



THE PLACE



KLCCP Stapled Group

ANNUAL
REPORT
2018



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

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

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

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





Malaysia's largest internally managed Stapled Security

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

Our Properties

-  5
-  2
-  1

PORTFOLIO SUMMARY

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

Office
5,603,837
Retail
1,168,870

Net Lettable Area (sq ft)

629
No. of Hotel Rooms

RM1.4^{bil}
Revenue

RM0.8^{bil}
Profit for the year

2018 KEY HIGHLIGHTS



**KLCC
REIT**

RM588.5^{mil}
Revenue

RM558.4^{mil}
Net Property Income

RM15.7^{bil}
Property Value

RM7.25
Net Asset Value per Stapled Security

37.00^{sen}
Distribution per Stapled Security

**KLCCP
STAPLED GROUP**



5.0%
Reduction in GHG Emission

6.7%
Reduction in Water Use

37.5%
Women on Board

SUSTAINABILITY HIGHLIGHTS

RM1.4^{mil}
Staff Learning and Development

RM2.0^{mil}
Community Investment

RM9.2^{bil}
Property Value

RM4.48
Net Asset Value per Unit

23.35^{sen}
Distribution per Unit

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What you'll find inside this report

Our business is premised on building long term sustainable value

➔ Read about it on pages 52-53



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

➔ Read about it on pages 54-57



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

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

➔ Read about it on pages 106-159

OUR FIVE SUSTAINABILITY PILLARS

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

KLCC PROPERTY HOLDINGS BERHAD

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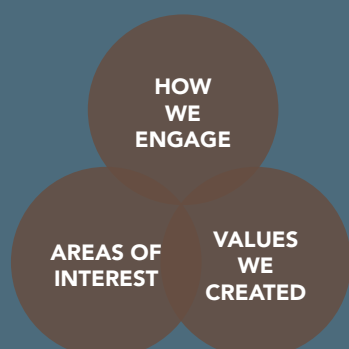
KLCCP STAPLED GROUP

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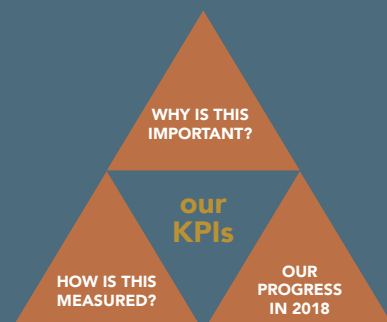
...we build trust and connect **with our stakeholders**

☞ Read about it on pages 60-61



We measure progress against **our KPIs**

☞ Read about it on pages 66-67



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

☞ Read about it on pages 162-206



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

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

This Report should be read together with the information available on our website www.klcc.com.my for a comprehensive overview of the Group.

The report is guided by:

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

Forward looking statements

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





ABOUT THIS REPORT

UNDERSTANDING

VISION

To be the leading
Real Estate Investment
Group of Choice

MISSION

Maximise Value of
Investment and Returns
to Holders of Stapled
Securities

Committed to Deliver
Sustainable Performance
and Growth

Build Rounded Capabilities
in Real Estate Investment

PURPOSE STATEMENT

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

**OUR
COMPETITIVE
ADVANTAGE**

OUR BUSINESS

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

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

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

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

SHARED VALUES

INNOVATIVE

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

COHESIVENESS

United in Purpose and Fellowship

LOYALTY

Loyalty to Corporation and Nation

INTEGRITY

Honest and Upright

PROFESSIONALISM

Committed, Proactive and Always Striving for Excellence

CORPORATE PROFILE

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

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

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

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

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

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

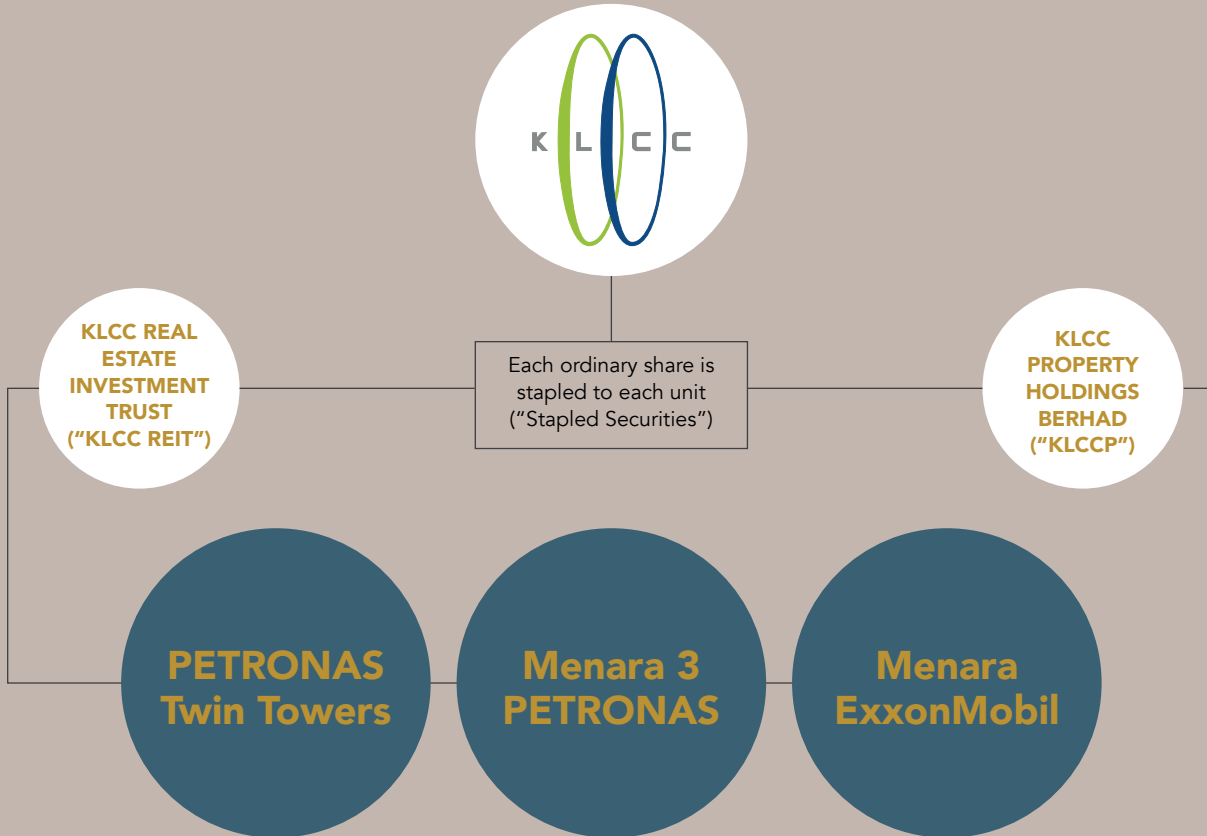
In addition, *KLCC REIT Management Sdn Bhd*, a wholly-owned subsidiary of KLCCP, has been appointed to manage and administer the KLCC REIT in accordance with the objectives and investment policy of KLCC REIT.

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

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



KLCCP STAPLED GROUP STRUCTURE



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

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

CORPORATE INFORMATION

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

KLCC REAL ESTATE INVESTMENT TRUST ("KLCC REIT")

MANAGER FOR KLCC REIT ("THE MANAGER")

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

BOARDS OF DIRECTORS OF KLCCP AND THE MANAGER

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

Datuk Hashim bin Wahir
(Chief Executive Officer)

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

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

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

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

Cik Habibah binti Abdul
(Independent Non-Executive Director)

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

BOARD AUDIT COMMITTEES OF KLCCP AND THE MANAGER

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

NOMINATION AND REMUNERATION COMMITTEES OF KLCCP AND THE MANAGER

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

COMPANY SECRETARIES OF KLCCP AND THE MANAGER

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

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

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

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

REGISTERED OFFICE OF KLCCP AND THE MANAGER

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

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

CORPORATE OFFICE OF KLCCP AND THE MANAGER

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

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

SHARE REGISTRAR FOR KLCCP AND KLCC REIT

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

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

TRUSTEE FOR KLCC REIT

Maybank Trustees Berhad
8th Floor, Menara Maybank
100, Jalan Tun Perak, 50050 Kuala Lumpur

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

PROPERTY MANAGER FOR KLCC REIT

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

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

SHARIAH ADVISER FOR KLCC REIT

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

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

AUDITORS

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

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

INTERNAL AUDITOR

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

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

PRINCIPAL BANKERS FOR KLCCP AND KLCC REIT

CIMB Islamic Bank Berhad
CIMB Bank Berhad
Maybank Islamic Berhad

STOCK EXCHANGE LISTING

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



THE PLACE TO WORK

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



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

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

SEC 01

SEC 02

SEC 03

SEC 04

SEC 05

SEC 06

SEC 07

CHAIRMAN'S

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

DATUK AHMAD NIZAM BIN SALLEH
Chairman

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

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

THE YEAR THAT WAS

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

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

STATEMENT



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

SEC 01

SEC 02

SEC 03

SEC 04

SEC 05

SEC 06

SEC 07

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STATEMENT



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

WHAT MATTERS TO YOU, MATTERS TO US

- 1 NEW PACE OF CHANGE**
 We recognised that the challenges in the operating landscape required a review of the Group's strategies to ensure our business remains agile to respond to the new pace of change and provide us the impetus to create significant value
- 2 OPERATIONAL EXCELLENCE**
 The due recognition from the industry demonstrate the hard work and commitment of our dedicated employees in pursuing excellence and attaining a competitive edge
- 3 VALUES AND CULTURE**
 Building a corporate culture is a key agenda for the Group and we focused on ongoing efforts to harness key strengths and improvements at the workplace to keep our employees inspired. We place priority on a strong culture of safety, strengthening our HSE capability and respectfully managing our impact on the environment, premised on sustainable business practices
- 4 INTEGRITY AND TRUST**
 Our expectations at the Boards are high and we are committed together with the Management Leadership Team in promoting a strong culture that values ethical conduct, respect and most importantly, integrity
- 5 OUR COMMITMENT**
 We will remain steadfast in leveraging on our core competencies in key market segments, while adapting to a challenging business environment in our continued quest of creating value for the holders of Stapled Securities

CHAIRMAN'S STATEMENT



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

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

SUSTAINING CREDIBLE PERFORMANCE

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

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

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

LEADING OPERATIONAL EXCELLENCE

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

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

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

CHAIRMAN'S STATEMENT

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

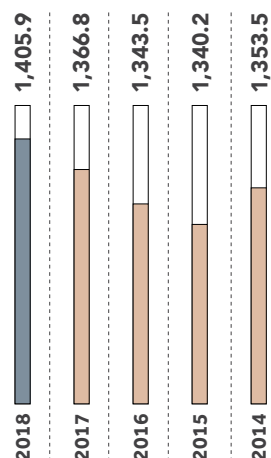
In recognition of our commitment to socially responsible and sustainable investment, the KLCCP Stapled Group was bestowed its third Gold Award at The Asset Corporate Awards 2018 for excellence in Environmental, Social and Corporate Governance, following our achievements in 2016 and 2017. We were also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

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

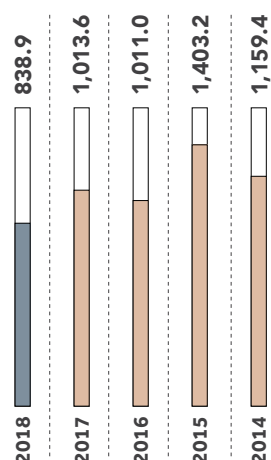
Our car parking management services company, KLCC Parking Management Sdn Bhd added another feather to its cap with the Silver Platinum Premier Award at the MOSHPA OSH Excellence Awards 2018 for OSH Management in Car Parking, following its Platinum and Gold Awards in the last 3 years.

OUR RESULTS

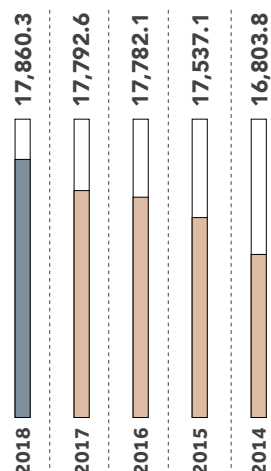
REVENUE (RM'mil)



NET PROFIT (RM'mil)



TOTAL ASSETS (RM'mil)



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

BUILDING VALUES AND CULTURE

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

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

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

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

CHAIRMAN'S STATEMENT

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

GOVERNING WITH INTEGRITY AND TRUST

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

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

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

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

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

BOARD CHANGES

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

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

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

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



CHAIRMAN'S STATEMENT

LOOKING AHEAD TO 2019

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

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

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

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

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

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

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

APPRECIATION

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

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

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



DATUK AHMAD NIZAM BIN SALLEH
Chairman



CEO'S YEAR IN REVIEW

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

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

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

BEING THE PLACE

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

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

DATUK HASHIM BIN WAHIR
Chief Executive Officer

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

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

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

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

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

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

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

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

CEO'S YEAR IN REVIEW

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

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

OUR PEOPLE, OUR PRIORITY

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

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

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



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

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

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

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

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

CEO'S YEAR IN REVIEW



CREATING VALUE THROUGH SUSTAINABILITY

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

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



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

ROBUST CAPITAL STRUCTURE

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

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

CEO'S YEAR IN REVIEW

EXPECTATIONS OF 2019

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

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

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

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

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

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

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

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

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



CEO'S YEAR
IN REVIEW

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

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



sustainable business well positioned for the future.

IN APPRECIATION

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

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

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

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

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

DATUK HASHIM BIN WAHIR
Chief Executive Officer





THE PLACE TO SHOP

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



/
RETAILER,
SURIA KLCC
/

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

/
SHOPPER,
SURIA KLCC
/

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

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MARKET REPORT

EXECUTIVE SUMMARY



ECONOMIC OVERVIEW

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

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

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- No Change
- Increased
- Decreased

Remarks

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

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

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

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

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

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

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

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

OFFICE MARKET OVERVIEW



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

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

Kuala Lumpur Office Occupancy



Source: NTL Research & Consulting, 2018

RETAIL MARKET OVERVIEW



12 million sq ft total retail stock in city centre

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

Retail Occupancy in City Centre



Source: NTL Research & Consulting, 2018

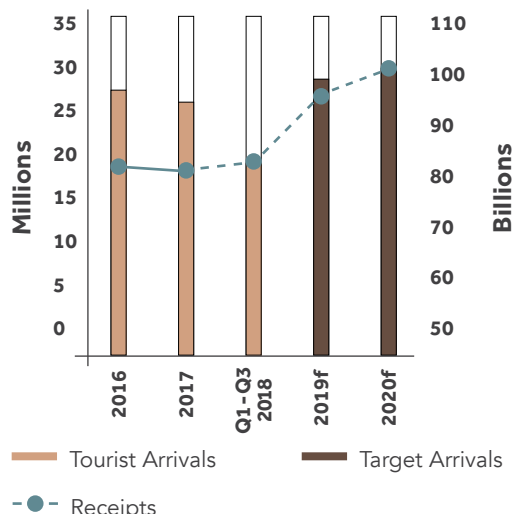
HOTEL MARKET OVERVIEW



224 hotels with 40,500 rooms in Kuala Lumpur

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

Tourist Arrivals and Receipts



Source: NAPIC

MARKET REPORT

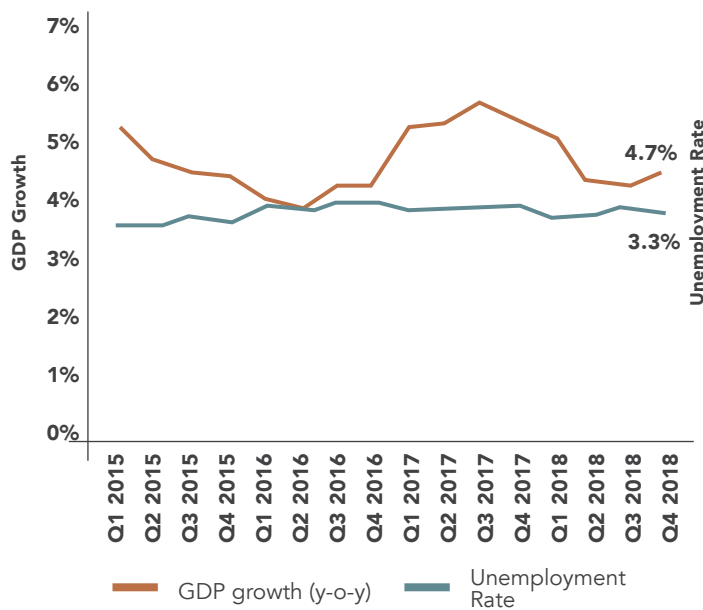
ECONOMY

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

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

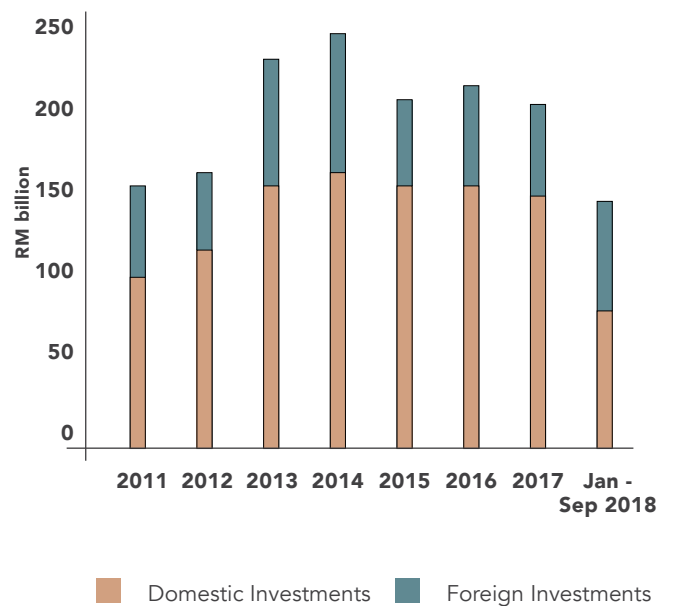
The labour market remained stable with moderate hiring activities. Growth in the labour force was generally in line with net employment gain, resulting in an unemployment rate of 3.3% in 2018.

**FIGURE 1.1
GDP GROWTH AND UNEMPLOYMENT RATE**



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

**FIGURE 1.2
APPROVED INVESTMENTS**



Source: Malaysian Investment Development Authority, 2018

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

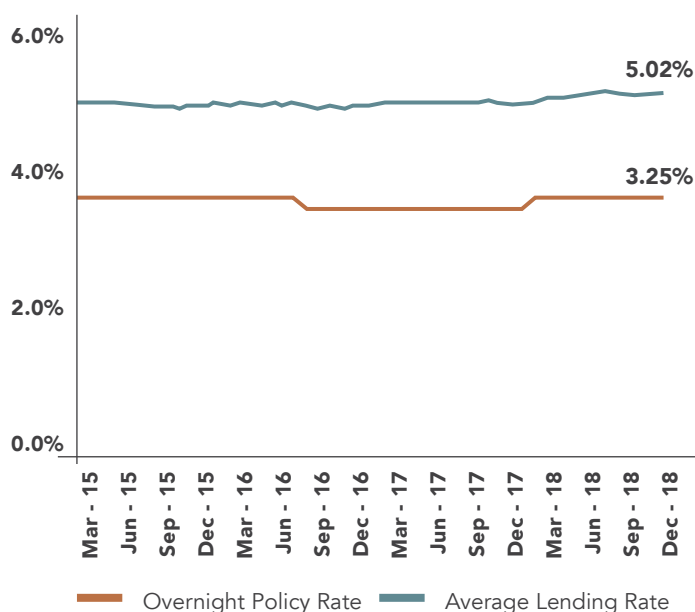
Headline inflation, as measured by the annual percentage change in the Consumer Price Index, rose at a benevolent rate of 1% in 2018, the lowest since 2009, as a result of combined outcome from removal of Goods and Services Tax (GST) and the implementation of Sales and Service Tax (SST). Nonetheless,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

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

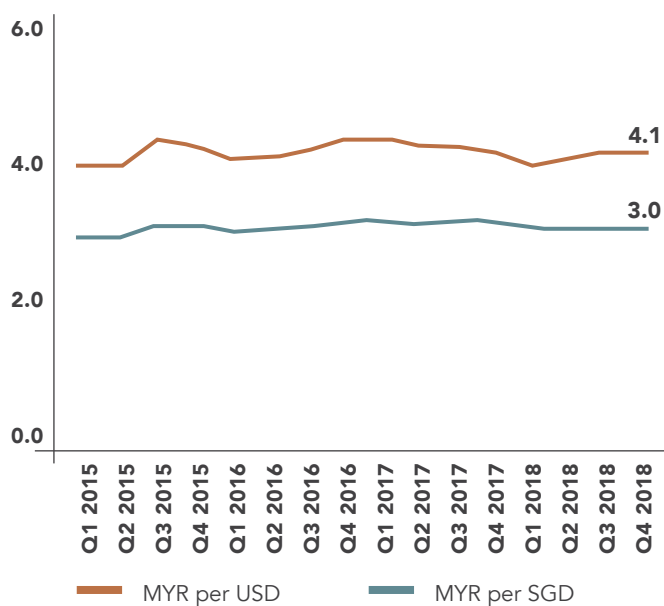
The Ringgit strengthened during the early part of the year, but depreciated over the second half, in line with regional currencies, ending the year with a decline of 1.8% (Figure 1.4). The normalisation of the US monetary policy has resulted in the strengthening of the US dollar, consequently affecting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

FIGURE 1.3
OVERNIGHT POLICY RATE



Source: Bank Negara Malaysia, 2018

FIGURE 1.4
EXCHANGE RATE



Source: Bank Negara Malaysia, 2018

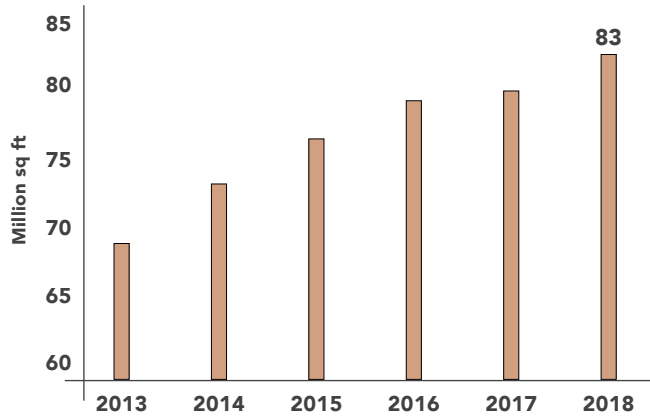
OFFICE

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

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

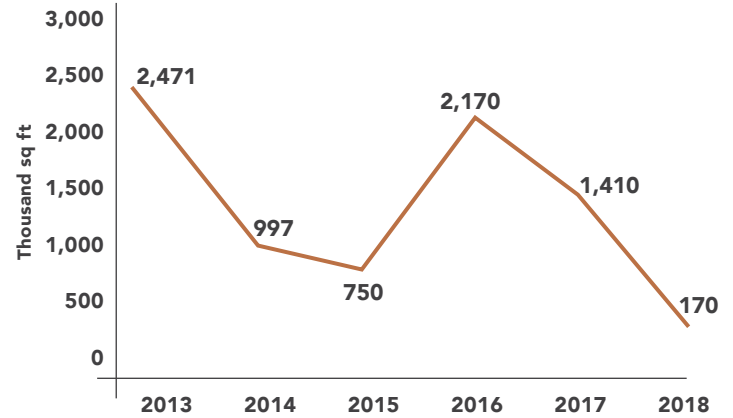
MARKET REPORT

**FIGURE 2.1
OFFICE SUPPLY IN KUALA LUMPUR**



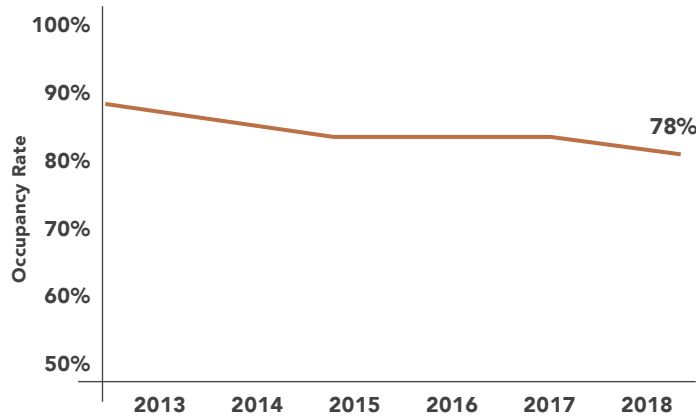
Source: NTL Research & Consulting, 2018

**FIGURE 2.2
NET ABSORPTION**



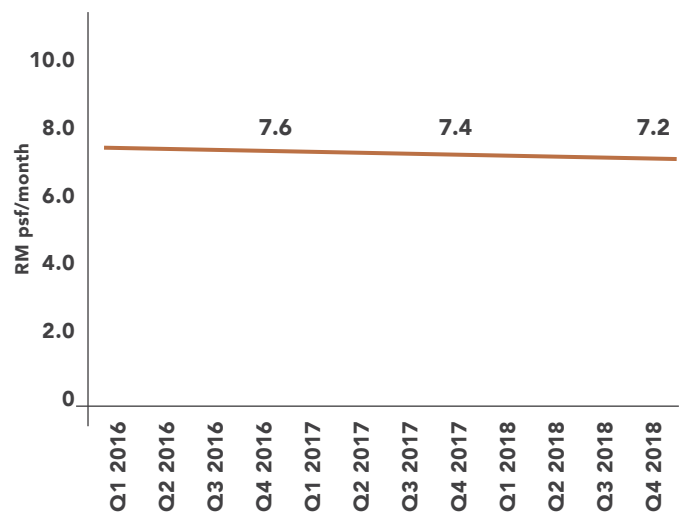
Source: NTL Research & Consulting, 2018

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



Source: NTL Research & Consulting, 2018

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



Source: NTL Research & Consulting, 2018

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

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

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TABLE 2.5
SELECTED NEW OFFICE DEVELOPMENTS IN KUALA LUMPUR

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

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

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

TABLE 2.6
SELECTED MAJOR OFFICE TRANSACTIONS IN KUALA LUMPUR

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

Source: NTL Research & Consulting, 2018

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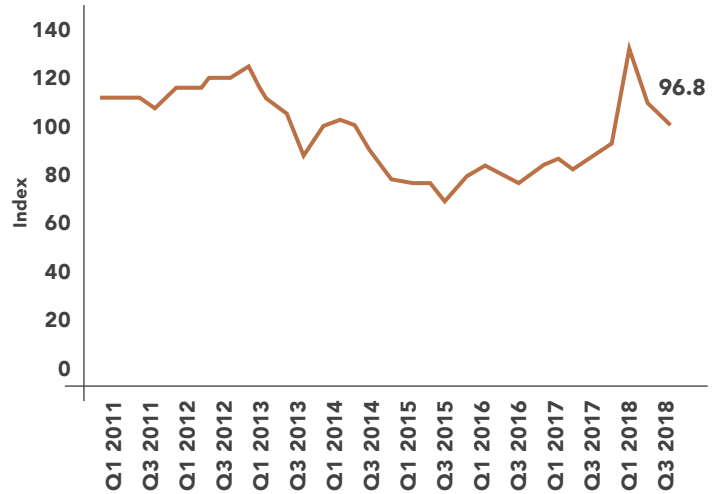
Regardless, Tun Razak Exchange (TRX), Malaysia's International Financial District, has continued its momentum with four office buildings. The Exchange 106, Prudential Tower, HSBC Tower and Affin Bank Tower are scheduled for completion in 2019 and 2020, offering a total NLA of 4.2 million sq ft. TRX is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

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

RETAIL

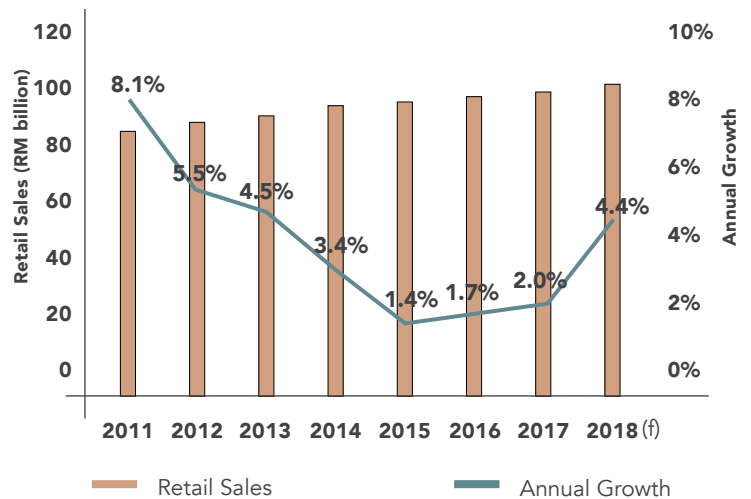
After three years of poor consumer sentiment, the Consumer Sentiment Index (CSI) unexpectedly spiked through the 100-point threshold level and soared to a 21 year-high of 132.9-point during the second quarter 2018, driven mainly by the unexpected election euphoria of a new Government (Figure 3.1). The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

FIGURE 3.1
CONSUMER SENTIMENT INDEX



Source: Retail Group Malaysia, 2018

FIGURE 3.2
MALAYSIA ANNUAL RETAIL SALES



Source: Malaysian Institute of Economic Research, 2018

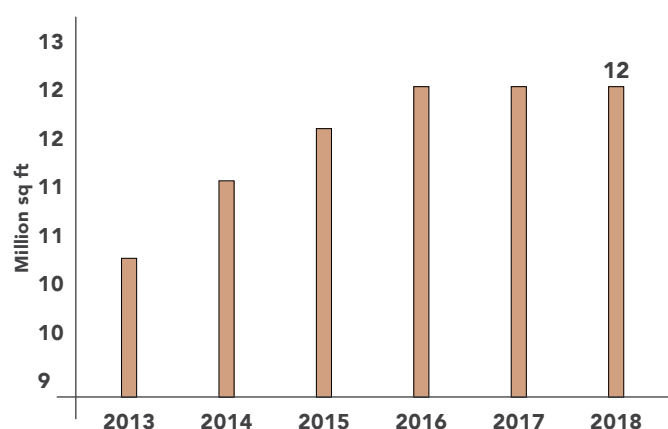
Wage increase and bonuses were modest for the year, and the high cost of living did not decline significantly despite the removal of the GST. High household debt remained a concern despite recording marginal improvement. Its ratio to GDP declined slightly to 83.8% in H1 2018, as opposed to 84.2% recorded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

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

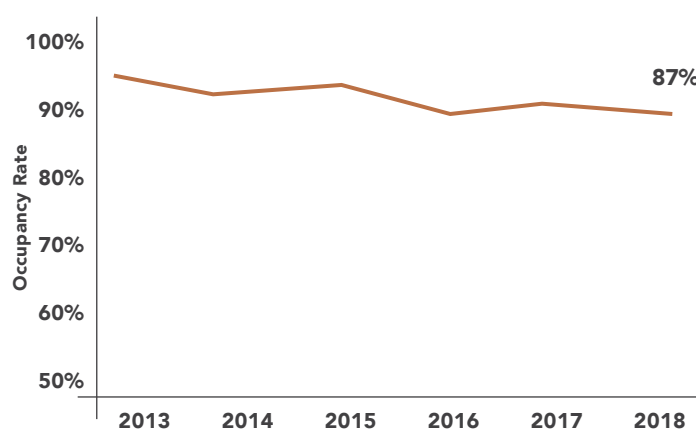
New mall openings in the heart of Kuala Lumpur include Shoppes at Four Seasons Place, a 250,000 sq ft retail podium with Robinsons being its anchor tenant and GM Bukit Bintang, a part-strata mall integrated with residential development called The Robertson. Both of the malls have added a cumulative space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

FIGURE 3.3
RETAIL STOCK IN CITY CENTRE



Source: NTL Research & Consulting, 2018

FIGURE 3.4
RETAIL OCCUPANCY RATE IN CITY CENTRE



Source: NTL Research & Consulting, 2018

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

TABLE 3.5 NEW MALLS IN KUALA LUMPUR BY 2021

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

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

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

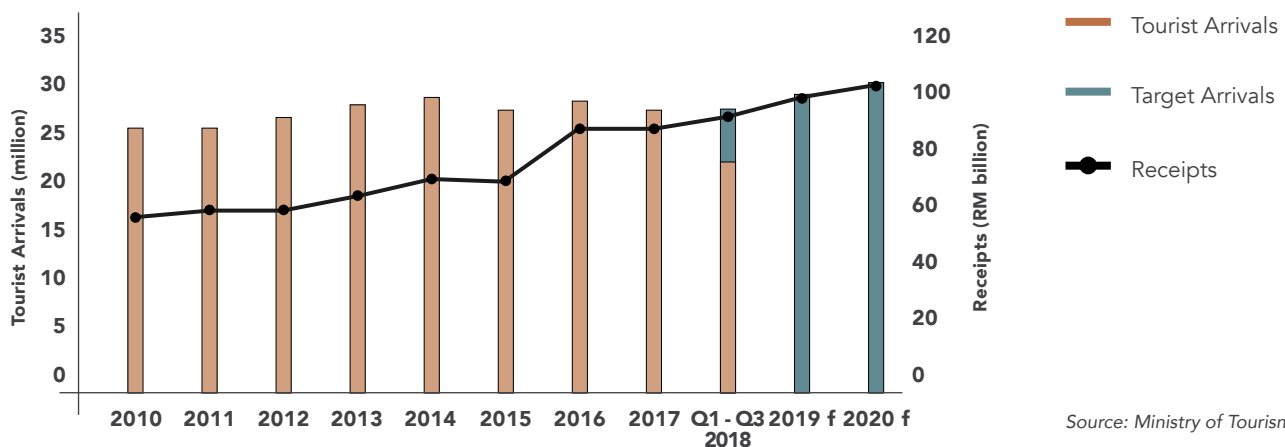
Suria KLCC Mall will continue to remain resilient with the strong catchment fundamentals and location within the iconic KLCC belt to attract quality retailers and consumer demands. Suria KLCC brought in first-to-market brands and is continuously embracing digitalisation efforts which will bring differentiating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

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

HOTEL

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

FIGURE 4.1
TOURIST ARRIVALS AND RECEIPT



Source: Ministry of Tourism, 2018

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

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

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

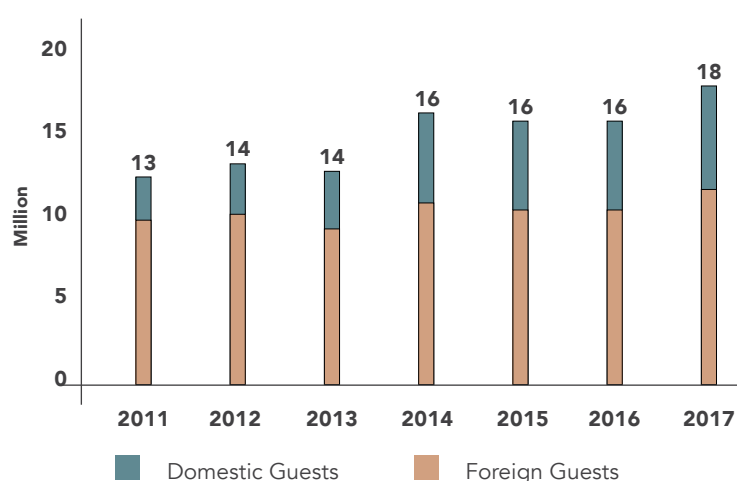
TABLE 4.2
SELECTED NEW LUXURY HOTEL DEVELOPMENTS IN KUALA LUMPUR

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

Source: NTL Research & Consulting, 2018

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

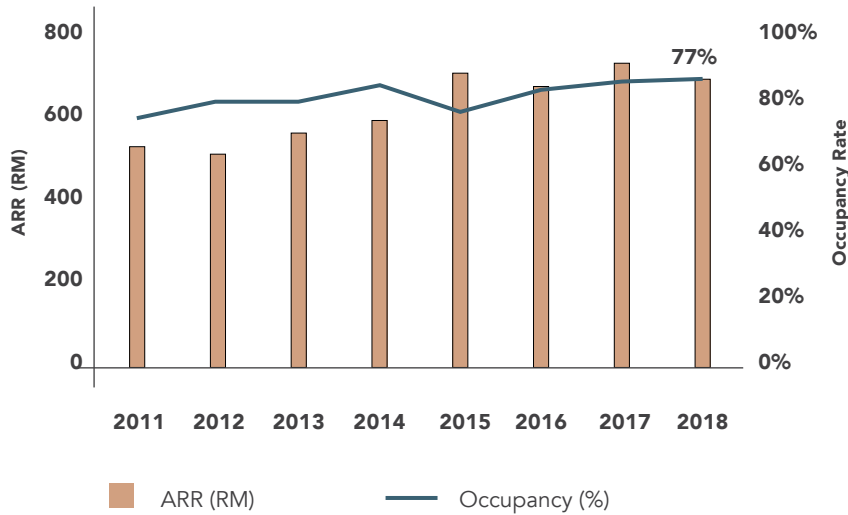
FIGURE 4.3
HOTEL GUESTS IN KUALA LUMPUR



Source: Tourism Malaysia, 2018

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



Source: NTL Research & Consulting, 2018

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

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

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



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