hoc • Annually • Ad-hoc • Regular • Ad-hoc	• Fair practices • Transparent tender processes • Compliance with laws and regulations
Customers and Consumers	• Customer Feedback Management – hotline, surveys, email queries • Loyalty programmes • Events • Dialogue and engagement • Social Media	• Daily • Ad-hoc • Ad-hoc • Ad-hoc • Daily	• Customer relationship management • Safety and Security • KLCCP Stapled Group's competitive edge and differentiating factor in the marketplace • Innovative and trend setting practices
Employees	• Townhall sessions • Dialogue and Engagement • Intranet portal • Employee satisfaction survey • Annual dinner • Recreational and sports club events	• Annually • Regular • Regular • Annually • Annually • Regular	• KLCCP Stapled Group's long term growth, strategies and performance • Staff safety and wellbeing • Employee benefits • Training and career development • Employee performance

STAKEHOLDER GROUP	ENGAGEMENT METHOD	FREQUENCY OF ENGAGEMENT	LEADING AREAS OF INTEREST
Shareholders/Investors/ Business Partners	• Annual General Meeting • One-on-one/small group meetings • Website • Investor relations events • Quarterly reports • Annual report	• Annually • Regular • Regular • Regular • Quarterly • Annually	• Distribution per Stapled Security • Annual Total Return • Efficient operations leading to sustainable profitability • Long term growth and stability • Board and governance • Sustainable development and practices
Government/Local Authorities/Regulators	• Emails/letters • Discussions on government initiatives • Formal meetings • Inspections • Event • Workshops/Seminars	• Regular • Ad-hoc • Ad-hoc • Ad-hoc • Ad-hoc • Ad-hoc	• Governance compliance • Construction and Building By-Laws compliance • Industrial and workplace relations • Environmental management and compliance • Security and Safety management
Community	• Community Engagement activities • Annual reports • Website/Information leaflet/ kiosks	• Regular • Annually • Daily	• Health and safety impacts • Environmental impacts • Social contribution
Media	• Press release/media invites • Press conferences, question and answer sessions • Media coverage • Media luncheon	• Quarterly • Annually • Ad-hoc • Annually	• Financial performance • Growth strategies, new projects and prospects • Operational issues and financial impact • Board and governance • Corporate responsibility

PERFORMANCE OVERVIEW 2016

ENVIRONMENTAL STEWARDSHIP

Office

GHG Emissions

scope 1
5.47 $mtCO_{2-e}$

scope 2*
90,214 $mtCO_{2-e}$

Energy Consumption*

95,426,259 kWh

Water Consumption

646,355 m^3

Waste Management

2.173 metric tonnes
of hazardous waste generated

1.750 metric tonnes
of hazardous waste disposed

* including car park

Retail

GHG Emissions

scope 1
1,540 $mtCO_{2-e}$

scope 2
33,103 $mtCO_{2-e}$

Energy Consumption

15,791,308 kWh

553,093 kWh
Renewable energy generated

RM1.2 million
Energy cost saving

Water Consumption

607,715 m^3

Waste Management

299,700 tonnes
(recycled waste)

Hotel

GHG Emissions

scope 1
1,925 $mtCO_{2-e}$

scope 2
17,511 $mtCO_{2-e}$

Energy Consumption

13,540,725 kWh

Water Consumption

181,678 m^3

Waste Management

0.903
metric tonnes of hazardous waste generated

0.903
metric tonnes of hazardous waste disposed

4.7 kg per room night waste intensity (weight of non diverted waste in kg vs guest room nights)

22.39%
waste diversion (weight of waste diverted from landfills and recycled)

SECURITY, SAFETY AND HEALTH

0.46
Loss Time Injury Frequency (LTIF)

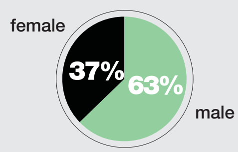
0 cases
Number of Fatalities

4 cases
Loss Time Injury (LTI) Incidents

0
Loss of Primary Containment (LOPC)

OUR PEOPLE

Workforce Diversity



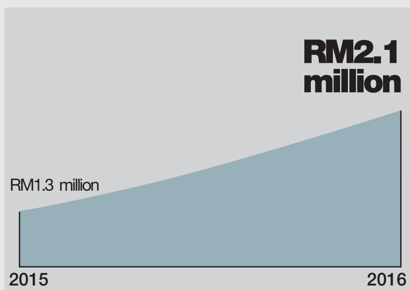
Staff sent for Training
98%
of the total population

Spent on Learning and Development
RM1.03 million

Average Training Hours per Employee
22 hours

RELIABLE PARTNER

Community Investment



BENCHMARKS AND AWARDS

FTSE4Good Emerging Index	KLCCP Stapled Group was included as a constituent of the FTSE4Good Emerging Index following the launch of this index by FTSE Russel in December 2016. First Malaysian REIT included on the index for demonstrating strong Environmental, Social and Governance (ESG) practices.
The Asset Gold Award	Excellence in Governance, CSR and Investor Relations Benchmarking.
Capital Finance International (CFI.CO) Award	Best Shariah-Compliant REIT-Malaysia 2016 for demonstrating integration of sustainability principles into the decision-making process for long term viability of KLCCP Stapled Group's property portfolio.
The Best Public Space	KLCC Park was voted "The Best Public Space" at the 8th International Conference on World Class Sustainable Cities (WCSC) 2016 for its commitment in providing a public space that caters to the needs of people from all walks of life.
ISO 9001: 2015 Quality Management System ISO 14001: 2015 Environmental Management System OHSAS 18001: 2007 Occupational Health and Safety Management System	KLCC Parking Mangement Sdn Bhd (KPM) was awarded the integrated certification for continued determination and commitment in delivering quality services to customers in as pledged in our quality management system focusing on leadership and quality commitments.
MOSHPA OSH Excellence Award 2016	KPM received the Gold Award for its commendable achievement in occupational, health and safety management in its car park operations.

FTSE4Good

FTSE4Good Emerging Index

FTSE4Good Bursa Malaysia Index

CORPORATE GOVERNANCE

Good corporate governance and sound risk management enable KLCCP Stapled Group to function efficiently, effectively and more importantly, responsibly by providing clarity on acceptable and expected standards of behaviour. We seek to uphold transparency in our action and disclosures, upholding integrity whilst addressing the current and emerging risks in the real estate sector.

Material Sustainable Matters

- Corporate Governance and Business Ethics
- Risk Management

Context

In our increasingly competitive corporate landscape, effective corporate governance is a vital foundation for a company's positive environmental and social track record. The environmental and social impacts are amongst the most prominent issues that responsible investors consider when investing in a company but not without a meaningful and indepth review of its corporate governance practices.

KLCCP Stapled Group is subject to corporate governance requirements set out by the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad and voluntarily comply with the best practices recommendations as stipulated by the Malaysian Code of Corporate Governance (MCCG) 2012.

With greater accountability and transparency, KLCCP Stapled Group strives to strengthen its corporate governance that will ultimately secure long term value for its stakeholders.

Approach

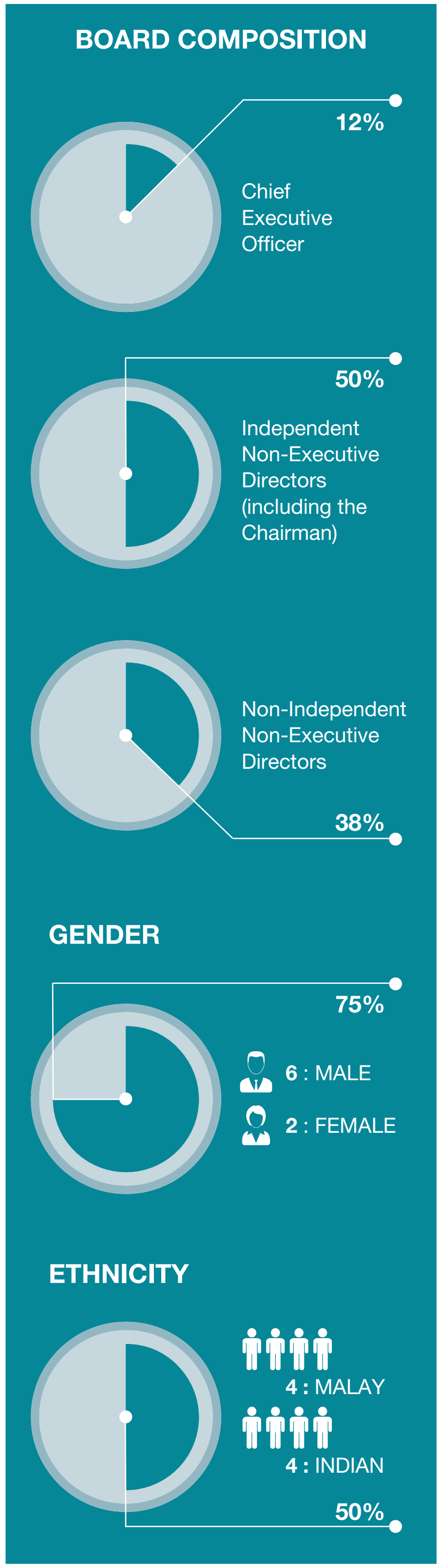
KLCCP Stapled Group takes a proactive approach in observing high standards of corporate conduct with good corporate governance policies and practices in ensuring the sustainability of the organisation and safeguarding the interests of the holders of Stapled Securities and maximising long-term stakeholder value.

Our commitment to good corporate governance is reflected in our Code of Conduct and Business Ethics (CoBE), which guides the organisation in fulfilling its business obligations with utmost integrity and transparency.

Overseeing the overall strategic and operational business performance are KLCCP's and KLCCRM's Board of Directors. The Board Governance and Risk Committee as well as the Board Audit Committee were established to assist the Boards in discharging their functions in relation to internal controls, risk management, compliance with applicable laws and regulations, as well as reviewing internal policies and procedures. Together, they are entrusted to further fortify the levels of accountability and integrity in KLCCP Stapled Group.

Key initiatives for the year

Board Composition and Diversity	• Launched the Board Diversity Policy for KLCCP and KLCCRM to ensure a diverse and inclusive board and support country's aspiration of 30% representation of women directors on boards
Risk Management	• Conducted Enterprise Risk Management workshops for identified Business Units of critical business areas • Conducted INTERISK system training to risk focals, risk owners and risk representatives where identified Risks Profiles are uploaded into the system • Carried out the Business Continuity Plan simulation exercise for specific identified scenarios



CORPORATE GOVERNANCE AND BUSINESS ETHICS

Our Boards take pride and place importance on strong governance culture and implementing international best practices across the business segments. In carrying out our business activities, we are guided by the KLCC Shared Values to uphold intergrity in fulfilling our obligations in an ethical, responsible and transparent manner. This is supported by our strict conformance with the respective laws, rules and regulations in the country where we operate.

During the year, KLCCP Stapled Group was included in MSWG's Top 100 companies for demonstrating good disclosures and best practices in corporate governance, pursuant to MSWG's Malaysia-ASEAN Corporate Governance Awards 2016 and was also a recipient of the Gold Award in The Asset Awards 2016 for excellence in Governance, CSR and Investor Relations Benchmarking.

Board Composition and Diversity

Board composition for KLCCP and KLCCRM takes into consideration the gender diversity which has been one of our most significant corporate governance practices. This diverse composition is seen as contributing towards improving organisational value and performance, providing the Boards with new insights and new perspectives.

KLCCP and KLCCRM Boards of Directors comprise eight members respectively, a Chief Executive Officer, four independent non-executive directors including a Chairman and three non-independent non-executive directors, fulfilling the requirement of the MMLR on independence. Currently, there are two female directors on each Board. The

Boards are responsible for overseeing the overall management of KLCCP and KLCCRM and responsible for providing oversight and stewardship of the organisation. Harnessing strength from a variety of backgrounds and experiences, the Boards bring diversity and add depth to deliberations.

Board Diversity Policy

MCCG 2012 recommends the formulation and disclosure of gender diversity policies and targets to be mandatory, where companies must disclose in their Annual Reports, policies and targets with respect to composition of women on their boards. The Diversity Policy for KLCCP and KLCCRM, which was rolled out in August 2016, aspires to ensure a diverse and inclusive board that will leverage on differences in thoughts, perspectives, knowledge, skills, regional and industry experiences, cultural and geographical background, age, ethnicity and gender to achieve effective stewardship and management which inturn will lead to its competitive advantage. In line with the country's aspirational target of 30% representation of women directors, the Boards will strive to maintain the pursuit of the same target underpinned by meritocracy in order to maintain an optimum mix of skills, knowledge and experience of the Boards.

Business Ethics and Integrity

The Board of Directors of KLCCP and KLCCRM are guided by the corporate governance principles, CoBE and charters for each board committee and is committed to representing the long-term interests of all holders of Stapled Securities.

KLCCP Stapled Group's commitment to good corporate governance is reflected through its effort in promoting compliance, integrity and transparency through the adoption of KLCCP Stapled Group's Shared Values, PETRONAS' CoBE, Anti Bribery and Corruption (ABC), No Gift Policy and Whistleblowing Policy.

	Employees	Supply Chain
Communication Channels	• KLCCP Stapled Group Shared Values • PETRONAS Code of Conduct and Business Ethics • PETRONAS Anti-Bribery and Corruption Manual • No Gift Policy • PETRONAS Integrity Compliance Framework • PETRONAS Whistleblowing Policy • Induction Trainings	• Imposed provision in all contracts requiring third parties to comply with CoBE • Imposed provision of anti-bribery and corruption clauses in all contracts requiring third parties to comply with • Continuous engagement with third parties to ensure compliance with CoBE and ABC Manuals
Feedback Channels	• Whistleblowing Reporting Platform	

Code of Business Ethics (CoBE)

At KLCCP Stapled Group, we adhere to the PETRONAS' CoBE which contains detailed policy statements on the standards of behaviour and ethical conduct expected of each invidual. The CoBE applies to all employees and Directors within the KLCCP Stapled Group and we continue to pursue good business ethics amongst the employees and stakeholders and endeavour to achieve the highest standards of integrity through the adherence to the CoBE.

The CoBE is benchmarked to international standards and outlines the behaviour and ethical conduct expected of employees, directors and other stakeholders in the way we do business which is reflected by the policies and procedures which deals with confidentiality, conduct and work discipline and corporate gifts and workplace harassment.

For the year under review, KLCCP Stapled Group continued to communicate the CoBE to all employees as well as third parties performing work for or on behalf of KLCCP Stapled Group through its corporate website, meetings, corporate events and inclusion of CoBE in all new employees induction program. In 2016, 54 new employees were introduced to the CoBE and were required to sign a declaration of adherence to the CoBE.

Anti-Bribery and Corruption

The ABC Manual and the *No Gift Policy*, as adopted from PETRONAS has been KLCCP Stapled Group's reference in dealing with unethical conduct and is now part of the culture in our efforts to eliminate all forms of bribery and corruption within the organisation. The ABC Manual was developed to supplement the general policy statements set out in the CoBE on fighting corruption and unethical practices and outlines detailed explanation on procedures for dealing with improper solicitation, bribery and corruption and addressing of ethical issues.

KLCCP Stapled Group's strong stance of zero-tolerance against bribery and corruption extends to its business dealings with third-party service providers and vendors. Pursuant to the ABC Manual, KLCCP Stapled Group requires that its agreements with third-party service providers and vendors incorporate anti-bribery and anti-corruption provisions.

To further strengthen our efforts in promoting ethical practices across the organisation, KLCCP Stapled Group continued to communicate and engage with employees at all levels through displays of posters at all office sites as well as conducted talks on integrity to uphold the core values and not engage in corrupt or unethical practices. This serves as a reminder to all employees to maintain the highest standards of integrity at work and in all business dealings.

Whistleblowing Policy

The Whistleblowing Policy, as adopted from PETRONAS provides an avenue for employees and members of the public to disclose any misconduct or malpractices within KLCCP Stapled Group. It encourages openness and transparency and heightens ethical business conduct and provides trusted and accessible channels to report corruption, fraud and dishonest practices at the workplace.

Employees and members of the public who raise or disclose any malpractices can do so without doubt or fear of reprisals as the whistleblower is assured confidentiality of identity, to the extent reasonably practicable, even post completion of investigation, so long as the disclosure is made in good faith. Whistleblowers are also kept updated on outcomes of the disclosure made, adhering to procedures in place.

As part of the PETRONAS group, all reported whistleblowing incidents are escalated to the PETRONAS Whistleblowing Committee set up to deliberate upon the disclosures made, determine next course of action and monitor progress until case closure. The Committee meets at least once a month and provides updates to the Internal Audit Management Committee as well as Board Audit Committee.

The organisation's ongoing efforts to promote the Whistleblowing Policy and its established platforms entailed displaying communication collateral at strategic locations within KLCCP Stapled Group's office premises such as the PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi.

Our Whistleblowing Policy is available at http://www.klcc.com.my/sustainability/governance.php

Dealings in Stapled Securities

KLCCP Stapled Group has adopted a dealing in Stapled Securities Policy, a Memorandum of Insider Trading, for Directors and employees which advocates best practices pursuant to the MMLR. It sets out prohibitions against dealing in the Stapled Securities when in possession of un-published price sensitive information and knowledge of facts or materials. The Directors have been issued guidelines and are notified in advance of the closed period for trading in Stapled Securities and are regularly reminded of the laws of insider trading and to refrain from dealing in Stapled Securities on short-term basis.

RISK MANAGEMENT

Risk management is an intergral part of KLCCP Stapled Group's business at both strategic and operational levels. An effective and sound risk management system is important for KLCCP Stapled Group to achieve its business strategies and objectives. KLCCP Stapled Group has an established KLCC Group Enterprise Risk Management Governance Framework which outlines the risk policy, risk governance and structure, risk measurement and risk operations and system.

The Risk Management Oversight Structure which consists of the Boards, Audit Committees, Management Committee and Risk Management Committee sets out the structure used to assign responsibility for risk management and facilitates the process for assessing and communicating risk issues from operational levels to the Boards.

KLCCP and KLCCRM Boards developed an integrated robust risk management system for business resiliency focusing on three key areas:

Enterprise Risk Management

KLCCP Stapled Groups' Enterprise Risk Management (ERM) Framework is a structured and holistic approach to identify, assess, treat and monitor risk aimed to reduce the likelihood and impact of all identified risks to enhance ability to achieve strategic objectives. It sets out the six key elements comprising Governance, Context Setting, Risk Assessment, Risk Treatment, Risk Monitoring and Review and Continual Improvement which enable KLCCP Stapled Group to manage risks in an integrated, systematic and consistent manner.

The framework provides a standard and consistent approach across KLCCP Stapled Group in achieving the following key attributes in risk management:

- Full accountability in managing risk at respective entity
- Application of risk management in decision making
- Continuous communication with external and internal stakeholders, including comprehensive and frequent reporting on risk management performance
- Risk management as part of KLCCP Stapled Group's management processes and culture in achieving the organisation's objective.

Annually, the Group Enterprise Risk Management Department facilitates and coordinates the group-wide Risk Profiling exercise that requires business and corporate executive leaders to proactively identify, assess and document material risks and the corresponding key controls and mitigating measures needed to address them. Material risks and their associated controls are consolidated and reviewed at KLCCP Stapled Group level before they are presented to the Risk Committee, Audit Committee and the KLCCP and KLCCRM Boards.

KLCCP Stapled Group utilises the INTERISK system as a risk tool to effectively manage and monitor risk profiles. It embeds the industry standard risk management process of ISO 31000. The INTERISK system drives active risk conversation and analysis monitoring through a dashboard, reinforces effective risk governance and assurance practices and provides a seamless flow of information and processes along the risk management value chain.

Based on the ERM framework established and the reviews conducted by Management, both internal and external auditors, and the assurance from the CEO, the Boards concur with the recommendation of the KLCCP and KLCCRM Audit Committee and is of the opinion, that KLCCP Stapled Group's system of risk management and internal controls addressing financial, operational and compliance risks are adequate and effective to meet the needs of its current business environment as at 31 December 2016.

Crisis Management

A comprehensive set of processes aimed to prepare the organisation to respond and manage crisis in the risk areas to protect and save people, environment, assets and reputation.

A Crisis Management Plan (CMP) is in place to address and respond to incidents where risk mitigation fails or when full prevention of the risk occurring is unlikely. This includes the emergency response, emergency management and crisis management.

During the year, KLCCP Stapled Group conducted Fire Drill and Evacuation exercises that include tenants for PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi to test the effectiveness and robustness of the Crisis Management Plan. A demonstration on proper usage of fire extinguishers was also conducted for tenants at the PETRONAS Twin Towers to promote awareness of the dangers of fire hazards and the proper and effective operation of fire extinguishers within the workplace.

At MOKL Hotel, the Crisis Management Team members have responsibility with reference to their sections based on time sequence and direct responsibilities. The Hotel Manager and General Manager chair monthly meetings to outline simulation schedules and participate in the simulations. The local police authorities work with the hotel during some simulations to reflect a "real time authentic" scenario. Our hotel staff are trained yearly on the Business Continuity Management Plans and simulations are held yearly to ensure that we are prepared for any eventualities.

Business Continuity Management

The Business Continuity Plan (BCP) for KLCCP Stapled Group covers the failure of ICT, business supply chain, assets and people. The BCP aims to provide guidance in resuming key business functions in the event the CMP fails to contain the incident and it escalates into a prolonged disaster that has a major or catastrophic impact on the business in terms of financial, operation and reputation.

Annual BCP simulation exercises are carried out to test the recovery strategy at virtual office and the effectiveness of identified Primary and Alternate Workforce for business resumption of the Critical Business Function.

At MOKL Hotel, the Crisis Management Team, Emergency Response Team and Business Recovery Team are responsible in dealing with incidents and crisis related to hotel operations. Senior leadership is part of this organisation as well as other department heads who, under the guidance of the Deputy Crisis Management Team member and Crisis Management Leader conduct over 24 yearly Emergency Response Plan scenarios and simulations involving hotel leadership and staff participation to increase the hotels readiness. All simulations are documented and then audited by senior leadership and independent auditor yearly.

ENVIRONMENTAL STEWARDSHIP

Environmental stewardship is a core responsibility of KLCCP Stapled Group to promote a sustainable society and cultivate a green and safe corporate culture. We continue to take proactive measures in improving environmental performance and efficiency of the assets we manage in the areas of greenhouse gas emissions, energy efficiency, responsible water and waste management.

Our retail and hotel properties and asset management company continue to support and step up KLCCP Stapled Group's efforts in responsible energy management, water efficiency and environmental conservation programmes in its many areas of operations to make a positive difference and ensure that the best practices have minimum adverse effects on the general well-being of customers, guests and employees.

Material Sustainable Matters

- Climate Change
- Environmental Management

Context

With growing awareness worldwide of environmental concerns, it is imperative to address how the needs of the present can be met without compromising the ability of future generations to meet their own needs with emphasis on protection of natural resources and the environment. Critical business needs for water, energy, and raw products must coincide and be balanced with care for stakeholders and the environment. The efficient use of environmental resources such as energy and water contribute to operational efficiency and long-term sustainability of KLCCP Stapled Group.

Envirocomm 2016, held at the Endau-Rompin (PETA) Johor focuses on elements of environmental conservation and supporting local communities.

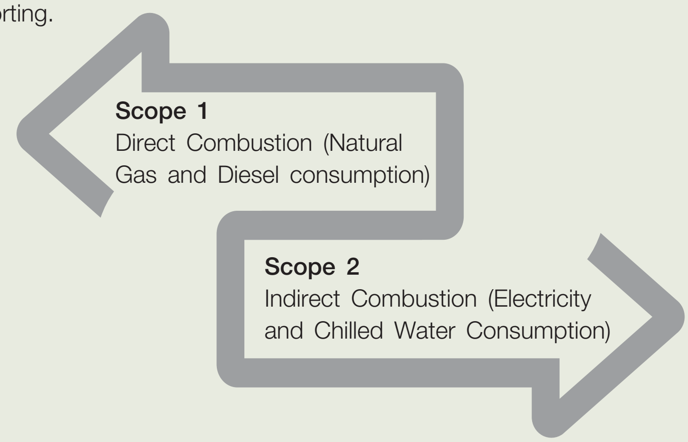
Our Approach

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

With inherent focus on mitigating the environmental related challenges, and in achieving operational sustainability, KLCCP Stapled Group has embarked to strengthen its foothold in the areas of energy efficiency and waste management in all its assets and operations. In our 3-year Sustainability Roadmap, we have identified our baseline and targets for improving our environmental sustainability performance in these areas. We strive to ensure our decisions contribute to improvements in environmental sustainability, working in-tandem with our tenants, the local authority, government and other stakeholders in achieving our targets.

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

Our monitoring and reporting of GHG emissions is based on Scope 1 and Scope 2 reporting.

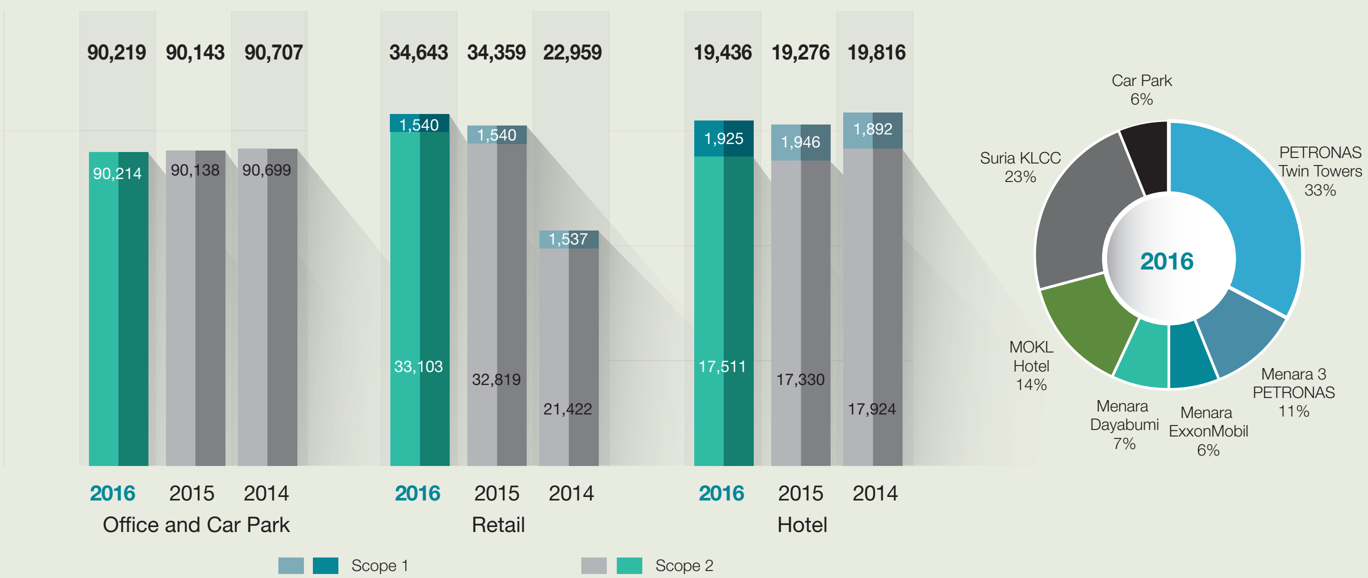


CLIMATE CHANGE

Climate change results in extreme weather and global warming and this will have impact on our wear and tear of assets and cost associated with repair and maintenance. Increased demand on ventilation and air-conditioning will also result in higher energy consumption. With climate change fast becoming a global agenda, Malaysia has committed to combating global climate change with a pledge to cut its greenhouse gas emissions (GHG) by 45% by 2030. As a good corporate citizen, KLCCP Stapled Group is committed to address climate change risks through reduction of its energy consumption and carbon emissions in its business operations and externally certified Environmental Management System (EMS) 14001 certification. To-date, our facility management company, KLCC Urusharta Sdn Bhd and our hotel, MOKL Hotel are ISO 14001 EMS certified.

Performance for the year

GreenHouse Gas (GHG) Emissions (mt CO_2-e)



KLCCP Stapled Group anticipates, mitigates and develops adaptation strategies to face the upcoming carbon risks or opportunities, which may affect our tenants, users, guests and community.

Measuring Carbon Emissions

Our carbon management is in relation to utilities (electricity, natural gas, chilled water) and diesel. In compliance with the PETRONAS Technical Standards, we have developed a carbon inventory to establish our emissions baseline and monitor our carbon emissions on a quarterly basis and tracking our progress. The consumption of each business based on utilities and diesel are compiled with a GHG emissions factor assigned and thereafter monitored. Energy reduction initiatives are then put in place to drive our action towards our reduction target. This year, we extended our monitoring on carbon management to include our hotel and retail operations.

Overall, KLCCP Stapled Group's GHG emissions for 2016 totaled 144,297.47 metric tonnes of carbon dioxide equivalent (mt CO_2-e), a marginal increase from 2015 mainly due to the increase in chilled water usage at our office properties and electricity consumption at the car park. Out of the overall total emissions, 63% is from the office and car park whilst retail and hotel contribute 23% and 14% respectively. Indirect GHG emissions from electricity and chilled water account for 98% with the rest being direct emissions, from diesel usage for the generator set at our offices and natural gas consumption from the food and beverage (F&B) outlets at Suria KLCC and MOKL Hotel.

Energy Management and Efficiency

Our energy management strategy is one of the pillars to our carbon emissions reduction strategy. Energy management is unquestionably of great importance to KLCCP Stapled Group as we rely on energy across our business operations of property development and facilities management. Reducing energy consumption in our commercial buildings is vital to achieve KLCCP Stapled Group's energy efficiency goals and impact on overhead, cost, return on investment and the commensurate reduction of GHG emissions.

By implementing energy efficient fixtures and renewable energy technology in our properties, KLCCP Stapled Group seeks to conserve energy consumption and embrace green excellence in our assets for a lower carbon economy. This will in turn contribute to occupier satisfaction and productivity as it impacts the indoor air quality, lighting and noise levels, thermal comfort, links to nature and proximity to amenities.

In 2016, KLCCP Stapled Group introduced targets to reduce energy across our business operations from the baseline year of 2015 in its Sustainability Roadmap. We will be monitoring our progress in energy reduction through the planned initiatives and against our baseline year henceforth, in our commitment to reduce energy use in our operations.

Following the achievement of the Provisional GBI certification for PETRONAS Twin Towers and Menara 3 PETRONAS in 2015, we continued to implement initiatives during the year towards our target of attaining full GBI certification by 2018, for both these properties and enhance operational efficiency in our retail and hotel assets.

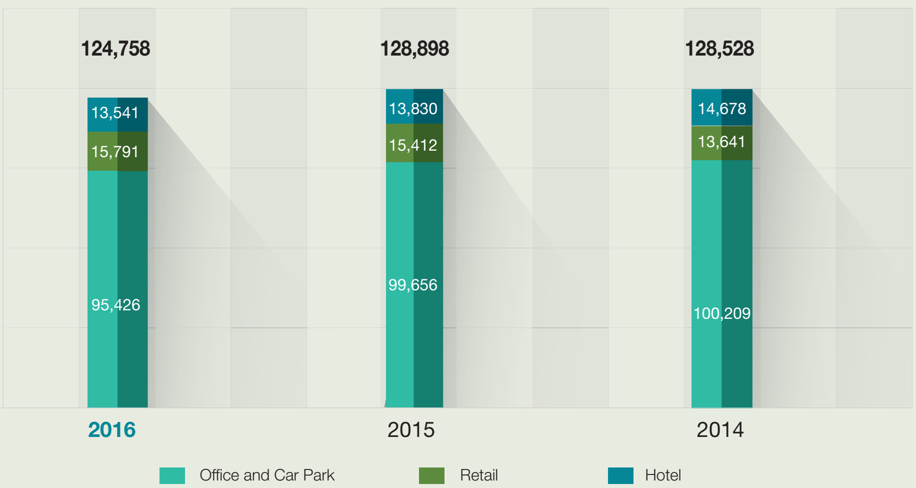
Key initiatives for the year

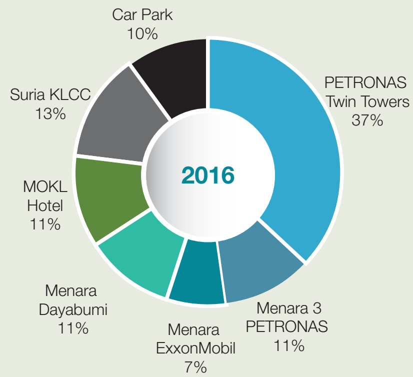
PETRONAS Twin Towers	• Installation of LED lighting at staircases, lobby and office floors at Tower 2 • Upgrading of Building Management System (BMS) – installation of Energy Management System (EMS), to track and control energy consumption
Menara 3 PETRONAS	• Upgrading of BMS – installation of EMS, to track and control energy consumption • Switching off 50% of common area lighting after office hours • Implementation of LED lighting at common area at 50% coverage • Switching from High Tension starters to Soft Starters for four units of chiller to reduce consumption of electricity • Replacement of two units of cold water pump

Suria KLCC	• Replaced 20% of the mall's normal lights to LED lights • Upgrading of Fire Alarm System • Upgrading of the building heat exchangers and replacement of fan coil unit at retail outlets
MOKL Hotel	• Installation of LED lights for renovated rooms and upgrading of Integrated Room Management System – energy savings software and hardware • Replacement of central BMS to ensure real time energy management and monitoring • Installation of three high efficiency primary chilled water pumps with state of the art fresh air primary air handling units to improve overall indoor air quality • Replacement of kitchen induction hobs with improved efficiency of 90% of the input energy from the gas range of 55%

Performance for the year

Electricity Consumption ('000 kWh)





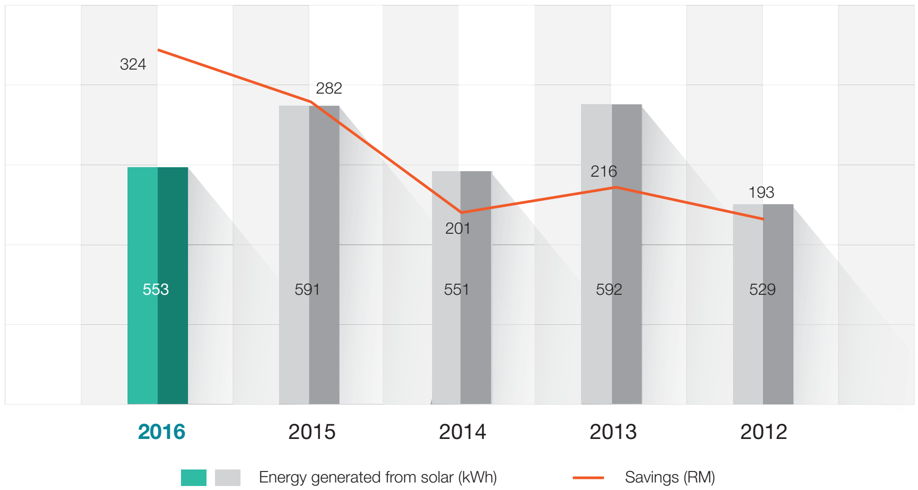
Energy consumption registered a 3.2% decrease from 128,898,361 kWh in 2015 to 124,758,292 kWh in 2016. This was largely contributed by the reduction of 4.2% in the office and car park segment, particularly from the initiatives undertaken at PETRONAS Twin Towers and Menara 3 PETRONAS towards attaining full GBI certification. Retail segment saw a 2.5% increase from 2015 to 2016 as a result of the upgrading works in the shopping mall requiring testings whilst hotel segment saw a 2.1% reduction from the installation of LED lights and installation of high efficiency induction hobs.

Renewable Energy

The solar photovoltaic installed at the rooftop of Suria KLCC in 2012 continued to reap electricity savings for the mall. The clean energy generated from the system contributes to the GHG emissions reduction by approximately

360,000 kg carbon dioxide (CO_2) per year and supplies about 30% of Suria KLCC's power requirements. From 2012 to 2016, energy generated from the solar panels totaled of 2,817,146 kWh, equivalent to 1,926.93 mt CO_2-e and a cost savings of approximately RM1.2 million.

Energy generated from solar (kWh)



ENVIRONMENTAL MANAGEMENT

Water Management

Water use is an environmental sustainability concern that has recently taken on increased relevance. Severity of weather conditions has caused communities, industries, and regulators to place additional efforts into conservation strategies. Water resources have become increasingly stressed by population growth, contamination of resources, and depletion of groundwater supplies.

Water is a key resource in our operations and we realise the need to manage our water effectively and maintain the quality of water for the users at all our buildings. As a real estate owner, developer and manager, we are committed to reduce water consumption, reuse water and prevent water pollution.

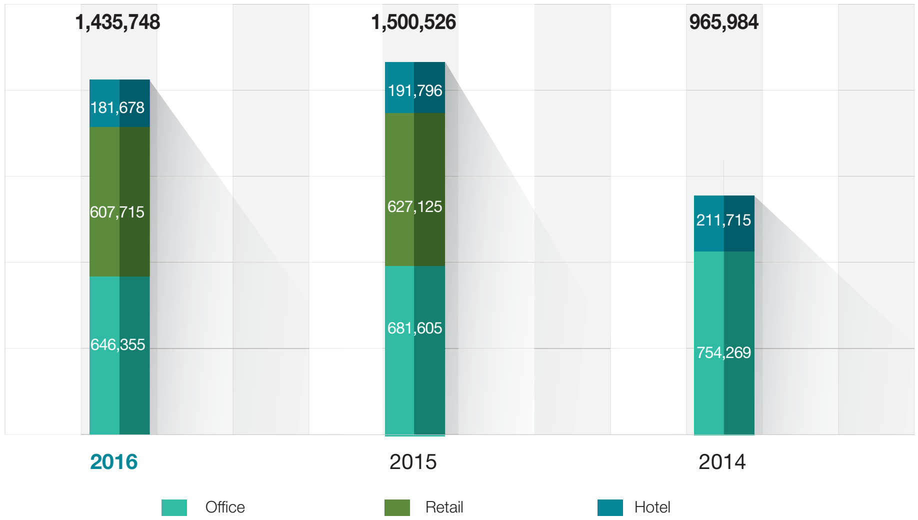
As part of our target to achieve full GBI certification for PETRONAS Twin Towers and Menara 3 PETRONAS, KLCCP Stapled Group continued to enhance our initiatives in reducing our water consumption.

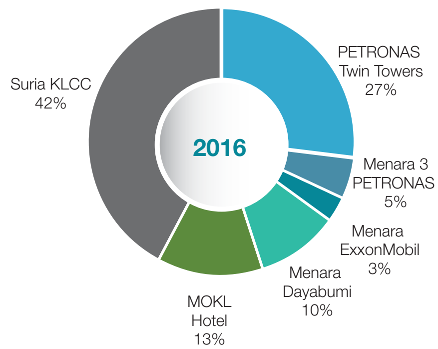
Key initiatives for the year

Office	• Installation of water aerators for ablution • Identifying and resolution of water gushing issue at lower floors, preventing water wastage
Retail	• Installation of water meter in all F&B outlets to track consumption • Replacement of old water pipes to avoid leakage
Hotel	• Installation of water restrictors in all renovated rooms to manage flow rates • Installation of water restrictors at all kitchens to concealed type and use of “seat” between pipe and faucet to stop drips in the kitchens

Performance for the year

Water Consumption (m³)





Note:
1. Data collection for retail commenced in 2016

With our ongoing initiatives, overall water consumption for 2016 reduced by 4.3% being largely contributed by the 5.3% reduction in MOKL Hotel. The office and retail assets also registered reductions of 5.2% and 1.6% respectively in 2016. With a footfall exceeding 48 million, Suria KLCC is the largest consumer of water amongst our assets at 42% with PETRONAS Twin Towers, the highest of the office assets at 27% of the overall consumption for the year.

Waste Management

KLCCP Stapled Group practices responsible waste management to ensure the well being of our tenants, guests, customers and the community at large. This is also part of our commitment and contribution towards our environment for the benefit of our future generation.

As a real estate owner and developer, our approach to waste management covers construction waste produced during development and renovation of our buildings, municipal waste produced during operation of our buildings by the various users and occupants, which includes domestic and hazardous waste. Domestic waste comprises solid waste, compostable materials, recyclable materials and reusable materials waste whilst hazardous waste generated include used fluorescent bulbs, used batteries, spent lubricating oil, spent organic solvents and electronic wastes.

In respect to hazardous waste, KLCCP Stapled Group complies with the Scheduled Wastes Regulation 2005 (Environmental Quality Act 1974) by the Department of Environment (DOE), Malaysia. All the generated hazardous waste from our respective assets are disposed to the waste facility managed by Kualiti Alam, Sdn Bhd, registered and licenced with DOE. All scheduled waste are weighed and inventory tracked on a monthly basis. Collection of scheduled waste is undertaken within 180 days by Kualiti Alam and e-consignment note are filed into DOE's eSwis website.

At our offices, as part of our sustainability practices and in line with our targets of achieving the full GBI certification for PETRONAS Twin Towers and Menara 3 PETRONAS, we have a Waste Management and Recycling Plan in place which outlines measures to achieve our identified goals on waste management.

MOKL Hotel segregates their domestic and recycled waste using specifically allocated waste bins.

Short Term Goals	Long Term Goals
Identification of the type of waste produced for identified area	Minimising generation of unnecessary waste
Establishing the amount of waste for every type of waste produced	Minimising the quantities of waste generated ending up as landfill
Generate statistical database for deriving a custom and successful waste management and recycling plan	Recovering, reusing and recycling waste generated onsite where possible
Establishing baseline waste production	

At our hotel, general waste is segregated at source, particularly in the main waste generation areas of housekeeping and kitchen. The housekeeping attendants on each floor have separate bags for discarding recycled waste versus solid waste. Kitchens are all equipped with separate bins for the separation of wet food waste, recycle waste and wet waste.

Waste for landfill or recycling are submitted by the waste vendor and tracked on a monthly basis. The data is collected and trended for any abnormalities prior to corrective actions being taken. During the year, the waste vendor was requested to place a weighing machine at the Waste Management Center for more accurate data on recycled waste.

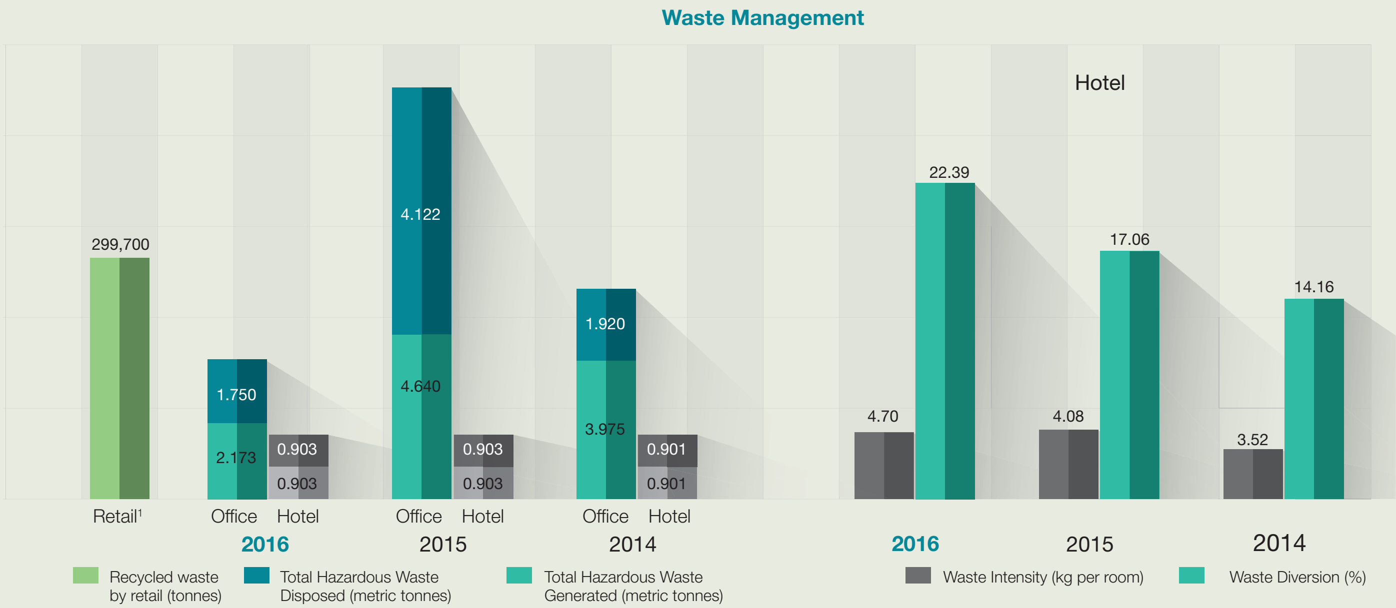
Recycled waste bins are placed a the North-West Development car park to encourage the public to dispose their waste responsibly.

KLCCP Stapled Group requires our main contractor to implement responsible waste management procedures to minimise construction waste and effectively manage the disposal of such waste to dumping sites approved by the authority. The contractor is required to submit the designated location of the dumping sites and proof of authority approval prior to disposing the waste from our construction sites.

Key initiatives for the year

Recycling	• Recycle bins are placed within the car park area of the North-West Development • Smart purchasing and diligent practices by employees and suppliers • Implementation of food compost machine
Waste Segregation	• Enhancement of Standard Operating Procedure at PETRONAS Twin Towers • Coaching of contractors on waste collection • Campaigns and notifications to educate tenants
Waste Reduction	• Garment bags, laundry bags, newspaper bags at hotel guestrooms are made from non-woven material, which allows for wash and reuse • Paperless internal meetings and storage of documents and materials on shared drives or referencing from smart devices • Flyers for hotel guest information take the form of Electronic Direct Marketing • Glass bottled water (Natura – patented three-step filtration process with high grade long-lasting carbon filter) in hotel meeting and function rooms • Digital Library for all in-house guests – digital download of newspapers and magazines, in various languages, reduce wastage of hardcopy newspapers • Auto dosing systems to minimise chemical waste

Performance for the year



Note:

[1] data collection commenced only in 2016

In 2016, KLCCP Stapled Group generated approximately 3.076 metric tonnes of hazardous waste from its office and hotel operations. This was a reduction of 45% from 2015 as a result of the initiative of changing flouroscent tubes to LED lights. Of the hazardous waste generated, approximatey 87% was disposed to approved facilities. As at December 2016, MOKL Hotel's Waste Intensity (landfill waste per overall guests room nights) was at 4.7 kg per room compared to 4.08 kg per room in 2015. This increase was mainly due to the ongoing first phase renovation of the guest rooms which commenced in June 2016. With MOKL Hotel's increased focus on the requirement to practice the 3R of Reduce, Reuse and Recycle, the Waste Diversion improved to 22.39% from 17.06% in 2015, thus contributing less to landfill waste.

Responsible Material Use

As a real estate owner, developer and manager, KLCCP Stapled Group takes pride in ensuring the assets and facilities managed are in pristine condition and cater to the comforts of our users and occupants whilst adhering to environmental friendly products and material use. The use of sustainable building materials in our assets and the eco-friendly products which we promote throughout our operations play a part in driving environmental values and behaviours within the organisation and delivering environmental, social and business benefits.

Promoting the Use of Biodegradable Products

KLCCP Stapled Group continues to promote the utilisation of biodegradable and eco-friendly products thoughout our business operations. At the KLCC Park, we have imposed in our contract with the vendor for the use of environment friendly products in the landscape maintenance and pest control.

KLCCP Stapled Group acknowledges the increasing importance of green procurement and in stepping up our efforts to move towards a more responsible procurement practice. We are currently expanding our procurement scope by procuring products and services to support the green building initiatives especially at the PETRONAS Twin Towers, Menara Dayabumi and the Car Park of the North-West Development.

At our hotel, the contracts with vendors include utilisation of green product requirement. In compliance with the hotel's certification in ISO 14001 – Environment Management System, consideration of products that are environmentally friendly will be given priority. Special attention is paid on ozone depleting materials. The policy further covers guidelines for Safety and Health requirements.

Our hotel team continues to seek-out suppliers who have accreditations or

Key initiatives for the year

PETRONAS Twin Towers	• Fit out materials such as carpet flooring and adhesive used are from recycled materials and low in Volatile Organic Compound (VOC) • Materials for ceiling insulation were of recycled content materials and non-toxic • All wiring outlet plates are PVC free to minimise outgassing of toxic substances and the lifecycle issues are also considered in the production and disposal processes
MOKL Hotel	• Laundry chemicals used are under the Ecolab's Ensure Program, biodegradable products, phosphorous free, Alkylphenol Ethoxylates (APE) free and Nitrilotriacetic Acid (NTA) free and uses much lower temperatures for an effective wash • Dry cleaning section switched from dowper dry cleaning machines to machines using hydrocarbon – safer for our colleagues and the environment • Biodegradable shower cap, sanitary bags made from cornstarch and toothbrush handle made from straw fibre for hotel guests usage • Spa products used in The Mandarin Oriental Spa – Cartons and brochures are sourced from Forest Stewardship Council (FSC) accredited stock • Housekeeping of rooms using Ecolab's range of chemicals reduces our environmental footprint through earth friendly formulas, containing no APE

MOKL Hotel's Back to Nature encouraged employees' participation in environmental conservation activities.

Planting of fruit tree at the Orang Asli village school during Envirocomm 2016 in Endau-Rompin (PETA) Johor.

certifications and who can provide quality products at competitive prices. The team continues to provide guidance to nominated F&B suppliers in food safety requirements by performing scheduled value added audits and inspections of their premises.

Other sustainable practices by our hotel team include sourcing from locally farmed or grown products – farmed fishes, vegetables and fruits, herbs and spices and non serving of shark's fins in the hotel's Chinese restaurant and banquet.

Suria KLCC places high priority for suppliers who have proven track record, credentials and certification. Performance of service providers are guided and monitored through scheduled audit checks and inspections.

Inculcating Eco-Minds

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

Envirocomm 2016

The Envirocomm 2016 programme was successfully held at the Endau-Rompin (PETA) Johor National Park from 24th to 26th November 2016, focusing on the elements of environmental conservation while supporting the local communities. The Endau-Rompin Johor National Park is one of the very few remaining large tracts of lowland tropical rainforest in the Malaysia Peninsular with a total area of 19,562 hectares.

Environmental awareness programmes were organised with the aim of connecting with nature and to create awareness on the importance of conserving nature through a number of outdoor activities such as jungle trekking and water tubing. As a property development and investment company, KLCCP Stapled Group has a role in protecting and preserving the environment as well as to inculcate culture of learning on bio-diversity and environmental protection among its employees. The programme contributed greatly not only to the preservation of environment through tree planting activity but also provided exposure for the employees to experience the importance of bio-diversity and park preservation.

Employees were also given the opportunity to perform outreach services for the *Orang Asli* community residing in Kampung PETA, the nearby village and presented them with a token of contribution from the employees. The highlight of Envirocomm 2016 was the tree planting ceremony, where 20 fruit trees were planted at the village school.

MO Charity Run

In December 2016, MOKL Hotel, in support of World Wide Fund for Nature, Malaysia (WWF), held the MO Charity Run at the Forest Research Institute, Malaysia (FRIM) to raise funds and to create awareness on the importance of environment conservation among employees and the community. The 9km trail run received overwhelming participation from both employees and members of the public. A total of RM31,828 was raised and donated to WWF-Malaysia to support its conservation efforts.

Other Community Relations Programmes

Waste Not Want Not Charity Bazaar	• Encouraged employees to “Recycle and Reuse”. • Employees, suppliers and business partners donated usable items to be sold and raised funds for the less fortunate.
Earth Hour	• Targeted lights and shut-down of non-essential equipment in the commercial and retail space and at the hotel. • Worked to engage and educate our tenants, guests and visitors to encourage participation • Concerted effort made to identify and eliminate electricity usage resulting in savings
Give a Book, Take a Book	• Encouraged employees to read more. This also helps the environment by allowing employees to borrow or donate books from the library located in the staff cafeteria
Back to Nature	• Employees visited a Syabas plant to learn about how water is processed and channeled to the users • Cleaning of the surrounding areas of the waterfall at the Forest Research Institute Malaysia

MOKL Hotel successfully raised RM31,828 through the MO Charity Run and the proceed was donated to WWF Malaysia in support of their conservation efforts.

SECURITY, SAFETY AND HEALTH

Safety is the pre-requisite for sustainable operations excellence and integrity. Protecting our people and caring for their well being through robust health and safety policies and practices is essential to our business operations. As a property owner, developer and manager, KLCCP Stapled Group imposes strict adherence to the KLCCP Health, Safety and Environment (HSE) Policy in all areas of our operations. Regular HSE programmes are conducted to strengthen our HSE culture and capability and ensure our operations are carried out with the highest safety standards.

Material Sustainable Matters

- Security, Safety and Health Management

The HSE Walkabout was held around the KLCCP Stapled Group facilities to further reinforce company values on HSE.

Context

Work health, safety and security is a priority for the real estate and construction industry due to the increasing number and rate of work-related injuries, illnesses and inherent risks associated with working in the industry. There is an ever-present chance of serious injury not only for workers but also site visits and those traveling and working around sites or even at the workplace. Safety considerations are embedded in all that we do be it at the workplace or project sites and every person is entrusted to take collective ownership in upholding safety at all times at KLCCP Stapled Group.

Our Approach

KLCCP Stapled Group is committed to conducting business in a manner that protects the health, safety and security of our employees, tenants, contractors, suppliers and the community who visit our properties and is compatible with environmental and economic needs of the communities in which we operate. Our business activities are conducted in accordance with our policies on Health, Safety and Environment (HSE) and comply with the highest standards of occupational safety and health regulations.

We place utmost importance on safety management to prioritise safe work practices, building HSE capability and culture within our organisation and occupational health in sustaining ideal health levels of our employees, visitors to our properties and at project sites.

We believe continuous improvement of our HSE and engagement with our stakeholders is essential to create a leading organisation and to make it the responsibility of every employee, ensuring accountability within the organisation. We measure and track our performance against industry best practices in our effort to raise the bar on HSE.

HSE Governance

HSE at KLCCP Stapled Group is driven from both top down and bottom up through the various HSE committees within the organisation. At the group level, the HSE Management Review is chaired by the CEO and its members comprise heads of business units and representatives from our joint ventures and hotel operations. The HSE Management Review which is a requirement under ISO 14000, OHSAS 18000 and the PETRONAS HSEMS, oversees all HSE matters, review of HSE performance and all ongoing improvement efforts.

In compliance with OSHA 1994, the entities under KLCCP Stapled Group have their respective HSE Committees. The HSE Committees are chaired by the respective Division Heads and comprise representatives from the Employer and Employees. These committees meet every quarter to proactively discuss on mitigating potential HSE risks and investigate root causes of incidents, and reports back to group level. The members of the committee actively undergo training on the roles and responsibilities of the National Institute of Occupational Safety and Health.

With this governance structure, KLCCP Stapled Group ensures effective practice and implementation of HSE culture.

SECURITY, SAFETY AND HEALTH MANAGEMENT

Managing the safety of our people, assets and the environment is KLCCP Stapled Group's top priority. Our emphasis is to develop effective controls on identified HSE risks.

KLCCP Stapled Group has a robust safety system in place, demonstrating our strong commitment to uphold the KLCC HSE Policy which governs and reinforces our commitment towards safeguarding the employees, preserving the reliability of assets, facilities and operations. This is supported by our HSE Management System, HSE Mandatory Control Framework and PETRONAS Technical Standards to strengthen HSE Governance within the KLCCP Stapled Group while providing clear requirements on operational safety, environment and health for consistent and effective implementation.

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

In addition to workplace safety and health, KLCCP Stapled Group also placed emphasis on employee health. Ergonomics, stress, and anxiety can have significant impact on job performance, employee satisfaction, and retention, which ultimately affect organisational goals and objectives. Our facilities management company, KLCC Urusharta in collaboration with PETRONAS group HSE engaged with tenants and employees at PETRONAS Twin Towers on ergonomic awareness – work station condition, body posture and type of tools used at the work station, namely computers and chairs. The attendees were requested to complete a survey on their workstation furniture to ensure comfortable disposition while performing their work. A total of 1,084 self assessments were completed. There were also awareness sessions conducted through Health Clinics at PETRONAS Twin Towers and Menara Dayabumi to enlighten employees and tenants on ergonomics solution and revolution.

Site inspections for audit purposes were held to ensure strict compliance and to evaluate effectiveness of our HSE Management System.

Key initiatives for the year

HSEMS Auditor's Training	• The HSEMS auditors from the various business units underwent training to detail out the gaps in HSE safety management for the organisation and solutions in mitigating the gaps
Top Management HSE Walkabout	• Management takes the time to walk around the facility to monitor and positively reinforce company values on HSE • A total of seven walkabouts were conducted in 2016 across the organisation covering project sites and commercial buildings to ensure all HSE aspects are in control and risks being mitigated. 41 observations were noted and remedied to avoid injury or harm at the workplace
Implementation of HSE Best Practices	• Performed Hazard Identification Risk Assessment and Control for all operations and activities • Internal Audit Process for operations to evaluate the effectiveness of HSE Management System • HSE Joint Audit with Group Internal Audit (GIA) for Menara 3 PETRONAS and MOKL Hotel • HSE audits for retailers' outlets contractors and retailers' contractors
Emergency Preparedness	• Fire and evacuation drills held in all premises • Bomb threat training for retail mall • Simulation exercises held for our office, hotel and car park operations to test effectiveness of the Emergency Response Plan, Crisis Management Plan and Business Continuity Plan
HSE Contractor Management	• Instilling HSE requirements in all contracts by stipulating provisions on safety • Contractors undergo safety briefing prior to performing job • Permit to Work must be obtained by all contractors • Licensed and competent workers to be hired for skilled job • Contractor Evaluation conducted bi-annually to assess compliance and performance

Strengthening HSE Capability and Culture

KLCCP Stapled Group prides itself on the safety culture it has developed within the organisation over the years and continues to drive efforts to create greater awareness amongst employees and contractors towards values, attitudes, goals and proficiency of the organisation's health and safety programmes. Our Management is committed to workplace safety and encourages the safety culture with everyone playing a part in keeping themselves and others safe.

For workplace safety, we continued our initiatives in ensuring strict adherence to ZeTo Rules, safety management systems, enforcing safety culture, compliance and leadership and lessons learnt. In 2016, employees and management of KLCCP Stapled Group participated in the PETRONAS HSE StandDown 2016 for all in the organisation to stop, step back and reflect on the rising number of HSE incidents faced within the PETRONAS group. This entailed a live streaming of the PETRONAS President's message followed by a break-out session facilitated by the HSE team. All findings were compiled and submitted to PETRONAS Group HSE.

Key initiatives for the year

Instilling HSE in each employee via Key Performance Indicators in Employee Performance Contract	• Reporting on Potential Incident/Near Miss (PI/NM) of potential hazards or incidents at our properties or sites to prevent injury/illness or recurring of similar incidents • In 2016, 21 PI/NM were reported and corrective actions were identified, implanted, monitored and reviewed for effectiveness
HSE Awareness and Training Programs	• Safety orientation programme for contractors and new on-boarding employees • Capability development training and adherence to safety measures for employees and contractors in high risk areas i.e. working at heights, plants, severe weather conditions, unhealthy air • HSE programmes for F&B tenants in collaboration with authorities, Gas Malaysia and Energy Commission on Natural Gas Safety Awareness • In 2016, a total of 5,611 employees, tenants and contractors underwent HSE training. The training covered – Scheduled waste management and handling procedures – Safety briefing for all contractors – conducted prior to performing their jobs – First Aid, CPR and Automated External Defibrillator (AED) training – Usage of Self-Contained Breathing Apparatus (SCBA) – HSE Awareness Talk for non-HSE staff
HSE Communication	• Regular updates on HSE news and events and lessons learnt in KLCC Group intranet portal • HSE alerts on HSE incidents within the PETRONAS group communicated to all employees for awareness • HSE sharing sessions with business units facilitated by the HSE team on environmental awareness and conservation and basic hazards and risk at workplace

KLCCP Stapled Group's performance monitoring includes permanent and contract employees involved in the daily operations as well as contractors and consultants at project sites.

Performance for the year

	2016	2015	2014	2013
No. of fatalities	**0**	0	0	0
Loss Time Injury (LTI) Incidents	**4**	8	2	4
Loss Time Injury Frequency (LTIF)	**0.46**	0.23	0.14	0.41
Loss of Primary Containment (LOPC)	**0**	0	0	0

KLCCP Stapled Group continued to record an impressive zero fatal incidents rate in 2016. This was contributed by stringent safety measures implemented throughout our business operations. This achievement was also the result of employees' awareness and commitment towards the importance of upholding and embracing safety culture in all aspects of their work be it at sites or offices.

During the year, KLCCP Stapled Group recorded 4 LTI incidents with a LTIF of 0.46 which is an increase from 2015 largely contributed by manual handling, kitchen activities and housekeeping chores. LOPC was maintained at zero.

Security Management

As global security threats are on the rise and as our properties in the KLCC Development is located in the iconic belt, KLCCP Stapled Group has a duty of care to ensure its properties are safe. We are committed to ensure our tenants, shoppers, guests and employees feel safe at all times.

In 2016, our facility management company undertook a review of the KLCC Precinct Security Master Plan to enhance the Security Surveillance System and HELP Points within the KLCC Precinct Common Area. We are also collaborating with the police and PETRONAS Group Security to manage the customer safety and security across all asset classes. We also reviewed various measures to ensure security standards across all asset classes in relation to monitoring systems, physical controls, emergency and crisis management plans and administrative systems.

PETRONAS Twin Towers	• Installation of air gates, head count system used during emergency evacuation and upgrade of the Public Address (PA) System
Mandarin Oriental, Kuala Lumpur	• Crisis Management Team Alert System, Key Management System, Management of Lost and Found, Deployment of Walkie Talkie for Security Communication, Management of Assets with Gate Pass System, Management of Fire Fighters and First Aid Equipment, Addressable Fire Alarm Panel and Audit exercise *To ensure effective roll-out of best practices on building safety and asset integrity:* • 24 hours coverage of hotel security • Deployment of security personnel on Route Assignment • Visitor Management System • CCTV coverage and maintenance system • Deployment of Team Forced Guards for Building Parameter Security • All entries to hotel and basement covered by CCTV coverage • Security assessment by awarded company
Suria KLCC	• Upgrade of CCTV at control room • Tightened security at all entrances

OUR PEOPLE

Our people are the most important asset in our organisation. Our employees are guided by our clear vision and mission and we subscribe to the same Shared Values of Innovative, Cohesiveness, Loyalty, Integrity and Professionalism which are reflected in our daily work practices. In line with our mission to promote superior performance, we embraced the PETRONAS Cultural Beliefs transforming our work culture in delivering superior results.

Our employees stand guided by the CoBE and we ensure strict compliance without any compromise to the organisation's integrity.

Material Sustainable Matters

- Diversity and Inclusion
- Skills and Capability Development
- Human Rights and Labour Practices

Employees engagement were conducted to promote camaraderie, teamwork and cohesiveness among employees for mutually beneficial outcomes.

Context

Our employees are our pillars of strength in the continued sustainability of our organisation and they continue to be the capital driver for success. Acknowledging this, we elevate the robustness of our workforce to deliver superior performance against the challenges in the real estate and property sector.

Our Approach

At KLCCP Stapled Group, equality, diversity and inclusion are mandatory principles to facilitate our people's growth. With our people being the cornerstone of KLCCP Stapled Group's achievements, we are committed to develop a motivated and highly professional and competent workforce by continuously improving the organisational culture and empowering our employees through training and development. We believe human capital is fundamental for companies alike and we are guided by a high performance culture based on meritocracy, performance and delivery, binding upon our KLCCP Stapled Group Shared Values and the PETRONAS Culture Beliefs.

Our Human Resource policies and initiatives on employee engagement, talent management and retention embed principles of building a conducive workplace for our employees' development and well-being as well as to remain as an employer of choice. We hone a progressive, empowered and resilient workforce to enable us to achieve organisational and business excellence.

KLCCP Stapled Group proactively promotes an engaged workforce to ensure effective flow of information and alignment to the organisation's business goals and strategies.

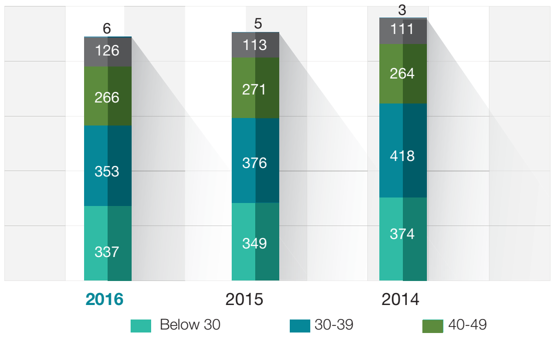
DIVERSITY AND INCLUSION

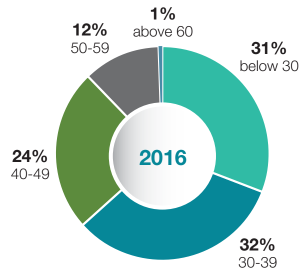
Having an inclusive culture and upholding equality is important to KLCCP Stapled Group. We foster a harmonious relationship with our employees through our guidance of the KLCC Shared Values and the CoBE. Our employees represent a workforce of diverse racial, religious and cultural backgrounds. Regardless of ethnicity, age and gender, employees contribute to the organisation based on their expertise, experience and talent.

Equal opportunities without discrimination are provided to employees to be part of the workforce as well as to move up the career ladder. Our recruitment process adheres to guidelines on non-discrimination and fairness and we maintain a free harassment work environment.

Age

We have a diversified workforce across all age-groups. In 2016, approximately 30% of our current workforce and 78% of new recruits consists of Generation Y (Gen Y).

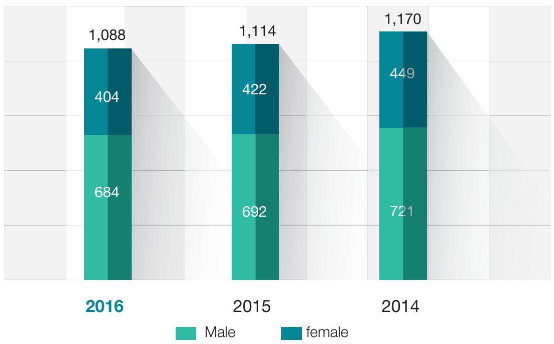




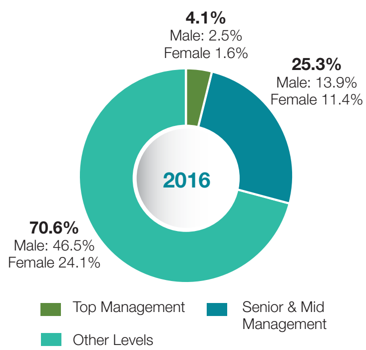
Gender Diversity

KLCCP Stapled Group has a higher proportion of male employees within the organisation whilst 48% of senior managerial and above positions are held by female employees. Nevertheless, we are committed to provide equal employment opportunities based on merit.

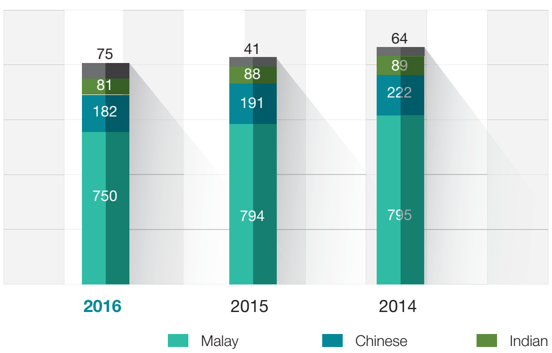
Workforce by Gender

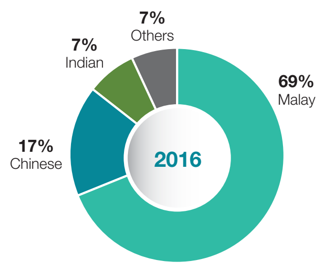


Employee Position and Gender Profile



Ethnicity





SKILLS AND CAPABILITY DEVELOPMENT

We have placed strong emphasis in developing the skills and capabilities of our employees. Investing in our people from a wide variety of diverse backgrounds creates value for our business, tenants, customers and community. Training needs analysis is conducted annually to establish the necessary training intervention to level up competencies and professional knowledge. We continue our efforts in upskilling and providing learning opportunities for our employees to equip them in performing their work at optimum levels via the 70:20:10 learning model wherein 70% of learning is through on-the-job training, 20% via coaching and mentoring and 10% via classroom training. In 2016, we invested more than RM1 million on learning and development which saw 98% of employees undergoing training programmes that were planned for the year with an average of 22 hours per employee.

Building strong leadership bench strength is part of the organisation's succession planning efforts to ensure a steady stream of leaders and the efforts are reviewed annually. Efforts in building core capabilities for KLCCP Stapled Group are focused on 5 core capabilities – investment management, project management, asset management (marketing and leasing), asset/facilities management and property development to provide competitive edge in the industry. In 2015, we embarked on enhancement of the functional and technical competencies of employees via development of Skill Group (SKG) competencies to assess the baseline competency levels of employees. In 2016, the SKG competencies for the finance fraternity was completed. A total of 34 employees underwent the assessment with gaps identified for closure. This was followed by the commencement of the SKG assessment for the Legal and Corporate Services fraternity.

During the year, the Human Resource Division expanded the employee benefits by introducing an education assistance incentive for employees to undertake a Bachelors or a Masters degree to further enhance their knowledge, skills and capabilities in their respective fields. Employees will be given a one-off cash incentive upon successful completion of the programmes.

On-the-job training and Group Training Techniques are the programmes developed for our hotel employees to enhance the department trainer skills in order for them to conduct training according to the hotel standards. Trainings conducted are divided into 2 categories – Generic Quality Training and Fire Life, Health, Safety, Security and Environment training. Employees of MOKL Hotel also undergo training with the Malaysian Employers Federation that covers the entire spectrum of Industrial Relations, Human Resources Management and Development and Occupational Safety and Health (OSH).

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

KLCCP Stapled Group also partners with local tertiary education institutions to offer student internship opportunities for students interested in the real estate sector. In 2016, there were 7 interns assigned to various departments within the organisation.

Talent Management

With scarcity of talent being an issue in today's employment world, KLCCP Stapled Group continues to seek dynamic and talented employees to provide an impetus to competitive edge and propel the organisation to its next phase of growth. During the year, the HR Division established a Talent Strategy Blueprint detailing the strategies on attracting, retaining and developing talent spanning a 5-year horizon. The blueprint outlines the HR roadmap and milestones focusing on 3 strategic thrusts – getting the right talents, putting them in the right environment and building credible leaders.

KLCCP Stapled Group identifies talent from within the organisation and also externally through a multi-pronged talent recruitment methodology – build, buy or rent. In 2016, our HR Division also participated in the Mega Career Fair, Property and Construction Industry Networking HR Meeting and the Malaysian Institute of Human Resource Management Congress to seek out talents and benchmark against HR best practices. Our talent management programmes provide developmental opportunities to nurture employees' capability and leadership qualities through formal trainings, on-the-job exposure, job rotation and mentoring-coaching. The Human Resource Planning and Development Committee (HRPDC) reviews the succession plans on an annual basis for key positions in the organisation.

Our compensation packages are aligned to industry's best practices and market benchmarks with review conducted annually. We offer fair and competitive remuneration packages based on employees' competencies and expected roles and responsibilities. This is to ensure our competitiveness in attracting talent for sustained growth.

The Long Service Awards presentation was held annually to appreciate and recognise employees' loyalty and contributions to the organisation.

As part of equipping managers of KLCCP Stapled Group to manage their talents, our Human Resource Division conducted a series of workshops called "HR in Me" with the objectives of understanding HR policies and procedures and to apply their learning in managing their talents.

Performance Appraisals

KLCCP Stapled Group has a well structured appraisal system through the Online Employee Management System (EMS) and covers executive and non-executive permanent employees within the organisation. The EMS comprises of 3 stages – goal setting, periodic review and year-end review. Following the year-end review, a challenge session at division level with the Heads of Department and Heads of Division ensues, followed by a challenge session at organisation level prior to the final round of challenge at the HRPDC.

KLCCP Stapled Group remains committed to meritocracy and our yearly performance assessment, rewards and compensation packages emphasise on employee performance as well as on the efforts on how it was achieved. In 2016, 100% of our employees completed their performance appraisals via the EMS.

Workforce Engagement

It is important for every employee to have a sense of belonging to an organisation that they work for and establish a connection with the community in their workplace. An engaged organisation creates a positive work environment that includes informal interaction among employees through occasional activities such as birthday celebrations get together, or a more formal annual retreat, annual dinner or open days will give employees something to look forward to as a break from their daily work.

In KLCCP Stapled Group, we engage with employees for mutually beneficial outcomes in terms of self development and growth. Our engagements focus on employees' well being, performances, results and outlooks, and recognition. During the year, we continued our proactiveness in engaging our workforce through various avenues for effective flow of information and alignment to business goals and strategies across our operations.

In 2016, 75% of employees participated in the Employee Feedback Survey achieving a satisfaction score of 80%, an improvement of 9% from 2015. As at year end, the attrition rate for KLCCP Stapled Group stood at 8.6% as compared to the property and development industry average of 18%.

The Laureate Awards were presented to business units that performed with excellence in their respective areas of operations.

The KLCC YPEXC Treasure Hunt was conducted to promote togetherness and teamwork among its members and other employees of the organisation.

Key initiatives for the year

Recognition of employees' loyalty and contribution to organisation	• Long Service Awards – provision of additional reward for retirees and service for 35 years • Laureate Awards and Annual Dinner
Promote camaraderie, teamwork and cohesiveness **Encourage stronger interpersonal networks and improved communication**	• CEO Townhall • HR Open Day • Leadership Away Day, social outings or get-together • Induction for new employees • Round Table Conference • Employees Briefing • Management Retreat • Away Day • Health Talks
Employees' feedback on organisational culture	• Peer Review Survey • Online Employee Engagement Survey • Organisational Survey
Promote work-life balance	• Talent competition • Cooking Class for hotel employees • Sports and Games

KLCC Young Professional Executive Club (YPEXC)

Nurturing young talents is an agenda of KLCCP Stapled Group as our young professionals constitute 31% of the workforce. In developing our future leaders, we provide an avenue for them to unlock their potential and leadership capabilities. Through the Young Professional Executive Club (YPEXC), a platform for the young executives to elevate their talent, this community focused on promoting KLCC values, work-life balance and breakthrough performance culture.

KLCCP Stapled Group promotes healthy lifestyle and well-being among employees through its wellness programmes.

Key initiatives for the year

Corporate Wellness	• Create awareness and promote healthy lifestyle among employees • Improve employees' well-being and contributing towards increased productivity
YPEXC Clan Jumpa	• Address concerns and issues pertaining to YPEXC and its members • Encourage camaraderie among members and strengthen YPEXC community ties
Feed the Homeless	• During the month of Ramadhan, 20 YPEXC members in collaboration with the Human Resource Division volunteered in the distribution of *Bubur Lambuk* and charity packs to the community in the Kuala Lumpur vicinity • This programme was part of YPEXC efforts in engaging with and giving back to society
Leadership in YPEXC Training – Lego Method	• Foster effective teamwork and provide hands-on skill and knowledge discovery in improving teamwork performance • Develop and improve leadership skills among YPEXC members • 72 members participated
YPEXC Toastmasters	• Develop and improve confidence level in presentation and communication skills • 12 sessions were conducted in 2016
Engagement with Top Mangement	• Share knowledge and experience that YPEXC members can emulate in carrying their responsibilities at work or home
Walk A Hunt	• YPEXC members together with their seniors spent half a day for the hunt activity and raised funds for a charitable cause • Promote togetherness and bonding between YPEXC members and other employees within the organisation

Employee Wellness

We believe that the integration of healthy living initiatives benefits both employers and employees and is critical to our business viability and success. A healthy workforce results in reduced downtime due to illness, improved morale, productivity boost and higher employee retention. We are committed to promoting a culture that is employee-centred which provides supportive environments where safety is ensured and employee access is granted to engage in a myriad of workplace health programmes.

Workforce Health

The workplace is an important setting for health protection, health promotion and disease prevention programmes. KLCCP Stapled Group provides comprehensive employee health insurance coverage and appropriate preventive screenings. All new employees of KLCCP Stapled Group are required to undergo a pre-employment medical check-up whilst those aged 35 to 45 years are encouraged to undergo medical screening every two years and above 45 years, annually. In 2016, KLCCP Stapled Group extended the provision of dental benefits to the non-executives. The Human Resource Division also introduced an incentive to encourage more staff to live a healthy lifestyle in providing access to the Twin Towers Fitness Centre which includes gym facilities, squash and badminton courts and studios for group fitness.

Sports and Recreational Activities

KLCCP Stapled Group organises social and recreational activities for its employees as part of its efforts in promoting wellness and personal development. Kelab Sukan dan Rekreasi PETRONAS Wilayah Tengah (KSRP) 2016 Sports and the Property Wellness and Sports Carnival promoted cohesiveness and team camaraderie. The “Trim to Win” wellness programme is in its third year now and has been successful in promoting more health-conscious and inturn more productive employees. MOKL Hotel organised the second MO FIT programme in conjunction with the Hotel’s Wellness programme to promote a “Healthy Lifestyle”. These included weight reduction, body fat reduction and muscle mass increase.

HUMAN RIGHTS AND LABOUR PRACTICES

KLCCP Stapled Group demonstrates responsible workplace practices with respect to employment. We fully comply with the legislations on the welfare and rights of our employees and workers as well as our service providers at our project sites.

We abide by the Malaysian Labour Laws encompassing the Employment Act 1955 (ACT 265), Trade Union Act 1959 (ACT 262), Industrial Relation Act 1967 (ACT 177), amongst others, together with all related regulations and guidelines, which promote fair and responsible employment practices. We also have an established Board Nomination and Remuneration Committee in ensuring compliance to policies and implementation of best practices. Our remuneration practices comply with Malaysia’s Minimum Wage regulation and overtime compensation in accordance with the Employment Act. Our benefits typically exceed the requirements stipulated within the Employment Act.

In 2016, there were no incidents and grievances of discrimination, child labour and forced labour reported in KLCCP Stapled Group.

MOKL Hotel held their MO Fit Programme to promote a healthy lifestyle and one of the challenges included climbing up to the hotel’s rooftop.

KLCCP Stapled Group employees are encouraged to participate in sports and recreational activities conducted annually.

Anti-Child and Anti-Forced Labour

In Malaysia, risks and incidents of child and forced labour is mitigated through various legislations, for example the Employment Act 1955 (ACT 265), Minimum Retirement Age Act 2012 (ACT 753), Occupational Safety and Health Act 1994 (ACT 514), Factories and Machinery Act 1967 (ACT 139), Merchant Shipping Ordinance 1952, and the Children And Young Persons (Employment) Act 1966 (ACT 350). The Children And Young Persons (Employment) Act 1966 prohibits employment of children below 18 years of age. The legislations has a clear set of laws for the employment of children below 15 years and between 15 and 18 years old, including their number of working days, working hours and type of work to be engaged in.

KLCCP Stapled Group ensures that all employees are issued employment contracts specifying clear employment terms and conditions.

Respect for Freedom of Association

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

RELIABLE PARTNER

KLCCP Stapled Group is committed to taking an active and long term role in managing the relationships with our stakeholders and working as a reliable partner with the communities to engage both citizens and community partners to ensure continuous improvement in our approach to sustainability and in giving back to the community surrounding us.
We aim to continue establishing and maintaining a mutually beneficial relationship with our diverse stakeholders.

Material Sustainable Matters

- Financial Sustainability
- Economic and Industry Growth
- Supply Chain Management
- Community, Customer and Tenant Engagement

Children of Yayasan Sunbeams with the management of Suria KLCC during a Chinese New Year shopping treat.

Context

As a property investment and development group, creating value and delivering lasting impact to the community is integral to our role as a reliable partner. We believe that building dynamic, long-lasting partnerships help us achieve our sustainability goals and be a supporter of the community, strategically, financially and socially.

Our Approach

KLCCP Stapled Group is committed to maintain a favourable impact on the society. We serve by making meaningful contributions economically and socially and growing with our stakeholders to maintain long-term partnerships across our business portfolios. We work with our stakeholder groups to build and strengthen mutually beneficial relationships by building trust and commitment and growing with our partners to maintain long term partnerships across our business portfolios. We collaborate with our tenants to meet their sustainability goals and we are supportive of our tenants' energy conservation efforts. We aim to provide communicative channels for feedback from tenants and customers to be integrated into sustainable decision making.

We invest in community and sustainable development programmes in the areas of education, health, environment and special community needs. Our contributions include the development of infrastructure, the support for charity associations through fundraising activities, as well as education and environmental initiatives.

The 100-acre KLCC Development offers an exciting and vibrant place for people to work, live, visit, shop and play.

FINANCIAL SUSTAINABILITY

With tough operating conditions in 2016, responding to the volatile macro-economic environment was crucial for us to sustain competitive advantage and remain resilient in our operations to combat the headwinds and continue our drive for excellence. Our financial performance was our focus to deliver our commitment of stable and sustainable returns to the holders of Stapled Securities.

We took cognisance of our collective strength and focused on managing our costs in our value chain, creating differentiation in re-positioning our assets and services to compete on our potential and quality as well as enhancing dynamic culture and capabilities of our people in creating a proactive approach to sustain and deliver results.

For the financial year 2016, KLCCP Stapled Group delivered an increase in distribution per stapled security of 2.9% to 35.65 sen underpinned by its resilience in the revenue and profits of the office and retail segments. This is in line with our continued quest in delivering value and growth to the holders of Stapled Securities.

PROMOTING ECONOMIC AND INDUSTRY GROWTH

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

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

The 50-acre KLCC Park was voted the 'Best Public Space' at the 8th International Conference on World Class Sustainable Cities 2016.

Malaysia's Iconic Experience in Kuala Lumpur

Malaysia's Iconic Experience in Kuala Lumpur (MIEKL) is KLCCP's 'Iconic Malaysia' project in collaboration with its business partners to promote the Kuala Lumpur City Centre precinct as a must-visit destination. This is to create awareness and promote the attractions in KLCC Precinct as well as provide convenient access to information on the places of interest to further boost the tourism industry. Various communication modes such as website, touch-screen kiosks, product pamphlets and digital screen advertisement have been established to ensure easy access of information to both local and international visitors.

KLCC Park

The KLCCP Stapled Group continued to promote public awareness on environmental protection and the importance of environmental conservation and this is reflected through its exemplary efforts in the upkeep and maintenance of the 50-acre KLCC Park. The KLCC Park signifies the Group's contribution towards social and community wellbeing by providing a green, convenient, tranquil and conducive destination in the midst of a bustling and dynamic city centre.

KLCCP Stapled Group also collaborates with local authorities and the KLCC community to observe effective compliance for provision of local facilities. The common cost sharing management policy between landowners of commercial properties known as the Common Estate Committee for the upkeep and maintenance of the park continues to promote positive impact on the commercial environment for local and foreign tourists and shoppers. In 2016, KLCCP Stapled Group incurred RM1.2 million for the upkeep and maintenance of KLCC Park.

At the 8th International Conference on World Class Sustainable Cities, KLCC Park was voted the "The Best Public Space" in Kuala Lumpur, bringing our efforts in managing the park to fruition. This is part of our sustainable enhancement to the community, to be inherited by future citizens of the city.

Pedestrian Walkways

As part of the "building to building" connectivity where pedestrian can walk in comfort under a covered walkway from one point to another, the pedestrian tunnel connecting Kompleks Dayabumi and the National Mosque was refurbished and opened to public in 2016. KLCCP Stapled Group provides maintenance services of security, utilities and cleaning services of the walkway as part of its CSR contribution for the benefit of the Kuala Lumpur city. KLCCP Stapled Group also continues to provide maintenance services of the pedestrian walkway connecting Kompleks Dayabumi to the Pasar Seni Light Rail transit.

In 2016, KLCCP Stapled Group incurred approximately RM38,000 for the costs of maintenance of the pedestrian walkways.

A total of 43 disabled parking bays are made available at the KLCC's North-West Development car park.

Accessibility in Built Environment

As a premier iconic venue, KLCCP Stapled Group places great care and attention to providing convenient accessibility within our properties for children, the elderly and the disabled. In addressing the needs of these groups, we have made available child-friendly and disabled-friendly amenities within and surrounding our precinct such as ramps for wheelchairs, disabled-friendly washrooms for our customers, tenants and guests, baby strollers and wheelchair services, elevators at the pedestrian bridge and designated parking bays on every floors of the basement car park as well as other car parks within the KLCC Precinct. At our hotel, three disabled rooms are made available on the 9th floor. In addition, there are also public toilets with disabled facilities and ramps around public areas for ease of mobility. In our basement car park, a total of 43 disabled parking bays are allocated for handicapped drivers, spread over four floors.

Ladies parking is also allocated at Level P1 of our North-West Development car park to provide a convenient and much safer parking facility for our female customers. A total of 142 parking bays constituting 7% of the total visitor parking bays is allocated under this initiative.

Membership and Roles

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

Speed humps and pedestrian crossings are placed at strategic locations within the KLCC's North-West Development car park for customers' safety.

Ladies parking bays are allocated at Level P1 of the KLCC's North-West Development car park, providing a safer alternative for single lady drivers.

KLCC Property Holdings Berhad (KLCCP)	**Council of Tall Buildings and Urban Habitat (CTBUH)** KLCCP has been a member of the Council at Patron Level since 1996 and has been actively participating as participants and speakers in conferences organised by the Council throughout the year namely the CTBUH Malaysia Chapter Inaugural Event and the CTBUH Conference 2016. Our contribution has helped put the latest information from research and advanced design practice into the hands of professionals throughout the world. **Federation Internationale des Administrateurs de Bien-Conselis Immobiliers (FIABCI) Malaysian Chapter** KLCCP is a member of FIABCI Malaysian Chapter and supports the Federation through its various events, seminars and talks organised annually. We also receive updates from FIABCI through their newsletter and emails.
KLCC REIT	**Malaysian REIT Managers Association (MRMA)** KLCC REIT Management Sdn Bhd is a member of the Malaysian REIT Managers Association (MRMA). MRMA also represents its members' interests through engagement with the government and regulators for functional regulations, viable structures and tax harmonisation. This ensures Malaysian REITs remain competitive within the region and internationally.
Suria KLCC	• **Persatuan Pengurusan Kompleks Malaysia** • **International Council of Shopping Centres** Suria KLCC has been a member of the Persatuan Pengurusan Kompleks (PPK) Malaysia since 1995 and a member of the International Council of Shopping Centres (ICSC) since 2003. As a member of PPK and ICSC, Suria KLCC is able to network with the management of other shopping centres in Malaysia and also benchmark with the retail industry best practices worldwide. Suria KLCC also receives information pertaining to the shopping centre industry, statistical data and other statistical research from the ICSC.
Mandarin Oriental, Kuala Lumpur (MOKL Hotel)	• **American Malaysian Chamber of Commerce** • **British Malaysian Chamber of Commerce** • **Kuala Lumpur Tourism Association** • **Jactim Foundation** • **Malaysian Association of Hotel Owners** • **Malaysian International Chamber of Commerce and Industry** • **The Japanese Chamber of Commerce** • **Persatuan Hotel Malaysia** MOKL Hotel's membership in these associations enables them to expand their business networking, leverage on the associations' database and solicit potential business. MOKL Hotel participates in initiatives carried out by the associations from time to time, contribute opinions and comments when requested. MOKL Hotel also participates in any surveys initiated.

SUPPLY CHAIN MANAGEMENT

Managing our supply chain effectively is integral to our business strategy. This means having a robust system in place to continuously review our supply chain, taking concrete actions to enhance the quality of services and products we procure, and working closely with our suppliers to improve their sustainable performances.

KLCCP Stapled Group is committed to responsible procurement practices and supply chain management. We engage with our suppliers to educate them on responsible practices and ethical tendering process. KLCCP Stapled Group further enhanced its vendor management by implementing best practices as well as continuing its existing programmes to ensure responsible procurement practices are being upheld within the organisation.

KLCCP Stapled Group maintains a list of registered vendors. Due diligence of contractors and suppliers are undertaken prior to them being registered/licensed with KLCCP Stapled Group. Suppliers are selected in accordance with established procurement processes and are determined through a tender engagement process. Factors influencing supplier selection include cost, performance and project experience. Suppliers' performance evaluation is performed in a frequent and consistent manner to measure the post award performance of a vendor against defined performance criteria. The evaluation includes discussion on the performance results and identification of improvement opportunities.

Sustainable Supply Chain and Ethical Behaviour

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

Supplier's Code of Conduct

To ensure transparent and fair practices by vendors, the bid documents include a provision in the contract terms and conditions on:

Conflict of interest and fighting corruption and unethical practices	• The contractor shall comply with all relevant requirements and policies • Promptly report any request or demand for undue financial or other advantage of any kind received in connection with the performance of the contract
Business Ethics	• The contractor shall take no action on behalf of the Employer in the performance of the works or rendition of the works or the conduct of operation that would subject either party to liability or penalty under any laws, rules, regulations or decrees of any governmental authority; • All invoices, financial settlements, reports and billings by the contractor shall properly reflect the facts about all activities and transactions handled for the employer's accounts; and • The contractor agrees to notify the employer promptly upon discovery of any instance where the contractor has not complied with the requirements of the contract
Health, Safety and Environment (HSE)	• HSE policy, targets and requirements • Prevailing laws and regulations • Risk assessment including preventing and mitigating measures • Emergency response plan • Incident reporting and investigation

Suria KLCC's Child Safety Seat campaign was held in conjunction with the Hari Raya celebration to create awareness among parents on the importance of having their children secured in the seat when travelling in a car.

Supplier Diversity and Local Procurement

At KLCCP Stapled Group, we encourage sourcing of local products among the suppliers. In 2016, 95% of our products were sourced locally, contributing positively to the local economy.

Children of Sekolah Bimbingan Jalinan Kasih, Chow Kit had a thrilling time at Petrosains during their visit to the centre.

Supplier Audits

As food and beverage contributes approximately 40% of our hotels' revenue, food hygiene and safety is critical in sustaining MOKL Hotel's revenue. MOKL Hotel's Supplier Chain Management focuses on food and beverage suppliers in respect to compliance to food safety requirements. This is also in line with our certification in ISO 22000 – Food Safety Management and Halal Assurance Management System. We have in place a policy and the procedures include supplier audits for local F&B suppliers. These local suppliers are classified into "High Risk" or "Low Risk", depending on product type supplied. The audits are conducted yearly for "High Risk" and conversely once every 2 years for "Low Risk". Suppliers are encouraged to obtain accreditation (HACCP – MS 1480/ISO 22000) and accredited suppliers are preferred and given "nominated supplier" status. The premises of the suppliers are audited based on food safety management, raw materials, product and materials, structure and facilities, pest control, cleaning and housekeeping.

COMMUNITY, CUSTOMER AND TENANT ENGAGEMENT

Connecting With Our Communities

Creating value and delivering a lasting and positive impact to the community surrounding us as a reliable partner is integral to the success of our business. We continued to engage with the communities surrounding us to foster goodwill and to contribute towards their well-being and social development. We support various stakeholder engagement activities which include environmental sustainability, health and safety, social integration as well as reaching out to the underpriviledged children.

Key initiatives for the year

Visit to Petrosains and PETRONAS Twin Towers for school children	• We selected 2 schools, Sekolah Bimbingan Jalinan Kasih which included street children of Chow Kit and Sekolah Kebangsaan Bukit Lanjan, Damansara which were mainly *orang asli* children • This programme was in the spirit of sharing and giving towards the underprivileged and school children deprived of opportunities to experience fun learning outside their classrooms • A total of 80 school children attended the visits
Charity Run	• MOKL Hotel's Charity Run was in support of World Wide Fund for Nature, Malaysia (WWF-Malaysia). A total of RM31,828 was raised and donated to WWF-Malaysia to support its conservation efforts • Donated RM13,000 for the Bursa Bull Charge Run which were channeled to 10 deserving beneficiaries and 28 philanthropies
Opening of an early intervention centre for autistic children at Kerteh, Terengganu	• Suria KLCC, in collaboration with the National Autistic Society of Malaysia (NASOM) set up the Centre to help more autistic children seek assistance from professionally trained teachers and care takers
'Child Safety Seat' community programme	• Introduced in conjunction with *Hari Raya* celebration with the objective of educating parents on the importance of securing their children in child safety seats when travelling back to their hometowns • 60 child safety seats were given away to parents who participated in a question and answer segment on Suria FM radio station • This programme was supported by the Department of Road Safety, Ministry of Transport Malaysia
Donation Drives and Fundraising	• Contributed RM5,000 for the PETRONAS' Orchid Fun Run and Ride 2016 which was channeled to four charitable bodies – the National Autism Society of Malaysia (NASOM), Pediatric and Congenital Heart Centre (PCHC) of the National Heart Institute (IJN), the National Intra Ocular Lens Bank, Ministry of Health Malaysia and Institute Telinga Pendengaran dan Pertuturan (Institute HEARS). 100 employees participated in the 5km run • Suria KLCC ran a programme called "Light A Pelita" to help raise funds for Pertiwi Soup Kitchen. Shoppers were encouraged to donate a minimum of RM10 for each pelita. More than RM10,000 was raised at the end of this campaign • MOKL Hotel raised funds to build Kirtarsh Home in Rawang that was destroyed by fire. They also donated food, sundries and clothes. The hotel started donating monthly basic non-perishable food items to the Home since June 2016

Bringing Festive Joy to the Underprivileged Community

KLCCP Stapled Group continued the traditions of sharing festive joy with the less fortunate, inculcating the spirit of giving and sharing among employees. We organised a *Majlis Berbuka Puasa* with 30 children from Pertubuhan Kebajikan Anak-Anak Yatim Ummi Selangor and residents of Old Folks Home. The employees visited the home for a *buka puasa* and presented the home with donation from the organisation and employees.

MOKL Hotel organised a *Berbuka Puasa* with residents of Old Folks Home. Two homes were invited, Pusat Jagaan Al Fikrah and Persatuan Kebajikan Siti Nor Aini. About 30 people attended and the special guests were given the *duit raya* and goodie bags of dates and cookies.

Suria KLCC invited 30 children from Yayasan Sunbeams, home to displaced, abused and neglected children of single-parents for a day of shopping in preparation for the Chinese New Year. The children were each given a token sum to purchase new clothes for Chinese New Year. In addition, a total of RM3,800 worth of shopping vouchers were also donated to the home to purchase necessities.

Valuing Our Tenants And Customers Through Enhanced Premium Services

KLCCP Stapled Group continues to build strong tenant relationship through the "Tenants' Nite" held annually for tenants of the PETRONAS Twin Towers and Menara 3 PETRONAS. The event is an avenue to express our appreciation and recognition of tenants' support and pay tribute to the roles played by tenant representatives and floor safety managers and assistants at our commercial properties in the tenant-building working relationship.

Buka Puasa event is held annually to inculcate the spirit of sharing and giving among employees during the fasting month of Ramadan.

MOKL Hotel held the Buka Puasa with residents of Old Folks Home.

Suria KLCC shopping mall offers an exciting shopping experience with new and unique choices of retail brands, F&B outlets and services.

In light of the tough operating conditions in the retail landscape for 2016, Suria KLCC stepped up its engagement with the tenants and supported them with extensive research on changing demographics and shopper preferences on weathering the challenging retail sector. The leasing team at Suria KLCC continued to implement an active leasing strategy to attract new international brand retailers to be part of the mall's tenants to provide shoppers with a selection that combines brands and shopping experiences with new and unique choices. Suria KLCC saw the formation of a luxury men's zone on Level 1 as planned with the opening of Dior Homme, Hugo Boss, Dunhill, Coach Men, Boggi Milano, Brooks Brothers, Truefitt and Hill, Mont Blanc, Rolex, Omega and Rimowa. With its strong brand image and experienced retail team, Suria KLCC saw 24 new tenants come on board and was also able to secure several new key brands, namely Saint Laurent, Dior (ladies) and Marc Jacobs which opened on the ground floor.

In providing a parking experience from "just parking" to a "car park that cares", KPM installed a Customer Satisfaction Kiosk to ascertain the level of customer satisfaction from transient and season card holders. KPM achieved a customer satisfaction of 64% for 2016. The wireless credit card service was also introduced at the car park and was fully operational in April 2016. Besides providing convenient alternative payment mode, it also reduced regular cash handling by the car park personnel. For customers' convenience, autopay machines at the car park are tagged with numbers for easy identification which allows customers to correctly identify their exit points. Appropriate exit signages were placed at strategic locations to assist customers exiting or entering the premises. With safety of their customers in mind, KPM placed pedestrian crossing and speed humps at the busiest entry and exits of the mall and at most intersections in the parking site to enable pedestrians to cross safely across the flow of vehicular traffic.

Delighting Guests with Quality Service

The quality service at our MOKL Hotel underpins everything that we do, and we are committed to exceeding guests' expectations on a daily basis. Our hotel focuses on providing personalised service to every guest every day, and on the sincerity of the people who deliver it. We encourage colleagues to know our guests, to anticipate what they want, in order to provide them with the best experience throughout their stay at MOKL Hotel.

Feedback from our guests is vital to our success. MOKL Hotel conducts a customer satisfaction and loyalty survey with the help of a third-party organisation that sends an online questionnaire following a guest's stay. Our hotel receives over 3,000 guest satisfaction surveys annually, which are measured and analysed to help ensure constant improvement. MOKL Hotel's overall satisfaction ratings indicate a consistently high level of guest satisfaction and loyalty to the brand. In 2016, we achieved an overall satisfaction rate of 87%, surpassing the previous year's performance of 82%.

In 2016, MOKL Hotel launched its F&B loyalty programme Elite Club, introduced a new Peter Burwash Tennis Centre to further enhance the Level 3 recreation offerings and to differentiate the hotel from its competitors, launched its re-conceptualised two outlets to attract a younger leisure crowd and commenced on its final phase of the renovations of the guest rooms. These new enhancements will keep the hotel's guests and patrons engaged as the hotel improves its offerings.

ENVIRONMENTAL IMPACT

	2016	2015	2014
Energy Used (kWh)			
Office and Car Park	**95,426,259**	99,656,156	100,209,159
Retail	**15,791,308**	15,412,290	13,641,121
Hotel	**13,540,725**	13,829,915	14,678,407
Total Energy Used	**124,758,292**	128,898,361	128,528,687
GHG Emissions (mt $CO_{2\text{-}e}$)			
Scope 1			
Office	**5.47**	5.47	8.32
Retail	**1,540**	1,540	1,537
Hotel	**1,925**	1,946	1,892
Total Scope 1 Emissions	**3,471**	3,491	3,437
Scope 2			
Office and Car Park	**90,214**	90,138	90,699
Retail	**33,103**	32,819	21,422
Hotel	**17,511**	17,330	17,924
Total Scope 2 Emissions	**140,827**	140,287	130,045
Renewable Energy Generated (kWh)			
Retail	**553,093**	591,216	551,162
Water Used (m^3)			
Office	**646,355**	681,605	754,269
Retail	**607,715**	627,125	–
Hotel	**181,678**	191,796	211,715
Total Water Used	**1,435,748**	1,500,526	965,984
Waste Management			
Hazardous Waste Generated (metric tonnes)			
Office	**2.173**	4.640	3.975
Hotel	**0.903**	0.903	0.901
Hazardous Waste Disposed (metric tonnes)			
Office	**1.750**	4.122	1.920
Hotel	**0.903**	0.903	0.901
Waste Intensity (kg per room)			
Hotel	**4.70**	4.08	3.52
Waste Diversion (%)			
Hotel	**22.39**	17.06	14.16

SOCIAL IMPACT

	2016	2015	2014
Our Workforce			
Workforce by Age Group			
Below 30	**337**	349	374
30 - 39	**353**	376	418
40 - 49	**266**	271	264
50 - 59	**126**	113	111
60 above	**6**	5	3
Total workforce	**1,088**	**1,114**	**1,170**
Workforce by Gender			
Male	**684**	692	721
Female	**404**	422	449
Workforce Position and Gender Profile			
Top Management:			
Male	**27**	7	10
Female	**18**	4	6
Senior Management:			
Male	**151**	93	126
Female	**124**	78	100
Other Levels:			
Male	**506**	592	585
Female	**262**	340	343
Workforce by Ethnicity			
Malay	**750**	794	795
Chinese	**182**	191	222
Indian	**81**	88	89
Others	**75**	41	64
Health and Safety			
Number of fatalities	**0**	0	0
Loss Time Injury (LTI) Incidents	**4**	8	2
Loss Time Injury Frequency (LTIF)	**0.46**	0.23	0.14
Loss of Primary Containment (LOPC)	**0**	0	0

SUSTAINABILITY BENCHMARKS, AWARDS AND CERTIFICATIONS

Sustainability Benchmarks	2016	2015	2014
FTSE4Good Bursa Malaysia Index	Listed since 2015		
FTSE4Good Emerging Index	Listed in 2016		

Sustainability Awards and Certifications	2016	2015	2014
KLCC Urusharta Sdn Bhd			
National Occupational Health and Safety Excellence Award 2014			Achieved in 2014
ISO 14001:2004 (Environmental Management System)	Achieved since 2014		
OHSAS 18001:2007 (Occupational Health and Safety Management System)	Achieved since 2014		
Mandarin Oriental, Kuala Lumpur			
ISO 14001:2004 (Environmental Management System)	Achieved since 2003 (latest recertification in 2015)		
ISO 22000:2005 (Food Safety Management Systems)	Achieved since 2008 (latest recertification in 2015)		
OHSAS 18001:2007 (Occupational Health and Safety Management Systems)	Achieved since 2003 (latest recertification in 2015)		
KLCC Parking Management Sdn Bhd			
ISO 9001:2015 (Quality Management System)	Achieved in 2016		
ISO 14001:2015 (Environmental Management System)	Achieved in 2016		
OHSAS 18001:2007 (Occupational Health and Safety Management System)	Achieved in 2016		
MOSHPA OSH Excellence Award	Achieved since 2015		

Financial STATEMENTS

KLCC PROPERTY HOLDINGS BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016.

PRINCIPAL ACTIVITIES

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

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

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

CORPORATE INFORMATION

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

Upon the completion of the listing of stapled securities 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	1,011,027	260,981
Attributable to:		
Equity holders of the Company	339,038	260,981
Non-controlling interests relating to KLCC REIT	546,933	–
Other non-controlling interests	125,056	–
	1,011,027	260,981

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 2015 were as follows:

	RM'000
In respect of the financial year ended 31 December 2015 as reported in the directors' report in that year:	
A fourth interim dividend of 4.13%, tax exempt under single tier system on 1,805,333,083 ordinary shares, was declared on 21 January 2016 and paid on 29 February 2016.	74,560
In respect of the financial year ended 31 December 2016:	
A first interim dividend of 2.85%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 6 May 2016 and paid on 15 June 2016.	51,452
A second interim dividend of 2.91%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 2 August 2016 and paid on 13 September 2016.	52,535
A third interim dividend of 2.94%, tax exempt under single tier system on 1,805,333,083 ordinary shares, declared on 3 November 2016 and paid on 14 December 2016.	53,077
	231,624

A fourth interim dividend in respect of the financial year ended 31 December 2016, of 4.17% tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM75,282,000 will be payable on 28 February 2017.

DIRECTORS OF THE COMPANY

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

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

DIRECTORS' INTERESTS

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

	Number of Stapled Securities of KLCC Property Holdings Berhad and KLCC Real Estate Investment Trust			
	Balance as at	Number of Stapled Securities		Balance as at
Direct	**1.1.2016**	**Bought**	**Sold**	**31.12.2016**
Datuk Manharlal A/L Ratilal	5,000	–	–	5,000
Augustus Ralph Marshall	50,000	–	–	50,000

	Number of Shares in Petronas Chemicals Group Berhad			
	Balance as at	Number of Shares		Balance as at
Direct	**1.1.2016**	**Bought**	**Sold**	**31.12.2016**
Krishnan C K Menon	20,000	–	–	20,000
Datuk Manharlal A/L Ratilal	20,000	–	–	20,000
Dato' Halipah Binti Esa	10,000	–	–	10,000
Datuk Hashim Bin Wahir	16,000	–	–	16,000
Indirect				
Dato' Halipah Binti Esa#	13,100	–	–	13,100

	Number of Shares in MISC Berhad			
	Balance as at	Number of Shares Securities		Balance as at
Indirect	**1.1.2016**	**Bought**	**Sold**	**31.12.2016**
Dato' Halipah Binti Esa#	10,000	–	–	10,000

DIRECTORS' INTERESTS (CONTD.)

	Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad			
	Balance as at	Number of Stapled Securities		Balance as at
Direct	**1.1.2016**	**Bought**	**Sold**	**31.12.2016**
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 2016 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 26 to the financial statements or the remuneration received by the Directors from certain related corporations), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

ULTIMATE HOLDING COMPANY

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

ISSUE OF SHARES

There were no issuance of new shares during the year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

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 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 January 2017.

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

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 210 to 273 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of the results of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the supplementary information set out in Note 37 on page 273 is prepared in all material respects, in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance"), and directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 January 2017.

Krishnan C K Menon

Datuk Hashim Bin Wahir

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

I, Annuar Marzuki Bin Abdul Aziz, the officer primarily responsible for the financial management of KLCC Property Holdings Berhad, do solemnly and sincerely declare that the financial statements set out on pages 210 to 273 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 20 January 2017.

BEFORE ME:

YM Tengku Fariddudin Bin Tengku Sulaiman
Commissioner for Oaths

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

		Group		Company	
		2016	2015	2016	2015
	Note	RM'000	RM'000	RM'000	RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	5	**636,674**	639,381	**4,729**	6,009
Investment properties	6	**15,454,001**	15,166,684	**–**	–
Investment in subsidiaries	7	**–**	–	**1,368,623**	1,195,494
Investment in an associate	8	**255,016**	265,205	**99,195**	99,195
Deferred tax assets	9	**247**	536	**72**	348
Amount due from a subsidiary	10	**–**	–	**–**	68,000
Trade and other receivables	12	**339,106**	289,588	**–**	–
		16,685,044	16,361,394	**1,472,619**	1,369,046
Current Assets					
Inventories	11	**1,930**	1,837	**–**	–
Trade and other receivables	12	**79,919**	62,921	**37,305**	29,327
Tax recoverable		**12**	71	**–**	–
Cash and bank balances	13	**1,015,220**	1,110,857	**478,538**	563,620
		1,097,081	1,175,686	**515,843**	592,947
TOTAL ASSETS		**17,782,125**	17,537,080	**1,988,462**	1,961,993
EQUITY AND LIABILITIES					
Equity Attributable to Equity Holders of the Company					
Share capital	14	**1,805,333**	1,805,333	**1,805,333**	1,805,333
Capital redemption reserve	14	**18,053**	18,053	**18,053**	18,053
Capital reserve	2.20	**2,854,041**	2,778,200	**–**	–
Retained profits	15	**204,555**	172,982	**158,043**	128,686
		4,881,982	4,774,568	**1,981,429**	1,952,072
Non-controlling interests (“NCI”) relating to KLCC REIT	7	**7,912,211**	7,776,713	**–**	–
Stapled Securities holders interests in the Group		**12,794,193**	12,551,281	**1,981,429**	1,952,072
Other NCI	7	**1,983,832**	1,959,773	**–**	–
Total Equity		**14,778,025**	14,511,054	**1,981,429**	1,952,072

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Non-Current Liabilities					
Deferred revenue	16	**41,639**	46,208	**–**	–
Other long term liabilities	17	**78,477**	74,658	**–**	–
Long term borrowings	18	**2,233,166**	2,532,166	**–**	–
Deferred tax liabilities	9	**29,728**	41,530	**–**	–
		2,383,010	2,694,562	**–**	–
Current Liabilities					
Trade and other payables	19	**280,996**	278,447	**6,824**	7,993
Borrowings	18	**319,264**	28,459	**–**	–
Taxation		**20,830**	24,558	**209**	1,928
		621,090	331,464	**7,033**	9,921
Total Liabilities		**3,004,100**	3,026,026	**7,033**	9,921
TOTAL EQUITY AND LIABILITIES		**17,782,125**	17,537,080	**1,988,462**	1,961,993

	2016	2015
Net asset value ("NAV")	**12,794,193**	12,551,281
Less: Fourth interim distribution	**(75,282)**	(74,560)
Net NAV after distribution	**12,718,911**	12,476,721
Number of stapled securities/ shares in circulation ('000)	**1,805,333**	1,805,333
Net asset value ("NAV") per stapled security/share (RM)		
– before distribution	**7.09**	6.95
– after distribution	**7.05**	6.91

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 2016

		Group		Company	
		2016	**2015**	**2016**	**2015**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	20	**1,343,546**	1,340,229	**275,325**	284,650
Operating profit	21	**999,342**	1,004,195	**243,769**	253,771
Fair value adjustment of investment properties	6	**171,143**	578,839	**–**	–
Interest income	22	**42,552**	41,280	**22,295**	25,190
Financing costs	23	**(121,220)**	(119,624)	**–**	–
Share of profit of an associate	8	**10,881**	13,665	**–**	–
Profit before tax	24	**1,102,698**	1,518,355	**266,064**	278,961
Tax expense	27	**(91,671)**	(115,166)	**(5,083)**	(6,446)
PROFIT FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME		**1,011,027**	1,403,189	**260,981**	272,515
Profit attributable to:					
Equity holders of the Company		**339,038**	542,751	**260,981**	272,515
NCI relating to KLCC REIT	7	**546,933**	588,770	**–**	–
		885,971	1,131,521	**260,981**	272,515
Other NCI	7	**125,056**	271,668	**–**	–
		1,011,027	1,403,189	**260,981**	272,515
Total comprehensive income for the year comprises the following:					
Realised		**826,792**	829,159	**260,981**	272,515
Unrealised		**184,235**	574,030	**–**	–
		1,011,027	1,403,189	**260,981**	272,515
Earnings per share attributable to equity holders of the Company (sen):					
Basic	28	**18.8**	30.1		
Earnings per stapled security (sen):					
Basic	28	**49.1**	62.7		

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 2016

	Group	
	2016	**2015**
	RM'000	**RM'000**
Overall distributable income is derived as follows:		
Profit attributable to the equity holders of the Company	**339,038**	542,751
Less: Unrealised fair value adjustment attributable to the equity holders	**(75,841)**	(293,281)
	263,197	249,470
Distributable income of KLCC REIT	**411,451**	391,850
Total available for income distribution	**674,648**	641,320
Distribution to equity holders of the Company in respect of financial year ended 31 December 2016/2015:		
First interim dividend of 2.85% (2015: 3.02%)	**(51,452)**	(54,521)
Second interim dividend of 2.91% (2015: 3.02%)	**(52,535)**	(54,521)
Third interim dividend of 2.94% (2015: 2.80%)	**(53,077)**	(50,549)
Fourth interim dividend of 4.17% (2015: 4.13%)	**(75,282)**	(74,560)
	(232,346)	(234,151)
Distribution to KLCC REIT holders in respect of financial year ended 31 December 2016/2015:		
First interim income distribution of 5.75% (2015: 5.32%)	**(103,807)**	(96,044)
Second interim income distribution of 5.69% (2015: 5.32%)	**(102,723)**	(96,044)
Third interim income distribution of 5.66% (2015: 5.35%)	**(102,182)**	(96,585)
Fourth interim dividend of 5.68% (2015: 5.69%)	**(102,543)**	(102,723)
	(411,255)	(391,396)
Balance undistributed	**31,047**	15,773

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 2016

		← 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 2016		**1,805,333**	**18,053**	**172,982**	**2,778,200**	**4,774,568**	**7,776,713**	**1,959,773**	**14,511,054**
Total comprehensive income for the year		**–**	**–**	**339,038**	**–**	**339,038**	**546,933**	**125,056**	**1,011,027**
Transfer of fair value surplus		**–**	**–**	**(75,841)**	**75,841**	**–**	**–**	**–**	**–**
Dividends paid	29	**–**	**–**	**(231,624)**	**–**	**(231,624)**	**(411,435)**	**(100,997)**	**(744,056)**
At 31 December 2016		**1,805,333**	**18,053**	**204,555**	**2,854,041**	**4,881,982**	**7,912,211**	**1,983,832**	**14,778,025**

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

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 2016

	Note	Non-Distributable		Distributable	
		Share Capital RM'000	Capital Redemption Reserve RM'000	Retained Profits RM'000	Total Equity RM'000
At 1 January 2016		**1,805,333**	**18,053**	**128,686**	**1,952,072**
Total comprehensive income for the year		**–**	**–**	**260,981**	**260,981**
Dividends paid	29	**–**	**–**	**(231,624)**	**(231,624)**
At 31 December 2016		**1,805,333**	**18,053**	**158,043**	**1,981,429**
At 1 January 2015		1,805,333	18,053	85,990	1,909,376
Total comprehensive income for the year		–	–	272,515	272,515
Dividends paid	29	–	–	(229,819)	(229,819)
At 31 December 2015		1,805,333	18,053	128,686	1,952,072

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 2016

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	**1,289,402**	1,287,311	**24,950**	17,840
Cash payments to suppliers and employees	**(308,490)**	(286,083)	**(20,245)**	(22,903)
	980,912	1,001,228	**4,705**	(5,063)
Interest income from fund and other investments	**42,294**	38,839	**19,595**	19,676
Tax paid	**(106,853)**	(107,824)	**(6,526)**	(4,190)
Net cash generated from operating activities	**916,353**	932,243	**17,774**	10,423
CASH FLOWS FROM INVESTING ACTIVITIES				
Dividends received	**–**	9,030	**234,495**	267,430
Purchase of property, plant and equipment	**(43,788)**	(63,643)	**(618)**	(528)
Subsequent expenditure on investment properties	**(97,727)**	(89,371)	**–**	–
Proceeds from disposal of property, plant and equipment	**206**	88	**–**	–
Net cash (used in)/generated from investing activities	**(141,309)**	(143,896)	**233,877**	266,902

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Drawdown of borrowings	**1,000**	377,166	**–**	–
Repayment of borrowings	**(11,400)**	(330,000)	**–**	–
Dividends paid to shareholders	**(231,624)**	(229,819)	**(231,624)**	(229,819)
Dividends paid to other NCI	**(100,997)**	(133,933)	**–**	–
Dividends paid to NCI relating to KLCC REIT	**(413,284)**	(374,563)	**–**	–
Interest expenses paid	**(114,376)**	(113,413)	**–**	–
Advances to subsidiaries	**–**	–	**(105,109)**	(49,785)
Decrease/(increase) in deposits restricted	**3,191**	(1,248)	**–**	–
Net cash used in financing activities	**(867,490)**	(805,810)	**(336,733)**	(279,604)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(92,446)**	(17,463)	**(85,082)**	(2,279)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,104,437**	1,121,900	**563,620**	565,899
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 13)	**1,011,991**	1,104,437	**478,538**	563,620

The additions in investment properties and property, plant and equipment were acquired by way of:				
Cash	**127,272**	137,736	**519**	528
Accruals	**22,775**	14,243	**–**	–
	150,047	151,979	**519**	528
Cash paid for additions in prior years	**14,243**	15,278	**99**	–
Cash paid for additions in current year	**127,272**	137,736	**519**	528
Total cash paid for investment properties and property, plant and equipment	**141,515**	153,014	**618**	528

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

1. CORPORATE INFORMATION

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

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

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

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 20 January 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 1965 in Malaysia.

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

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

As of 1 January 2016, the Group and the Company had adopted new, amendments and revised MFRS (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB") as described fully in Note 3.

2.2 Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Basis of Consolidation (Contd.)

Subsidiaries (Contd.)

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

Business combination

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

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

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

Non-controlling interests

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Basis of Consolidation (Contd.)

Loss of control

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

2.3 Investments

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

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

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

2.4 Associates

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Associates (Contd.)

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

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

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

2.5 Goodwill

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

2.6 Property, Plant and Equipment

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

The estimated useful life are as follows:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.6 Property, Plant and Equipment (Contd.)

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

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

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

2.7 Investment Properties

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

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

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

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

2.8 Impairment of Non-Financial Assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.8 Impairment of Non-Financial Assets (Contd.)

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

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

2.9 Inventories

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

2.10 Cash and Cash Equivalents

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

2.11 Financial Assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.11 Financial Assets (Contd.)

(i) Loans and receivables

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

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

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

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

2.12 Impairment of Financial Assets

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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

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

(i) Other financial liabilities

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

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

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

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

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

2.15 Financing Costs

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.16 Employee Benefits

(i) Short Term Benefits

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

(ii) Defined Contribution Plans

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

2.17 Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is 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.

The expected manner of recovery of the Group's investment properties held by KLCC REIT is through sale after holding the properties for more than 5 years.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.18 Foreign Currencies

(i) Functional and Presentation Currency

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

(ii) Foreign Currency Transactions

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

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

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

	2016 RM	2015 RM
United States Dollar	**4.48**	4.29

2.19 Share Capital

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

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

2.20 Capital Reserve

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.21 Revenue Recognition

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

(i) Rental income

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

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

(ii) Buildings and facilities management fees

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

(iii) Car park operations

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

(iv) Interest income

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

(v) Dividend income

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

(vi) Revenue from services

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

(vii) Hotel operations

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

2.22 Leases

Operating Leases – the Group as lessor

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.23 Operating Segments

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

2.24 Fair Value Measurement

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

(i) Financial instruments

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

(ii) Non-financial assets

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

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability
- 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 2016, 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 2016

Amendments to MFRS 7	Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendments to MFRS 10	Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 12	Disclosure of Interests in Other Entities – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 101	Presentation of Financial Statements – Disclosure Initiative
Amendments to MFRS 116	Property, Plant and Equipment: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 119	Employee Benefits (Annual Improvements to MFRSs 2012-2014 Cycle)
Amendments to MFRS 127	Separate Financial Statements: Equity Method in Separate Financial Statements
Amendments to MFRS 128	Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvements to MFRSs 2012-2014 Cycle)

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical Judgement Made in Applying Accounting Policies

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

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)

4.2 Key Sources of Estimation Uncertainty

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

(i) Useful life of property, plant and equipment

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

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

(ii) Deferred tax assets

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

(iii) Fair value of investment properties

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

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

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

	Fair value Increase/(decrease)	
	2016	**2015**
	RM'000	**RM'000**
Yield rate		
+ 0.25%	**(368,386)**	(534,648)
- 0.25%	**397,374**	580,971
Void rate		
+ 2.5%	**(319,414)**	(285,428)
- 2.5%	**(321,963)**	289,133

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	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
At 31 December 2016								
Cost								
At 1 January 2016	615,922	14,149	120,322	143,872	71,807	1,239	9,371	976,682
Additions	2,375	26,893	3,874	1,344	833	214	–	35,533
Transfer within property, plant and equipment	4,255	(20,220)	5,493	9,202	1,270	–	–	–
Transfer to investment properties (Note 6)	–	(1,660)	–	–	–	–	–	(1,660)
Disposals	–	–	(1,669)	(1,195)	(74)	(66)	–	(3,004)
Write off	(761)	–	(4,562)	(154)	–	–	(211)	(5,688)
At 31 December 2016	621,791	19,162	123,458	153,069	73,836	1,387	9,160	1,001,863
Accumulated Depreciation								
At 1 January 2016	109,898	–	79,802	81,679	55,967	996	8,959	337,301
Charge for the year (Note 24)	10,698	–	7,600	9,125	5,350	106	267	33,146
Disposals	–	–	(1,426)	(726)	(72)	(66)	–	(2,290)
Write off	(51)	–	(2,651)	(55)	–	–	(211)	(2,968)
At 31 December 2016	120,545	–	83,325	90,023	61,245	1,036	9,015	365,189
Net Carrying Amount	501,246	19,162	40,133	63,046	12,591	351	145	636,674

5. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

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

5. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

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

	Freehold land RM'000	Hotel building RM'000	Renovation RM'000	Building improvements RM'000	Total RM'000
At 31 December 2016					
Cost					
At 1 January 2016	**85,889**	**389,942**	**15,547**	**124,544**	**615,922**
(Reversal)/Additions	**–**	**–**	**(32)**	**2,407**	**2,375**
Transfer	**–**	**–**	**3,438**	**817**	**4,255**
Write off	**–**	**–**	**–**	**(761)**	**(761)**
At 31 December 2016	**85,889**	**389,942**	**18,953**	**127,007**	**621,791**
Accumulated Depreciation					
At 1 January 2016	**–**	**52,804**	**5,015**	**52,079**	**109,898**
Charge for the year	**–**	**5,417**	**3,552**	**1,729**	**10,698**
Write off	**–**	**–**	**–**	**(51)**	**(51)**
At 31 December 2016	**–**	**58,221**	**8,567**	**53,757**	**120,545**
Net Carrying Amount	**85,889**	**331,721**	**10,386**	**73,250**	**501,246**
At 31 December 2015					
Cost					
At 1 January 2015	85,889	390,016	13,568	92,318	581,791
Additions	–	–	2,724	1,849	4,573
Transfer	–	–	2,473	30,377	32,850
Disposals	–	(74)	–	–	(74)
Write off	–	–	(3,218)	–	(3,218)
At 31 December 2015	85,889	389,942	15,547	124,544	615,922
Accumulated Depreciation					
At 1 January 2015	–	47,398	6,234	51,086	104,718
Charge for the year	–	5,480	1,999	993	8,472
Disposals	–	(74)	–	–	(74)
Write off	–	–	(3,218)	–	(3,218)
At 31 December 2015	–	52,804	5,015	52,079	109,898
Net Carrying Amount	85,889	337,138	10,532	72,465	506,024

Property, plant and equipment of a subsidiary at carrying amount of RM607,910,000 (2015: RM602,658,000) has been pledged as securities for loan facilities as disclosed in Note 18.

5. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Company	Renovation RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment RM'000	Project in progress RM'000	Total RM'000
At 31 December 2016						
Cost						
At 1 January 2016	**7,109**	**2,119**	**5**	**1,654**	**50**	**10,937**
(Reversal)/Additions	**(57)**	**121**	**8**	**27**	**420**	**519**
Transfer	**–**	**–**	**–**	**50**	**(50)**	**–**
At 31 December 2016	**7,052**	**2,240**	**13**	**1,731**	**420**	**11,456**
Accumulated Depreciation						
At 1 January 2016	**1,527**	**1,909**	**4**	**1,488**	**–**	**4,928**
Charge for the year (Note 24)	**1,492**	**200**	**1**	**106**	**–**	**1,799**
At 31 December 2016	**3,019**	**2,109**	**5**	**1,594**	**–**	**6,727**
Net Carrying Amount	**4,033**	**131**	**8**	**137**	**420**	**4,729**
At 31 December 2015						
Cost						
At 1 January 2015	7,853	2,119	5	2,202	2,096	14,275
Additions	–	–	–	100	428	528
Transfer	2,474	–	–	–	(2,474)	–
Write off	(3,218)	–	–	(648)	–	(3,866)
At 31 December 2015	7,109	2,119	5	1,654	50	10,937
Accumulated Depreciation						
At 1 January 2015	3,570	1,698	3	2,078	–	7,349
Charge for the year (Note 24)	1,175	211	1	58	–	1,445
Write off	(3,218)	–	–	(648)	–	(3,866)
At 31 December 2015	1,527	1,909	4	1,488	–	4,928
Net Carrying Amount	5,582	210	1	166	50	6,009

6. INVESTMENT PROPERTIES

Group	Completed investment properties RM'000	IPUC land at fair value RM'000	IPUC at cost RM'000	Total RM'000
At 31 December 2016				
At 1 January 2016	**14,611,043**	**452,950**	**102,691**	**15,166,684**
Additions	**26,084**	**–**	**88,430**	**114,514**
Transfer from property, plant and equipment (Note 5)	**1,660**	**–**	**–**	**1,660**
Fair value adjustments	**129,793**	**41,350**	**–**	**171,143**
At 31 December 2016	**14,768,580**	**494,300**	**191,121**	**15,454,001**
At 31 December 2015				
At 1 January 2015	14,220,096	246,500	29,554	14,496,150
Additions	18,558	–	73,137	91,695
Transfer[#]	(102,400)	102,400	–	–
Fair value adjustments	474,789	104,050	–	578,839
At 31 December 2015	14,611,043	452,950	102,691	15,166,684

[#] *Relates to the fair value of land for the proposed development of Phase 3, Kompleks Dayabumi*

The following investment properties are held under lease terms:

	Group 2016 RM'000	Group 2015 RM'000
Completed investment property	**330,095**	309,809
IPUC land at fair value	**220,000**	178,650
IPUC at cost	**168,353**	80,194
	718,448	568,653

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.

6. INVESTMENT PROPERTIES (CONTD.)

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

	Group 2016 RM'000	Group 2015 RM'000
Rental income	**1,066,266**	1,059,278
Direct operating expenses of income generating investment properties	**(80,486)**	(78,058)

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
2016				
– Office properties	**–**	**–**	**9,121,939**	**9,121,939**
– Retail property	**–**	**–**	**5,866,641**	**5,866,641**
– Land	**–**	**–**	**274,300**	**274,300**
	–	**–**	**15,262,880**	**15,262,880**
2015				
– Office properties	–	–	8,951,693	8,951,693
– Retail property	–	–	5,838,000	5,838,000
– Land	–	–	274,300	274,300
	–	–	15,063,993	15,063,993

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:

	2016 RM'000	2015 RM'000
At 1 January	**15,063,993**	14,466,596
Additions	**26,084**	18,558
Transfer from property, plant and equipment	**1,660**	–
Re-measurement recognised in profit or loss	**171,143**	578,839
At 31 December	**15,262,880**	15,063,993

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 2016	Range 2015	Inter-relationship between significant unobservable inputs and fair value measurement
Investment method (refer a)	**Office:**			
	– Market rental rate (RM/psf/month)			The estimated fair value would increase/(decrease) if:
	– Term	4.50 – 9.95	4.50 – 9.95	– expected market rental growth were higher/(lower)
	– Reversion	5.50 – 13.80	5.50 – 12.34	– expected market rental growth were higher/(lower)
	– Outgoings (RM/psf/month)			
	– Term	1.75 – 1.90	1.86 – 1.90	– expected inflation rate were lower/(higher)
	– Reversion	1.85 – 1.90	1.90 – 2.05	– expected inflation rate were lower/(higher)
	– Void rate (%)	5.00	5.00	– void rate were lower/(higher)
	– Term yield (%)	5.50 – 6.50	5.50 – 6.50	– term yield rate were lower/(higher)
	– Reversionary yield (%)	6.00 – 6.75	6.00 – 7.00	– reversionary yield were lower/(higher)
	Retail:			
	– Market rental rate (RM/psf/month)			
	– Term	4.25 – 424.20	4.24 – 308.70	– expected market rental growth were higher/(lower)
	– Reversion	4.43 – 451.28	4.38 – 373.80	– expected market rental growth were higher/(lower)
	– Outgoings (RM/psf/month)			
	– Term	5.35 – 5.40	5.30 – 6.58	– expected inflation rate were lower/(higher)
	– Reversion	5.45 – 6.25	5.50 – 6.78	– expected inflation rate were lower/(higher)
	– Void rate (%)	5.00 – 10.00	3.00	– void rate were lower/(higher)
	– Term yield (%)	6.50	6.25 – 6.50	– term yield rate were lower/(higher)
	– Reversionary yield (%)	7.00	6.75 – 7.00	– reversionary yield were lower/(higher)
Residual method (refer b)				The estimated fair value would increase/(decrease) if:
	– Expected rate of return (%)	17.00	17.00	– expected rate of return is lower/(higher)
	– Gross Development Value (RM million)	933	933	– gross development value is higher/(lower)
	– Gross Development Costs (RM million)	614	505	– gross development costs is lower/(higher)
	– Financing costs (%)	7.00	7.00	– financing costs is lower/(higher)
	– Discounting rate (%)	7.00	7.00	– discounting costs is lower/(higher)

6. INVESTMENT PROPERTIES (CONTD.)

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

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

Valuation processes applied by the Group for Level 3 fair value

The fair value of investment properties is determined by 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	
	2016	**2015**
	RM'000	**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	**720,070**	546,941
Capital reduction	**(780,916)**	(780,916)
Write-down in value*	**(3,296,954)**	(3,296,954)
	1,368,623	1,195,494

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

7. INVESTMENT IN SUBSIDIARIES (CONTD.)

Details of subsidiaries are as follows:

Name of Subsidiaries	Proportion of ownership interest 2016 %	2015 %	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 of 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.

* 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.

7. INVESTMENT IN SUBSIDIARIES (CONTD.)

Non-controlling interests relating to KLCC REIT

	2016	2015
NCI percentage of ownership interest and voting interest	**100%**	100%
Carrying amount of NCI (RM'000)	**7,912,211**	7,776,713
Profit allocated to NCI (RM'000)	**546,933**	588,770

Summarised financial information before intra-group elimination

	2016 RM'000	2015 RM'000
Non-current assets – Investment properties	**9,092,344**	9,013,234
Non-current assets – Others	**330,965**	286,751
Current assets	**259,793**	268,597
Non-current liabilities	**(1,367,000)**	(1,680,831)
Current liabilities	**(403,891)**	(111,038)
Net assets	**7,912,211**	7,776,713
Revenue	**591,015**	594,791
Profit for the year, representing total comprehensive income	**546,933**	588,770
Cash flows generated from operating activities	**472,238**	476,471
Cash flows used in investing activities	**(167)**	(5,183)
Cash flows used in financing activities	**(481,825)**	(442,915)
Net (decrease)/increase in cash and cash equivalents	**(9,754)**	28,373
Dividend paid to NCI relating to KLCC REIT	**(411,435)**	(376,412)

7. INVESTMENT IN SUBSIDIARIES (CONTD.)

Other non-controlling interests in subsidiaries

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

2016	SKSB	Other immaterial subsidiary	Total
NCI percentage of ownership interest and voting interest	**40.0%**		
Carrying amount of NCI (RM'000)	**1,912,042**	**71,790**	**1,983,832**
Profit allocated to NCI (RM'000)	**125,866**	**(810)**	**125,056**

2015	SKSB	Other immaterial subsidiary	Total
NCI percentage of ownership interest and voting interest	40.0%		
Carrying amount of NCI (RM'000)	1,887,173	72,600	1,959,773
Profit allocated to NCI (RM'000)	271,551	117	271,668

Summarised financial information of significant subsidiaries before intra-group elimination

SKSB	2016 RM'000	2015 RM'000
Non-current assets – Investment properties	**5,346,141**	5,288,000
Non-current assets – Others	**12,350**	10,992
Current assets	**170,269**	177,122
Non-current liabilities	**(601,325)**	(600,399)
Current liabilities	**(147,330)**	(157,782)
Net assets	**4,780,105**	4,717,933
Revenue	**451,417**	395,280
Profit for the year, representing total comprehensive income	**314,666**	680,142
Cash flows generated from operating activities	**266,166**	271,062
Cash flows used in investing activities	**(15,666)**	(6,313)
Cash flows used in financing activities	**(252,492)**	(334,833)
Net decrease in cash and cash equivalents	**(1,992)**	(70,084)
Dividends paid to other NCI	**(100,997)**	(133,933)

8. INVESTMENT IN AN ASSOCIATE

	2016 RM'000	2015 RM'000
Group		
Unquoted shares at cost	**99,195**	99,195
Share of post-acquisition reserves	**155,821**	166,010
	255,016	265,205
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 2016 %	Proportion of ownership interest 2015 %
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:

	2016 RM'000	2015 RM'000
Non-current assets	**760,000**	760,000
Current assets	**79,766**	48,523
Total assets	**839,766**	808,523
Non-current liabilities	**97,664**	97,304
Current liabilities	**64,324**	2,562
Total liabilities	**161,988**	99,866
Results		
Revenue	**41,423**	45,368
Profit for the year, representing total comprehensive income	**32,969**	41,412
Share of results for the year	**10,881**	13,665

8. INVESTMENT IN AN ASSOCIATE (CONTD.)

Reconciliation of net assets to carrying amount as at 31 December

	2016 RM'000	2015 RM'000
Group's share of net assets	**223,666**	233,855
Goodwill	**31,350**	31,350
	255,016	265,205

9. DEFERRED TAX

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	**40,994**	34,355	**(348)**	(706)
Recognised in profit or loss (Note 27)	**(11,513)**	6,639	**276**	358
At 31 December	**29,481**	40,994	**(72)**	(348)

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	
	2016 RM'000	2015 RM'000
Deferred tax assets	**(247)**	(536)
Deferred tax liabilities	**29,728**	41,530
	29,481	40,994

9. 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 2016	48,104	13,092	747	61,943
Recognised in profit or loss	4,807	(13,092)	1,300	(6,985)
At 31 December 2016	52,911	-	2,047	54,958
At 1 January 2015	46,208	6,277	365	52,850
Recognised in profit or loss	1,896	6,815	382	9,093
At 31 December 2015	48,104	13,092	747	61,943

Deferred Tax Assets of the Group:

	Unused tax losses and investment tax allowances RM'000	Others RM'000	Total RM'000
At 1 January 2016	(19,243)	(1,706)	(20,949)
Recognised in profit or loss	(4,873)	345	(4,528)
At 31 December 2016	(24,116)	(1,361)	(25,477)
At 1 January 2015	(16,620)	(1,875)	(18,495)
Recognised in profit or loss	(2,623)	169	(2,454)
At 31 December 2015	(19,243)	(1,706)	(20,949)

9. DEFERRED TAX (CONTD.)

Deferred Tax Liabilities/(Assets) of the Company:

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 January 2016	287	(635)	(348)
Recognised in profit or loss	120	156	276
At 31 December 2016	407	(479)	(72)
At 1 January 2015	59	(765)	(706)
Recognised in profit or loss	228	130	358
At 31 December 2015	287	(635)	(348)

10. AMOUNT DUE FROM A SUBSIDIARY

	Company	
	2016 RM'000	2015 RM'000
Long term		
Interest bearing loan	–	68,000

The interest rate charged by the Company for the interest bearing shareholder's loan is 5.07% (2015: 5.07%) per annum. The loan has been repaid through conversion to investment.

11. INVENTORIES

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

12. TRADE AND OTHER RECEIVABLES

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Non-current				
Other receivables				
Accrued rental income	**339,106**	289,588	**–**	–
Current				
Trade receivables	**11,415**	13,654	**–**	–
Less: Allowance for impairment	**(1,113)**	(645)	**–**	–
Trade receivables, net of impairment	**10,302**	13,009	**–**	–
Other receivables				
Other receivables and deposits	**45,005**	17,791	**24,393**	5,378
Amount due from:				
Subsidiaries	**–**	–	**6,642**	14,126
Ultimate holding company	**6,327**	9,232	**–**	–
Immediate holding company	**322**	166	**266**	159
Other related companies	**17,963**	22,723	**6,004**	9,664
Total other receivables	**69,617**	49,912	**37,305**	29,327
Total	**79,919**	62,921	**37,305**	29,327
Trade receivables	**10,302**	13,009	**–**	–
Other receivables	**381,219**	338,141	**16,235**	29,327
Add: Cash and bank balances (Note 13)	**1,015,220**	1,110,857	**478,538**	563,620
Amount due from a subsidiary (Note 10)	**–**	–	**–**	68,000
Less: Accrued rental income	**(339,106)**	(289,588)	**–**	–
Total loans and receivables	**1,067,635**	1,172,419	**494,773**	660,947

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

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			
2016	**8,505**	**(2,527)**	**5,978**
2015	**10,549**	**(1,317)**	**9,232**

13. CASH AND BANK BALANCES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	**55,791**	37,996	**9,471**	6,480
Cash and bank balances	**5,062**	26,188	**8**	3
Deposits with licensed banks	**954,367**	1,046,673	**469,059**	557,137
	1,015,220	1,110,857	**478,538**	563,620
Less: Deposits restricted	**(3,229)**	(6,420)	**–**	–
Cash and cash equivalents	**1,011,991**	1,104,437	**478,538**	563,620

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 RM55,916,000 (2015: RM55,009,000) and RM9,471,000 (2015: RM6,480,000) respectively.

The weighted average effective interest rate applicable to the deposits with licensed banks of the Group and of the Company at the reporting date were 3.77% (2015: 3.85%) and 3.73% (2015: 4.40%) per annum respectively.

Deposits with licensed banks of the Group and the Company have an average maturity of 49 days (2015: 56 days) and 53 days (2015: 67 days) respectively.

14. SHARE CAPITAL

	Group and Company			
	Number of Stapled Securities/Shares		Amount	
	Ordinary shares '000	RPS '000	Ordinary shares RM'000	RPS RM'000
Authorised:				
At 1 January 2016/31 December 2016	**3,194,667**	**1,805,333**	**4,981,947**	**18,053**
At 1 January 2015/31 December 2015	3,194,667	1,805,333	4,981,947	18,053

	Number of Shares Ordinary shares '000	Amount Ordinary shares RM'000
Issued and fully paid:		
At 1 January 2016/31 December 2016	**1,805,333**	**1,805,333**
At 1 January 2015/31 December 2015	1,805,333	1,805,333

Capital Redemption Reserve

Capital Redemption Reserve was created as a result of redemption of Redeemable Preference Shares in prior years.

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 2016, 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 2016 RM'000	Group 2015 RM'000
Security deposit payables	**78,477**	74,658

Security deposit payables are interest-free, unsecured and refundable upon expiry of the respective lease agreements. The fair values at initial recognition were determined based on interest rates of 4.00% to 5.20% per annum.

18. BORROWINGS

	Note	Group 2016 RM'000	Group 2015 RM'000
Short term borrowings			
Secured:			
Sukuk Murabahah		**317,478**	15,395
Term loans		**1,786**	1,664
Unsecured:			
Revolving credit		**–**	11,400
		319,264	28,459
Long term borrowings			
Secured:			
Sukuk Murabahah			
– KLCC Real Estate Investment Trust		**1,255,000**	1,555,000
– Other subsidiary		**600,000**	600,000
Term loans		**378,166**	377,166
		2,233,166	2,532,166
Total borrowings			
Secured:			
Sukuk Murabahah	(a)	**2,172,478**	2,170,395
Term loans	(b)	**379,952**	378,830
Unsecured:			
Revolving credit	(c)	**–**	11,400
		2,552,430	2,560,625

18. BORROWINGS (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
2016					
Secured					
Sukuk Murabahah	**2,172,478**	**317,478**	**–**	**800,000**	**1,055,000**
Term loans	**379,952**	**1,786**	**7,500**	**23,500**	**347,166**
	2,552,430	**319,264**	**7,500**	**823,500**	**1,402,166**
2015					
Secured					
Sukuk Murabahah	2,170,395	15,395	300,000	400,000	1,455,000
Term loans	378,830	1,664	–	22,500	354,666
Unsecured					
Revolving credit	11,400	11,400	–	–	–
	2,560,625	28,459	300,000	422,500	1,809,666

(a) Sukuk Murabahah

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

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

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 profit rate is payable semi-annually.

18. BORROWINGS (CONTD.)

(b) Term loans

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

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

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

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

The loan bears an interest rate of 4.60%.

(c) Revolving credit

Interest rate ranges from 4.35% to 4.55% per annum in prior year which is based on 0.45% per annum above lender's cost of funds. The revolving credit has a facility limit of RM25 million with a tenure of 3 years from the date of first disbursement with the profit payable monthly. The revolving credit have been fully repaid during the year.

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

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Trade payables	**16,275**	15,222	**78**	615
Other payables				
Other payables	**254,868**	246,513	**3,262**	4,268
Amount due to:				
Subsidiaries	**–**	–	**–**	473
Ultimate holding company	**5,321**	4,629	**3,482**	2,636
Immediate holding company	**102**	544	**–**	–
Other related companies	**4,430**	11,539	**2**	1
	264,721	263,225	**6,746**	7,378
Total trade and other payables	**280,996**	278,447	**6,824**	7,993
Add: Borrowings (Note 18)	**2,552,430**	2,560,625	**–**	–
Other long term liabilities (Note 17)	**78,477**	74,658	**–**	–
Deferred revenue (Note 16)	**41,639**	46,208	**–**	–
Total financial liabilities carried at amortised cost	**2,953,542**	2,959,938	**6,824**	7,993

Included in other payables of the Group are security deposit of RM117,033,000 (2015: RM107,991,000) held in respect of tenancies of retail and office building. These deposits are short term in nature and refundable upon termination of the respective lease agreements.

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

20. REVENUE

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Property investment				
– Office	**590,941**	590,934	**–**	–
– Retail	**475,322**	469,840	**–**	–
Hotel operations	**149,493**	155,796	**–**	–
Management services	**127,790**	123,659	**19,760**	17,220
Dividend income from subsidiaries	**–**	–	**234,495**	258,400
Dividend income from associate	**–**	–	**21,070**	9,030
	1,343,546	1,340,229	**275,325**	284,650

21. OPERATING PROFIT

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Revenue (Note 20)	**1,343,546**	1,340,229	**275,325**	284,650
Cost of revenue:				
– Cost of services and goods	**(207,284)**	(201,924)	**–**	–
Gross profit	**1,136,262**	1,138,305	**275,325**	284,650
Selling and distribution expenses	**(10,960)**	(11,477)	**–**	–
Administration expenses	**(132,542)**	(126,182)	**(31,596)**	(30,968)
Other operating income	**6,582**	3,549	**40**	89
Operating profit	**999,342**	1,004,195	**243,769**	253,771

22. INTEREST INCOME

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Interest income from:				
Deposits	**42,552**	41,280	**19,135**	21,743
Loan to a subsidiary	**–**	–	**3,160**	3,447
	42,552	41,280	**22,295**	25,190

23. FINANCING COSTS

	Group	
	2016	2015
	RM'000	RM'000
Interest expense on:		
Term loans	**18,086**	16,602
Revolving credit	**318**	526
Profit on Sukuk Murabahah	**99,003**	98,727
Accretion of financial instruments	**3,813**	3,769
	121,220	119,624

24. PROFIT BEFORE TAX

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

	Group		Company	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Employee benefits expense (Note 25)	**91,633**	88,643	**18,726**	17,139
Directors' remuneration (Note 26)	**714**	687	**692**	687
Management fee in relation to services of Executive Director (Note 26)	**1,107**	1,236	**1,107**	1,236
Auditors' remuneration				
– Audit fees	**586**	557	**206**	196
– Others	**16**	15	**16**	15
Valuation fees	**1,006**	1,339	**–**	–
Depreciation of property, plant and equipment (Note 5)	**33,146**	30,492	**1,799**	1,445
Rental of land and buildings	**3,296**	3,111	**2,610**	3,111
Property, plant and equipment written off	**2,720**	–	**–**	–
Bad debts written off	**186**	190	**–**	–
Loss/(Gain) on disposal of property, plant and equipment	**508**	(2)	**–**	–
Allowance for/(Reversal of) impairment losses	**468**	(170)	**–**	–

25. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Wages, salaries and others	**83,614**	80,483	**16,676**	15,235
Contributions to defined contribution plan	**8,019**	8,160	**2,050**	1,904
	91,633	88,643	**18,726**	17,139

26. DIRECTORS' REMUNERATION

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Directors of the Company				
Executive *	**–**	–	**–**	–
Non-Executive:				
Fees	**714**	687	**692**	687
	714	687	**692**	687

Included in directors' remuneration is the fee paid directly to PETRONAS in respect of a director who is an appointee of the ultimate holding company.

Analysis excluding benefits-in-kind:				
Total non-executive directors' remuneration	**714**	687	**692**	687

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

	Group		Company	
	2016	**2015**	**2016**	**2015**
Executive director				
RMNil	**1**	1	**1**	1
Non–executive directors				
RMNil – RM50,000	**–**	–	**–**	–
RM50,001 – RM100,000	**4**	6	**4**	6
RM100,001 – RM150,000	**3**	1	**3**	1

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

27. TAX EXPENSE

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Current income tax:				
Malaysian income tax	**103,285**	108,422	**5,015**	6,347
(Over)/under provision of tax in prior year	**(101)**	105	**(208)**	(259)
	103,184	108,527	**4,807**	6,088
Deferred tax (Note 9):				
Relating to origination and reversal of temporary differences	**(11,597)**	6,649	**162**	145
Under/(over) provision of deferred tax in prior year	**84**	(10)	**114**	213
	(11,513)	6,639	**276**	358
Total tax expense	**91,671**	115,166	**5,083**	6,446

Domestic current income tax is calculated at the statutory tax rate of 24% (2015: 25%) 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:

	2016 RM'000	2015 RM'000
Group		
Profit before taxation	**1,102,698**	1,518,355
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	**264,648**	379,589
Expenses not deductible for tax purposes	**9,389**	9,033
Income not subject to tax	**(163,687)**	(242,661)
Effects of share of results of associate	**(2,611)**	(3,416)
Deferred tax recognised at different tax rates	**(13,092)**	(27,474)
Deferred tax assets recognised on investment tax allowances	**(2,959)**	–
Under/(over) provision of deferred tax in prior year	**84**	(10)
(Over)/under provision of taxation in prior year	**(101)**	105
Tax expense	**91,671**	115,166

27. TAX EXPENSE (CONTD.)

	2016 RM'000	2015 RM'000
Company		
Profit before taxation	**266,064**	278,961
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	**63,855**	69,740
Expenses not deductible for tax purposes	**2,685**	3,667
Income not subject to tax	**(61,363)**	(66,909)
Deferred tax recognised at different tax rates	**–**	(6)
Under provision of deferred tax in prior year	**114**	213
Over provision of taxation in prior year	**(208)**	(259)
Tax expense	**5,083**	6,446

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.

	2016	2015
Profit attributable to equity holders of the Company (RM'000)	**339,038**	542,751
Profit attributable to NCI relating to KLCC REIT (RM'000)	**546,933**	588,770
Profit attributable to stapled security holders (RM'000)	**885,971**	1,131,521
Weighted average number of stapled securities/shares in issue ('000)	**1,805,333**	1,805,333
Basic earnings per share (sen)	**18.8**	30.1
Basic earnings per stapled security (sen)	**49.1**	62.7

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 shares	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**Sen**	**Sen**
Recognised during the year:				
A fourth interim 4.13% (2015: 3.89%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2015/2014	**74,560**	70,228	**4.13**	3.89
A first interim dividend of 2.85% (2015: 3.02%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2016/2015	**51,452**	54,521	**2.85**	3.02
A second interim dividend of 2.91% (2015: 3.02%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2016/2015	**52,535**	54,521	**2.91**	3.02
A third interim dividend of 2.94% (2015: 2.80%) on 1,805,333,083 ordinary shares for financial year ended 31 December 2016/2015	**53,077**	50,549	**2.94**	2.80
	231,624	229,819	**12.83**	12.73

A fourth interim dividend in respect of the financial year ended 31 December 2016, of 4.17% tax exempt under the single tier system on 1,805,333,083 ordinary shares amounting to a dividend payable of RM75,282,000 will be payable on 28 February 2017.

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 2017.

30. COMMITMENTS

(a) Capital commitments

	Group 2016 RM'000	Group 2015 RM'000
Approved and contracted for		
Property, plant and equipment	**100,169**	27,783
Investment property	**105,439**	43,544
	205,608	71,327
Approved but not contracted for		
Property, plant and equipment	**87,606**	183,601
Investment property	**72,834**	963,446
	160,440	1,147,047

(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 2016 RM'000	Group 2015 RM'000
Not later than 1 year	**503,420**	533,277
Later than 1 year but not later than 5 years	**2,086,076**	2,060,210
More than 5 years	**3,247,923**	3,770,257
	5,837,419	6,363,744

31. RELATED PARTY DISCLOSURES

(a) Controlling related party relationships are as follows:

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

31. RELATED PARTY DISCLOSURES (CONTD.)

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

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Federal Government of Malaysia				
Property licences and taxes	**(13,311)**	(13,176)	**–**	–
Goods and Services Tax	**(58,496)**	(45,016)	**(4)**	269
Government of Malaysia's related entities				
Purchase of utilities	**(20,653)**	(14,659)	**–**	–
Hotel revenue	**3,145**	5,950	**–**	–
Ultimate Holding Company:				
Rental income	**494,876**	470,229	**–**	–
Facilities management and manpower fees	**24,123**	24,581	**–**	–
Rental of carpark space	**(7,811)**	(7,561)	**–**	–
Fees for representation on the Board of Directors*	**(99)**	(92)	**(96)**	(92)
Hotel revenue	**2,299**	1,202	**–**	–
Centralised Head Office Services charges	**(629)**	(1,360)	**(468)**	(594)
Immediate Holding Company:				
General management services fee payables	**(1,977)**	(2,739)	**(922)**	(1,682)
General management services fee receivables	**2,864**	2,666	**2,864**	2,666
Manpower fees receivables	**–**	79	**–**	–
Subsidiaries				
Reimbursement of security costs	**–**	–	**(86)**	(121)
General management services fee receivables	**–**	–	**7,129**	7,429
Interest income from shareholder's loan	**–**	–	**3,160**	3,447
Other Related Companies:				
Facilities management and manpower fees	**16,658**	20,970	**–**	–
General management services fee receivables	**9,767**	7,125	**9,767**	7,125
Management and incentive fees	**2,800**	3,371	**–**	–
Chilled water supply	**(30,739)**	(28,356)	**–**	–
Project management fees	**(3,918)**	(10,603)	**–**	–
Rental of carpark space	**(5,900)**	(7,274)	**–**	–

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

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

Information regarding outstanding balances arising from related party transactions as at 31 December 2016 are disclosed in Notes 12 and 19.

31. RELATED PARTY DISCLOSURES (CONTD.)

(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.

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.

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

	Group	
	2016	**2015**
	RM'000	**RM'000**
Property investment		
– Office	**1,419**	1,700
– Retail	**3,022**	4,404
Hotel operations	**4,661**	5,571
Management services	**2,313**	1,979
	11,415	13,654
Less: Allowance for impairment losses (Retail)	**(1,113)**	(645)
	10,302	13,009

32. FINANCIAL INSTRUMENTS (CONTD.)

Credit Risk (Contd.)

Receivables (Contd.)

	Group	
	2016 RM'000	2015 RM'000
The ageing of trade receivables as at the reporting date was:		
At net:		
Not past due	**7,247**	5,268
Past due 1 to 30 days	**1,546**	4,546
Past due 31 to 60 days	**401**	1,111
Past due 61 to 90 days	**555**	434
Past due more than 90 days	**1,666**	2,295
	11,415	13,654
Less: Allowance for impairment losses (Retail)	**(1,113)**	(645)
	10,302	13,009

Movement in allowance account:

At 1 January	**645**	815
Allowance for impairment	**468**	(170)
At 31 December	**1,113**	645

The Group does not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2016.

Liquidity Risk

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

32. FINANCIAL INSTRUMENTS (CONTD.)

Liquidity Risk (Contd.)

Maturity analysis

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

	Carrying amount RM'000	Effective interest rate %	Contractual cash flow* RM'000	Within 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
31 December 2016							
Group							
Financial Liabilities							
Sukuk Murabahah	**2,172,478**	**4.41 – 4.73**	**2,693,278**	**408,454**	**85,376**	**1,004,600**	**1,194,848**
Term loans	**379,952**	**4.42**	**511,006**	**18,501**	**24,021**	**71,002**	**397,482**
Trade and other payables	**280,996**	**–**	**280,996**	**280,996**	**–**	**–**	**–**
Other long term liabilities	**120,116**	**4.60**	**123,734**	**9,688**	**–**	**8,196**	**105,850**
Company							
Financial Liabilities							
Trade and other payables	**6,824**	**–**	**6,824**	**6,824**	**–**	**–**	**–**
31 December 2015							
Group							
Financial Liabilities							
Sukuk Murabahah	2,170,395	4.41 – 4.73	2,788,114	112,393	391,054	630,734	1,653,933
Term loans	378,830	4.60	532,506	19,060	17,350	72,953	423,143
Revolving credit	11,400	4.55	11,527	11,527	–	–	–
Trade and other payables	278,447	–	278,447	278,447	–	–	–
Other long term liabilities	120,866	4.60	123,734	–	9,688	8,196	105,850
Company							
Financial Liabilities							
Trade and other payables	7,993	–	7,993	7,993	–	–	–

* *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	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fixed rate instruments				
Financial assets	**954,367**	1,046,673	**469,059**	557,137
Financial liabilities	**(2,172,478)**	(2,170,395)	**–**	–
Floating rate instruments				
Financial liabilities	**(379,952)**	(390,230)	**–**	–

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
2016		
KLIBOR	**-40**	**1,513**
KLIBOR	**+40**	**(1,513)**
2015		
KLIBOR	-50	1,943
KLIBOR	+50	(1,943)

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.

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				
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Carrying amount RM'000
Group					
2016					
Financial liabilities					
Sukuk Murabahah	**–**	**2,137,485**	**–**	**2,137,485**	**2,172,478**
Term loans	**–**	**371,328**	**–**	**371,328**	**379,952**
2015					
Financial liabilities					
Sukuk Murabahah	–	2,138,265	–	2,138,265	2,170,395
Term loans	–	370,527	–	370,527	378,830
Revolving credit	–	10,903	–	10,903	11,400

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

33. CAPITAL MANAGEMENT

The Group and the Company define capital as total equity and debt of the Group and the Company. The objective of the Group'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.

33. CAPITAL MANAGEMENT (CONTD.)

The debt to equity ratio as at 31 December 2016 and 31 December 2015 is as follows:

	Group	
	2016	**2015**
Total debt (RM'000)	**2,552,430**	2,560,625
Total equity (excluding Other NCI) (RM'000)	**12,794,193**	12,551,281
Debt equity ratio	**20:80**	20:80

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

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

34. SEGMENT INFORMATION

(a) Reporting Format

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

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

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

The Group comprises the following main business segments:

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

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

34. SEGMENT INFORMATION (CONTD.)

(b) Allocation basis and transfer pricing

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

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

Business Segments

31 December 2016	Property investment – Office RM'000	Property investment – Retail RM'000	Hotel operations RM'000	Management services RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue						
Revenue from external customers	590,941	475,322	149,493	127,790	–	1,343,546
Inter–segment revenue	363	12,987	–	57,354	(70,704)	–
Total revenue	591,304	488,309	149,493	185,144	(70,704)	1,343,546
Results						
Operating profit	524,255	400,337	11,574	76,904	(13,728)	999,342
Fair value adjustment on investment properties	157,420	13,723	–	–	–	171,143
Financing costs						(121,220)
Interest income						42,552
Share of profit of an associate						10,881
Tax expense						(91,671)
Profit after tax but before non–controlling interests						1,011,027
Segment assets	10,220,212	6,060,422	694,986	71,211	480,278	17,527,109
Investment in an associate	–	–	–	99,195	155,821	255,016
Total assets						17,782,125
Total liabilities	1,785,143	769,046	440,116	33,724	(23,929)	3,004,100
Capital expenditure	101,524	15,833	30,621	2,069	–	150,047
Depreciation	745	3,309	21,933	7,159	–	33,146
Non–cash items other than depreciation	–	654	3,246	(18)	–	3,882

34. SEGMENTAL INFORMATION (CONTD.)

Business Segments (Contd.)

31 December 2015	Property investment – Office RM'000	Property investment – Retail RM'000	Hotel operations RM'000	Management services RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue						
Revenue from external customers	590,934	469,840	155,796	123,659	–	1,340,229
Inter–segment revenue	297	16,691	–	56,008	(72,996)	–
Total revenue	591,231	486,531	155,796	179,667	(72,996)	1,340,229
Results						
Operating profit	525,852	401,697	18,213	74,216	(15,783)	1,004,195
Fair value adjustment on investment properties	156,253	422,586	–	–	–	578,839
Financing costs						(119,624)
Interest income						41,280
Share of profit of an associate						13,665
Tax expense						(115,166)
Profit after tax but before non-controlling interests						1,403,189
Segment assets	9,906,305	6,050,221	695,995	79,685	539,669	17,271,875
Investment in an associate	–	–	–	99,195	166,010	265,205
Total assets						17,537,080
Total liabilities	1,867,779	782,466	437,887	36,158	(98,264)	3,026,026
Capital expenditure	92,802	6,314	45,487	7,377	–	151,980
Depreciation	305	2,642	23,453	4,092	–	30,492
Non-cash items other than depreciation	–	19	–	(2)	–	17

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 2017

Amendments to MFRS 12	Disclosure of Interests in Other Entities (Annual Improvements to MFRSs 2014-2016 Cycle)
Amendments to MFRS 107	Statement of Cash Flows: Disclosure Initiative
Amendments to MFRS 112	Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

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

Effective for annual periods beginning on or after 1 January 2019

MFRS 16	Leases

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.

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 2018

Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRSs 2014-2016 Cycle)
Amendments to MFRS 2	Share-based Payment: Classification and Measurement of Share-based Payment Transactions
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration

37. DISCLOSURE OF REALISED AND UNREALISED PROFIT

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

	Group		**Company**	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Total retained profits of the Company and its subsidiaries:				
– Realised	**823,227**	736,276	**158,043**	128,686
– Unrealised	**25,477**	20,949	**–**	–
	848,704	757,225	**158,043**	128,686
Total share of retained profits from an associate:				
– Realised	**83,026**	93,215	**–**	–
Total Group retained profits	**931,730**	850,440	**158,043**	128,686
Less: Consolidation adjustments	**(727,175)**	(677,458)	**–**	–
Total Group and Company retained profits	**204,555**	172,982	**158,043**	128,686

The fair value gain of RM2,854,041,000 (2015: RM2,778,200,000) on the remeasurement of investment properties is regarded as an unrealised gain and has been classified under Capital Reserve in the financial statements.

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

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

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE 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 2016 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 210 to 273.

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 2016, 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, 1965 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. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company 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.

Key audit matters (Contd.)

Valuation of investment properties

As at 31 December 2016, the carrying value of the Group's investment properties carried at fair value amounts to RM15,262,880,000 which represents 86% 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, future rental revenue, yield rate and void 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. Our audit procedures included, amongst others, considering the objectivity, independence and expertise of the external valuers. We also assessed the appropriateness of the valuation model, property related data, including estimates used by the external valuers.

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 2016, the IPUC carried at cost by the Group amounts to RM191,121,000. Our audit procedures included, amongst others, assessing the appropriateness of amounts capitalised as IPUC.

We also evaluated the Group's disclosures on those assumptions to which the outcome of the valuation is most sensitive, that is, those that have the most significant effect on the determination of the fair value of the investment properties, by comparing them to the information disclosed in the valuation reports and re-computing the sensitivity analysis disclosed. The Group's disclosures on the valuation sensitivity and significant assumptions used are included in Notes 4.2(iv) and 6 to the financial statements respectively.

Deferred tax on fair value adjustment of investment properties

For the year ended 31 December 2016, the fair value surplus recognised by the Group amounts to RM171,143,000. The Group has not recognised deferred tax liability on the fair value surplus of investment properties based on the Group's expectation that the investment properties not held under KLCC Real Estate Investment Trust ("KLCC REIT") will be sold to a REIT in the future. For investment properties held under KLCC REIT, the Group expects these properties to be held for more than 5 years. The assessment on the applicability of deferred tax liability, which is dependent on the future plan of the Group for these properties, is a significant judgement to our audit. Our audit procedures, included amongst others, evaluating the current tax legislation and written representations from the Group on these expectations. The Group's expected manner of recovery of the investment properties is included in Note 2.17(ii) to the financial statements.

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, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements 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.

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

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 (Contd.):

- 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.

- 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 37 on page 273 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Muhammad Affan Bin Daud
No. 3063/02/18(J)
Chartered Accountant

Kuala Lumpur, Malaysia
20 January 2017

Financial STATEMENTS

KLCC REAL ESTATE INVESTMENT TRUST
(A real estate investment trust constituted under the laws of Malaysia)

MANAGER'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016.

PRINCIPAL ACTIVITIES

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

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

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

CORPORATE INFORMATION

The Fund is a Malaysia-domiciled real estate investment trust constituted pursuant to the Trust Deed dated 2 April 2013 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	546,933	546,952

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 2015:	
Fourth interim income distribution of 5.69% on 1,805,333,083 units, paid on 29 February 2016	102,723
In respect of the financial year ended 31 December 2016:	
First interim income distribution of 5.75% on 1,805,333,083 units, paid on 15 June 2016	103,807
Second interim income distribution of 5.69% on 1,805,333,083 units, paid on 13 September 2016	102,723
Third interim income distribution of 5.66% on 1,805,333,083 units, paid on 14 December 2016	102,182
	308,712

DISTRIBUTION OF INCOME (CONTD.)

A fourth interim income distribution in respect of the financial year ended 31 December 2016, of 5.68% on 1,805,333,083 units amounting to an income distribution payable of RM102,543,000 will be payable on 28 February 2017.

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 2017.

No final income distribution in respect of the financial year ended 31 December 2016 will be proposed at the forthcoming Annual General Meeting.

RESERVES AND PROVISIONS

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

DIRECTORS

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

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

DIRECTORS OF MANAGER'S INTERESTS

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

	Number of Stapled Securities in KLCC Property Holdings Berhad Number of Stapled Securities			
	Balance as at 1.1.2016	**Bought**	**Sold**	**Balance as at 31.12.2016**
Direct				
Datuk Manharlal A/L Ratilal	5,000	–	–	5,000
Augustus Ralph Marshall	50,000	–	–	50,000

DIRECTORS OF MANAGER'S INTERESTS (CONTD.)

	Number of Shares in Petronas Chemicals Group Berhad			
	Balance as at 1.1.2016	Number of Shares Bought	Sold	Balance as at 31.12.2016
Direct				
Krishnan C K Menon	20,000	–	–	20,000
Datuk Manharlal A/L Ratilal	20,000	–	–	20,000
Dato' Halipah Binti Esa	10,000	–	–	10,000
Datuk Hashim Bin Wahir	16,000	–	–	16,000
Indirect				
Dato' Halipah Binti Esa#	13,100	–	–	13,100

	Number of Shares in MISC Berhad			
	Balance as at 1.1.2016	Number of Shares Bought	Sold	Balance as at 31.12.2016
Indirect				
Dato' Halipah Binti Esa#	10,000	–	–	10,000

	Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad			
	Balance as at 1.1.2016	Number of Shares Bought	Sold	Balance as at 31.12.2016
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 2016 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.

MANAGER'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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 that adequate provision had been made for doubtful debts; and

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

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

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

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

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

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

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

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

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

OTHER STATUTORY INFORMATION (CONTD.)

No contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the 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 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

Signed on behalf of the Board of the Manager in accordance with a resolution of the Directors of the Manager dated 20 January 2017.

Krishnan C K Menon

Datuk Hashim Bin Wahir

STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 288 to 332 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 2016 and of the results of their financial performance and cash flows for the year ended 31 December 2016.

In the opinion of the Directors, the supplementary information set out in Note 34 on page 333 is prepared in all material respects, in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and directive of Bursa Malaysia Securities Berhad.

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

Signed on behalf of the Board of the Manager in accordance with a resolution of the directors of the Manager dated 20 January 2017.

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

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

I, Annuar Marzuki Bin Abdul Aziz, the Officer of the Manager primarily responsible for the financial management of KLCC Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 288 to 333 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 20 January 2017.

BEFORE ME:

YM Tengku Fariddudin Bin Tengku Sulaiman
Commissioner for Oaths

TRUSTEE'S REPORT

To the unitholders of KLCC REIT

We have acted as Trustee of KLCC Real Estate Investment Trust ("KLCC REIT") for the financial year ended 31 December 2016. To the best of our knowledge, KLCC REIT Management Sdn Bhd ("the Manager") has managed KLCC REIT in the financial year under review in accordance to the following:

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

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

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

(i) First interim income distribution of 5.75 sen per unit distributed on 15 June 2016;

(ii) Second interim income distribution of 5.69 sen per unit distributed on 13 September 2016;

(iii) Third interim income distribution of 5.66 sen per unit distributed on 14 December 2016;

(iv) Fourth interim income distribution of 5.68 sen per unit for year ended 31 December 2016 declared and will be payable on 28 February 2017.

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
20 January 2017

SHARIAH ADVISER'S REPORT

To the unitholders of KLCC REIT

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

In our opinion, KLCC REIT Management Sdn Bhd has managed and administered KLCC REIT in accordance with Shariah principles and complied with applicable guidelines, rulings and decisions issued by the Securities Commission pertaining to Shariah matters for the year ended 31 December 2016.

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;

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

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

For CIMB Islamic Bank Berhad

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

Kuala Lumpur, Malaysia
20 January 2017

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Fund 2016 RM'000	Fund 2015 RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	5	**309**	203	**309**	203
Investment properties	6	**9,092,344**	9,013,234	**9,092,344**	9,013,234
Trade and other receivables	8	**330,656**	286,548	**330,656**	286,548
Investment in subsidiary	7	**–**	–	*****	*
		9,423,309	9,299,985	**9,423,309**	9,299,985
Current Assets					
Trade and other receivables	8	**4,131**	3,181	**4,131**	3,181
Cash and bank balances	9	**255,662**	265,416	**255,476**	265,167
		259,793	268,597	**259,607**	268,348
TOTAL ASSETS		**9,683,102**	9,568,582	**9,682,916**	9,568,333
TOTAL UNITHOLDERS' FUND AND LIABILITIES					
Unitholders' Fund					
Unitholders' capital	10	**7,212,684**	7,212,684	**7,212,684**	7,212,684
Merger reserve	2.19	**6,212**	6,212	**6,212**	6,212
Capital reserve	2.18	**341,332**	248,748	**341,332**	248,748
Retained profits		**351,983**	309,069	**352,017**	309,084
Total Unitholders' Fund		**7,912,211**	7,776,713	**7,912,245**	7,776,728
Non-Current Liabilities					
Other long term liabilities	11	**71,425**	67,950	**71,425**	67,950
Amount due to a subsidiary	12	**–**	–	**1,255,000**	1,555,000
Long term financings	13	**1,255,000**	1,555,000	**–**	–
Deferred tax liability	14	**–**	13,092	**–**	13,092
Other payables	15	**40,575**	44,789	**40,575**	44,789
		1,367,000	1,680,831	**1,367,000**	1,680,831

* Represents RM2 in Midciti Sukuk Berhad

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

		Group		Fund	
		2016	**2015**	**2016**	**2015**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Current Liabilities					
Other payables	15	**86,413**	95,643	**86,333**	95,578
Amount due to a subsidiary	12	**–**	–	**317,338**	15,196
Financings	13	**317,478**	15,395	**–**	–
		403,891	111,038	**403,671**	110,774
Total Liabilities		**1,770,891**	1,791,869	**1,770,671**	1,791,605
TOTAL UNITHOLDERS' FUND AND LIABILITIES		**9,683,102**	9,568,582	**9,682,916**	9,568,333
Number of units in circulation ('000 units)		**1,805,333**	1,805,333	**1,805,333**	1,805,333
Net asset value ("NAV") per unit (RM)					
– before income distribution		**4.38**	4.31	**4.38**	4.31
– after income distribution		**4.33**	4.25	**4.33**	4.25

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group		Fund	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	16	**591,015**	594,791	**591,015**	594,791
Property operating expenses	17	**(25,995)**	(25,075)	**(25,976)**	(25,069)
Net property income		**565,020**	569,716	**565,039**	569,722
Fair value adjustment of investment properties	6	**79,492**	136,295	**79,492**	136,295
Profit income		**9,685**	8,422	**9,685**	8,422
		654,197	714,433	**654,216**	714,439
Management fees	18	**(45,665)**	(44,602)	**(45,665)**	(44,602)
Trustee's fees	19	**(600)**	(600)	**(600)**	(600)
Financing costs	20	**(74,091)**	(73,646)	**(74,091)**	(73,646)
Profit before tax	21	**533,841**	595,585	**533,860**	595,591
Tax income/(expense)	22	**13,092**	(6,815)	**13,092**	(6,815)
PROFIT FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME		**546,933**	588,770	**546,952**	588,776
Total comprehensive income for the year comprises the following:					
– Realised		**454,349**	459,290	**454,368**	459,296
– Unrealised		**92,584**	129,480	**92,584**	129,480
		546,933	588,770	**546,952**	588,776
Basic earnings per unit (sen)	23				
– Realised		**25.17**	25.44	**25.17**	25.44
– Unrealised		**5.13**	7.17	**5.13**	7.17
		30.30	32.61	**30.30**	32.61

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group		Fund	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income Distribution				
Total comprehensive income for the financial year	**546,933**	588,770	**546,952**	588,776
Add/(less) Non cash items:				
Accrued rental income	**(44,108)**	(68,393)	**(44,108)**	(68,393)
Amortisation of deferred rental income	**(4,214)**	(4,214)	**(4,214)**	(4,214)
Amortisation of premium for Sukuk Murabahah	**1,895**	1,807	**1,895**	1,807
Deferred tax liabilities	**(13,092)**	6,815	**(13,092)**	6,815
Depreciation	**61**	61	**61**	61
Accretion of financial instruments	**3,468**	3,299	**3,468**	3,299
Fair value adjustment of investment properties	**(79,492)**	(136,295)	**(79,492)**	(136,295)
	(135,482)	(196,920)	**(135,482)**	(196,920)
Total income available for distribution	**411,451**	391,850	**411,470**	391,856
Distribution to unitholders during the year:				
1st interim income distribution of 5.75% (2015: 5.32%) on 1,805,333,083 units	**(103,807)**	(96,044)	**(103,807)**	(96,044)
2nd interim income distribution of 5.69% (2015: 5.32%) on 1,805,333,083 units	**(102,723)**	(96,044)	**(102,723)**	(96,044)
3rd interim income distribution of 5.66% (2015: 5.35%) on 1,805,333,083 units	**(102,182)**	(96,585)	**(102,182)**	(96,585)
4th interim income distribution of 5.68% (2015: 5.69%) on 1,805,333,083 units	**(102,543)**	(102,723)	**(102,543)**	(102,723)
Balance undistributed	**196**	454	**215**	460

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET VALUE

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	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 2016	**7,212,684**	**6,212**	**248,748**	**309,069**	**7,776,713**
Total comprehensive income for the year	–	–	–	546,933	546,933
Transfer of fair value surplus	–	–	92,584	(92,584)	–
Income distributions	–	–	–	(411,435)	(411,435)
Net total comprehensive income for the year attributable to unitholders	–	–	92,584	42,914	135,498
As at 31 December 2016	**7,212,684**	**6,212**	**341,332**	**351,983**	**7,912,211**
As at 1 January 2015	**7,212,684**	**6,212**	**119,268**	**226,191**	**7,564,355**
Total comprehensive income for the year	–	–	–	588,770	588,770
Transfer of fair value surplus	–	–	129,480	(129,480)	–
Income distributions	–	–	–	(376,412)	(376,412)
Net total comprehensive income for the year attributable to unitholders	–	–	129,480	82,878	212,358
As at 31 December 2015	**7,212,684**	**6,212**	**248,748**	**309,069**	**7,776,713**

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

STATEMENT OF CHANGES IN NET ASSET VALUE

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	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 2016	**7,212,684**	**6,212**	**248,748**	**309,084**	**7,776,728**
Total comprehensive income for the year	**-**	**-**	**-**	**546,952**	**546,952**
Transfer of fair value surplus	**-**	**-**	**92,584**	**(92,584)**	**-**
Income distributions	**-**	**-**	**-**	**(411,435)**	**(411,435)**
Net total comprehensive income for the year attributable to unitholders	**-**	**-**	**92,584**	**42,933**	**135,517**
As at 31 December 2016	**7,212,684**	**6,212**	**341,332**	**352,017**	**7,912,245**
As at 1 January 2015	7,212,684	6,212	119,268	226,200	7,564,364
Total comprehensive income for the year	-	-	-	588,776	588,776
Transfer of fair value surplus	-	-	129,480	(129,480)	-
Income distributions	-	-	-	(376,412)	(376,412)
Net total comprehensive income for the year attributable to unitholders	-	-	129,480	82,884	212,364
As at 31 December 2015	7,212,684	6,212	248,748	309,084	7,776,728

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

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group		Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	**542,012**	531,319	**542,012**	531,319
Cash payments to suppliers	**(78,873)**	(63,341)	**(78,810)**	(63,386)
	463,139	467,978	**463,202**	467,933
Profit income received	**9,099**	8,493	**9,099**	8,493
Net cash generated from operating activities	**472,238**	476,471	**472,301**	476,426
CASH FLOWS FROM INVESTING ACTIVITIES				
Cost incurred for investment property	**–**	(5,182)	**–**	(5,182)
Purchase of property, plant and equipment (Note 5)	**(167)**	(1)	**(167)**	(1)
Net cash used in investing activities	**(167)**	(5,183)	**(167)**	(5,183)
CASH FLOWS FROM FINANCING ACTIVITIES				
Income distributions paid	**(413,285)**	(374,563)	**(413,285)**	(374,563)
Financing cost paid	**(68,540)**	(68,352)	**(68,540)**	(68,352)
Net cash used in financing activities	**(481,825)**	(442,915)	**(481,825)**	(442,915)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(9,754)**	28,373	**(9,691)**	28,328
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**265,416**	237,043	**265,167**	236,839
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 9)	**255,662**	265,416	**255,476**	265,167

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

1. CORPORATE INFORMATION

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

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

The immediate, penultimate and ultimate holding companies are KLCC Property Holdings Berhad (“KLCCP”), KLCC (Holdings) Sdn Bhd (“KLCCH”) and Petroliam Nasional Berhad (“PETRONAS”) respectively, all of which are incorporated and domiciled in Malaysia.

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

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

The financial statements were authorised for issue by the Board of Directors of the Manager in accordance with a resolution of the Directors of the Manager on 20 January 2017.

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.

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.

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

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

All 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Business combination under common control

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

2.4 Property, plant and equipment

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

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

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

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

Building improvements	5 – 6 years
Office equipments	5 years

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

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

2.5 Investment

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.6 Investment properties

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

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

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

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

2.7 Impairment of non-financial assets

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.8 Cash and cash equivalents

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

2.9 Financial assets

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

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

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

(i) Financings and receivables

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.10 Impairment of financial assets

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

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

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

2.11 Provisions

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

2.12 Financial liabilities

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

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

(i) Other financial liabilities

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.13 Amortised cost of financial instruments

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

2.14 Offsetting of financial instruments

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

2.15 Financing costs

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

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

2.16 Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is 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.

The expected manner of recovery of the Group's investment properties is through sale after holding the properties for more than five years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.17 Equity instrument

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

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

2.18 Capital reserve

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

2.19 Merger reserve

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

2.20 Revenue recognition

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

(i) Rental income

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

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

(ii) Profit income

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

2.21 Leases

Operating leases – the Fund as lessor

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.22 Operating segments

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

2.23 Fair value measurement

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

(i) Financial instruments

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

(ii) Non-financial assets

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

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

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

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 2016, the Group and the Fund have adopted the following new, amended and revised MFRSs 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 2016

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical Judgement Made in Applying Accounting Policies

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

Classification between investment properties and property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)

4.2 Key Sources of Estimation Uncertainty

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

Fair valuation of investment properties

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

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

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

	Fair value Increase/(decrease)	
	2016	**2015**
	RM'000	**RM'000**
Yield rate		
– 0.25%	**186,000**	377,081
+ 0.25%	**(173,000)**	(344,632)
Void rate		
– 2.5%	**175,000**	149,211
+ 2.5%	**(174,000)**	(145,576)

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

	Building Improvement RM'000	Group/Fund Office Equipment RM'000	Total RM'000
At 31 December 2016			
Cost			
At 1 January 2016	257	48	305
Additions	165	2	167
At 31 December 2016	422	50	472
Accumulated Depreciation			
At 1 January 2016	84	18	102
Charge for the year (Note 21)	51	10	61
At 31 December 2016	135	28	163
Net Carrying Amount	287	22	309
At 31 December 2015			
Cost			
At 1 January 2015	257	47	304
Additions	–	1	1
At 31 December 2015	257	48	305
Accumulated Depreciation			
At 1 January 2015	37	4	41
Charge for the year (Note 21)	47	14	61
At 31 December 2015	84	18	102
Net Carrying Amount	173	30	203

6. INVESTMENT PROPERTIES

	Group/Fund	
	2016	**2015**
	RM'000	**RM'000**
At 1 January	**9,013,234**	8,871,757
(Reversal of accruals)/Addition during the year	**(382)**	5,182
Fair value adjustments	**79,492**	136,295
At 31 December	**9,092,344**	9,013,234

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

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

	Group/Fund	
	2016	**2015**
	RM'000	**RM'000**
Rental income	**591,015**	594,791
Direct operating expenses	**(25,976)**	(23,341)
	565,039	571,450

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 2016	Range 2015	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	8.2 – 10.0	8.0 – 10.0	– expected market rental growth were higher/(lower)
	– Reversion	9.0 – 13.8	8.3 – 12.3	– expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	– Term	1.8	1.9	– expected inflation rate were lower/(higher)
	– Reversion	1.9	2.1	– expected inflation rate were lower/(higher)
	Void rate (%)	5.0	5.0	– void rate were lower/(higher)
	Term yield (%)	5.5 – 6.3	5.5 – 6.0	– term yield rate were lower/(higher)
	Reversionary yield (%)	6.0 – 6.8	6.0 – 6.5	– reversionary yield were lower/(higher)
	Retail:			The estimated fair value would increase/(decrease) if:
	Market rental rate (RM/psf/month)			
	– Term	8.7 – 90.0	6.3 – 59.9	– expected market rental growth were higher/(lower)
	– Reversion	25.0	6.9 – 65.9	– expected market rental growth were higher/(lower)
	Outgoings (RM/psf/month)			
	– Term	5.4	6.6	– expected inflation rate were lower/(higher)
	– Reversion	6.3	6.8	– expected inflation rate were lower/(higher)
	Void rate (%)	10.0	3.0	– void rate were lower/(higher)
	Term yield (%)	6.5	6.3	– term yield rate was lower/(higher)
	Reversionary yield (%)	7.0	6.8	– reversionary yield were 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 valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The independent professional valuer provides the fair value of the Group's and of the Fund's investment properties portfolio annually. Changes in Level 3 fair values are analysed by the Management annually based on the valuation reports from the independent professional valuer.

6. INVESTMENT PROPERTIES (CONTD.)

Description of property	Tenure of land	Existing use	Location	Date of acquisition	Acquisition cost RM'000	Carrying value as at 31.12.2016 RM'000	Fair value as at 31.12.2016 RM'000	Fair value as at 31.12.2015 RM'000	Percentage of Net Asset Value as at 31.12.2016 %	Percentage of Net Asset Value as at 31.12.2015 %
PETRONAS Twin Towers	Freehold	Office	Kuala Lumpur	10.04.2013	6,500,000	6,656,433	6,918,000	6,820,000	87.4	87.7
Menara 3 PETRONAS	Freehold	Office & retail	Kuala Lumpur	10.04.2013	1,790,000	1,931,071	2,000,000	1,980,000	25.3	25.5
Menara ExxonMobil	Freehold	Office	Kuala Lumpur	10.04.2013	450,000	504,840	505,000	500,000	6.4	6.4
					8,740,000	9,092,344	9,423,000	9,300,000		

7. INVESTMENT IN A SUBSIDIARY

	Fund 2016 RM	Fund 2015 RM
Unquoted shares at cost	**2**	2

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

Name of Subsidiary	Proportion of ownership interest 2016 %	Proportion of ownership interest 2015 %	Principal Activity
Midciti Sukuk Berhad ("MSB")	**100**	100	To undertake the issuance of Islamic medium term notes ("Sukuk") under a medium term notes programme and all matters relating to it.

8. TRADE AND OTHER RECEIVABLES

	Group		Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-Current				
Accrued rental income	**330,656**	286,548	**330,656**	286,548
Current				
Trade receivables	**556**	867	**556**	867
Other receivables				
Other receivables and deposits	**3,555**	235	**3,555**	235
Amount due from ultimate holding company	**15**	–	**15**	–
Amount due from a fellow subsidiary	**5**	2,079	**5**	2,079
Total other receivables	**3,575**	2,314	**3,575**	2,314
Total	**4,131**	3,181	**4,131**	3,181
Trade receivables	**556**	867	**556**	867
Other receivables	**3,575**	2,314	**3,575**	2,314
Add: Cash and bank balances (Note 9)	**255,662**	265,416	**255,476**	265,167
Total financings and receivables	**259,793**	268,597	**259,607**	268,348

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	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	**492**	853	**339**	636
Deposits with licensed banks	**255,170**	264,563	**255,137**	264,531
	255,662	265,416	**255,476**	265,167

The weighted average effective profit rate applicable to the deposits with licensed banks at the reporting date was 3.85% (2015: 3.48%) per annum.

Deposits with licensed banks have an average maturity of 90 (2015: 50) days.

10. UNITHOLDERS' CAPITAL

	Fund			
	Number of Units		Amount	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**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.

11. OTHER LONG TERM LIABILITIES

	Group/Fund	
	2016	**2015**
	RM'000	**RM'000**
Security deposit payables	**71,425**	67,950

Security deposit payables are interest-free, unsecured and refundable upon expiry of the respective lease agreements. The fair values at initial recognition were determined based on profit rates between 4.00% – 5.20% (2015: 4.00% – 5.20%) per annum.

12. AMOUNT DUE TO A SUBSIDIARY

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

13. FINANCINGS

	Group		Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Short term financing				
Secured:				
Sukuk Murabahah	**317,478**	15,395	**–**	–
Long term financing				
Secured:				
Sukuk Murabahah	**1,255,000**	1,555,000	**–**	–
Total financing				
Secured:				
Sukuk Murabahah	**1,572,478**	1,570,395	**–**	–

Terms and debt repayment schedule

	Total RM'000	Under 1 year RM'000	1 – 2 years RM'000	2 – 5 years RM'000	Over 5 years RM'000
Group					
31 December 2016					
Secured					
Sukuk Murabahah	**1,572,478**	**317,478**	**–**	**800,000**	**455,000**
31 December 2015					
Secured					
Sukuk Murabahah	1,570,395	15,395	300,000	400,000	855,000

13. FINANCINGS (CONTD.)

(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 RM3,000 million subject to a combined limit of RM3,000 million. It is primarily secured against assignment and charge over the Finance Service Account and Revenue Account maintained by the REIT Trustee. RM1,555 million has been drawndown at the following tranche and profit rates:

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

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

14. DEFERRED TAX LIABILITY

	Group/Fund	
	2016	**2015**
	RM'000	**RM'000**
At 1 January	**13,092**	6,277
Recognised in profit or loss (Note 22)	**(13,092)**	6,815
At 31 December	**–**	13,092

15. OTHER PAYABLES

	Group		Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-Current				
Deferred revenue	**40,575**	44,789	**40,575**	44,789
Current				
Other payables				
Other payables	**58,367**	56,571	**58,363**	56,567
Security deposit payables	**11,201**	9,805	**11,201**	9,805
Amount due to:				
Holding company	**537**	3,412	**461**	3,351
Fellow subsidiaries	**15,452**	23,069	**15,452**	23,069
Other related companies	**856**	2,786	**856**	2,786
Total other payables	**86,413**	95,643	**86,333**	95,578
Add: Financings (Note 13)	**1,572,478**	1,570,395	**–**	–
Amount due to a subsidiary (Note 12)	**–**	–	**1,572,338**	1,570,196
Other long term liabilities (Note 11)	**71,425**	67,950	**71,425**	67,950
Total financial liabilities carried at amortised cost	**1,770,891**	1,778,777	**1,770,671**	1,778,513

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

Security deposits of RM11,201,000 (2015: RM9,805,000) held are in respect of tenancies of retail and office building. The deposits are short term in nature and refundable upon termination of the respective lease agreements.

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

16. REVENUE

	Group/Fund 2016 RM'000	Group/Fund 2015 RM'000
Investment properties		
– Office	**554,123**	554,410
– Retail	**36,892**	40,381
	591,015	594,791

17. PROPERTY OPERATING EXPENSES

	Group		Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Utilities expenses	**11,750**	9,751	**11,750**	9,751
Maintenance expenses	**5,346**	5,752	**5,346**	5,752
Quit rent and assessment	**3,441**	3,441	**3,441**	3,441
Other operating expenses	**5,458**	6,131	**5,439**	6,125
	25,995	25,075	**25,976**	25,069

18. MANAGEMENT FEES

	Group/Fund 2016 RM'000	Group/Fund 2015 RM'000
Base fee	**28,714**	27,511
Performance fee	**16,951**	17,091
	45,665	44,602

The Manager will receive the following fees from KLCC REIT:

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

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

19. TRUSTEE'S FEE

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

20. FINANCING COSTS

	Group/Fund	
	2016	**2015**
	RM'000	**RM'000**
Profit expense:		
Sukuk Murabahah	**70,623**	70,347
Accretion of financial instruments	**3,468**	3,299
	74,091	73,646

21. PROFIT BEFORE TAXATION

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

	Group		Fund	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Audit fees	**86**	82	**82**	78
Valuation fees	**523**	900	**523**	900
Property manager fee	**90**	91	**90**	91
Depreciation (Note 5)	**61**	61	**61**	61
Reversal of impairment loss on trade receivables (Note 29)	**(35)**	–	**(35)**	–

22. TAX (INCOME)/EXPENSE

	Group		Fund	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deferred tax:				
Relating to origination of temporary difference (Note 14)	**(13,092)**	6,815	**(13,092)**	6,815

22. TAX EXPENSE (CONTD.)

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

As KLCC REIT has declared more than 90% of its distributable income to unitholders for the financial year ended 31 December 2016, no provision for income tax expense has been made during the year.

Reconciliation of the tax expense is as follows:

	Group		Fund	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Profit before taxation	**533,841**	595,585	**533,860**	595,591
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	**128,122**	148,896	**128,126**	148,898
Deferred tax recognised at different tax rate	**(13,092)**	(27,259)	**(13,092)**	(27,259)
Expenses not deductible for tax purposes	**1,779**	1,367	**1,779**	1,367
Income not subject to tax	**(129,901)**	(116,189)	**(129,905)**	(116,191)
Tax (income)/expense	**(13,092)**	6,815	**(13,092)**	6,815

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.

	2016	**2015**
Profit attributable to unitholders of the Fund (RM'000)	**546,952**	588,776
Weighted average number of units in issue ('000)	**1,805,333**	1,805,333
Basic earnings per unit (sen)	**30.30**	32.61

24. INCOME DISTRIBUTION

	Income distribution recognised in year 2016 RM'000	Net income distribution per unit 2016 Sen	Income distribution recognised in year 2015 RM'000	Net income distribution per unit 2015 Sen
For the financial year ended 31 December 2016				
A first interim income distribution of 5.75% on 1,805,333,083 units	**103,807**	5.75	**–**	–
A second interim income distribution of 5.69% on 1,805,333,083 units	**102,723**	5.69	**–**	–
A third interim income distribution of 5.66% on 1,805,333,083 units	**102,182**	5.66	**–**	–
For the financial year ended 31 December 2015				
A first interim income distribution of 5.32% on 1,805,333,083 units	**–**	–	**96,044**	5.32
A second interim income distribution of 5.32% on 1,805,333,083 units	**–**	–	**96,044**	5.32
A third interim income distribution of 5.35% on 1,805,333,083 units	**–**	–	**96,585**	5.35
A fourth interim income distribution of 5.69% on 1,805,333,083 units	**102,723**	5.69	**–**	–
For the financial year ended 31 December 2014				
A fourth interim income distribution of 4.86% on 1,805,333,083 units	**–**	–	**87,739**	4.86
	411,435	22.79	**376,412**	20.85

The fourth interim income distribution in respect of the financial year ended 31 December 2016, of 5.68% on 1,805,333,083 units amounting to an income distribution payable of RM102,543,000 will be payable on 28 February 2017.

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 2017.

24. INCOME DISTRIBUTION (CONTD.)

Distribution to unitholders is from the following sources:

	Group 2016 RM'000	Group 2015 RM'000
Net property income	**565,020**	569,716
Profit income	**9,685**	8,422
Fair value adjustment of investment properties	**79,492**	136,295
	654,197	714,433
Less: Expenses	**(107,264)**	(125,663)
Profit for the year	**546,933**	588,770
Less: Non cash items	**(135,482)**	(196,920)
Add: Brought forward undistributed income available for distribution	**21,694**	21,240
Total available for income distribution	**433,145**	413,090
Less: Income distributed	**(308,712)**	(288,673)
Less: Proposed income distribution	**(102,543)**	(102,723)
Balance undistributed income available for distribution	**21,890**	21,694
Distribution per unit (sen)	**22.78**	21.68

25. PORTFOLIO TURNOVER RATIO

	Group 2016	Group 2015
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 2016 except for the initial acquisition of the investment properties together with the related assets and liabilities which was completed on 3 May 2013.

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

26. MANAGEMENT EXPENSE RATIO

	Group	
	2016	**2015**
	RM'000	**RM'000**
Total trust expenses	**47,847**	46,915
Net asset value at the end of the financial year	**7,912,211**	7,776,713
Less: Fourth interim income distribution	**(102,543)**	(102,723)
Net asset value at the end of the financial year, after interim income distribution	**7,809,668**	7,673,990
Management Expense Ratio ("MER")	**0.61**	0.61

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	
	2016	**2015**
	RM'000	**RM'000**
Approved but not contracted for		
Property, plant and equipment	**–**	230
Investment properties	**6,000**	11,200
	6,000	11,430

27. COMMITMENTS (CONTD.)

(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	
	2016	**2015**
	RM'000	**RM'000**
Not later than 1 year	**465,278**	500,492
Later than 1 year but not later than 5 years	**2,009,791**	1,952,735
More than 5 years	**3,247,923**	3,770,257
	5,722,992	6,223,484

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.

28. 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		Fund	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Federal Government of Malaysia				
Goods and Service Tax ("GST")	**(28,671)**	(21,383)	**(28,671)**	(21,383)
Property licenses and other taxes	**(3,441)**	(3,458)	**(3,441)**	(3,458)
Government of Malaysia's related entities				
Purchase of utilities	**(4,706)**	(2,939)	**(4,706)**	(2,939)
Ultimate Holding Company				
Rental income	**461,739**	437,446	**461,739**	437,446
Fellow subsidiaries				
Management fees	**(45,665)**	(44,602)	**(45,665)**	(44,602)
Property management fees	**(2,310)**	(2,682)	**(2,310)**	(2,682)
Property maintenance fees	**(5,291)**	(6,010)	**(5,291)**	(6,010)
Property advertising and marketing fees	**(649)**	(683)	**(649)**	(683)
Other related company				
Chilled water supply	**(6,822)**	(6,355)	**(6,822)**	(6,355)

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 2016 are disclosed in Notes 8 and 15.

29. FINANCIAL INSTRUMENTS

Financial Risk Management

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

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

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

Credit Risk

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

Receivables

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

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

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

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

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	
	2016	**2015**
	RM'000	**RM'000**
At net		
Current	**528**	458
Past due 1 to 30 days	**2**	366
Past due 31 to 60 days	**4**	–
Past due 61 to 90 days	**1**	29
Past due more than 90 days	**21**	14
	556	867
Trade receivables	**750**	1,096
Less: Impairment losses	**(194)**	(229)
Net trade receivable (Note 8)	**556**	867

Movement in allowance account:

	Group	
	2016	**2015**
	RM'000	**RM'000**
At 1 January	**229**	229
Reversal of impairment loss on trade receivables (Note 21)	**(35)**	–
At 31 December	**194**	229

The Group and the Fund do not typically renegotiate the terms of trade receivables. There were no renegotiated balances outstanding as at 31 December 2016.

29. 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 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.

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 2016	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	1,572,478	4.41	1,866,004	380,152	56,840	919,382	509,630
Other payables	86,413	–	86,413	86,413	–	–	–
Other long term liabilities	112,000	4.60	115,538	9,688	–	–	105,850
Fund							
Financial Liabilities							
Other payables	86,333	–	86,333	86,333	–	–	–
Amount due to a subsidiary	1,572,338	–	1,572,338	317,338	–	800,000	455,000
Other long term liabilities	112,000	4.60	115,538	9,688	–	–	105,850

29. FINANCIAL INSTRUMENTS (CONTD.)

31 December 2015	Carrying amount RM'000	Effective profit rate %	Contractual cash flow RM'000	Within 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
Group							
Financial Liabilities							
Sukuk Murabahah	1,570,395	4.41	1,932,461	83,935	362,674	545,516	940,336
Other payables	95,643	–	95,643	95,643	–	–	–
Other long term liabilities	112,739	4.60	115,538	–	9,688	–	105,850
Fund							
Financial Liabilities							
Other payables	95,578	–	95,578	95,578	–	–	–
Amount due to a subsidiary	1,570,196	–	1,570,196	15,196	300,000	400,000	855,000
Other long term liabilities	112,739	4.60	115,538	–	9,688	–	105,850

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, currency risk and other price risk, such as equity risk and commodity risk.

Financial instruments affected by market risk include financings 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 financings. Financings at variable rates expose the Group to cash flow profit rate risk. Financings obtained at fixed rates expose the Group and the Fund to fair value profit rate risk. The Group and the Fund manage their profit expense rate exposure through a balanced portfolio of fixed and variable rate financings.

29. FINANCIAL INSTRUMENTS (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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Fixed rate instruments				
Financial assets	**255,170**	264,563	**255,137**	264,531
Financial liabilities	**(1,572,478)**	(1,570,395)	**–**	–

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

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

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

29. FINANCIAL INSTRUMENTS (CONTD.)

Fair Value Information

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

Group	Fair value of financial instruments not carried at fair value				Carrying
	Level 1	Level 2	Level 3	Total	amount
	RM'000	RM'000	RM'000	RM'000	RM'000
2016					
Financial liabilities					
Sukuk Murabahah	**–**	**1,537,366**	**–**	**1,537,366**	**1,572,478**
2015					
Financial liabilities					
Sukuk Murabahah	–	1,538,077	–	1,538,077	1,570,395

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

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

30. CAPITAL MANAGEMENT

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

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

30. CAPITAL MANAGEMENT (CONTD.)

The financings to total assets ratio as at 31 December 2016 is as follows:

	Group	
	2016	**2015**
Total financings (RM'000)	**1,572,478**	1,570,395
Total assets (RM'000)	**9,683,102**	9,568,582
Financings to total assets ratio	**16.2%**	16.4%

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

31. SEGMENT INFORMATION

(a) Reporting format

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

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

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

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

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

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

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 financings and corporate assets and expenses.

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

Business Segments

31 December 2016

	Property investment - Office RM'000	Property investment - Retail RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue				
Revenue from external customers	554,123	36,892	–	591,015
Results				
Net property income	539,009	26,011	–	565,020
Profit income				9,685
Fair value adjustment on investment properties				79,492
Management fees				(45,665)
Trustee's fees				(600)
Financing costs				(74,091)
Tax expense				13,092
Profit after tax				546,933
Depreciation				61
Non-cash items other than depreciation				(135,543)
Total assets	9,040,892	642,210	–	9,683,102
Total liabilities	1,638,690	132,201	–	1,770,891

31. SEGMENT INFORMATION (CONTD.)

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

Business Segments (Contd.)

31 December 2015

	Property investment – Office RM'000	Property investment – Retail RM'000	Elimination/ Adjustment RM'000	Consolidated RM'000
Revenue				
Revenue from external customers	554,410	40,381	–	594,791
Results				
Net property income	539,434	30,282	–	569,716
Profit income				8,422
Fair value adjustment on investment properties				136,295
Management fees				(44,602)
Trustee's fees				(600)
Financing costs				(73,646)
Tax expense				(6,815)
Profit after tax				588,770
Depreciation				61
Non-cash items other than depreciation				(196,981)
Total assets	8,911,270	657,312	–	9,568,582
Total liabilities	1,680,121	111,748	–	1,791,869

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 2017

Amendments to MFRS 12	Disclosure of Interests in Other Entities (Annual Improvements to MFRSs 2014–2016 Cycle)
Amendments to MFRS 107	Statement of Cash Flows: Disclosure Initiative
Amendments to MFRS 112	Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

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 of Investment Property

Effective for annual periods beginning on or after 1 January 2019

MFRS 16	Leases

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 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 yet effective, but for which are not relevant to the operations of the Group and the Fund and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2018

Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRSs 2014–2016 Cycle)
Amendments to MFRS 2	Share-based Payment: Classification and Measurement of Share-based Payment Transactions
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration

34. DISCLOSURE OF REALISED AND UNREALISED PROFIT

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

	Group		Fund	
	2016	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total retained profits				
– Realised	**351,983**	309,069	**352,017**	309,084
– Unrealised	**–**	–	**–**	–
	351,983	309,069	**352,017**	309,084

The fair value gain of RM341,332,000 (2015: RM248,748,000) on the remeasurement of investment properties, is regarded as an unrealised gain and has been classified under capital reserve in the financial statements.

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

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

INDEPENDENT AUDITORS' REPORT

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 2016 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 288 to 332.

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 2016, 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. These matters were addressed in the context of our audit of the financial statements of the Group and of the Fund 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.

Key audit matters (Contd.)

Valuation of investment properties

As at 31 December 2016, the carrying value of the Group's investment properties amounts to RM9,092,344,000 which represents 94% 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, future rental revenue, yield rate and void 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 included, amongst others, considering the objectivity, independence and expertise of the external valuer. We also assessed the appropriateness of the valuation model, property related data, including estimates used by the external valuer.

We also evaluated the Group's disclosures on those assumptions to which the outcome of the valuation is most sensitive, that is, those that have the most significant effect on the determination of the fair value of the investment properties, by comparing them to the information disclosed in the valuation reports and re-computing the sensitivity analysis disclosed. The Group's disclosures on the valuation sensitivity and significant assumptions used are included in Notes 4.2 and 6 to the financial statements respectively.

Deferred tax on fair value adjustment of investment properties

For the year ended 31 December 2016, the fair value surplus recognised by the Group amounts to RM79,492,000. The Group has not recognised deferred tax liability on the fair value surplus of investment properties based on the Group's expectation that the investment properties will be held for more than 5 years. The assessment on the applicability of deferred tax liability, which is dependent on the future plan of the Group for these properties, is a significant judgement to our audit. Our audit procedures, included amongst others, evaluating the current tax legislation and written representation from the Group on the expectation. The Group's expected manner of recovery of the investment properties is included in Note 2.16(ii) to the financial statements.

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.

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.

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

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 (Contd.):

- 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.

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 REPORTING RESPONSIBILITIES

The supplementary information set out in Note 34 on page 333 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Manager is responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the unitholders of the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Muhammad Affan Bin Daud
No. 3063/02/18(J)
Chartered Accountant

Kuala Lumpur, Malaysia
20 January 2017

Analysis of Shareholdings and Unitholdings

AS AT 19 JANUARY 2017

For the purpose of Main Market Listing Requirements of Bursa Malaysia Securities Berhad, both KLCC Property Holdings Berhad ("KLCCP") and KLCC Real Estate Investment Trust ("KLCC REIT") are classified as "listed issuers".

Listed Issuer	: KLCC Property Holdings Berhad
Authorised Share Capital	: RM5,000,000,000.00 divided into 4,981,946,669 Ordinary Shares of RM1.00 each and 1,805,333,100 Class A Redeemable Preference Shares of RM0.01 each
Paid-up Share Capital	: RM1,805,333,083.00 divided into 1,805,333,083 Ordinary Shares of RM1.00 each
No. of Shareholders	: 5,516
Voting Rights	: One vote for each share

Listed Issuer	: KLCC Real Estate Investment Trust
Approved Fund Size	: 1,805,333,085 Units
Total Issued and Fully Paid Units	: 1,805,333,083 Units
No. of Unitholders	: 5,516
Voting Rights	: One vote for each Unit

Under the "stapled" structure, all ordinary shares of KLCCP are stapled together with all units of KLCC REIT ("Stapled Securities"). Therefore, the information on Distribution of Stapled Securities Holdings, Directors' Interest in Listed Issuers, Substantial Stapled Securities Holders of the Listed Issuers and Thirty Largest Stapled Securities Holders stated below is based on Stapled Securities structure.

DISTRIBUTION OF STAPLED SECURITIES HOLDINGS

Size of Stapled Securities Holdings	No. of Stapled Securities Held	(%)	No. of Stapled Securities Holders	(%)
Less than 100	7,057	0.000	825	14.956
100 to 1,000	1,526,038	0.084	2,374	43.038
1,001 to 10,000	7,280,724	0.403	1,790	32.451
10,001 to 100,000	12,641,859	0.700	356	6.453
100,001 to less than 5% of issued stapled securities	319,185,622	17.680	167	3.027
5% and above of issued stapled securities	1,464,691,783	81.131	4	0.072
Total	**1,805,333,083**	**100.000**	**5,516**	**100.000**

DIRECTORS' INTERESTS IN THE LISTED ISSUERS

	Direct		Indirect	
Name	No. of Stapled Securities	(%)	No. of Stapled Securities	(%)
Datuk Manharlal a/l Ratilal	5,000	0.000	–	–
Augustus Ralph Marshall	50,000	0.002	–	–

DIRECTORS' INTERESTS IN RELATED CORPORATIONS

	PETRONAS Chemicals Group Berhad			
	Direct		Indirect	
Name	No. of Shares	(%)	No. of Shares	(%)
Krishnan C K Menon	20,000	0.000	–	–
Datuk Manharlal a/l Ratilal	20,000	0.000	–	–
Dato' Halipah binti Esa	10,000	0.000	13,100*	0.000
Datuk Hashim bin Wahir	16,000	0.000	–	–

* *Deemed interest by virtue of Dato' Halipah's family members' shareholding*

	MISC Berhad			
	Direct		Indirect	
Name	No. of Shares	(%)	No. of Shares	(%)
Dato' Halipah binti Esa	–	–	10,000*	0.000

* *Deemed interest by virtue of Dato' Halipah's family members' shareholding*

	Malaysia Marine and Heavy Engineering Holdings Berhad			
	Direct		Indirect	
Name	No. of Shares	(%)	No. of Shares	(%)
Dato' Halipah binti Esa	10,000	0.000	10,000*	0.000

* *Deemed interest by virtue of Dato' Halipah's family members' shareholding*

Analysis of Shareholdings and Unitholdings

AS AT 19 JANUARY 2017

SUBSTANTIAL STAPLED SECURITIES HOLDERS OF THE LISTED ISSUERS

Name	Direct: No. of Stapled Securities Held	Direct: (%)	Indirect: No. of Stapled Securities Held	Indirect: (%)
1. KLCC (Holdings) Sdn Bhd	1,167,638,804	64.677	–	–
2. CIMB Group Nominees (Tempatan) Sdn Bhd *[Exempt AN for Petroliam Nasional Berhad]*	194,816,979	10.791	1,167,638,804#	64.677
3. AmanahRaya Trustees Berhad *[Amanah Saham Bumiputera]*	102,236,000	5.662	–	–

\# *Deemed interest in 1,167,638,804 stapled securities held by KLCC (Holdings) Sdn Bhd by virtue of PETRONAS 100% direct interest in KLCC (Holdings) Sdn Bhd.*

THIRTY LARGEST STAPLED SECURITIES HOLDERS

No.	Name	No. of Stapled Securities	%
1.	KLCC (Holdings) Sdn Bhd	617,700,294	34.215
2.	KLCC (Holdings) Sdn Bhd	549,938,510	30.461
3.	CIMB Group Nominees (Tempatan) Sdn Bhd (Exempt AN for Petroliam Nasional Berhad)	194,816,979	10.791
4.	Amanahraya Trustees Berhad (Amanah Saham Bumiputera)	102,236,000	5.662
5.	Citigroup Nominees (Tempatan) Sdn Bhd (Employees Provident Fund Board)	49,259,875	2.728
6.	Valuecap Sdn Bhd	25,394,400	1.406
7.	Kumpulan Wang Persaraan (Diperbadankan)	20,961,700	1.161
8.	Amanahraya Trustees Berhad (Amanah Saham Wawasan 2020)	14,250,000	0.789
9.	Maybank Nominees (Tempatan) Sdn Bhd (Maybank Trustees Berhad for Public Ittikal Fund (N14011970240))	13,000,000	0.720
10.	Citigroup Nominees (Tempatan) Sdn Bhd (Exempt AN for AIA Bhd)	11,853,700	0.656
11.	Permodalan Nasional Berhad	10,967,600	0.607
12.	Cartaban Nominees (Tempatan) Sdn Bhd (PAMB for Prulink Equity Fund)	10,054,500	0.556

No.	Name	No. of Stapled Securities	%
13.	Amanahraya Trustees Berhad (Public Islamic Dividend Fund)	9,421,000	0.521
14.	Pertubuhan Keselamatan Sosial	8,741,283	0.484
15.	HSBC Nominees (Asing) Sdn Bhd (BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund)	8,275,800	0.458
16.	Amanahraya Trustees Berhad (Amanah Saham Malaysia)	8,000,000	0.443
17.	Amanahraya Trustees Berhad (Amanah Saham Didik)	7,111,056	0.393
18.	Amanahraya Trustees Berhad (Public Ittikal Sequal Fund)	6,819,800	0.377
19.	Amanahraya Trustees Berhad (Public Islamic Select Enterprises Fund)	5,409,400	0.299
20.	Amanahraya Trustees Berhad (Amanah Saham Gemilang for Amanah Saham Kesihatan)	5,397,900	0.293
21.	HSBC Nominees (Asing) Sdn Bhd (Exempt AN for JPMorgan Chase Bank, National Association (U.S.A.))	5,296,900	0.293
22.	Amanahraya Trustees Berhad (AS 1Malaysia)	5,000,000	0.276
23.	AmSec Nominees (Tempatan) Sdn Bhd (MTrustee Berhad for CIMB Islamic Dali Equity Growth Fund (UT-CIMB-DALI))	4,974,700	0.275
24.	Amanahraya Trustees Berhad (Amanah Saham Bumiputera 2)	4,102,700	0.227
25.	Maybank Nominees (Tempatan) Sdn Bhd (Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100))	3,802,500	0.210
26.	Amanahraya Trustees Berhad (Public Islamic Optimal Growth Fund)	3,734,500	0.206
27.	Amanahraya Trustees Berhad (Public Islamic Equity Fund)	3,650,300	0.202
28.	Citigroup Nominees (Asing) Sdn Bhd (CBNY for DFA Intenational Real Estate Securities Portfolio of DFA Investment Dimension Group Inc)	3,057,929	0.169
29.	Malaysia Nominees (Tempatan) Sendirian Berhad (Great Eastern Life Assurance (Malaysia) Berhad (PAR 3))	2,795,700	0.154
30.	Malaysia Nominees (Tempatan) Sendirian Berhad (Great Eastern Life Assurance (Malaysia) Berhad (DR))	2,220,000	0.122

List of Properties of KLCCP Stapled Group

AS AT 31 DECEMBER 2016

(I) KLCC PROPERTY HOLDINGS BERHAD

Registered Owner	Particulars of land title	Date of Revaluation (Tenure)	Description/ Existing use	Land area (sq m)	Built-up area (sq m)	Age of building	Audited net carrying amount as at 31.12.2016 (RM mil)
Suria KLCC Sdn Bhd	Grant 43698 Lot 170, Seksyen 58, Town of Kuala Lumpur	28.10.16 (Freehold)	A 6 storey retail centre (Suria KLCC)/Shopping Centre	28,160	143,564	18 years	5,346.1*
Asas Klasik Sdn Bhd	Grant 43700 Lot 172, Seksyen 58, Town of Kuala Lumpur	11.11.16 (Freehold)	An international class hotel comprising hotel rooms and service apartments (Mandarin Oriental, Kuala Lumpur)/Hotel	8,094	92,782.8	18 years	565.3
Impian Klasik Sdn Bhd	Grant 43696 Lot 168, Seksyen 58, Town of Kuala Lumpur	31.12.16 (Freehold)	A 49 storey purpose built office building with a lower ground concourse level (Menara Maxis)/Office building	4,329	74,874	18 years	760.0*
Kompleks Dayabumi Sdn Bhd	Lot 38 and Lot 45, all within Seksyen 70, Town of Kuala Lumpur held under title no. PN 2395 and PN 33471 PN 4073, Lot 39, Seksyen 70, Town & District of Kuala Lumpur PN 32233, Lot 51, Seksyen 70, Town of Kuala Lumpur	31.12.2016 (Leasehold of 99 year expiring on 27.1.2079) 31.12.2016 (Leasehold interest for 99 years expiring on 9.11.2081) 31.12.16 (Leasehold of 98 years expiring on 21.1.2079)	A 36-storey office building (Menara Dayabumi) and a parcel of vacant contiguous commercial land/Office building	Lot 38: 52 sq m Lot 39: 2,166 sq m Lot 45: 25,790 sq m Lot 51: 1,331 sq m **Total: 29,339 sq m**	129,147.22	34 years	718.5*
Impian Cemerlang Sdn Bhd	Grant 43701, Lot 173, Seksyen 58, Town of Kuala Lumpur	31.12.16 (Freehold)	Vacant Land	5,726	–	–	297.1*

* *Investment Properties stated at fair value*

List of Properties of KLCCP Stapled Group

AS AT 31 DECEMBER 2016

(II) KLCC REAL ESTATE INVESTMENT TRUST

Registered Owner	Particulars of land title	Date of Revaluation (Tenure)	Description/ Existing use	Land area (sq m)	Built-up area (sq m)	Age of building	Audited net carrying amount as at 31.12.2016 (RM mil)
Maybank Trustees Berhad as trustee of KLCC Real Estate Investment Trust	Grant 43685 Lot 157, Seksyen 58, Town of Kuala Lumpur	31.12.16 (Freehold)	A 29 storey office building with 3 basement levels (Menara ExxonMobil)/ Office building	3,999	74,312.7	20 years	504.8*
Maybank Trustees Berhad as trustee of KLCC Real Estate Investment Trust	Grant 43699 Lot 171, Seksyen 58, Town of Kuala Lumpur	31.12.16 (Freehold)	A 58-storey office tower (Menara 3 PETRONAS) cum shopping podium and basement car park/Office building & retail podium	4,302	155,295	5 years	1,931.1*
Maybank Trustees Berhad as trustee of KLCC Real Estate Investment Trust	Grant 43697 Lot 169, Seksyen 58, Town of Kuala Lumpur	31.12.16 (Freehold)	Two 88-storey office towers (PETRONAS Twin Towers) /Office building	21,740	510,901	19 years	6,656.4*

* *Investment Properties stated at fair value*

Notice of Annual General Meeting

KLCC PROPERTY HOLDINGS BERHAD
(Co. No. 641576-U)
(Incorporated in Malaysia)

KLCC REAL ESTATE INVESTMENT TRUST
(a real estate investment trust constituted under the laws of Malaysia)

NOTICE IS HEREBY GIVEN THAT the Fourth Annual General Meeting of KLCC Real Estate Investment Trust ("**KLCC REIT**") and the Fourteenth Annual General Meeting of KLCC Property Holdings Berhad (the "**Company**" or "**KLCCP**") will be held concurrently at the Sapphire Room, Level 1, Mandarin Oriental Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia on 6 April 2017 at 10.30 a.m. for the following purposes:

A. KLCC REIT

AS ORDINARY BUSINESS:

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 of KLCC REIT together with the Reports attached thereon. ***(Please refer to Note 7)***

AS SPECIAL BUSINESS:

To consider and if thought fit, to pass, with or without modifications, the following resolution:

2. Proposed Unitholders' Mandate to Issue New Units of up to 10% of the Approved Fund Size of KLCC REIT pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts Issued by the Securities Commission Malaysia ("**REIT Guidelines**").

   "THAT pursuant to the REIT Guidelines, Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") and the approval of the relevant regulatory authorities, where such approval is required and subject to passing of Resolution IX of KLCCP, approval be and is hereby given to the Directors of KLCC REIT Management Sdn Bhd, the manager for KLCC REIT (the "**Manager**"), to issue new units in KLCC REIT ("**New Units**") from time to time to such persons and for such purposes and upon such terms and conditions as the Directors of the Manager may in their absolute discretion deem fit, provided that the number of New Units to be issued, when aggregated with the number of units in KLCC REIT issued during the preceding 12 months, must not exceed 10% of the approved fund size of KLCC REIT for the time being and provided further that such corresponding number of new ordinary shares in KLCCP equal to the number of New Units shall be issued and every one New Unit shall be stapled to one new ordinary share upon issuance to such persons ("**Proposed KLCC REIT Mandate**") and the Directors of the Manager be and are hereby also empowered to obtain the approval for the listing of and quotation for such new stapled securities comprising ordinary shares in KLCCP stapled together with the units in KLCC REIT ("**Stapled Securities**") on the Main Market of Bursa Securities.

THAT such approval shall continue to be in force until:

(i) the conclusion of the next Annual General Meeting of the unitholders held after the approval was given;

(ii) the expiration of the period within which the next Annual General Meeting of the unitholders is required to be held after the approval was given; or

(iii) revoked or varied by resolution passed by the unitholders in a unitholders' meeting,

whichever is the earlier.

THAT the New Units to be issued pursuant to the Proposed KLCC REIT Mandate shall, upon issue and allotment, rank *pari passu* in all respects with the existing units of KLCC REIT, except that the New Units will not be entitled to any income distribution, right, benefit, entitlement and/or any other distributions, in respect of which the entitlement date is prior to the date of allotment of such New Units.

THAT authority be and is hereby given to the Directors of the Manager and Maybank Trustees Berhad (the "**Trustee**"), acting for and on behalf of KLCC REIT, to give effect to the Proposed KLCC REIT Mandate with full powers to assent to any conditions, modifications, variations and/or amendments as they may deem fit in the best interest of KLCC REIT and/or as may be imposed by the relevant authorities.

AND FURTHER THAT the Directors of the Manager and the Trustee, acting for and on behalf of KLCC REIT, be and are hereby authorised to implement, finalise, complete and take all necessary steps and to do all acts (including execute such documents as may be required), deeds and things in relation to the Proposed KLCC REIT Mandate." ***Resolution 1***

B. KLCCP

AS ORDINARY BUSINESS:

3. To receive the Audited Financial Statements for the financial year ended 31 December 2016 of the Company and the Reports of the Directors and Auditors thereon. ***(Please refer to Note 9)***

4. To re-elect the following Directors who retire pursuant to the Company's Articles of Association, constituting part of the Constitution of the Company ("Constitution"):

   (i) Datuk Hashim bin Wahir ***Resolution I***

   (ii) Cik Habibah binti Abdul ***Resolution II***

   (iii) Mr Krishnan C K Menon *(Please refer to Note 10)*

5. To re-appoint Datuk Ishak bin Imam Abas, who retires at the conclusion of this Fourteenth Annual General Meeting of the Company, as a Non-Independent Non-Executive Director of the Company. ***Resolution III***

6. To approve the Directors' fees and benefits of RM692,000.00 payable to Non-Executive Directors in respect of the financial year ended 31 December 2016. ***Resolution IV***

7. To approve the payment of Directors' fees and benefits of up to RM972,000.00 payable to Non-Executive Directors with effect from 1 January 2017 until the next Annual General Meeting of the Company. ***Resolution V***

8. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix the Auditors' remuneration. ***Resolution VI***

AS SPECIAL BUSINESS:

To consider and if thought fit, to pass the following resolutions:

9. Continuing in Office as Independent Non-Executive Directors of the Company:

   (i) Mr Augustus Ralph Marshall

   "THAT Mr Augustus Ralph Marshall who would have served as an Independent Non-Executive Director of the Company for 12 years on 31 August 2017 be and is hereby re-appointed as an Independent Non-Executive Director of the Company to hold office until the conclusion of next Annual General Meeting of the Company." ***Resolution VII***

   (ii) Dato' Halipah binti Esa

   "THAT Dato' Halipah binti Esa who would have served as an Independent Non-Executive Director of the Company for 11 years on 28 February 2018 be and is hereby re-appointed as an Independent Non-Executive Director of the Company to hold office until the conclusion of next Annual General Meeting of the Company." ***Resolution VIII***

10. Authority to Issue Shares of the Company pursuant to Sections 75 and 76 of the Companies Act, 2016

    "THAT pursuant to Sections 75 and 76 of the Companies Act, 2016, Main Market Listing Requirements of Bursa Securities and the approval of the relevant regulatory authorities, where such approval is required and subject to passing of Resolution 1 of KLCC REIT, the Directors of the Company be and are hereby authorised to issue ordinary shares in the capital of the Company ("**New Ordinary Shares**") from time to time to such persons and for such purposes and upon such terms and conditions as the Directors may in their absolute discretion deem fit, provided that the total number of such New Ordinary Shares to be issued, pursuant to this resolution, when aggregated with the total number of any such ordinary shares issued during the preceding 12 months does not exceed 10% of the total number of issued shares of the Company for the time being (excluding any treasury shares) and provided further that such corresponding number of New Units in KLCC REIT equal to the number of New Ordinary Shares shall be issued and every one New Ordinary Share shall be stapled to one New Unit upon issuance to such persons ("**Proposed KLCCP Mandate**") and that the Directors be and are hereby also empowered to obtain the approval from Bursa Securities for the listing of and quotation for such new Stapled Securities on the Main Market of Bursa Securities.

THAT such approval shall continue to be in force until:

(i) the conclusion of the next Annual General Meeting of the Company held after the approval was given;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required to be held after the approval was given; or

(iii) revoked or varied by resolution passed by the shareholders of the Company in a general meeting,

whichever is the earlier.

THAT the New Ordinary Shares to be issued pursuant to the Proposed KLCCP Mandate shall, upon issued and allotment, rank *pari passu* in all respects with the existing ordinary shares of the Company, except that the New Ordinary Shares will not be entitled to any dividend, right, benefit, entitlement and/or any other distributions, in respect of which the entitlement date is prior to the date of allotment of such New Ordinary Shares.

THAT authority be and is hereby given to the Directors of the Company, to give effect to the Proposed KLCCP Mandate with full powers to assent to any conditions, modifications, variations and/or amendments as they may deem fit in the best interest of the Company and/or as may be imposed by the relevant authorities.

AND FURTHER THAT the Directors of the Company, be and are hereby authorised to implement, finalise, complete and take all necessary steps and to do all acts (including execute such documents as may be required), deeds and things in relation to the Proposed KLCCP Mandate." ***Resolution IX***

11. To transact any other business for which due notice has been given.

FURTHER NOTICE IS HEREBY GIVEN THAT for the purpose of determining a holder of the Stapled Securities who shall be entitled to attend the Fourth Annual General Meeting of KLCC REIT and the Fourteenth Annual General Meeting of KLCCP, the Manager and/or the Trustee and KLCCP shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Paragraph 17 of Schedule 1 of the Trust Deed dated 2 April 2013 entered into between the Manager and the Trustee, Articles 57(1) and 57(2) of KLCCP's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 29 March 2017 and only a Depositor whose name appears on such Record of Depositors shall be entitled to attend, speak and vote at the said meetings.

BY ORDER OF THE BOARD

Abd Aziz bin Abd Kadir (LS0001718)
Yeap Kok Leong (MAICSA 0862549)
Company Secretaries

Kuala Lumpur
28 February 2017

Notes:

1. A holder of the Stapled Securities entitled to attend and vote at the meetings is entitled to appoint not more than 2 proxies to attend and, to vote in his stead. A proxy may but need not be a holder of the Stapled Securities. There shall be no restriction as to the qualification of the proxy.

2. Where a holder of the Stapled Securities is an authorised nominee, it may appoint at least one proxy but not more than 2 proxies in respect of each securities account it holds with ordinary shares of the Company and units of KLCC REIT standing to the credit of the said securities account.

3. Where a holder of the Stapled Securities is an exempt authorised nominee which holds Stapled Securities for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

4. Where a holder of the Stapled Securities or the authorised nominee appoints 2 proxies, or where an exempt authorised nominee appoints 2 or more proxies, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.

5. A corporation which is a holder of the Stapled Securities may by resolution of its Directors or other governing body authorised such person as it thinks fit to act as its representative at the meetings. If the appointor is a corporation, this form must be executed under its Common Seal or under the hand of its attorney.

   If this proxy form is signed by the attorney duly appointed under the power of attorney, it should be accompanied by a statement reading "*signed under Power of Attorney which is still in force, no notice of revocation having been received*". A copy of the power of attorney which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised should be enclosed with the proxy form.

6. The form of proxy must be deposited at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 48 hours before the time appointed for holding the meetings or any adjournment thereof.

7. Explanatory Note for Item 1

   This agenda item is meant for discussion only as in accordance with the provision of Clause 15.33A(b) of the REIT Guidelines, a formal approval on the Audited Financial Statements of KLCC REIT from the holders of the Stapled Securities is not required. Hence, this item is not put forward to the holders of the Stapled Securities for voting.

8. Explanatory Note for Item 2

   Subject to passing of Resolution IX of the Company, the proposed Resolution 1, if passed, will grant a renewed mandate to the Manager of KLCC REIT to issue New Units from time to time provided that the number of the New Units to be issued, when aggregated with the number of units issued during the preceding 12 months, must not exceed 10% of the approved fund size of KLCC REIT for the time being and provided further that such corresponding number of new ordinary shares in the Company equal to the number of New Units shall be issued and every one New Unit shall be stapled to one new ordinary share upon issuance. The Proposed KLCC REIT Mandate, unless revoked or varied at a unitholders' meeting, will expire at the conclusion of the next Annual General Meeting of unitholders of KLCC REIT.

   The Proposed KLCC REIT Mandate will allow the Manager the flexibility to issue New Units to raise funds to finance future investments, acquisitions and capital expenditure to enhance the value of KLCC REIT and/or to refinance existing debt as well as for working capital purposes, subject to the relevant laws and regulations. With the Proposed KLCC REIT Mandate, delays and further costs involved in convening separate general meetings to approve such issue of units to raise funds can be avoided.

   As at the date of this Notice, no New Units have been issued pursuant to the mandate granted to the Directors of the Manager at the Third Annual General Meeting of KLCC REIT.

9. Explanatory Note for Item 3

   This agenda item is meant for discussion only as the provision of Sections 248(2) and 340(1) of the Companies Act, 2016 does not require a formal approval of the holders of the Stapled Securities for the Audited Financial Statements of the Company. Hence, this item is not put forward to the holders of the Stapled Securities for voting.

10. Explanatory Note for Item 4(iii)

Mr Krishnan C K Menon who retires pursuant to the Constitution of the Company, has indicated to the Company that he would not seek re-election at the Fourteenth Annual General Meeting of KLCCP. Therefore, Mr Krishnan C K Menon shall cease to be a Director of the Company at the conclusion of the Fourteenth Annual General Meeting.

11. Explanatory Note for Items 6 and 7

The remuneration structure of the Non-Executive Directors ("NEDs") of the Company is as follows:

- Monthly fixed fees for duties as Director/Chairman; and
- Meeting allowances for each meeting attended.

The holders of the Stapled Securities at the last Annual General Meeting held on 13 April 2016 approved RM595,000.00 as Directors' fees and benefits for the financial year ended 31 December 2015.

Details of the Directors' fees and benefits payable to the NEDs for the financial year ended 31 December 2016 are enumerated on page 134 of the Annual Report of KLCCP Stapled Group.

The Directors' fees and benefits proposed for the period 1 January 2017 up to the next Annual General Meeting ("FYE 2017/2018") are calculated based on the number of scheduled Board's and Board Committees' meetings and there is no proposed revision to the existing Directors' fees and benefits. The proposed Resolution V is to facilitate payment of the Directors' fees for FYE 2017/2018.

The Board will seek approval of the holders of the Stapled Securities at the next Annual General Meeting in the event the Directors' fees and benefits proposed is insufficient due to an increase in the number of the Board's and Board Committees' meetings and/or increase in the Board size and/or revision to the existing Directors' fees structure.

12. Explanatory Note for Item 9(i)

Mr Augustus Ralph Marshall had served as an Independent Non-Executive Director of the Company for 11 years as at 31 August 2016. The holders of the Stapled Securities had at the Annual General Meeting of the Company held on 13 April 2016 approved the continuing in office of Mr Augustus Ralph Marshall as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting of the Company.

The Board has recommended him to continue to act as an Independent Non-Executive Director. Please refer to page 127 as stated in the Corporate Governance Statement of the Annual Report of KLCCP Stapled Group for detailed information and justification.

13. Explanatory Note for Item 9(ii)

Dato' Halipah binti Esa would have served as an Independent Non-Executive Director of the Company for 11 years as at 28 February 2018. The holders of the Stapled Securities had at the Annual General Meeting of the Company held on 13 April 2016 approved the continuing in office of Dato' Halipah binti Esa as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting of the Company.

The Board has recommended her to continue to act as an Independent Non-Executive Director. Please refer to page 127 as stated in the Corporate Governance Statement of the Annual Report of KLCCP Stapled Group for detailed information and justification.

14. Explanatory Note for Item 10

Subject to passing of Resolution 1 of KLCC REIT, the proposed Resolution IX, if passed, will grant a renewed mandate and provide flexibility for the Company to empower the Directors to issue New Ordinary Shares from time to time, provided that the total number of such New Ordinary Shares to be issued, when aggregated with the total number of any such ordinary shares issued during the preceding 12 months does not exceed 10% of the total number of issued shares of the Company for the time being (excluding any treasury shares) should the need arise and provided further that such corresponding number of New Units equal to the number of New Ordinary Shares shall be issued and every one New Ordinary Share shall be stapled to one New Unit upon issuance.

In order to avoid any delay and costs involved in convening a general meeting to approve such issuance of ordinary shares, the approval is a renewed mandate given to the Directors as the Board is always looking into prospective areas and seeking opportunities to broaden the operating base, increase earnings potential of the Company, raise funds to finance future investments, acquisitions and capital expenditure to enhance the value of the Company and/or to refinance existing debt as well as for working capital purposes which may involve the issue of new ordinary shares. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

As at the date of this Notice, the Company did not issue any New Ordinary Shares pursuant to the mandate granted to the Directors at its Thirteenth Annual General Meeting.

This page has been intentionally left blank.

Administrative Details

DATE – 6 April 2017
TIME – 10.30 a.m.
PLACE – Sapphire Room, Level 1
Mandarin Oriental, Kuala Lumpur
Kuala Lumpur City Centre
50088 Kuala Lumpur, Malaysia

REGISTRATION

1. Registration will start at 8.15 a.m. and the Annual General Meeting will start punctually at 10.30 a.m. We strongly encourage you to come early to facilitate registration.
2. Please ascertain which registration counter you should approach to register yourself for the meetings and join the queue accordingly.
3. Please produce your original Identity Card (MyKad) to the registration staff for verification. Please make sure you collect your MyKad thereafter. KLCCP will not be responsible for any lost of MyKad.
4. Upon verification and registration:
   - please sign on the Attendance List. A **passcode slip** (for poll voting purpose) will be issued to you. Please retain the passcode for voting; and
   - you will be given an **identification wristband**. If you are attending the AGM as a shareholder as well as proxy, you will be registered once and will only be given one identification wristband to enter the meeting hall. No person will be allowed to enter the meeting hall without wearing the identification wristband. There will be no replacement in the event that you lose/misplace the identification wristband.
5. Once you have collected your **identification wristband, passcode slip** (for poll voting purpose) and signed the Attendance List, please leave the registration area immediately and proceed for refreshment at the Ballroom foyer.
6. No person will be allowed to register on behalf of another person even with the original MyKad of that other person.
7. The registration counters will only handle verification for identities and registration. If you have any queries, please proceed to the Help Desk.

REGISTRATION HELP DESK

8. The Registration Help Desk handles revocation of proxy's appointment and/or any clarification or enquiry.

CAR PARK AND PARKING REDEMPTION COUNTER

9. After registration for attendance you are advised to approach the Parking Redemption Counter to exchange your parking ticket for free parking provided by the Company for cars parked only at the following locations within the KLCC Precinct:

Locations	Enquiry Contact
Mandarin Oriental, Kuala Lumpur	03-2179 8898
KLCC Basement Car Park	03-2392 8585
Kuala Lumpur Convention Centre Car Park	03-2333 2945
Lot D1 Open Car Park *(adjacent to Mandarin Oriental, Kuala Lumpur)*	03-2392 8585

PROXY

10. A member entitled to attend and vote is entitled to appoint proxy/proxies, to attend and vote instead of him. If you are unable to attend the meetings and wish to appoint a proxy to vote on your behalf, please submit your Form of Proxy in accordance with the notes and instructions printed therein.
11. If you wish to attend the meetings yourself, please do not submit the Form of Proxy. You will not be allowed to attend the meetings together with a proxy appointed by you.
12. If you have submitted your Form of Proxy prior to the meetings and subsequently decided to attend the meetings yourself, please proceed to the Registration Help Desk to revoke the appointment of your proxy.
13. Please ensure that the original Form of Proxy is deposited at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn. Bhd. not less than forty eight (48) hours before the time appointed for holding the meetings.

CORPORATE MEMBER

14. Any corporate member who wishes to appoint a representative instead of a proxy to attend this meetings should lodge the certificate of appointment under the seal of the corporation, at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn. Bhd. not less than forty eight (48) hours before the time appointed for holding the meetings.

GENERAL MEETING RECORD OF DEPOSITORS

15. For the purpose of determining who shall be entitled to attend the KLCC REIT 4th AGM and KLCCP 14th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Articles 57(1) and 57(2) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 29 March 2017 and only a depositor whose name appears on such Record of Depositors shall be entitled to attend the said meetings.

REFRESHMENT

16. Light Refreshment shall be provided from 8.30 a.m. to 10.30 a.m.

AGM ENQUIRY

17. For enquiry prior to the KLCC REIT 4th AGM and KLCCP 14th AGM, please contact the following during office hours:

    (a) Investor Relations and Business Development Department, KLCCP (Tel: 03-2783 6000) (G/L)

    (b) Share Registrar – Tricor Investor & Issuing House Services Sdn. Bhd. (Tel: 03-2783 9299) (G/L)

ANNUAL REPORT 2016

18. The KLCCP STAPLED GROUP Annual Report 2016 is available on Bursa Malaysia's website at www.bursamalaysia.com under Company Announcements and also at the KLCC website at www.klcc.com.my. Limited hardcopy is available next to the parking ticket exchange counter on first come first serve basis. You are encouraged to bring your own copy for reference.

Proxy Form

No. of stapled securities held	CDS Account No.

KLCC PROPERTY HOLDINGS BERHAD
(Co. No. 641576-U)
(Incorporated in Malaysia)

KLCC REAL ESTATE INVESTMENT TRUST
(a real estate investment trust constituted under the laws of Malaysia)

I/We* ____
(FULL NAME, NEW NRIC No./Co. No. * IN BLOCK LETTERS)

of ____
(FULL ADDRESS)

being a holder/holders *of the stapled securities of KLCC PROPERTY HOLDINGS BERHAD ("Company") and KLCC REAL ESTATE INVESTMENT TRUST ("KLCC REIT"), hereby appoint

(FIRST PROXY "A")

____
(FULL NAME, NEW NRIC No./Co. No. * IN BLOCK LETTERS)

of ____
(FULL ADDRESS)

or failing him ____
(FULL NAME, NEW NRIC No./Co. No. * IN BLOCK LETTERS)

of ____
(FULL ADDRESS)

AND (SECOND PROXY "B")

____
(FULL NAME, NEW NRIC No./Co. No. * IN BLOCK LETTERS)

of ____
(FULL ADDRESS)

or failing him ____
(FULL NAME, NEW NRIC No./Co. No. * IN BLOCK LETTERS)

of ____
(FULL ADDRESS)

or failing him/them, the CHAIRMAN OF THE MEETINGS as my/our* proxy/proxies to vote for me/us* and on my/our* behalf at the Fourth Annual General Meeting of KLCC REIT and the Fourteenth Annual General Meeting of the Company to be held concurrently at the Sapphire Room, Level 1, Mandarin Oriental, Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia on Thursday, 6 April 2017 at 10.30 a.m. and at any adjournment thereof.

The proportions of my/our holding to be represented by my/our proxies are as follows:

First Proxy "A" %

Second Proxy "B" %

%

My/our proxy/proxies shall vote as follows:

(Please indicate with an "X" in the appropriate box against each resolution how you wish your vote to be cast)

	Resolution	PROXY "A"		PROXY "B"	
		For	**Against**	**For**	**Against**
KLCC REIT					
Proposed unitholders' mandate to issue new units of up to 10% of the approved fund size of KLCC REIT pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia	1				
KLCCP					
Re-election of Datuk Hashim bin Wahir	I				
Re-election of Cik Habibah binti Abdul	II				
Re-appointment of Datuk Ishak bin Imam Abas	III				
Directors' fees and benefits of RM692,000.00 payable to Non-Executive Directors for financial year ended 31 December 2016	IV				
Directors' fees and benefits of up to RM972,000.00 payable to Non-Executive Directors with effect from 1 January 2017 until the next Annual General Meeting of the Company	V				
Re-appointment of Messrs Ernst & Young as Auditors and to authorise the Directors to fix the Auditors' remuneration	VI				
Re-appointment of Mr Augustus Ralph Marshall as Independent Non-Executive Director	VII				
Re-appointment of Dato' Halipah binti Esa as Independent Non-Executive Director	VIII				
Authority to issue shares of the Company pursuant to Sections 75 and 76 of the Companies Act, 2016	IX				

Contact Number: ______________________

____
Signature of holder(s) of the stapled securities or Common Seal

Dated: ______________________

* *Strike out whichever is not desired. (Unless otherwise instructed, the proxy may vote as he thinks fit)*

Notes:

1. A holder of the stapled securities comprising ordinary shares in the Company stapled together with the units in KLCC REIT ("Stapled Securities") entitled to attend and vote at the meetings is entitled to appoint not more than 2 proxies to attend and, to vote in his stead. A proxy may but need not be a holder of the Stapled Securities. There shall be no restriction as to the qualification of the proxy.
2. Where a holder of the Stapled Securities is an authorised nominee, it may appoint at least one proxy but not more than 2 proxies in respect of each securities account it holds with ordinary shares of the Company and units of KLCC REIT standing to the credit of the said securities account.
3. Where a holder of the Stapled Securities is an exempt authorised nominee which holds Stapled Securities for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
4. Where a holder of the Stapled Securities or the authorised nominee appoints 2 proxies, or where an exempt authorised nominee appoints 2 or more proxies, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
5. A corporation which is a holder of the Stapled Securities may by resolution of its Directors or other governing body authorised such person as it thinks fit to act as its representative at the meetings. If the appointor is a corporation, this form must be executed under its Common Seal or under the hand of its attorney.

   If this proxy form is signed by the attorney duly appointed under the power of attorney, it should be accompanied by a statement reading "*signed under Power of Attorney which is still in force, no notice of revocation having been received*". A copy of the power of attorney which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised should be enclosed with the proxy form.
6. The form of proxy must be deposited at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 48 hours before the time appointed for holding the meetings or any adjournment thereof.
7. For the purpose of determining a holder of the Stapled Securities who shall be entitled to attend the Fourth Annual General Meeting of KLCC REIT and the Fourteenth Annual General Meeting of the Company, KLCC REIT Management Sdn Bhd ("Manager") and/or Maybank Trustees Berhad ("Trustee") and the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Paragraph 17 of Schedule 1 of the Trust Deed dated 2 April 2013 entered into between the Manager and the Trustee, Articles 57(1) and 57(2) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 29 March 2017 and only a Depositor whose name appears on such Record of Depositors shall be entitled to attend, speak and vote at the said meetings.

Fold here

Affix
Stamp
Here

Share Registrar

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
Unit 32-01, Level 32,
Tower A, Vertical Business Suite,
Avenue 3, Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur

Fold here

Corporate Directory

KLCC PROPERTY HOLDINGS BERHAD

Levels 33 & 34, Menara Dayabumi
Kompleks Dayabumi
Jalan Sultan Hishamuddin
P.O. Box 13214
50050 Kuala Lumpur
Malaysia
Telephone : 603 2783 6000
Facsimile : 603 2783 7810
Website: : www.klcc.com.my
E-mail : info@klcc.com.my

KLCC PARKING MANAGEMENT SDN BHD

Level P2, Tower 1
PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Malaysia
Telephone : 603 2392 8585
603 2392 8448
Facsimile : 603 2392 8407
Website : : www.parking.klcc.com.my
E-mail : klccparking@klcc.com.my

KLCC URUSHARTA SDN BHD

Level P1, Tower 2
PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Malaysia
Telephone : 603 2392 8768
Facsimile : 603 2382 1037
Website: : www.klcc.com.my
E-mail : info@klcc.com.my

KLCC REIT MANAGEMENT SDN BHD

Levels 33 & 34, Menara Dayabumi
Kompleks Dayabumi
P.O. Box 13214
Jalan Sultan Hishamuddin
50050 Kuala Lumpur
Malaysia
Telephone : 603 2783 6000
Facsimile : 603 2783 7810
Website: : www.klcc.com.my
E-mail : info@klcc.com.my

MANDARIN ORIENTAL, KUALA LUMPUR

Kuala Lumpur City Centre
P.O. Box 10905
50088 Kuala Lumpur
Malaysia
Telephone : 603 2380 8888
Facsimile : 603 2380 8833
Website : www.mandarinoriental.com
E-mail : mokul-sales@mohg.com

SURIA KLCC SDN BHD

Level 13, Menara Darussalam
No 12, Jalan Pinang
50450, Kuala Lumpur
Malaysia
Telephone : 603 2382 3434
Facsimile : 603 2382 2838
Website : www.suriaklcc.com.my
E-mail : info@suriaklcc.com.my

KLCC PROPERTY HOLDINGS BERHAD (641576-U)
KLCC REAL ESTATE INVESTMENT TRUST

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

Telephone : (03) 2783 6000
Facsimile : (03) 2783 7810
E-mail : info@klcc.com.my

www.klcc.com.my