

CAFÉ AURORA

# THE PLACE TO WORK

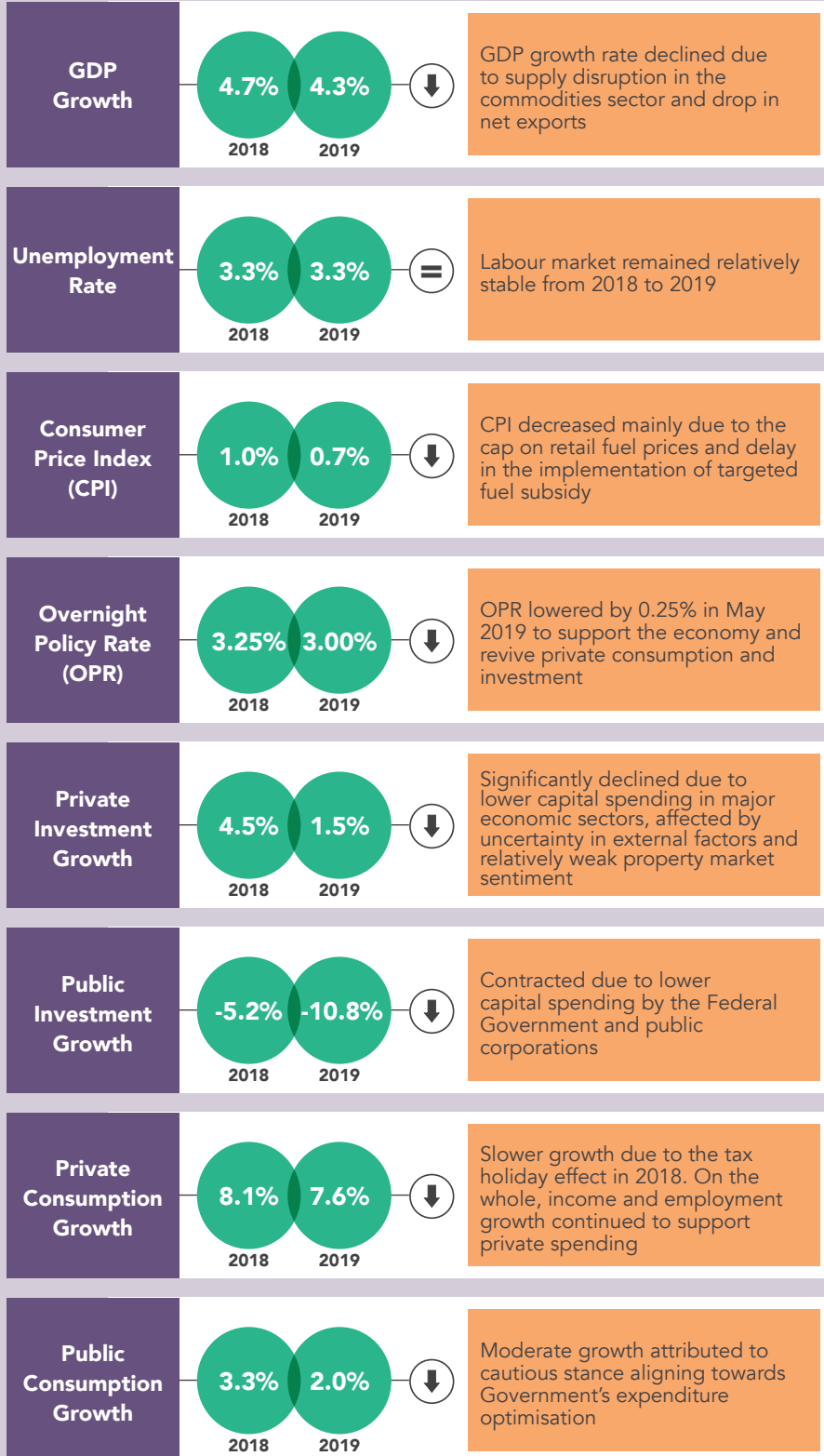
At KLCC, we create a workplace that connects and empowers every individual. We support tenants' needs and transform them into reality, thus the creation of "Workplace For Tomorrow", which promotes greater collaboration, interaction and enhances productivity

**THIS IS THE PLACE THAT INSPIRES  
CREATIVITY AND PASSION**



# MARKET REPORT

## ECONOMIC OVERVIEW



(Source: Central Bank of Malaysia, Department of Statistics Malaysia & Ministry of Finance Malaysia)

## EXECUTIVE SUMMARY



### OFFICE MARKET OVERVIEW

Incoming supply of new office space continued to be a major concern in the market. The office sector will continue to be a tenant-led market which will see downward rental pressure and opportunistic tenant movements.



**98.5** million sq. ft.  
Total purpose-built office supply in Kuala Lumpur

### Kuala Lumpur Office Occupancy



(Source: Valuation and Property Services Department)

# MARKET REPORT



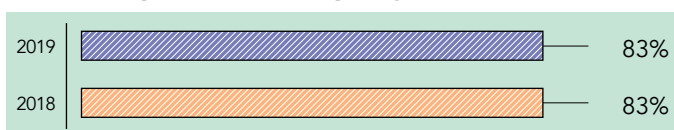
## RETAIL MARKET OVERVIEW

Despite the ongoing concern of oversupply, overall occupancy rate held up above 80%. The high occupancy rates for prime retail malls compensated the lacklustre performance of other malls and retained their popularity amongst both local and international visitors.



**33.7** million sq. ft.  
Total retail space in Kuala Lumpur

### Kuala Lumpur Retail Occupancy



(Source: Valuation and Property Services Department)

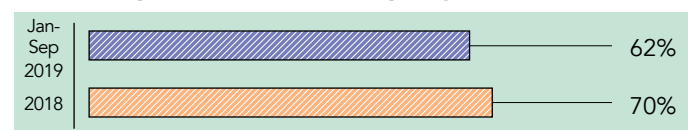
## HOTEL MARKET OVERVIEW

Occupancy rate for 5-star hotels in Kuala Lumpur declined from 70% in 2018 to 62% in the first 9 months of 2019. This was attributed to the increase in room supply and continuing popularity of alternative accommodations like Airbnb and private homestays.



**226** hotels  
with 41,841 rooms in Kuala Lumpur

### Kuala Lumpur 5-Star Hotel Occupancy



(Source: Malaysia Tourism Promotion Board)

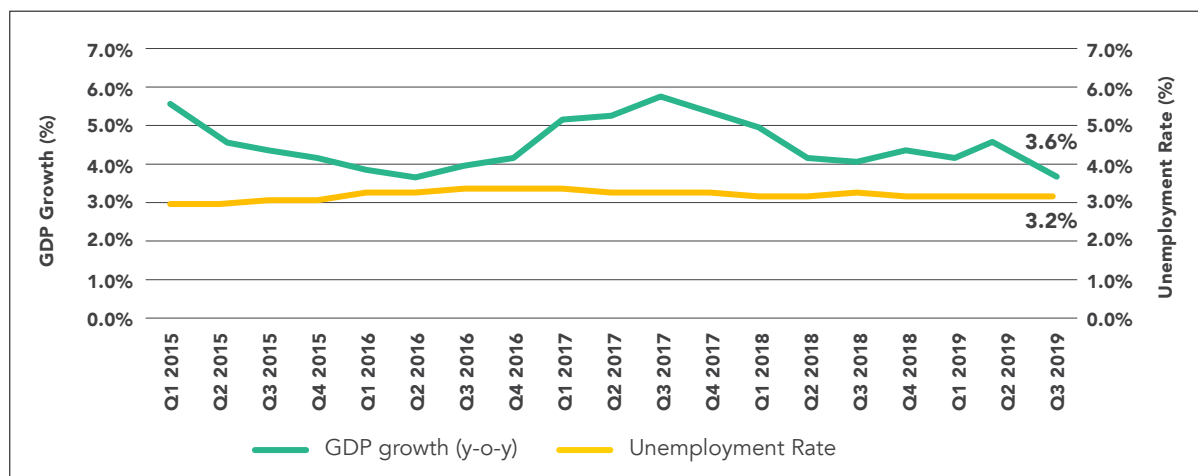
# MARKET REPORT

## ECONOMY

Malaysia's economic growth continued its modest momentum in line with the global economy which continued its moderate pace amidst geopolitical tensions, political uncertainty and the unresolved US-China trade war. Malaysia's GDP growth in 4Q 2019 slowed down to 3.6%, weighing down the overall growth for the year to 4.3% (Figure 1.1). Resilient private sector spending and sustained growth in services and manufacturing components underpinned the overall growth momentum in spite of the slow down seen in the last quarter that was due to supply disruption in the commodities sector and contraction in public investment activity.

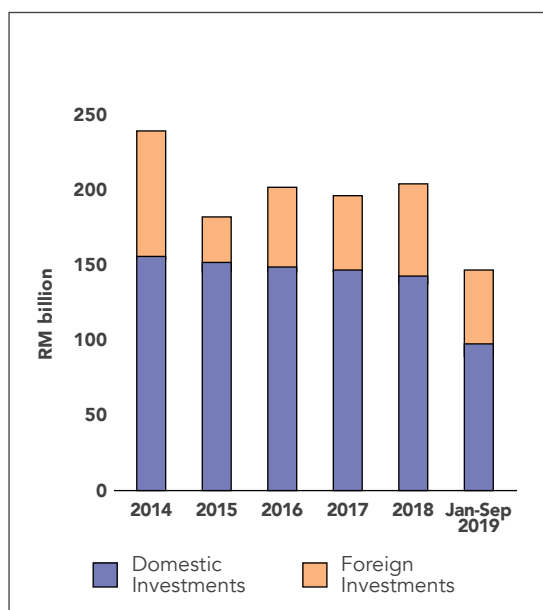
The labour market has remained relatively stable since 2018 with an unemployment rate of 3.3%. The employment market is expected to see an improvement in 2020 with the Government's effort of introducing Malaysians@Work or #MalaysiaKerja initiative which is aimed at creating more job opportunities for youths and women. The stable labour market is supportive of the general consumers' spending behaviour despite showing signs of increased cautiousness among consumers.

**FIGURE 1.1**  
**GDP GROWTH AND UNEMPLOYMENT RATE**



(Source: Central Bank of Malaysia, Department of Statistics Malaysia)

**FIGURE 1.2**  
**APPROVED INVESTMENTS**



(Source: Central Bank of Malaysia, Department of Statistics Malaysia)

Between January and September 2019, Malaysia recorded a total of RM149 billion approved investments in services, manufacturing and primary sectors (Figure 1.2). This translates to an increase of 4.4% compared to the corresponding period last year, out of which 56% or RM82.7 billion were from domestic sources and the remaining 44% or RM66.3 billion were foreign direct investments (FDI).

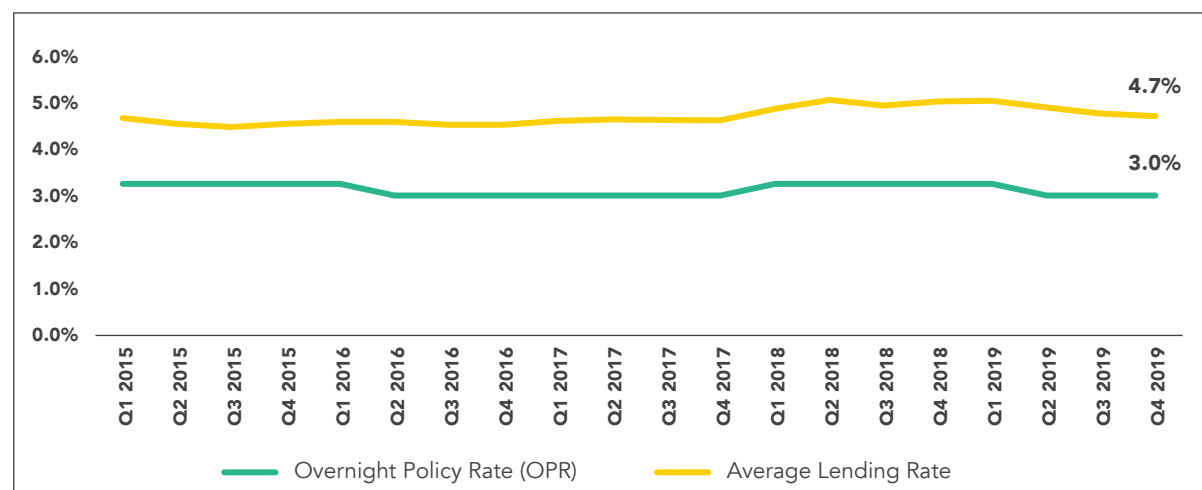
Acknowledging Malaysia's attractiveness on the global investors' radar, the World Economic Forum ranked Malaysia as the 27<sup>th</sup> most competitive economy in the world in its "Global Competitiveness Report 2019", placing Malaysia 2<sup>nd</sup> after Singapore amongst ASEAN countries. The World Bank has also ranked Malaysia 12<sup>th</sup> in its "Ease of Doing Business Ranking 2020 Report", showing an improvement from 15<sup>th</sup> place in the previous year.

Malaysia's headline inflation rate, as measured by the annual percentage change in Consumer Price Index (CPI), had increased by a marginal 0.7% in 2019 compared to 1.0% in 2018. This was mainly driven by the cap on retail fuel prices which moderated growth in general transportation costs, and the removal of consumption tax. Looking forward, the headline inflation rate is expected to increase in the range of 1.5% to 2.0%, lifted by weakening base factors, the implementation of the country's departure levy which started in September 2019 and the introduction of the country's targeted fuel subsidies.

## MARKET REPORT

The Overnight Policy Rate (OPR) was lowered by 25 basis points to 3.00% in May 2019 by Central Bank of Malaysia with the aim of preserving the degree of monetary accommodativeness (Figure 1.3). This is to stimulate investment, private consumption and support the economy amid continued headwinds from global risks. In January 2020, Central Bank of Malaysia announced a further rate cut of 25 basis points as a pre-emptive measure to secure the nation's improving economic growth trajectory amid price stability.

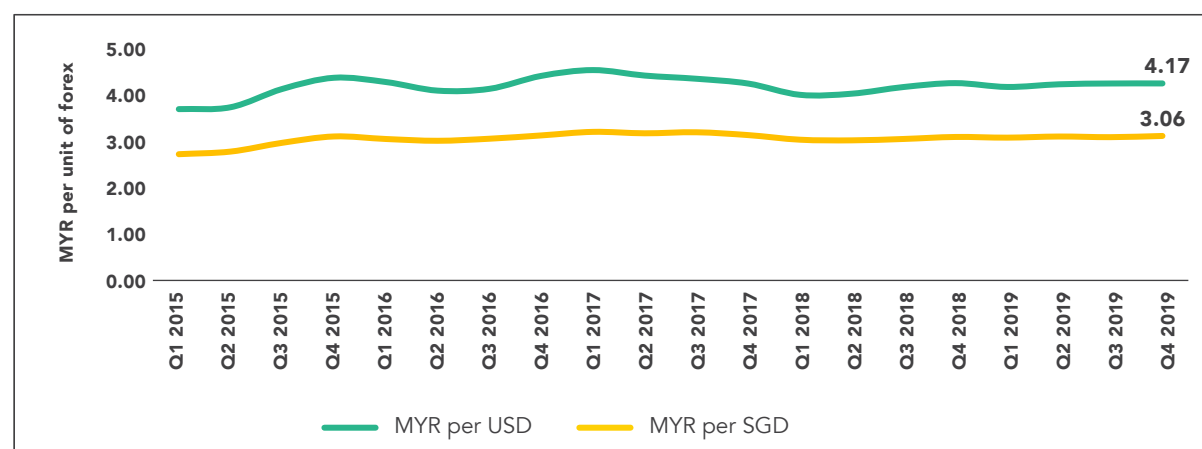
**FIGURE 1.3**  
**OVERNIGHT POLICY RATE (OPR)**



(Source: Central Bank of Malaysia)

The Ringgit appreciated in Q1 2019 but weakened in the last two quarters against the US Dollar. This trend was in line with most of the regional currencies attributed by geopolitical instability, trade war tension, policy as well as political uncertainties and volatility in commodities' prices. Analysts are expecting the Ringgit to strengthen in 2020 between RM4.00 to RM4.10 against the greenback, but may be adversely affected by the recent Coronavirus (COVID-19) outbreak. The outbreak could potentially dampen Malaysia's growth trajectory by 0.1% to 0.3% though it could be alleviated with the Government's consideration to inject special economic stimulus packages.

**FIGURE 1.4**  
**EXCHANGE RATE**



(Source: Central Bank of Malaysia)

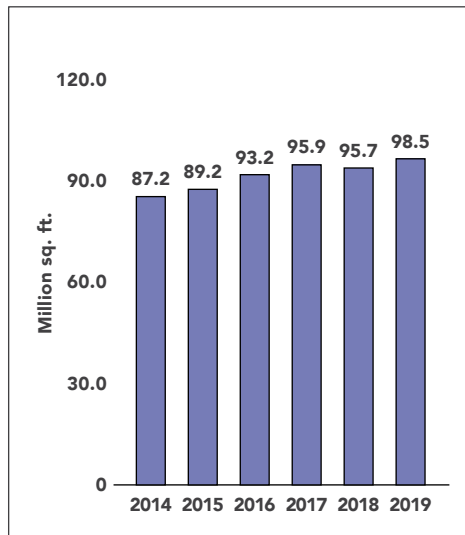
# MARKET REPORT

## OFFICE

The office market in Kuala Lumpur continued to be challenging with looming spaces and lacklustre leasing activities during the year. As at 2019, office space supply was at 98.5 million sq. ft. (Figure 2.1), out of which 76.5 million sq. ft. are located within the city centre. The occupancy rate stood at 78.4% recording a slight drop from 2018 (Figure 2.2). Notwithstanding the drop in occupancy rate, a better absorption rate of office space was observed in 2019 at 5.5% compared to a contraction of 2.2% in 2018.

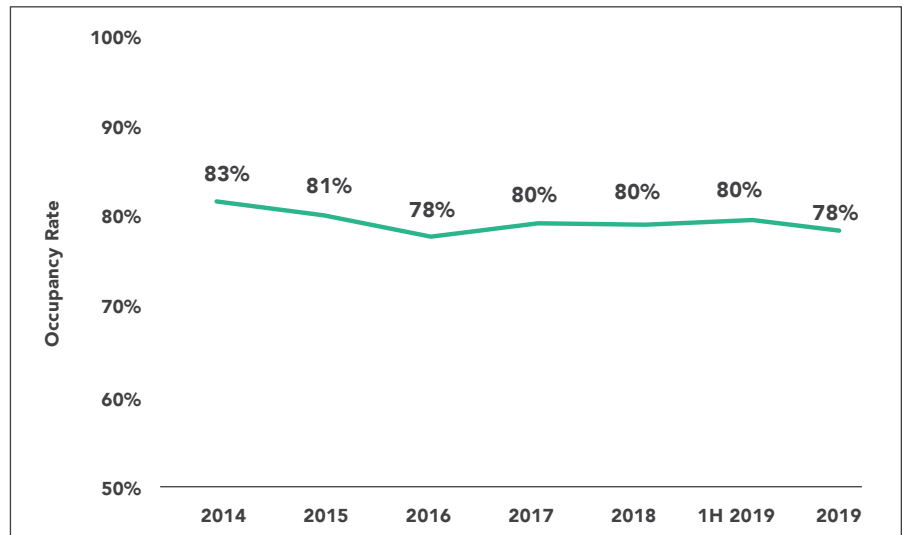
To date, there is a total of 21.3 million sq. ft. of vacant spaces in the market with another 8.6 million sq. ft. in the pipeline for completion over the next 3 years (Table 2.6). With this huge incoming supply, office sector occupancy is expected to remain under pressure.

**FIGURE 2.1**  
**OFFICE SUPPLY IN KUALA LUMPUR**



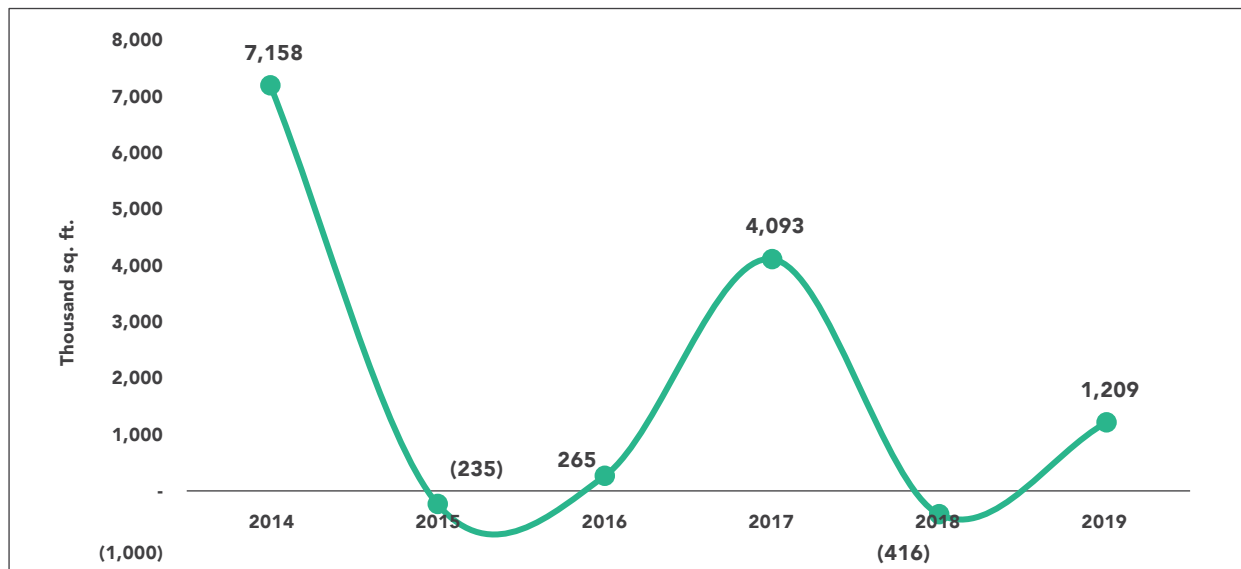
(Source: Valuation and Property Services Department)

**FIGURE 2.2**  
**OFFICE OCCUPANCY RATE IN KUALA LUMPUR**



(Source: Valuation and Property Services Department)

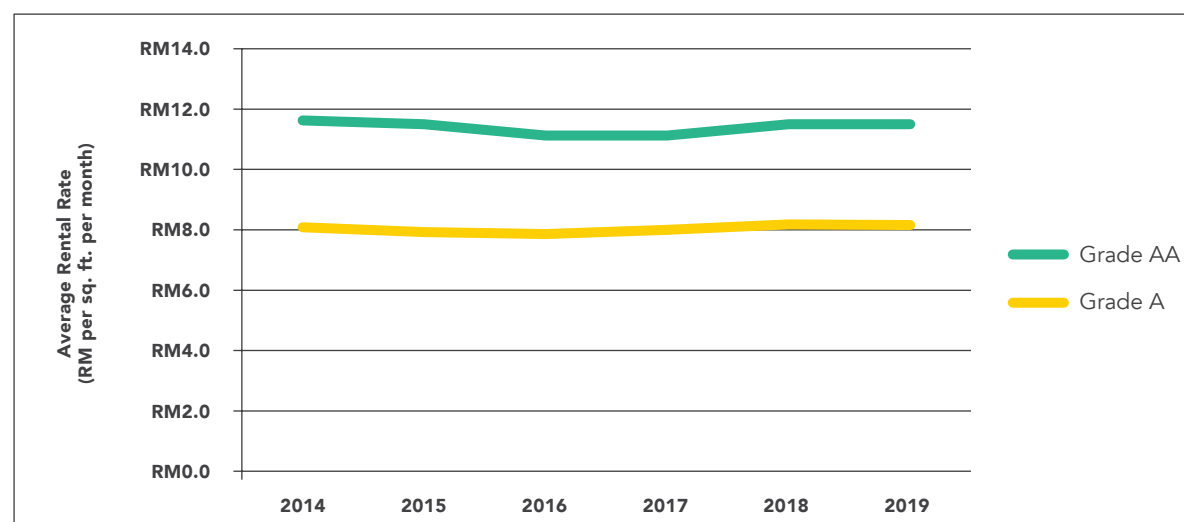
**FIGURE 2.3**  
**NET ABSORPTION OF OFFICE SPACE IN KUALA LUMPUR**



(Source: Valuation and Property Services Department)

## MARKET REPORT

**FIGURE 2.4**  
**AVERAGE RENTAL RATE FOR OFFICE SPACE IN KUALA LUMPUR**



(Source: Rahim & Co Research)

In terms of rental trends, rates for Grade A office buildings in Kuala Lumpur range between RM7.00 and RM8.80 per sq. ft. per month whereas Grade AA buildings command higher rentals of between RM11.00 and RM12.00 per sq. ft. per month (Figure 2.4). Most of these Grade AA office buildings are located around the KLCC area which are favoured by the oil and gas sector's tenants. Although at first glance rental rates may look stable, the effective rental rates will remain under pressure as more incentive packages and longer rent free periods are offered by landlords to tenants.

**TABLE 2.6**  
**SELECTED NEW OFFICE DEVELOPMENTS IN KUALA LUMPUR**

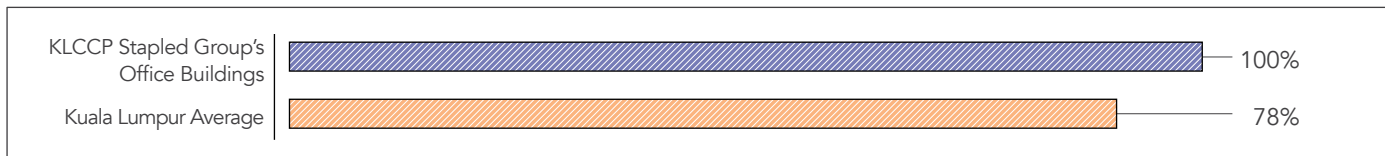
Development	Location	Expected Completion	Estimated Net Lettable Area (sq. ft.)
HSBC Malaysia @ TRX	Tun Razak Exchange	2020	3,155,000
Affin Bank HQ @ TRX	Tun Razak Exchange		
Lot 91 KLCC	KLCC area		
The Stride @ BBCC	Bukit Bintang		
TCM Tower	Jalan Tun Razak		
Merdeka 118 Tower	Jalan Hang Jebat	2021	4,210,000
UOB Tower 2	Jalan Raja Laut		
The Met Corporate Towers	Mont Kiara		
Pavilion Damansara Heights	Bukit Damansara		
PNB 1194	Jalan Sultan Ismail		
Aspire Tower KL Ecocity	Jalan Bangsar	2022	1,200,000
Pavilion Embassy	Jalan Ampang		
Bangsar 61	Jalan Bangsar	2023 onwards	2,925,000
CitiTower	KLCC area		
Oxley Tower	Jalan Ampang		

(Source: Rahim & Co Research)



# MARKET REPORT

**FIGURE 2.5**  
**OFFICE OCCUPANCY RATES: KUALA LUMPUR AVERAGE VS KLCCP STAPLED GROUP'S OFFICE BUILDINGS (2019)**



(Source: Valuation and Property Services Department, Rahim & Co Research)

Nevertheless, the office market did see some activities in 2019. Tun Razak Exchange (TRX) saw two of its office buildings completed, the Exchange 106 and Menara Prudential, contributing a total of 3.0 million sq. ft.. Menara Prudential is 80% occupied, while Exchange 106 is expecting its tenants to move in within the first quarter of 2020 to take up 20% of its space with a further expectation to increase the number to 50% by the end of the year.

Two significant office building transactions were also noted: Wisma MPL on Jalan Raja Chulan, purchased by Asia New Venture Capital Holdings Sdn Bhd at RM189 million, and Wisma KFC on Jalan Sultan Ismail, purchased by Singapore-based property developer and manager, Royal Group, for RM130 million. Other office buildings that had been put up for sale include Menara Weld by Great Eastern Life Assurance (M) Bhd and Menara MIDF by Permodalan Nasional Bhd (PNB). The KL33 office building will also be on the market for sale after the completion of its substantial upgrading works.

The demand for co-working and technology savvy spaces remains high with new providers such as Space@Platinum Sentral by IWG, Singapore-based Found8@KL Sentral and Australia-based Wotso@Mercu Summer Suites entering the market. As part of their strategy to keep up with current times, Tower REIT had also transformed its Menara HLA into a co-working and co-living space. As the contemporary concept of co-working spaces becoming highly in demand, older office buildings are at a threat of losing out, which forces them to undertake asset enhancement initiatives to ensure

their survivability. Some building owners have also converted their out-dated office towers into hotels to maximise income and yields such as WOLO Hotel in Bukit Bintang (formerly Menara KLH), Holiday Inn Express (formerly Menara ING) and Sky Express Hotel (formerly Magnum Plaza).

Looking ahead, Kuala Lumpur's office market will remain under pressure as the gap between supply and demand persists especially with the impending supply of new office spaces expected to enter the market. The market is seen to be in favour of tenants who have the advantage of choosing from an array of newer and better equipped offices with good connectivity at competitive rental rates. Notwithstanding such situation, strategic city centre locations with prestigious addresses remain a strong attraction to major tenants and multinational corporations (MNCs).

Notwithstanding the difficult market condition, KLCCP Stapled Group's office portfolio remains on a very strong footing, given the full occupancy and long-term leases with their high-quality tenants. The Triple Net Lease agreement for PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi shield them from the soft market conditions, with minimal impact to earnings.



To read more on KLCCP Stapled Group's office segment, refer to Operations Review on pages 92 to 95

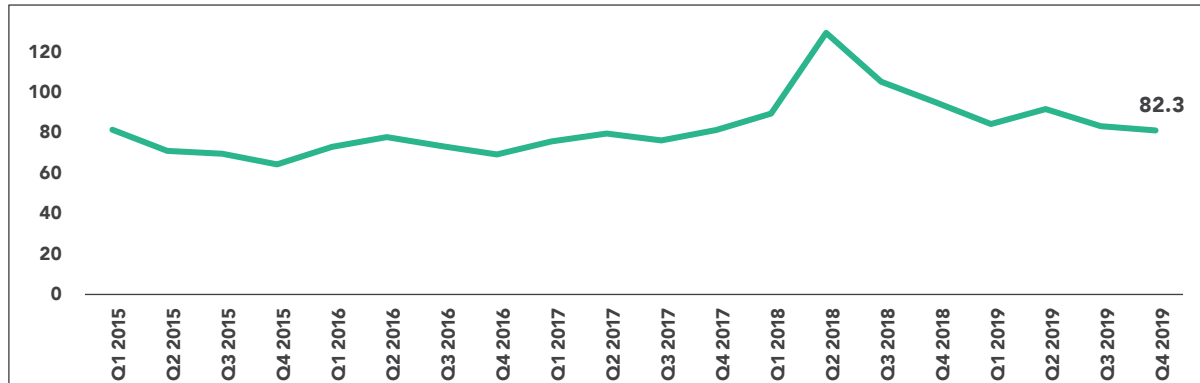
## RETAIL

With the uncertain economic situation and growth of salaries lagging behind rising cost of living, the Consumer Sentiment Index (CSI) declined to 82.3 points in 4Q 2019, remaining below the 100-point threshold (Figure 3.1). The index is at its lowest point since 2Q 2017 and with the declining trend, Malaysian consumers are expected to remain prudent in their spending. Retail Group Malaysia (RGM) revised its sales growth projection for the third time in 2019 from an initial 4.4% to 3.7% pursuant to a lower-than-expected performance for 2019 (Figure 3.2).

Nevertheless, RGM forecasted an improved growth of 4.6% for 2020 representing RM112.4 billion in sales value. The forecast, made in December 2019 before the Coronavirus (COVID-19) outbreak early this year, was in light of the projected tourist arrivals in conjunction with Visit Malaysia Year 2020 (VM2020) campaign and the Government's initiative to encourage the use of e-wallet as announced in Budget 2020. However, with the virus outbreak causing a drop of Chinese tourists which is Malaysia's third largest source of international visitors, the projected growth in spending is expected to be more modest.

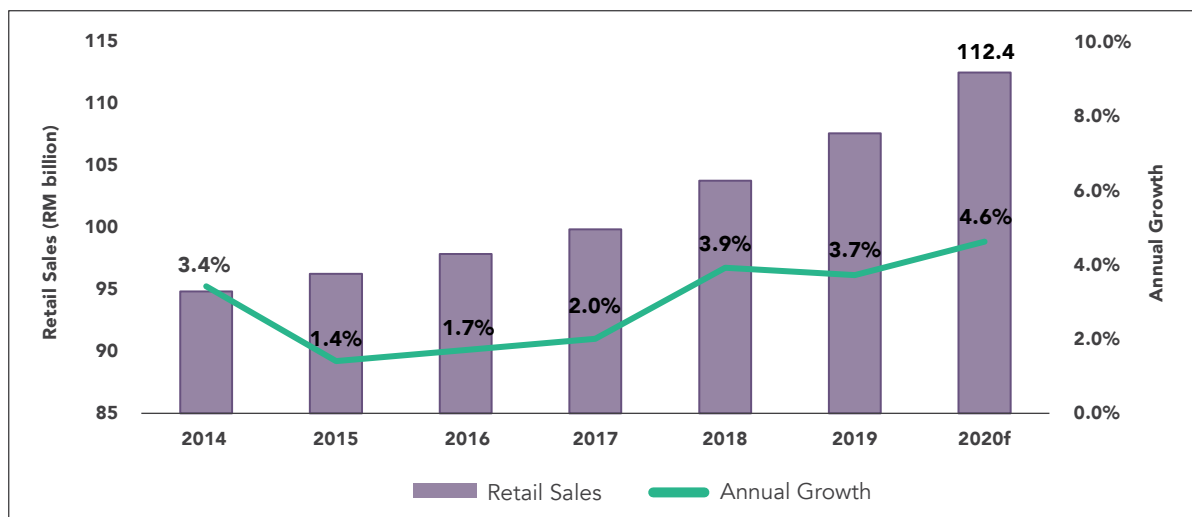
# MARKET REPORT

**FIGURE 3.1  
CONSUMER SENTIMENT INDEX**



(Source: Malaysian Institute of Economic Research)

**FIGURE 3.2  
MALAYSIA ANNUAL RETAIL SALES**

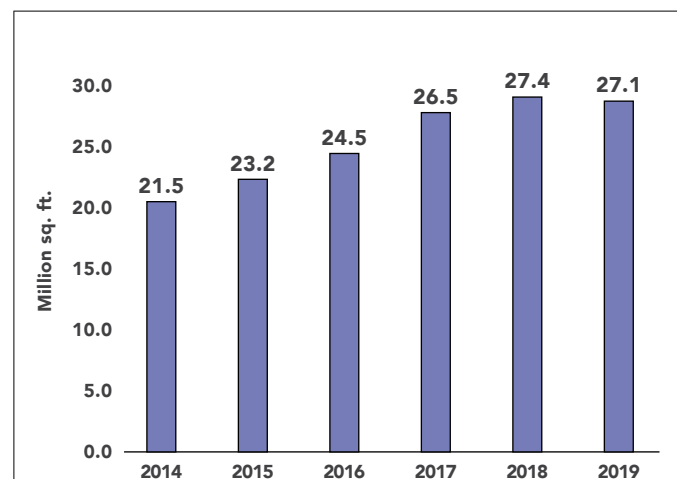


(Source: Retail Group Malaysia)

There are currently a total of 69 retail malls in Kuala Lumpur offering a total of 27.1 million sq. ft. retail space (Figure 3.3). This accounts for 80% of the total 33.7 million sq. ft. overall retail supply in Kuala Lumpur. Despite an increase of 200,000 sq. ft. from the previous year, the overall occupancy rate improved marginally to 83.3% in 2019 (Figure 3.4). Prime malls have maintained its high occupancy, while others have shown lacklustre performance in facing the growing competition. Over the next 3 years, there will be an additional 8.8 million sq. ft. retail space, namely Lalaport Mall@BBCC, Pavilion Bukit Jalil, Lifestyle Quarter Mall @ TRX and Pavilion Damansara Heights (Table 3.6).

Rental rates for prime retail malls remain stable in 2019 in contrast to the performance of other malls. The average monthly gross rentals for prime city centre malls hovered between RM29.00 to RM35.00 per sq. ft., whereas outside the city centre, rates range between RM13.00 and RM23.00 per sq. ft.. Looking forward, rents for prime malls are expected to hold due to sustained catchment in primary locations and continuous improvement initiatives to maintain market appeal.

**FIGURE 3.3  
RETAIL MALL SUPPLY IN KUALA LUMPUR**



(Source: Valuation and Property Services Department)

# MARKET REPORT

With tougher competitions ahead coupled with the evolving consumers' shopping behaviour, several existing malls went through refurbishment and expansion works to stay relevant in the market. The 42-year old Sungei Wang Plaza had opened to public its new annex block, JUMPA@Sungei Wang, in September 2019, whereas the iconic Starhill Gallery is currently being transformed into a new look called "The Starhill – Home of the Tastemakers" where completion is scheduled to be in 2021. New retail players are also strategically sourced in to enhance customers' traction. The Japanese retail company, Seibu Departmental Store, was announced as the tenant of The Exchange TRX retail component and is scheduled to open in the second half of 2021. In keeping up with their high-end brand reputation, Pavilion Kuala Lumpur saw the debut of several new luxury brand stores in their mall including the legendary shoe brand Christian Louboutin, the luxury watchmaker Officine Panerai and within Parkson Pavilion, MSGM, an Italian high-end street wear fashion brand.

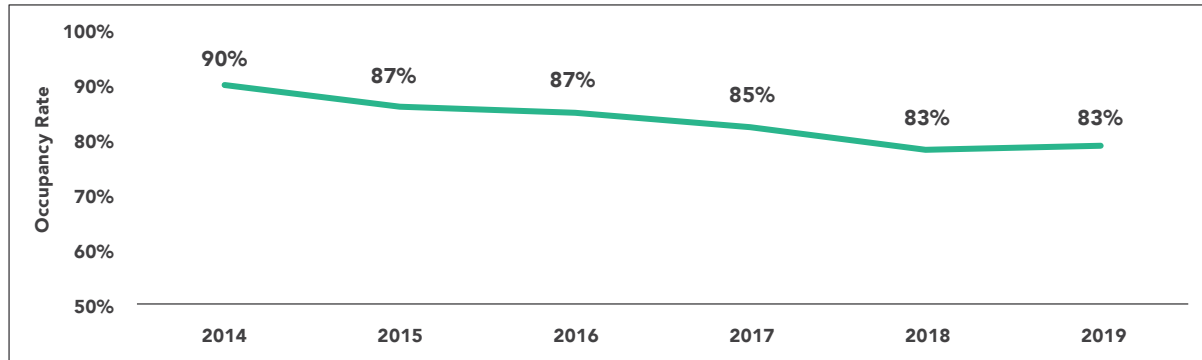
Alongside the high competition, rapid growth of e-commerce and online shopping trends in the past years had pushed retail malls to be innovative through the introduction of attractive promotional programmes and new concepts to remain resilient and relevant. Co-working services too have made their presence in shopping malls, creating an environment that fuses work and play together, i.e Co-Labs at the Starling Mall, Common Ground at Citta Mall and WORQ at KL Gateway Mall.

Suria KLCC Mall will remain resilient with the strong catchment fundamentals and location within the KLCC precinct in creating the definitive lifestyle experience for our shoppers, setting the pace and leading the retail industry in the country. Suria KLCC have reinvented the store experience for the connected customers by bringing in first-to-market brands and continuously embrace digitalisation to engage with broader community and simultaneously evolve to stay relevant.



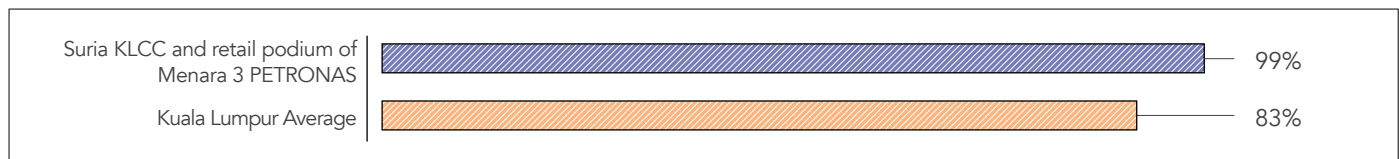
To read more on KLCCP Stapled Group's retail segment, refer to Operations Review on pages 96 to 99

**FIGURE 3.4**  
**RETAIL OCCUPANCY RATE IN KUALA LUMPUR**



(Source: Valuation and Property Services Department)

**FIGURE 3.5**  
**RETAIL OCCUPANCY RATES: KUALA LUMPUR AVERAGE VS SURIA KLCC AND RETAIL PODIUM OF MENARA 3 PETRONAS (2019)**



(Source: Valuation and Property Services Department, Rahim & Co Research)

## MARKET REPORT

**TABLE 3.6**  
**SELECTED NEW RETAIL MALLS IN KUALA LUMPUR**

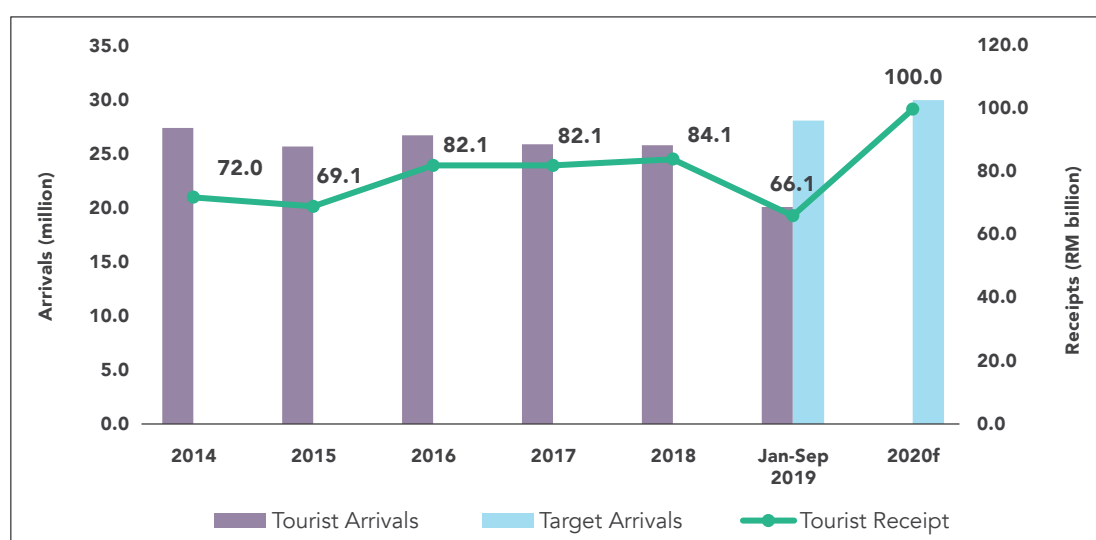
Development	Location	Expected Completion	Net Lettable Area (sq. ft.)
Datum Jelatek Mall	Keramat	2020	1,700,000
Fiesta Walk @ The Era Duta North	Segambut		
Lot 91 KLCC	KLCC area		
MET 1 (Lifestyle Mall)	KL Metropolis		
KL East Mall	Taman Melati		
Queensville Lifestyle Shopping Mall	Bandar Sri Permaisuri		
Retail Podium @ KL118	Jalan Hang Jebat	2021	6,100,000
SkyMall@M101 SkyWheel	Jalan Raja Muda Abd Aziz		
Lalaport Mall@BBCC	Bukit Bintang		
Bukit Bintang Plaza Redevelopment	Jalan Bukit Bintang		
8 Conlay	Kuala Lumpur City Centre		
Pavilion Bukit Jalil	Bukit Jalil		
Lifestyle Quarter Mall @ TRX	Tun Razak Exchange	2022	1,000,000
Pavilion Damansara Heights	Damansara Heights		
CitiTower	KLCC area	2023 onwards	790,000
Oxley Tower	Kuala Lumpur City Centre		

(Source: Rahim & Co Research)

## HOTEL

Statistics by Tourism Malaysia revealed that in the first nine months of 2019, Malaysia had received more than 20 million tourist arrivals with total receipts of RM66.14 billion – a year-on-year increase of 3.7% and 6.9% respectively (Figure 4.1). Malaysia welcomed strong double-digit share of arrival from the top three markets, Singapore (39%), Indonesia (14%) and China (12%), accounting for 65% of total tourist arrivals.

**FIGURE 4.1**  
**TOURIST ARRIVALS, TARGET ARRIVALS AND RECEIPTS**



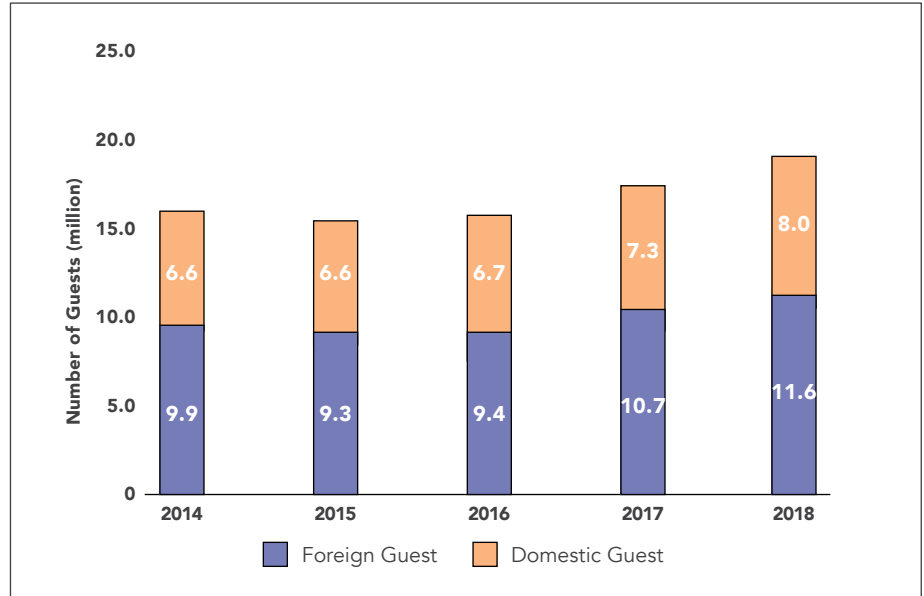
(Source: Malaysia Tourism Promotion Board)

# MARKET REPORT

Foreign tourists account for 59% of the total 19.6 million hotel guests recorded in Kuala Lumpur for the year 2018, and is expected to remain as the key driver for hotel occupancy in the years to come (Figure 4.2).

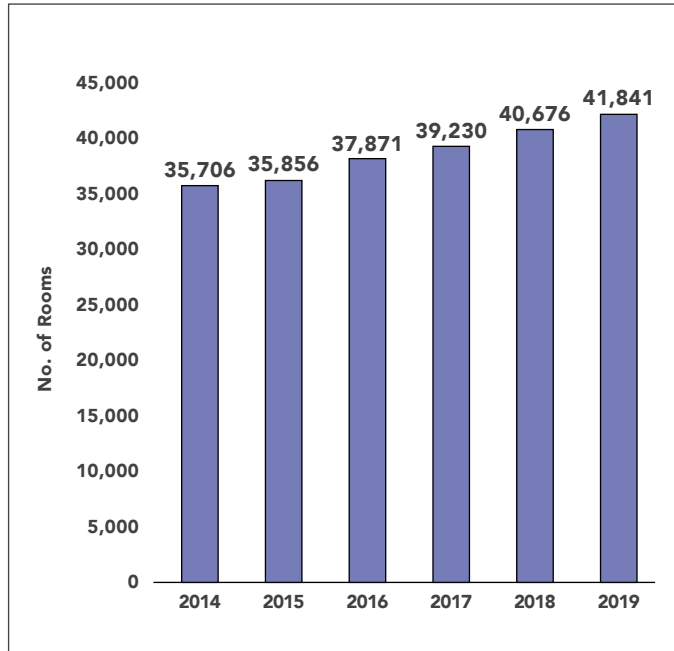
Though tourist arrivals showed an improvement in the first nine months of 2019, performance in occupancy rates for Kuala Lumpur’s 5-star hotel sector declined from 70% to 62% (Figure 4.5). This is due to the increase in room supply and alternative accommodation options such as Airbnb and private homestays. As at 2019, 5-star rated hotels accounted for 12,972 rooms, a growth of 6.7% from 12,160 rooms in 2018 (Figure 4.4). This figure represents 31.0% of the total 41,841 hotel rooms in Kuala Lumpur (Figure 4.3).

**FIGURE 4.2**  
**HOTEL GUESTS IN KUALA LUMPUR**



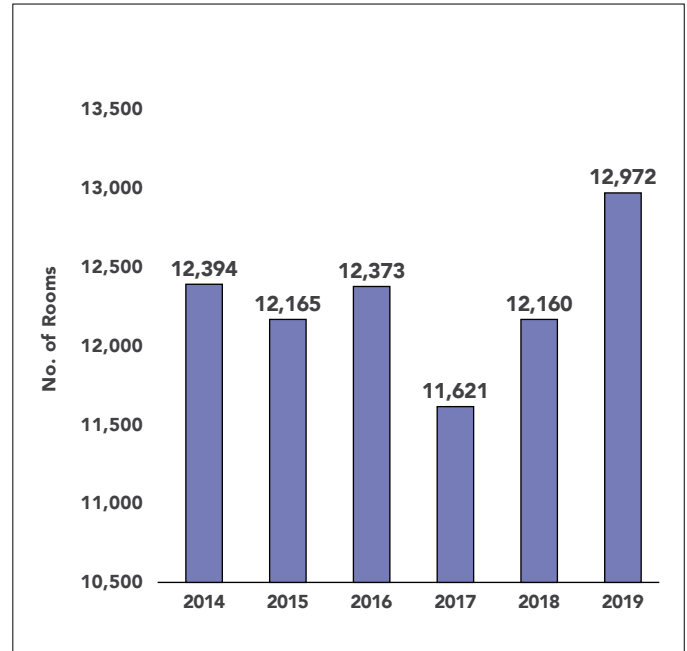
(Source: Malaysia Tourism Promotion Board)

**FIGURE 4.3**  
**TOTAL HOTEL ROOM SUPPLY IN KUALA LUMPUR**



(Source: Valuation and Property Services Department)

**FIGURE 4.4**  
**5-STAR HOTEL ROOM SUPPLY IN KUALA LUMPUR**

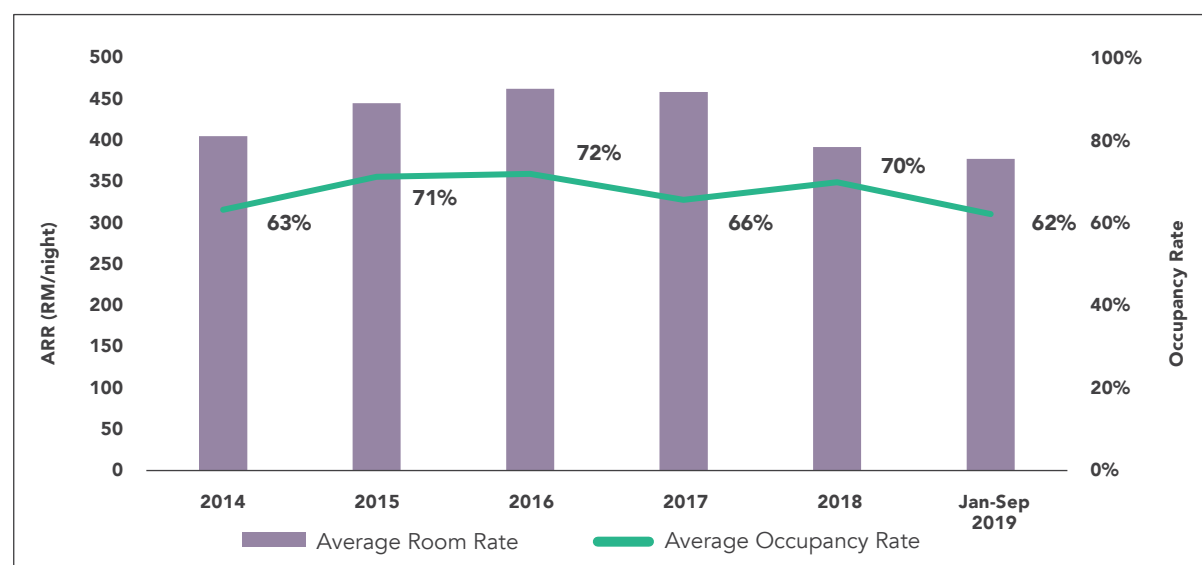


(Source: Valuation and Property Services Department)

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The Average Room Rate (ARR) for 5-star hotels in Kuala Lumpur spreads a wide RM300 to RM900 per room per night where the much luxury hotel brands within the segment command higher rate between RM600 to RM900 per room per night. Across all 5-stars hotels in the city, the average room rate in 2019 declined to RM377 per room per night from RM391 the previous year (Figure 4.5) due to competition from alternative accommodation options amidst the increased hotel room supply.

**FIGURE 4.5**  
**AVERAGE ROOM RATE (ARR) AND OCCUPANCY RATE OF 5-STAR HOTELS IN KUALA LUMPUR**



(Source: Malaysia Tourism Promotion Board, Rahim & Co Research)

In 2019, two notable hotels came into the market, namely EQ Kuala Lumpur and CitizenM. The latter is a business boutique hotel that opened in June 2019, whereas EQ Kuala Lumpur opened in Q4 2019, is a 52-storey building featuring 440 stylish contemporary rooms with rates starting from RM585 per room per night.

JW Marriott Kuala Lumpur, on the other hand, will be expanding by another 162 new rooms on the upper floors of proposed "The Starhill" complex in Bukit Bintang, as one of the components of Starhill Gallery's upgrading exercise. Facing Jalan Gading and Jalan Bukit Bintang, the 7-storey "The Starhill" complex is to be redesigned into four floors of retail space and three floors of hotel rooms and facilities. Offering new and stylish accommodations, the new additions are expected to be ready by 2021.

Besides the supply movement seen, several transactions were noted in 2019. Successful sales include the WOLO Hotel and Swiss-Garden Hotel, both in Bukit Bintang, sold at RM115 million and RM170 million respectively. Sheraton Imperial Kuala Lumpur together with the adjoining Faber Imperial Court offices are up for sale at an estimated RM450 to RM500 million, whereas The Royale Chulan Bukit Bintang Hotel is up for RM197 million with plans to be sold to Singapore-listed Hotel Royal Ltd.

Though still in progress, the upcoming Monopoly Mansion Hotel by M101 Holdings Sdn Bhd is scheduled to open its doors in 2020. Rated as a 5-star boutique hotel, the hotel will be housed within the M101 Bukit Bintang building on Jalan Baba, spanning across 14 floors. Other new incoming hotels within the city include

Fairmont Kuala Lumpur, Canopy by Hilton, So Sofitel Hotel and Jumeirah Hotel (Table 4.7).

Facing challenges from existing and upcoming supply, Mandarin Oriental, Kuala Lumpur will continue to focus on leveraging on its refurbished rooms, intensifying its digital marketing efforts to broaden network and personalising its guests, products and services to maintain competitiveness and grow market share.

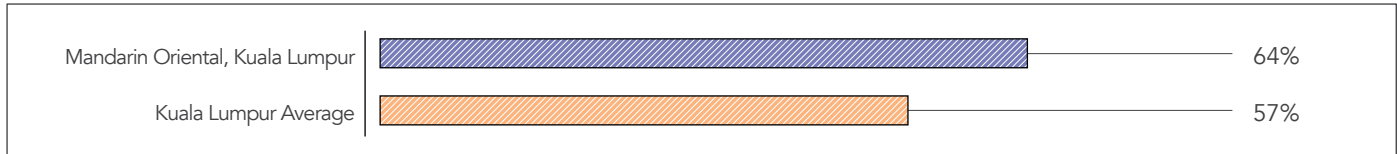
In promoting Malaysia's tourism sector, Visit Malaysia Year 2020 (VM2020) campaign was launched by the Government with a target of 30 million international tourist arrivals and a total tourist receipt of RM100 billion. The Government had announced several incentives and tax breaks targeted at the arts and tourism sector, and as per Budget 2020, the Ministry of Tourism, Arts and Culture (MOTAC) will receive an allocation of RM1.1 billion for various programmes and marketing events. It was also announced that tourists from China and India will enjoy a visa-free entry in 2020 for up to 15 days which is a boon to the tourism sector. However, the recent Coronavirus (COVID-19) outbreak had caused some setback to the sector where significant hotel booking cancellations from Chinese tourists had been reported. Nevertheless, MOTAC maintains its VM2020 campaign targets and has stated their intention of restructuring the campaign to focus on new target countries.



To read more on KLCCP Stapled Group's hotel segment, refer to Operations Review on pages 100 to 103

# MARKET REPORT

**FIGURE 4.6**  
**HOTEL OCCUPANCY RATES: KUALA LUMPUR AVERAGE VS MANDARIN ORIENTAL, KUALA LUMPUR PERFORMANCE (2019)**

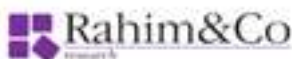


(Source: Tourism Malaysia, Rahim & Co Research)

**TABLE 4.7**  
**SELECTED NEW HOTELS IN KUALA LUMPUR**

Development	Location	Star Rating	Completion	Estimated No. of Rooms
Monopoly Mansion by Sirocco, M101	Bukit Bintang	5	2020	225
The Amari	KL Eco City	5	2021	2,832
Fairmont Kuala Lumpur	Jalan Ampang	5		
Kempinski Hotel	Jalan Conlay	5		
Conrad Kuala Lumpur	Jalan Sultan Ismail	5		
Park Hyatt @ Merdeka 118 Tower	Jalan Hang Jebat	5		
Crowne Plaza Kuala Lumpur City Centre	Jalan Yap Kwan Seng	5		
Canopy by Hilton	Bukit Bintang	5		
Courtyard by Marriott	Jalan Klang Lama	4	2023 onwards	1,460
Mercure Kuala Lumpur Trion	Jalan Sungai Besi	4		
So Sofitel Hotel	Jalan Ampang	5		
Jumeirah Hotel	Jalan Ampang	5		
Hyatt Regency Hotel	KL Midtown	5		

(Source: Rahim & Co Research)





















Disclaimer

This report is prepared for the purpose of general information only. Readers should not exclusively rely on the statements, facts or figures mentioned in this report but must satisfy themselves through their own investigation or otherwise as to its accuracy. Whilst reasonable care has been exercised in preparing this report, Rahim & Co accepts no responsibility or liability as to its accuracy or to any party for reliance on the contents of this report. The information contained herein may not be reproduced in any form or in any manner, in part or as a whole, without prior written permission. Any such reproduction should be credited to Rahim & Co.

# KEY TRENDS SHAPING OUR MARKET

Through our insights into our customers and the business we operate in, we identified five key trends that are expected to impact our business over the short, medium and long-term. This section outlines the key trends and how we are monitoring and responding to them.

Trend	Description	How We Are Monitoring And Responding To The Trend	Our Capitals That The Trends Relate To
Highly competitive commercial market	<p>The mismatch between demand and supply which has led to a highly competitive market and potential dilution in market share for owners. This, in turn, has put pressure on occupancy rates and rental reversion growth</p> <p>Spurred by technology, there have been structural changes in the conventional ways of doing business – (flexible office space, co-working, online shopping, Airbnb)</p>	<p>We solidified our strategies and continued to focus on our existing assets and in future-proofing our position to become the Solutions Partner to all our stakeholders</p> <p> To read more, refer to Market Report on pages 42 to 54 and Operations Review in Management Discussion and Analysis on pages 92 to 107</p>	
Slowing economic growth momentum	<p>Continued debate on interest rate expectations and ongoing concerns regarding the global trade war and the impact on emerging markets</p>	<p>Our deep understanding of our assets and customers underpin our sustainable growth which is reflected through our stable performance for the year</p> <p>We also enhanced our risk policy to equip the Group towards the next level of preparedness in facing the volatility, uncertainty and complexity of the industry</p> <p> To read more, refer to CEO's Year In Review on page 32 and Understanding Our Principal Risks on pages 60 to 66</p>	
Evolving customer behaviour	<p>Customer needs, preferences and behaviour continue to evolve rapidly, with customers increasingly seeking more convenience and variety in the product and services offered</p>	<p>We constantly innovate our offerings to elevate the changing needs to create a progressive lifestyle experience for our customers across our business</p> <p> To read more, refer to CEO's Year In Review on pages 33 to 35 and Operations Review in Management Discussion and Analysis on pages 92 to 107</p>	  
The speed and effect of technological change	<p>Integration of digital technology driving the pace of change, disrupting the traditional business model, underpinning the need to adapt to changing market dynamics</p> <p>Digital connectivity and social media are changing consumer behaviour, enabling more contemporary, digital-savvy consumers</p>	<p>We are enhancing our business model to adapt to the new market reality with the aim to be a digitally competent organisation by 2023</p> <p> To read more, refer to CEO's Year In Review on page 32 and Operations Review in Management Discussion and Analysis on pages 92 to 107</p>	  
Sustainability	<p>Increasing awareness of ESG issues and understanding of the impact of ESG in corporate performance is driving companies to integrate sustainability data into decision making at all levels</p>	<p>Champion sustainability efforts premised on our strategies and initiatives to drive our sustainable goals economically, environmentally and socially, across all our business operations, maintaining high standards of conduct and maximising long-term value creation for the benefit of our stakeholders</p> <p> To read more, refer to Value Creating Business Model on pages 74 to 77 and Sustainability Statement on pages 144 to 149</p>	    



# OUR STRATEGY

Our strategy is to deliver sustainable long-term value to our holders of Stapled Securities and stakeholders across the economic, environment, social and governance spheres. With deep real estate experience, unique market understanding and insights and outstanding execution capabilities, we create synergy within our property portfolio, anticipate future tenant and customer needs to deliver financial and societal value to all stakeholders. We achieve this through our four strategic pillars.

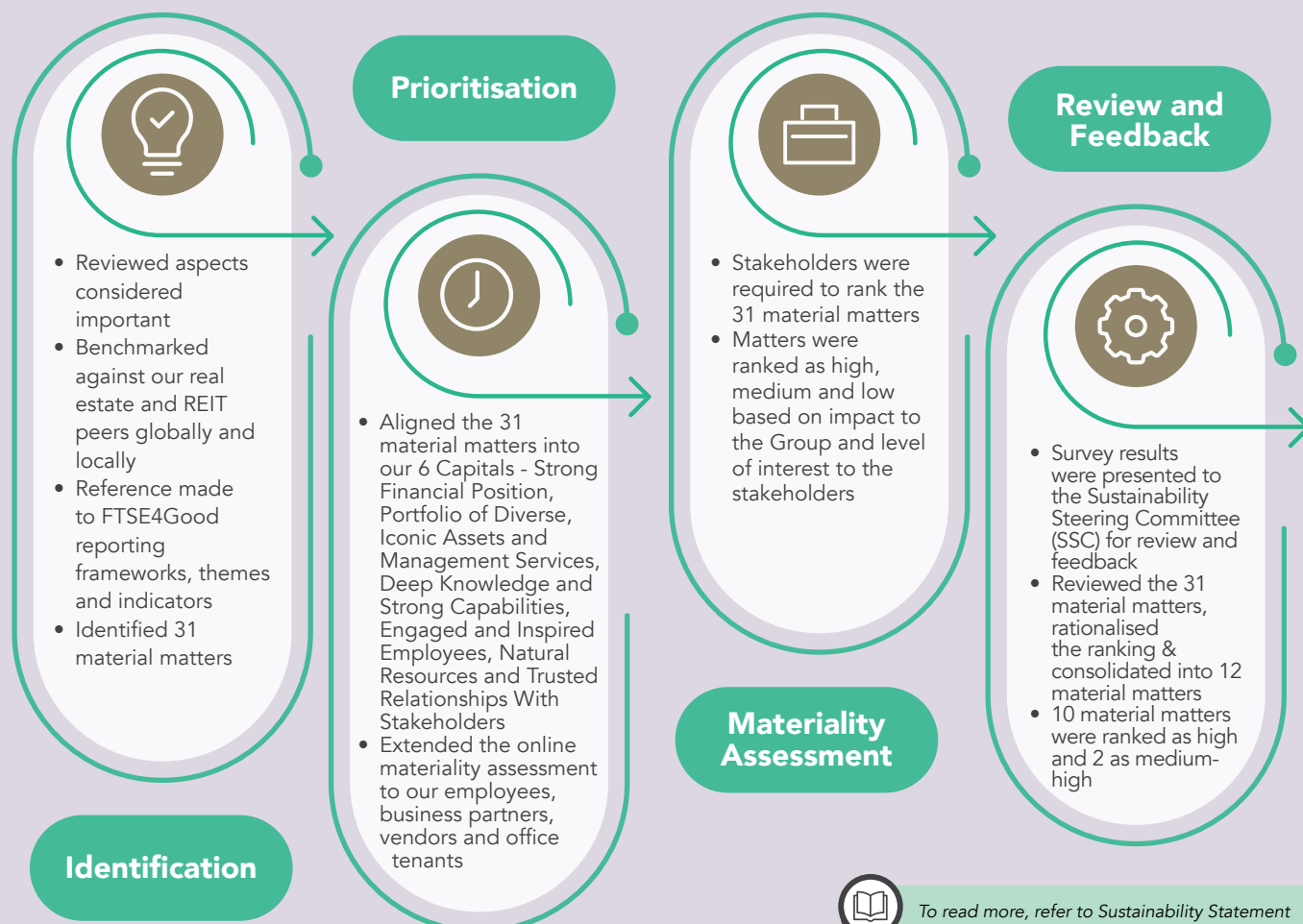
Our strategic pillars are underpinned by our four strategic priorities which drive financial and operational excellence, our provision of services as a reliable solutions partner to our stakeholders, partners and suppliers and vibrancy of our spaces – progressing lifestyle ensuring high levels of customer satisfaction.

In support of the strategic priorities, we conducted a materiality assessment to identify matters material to both stakeholders and the Group.

## MATERIAL MATTERS 2019

In identifying the top material matters for KLCCP Stapled Group, we revisit our material matters annually, taking into consideration the emerging issues impacting our organisation, the external environment and sustainable matters being championed by the country. 2019 marked our second year of conducting an online materiality assessment where we incorporated additional material matters which were relevant to our business context. In 2018, the assessment was confined to our stakeholder group of employees. However in 2019, we extended our assessment to a larger group of stakeholders to include business partners, vendors and office tenants to gather a broader and inclusive stakeholder view.

In addressing the identified material matters, we evaluated our sustainability context, stakeholder issues and the associated risks and opportunities for KLCCP Stapled Group to streamline our actions to benefit all stakeholders concerned. We considered both internal and external factors affecting the industry in our review and assessed its impact on our business and stakeholders.



To read more, refer to Sustainability Statement on pages 114 to 149

# OUR STRATEGY

## IN ORDER TO MANAGE OUR MATERIAL ISSUES

- Technology is a driver of change that brings new opportunities to deliver enhanced products and services to elevate stakeholders' experience

- We reposition our assets to drive enduring demand for our spaces towards delivering financial and societal value
- We maintain an optimal capital structure to support business

- Implement digital infrastructure across our business operations to keep customers engaged and connected

- A responsible organisation who is committed to operate and grow in a socially responsible and sustainable development

- Awareness on regulatory risk and opportunities that climate change presents in our business

- Implement initiatives to reduce carbon emission, energy consumption, water use and waste generation

- Elevate women leadership within the Group, in line with the nation's aspiration

- Inculcate a culture that values our people, offers mutual support, promotes trust, rewards employees' efforts and provide a social environment that gives meaning to employees' work

- Align our Human Resource practices, policies and compensation benefits to keep pace with our competitors and be attractive to potential talents
- Foster continuous engagement and provide opportunities for women to take up leadership roles

- Upgrade data protection infrastructure to provide a secured network for data storage and transfer

- Build a strong HSE culture, improve processes & monitor compliance to HSE standards and procedures
- Implement and upgrade security systems and features to strengthen security surveillance within KLCC Precinct

- Reinforce our systems and procedures to detect, respond and mitigate potential cyber security disruption

- Differentiate the consumer offering with a focus on experience and convenience
- Innovate hotel's services and offerings to provide quality guest experience

- Transform office spaces at all our buildings to create collaborative workspace which cater to personalised needs, promote productivity and building efficiency

- Curate collaborations with strategic brand partners to bring the differentiation in products and services
- Incorporate technological advancements in asset enhancement initiatives

- Review & tighten procurement policies to ensure compliance
- Transparent & fair practices through supplier's code of conduct

- Pursue suppliers' accreditation for quality products at competitive prices


- Support various stakeholder engagement activities which include environmental sustainability, health and safety, social integration as well as reaching out to the underprivileged community

- Anticipate and be responsive to changes in regulations that may impact our business transparency and disclosures
- Benchmark against international best practices and implement responsible corporate conduct across the business segments

- Promote trust & integrity with the establishment of our Integrity Action Plan
- Developed an integrated robust risk management system for business resiliency focusing on Enterprise Risk Management, Crisis Management & Business Continuity Management

# OUR STRATEGY

WE HAVE FOCUSED STRATEGIC PILLARS	THAT SET PRIORITIES	AND TAKES INTO CONSIDERATION OUR MATERIAL MATTERS	AND THE ASSOCIATED RISKS & OPPORTUNITIES	
			RISKS	OPPORTUNITIES
<ul style="list-style-type: none"> <li>• <b>Maximising Value of Investments</b> Optimise rental, occupancy rates and NLA of the property portfolio in pursuing high returns and yields</li> <li>• <b>Resilience in Soft Market Conditions</b> Ensure business agility and adaptability to new pace of change to sustain in challenging operating environment and future-proof the business</li> <li>• <b>Creating Value Through Sustainability</b> Incorporating non-financial factors into our investment decision making, by balancing the economic, environment and social needs of our stakeholders, contributing to the well-being of the community</li> <li>• <b>Embracing Digital For Business Enhancement</b> Integration of digital technology into areas of the business towards a connected and seamless experience</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Leverage industry-leading capabilities and relationships to drive growth and opportunities</b> Our capabilities, reputation and relationships with customers, communities, employees and partners are critical to the successful execution of our strategy. We seek to attract, develop and retain the best talent in the Malaysian real estate sector and be a solutions partner to our supply chain</li> <li>• <b>Customer-led provision of vibrant spaces which inspire</b> We aspire to be the market leader in providing spaces for our customers and communities which create the best experiences for them. We use data and leverage innovative digital technologies to bring the “experiential” into the experience</li> <li>• <b>Active management of capital and risks</b> We optimise capital utilisation and institutionalise a risk management culture towards protection of our assets, reputation and sustainability of shareholder value</li> <li>• <b>Pursue organic and inorganic growth</b> Explore potential acquisition of properties that fit the investment strategy and criteria to enhance returns to holders of Stapled Securities and capitalise on opportunities for future income and NAV growth</li> </ul>	<p><b>ECONOMIC</b> <b>Financial Sustainability</b> <b>Economic, Social and Industry Growth</b></p> <ul style="list-style-type: none"> <li>• Committed in delivering stable and sustainable returns to holders of Stapled Securities</li> <li>• Delivering on our role in contributing towards industry and the nation's growth</li> <li>• With the rapid change in technological advances, digitalisation is key to future business success and keeping our assets relevant</li> </ul> <hr/> <p><b>ENVIRONMENT</b> <b>Climate Change</b> <b>Environmental Management</b></p> <ul style="list-style-type: none"> <li>• We are concerned about our environmental footprint and committed to reduce environmental impact for our future generation</li> </ul> <hr/> <p><b>SOCIAL</b> <b>Our People</b> <b>Human Rights and Labour Practices</b></p> <ul style="list-style-type: none"> <li>• Our people define the culture of the organisation and contribute towards business success</li> <li>• Respect the rights and dignity of every individual within our business operations</li> </ul> <p><b>Security, Safety and Health</b></p> <ul style="list-style-type: none"> <li>• Our people are our invaluable assets and caring for their well-being is paramount to our business operations</li> <li>• The Group's data is highly confidential and leakage of data could jeopardise the Group's integrity</li> </ul> <p><b>Customer and Tenant Management</b></p> <ul style="list-style-type: none"> <li>• Our customers inspire us to continue to create a progressive lifestyle experience</li> </ul> <p><b>Supply Chain Management</b></p> <ul style="list-style-type: none"> <li>• Crucial to have a supply chain of credible suppliers</li> <li>• Enable us to support diverse local suppliers</li> <li>• Procuring high quality products and services is our priority</li> </ul> <p><b>Corporate Social Investment</b></p> <ul style="list-style-type: none"> <li>• Portray us as a responsible and caring organisation</li> <li>• Giving back and creating a positive and lasting impact to the community</li> </ul> <hr/> <p><b>CORPORATE GOVERNANCE</b> <b>Corporate Governance and Business Ethics Risk and Crisis Management</b></p> <ul style="list-style-type: none"> <li>• Best corporate governance practices reflect the Group's transparency and integrity</li> <li>• An effective and sound risk management and internal control system supports our business strategy and underpins our business model</li> </ul>	<p><b>RISKS</b></p> <p><b>ECONOMIC</b></p> <ul style="list-style-type: none"> <li>• Inability to compete in a challenging market</li> <li>• Insufficient working capital to cover business obligations resulting in financial insolvency</li> <li>• Delivering lower distribution per Stapled Security</li> </ul> <hr/> <p><b>ENVIRONMENT</b></p> <ul style="list-style-type: none"> <li>• Rising energy costs with potential energy tariff increases-energy needed to deliver services to our tenants, guests, shoppers, primarily for our buildings</li> <li>• Negative impact to the environment and surrounding community resulting from our operations</li> </ul> <hr/> <p><b>SOCIAL</b></p> <ul style="list-style-type: none"> <li>• Failure to retain employees</li> <li>• Employees not well-equipped with skillsets required with advancements in technology</li> <li>• Reputational damage if perceived to practice discrimination</li> </ul> <ul style="list-style-type: none"> <li>• Threats to employees' health &amp; safety – work related illnesses, accidents &amp; occupational hazards</li> <li>• Threats to safety of our guests, tenants, customers, assets with rising global security threats and being located on the iconic belt</li> <li>• Cyber disruption to data security</li> </ul> <ul style="list-style-type: none"> <li>• Failure to keep pace or stay ahead of the rapid transformation of customer expectations &amp; digital revolution</li> <li>• Impedes market leader position from intensifying competition and disruption to business trends</li> </ul> <ul style="list-style-type: none"> <li>• Lead to potential conflict of interest, corruption &amp; unethical practices</li> <li>• Quality &amp; safety of our products &amp; services at stake</li> </ul> <ul style="list-style-type: none"> <li>• Result in unfavorable image for the Group</li> </ul>	<ul style="list-style-type: none"> <li>• Unlocking value through optimisation of our portfolio of assets</li> <li>• Reshaping competitive edge by recognising our collective strength and leveraging on our core competencies to promote economic and industry growth</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• In support of country's pledge to cut carbon emission intensity, minimising pollution and environmental impact</li> <li>• In support of country's environmental agenda in eliminating single use plastic</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Transform our workforce with the right mindset and culture – empowered, agile and enabled in the VUCA (volatility, uncertainty, complexity &amp; ambiguity) world</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Leadership commitment in heightening safety standards within our operations</li> <li>• Engage with stakeholder and community to create awareness and ensure accountability</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Reimagine office spaces to meet the evolving needs of our tenants</li> <li>• Reconfigure layout &amp; reposition retail with refreshing tenant &amp; trade mix to drive footfall and maintain competitiveness</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Own a database of reputable &amp; reliable suppliers</li> <li>• Better collaboration with suppliers in managing procurement processes</li> <li>• Wide selection of suppliers for the procurement of quality products and services at lower cost</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Enhance brand visibility to a wider community</li> <li>• Increase employees' awareness and involvement in corporate social investments</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Able to set the tone from the top and drive a culture strong in governance</li> <li>• Good governance practices represent a critical benchmark in an organisation's success and management stability</li> </ul>

 To read more on our principal risks relating to our operations, refer to Understanding Our Principal Risks on pages 60 to 66

# OUR STRATEGY

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# UNDERSTANDING OUR PRINCIPAL RISKS

## OUR APPROACH TO RISK MANAGEMENT

Risk is a key strategic tool which forms an integral part of KLCCP Stapled Group’s business that supports delivery of our strategy and underpins our business model. Our risk management policy and procedures are designed to embrace best practices for risk management, reduce the potential of financial and non-financial risk exposure and to protect our assets and reputation.

### Risk Strategy and Culture

Our risk strategy is based on the belief that risk management is everyone’s responsibility and that it must be integrated into strategy formulation, capital allocation, decision making and day-to-day operations.

Our Management is fully committed to fostering a strong risk centric culture, setting the appropriate tone at the top, and demonstrating strong support for risk management. In 2019, KLCCP and KLCC REIT enhanced its risk policy to equip the Group towards the next level of preparedness in facing the volatility, uncertainty and complexity of the industry. The enhanced risk policy is imperative for risk management to be in line with the organisation’s aspirations for the future and evolving industry landscape.

KLCCP Stapled Group is committed towards becoming a risk resilient organisation, and we aim to strive to implement risk management best practices to protect and create value within the set boundaries.



Annually, the Group Risk Department inculcates risk management knowledge and concepts by conducting workshops for all levels and functions. This is to promote a culture of risk awareness and embed risk management principles in decision making and business processes. During the year, we focused on reinforcing risk based decision making wherein all board papers for decision making or debate requiring Boards approval are required to be accompanied by a risk assessment, providing a balanced and holistic view of exposures to achieve business objectives.

### Risk Appetite

The KLCCP Stapled Group’s risk appetite reflects the nature and extent of risks the Group is willing to pursue to achieve its strategic objectives. The risk appetite was established covering five main areas which flows across our business.

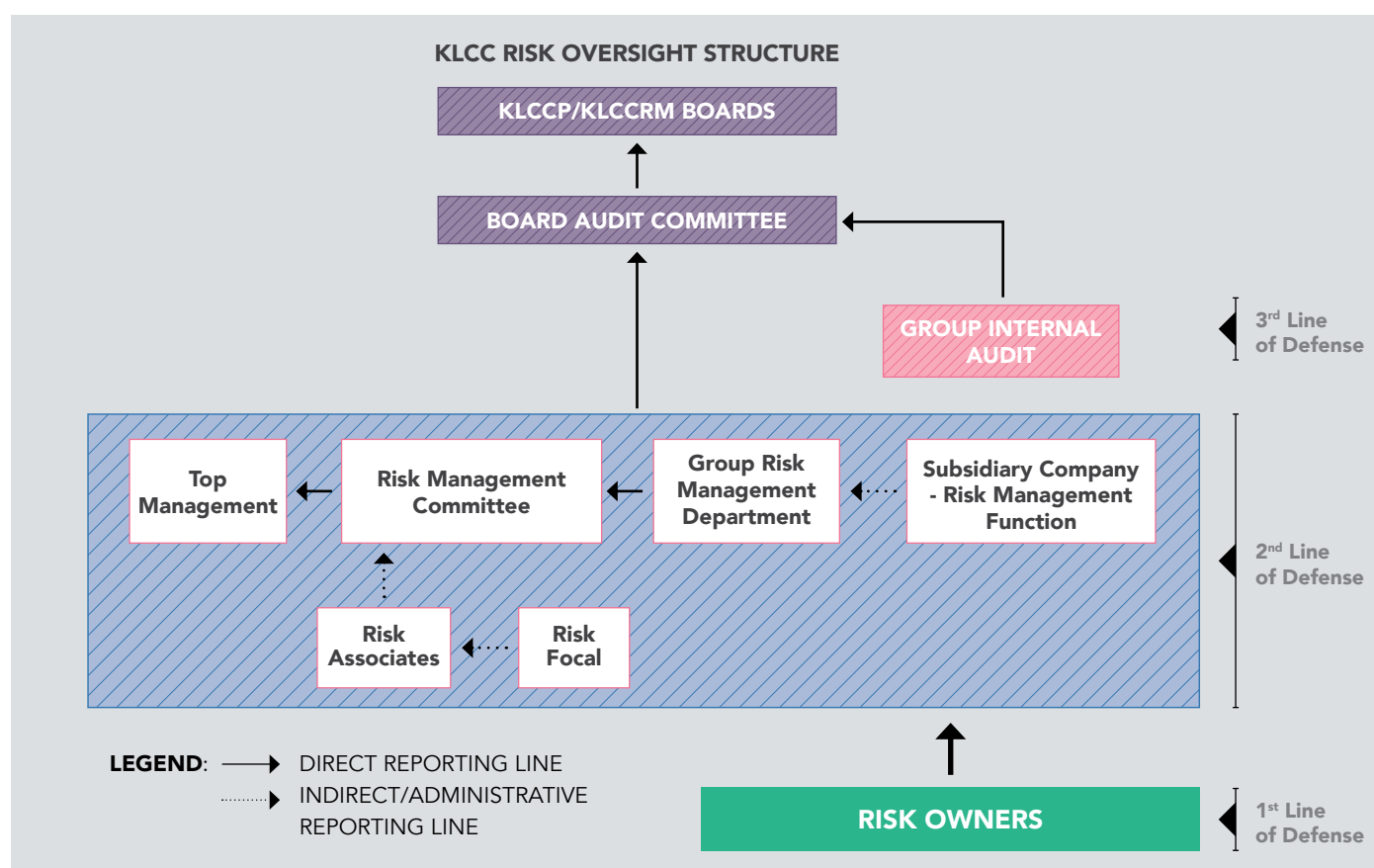


## UNDERSTANDING OUR PRINCIPAL RISKS

During the year, the Group Risk Department reviewed the risk appetite to provide comprehensiveness to the current risk appetite statements in ensuring the financial and non-financial risk exposure and type of risk to be pursued or retained by KLCCP Stapled Group in achieving its strategic objectives are properly defined. The risk appetite statement, risk tolerances and risk threshold were reviewed and presented to the Risk Management Committee, Audit Committee and the KLCCP and KLCCRM Boards.

### Risk Governance Structure

The risk governance structure is organised such that risk management is institutionalised and becomes a culture. The mechanism ensures that risk information flow is comprehensive and timely for each respective authority to manage risks effectively at all levels. KLCCP Stapled Group adopts a three-line of defense model which propagates clear demarcation of roles, responsibility & accountability



### Principal risks and assessment


We actively review and manage the risks facing our businesses over the short, medium and long-term, overseen by the Risk Management Committee. The principal risks and opportunities of KLCCP Stapled Group are assessed by the Boards and evaluated against our risk appetite and tolerance levels whilst mitigation plans and key risk indicators are identified to reduce the risk exposure and monitor performance of the risks. The risk management is operationalised through the Enterprise Risk Management Framework and is monitored via our Interisk system, a dedicated web-based risk management tool.

Even though the external environment remained challenging with the oversupply of office spaces and the heightened competition in the retail and hospitality sectors, there has been no material change to the nature of the Group's principal risks with the exception of the human capital risk which was elevated as a result of the change in evaluation criteria for succession management, taking into consideration the age factor and employee group.

In this section we outline our principal risks and KLCCP Stapled Group's approach to responding to them, combined with how the principal risks link to our material matters. For more information on our material matters, refer to pages 56 to 59 or the Sustainability Statement on pages 114 to 149.

# UNDERSTANDING OUR PRINCIPAL RISKS

## 1. Financial

Change in Impact 

Change in Likelihood 

### RISK MANAGEMENT STRATEGY

We have put in place all practical measures to ensure any potential financial risk exposures which may impair the ability to provide adequate return on investment

We have an established Integrated Financial Risk Management (IFRM) Guidelines consisting 7 principles of financial risks

### PRINCIPAL MITIGATION

We maintain strong capital, profitability and liquidity position in pursuit of business objectives to support sustainability and growth of the business operations and activities

Our gearing ratio is one of the lowest in the Malaysian REIT industry which provides us a sizeable debt headroom and greater financial flexibility to tap into the equity markets, as excessive debt could lead to financial risk exposure

We maintain adequate cash and bank balances to meet the working capital requirements and we maximise the return from cash balances via fund placements in the money market whilst minimising counterparty risk exposure

We diligently manage trade receivables to avoid trapped liquidity

We deal with approved counterparties with minimum A-rating for fund investment on best terms and limits

### ACTIVITIES IN 2019 AND OUTLOOK

We continued our diligence on monitoring our financial, operational and cost optimisation efforts towards driving sustainability of our business

### Material Matters

Financial Sustainability

## 2. Market

Change in Impact 

Change in Likelihood 

### RISK MANAGEMENT STRATEGY

We undertake a comprehensive and robust study on the viability of potential investment proposal in line with the Group's business plan

A structured process for new investment and ventures is in place encapsulating feasibility and market studies, analysis reports, negotiation on terms and conditions and execution of agreement

### PRINCIPAL MITIGATION

A structured risk assessment process as part of decision making is to be carried out prior to any decision point to provide decision makers with balanced view for informed decision making through richer risk conversation and considerations of risk reward trade off

All proposed capital investment shall meet the business return risk appetite threshold and maximise capital efficiency through a healthy portfolio distribution

### ACTIVITIES IN 2019 AND OUTLOOK

We unlocked value through the repositioning of our assets, taking into consideration the tougher market conditions and operating landscape, the change in tenant-customer dynamics and the need to stay ahead of the intensifying competition

We also continued to seek yield accretive assets for opportunistic acquisitions

### Material Matters

Economic, Social and Industry Growth

Risk and Crisis Management

Corporate Social Investment

## UNDERSTANDING OUR PRINCIPAL RISKS

### 3. Human Capital

Change in  
Impact 

Change in  
Likelihood 

#### RISK MANAGEMENT STRATEGY

We maintain an effective succession plan for key positions and critical portfolios in order to enhance and retain qualified and competent talent for business sustainability

Anchoring on the theme of Right Leader and Right Environment, talents are managed from hire to retire

#### PRINCIPAL MITIGATION

Competency validation study to identify the gap for succession plan

Structured program for knowledge transfer and cross business mobility

Annual employee feedback survey/peer survey to identify gaps for improvement

#### ACTIVITIES IN 2019 AND OUTLOOK

Due to the stringent criteria in determining succession ratio which brings the succession ratio to 1:0.69, to continue with intervention leadership programme to improve managerial skill:

- Establishment of talent management programmes for the second-tier succession line – KLCC Group Elite Leadership Program(KELPro)
- Self-driven E-Learning programs, Brown Bag learning series sessions and development of Skill Groups to upskill technical competencies and knowledge

#### Material Matters

Our People

Human Rights and Labour Practices

### 4. Health, Safety and Environment (HSE)

Change in  
Impact 

Change in  
Likelihood 

#### RISK MANAGEMENT STRATEGY

Zero tolerance towards fatality and major fire that could lead to damage of assets and business disruption

A robust and institutionalised HSE culture is in place to ensure safe working environment through the establishment of HSE Management Systems (HSEMS)

#### PRINCIPAL MITIGATION

Scheduled HSE assurance audit (tier 1-yearly, tier 2-yearly, tier 3- once every 5 years) is conducted to ensure compliance to DOSH and PETRONAS Technical Standards (where applicable)

Take all reasonable, practicable and proactive steps to prevent and eliminate the risk of injuries, occupational illness, damage to properties and to protect the environment wherever we operate

Consequence management process to justify ZETO HSE non-compliance

Maintain minimum HSEMS rating at 3.00

#### ACTIVITIES IN 2019 AND OUTLOOK

Establishment of HSE Generative Culture leadership program to promote and instill strong sense of HSE accountability among leaders with objective to integrate HSE as part of sustainable business growth

#### Material Matters

Security, Safety and Health

Climate Change

Environmental Management



# UNDERSTANDING OUR PRINCIPAL RISKS

## 5. Security

Change in Impact 

Change in Likelihood 

### RISK MANAGEMENT STRATEGY

We put in place all practical and precautionary steps to safeguard our assets and people against crime

Our KLCC Precinct Security Master Plan details out the overall precinct security overlay where security control and crisis response measures are identified and implemented to safeguard our assets. The Security Master Plan was updated in 2017 to suit the current security risk environment

We also successfully implemented the CPTED (Crime Prevention Through Environment Design) in our design maintenance and use of our buildings and environment to enhance quality of life and to reduce incidence of crime

Our security team also works closely with the respective security team of each building, PETRONAS Group Security and Polis DiRaja Malaysia (PDRM) for security intelligence updates

### Material Matters

Security, Safety and Health

### PRINCIPAL MITIGATION

Established Security Coordination Platform to coordinate security matters within the KLCC Precinct – KLCC Precinct Security Management Working Group (PSMWG) and Dayabumi Heritage Trail comprising representatives from surrounding building owners e.g. Masjid Negara, Muzium Textile, Agro Bank, POS Malaysia, Central Market and RAPID KL.

KLCC Precinct Security Operation Centre (KPSOC) as a security focal point by all facilities within the KLCC Precinct and Local Authorities

Automatic Number Plate Registration (ANPR) System within the KLCC Below Grade Parking which captured vehicles reg. no. and face recognition

Incident Action Plan briefing to stakeholders on preparedness in handling different types of incidents e.g.: unattended packages, bomb threat/call

Set up a police beat base at KLCC park

Computerised Card Access System (CACS) for all floors at Menara Dayabumi

The Security Operational Room (PSOR) was enhanced to cater to the additional security features

### ACTIVITIES IN 2019 AND OUTLOOK

Implementation of the enhanced security measures identified in the updated KLCC Precinct Security Master Plan

## 6. Asset Management

Change in Impact 

Change in Likelihood 

### RISK MANAGEMENT STRATEGY

Our properties and assets are properly managed with the aim of creating value and maximising returns

Robust procedures and guidelines for selection of operators and asset management are in place and currently all our assets are managed by well accredited international operators to ensure tenants' sustainability

### Material Matters

Customer and Tenant Management

### PRINCIPAL MITIGATION

A comprehensive leasing strategy to attract quality tenants

Constant engagement with our retailers and tenants to understand their needs and keep them updated on the evolving trends

Annual customer satisfaction survey and shopper exit survey to identify gaps for improvement

### ACTIVITIES IN 2019 AND OUTLOOK

Dynamic review and enhancement of tenant mix and placement to ensure a balance of retail spaces between the new brands with younger market appeal and luxury brands with exclusive services

Evolving our current office space under the Workplace For Tomorrow initiative with our tenants to meet the fluid requirements where the workplace and workers are flexible, agile and collaborative

## UNDERSTANDING OUR PRINCIPAL RISKS

### 7. Facility Management

Change in  
Impact 

Change in  
Likelihood 

#### RISK MANAGEMENT STRATEGY

Our assets are professionally managed to ensure effectiveness and efficiency of the performance and integrity sustenance of the assets

Our facility management arm is accredited with ISO14001, ISO9001 and OSHAS18001

Our facility management team are involved in the design and construction stage (Day 1 and 2) in ensuring the practicality of layout design and appropriate system and technology used will function effectively and efficiently upon building completion

The facility management team also conducts annual building technical audits for continual improvement and provide assurance that the buildings are maintained in pristine condition

#### PRINCIPAL MITIGATION

Implementation of predictive, preventive and corrective maintenance strategies and initiatives to provide high level of service standard with minimal service interruption

100% compliance with agreed Service Level Agreement (SLA) with customers:

1. Emergency Power Supply Availability (Gen set) to provide alternate power supply during disruption from service provider
2. Mechanical Systems for Air-Conditioning to control Indoor Air Quality for room temperature, humidity and airflow, not only for the comfort of the tenants/occupants but also to protect sensitive electronic equipment at data center, electrical and telecommunication rooms
3. Vertical transportation to facilitate smooth movement of building occupants
4. Mechanical Systems for Domestic Water (Water storage tank) to ensure 24 hours supply for drinking, domestic use and fire-fighting system

#### ACTIVITIES IN 2019 AND OUTLOOK

Continue implementation and monitoring of predictive, preventive and corrective maintenance strategies and initiatives

#### Material Matters

Customer and Tenant Management

Security, Safety and Health

Environmental Management

### 8. Project Management

(for development platform of KLCCP only)

Change in  
Impact 

Change in  
Likelihood 

#### RISK MANAGEMENT STRATEGY

We put in place measures to ensure that the performance of projects delivery in meeting its development commitments in terms of time, cost and quality are met

All our projects are managed by a qualified and competent project management company with accreditation of ISO14001, ISO9001 and OSHAS18001

Risk assessments are required to be carried out for all projects undertaken

#### PRINCIPAL MITIGATION

Control and monitor project risk events through Project Management Standards to attain Project Delivery Excellence in terms of time and cost

#### ACTIVITIES IN 2019 AND OUTLOOK

Close monitoring of projects to ensure delivery schedule and cost shall not exceed the stipulated threshold and adversely impact project investment rate of return

#### Material Matters

Risk and Crisis Management

Security, Safety and Health

Corporate Governance and Business Ethics

## UNDERSTANDING OUR PRINCIPAL RISKS

### 9. Supplier

Change in  
Impact 

Change in  
Likelihood 

#### RISK MANAGEMENT STRATEGY

The performance of supplier in meeting the deliverables commitment is important to mitigate disruption and support sustainability of the business

We have stringent guidelines on suppliers/contractors selection and an established tender management system consisting of:

- Overall contracting strategy
- Tender plan
- Invitation to Bid
- Technical and Commercial evaluation
- Contractor Risk Assessment

#### PRINCIPAL MITIGATION

Annual review of suppliers'/contractors' performance is carried out for continual improvement

Database of potential qualified suppliers

#### ACTIVITIES IN 2019 AND OUTLOOK

Tightened procurement policies in shortlisting bidders, established guidelines for separate tender evaluation teams, included anti-bribery assessment for Contractor's Risk Assessment for all projects

Continuous assessment of existing and potential suppliers to meet standard of operational excellence

#### Material Matters

Supply Chain Management

Corporate Governance and Business

Ethics

# STAKEHOLDER MANAGEMENT



## WORKING CLOSELY WITH OUR STAKEHOLDERS FOR A SUSTAINABLE FUTURE

We believe in building a dynamic and strong partnership with our diverse and inclusive group of stakeholders in driving our strategic priorities. We engage regularly with our stakeholders to inform and connect on matters ranging from business to environmental and social issues. We provide open and transparent channels for our stakeholders to voice out their concerns and we respond to the matters raised and take into consideration their inputs to deliver positive outcomes to all our stakeholders



**Our shareholders, investors and business partners define the trust, reputation and credibility of our organisation and provide access to funding to grow our business**

### HOW WE ENGAGE

- Annual General Meeting
- Investors and analysts' briefings
- Results announcements
- Investor relations events
- Corporate website
- Annual report

### KEY TOPICS AND CONCERNS

- Financial management
- Sustainability practices
- Business strategy and long-term growth
- Current and future project costs and development
- Governance practices
- Negative reports in social media

### OUR RESPONSES

- Continued to update through quarterly results announcement, analysts' briefings, Board meetings and AGM
- Updated Economic, Environmental, Social and Governance practices through our Sustainability Report, corporate website and emails
- Developed and implemented robust corporate strategies providing clear business direction

### VALUES CREATED

- Sustainable returns
- Promoted transparent practices
- Long-term growth and stability
- Enhanced brand positioning

# STAKEHOLDER MANAGEMENT



**EMPLOYEES**

**Our employees are the Group's greatest asset. Through their dedication, passion and belief in our shared values, we deliver desired results**

**HOW WE ENGAGE**

- Townhall session by CEO
- Dialogue and engagement
- Training/workshop/teambuilding
- Emails/HR Careline/memos
- Intranet portal
- Employee satisfaction survey
- Annual dinner
- Recreation and sports club events

**KEY TOPICS AND CONCERNS**

- Group's long-term growth and performance
- Skills and capability development
- Career progression
- Employee benefits
- Security, Safety and Health

**OUR RESPONSES**

- Updated employees through internal communication platforms on financial performance, growth plans and employment matters
- Offered employees structured training and leadership programmes, workshops and on-the-job-training to equip employees with the relevant skills
- Employees' career progression was raised to be discussed by the Human Resource Planning and Development Committee
- Conducted various HSE awareness programmes and sharing sessions

**VALUES CREATED**

- Upgrading of skills and career development
- Well-informed employees
- Workplace safety and wellness
- Competitive remuneration



**GOVERNMENT/ LOCAL AUTHORITIES/ REGULATORS**

**The Government, local authorities and regulators provide the regulatory framework in which we operate in respect to compliance and risk mitigation**

**HOW WE ENGAGE**

- Feedback through emails/letters
- Participate in formal meetings, policy briefings and consultations
- HSE inspections of business premises
- Collaboration with local authorities in managing the safety and security of KLCC Precinct

**KEY TOPICS AND CONCERNS**

- Contribution to economic, and industry growth
- Compliance to Government policies, laws and regulatory requirements
- Adoption of best practices

**OUR RESPONSES**

- Briefing to the relevant ministries, Government departments and agencies
- Monitored compliance through internal assessment
- Reported on compliance in Annual Report and corporate website

**VALUES CREATED**

- Spurring economic and social development
- Advocate and strengthen law and regulatory enforcement



**CUSTOMERS AND GUESTS**

**Our customers and guest drive the pace of the market dynamics that underpins the growth and success of our business**

**HOW WE ENGAGE**

- Customer feedback management - hotline, surveys, email queries
- Awareness campaigns on environmental conservation i.e. waste recycling, zero single-use plastic
- Loyalty programmes
- Dialogue and engagement sessions
- Social media

**KEY TOPICS AND CONCERNS**

- Safety and security
- Customer satisfaction on product and services offered
- Innovative offerings that provide convenience i.e. wifi, cashless parking payment
- Condition of the amenities provided in our properties

**OUR RESPONSES**

- Enhanced security features within KLCC Precinct
- Broaden retail offer and introduced a diverse mix of prominent local and international brands
- Improved service quality and launched innovative signature offerings across all F&B outlets at our hotel
- Embarked on digitalisation initiatives to enhance customer experience

**VALUES CREATED**

- Attractive and competitive offerings at marketplace
- Innovative and trend setting products and services
- Safe and secured place to work, shop, stay and play

## STAKEHOLDER MANAGEMENT



### SUPPLIERS AND SERVICE PROVIDERS

Our suppliers and service providers drive our sustainable value chain with valued expertise and support, contributing to the quality of services and products we procure

#### HOW WE ENGAGE

- Meetings and workshops
- Safety briefings
- Evaluation/performance review
- Corporate presentations
- Supplier training programmes
- Supplier evaluation and audit

#### KEY TOPICS AND CONCERNS

- Fair competition and compliance to procurement guidelines
- Potential business opportunities
- Transparency of tender processes
- Group's compliance with laws and regulations

#### OUR RESPONSES

- Provided equal opportunities for eligible suppliers to present their proposal
- Request for information to meet the project/service requirements

#### VALUES CREATED

- Created business opportunities and growth
- Elevated marketability of suppliers/service providers



### COMMUNITY

The community define our social relevance, how we connect and foster goodwill and deliver a lasting positive impact by addressing their needs

#### HOW WE ENGAGE

- CSR programmes
- Engagement via emails/letters/social media/website/leaflet/kiosks
- Annual events i.e. National Day, New Year Countdown and festive celebration

#### KEY TOPICS AND CONCERNS

- Contribution to the community
- Health, safety and environmental impact

#### OUR RESPONSES

- Conducted CSR programmes i.e fundraising activities, internship for university students, environmental conservation programmes, and maintenance of public amenities
- Enhanced security measures within KLCC Precinct

#### VALUES CREATED

- Promoted social well being
- Safer and secure environment
- Greener and healthier environment



### MEDIA

The media shapes market perception and is a key multiplier of information to the public and build positive dialogue with our organisation

#### HOW WE ENGAGE

- Emails
- Press releases
- Press conferences
- Interviews
- Media events

#### KEY TOPICS AND CONCERNS

- Financial performance, growth strategy and future plans
- Media investment i.e media buy, sponsorship of pull-outs
- Participation in events and engagement with media

#### OUR RESPONSES

- Issued press releases on quarterly results and events
- Emailed response on specific media queries i.e project development, financial/industry performance, growth prospects
- Participated in media events
- Purchased advertorial space

#### VALUES CREATED

- Enhanced brand reputation and market perception
- Supported business growth

# INVESTOR RELATIONS

**AT KLCCP STAPLED GROUP, WE ARE GUIDED BY OUR CORE VALUES ON DELIVERING VALUE BEYOND NUMBERS IN EVERYTHING THAT WE DO. WE BELIEVE THAT THE QUALITY, FREQUENCY, DIVERSITY, AND TRANSPARENCY IN OUR ENGAGEMENT WITH OUR STAKEHOLDERS AND THE INVESTMENT COMMUNITY IS THE EMBODIMENT OF EVERYTHING THAT WE ARE AND ASPIRE TO BE**

In keeping with our theme of The Place: Spaces Inspired for the People, we have refreshed our Investor Relations (IR) practices to create more accessibility, diversity and visibility in our stakeholder engagements, emphasising the “Relations” in “Investor Relations”.

The rising tide within the investing landscape towards more responsible and sustainable investing has redefined the role of IR. Far from being just the Group’s interface with the investment community, IR is now seen as a creator of value by enhancing the means of shareholder engagement as well as the quality of the information provided.

We take great pride in the fact that our 2018 Annual Report themed “The Place” won the Best Traditional Annual Report in Asia Pacific at the ARC Awards 2019 and for the second consecutive year, KLCCP Stapled Group was bestowed with the Industry Excellence Awards for Real Estate Investment Trust (REITs) and Investment Funds category at the National Corporate Reporting Awards (NACRA). These accolades are a testament that our drive towards high-quality, transparent reporting is on the right track and spurs us on in driving value creation by connecting with our stakeholders. In addition, KLCCP Stapled Group has been recognised by the investment community for its good IR practices and received the Platinum Award for Best Investor Relations (Asia Pacific).

### 2019: BUILDING UPON 2018

In 2019, our IR Team built upon the results of the benchmarking exercise from the previous year. We continued to realign KLCCP Stapled Group’s IR approach with best-in-class practices and the highest international standards, and rejuvenated our approach to engaging with the holders of Stapled Securities, research analysts, fund managers, regulators, and the investment community. Through this exercise, we identified ways we can better connect with the various stakeholder groups and tailored our disclosures to meet the objectives of each respective group.

We focused on enhancing our corporate reporting in line with the International Integrated Reporting Framework. This framework promotes a unified approach to corporate reporting and improves the quality of information available to our stakeholders. We believe that providing high-quality, timely and transparent information to our stakeholders facilitates informed investment decisions and is yet another avenue for us to drive stakeholder value.

We conducted a benchmarking exercise to identify the best practices locally and globally based on Integrated Reporting. Based on the findings, we then identified the gaps to close and the areas of improvement on how KLCCP Stapled Group’s value proposition could be strengthened further through effective and compelling storytelling and connectivity between the content elements.



## INVESTOR RELATIONS

As technology continues to change rapidly, analysing multimedia trends has become essential to successful communication strategies. KLCCP Stapled Group is always evaluating cutting edge multimedia concepts to ensure key corporate messages are accurately and efficiently communicated. With that objective in mind, we embarked on the use of multimedia to further strengthen our communication with the investment community. These included capturing our key messages in respect to our quarterly results, sustainability strategies, asset enhancements and awards and recognition in bitesized videos, giving a snapshot of the Group's updates and progress in a visually appealing manner.

### ENGAGEMENT WITH THE INVESTMENT COMMUNITY

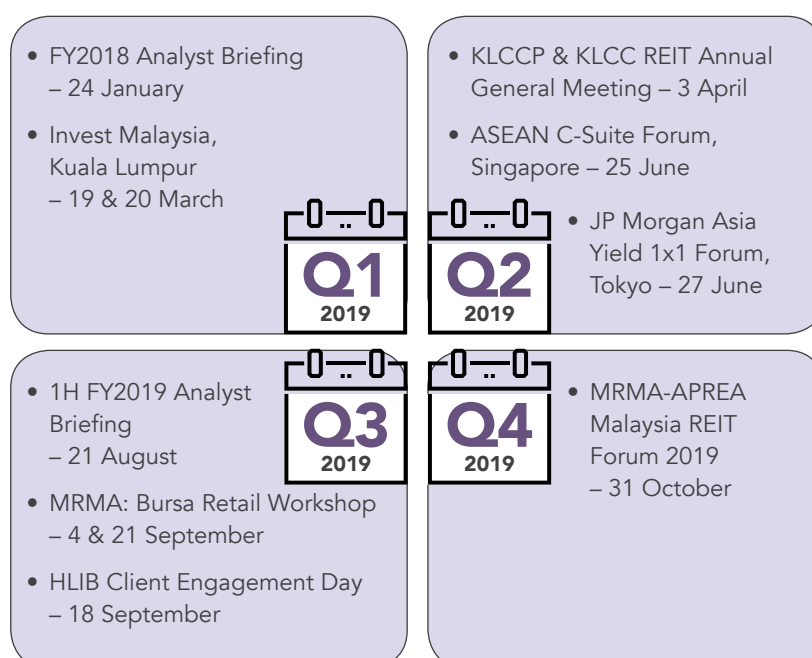
#### Meeting the broader investment community

In 2019, KLCCP Stapled Group engaged with 117 institutional investors, analysts and fund managers, of which 101 were local and 16 were foreign. Engagements were conducted through various platforms – one-on-one meetings, conference calls, analysts' briefings, and site visits to KLCCP Stapled Group properties as well as at capital market conferences.

As part of our on-going support for Bursa Malaysia's initiatives to promote the Malaysian capital markets, we participated in Invest Malaysia Kuala Lumpur 2019, where we engaged local and foreign investors in a large track presentation, one-on-one meetings and small group discussions. In addition, KLCCP Stapled Group participated in several investor conferences in Singapore and Tokyo.

Closer to home, we engaged retail investors directly via the collaboration with Bursa Malaysia and the Malaysian REIT Managers Association (MRMA). This year, the IR Team participated in a retail workshop in Bintulu, Sarawak and at the University Sains Islam Malaysia in Nilai, Negeri Sembilan. These workshops were attended by more than 100 participants and have allowed us to increase the profile of REITs in the eyes of retail investors.

Together with our Malaysian REIT counterparts through MRMA and in collaboration with Asia Pacific Real Estate Association, we hosted the inaugural Malaysia REIT Forum 2019, which was intended as a platform to grow awareness of REITs. The forum which was held in Kuala Lumpur was attended by over 250 participants, comprising mainly C-Suite, property developers, government regulators, investment bankers, domestic fund managers and research analysts, generated robust and insightful expert views from distinguished speakers from around the region, including Malaysia, Singapore, Hong Kong, and Australia.



#### Quarterly analyst meetings

Commencing 2019, apart from hosting face-to-face analyst briefings for our half-year and full-year financial results, we also made available on our website a delayed webcast of the briefing event. These briefings were chaired by our Chief Financial Officer (CFO) in the presence of the Chief Executive Officer (CEO), Head of Legal & Corporate Services, as well as the IR Team. For each quarter, we also had audio recordings together with the results presentation uploaded onto our website to enable the investment community to better understand the financial results, the strategies and initiatives undertaken and the prospects going forward.

Our recordings have gained traction exceeding 1,000 views with this multimedia platform. This approach has also enabled us to easily share these recordings with our investment community through mobile which enabled us to access a broader range of investors, not just in Malaysia but in South East Asia and globally.



# INVESTOR RELATIONS

## Analyst Coverage

At KLCCP Stapled Group, we foster good relationships with the research houses that cover our stock. We believe that these relationships are beneficial to KLCCP Stapled Group and the holders of Stapled Securities, as our interactions with research analysts serve to supplement our direct engagements with the broader investment community.

During the year, CLSA Research initiated coverage on KLCCSS bringing total coverage to 12 analysts.



## Annual General Meeting

Our Annual General Meeting (AGM) provides the opportunity for us to engage with holders of Stapled Securities, particularly the retail investment community. At the AGM, we present a detailed presentation on the Group’s performance, prospects, and strategy as well as encourage questions from the holders of Stapled Securities prior to the electronic poll-voting session.

We held the 16<sup>th</sup> AGM of KLCCP and the 6<sup>th</sup> AGM of KLCC REIT concurrently on 3 April 2019 in Kuala Lumpur, Malaysia. The Directors including the Chairman of the Board Committees, CEO, CFO, Management team as well as the external auditors, were in attendance to engage directly with the holders of Stapled Securities.

Our CEO, Datuk Hashim Wahir, presented the year in review, updating attendees on the financial and operational performance of KLCCP Stapled Group, as well as key economic and industry updates and the outlook and strategy for the coming year. The Chairman of the AGM then facilitated the Question & Answer session, during which questions raised by holders of Stapled Securities and the Minority Shareholder Watchdog Group were addressed, followed by a press conference with members of the media.

All proposed resolutions tabled at the AGM were duly passed.

## ENHANCING INVESTOR COMMUNICATIONS

### Corporate Website

2019 saw the launch of our revamped corporate website. Taking into consideration that our website is often the first port of call for our investors, patrons, and the public at large to obtain information about the Group, we redesigned our website with a fresh appearance and an enhanced digital experience for all our stakeholders. Our revamped website also serves to enhance the value of our IR engagements by deploying various channels such as videos on our quarterly results, webcasts of our analyst briefings, a dedicated sustainability section, and an annual report microsite.

Complete with vibrant contemporary features including video gallery, informative infographics, animation and audio recordings, our revamped corporate website gives visitors a more engaging and immersive experience, compatible with all browsers and mobile devices. Our revamped website also contains all our regulatory announcements to Bursa Malaysia, corporate news, investor presentations, financial information, annual reports, AGM minutes, schedule of upcoming events, stock information and IR contact details, further establishing its position as the go-to resource for the investment community for quality and timely information.

## INVESTOR RELATIONS

We have seen a significant increase of visitors to our website by more than twenty-fold, following the launch of the redesigned website. We intend to continue to drive traffic to the corporate website, capitalising on the search engine optimisation to further leverage the website as an informative tool of communication, enhancing our visibility and profile in the eyes of our stakeholders and investment community.

### PUTTING SOCIAL IN ESG

ESG factors feature highly in the investment community's considerations as they look beyond traditional metrics to identify opportunities and risk, particularly in line with the global shift towards more responsible investing.

At KLCCP Stapled Group, sustainability is a strategic operational priority and has been, for over 3 years, a mainstay in our IR activities, whereby we reinforce our core value of sustainability and ESG matters through our ESG communication in our IR presentations and briefing decks. Sustainability also features prominently on our revamped corporate website, where we have outlined in detail our sustainability strategy and approach, which we believe helps to keep us accountable to our employees, customers, partners in the value chain, community, and environment.

We produced and made available in our website, a series of sustainability videos on our Sustainability Strategy and journey thus far across the economic, environmental, social and governance spheres. We showcased different aspects of our operations from the business activities to corporate governance and social affairs, ideally giving the investors a complete snapshot of KLCCP Stapled Group's initiatives. We engaged viewers with visuals and infographics in condensed key takeaways for investors to digest quickly and easily.

In line with our shift towards Integrated Reporting, we will continue to enhance and develop our ESG communication in terms of scope, depth, and frequency. Our IR Team remains our primary point of contact, helping our stakeholders and investors keep abreast of our ESG activities.

### 2020: REDEFINING INVESTOR RELATIONS

Beyond just interfacing with analysts, investors, the broader capital markets and stakeholders in general, IR has evolved into becoming a strategic enabler of value creation by spearheading enhanced stakeholder engagement, improved disclosure and credibility, and better corporate governance.

At KLCCP Stapled Group, our IR Team is at the vanguard of this change, looking to elevate our interactions with our external stakeholders with more meaningful disclosure and communication thereby empowering impactful decision-making by everyone involved. We will continue to drive integrated thinking within KLCCP Stapled Group by being the nexus of information, sharing and promoting a more holistic approach to information and communication.

We look forward to continued and productive engagements with holders of Stapled Securities and the broader investment community.

Please direct any of your comments, suggestions, queries or requests for (publicly available) information to [investor.relations@klcc.com.my](mailto:investor.relations@klcc.com.my).

### FINANCIAL CALENDAR

#### ANNOUNCEMENT OF QUARTERLY RESULTS

<b>24 January 2019</b>	<b>7 May 2019</b>
4 <sup>th</sup> quarter ended 31 December 2018	1 <sup>st</sup> quarter ended 31 March 2019
<b>20 August 2019</b>	<b>11 November 2019</b>
2 <sup>nd</sup> quarter ended 30 June 2019	3 <sup>rd</sup> quarter ended 30 September 2019
<b>23 January 2020</b>	
4 <sup>th</sup> quarter ended 31 December 2019	

#### DATE OF PAYMENT OF THE INTERIM DIVIDEND

<b>28 February 2019</b>	<b>20 June 2019</b>
4 <sup>th</sup> quarter ended 31 December 2018	1 <sup>st</sup> quarter ended 31 March 2019
<b>4 October 2019</b>	<b>18 December 2019</b>
2 <sup>nd</sup> quarter ended 30 June 2019	3 <sup>rd</sup> quarter ended 30 September 2019
<b>28 February 2020</b>	
4 <sup>th</sup> quarter ended 31 December 2019	

#### ANNUAL GENERAL MEETING

<b>3 April 2019</b>
KLCCP 16 <sup>th</sup> Annual General Meeting KLCC REIT 6 <sup>th</sup> Annual General Meeting
<b>22 April 2020</b>
KLCCP 17 <sup>th</sup> Annual General Meeting KLCC REIT 7 <sup>th</sup> Annual General Meeting

#### 28 FEBRUARY 2020

<b>Date of notice of KLCCP 17<sup>th</sup> Annual General Meeting and KLCC REIT 7<sup>th</sup> Annual General Meeting</b>
<b>Date of issuance of FY2019 Integrated Annual Report</b>

# Value Creating Business Model



by  
e

te places  
k forward  
essing  
for a  
future

Reinforced  
by our  
strategy

## SHAREHOLDERS

**RM1.4 billion**  
Revenue

**38.00 sen**  
Distribution per Stapled  
Security

**7.9%**  
Annual total return

## REGULATORS

**RM102.9 million**

Tax paid to  
Government

Robust risk  
management  
and governance  
framework

## CUSTOMERS

**99%**  
Retail occupancy

**92%**  
Hotel guest satisfaction

**76%**  
Customer satisfaction

**VALUE  
CREATED**

## COMMUNITY

**RM2.0 million**

Spent on  
community  
investment

**RM1.5 million**

Spent on  
maintenance of  
KLCC Park

## ENVIRONMENT

**18.9%**  
Reduction in energy  
consumption

**15.8%**  
Reduction in GHG emission

**4.6%**  
Reduction in water use

## EMPLOYEES

**95%**  
Employee retention  
rate

**RM1.8 million**  
Spent on staff  
learning and  
development



To read more on our Key Performance Indicators and how we measure the values we create, refer to pages 78 and 79

### Strong Financial Position

Our flexible capital structure and strong balance sheet allows us to be agile in responding to opportunities and mitigating risks

*To read more, refer to KLCCP Stapled Group 5-Year Financial Highlights and Summary on pages 80 to 83*

### Portfolio of Diverse, Iconic Assets and Management Services

We have a diverse portfolio within the sought after KLCC Precinct comprising iconic and high quality assets and management services, which generate earnings for the Group

*To read more, refer to Property Portfolio on pages 10 to 16*

### Deep Knowledge and Strong Capabilities

We have deep knowledge from the years of experience in the industry. Our capabilities, supported by established processes and policies are instrumental to our ability to create value

*To read more, refer to Board of Directors on pages 152 to 160 and Management Team on pages 162 to 168*



## BUSINESS ACTIVITIES AND PRACTICES

### Engaged and Inspired Employees

Our dedicated people share our passion in creating vibrant and inspiring spaces for people to look forward to. The skills and experience they bring, together with a unifying KLCC culture enables us to create value

*To read more on Our People, refer to Sustainability Statement on pages 140 to 143*

### Natural Resources

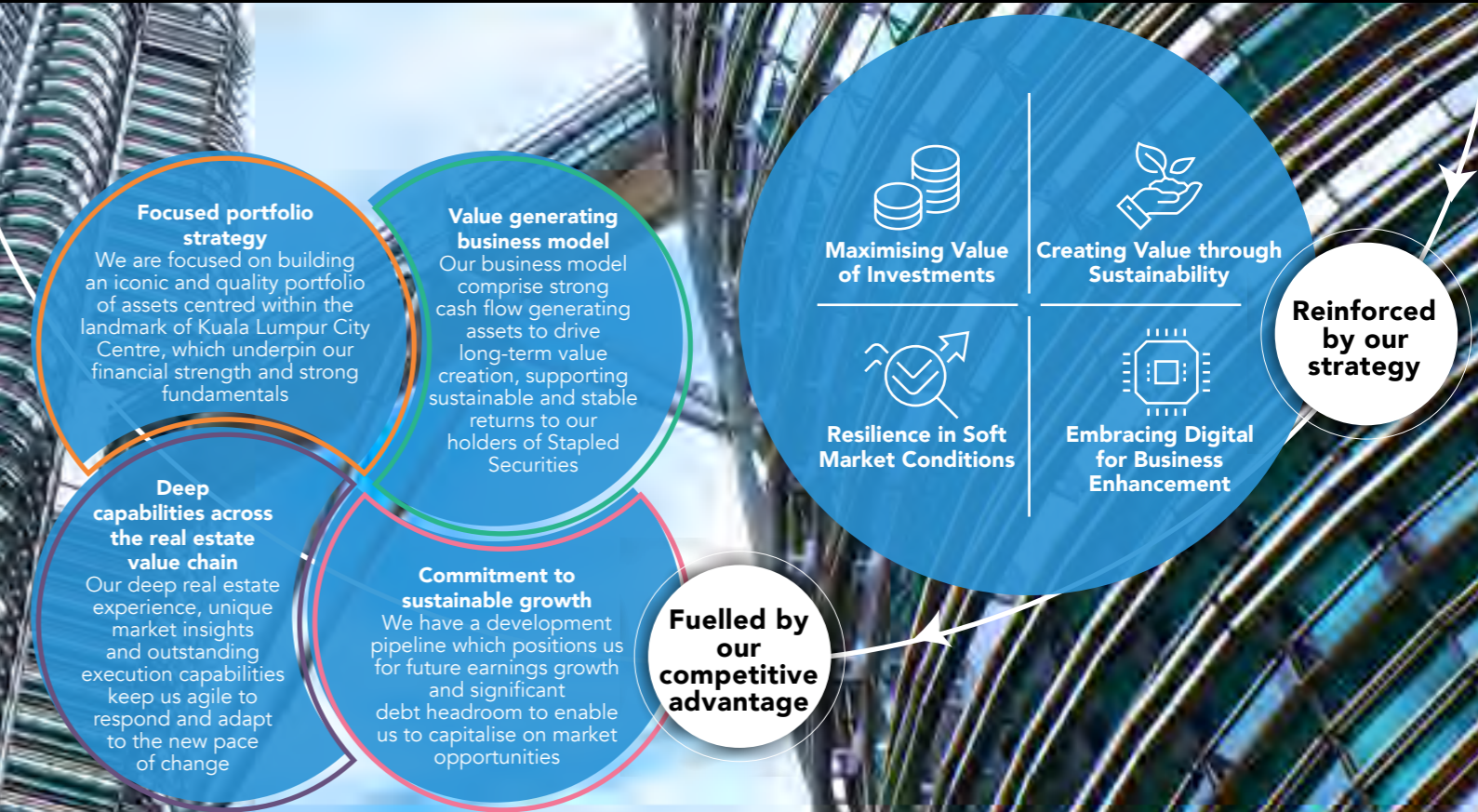
We rely on natural resources like electricity and water as an owner, developer and manager of our properties. We consciously manage and work towards minimising our environmental impact

*To read more on our Environmental practices, refer to Sustainability Statement on pages 126 to 135*

### Trusted Relationships with Stakeholders

Our trusted relationships with our investors, partners, employees, regulators and the communities in which we operate provides us the social license to operate and access to capital

*To read more, refer to Stakeholder Management on pages 67 to 69*



**UNDERPINNED BY OUR SHARED VALUES**

**INNOVATIVE**

**COHESIVENESS**

## SHAREHOLDERS

**RM1.4 billion**  
Revenue

**38.00 sen**  
Distribution per Stapled  
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To read more on our Key Performance Indicators and how we measure the values we create, refer to pages 78 and 79

# KEY PERFORMANCE INDICATORS

## MONITORING OUR PERFORMANCE

We gauge our performance across a range of measures and indicators that are parallel with our strategy and investor proposition. Our key performance indicators (KPI) provide a balance set of metrics that give emphasis to both financial and non-financial measures. These help the Management assess performance against our strategic pillars and priorities with non-financial metrics playing a prominent role as leading indicators of future performance.

**Profit For The Year\*** (RM'mil)

Year	Profit (RM'mil)
2019	848.1
2018	840.1
2017	830.4
2016	826.8
2015	829.2

\* Excluding fair value adjustments

**Why is this important?**  
Profit for the year is a primary measure of financial results and the organisation's sustainable business growth performance

**How is this measured?**  
Based on the audited financial statements of KLCCP and KLCC REIT

**Our progress in 2019**  
The Group delivered stable and sustained value for the financial year despite the headwinds in the market

[Link to Strategic Pillars & Priorities](#)

**Distribution per Stapled Security** (sen)

Year	Distribution (sen)
2019	38.00
2018	37.00
2017	36.15
2016	35.65
2015	34.65

**Why is this important?**  
It is a direct measure of the organisation's total amount of profits paid out to the holders of Stapled Securities, which translates to income for them

**How is this measured?**  
Based on the pay-out ratio applied to the realised distributable income of KLCCP Stapled Group

**Our progress in 2019**  
The Group showed a growth of 2.7%, testament to our commitment in delivering value to the holders of Stapled Securities

[Link to Strategic Pillars & Priorities](#)

**HSE – Zero Fatality & Group LTIF**

Year	LTIF
2019	0.78
2018	0.47
2017	1.19
2016	0.46
2015	0.20

**Why is this important?**  
Safeguarding people, the environment, and communities residing in close proximity to our operational vicinity is our top priority. Solidifies our HSE leadership across all levels

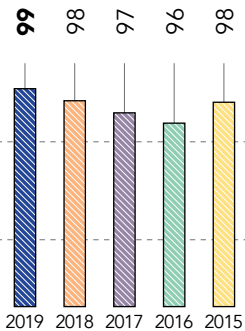
**How is this measured?**  
Number of Loss Time Injury (LTI) recorded against the total cumulative hours worked by the employees

**Our progress in 2019**  
The Group maintained impressive zero fatality rate since 2015, with 7 Loss Time Injury (LTI) incidents and a Loss Time Injury Frequency (LTIF) of 0.78, contributed by mishap of contractors at worksite

[Link to Strategic Pillars & Priorities](#) S3

# KEY PERFORMANCE INDICATORS

## Retail Occupancy (%)



### Why is this important?

It ensures we generate rental income and enliven our retail destination and enhances the appeal and trading environment

### How is this measured?

Based on the floor space which is currently leased

### Our progress in 2019

Occupancy for our malls was robust considering the anchor-to-specialty reconfiguration exercise which took place in 2019. We significantly outperformed the average retail occupancy of 83% in Kuala Lumpur City Centre

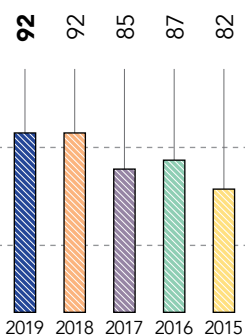
[Link to Strategic Pillars & Priorities](#)



S1

S2

## Hotel Guest Satisfaction (%)



### Why is this important?

Customer reviews are not only valuable in the way which guests select hotels based on the quality of the review, but they also provide useful feedback for hotels to effect improvements

### How is this measured?

Using the LRA email surveys to hotel guests. LRA is a leading global provider of brand protection and customer experience measurement services with extensive experience in the hospitality industry

### Our progress in 2019

Maintained high guest satisfaction score of 92% resulting from the post refurbished guestrooms coupled with the hotel's improved offerings and superlative guest services

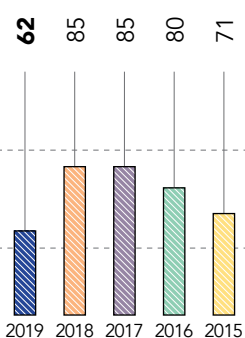
[Link to Strategic Pillars & Priorities](#)



S1

S2

## Employee Satisfaction (%)



### Why is this important?

Measures the satisfaction of employees in respect to the organisation's policies, culture & values, management behaviour and trust in the organisation, towards sustaining a healthy organisation climate

### How is this measured?

An employee feedback questionnaire survey is sent out annually, to all employees of the Group, via an independent survey platform

### Our progress in 2019

The employee satisfaction score for the year reflects the revised approach in the survey methodology and the improvement on the survey questions. Thus the score is not comparable to the prior years

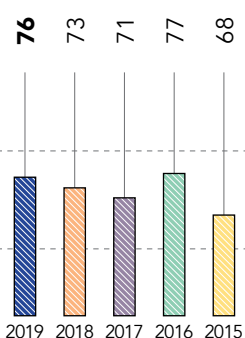
Nevertheless, focused engagements with employees on the changes to the survey led to an increased survey participation rate of 85%

[Link to Strategic Pillars & Priorities](#)

S1

S3

## Customer Satisfaction (%)



### Why is this important?

Managing reputational risk as the satisfaction of our tenants, customers, reflect our efforts in creating destinations which meet evolving customer expectations and provide experiences

### How is this measured?

A customer satisfaction survey is sent out annually to all tenants of our buildings, users of our car parking management and facility management services, via an independent survey platform

### Our progress in 2019

Improved customer satisfaction driven by enhanced physical and digital space, aligning with our core tenets of safety, security, connectivity and convenience towards a seamless experience

[Link to Strategic Pillars & Priorities](#)

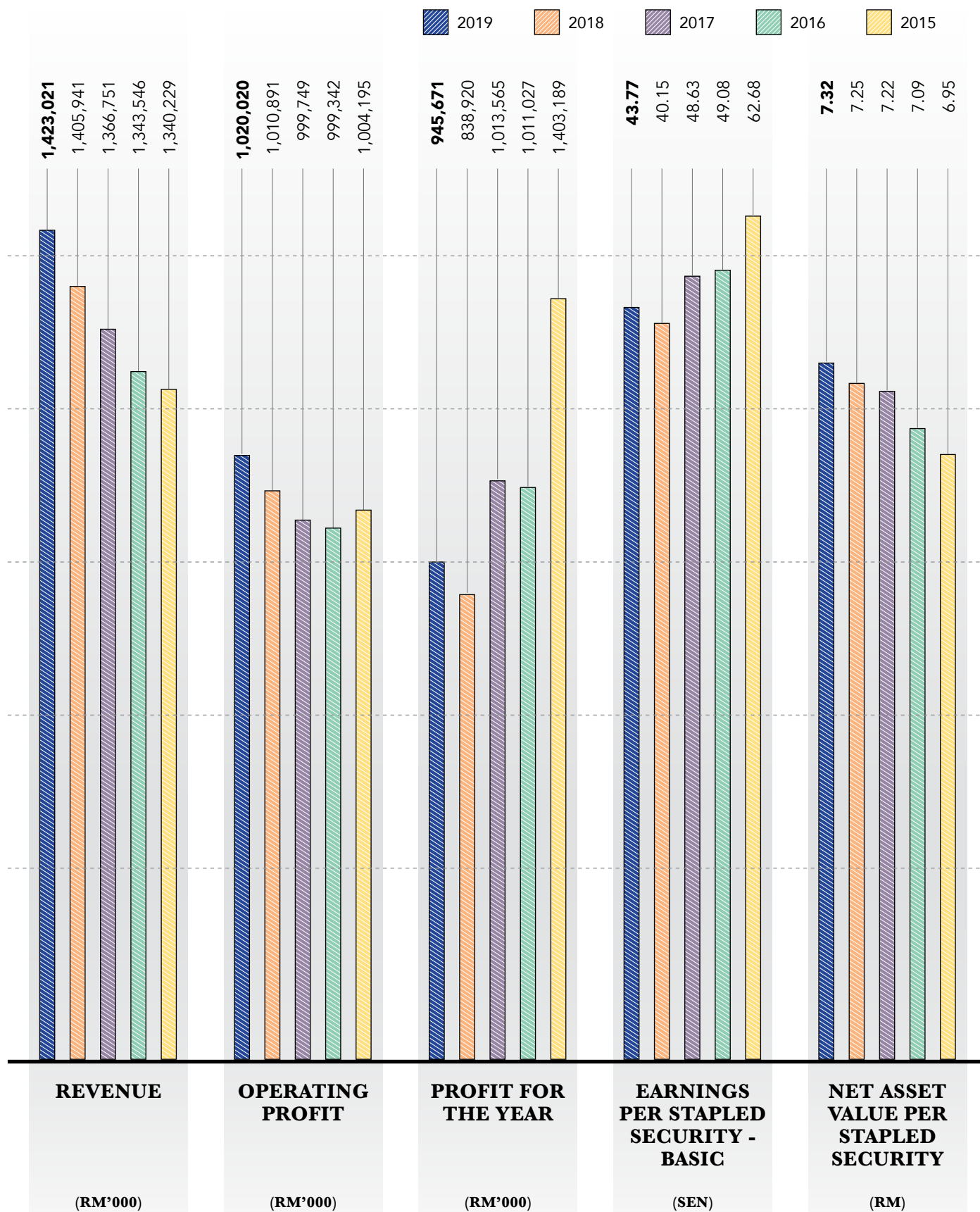


S1

S2

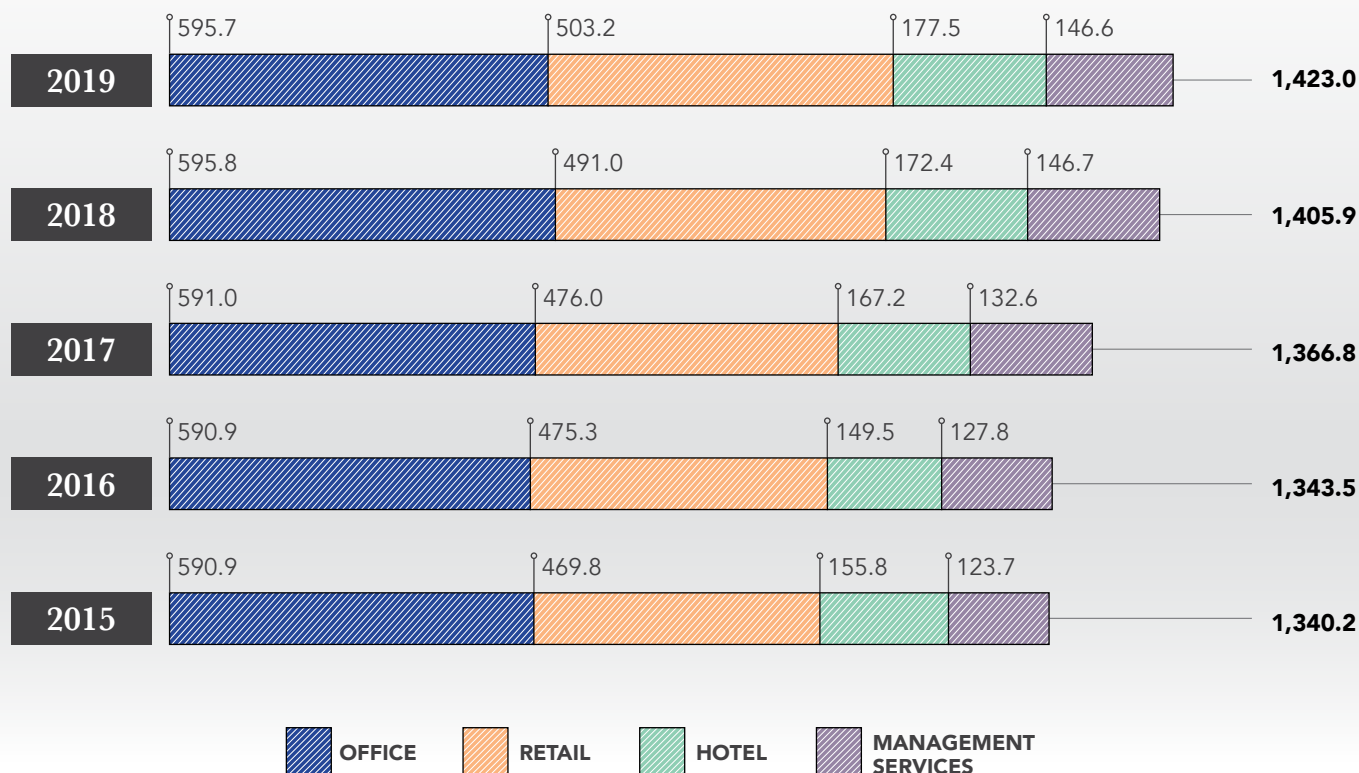


# KLCCP STAPLED GROUP 5-YEAR FINANCIAL HIGHLIGHTS

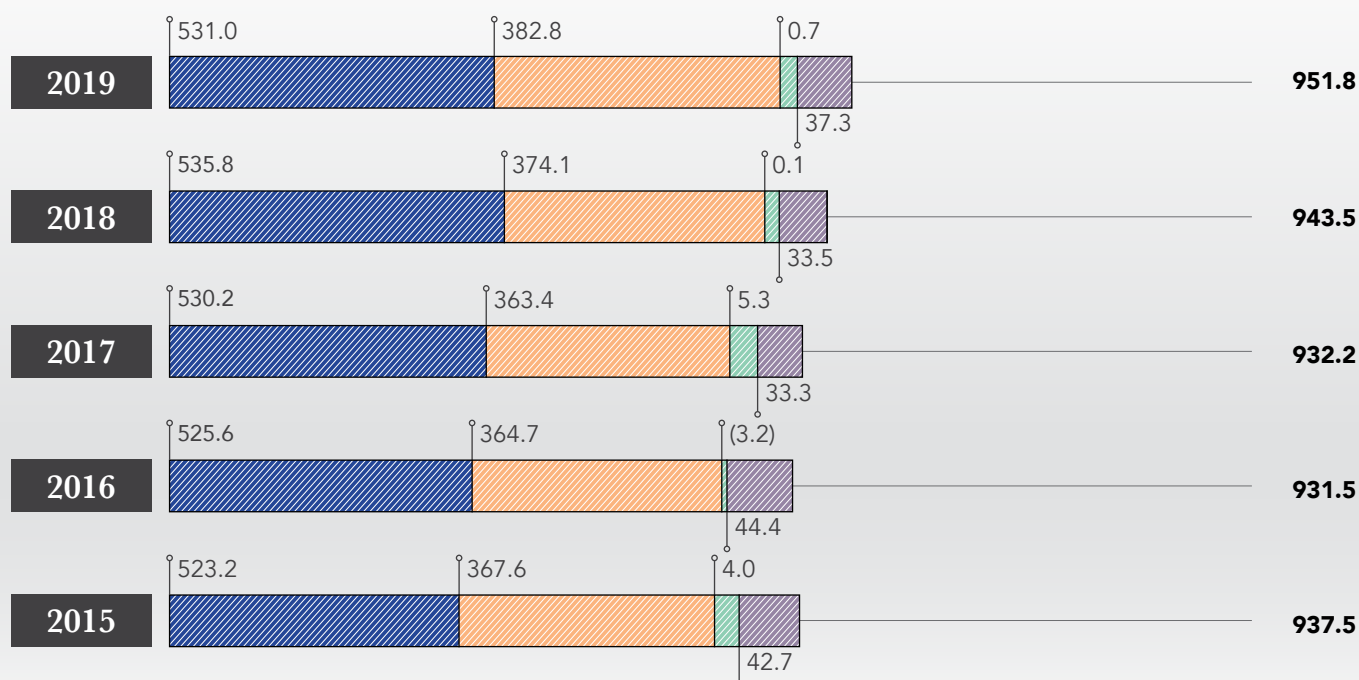


## KLCCP STAPLED GROUP 5-YEAR FINANCIAL HIGHLIGHTS

### Segmental Revenue (RM'mil)

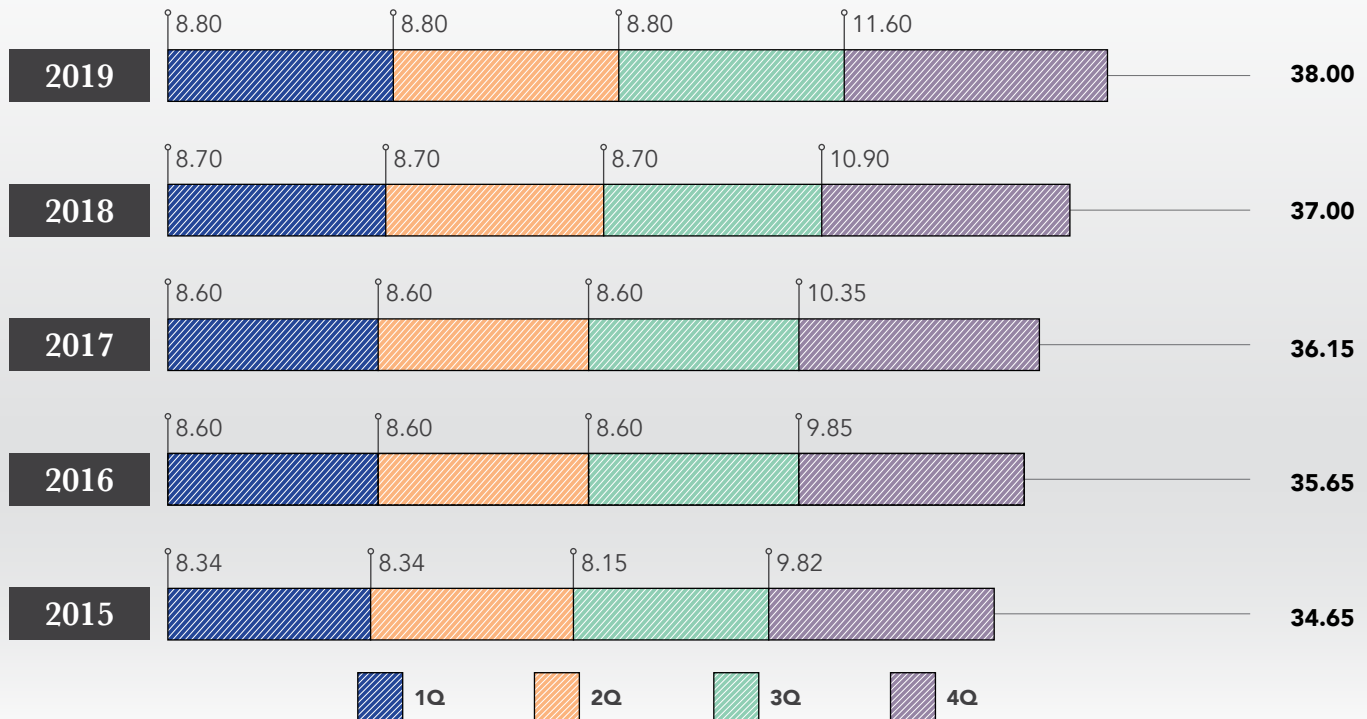


### Segmental PBT – excluding fair value adjustment (RM'mil)

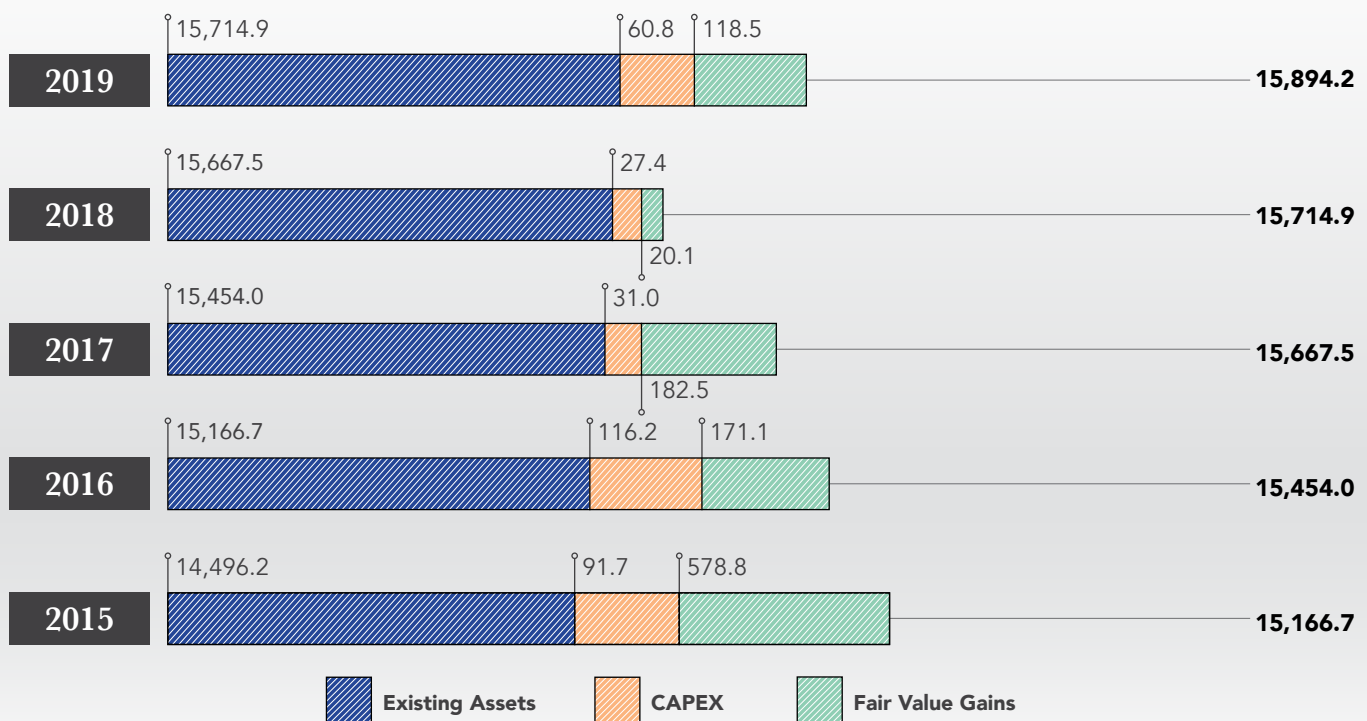


## KLCCP STAPLED GROUP 5-YEAR FINANCIAL HIGHLIGHTS

### Distribution per Stapled Security (sen)



### Property Value (RM'mil)



# KLCCP STAPLED GROUP

## 5-YEAR FINANCIAL SUMMARY

	2019	2018	2017	2016	2015
<b>Key Operating Results (RM'mil)</b>					
Revenue	<b>1,423.0</b>	1,405.9	1,366.8	1,343.5	1,340.2
Operating Profit	<b>1,020.0</b>	1,010.9	999.8	999.3	1,004.2
Profit before Tax (PBT)	<b>1,071.3</b>	964.1	1,115.3	1,102.7	1,518.4
Profit for the Year	<b>945.7</b>	838.9	1,013.6	1,011.0	1,403.2
<b>Key Statement of Financial Position (RM'mil)</b>					
Investment Properties	<b>15,894.2</b>	15,714.9	15,667.5	15,454.0	15,166.7
Total Assets	<b>18,211.3</b>	17,860.3	17,792.6	17,782.1	17,537.1
Total Borrowings	<b>2,346.6</b>	2,244.7	2,251.1	2,552.4	2,560.6
Total Liabilities	<b>2,917.8</b>	2,735.2	2,745.7	3,004.1	3,026.0
Total Equity Attributable to Equity Holders of Stapled Securities	<b>13,212.0</b>	13,095.3	13,028.5	12,794.2	12,551.3
<b>Stapled Securities Information</b>					
Earnings per Stapled Security - Basic (sen)	<b>43.77</b>	40.15	48.63	49.08	62.68
Net Asset Value per Stapled Security (RM)	<b>7.32</b>	7.25	7.22	7.09	6.95
Distribution per Stapled Security (sen)	<b>38.00</b>	37.00	36.15	35.65	34.65
Stapled Securities Closing Price as at 31 December (RM)	<b>7.90</b>	7.66	8.64	8.30	7.06
Number of Stapled Securities (mil)	<b>1,805.3</b>	1,805.3	1,805.3	1,805.3	1,805.3
Market Capitalisation (RM'mil)	<b>14,261.9</b>	13,828.9	15,598.1	14,984.3	12,745.7
<b>Financial Ratios</b>					
PBT Margin	<b>75%</b>	69%	82%	82%	113%
Dividend Payout-Ratio	<b>94%</b>	96%	97%	95%	98%
Gearing (times)	<b>0.18</b>	0.17	0.17	0.20	0.20

# KLCCP STAPLED GROUP VALUE ADDED STATEMENT

	2019 RM'000	2018 RM'000
Total turnover	1,423,021	1,405,941
Interest income	31,636	27,574
Operating expenses	(244,825)	(246,428)
Value added by the KLCCP Stapled Group	1,209,832	1,187,087
Share of profits of an associate	12,615	13,288
Fair value adjustments of investment properties	118,471	20,050
	<b>1,340,918</b>	1,220,425
<b>Reconciliation</b>		
Profit attributable to holders of Stapled Securities	790,151	724,914
Add:		
Depreciation and amortisation	43,334	38,073
Finance costs	111,421	107,710
Staff costs	114,842	110,549
Taxation	125,650	125,173
Other non-controlling interests	155,520	114,006
	<b>1,340,918</b>	1,220,425
<b>Value distributed</b>		
<b>Employees</b>		
Salaries and other staff costs	114,842	110,549
<b>Government</b>		
Corporate taxation	102,941	104,463
<b>Providers of capital</b>		
Dividends	673,389	658,044
Finance costs	111,421	107,710
Other non-controlling interests	155,520	114,006
<b>Reinvestment and growth</b>		
Depreciation and amortisation	43,334	38,073
Capital reserve*	78,141	7,906
Income retained by the Group	61,330	79,674
	<b>1,340,918</b>	1,220,425

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





# THE PLACE TO SHOP

Responding to our customers' needs and demands has opened up opportunities for us to evolve and create an environment that matches the lifestyle and changes in consumer trends

**THIS IS THE PLACE THAT INSPIRES  
THE EXPRESSION OF LIFESTYLE AND  
BESPOKE UNIQUENESS**





# FINANCIAL REVIEW

## Sustained performance for the year ended 31 December 2019 amid a challenging market landscape

KLCCP Stapled Group delivered a sustained performance for the year ended 31 December 2019 amid a challenging market landscape, recording a revenue growth of 1.2% to RM1.4 billion and increased profits compared to 2018, boosted by stronger performance from the retail and hotel segments. In tandem, profit attributable to equity holders (excluding fair value) recorded a marginal increase to RM 732.8 million.



	2019 RM'mil	2018 RM'mil	Growth %
Revenue	<b>1,423.0</b>	1,405.9	1.2
Operating profit	<b>1,020.0</b>	1,010.9	0.9
Profit before tax*	<b>951.8</b>	943.5	0.9
Profit for the year*	<b>848.1</b>	840.1	1.0
Profit attributable to equity holders*	<b>732.8</b>	726.7	0.8
Operating profit margin	<b>72%</b>	72%	-
Profit before tax margin*	<b>67%</b>	67%	-
Earnings per Stapled Security* (sen)	<b>40.59</b>	40.25	0.8
Distribution per Stapled Security (sen)	<b>38.00</b>	37.00	2.7

\* Excluding fair value adjustment

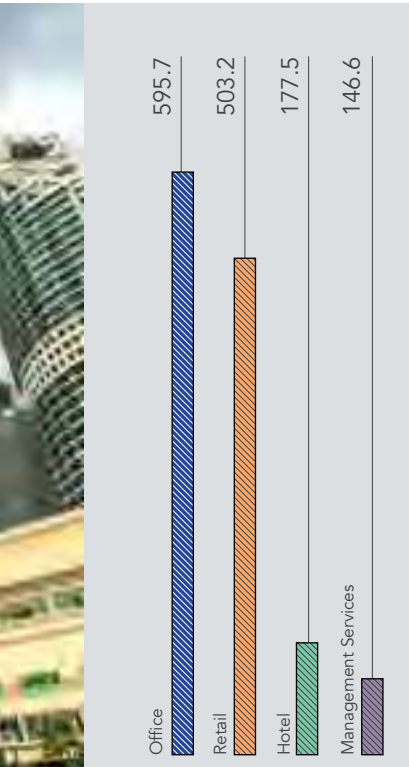
The increase in revenue of RM17.1 million was mainly driven by the strong performance in the retail segment and improved performance in MOKL Hotel. Despite the loss in rental income for eight months from approximately 120,000 sq. ft. of NLA due to the anchor-to-specialty reconfiguration exercise, the retail segment stamped its resilience with a revenue growth of RM12.2 million on the back of higher rental reversions during the year coupled with the increased contribution from internal digital advertising which benefitted largely from the investment in the largest rotating double-sided LED screen in the world, last year.



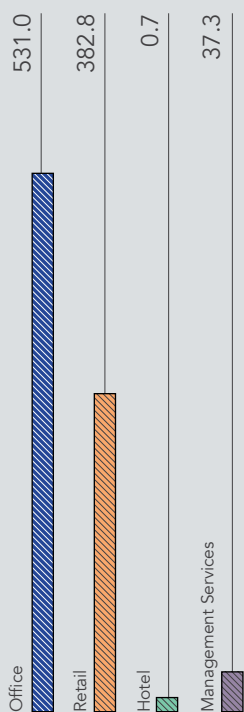
### Key Highlights

- Stable performance with top-line growth of 1.2% and increase in PBT (excluding fair value adjustment) of RM8.3 million, anchored by the resilience of the retail segment and improved performance in the hotel segment, underpinned by the stability of the office segment
- Suria KLCC together with the retail podium of Menara 3 delivered a strong retail performance, with a 2.5% increase in revenue and 2.3% PBT (excluding fair value adjustment) growth driven by higher rental rates from new leases and rent reviews becoming effective during the period. This is in spite of the loss of rental income over eight months due to the anchor-to-specialty space reconfiguration exercise
- The hotel segment had an exceptional run towards year end, benefitting largely from the stronger leisure demand, supported by MICE and banqueting events and delivered a top-line growth of 3.0%, resulting in increased profits compared to 2018.

## FINANCIAL REVIEW



### REVENUE



### PROFIT BEFORE TAX (excluding fair value)



The revenue from the hotel segment improved by 3.0% in 2019 from ramped-up opportunities post guest room refurbishment, supported by stronger leisure demand driving higher occupancy of the Deluxe rooms. The office segment maintained its stability underpinned by full occupancy whilst management services levelled its performance of last year's despite non-occurrence of one-off projects under facilities management.

#### Operating Profit

The Group recognised an impairment in respect to investment property under construction amounting to RM2.8 million during the year due to prolongation of the redevelopment of the City Point podium.

Nevertheless, operating profit grew marginally to RM1,020.0 million in FY2019 on the back of increased revenue. Operating expenses was prudently managed and was stable at 28% of revenue. Majority of the other cost increases were mainly arising from the higher depreciation in the hotel segment as well as planned maintenance of the office buildings.

#### Profit Before Tax

PBT (excluding fair value adjustment) increased marginally to RM951.8 million compared to the previous year. The refinancing of the new

Islamic Medium Term Notes ("IMTN") of RM500 million in April 2019, resulted in increased finance cost of 3.5% from higher effective interest rate of 4.62% compared to 4.60% in the previous year. Additionally, the lower profit shared from the associate company during the year due to one-off adjustment in Impian Klasik Sdn Bhd, also contributed to the marginal growth in PBT.

#### Profit for the Year

The effective tax rate for KLCCP Stapled Group was approximately 11.0% with KLCC REIT distributing more than 90.0% of its distributable income and was thus exempted from tax. The capital expenditure in respect to the hotel building also provided additional investment tax allowance for the deduction against taxable income.

#### Distribution per Stapled Security

KLCCP Stapled Group continues to deliver on its commitment of value and growth to its holders of Stapled Securities. For FY2019, the Group declared a distribution per Stapled Security of 38.00 sen, an increase of 2.7% from 2018. This translates to a declared dividend payment of RM686.0 million for the year in review.

## FINANCIAL REVIEW

### FINANCIAL POSITION REVIEW

	2019 RM'mil	2018 RM'mil	Variance %
<b>ASSETS</b>			
Investment properties	15,894.2	15,714.9	1.1
Property, plant and equipment	671.7	673.6	(0.3)
Right-of-use-assets	11.8	-	
Receivables	482.8	481.9	0.2
Cash and bank balances	883.9	735.7	20.1
Others	266.9	254.2	5.0
	<b>18,211.3</b>	<b>17,860.3</b>	<b>2.0</b>
<b>LIABILITIES</b>			
Payables	429.1	370.5	15.8
Borrowings	2,346.6	2,244.7	4.5
Others	142.1	120.0	18.4
	<b>2,917.8</b>	<b>2,735.2</b>	<b>6.7</b>
<b>Total Equity attributable to equity holders of KLCCP and KLCC REIT</b>	<b>13,212.0</b>	<b>13,095.3</b>	<b>0.9</b>
<b>Net Asset Value per Stapled Security (NAV)</b>	<b>7.32</b>	<b>7.25</b>	<b>1.0</b>

The financial position of the Group is maintained at a healthy position with sufficient cash and low gearing providing a conducive business environment for future development and long-term stability. The Group's total assets grew from RM17.9 billion to RM18.2 billion mainly from the appreciation in fair value of the investment properties. Net asset value per Stapled Security (NAV) improved from RM7.25 to RM7.32 during the year. Correspondingly, total equity attributable to equity holders strengthened to RM13.2 billion.



Property	Market Value		Carrying Value	
	31 Dec 2019 RM'mil	31 Dec 2018 RM'mil	31 Dec 2019 RM'mil	31 Dec 2018 RM'mil
KLCC REIT assets	9,603.9	9,598.9	9,194.0	9,190.8
Suria KLCC	5,615.0	5,455.0	5,598.4	5,444.2
Dayabumi	597.0	580.0	597.0	578.3
Lot D1	289.0	288.0	289.0	288.0
<b>Total</b>	<b>16,104.9</b>	<b>15,921.9</b>	<b>15,678.4</b>	<b>15,501.3</b>

#### Investment Properties and Fair Value Adjustment

Representing 86% of the KLCCP Stapled Group's total assets are the investment properties which includes its premium assets in KLCC REIT, namely, PETRONAS Twin Towers, Menara 3 PETRONAS, Menara ExxonMobil as well as KLCCP's assets, Suria KLCC, Menara Dayabumi, the City Point podium land and the vacant land of Lot D1.

Valuation of these properties as at 31 December 2019 recorded an increase in market value of RM183.0 million as compared to RM73.3 million in the previous year mainly driven by the increase in value of Suria KLCC from the reconfiguration exercise. The exercise has unlocked the potential for higher rental returns from the anchor-to-specialty reconfiguration, a testament of focused strategies and initiatives in continuously curating new experience for shoppers by rejuvenating the tenant mix.

## FINANCIAL REVIEW



In line with the accounting treatment under MFRS 140 Investment Properties, adjustments were made to exclude the adjustments of the accrued operating lease income and capital expenditure incurred during the year to avoid double counting of assets. Thus, RM118.5 million out of RM183.0 million was recognised as fair value adjustment in FY 2019.

### Property, Plant and Equipment

Property, plant and equipment (PPE) for the Group comprise mainly the cost of MOKL Hotel's building. During the year, KLCCP Stapled Group embarked on enhancements in respect to digitalisation and security system upgrades within the KLCC Precinct and in the North West Development car park as well as remaining renovation on the mechanical, electronic and plumbing for MOKL Hotel. The RM39.7 million increase on PPE for the Group was set-off against depreciation charged and write-offs/disposal of assets no longer in use.

### Right-of-use-assets

Following the adoption of MFRS 16 Leases, our leases on offices are now classified as Right-of-Use (ROU). The ROU of

RM11.8 million as at year end represents the office lease for the remaining contracted term between 3 to 4 years.

### Payables

Payables recorded an increase of 15.8% as at year end mainly due to advance rental received from PETRONAS.

### CASHFLOW REVIEW

	2019 RM'mil	2018 RM'mil
Operating activities	1,040.5	915.2
Investing activities	(99.1)	(59.7)
Financing activities	(790.3)	(862.1)
Change in cash and cash equivalent	151.2	(6.6)
Cash with PETRONAS IFSSC	544.8	439.4
Deposits with licensed banks	334.2	286.4
Cash and bank balances	4.9	9.9
<b>Cash and cash equivalents</b>	<b>883.9</b>	<b>735.7</b>

### Operating Activities

The higher net cash generated from operating activities of RM1.0 billion compared to RM915.2 million was mainly due to the full year impact from the rental increase in PETRONAS Twin Towers, the receipt of advance rental from PETRONAS and security deposit particularly from the new tenants of Suria KLCC during the year.

### Investing Activities

The increased cash utilisation in investing activities is mainly reflective of the higher capital expenditure incurred by the Group from the reconfiguration exercise in Suria KLCC and the asset enhancement, in respect to digitalisation and security system upgrades during the year.

### Financing Activities

The financing activities of the Group consist of servicing of interest for KLCC REIT's Sukuk Murabahah programme (Sukuk) and term loan of the hotel. During the year, the Group successfully refinanced two tranches of KLCC REIT's Sukuk. The lower net cash used in financing activities was mainly due to cash received from the maturity of KLCC REIT's Sukuk which was previously subscribed by KLCCP.

The Group continuously manages the available cash with prudence through placement in fixed deposits or with PETRONAS Integrated Financial Services Centre (IFSSC) whereby the balance is interest bearing.

# OPERATIONS REVIEW



## OFFICE



**OFFICE SEGMENT  
REMAINS THE  
SECURED INCOME  
GENERATOR,  
UNDERPINNED BY ITS  
STRENGTH OF THE  
PREMIUM ASSETS**



No. of assets

**5**

[2018: 5]



NLA sq. ft.

**5.6** million

[2018: 5.6 million]



Occupancy

**100** %

[2018: 100%]



Revenue  
contribution  
by segment

**42** %

[2018: 43%]

## OPERATIONS REVIEW

Being an office-focused REIT, the office segment is the main revenue driver contributing 42% of the Group's revenue. The office portfolio comprises PETRONAS Twin Towers, Menara ExxonMobil and Menara 3 PETRONAS which are strategically located within the Kuala Lumpur City Centre (KLCC) whilst Menara Dayabumi stands majestically within the former city centre of Kuala Lumpur. The Group also has a 33% stake in Menara Maxis, another prime office building in the KLCC Precinct.

With a defensive lease structure which lends stability, visibility of future cashflows and solid full occupancy in all the office buildings, the office segment remains the secured income generator, underpinned by the strength of its premium assets. The Triple Net Lease arrangement particularly for PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi also shields us from the soft market conditions, with minimal impact to earnings.

### Industry Landscape and Operating Challenges

The lackluster leasing activities and challenges of oversupply in the office market continued in year 2019. Although better absorption rate of new offices was observed compared to 2018, the Group remained cautious as the newly completed the Exchange 106 in the new financial district area and the impending completion of Merdeka 118, which is a stone's throw away from Menara Dayabumi, in year 2021 remains a competition.

Current trends for co-working services and tech savvy spaces saw major office players transforming their office buildings to accommodate the new demands. With the office market being in oversupply and the new trend in working spaces becoming popular, traditional office buildings are forced to undergo enhancements or be at risk of losing-out. Rent-free periods and other incentives are also becoming the norm to entice new tenants and retain the existing tenants.

**BACKED BY FULL OCCUPANCY IN ALL THE OFFICE BUILDINGS, THE GROUP ANTICIPATES TO NAVIGATE THROUGH THE CHALLENGING OFFICE MARKET WITH ITS EXISTING LONG-TERM LEASES AND HIGH-QUALITY TENANTS**



As most of our assets are located within the prime Kuala Lumpur City Centre, the Group's offices remain the city's oil and gas hub, tenanted by PETRONAS and major oil and gas corporations who seek a prestigious address. Backed by full occupancy in all the office buildings, the Group anticipates to navigate through the challenging office market with its existing long-term leases and high-quality tenants.

# OPERATIONS REVIEW

## STRATEGY AND INITIATIVES FOR THE YEAR

Our strategy for the office segment is underpinned by our aim in creating the best office experience for our tenants and in our continued pursuit of attracting the best companies and employees as tenants. We also support our tenant initiatives in improving efficiency and resilience in the workplace through their sustainable practices.

- 1 Secured a further 18 years lease for Menara Dayabumi**  
 With the extended lease at a higher rental rate, the appraised value for Menara Dayabumi also increased to RM365.0 million as compared to RM348.0 million in 2018
- 2 Creating vibrancy in Menara Dayabumi**  
 Enabling tenants and their employees to have a workplace environment that better supports engagement and connectedness
- 3 Supported our tenant initiatives – Workplace for Tomorrow (WFT) and Going Green**  
 The Group worked towards the completion of its tenant initiative in transforming specific areas in the workplace at all the office buildings occupied by PETRONAS into the "office for tomorrow"



**OUR STRATEGY FOR THE OFFICE SEGMENT IS UNDERPINNED BY OUR AIM IN CREATING THE BEST OFFICE EXPERIENCE FOR OUR TENANTS**

### Secured a further 18 years lease for Menara Dayabumi

Our leasing team continued to step-up its efforts with pro-active lease management and successfully secured a new six-year lease with option to extend the lease for a further two successive terms of six years each (6+6+6) with PETRONAS, prior to the expiry of tenancy at Menara Dayabumi on 31 December 2019. Testament to the rental stability of our property and despite the suppressed office market, the lease saw a locked-in positive rental increase for the period from 1 January 2020 to 31 December 2022. With the extended lease at a higher rental rate, the appraised value for Menara Dayabumi also increased to RM365.0 million as compared to RM348.0 million in 2018.

During the year, the leasing team were also actively securing an

anchor tenant for the proposed office tower of the City Point podium redevelopment. The Group is currently in the midst of re-tendering of the project for the superstructure.

### Creating vibrancy in Menara Dayabumi

As part of the Group's commitment to continuously improve the office experience for its tenants, KLCCP Stapled Group embarked on improving the facilities and amenities in Menara Dayabumi to enable tenants and their employees to have a workplace environment that better supports engagement and connectedness.

In quarter 2, we saw the commencement of work to the facade entrance of Menara Dayabumi to enliven the area and objectively gain visibility to the retail within the building. The work is still in progress as of year-end but is targeted to complete in the first quarter of 2020. Upon completion,

Menara Dayabumi will connect the busy and popular Jalan Sultan Hishamuddin which is frequented by tourists and locals alike to Central Market, which is fronting the Government's

River of Life project together with the equally vibrant Petaling Street. This will also augur well for the property as Menara Dayabumi is already well connected as a transportation hub with covered walkways to the bus, LRT, KTM and the new MRT stations. This will enable Menara Dayabumi to be truly central of the former city centre of Kuala Lumpur. The Group also invested capex to improve the parking conditions, with overall enhancements as well as upgrades to the chilled water system during the year.

During the year, the leasing team managed to secure retailers to add to the vibrancy of the building, bringing a wide offering of mainly food and beverage in a bazaar-like concept to cater to the tenant demands.

## OPERATIONS REVIEW



We also leveraged Traders Hotel's expertise in hospitality with the opening of "On-the-Go" café in Menara Dayabumi. All these have resulted in increased vibrancy at the workplace and enhanced tenant satisfaction.

### Supported our tenant initiatives – Workplace for Tomorrow (WFT) and Going Green

In 2019, the Group worked towards the completion of its tenant initiative in transforming specific areas in the workplace at all the office buildings occupied by PETRONAS into the "office for tomorrow". The transformation comprised 151 floors spanning across 2.5 million sq. ft. NLA of office spaces in PETRONAS Towers 1 and 2, Menara 3 PETRONAS, Menara ExxonMobil and Menara Dayabumi which were converted from conventional workplaces to a workplace that embodies the needs and trends of the tenants, promoting productivity, collaboration and connectivity. The WFT was designed to have more interactive meeting areas with "cool" factors such as shiny coffee vending machines, vibrant colored furniture as well as high speed wireless

internet connectivity. This bodes well with the millennials as this is in response to their growing demand for a seamless experience by reducing pain points, enabling collaboration and developing communities within our properties.

In our efforts of supporting our tenant initiatives in greening our buildings, we also successfully attained the Green Building Index Gold Rating for PETRONAS Twin Towers and Green Building Index Silver Rating for Menara 3 PETRONAS in June 2019.

During the year, we increased our efforts to implement energy efficient initiatives by upgrading the building control system with additional field devices to monitor and control the current mechanical and electrical system. We also installed LED light fittings for the WFT floors and common areas. This in turn, will reduce its impact on our overhead, cost, return of investment and the commensurate reduction of GHG emission. At Menara 3 PETRONAS, we continue to upgrade the Energy Management System of our buildings.

## FINANCIAL REVIEW

Property	REVENUE			PROFIT BEFORE TAX (Excluding fair value adjustment)			PBT contribution 2019 %
	2019 RM'mil	2018 RM'mil	Growth %	2019 RM'mil	2018 RM'mil	Growth %	
PETRONAS Twin Towers	424.2	423.9	0.1	375.2	375.7	(0.1)	71
Menara 3 PETRONAS	88.1	88.1	0.0	85.3	85.5	(0.2)	16
Menara ExxonMobil	44.2	44.6	(0.9)	28.6	29.2	(2.1)	5
Menara Dayabumi	39.2	39.2	0.0	30.3	32.6	(7.1)	6
Menara Maxis*	-	-	-	11.6	12.8	(9.4)	2
Total Office Segment	595.7	595.8	n.m	531.0	535.8	(0.9)	100

\*share of results of associates ; n.m – not meaningful

For the financial year 2019, revenue for the segment remained stable at RM595.7 million. PETRONAS Twin Towers remains the largest contributor at 71% or RM424.2 million of the office segment, followed by Menara 3 PETRONAS at 16% or RM88.1 million. With the Triple Net Lease arrangement with PETRONAS, all property expenses and outgoings are borne by the tenant which allows us to safeguard the overall PBT. Subsequent to the contracted step-up rent at the PETRONAS Twin Towers in October 2018, the office segment has continued to provide strong cashflows to the Group.

Marginal decrease in PBT is mainly due to lower share of profit from associate in respect to Menara Maxis as well as the higher financing cost upon the successful refinancing of RM500 million KLCC REIT's Sukuk during the year.



# OPERATIONS REVIEW



## RETAIL



**SURIA KLCC HAS CLEARLY STAYED AHEAD OF THE CURVE AND CONTINUED TO EVOLVE AND PAVE THE WAY IN LEADING THE RETAIL INDUSTRY WITH ITS CURATION OF BRANDS, CONCEPTS AND THROUGH ITS STRONG BRAND PARTNERSHIPS**



No. of assets

**2**

[2018: 2]



NLA sq. ft.

**1.1** million

[2018: 1.2 million]



Occupancy

**99** %

[2018: 98%]



Revenue contribution by segment

**35** %

[2018: 35%]

## OPERATIONS REVIEW

The retail segment for KLCCP Stapled Group comprises Malaysia's landmark mall, Suria KLCC and the retail podium of Menara 3 PETRONAS. Despite the rapid transformation in the retail industry, Suria KLCC has clearly stayed ahead of the curve and continued to evolve and pave the way in leading the retail industry with its curation of brands, concepts and through its strong brand partnerships, living up to its tag line of "Always Something New".

Complemented by the office towers, its location within the iconic belt and tourists' attractions provides a ready catchment for the malls. Suria KLCC together with the retail podium of Menara 3 PETRONAS achieved an impressive RM2.67 billion Moving Annual Turnover – tenant sales and saw customer count up by 8.8% as at year end.

### Industry Landscape and Operating Challenges

The retail industry remained challenging with high supply of pipeline of retail space. Occupancy and rental rates remained stable for prime retail malls however there was continued downward pressure impacting less performing malls due to competition.

Malaysians are becoming more cautious about their spending as evidenced by the drop in the Malaysian Institute of Economic Research's (MIER) Consumer Sentiment Index to 82.3 points in 4Q2019, marking the lowest reading since 2Q2017.

Traditional shopping is being challenged by the advent of technology adopted by businesses and retail malls. This is in the form of online payment, online shopping platform, brand specialised applications, artificial intelligence (AI), augmented reality and more.

"Retailtainment" is also becoming an attraction especially for millennials, offering new experiences, entertainment, adventure and games. It is a growing trend in the retail



**SURIA KLCC  
TOGETHER WITH  
THE RETAIL PODIUM OF  
MENARA 3 PETRONAS  
ACHIEVED AN IMPRESSIVE  
RM2.67 BILLION MOVING  
ANNUAL TURNOVER –  
TENANT SALES AND SAW  
CUSTOMER COUNT UP BY  
8.8% AS AT  
YEAR END**

market meant to deliver excitement and attract customers. Many mall operators were also seen integrating their digital and brick-and-mortar outlets in line with the evolving retail trends and consumer behaviour.

Our retail asset prides itself in having a strong leasing and research team who are continuously attuned to the changes in the retail landscape. Suria KLCC adopts a hands-on

approach in engaging and communicating with the tenants and retail partners on the ever changing consumer needs and demands to deliver value. This has brought significant value to the retailers and have enabled them to go beyond traditional retail and create a store experience reflective of customers' lifestyle.

# OPERATIONS REVIEW

## STRATEGY AND INITIATIVES FOR THE YEAR

KLCCP Stapled Group's retail portfolio was steadfast in its strategy in curating Suria KLCC for relevance, widening the reach into digital space towards creating a mall for the future. Suria KLCC embarked on reinventing the store experience for the connected customer, leveraging on data from surveys and AI platforms to understand customer behaviour, wants and needs as well as through proactive engagement with retailers and dialogues with luxury brands.

- 1** **Unlocking value through the anchor-to-specialty space reconfiguration**  
 Approximately 120,000 sq. ft. of NLA have been exclusively fitted out with approximately 80 specialty stores including fashion, food and beverage and cosmetics
- 2** **Curated the consumer offerings with focus on experience and convenience**  
 Suria KLCC introduced 33 new tenants to amp-up the vibrancy of the mall, bringing the total of first-to-market stores which are exclusive to Suria KLCC, to nine
- 3** **Transformed the mall experience by leveraging technology and strategic brand partnerships**  
 Creating new delight points with its many digital screens and panels engaging its customer throughout their decision journey



### Unlocking value through the anchor-to-specialty space reconfiguration

Following the lease expiration of one of its anchor tenant in March 2019, Suria KLCC took a bold step and embarked on a strategic anchor-to-specialty reconfiguration exercise to broaden the retail offer and introduced a diverse mix of prominent local and international brands. The reconfiguration exercise spanning a space of approximately 120,000 sq. ft. of NLA has been exclusively fitted out with approximately 80 specialty stores including fashion, food and beverage and cosmetics.

Phase 1 of the reconfiguration completed in December 2019 and following the authority approval, opened its doors to the community on 24 January 2020. This showcased an impressive selection of new tenants, namely Le Labo – a luxury perfume brand based in New York, who launched its first store in Malaysia; Gucci Beauty – first standalone boutique in Malaysia; the expansion of Louis Vuitton's flagship store and Lululemon – a stylish athletic apparel, Givenchy Beauty, Giorgio Armani Beauty, Fred Perry, Lancome, MCM, Serai, to name a few.

The Phase 2 which entails the expansion of the second half of the food court is expected to be completed by mid-2020. This newly reconfigured space will provide a new customer experience which would satisfy the ever changing and challenging retail landscape in the city. The positive impact to earnings from the higher net property income contributed by these new tenancies will be reflected in 2020.

### Curated the consumer offerings with focus on experience and convenience

Committed to stay ahead of the game, Suria KLCC is relentless in its quest of understanding the needs of consumers and retailers, strategically rethinking the type of stores that consumers will respond to. They focused on a curated mix of smaller stores that add a sense of novelty to the mall offering – experience, personalisation and exclusivity.

In April 2019, the mall officially launched the first of its kind dedicated men's precinct covering approximately 38,000 sq. ft. of the mall's first floor. The star-studded launch party themed Lights & Mirror was well attended by celebrities and business partners; an event in response to

an increasing fashion-forward crowd. This dedicated precinct which already houses unique brands such as Alfred Dunhill, Hugo Boss, Boggi Milano, Brooks Brothers, Coach Men, Bally, Michael Kors, Fendi and Mont Black, saw the opening of Kenzo and Off-white to complete the precinct. As at year end, the men's dedicated precinct generated a 32.2% increase in men's luxury sales compared to 2018.

During the year, Suria KLCC introduced 33 new tenants to amp-up the vibrancy of the mall, bringing the total of first-to-market stores which are exclusive to Suria KLCC, to nine. We welcomed YSL Beaute, Tous, Skechers Kids, Adidas Kids, Family Mart to name a few. During the year, the retail podium of Menara 3 PETRONAS also saw renewed vibrancy with 16,000 sq. ft. over 2 floors being taken up by an ultra-luxurious gym – Babel, with state-of-the-art equipment, world class trainers and a luxurious feel, making it one of Malaysia's iconic wellness clubs.

## OPERATIONS REVIEW



**SURIA  
KLCC TOOK A BOLD  
STEP AND EMBARKED  
ON A STRATEGIC  
ANCHOR-TO-SPECIALTY  
RECONFIGURATION EXERCISE  
TO BROADEN THE RETAIL  
OFFER AND INTRODUCED A  
DIVERSE MIX OF  
PROMINENT LOCAL AND  
INTERNATIONAL  
BRANDS**

Suria KLCC also embarked on a mission to elevate its food offering to the next level by introducing new and unique concepts namely Two Sons Bistro. The increased infusion of F&B into the overall curation of Suria KLCC has been a significant contributor to the overall sales growth.

Suria KLCC also collaborated with a celebrity chef with both online video exposure as well as on-ground “dine with the star” contest which successfully brought footfalls and sales to the participating F&B outlets in the mall.

**Transformed the mall experience by leveraging technology and strategic brand partnerships**

With the emergence of digital revolution redefining customer expectations, Suria KLCC has been in the forefront of their digital journey creating new delight

points with its largest rotating double-sided LED screen and many digital advertising panels throughout the mall. These have enabled our retail mall to engage its customers throughout their decision journeys and have transformed the mall usability as a means of improving customer satisfaction. These digital exertions have also grown the mall's revenue from internal digital advertising by 15.2% from the preceding year.

In July 2019, Louis Vuitton in partnership with Suria KLCC played host to the exclusive Louis Vuitton Time Capsule Exhibition which showcased a journey of discovery of the Maison's landmark innovations in technology and design throughout the years. Set on the esplanade, against the backdrop of the iconic PETRONAS Twin Towers, Kuala Lumpur was the 16<sup>th</sup> city to host the exhibition and allowed visitors to experience some of the most valuable pieces from the Louis Vuitton's archives. The collaboration was the most successful global execution of this Louis Vuitton Time Capsule.

### FINANCIAL REVIEW

Property	REVENUE			PROFIT BEFORE TAX (Excluding fair value adjustment)			PBT contribution 2019 %
	2019 RM'mil	2018 RM'mil	Growth %	2019 RM'mil	2018 RM'mil	Growth %	
Suria KLCC	469.3	460.0	2.0	364.5	358.9	1.6	95
Menara 3 PETRONAS (Retail Podium)	33.9	31.0	9.4	18.3	15.2	20.4	5
Total Retail Segment	503.2	491.0	2.5	382.8	374.1	2.3	100

Comprising 35% of the overall KLCCP Stapled Group's revenue contribution, the retail segment reported a growth of 2.5% in revenue and 2.3% in PBT despite the loss of income for 8 months due to the anchor-to-specialty space reconfiguration.

Suria KLCC, representing 95% of the PBT contribution of the retail segment saw growth in revenue of RM9.3 million or 2.0% arising from its ability to still command higher rental rates compared to previous year. The installation of the LED screens and the ability to unlock the digital advertising market potential also contributed to the higher revenue of RM469.3 million. The increase in revenue was partially offset by the said loss of rental income from the reconfiguration exercise. Nevertheless, Suria KLCC recorded a higher PBT excluding fair value adjustment of RM364.5 million, a steady growth of 1.6%, achieving a commanding 78% PBT margin.

The retail podium of Menara 3 PETRONAS, too, fared well during 2019 with a growth of 9.4% in revenue and 20.4% in PBT. Higher average occupancy during the year of 95% compared to 84% in 2018 significantly contributed to the improved performance of the mall in 2019.

# OPERATIONS REVIEW



## HOTEL



**2019 REFLECTED A FULL YEAR IN OPERATION AFTER A SEVEN-YEAR MASTER PLAN REFURBISHMENT PROGRAM WHICH WAS IMPLEMENTED IN PHASES TO REJUVENATE THE HOTEL IN ITS BID TO STAY AHEAD OF THE GAME**



No. of assets

**1**

[2018: 1]



No. of rooms

**629**

[2018: 629]



Occupancy

**64** %

[2018: 55%]



Revenue contribution by segment

**13** %

[2018: 12%]

## OPERATIONS REVIEW

As one of Kuala Lumpur's most opulent hotel establishments, MOKL Hotel represents the hotel segment of KLCCP Stapled Group, contributing 13% of the Group's revenue.

2019 reflected a full year in operation after a seven-year master plan refurbishment program which was implemented in phases to rejuvenate the hotel in its bid to stay ahead of the game. Quarter 2 of 2018 saw the successful completion of the guestroom renovation, offering guests a fresh new product which led to the growth in average occupancy from 55% to 64% this year and guest satisfaction maintained at a high of 92%.

MOKL Hotel's relentless pursuit of superlative guest service enabled it to reap significant national and worldwide recognition as the 'hotel of choice' for business and leisure travelers. During the year, MOKL Hotel was conferred with 16 awards, including Best Luxury Hotel – Kuala Lumpur by APAC Insider, ASEAN Green Hotel Award, Social Media Excellence Award by Hospitality, Social Media Chambers Malaysia, 5-Star Hotel Gold Award by Kuala Lumpur Mayor's Tourism, Trip Advisor's Traveler's Choice Awards and numerous segments under Haute Grandeur Global Excellence Hotel Awards including Best MICE Hotel in Malaysia. Our world class restaurant serving Chinese cuisine Lai Poh Heen was also crowned the Best Hotel Restaurant by Malaysia Tatler T Dining Best Restaurants.

### Industry Landscape and Operating Challenges

During the year, the hospitality industry faced challenging trading conditions as visitor arrivals showed slower growth and the arrival of 6 new hotels in the second half of 2018 in the KLCC vicinity put significant pressure on occupancy levels and average rates.

The hotel market continued to see a price war which caused intense competition resulting in hoteliers "lowering" their room rates to secure guests and upgrading their premises to stay relevant.



**MOKL HOTEL'S  
RELENTLESS PURSUIT  
OF SUPERLATIVE GUEST  
SERVICE ENABLED IT  
TO REAP SIGNIFICANT  
NATIONAL AND  
WORLDWIDE RECOGNITION  
AS THE 'HOTEL OF CHOICE'  
FOR BUSINESS AND  
LEISURE TRAVELERS**

The city's key driver market of oil and gas showed slow but steady improvement, whilst banking and finance posted a weak performance under continued belt tightening pressures within the sector. Government linked business showed only mild growth with austerity measures continuing.

With the inter-connectivity of today's generations, the widespread availability of information has been ramping up competition in the hotel market. Digital marketing is playing an important role and to appeal to the next-gen travelers who are concerned with authenticity and crafted experiences, increased visibility through social media marketing and guest reviews are driving new and repeat bookings for the hospitality industry.

The increase in minimum wage to RM1,100 which took effect from 1 January 2019, also had an impact on hotels, which employ large numbers of workers though experiencing weaker revenue growth in recent years with the competition in the hospitality sector rising.

Despite the challenging hospitality market, the positive customer reception for the newly renovated rooms have seen strong gains in the leisure segment and have boosted MOKL Hotel's RevPar by 5.1% compared to 2018, out-performing the compset by 7.6%. The digital commerce initiatives have also been a bright spot and helped offset the lackluster growth in corporate segment.

## OPERATIONS REVIEW

### STRATEGY AND INITIATIVES FOR THE YEAR

Since 2011, the hotel has worked to prepare for the significant increase in competitive supply. MOKL Hotel had embarked on an overall refurbishment of its hotel offers in phases. With the guestroom renovation project fully completed in June 2018, the hotel now offers a resolutely new experience to the guests. This has put MOKL Hotel in a strong position to compete with new hotels in the market. The hotel's luxury spa, swimming pool and recreational facilities continue to receive high satisfaction scores from guests.

1

#### Optimising corporate and leisure mix

The Asian leisure segments received boosted sales promotion with dedicated support for online channels, particularly in China, Japan and Korea where healthy growth rates were seen

2

#### Focusing on brand expressions to drive loyalty

The Spa, MOKL Hotel's spa with a reputation of delivering unique and result oriented treatment, launched exclusive new retail products, unique treatments and a series of educational wellness programs with visiting wellness practitioners

3

#### Controlling cost and focus on staff retention

With the installation of back-of-house LED lighting, the hotel is expected to save approximately RM20,000 per year. The hotel successfully kept staff turnover well below the industry average

#### Optimising corporate and leisure mix

During the year, the hotel focused its major direct sales efforts on the corporate business from the domestic market and the regional markets of Singapore, Hong Kong, Japan and United Kingdom.

The Asian leisure segments received boosted sales promotion with dedicated support for online channels, particularly in China, Japan and Korea where healthy growth rates were seen. Good growth was also observed in the Europe, Middle East and USA markets.

In efforts to penetrate business from the China market, MOKL Hotel under the MOHG Group platform had set up a MOHG WeChat account. With this platform, guests are able to make bookings with the simple scan of a QR code. This has resulted in less cost to the hotel and increased brand exposure.

#### Focusing on brand expressions to drive loyalty

As the F&B segment contributes 41% of the hotel's revenue, MOKL Hotel focused on its quest to offer differentiation to its customers to gain customer traction in the F&B segment to boost sales performance. Mandarin Grill embarked on a facelift with a new Italian Grill concept, to provide guests with an improved dining experience and to further strengthen the hotel's offerings. The launch of the newly renovated Mandarin Grill in July 2019 was well received by diners.

The hotel also had a very active schedule of 38 promotions held throughout 2019 featuring Michelin-starred celebrity chefs, seasonal holiday celebrations and international food festivals. All these efforts contributed to the 2.2% growth in F&B revenue for the year in spite of the competitive landscape.



The Spa, MOKL Hotel's spa with a reputation of delivering unique and result oriented treatment, launched exclusive new retail products, unique treatments and a series of educational wellness programs with visiting wellness practitioners. This created strong awareness and interest in The Spa. In addition to the recognition of Forbes 4 stars on The Spa, this segment also delivered a solid performance in the face of strong new competition with a contribution margin of 64%.

## OPERATIONS REVIEW



The “Fans of MO”, MOKL Hotel’s recognition programme which was launched in 2018, saw robust growth with over 300,000 members registered to-date, improving room nights growth via the MO.com platform by 34%. Boosted digital marketing efforts have also delivered exceptional results from online sources, with success in driving more business through the hotel’s brand website, avoiding costly commissions from third party travel partners.

**THE “FANS OF MO”, MOKL HOTEL’S RECOGNITION PROGRAMME WHICH WAS LAUNCHED IN 2018, SAW ROBUST GROWTH WITH OVER 300,000 MEMBERS REGISTERED TO-DATE, IMPROVING ROOM NIGHTS GROWTH VIA THE MO.COM PLATFORM BY 34%**

### Controlling cost and focus on staff retention

In delivering a luxury product as expected by the hotel’s well-heeled travelers, and still maintain a healthy gross operating profit above 30%, MOKL Hotel is faced with cost pressures at the back of increase in minimum wage as well as increase in cost of raw materials and imported goods.

The hotel undertook several measures to optimise cost during the year. With the installation of back-of-house LED lighting, the Hotel is expected to save approximately RM20,000 per year. MOKL Hotel also took advantage of the large tunnel washer it installed in 2018, and started a new outside commercial laundry service – offering laundry service to other hotels within the precinct. This in turn generated revenue for the hotel.

Retention of hotel staff was a major focus in 2019 to minimise loss of highly trained staff to new competitor hotels. The hotel successfully kept staff turnover well below the industry average of 34%. This was largely due to comprehensive staff communication programs, intensive training and career development options, multiple social activities and powerful staff engagement with a busy sustainability task force schedule that involved the hotel team in CSR programs to improve the local environment and help the less fortunate in society. MOKL Hotel holds Green Hotel Awards from both Malaysian Tourism and ASEAN.

### FINANCIAL REVIEW

	2019 RM'mil	2018 RM'mil	Growth %
Revenue	177.5	172.4	3.0
Profit before tax	0.7	0.1	>100

The hotel segment recorded an increase in revenue to RM177.5 million, a 3.0% increase from last year benefitting largely from the KL Summit event held in December 2019 and stronger transient demand. PBT grew to RM0.7 million from RM0.1 million last year, from improved demand in F&B and room segments despite ongoing cost and supply pressures.

The hotel room revenue recorded an increase of RM4.3 million or 4.8% during the year mainly due to the growing demand in the leisure and MICE segments. Although F&B revenue saw a slow down during the earlier months of 2019 due to stiff competition especially in the banqueting segment, a turnaround was experienced in quarter 4 with the onslaught of MICE events and spill-over effect from the Kuala Lumpur Convention Centre.



# OPERATIONS REVIEW



## MANAGEMENT SERVICES



**DURING THE YEAR, BOTH KLCCUH AND KPM INVESTED IN ELEVATING QUALITY OF SERVICE, FOCUSED ON SAFETY AND SECURITY AND ENHANCING USER EXPERIENCES VIA TECHNOLOGY**



No. of facilities managed

**20**

[2018: 20]



No. of car parking bays managed

**12,634**

[2018: 12,634]



Revenue contribution by segment

**10 %**

[2018: 10%]

## OPERATIONS REVIEW

The management services segment comprises predominantly two categories – facility management and car park management, which serves to compliment the property portfolio of KLCCP Stapled Group.

KLCC Urusharta Sdn Bhd (KLCCUH) manages all the facilities and buildings within the Group's portfolio, the common estates and facilities which include the KLCC Park and also various PETRONAS and KLCC (Holdings) facilities across the country. KLCCUH offers a comprehensive range of services in the spectrum of facility management, aimed at meeting the requirements of tenants and building owners.

KLCC Parking Management Sdn Bhd (KPM) offers the expertise of more than 10 years' experience in the car park management industry. In addition to managing existing portfolios of assets within the KLCC Group of Companies, KPM also provides advisory services to owners and operators of old and new properties, ranging from shopping complexes, office buildings, hotels and convention centre on the practical, functional and aesthetic aspects of car park facilities.

### Industry Landscape and Operating Challenges

Cost management remains one of the major challenges encountered by the facility manager in the mix of providing top notch services, ensuring compliance with regulatory requirements and improving the tenant experiences in the building and facilities under KLCCUH's care. KLCCUH has to efficiently manage reasonable operating cost, the escalation in manpower expenses and the rising cost of parts replacements to remain competitive within its industry. Also, as the critical systems in our office buildings continue to age, KLCCUH will need to have adequate preventive measures to extend the assets' useful life, at the same time, introducing the right technology and having the right capability in managing the new resources, all within

**THE MANAGEMENT SERVICES SEGMENT COMPRISES PREDOMINANTLY TWO CATEGORIES - FACILITY MANAGEMENT AND CAR PARK MANAGEMENT, WHICH SERVES TO COMPLIMENT THE PROPERTY PORTFOLIO OF KLCCP STAPLED GROUP**



the aspect of optimising cost to the building owners and tenants.

The continuation of road closures along Persiaran KLCC until year 2021 as part of the Kuala Lumpur City Hall (DBKL) long-term traffic management plan for the construction of the MRT Sungai Buloh-Serdang-Putrajaya (SSP) line has impacted the car park business in the North West Development car park at the KLCC Precinct due to disjointed flow of traffic resulting in users opting for public transportation to get into

Suria KLCC, PETRONAS Twin Towers and buildings surrounding the areas. The disruption of e-hailing services continue to impact the downward trend of car counts in numerous car parks managed by KPM.

As today's connected consumers demand convenience, the parking industry is also moving towards innovative technologies to improve parking access control and payment automation. KPM has been hard at work.

# OPERATIONS REVIEW

## STRATEGY AND INITIATIVES FOR THE YEAR

During the year, both KLCCUH and KPM invested in elevating quality of service, focused on safety and security and enhancing user experiences via technology.

1

### Enhancing safety and security features within the KLCC Precinct

KLCCUH strengthened their Safety and Security team as well as invested in an Integrated Command Centre (ICC) at the KLCC Precinct, in its aim to ensure safety and security of visitors to the area

2

### Implemented License Plate Recognition (LPR) in NWD

New technology that uses optical character recognition to identify license plates, capture tagged images and turn these information into a data stream

3

### Introduced ICONIK, for cashless payment

Improved convenience to customers with cashless initiatives and upgraded the parking entry and exit terminals at NWD car park with integrated credit/debit card and Touch n Go readers

### Enhancing safety and security features within the KLCC Precinct

As KLCC Precinct is on the iconic belt, it is susceptible to a wide range of risks, ranging from national threat to petty theft. Understanding the inherent risks of hot spots like Suria KLCC, PETRONAS Twin Towers and the KLCC Park was crucial for KLCCP Stapled Group to ensure safety and security of visitors to the area. KLCCUH strengthened their Safety and Security team as well as invested in an Integrated Command Centre (ICC) at the KLCC Precinct, in its aim to ensure safety and security of visitors to the area.

The Security Enhancement Project was initiated to address the security risks as defined in the revised KLCC Precinct Security Master Plan (SMP). The project involved building a new larger ICC to house the security management team and the new security and surveillance system to effectively manage KLCC Precinct's security operations and respond to emergencies. The surveillance systems (CCTV) was upgraded to a digital platform from analog, which has since doubled in quantity and includes high-tech specifications such as facial

recognition, left item identification and other video analytics features. Also, KLCCUH introduced Crime Prevention through Environmental Design (CPTED), which is a form of planter box that was built to ensure no unauthorised vehicles entered the KLCC Park or the surrounding Precinct.

The enhancement in CCTV, smart analytical software and installation of retractable barriers coupled with collaboration with car park management, is expected to greatly reduce security risk at the precinct and improve safety, providing shoppers and users a peace of mind. KLCCUH achieved a higher client satisfaction score of 84% compared to 82% in the previous year.

### Implemented License Plate Recognition (LPR) in NWD

KPM aims to provide a parking experience which transcends from 'just parking' to a 'car park that cares'. During the last quarter of 2018, the company had installed a new technology that uses optical character recognition to identify license plates, capture tagged images and turn these information into a data stream. KPM was amongst the first few car park management companies which introduced

this new technology in Malaysia. The newly implemented system was in operation this year at NWD.

The implementation of the LPR was to intensify the security level of the car park which houses almost 5,000 car park bays, also complementing the security enhancement initiated by KLCCUH. The LPR system identifies registered vehicles entering the premises in real-time. Therefore, unauthorised vehicles will be prevented from entering the car park. The system also serves as a prevention to fraudulent cases for transient cars that try to avoid penalty payment for overstayed and lost tickets. The LPR system is able to organise automatic opening of the rising arm barrier at the entrance and exit to and from the car park. This has elevated the standard of car parking within NWD and delivered an exceptional level of parking experience for our customers.

### Introduced ICONIK, for cashless payment

In keeping up with technological advances, KPM embarked on improving convenience to customers with their cashless initiative and upgraded the parking entry and exit terminals at our NWD car park with integrated credit/debit card and Touch n Go readers.

KPM also introduced ICONIK, the mobile phone application which features online ticket payment system, car park availability and information on services available including parking rates. This digital feature was first introduced in the car park for Kuala Lumpur Convention Centre in 2018 and was launched in NWD during the year to complement the other existing cashless payment initiatives aside from equipping the auto pay machines with credit card facilities, activation of online payment for season card holders via the company's website and installation of integrated reader for Touch n Go, credit and debit card at the entry and exit terminals. To-date, 45% of KPM's customers utilise the cashless payment mode. KPM achieved a satisfaction score of 71% from its customers, for the year in review.

## OPERATIONS REVIEW

### FINANCIAL REVIEW

Property	REVENUE			PROFIT BEFORE TAX (Excluding fair value adjustment)			PBT contribution 2019 %
	2019 RM'mil	2018 RM'mil	Growth %	2019 RM'mil	2018 RM'mil	Growth %	
Facilities Management	77.6	76.4	1.6	20.0	18.2	9.9	54
Car Park Management	61.9	62.4	(0.8)	12.5	13.5	(7.4)	33
Others	7.1	7.9	(10.1)	4.8	1.8	>100	13
Total Segment	146.6	146.7	(0.1)	37.3	33.5	11.3	100



This segment, similar to last year, contributes 10% of KLCCP Stapled Group's revenue.

Facilities Management reported a marginal growth of 1.6% in revenue from fees received upon the completion of WFT and several one-off works within the company's existing clientele. PBT improved by 9.9% or RM1.8 million at the back of revenue with several reductions in general administration cost.

Revenue from car park management dipped due to the noticeable reduction in transient car count at NWD. However, it was partially offset by higher income generated from the parking at Kuala Lumpur Convention Centre due to major events and conferences held during the year. KPM also invested in multiple digitalisation initiatives during the year which increased operating expenses and depreciation charges, resulting to a reduced PBT of 7.4%.

'Others' represents mainly the interest income earned as well as general manager services provided by the Company to the entire KLCC Group of Companies.

The Group's management services segment also includes the REIT management services under KLCC REIT Management Sdn Bhd. The stapled structure of our Group ensures no leakage of management fees. The management fees charged which is part of KLCC REIT's expense is recycled back into the income stream within the KLCCP Stapled Group, hence does not impact the profitability. The income earned by KLCC REIT Management is subsequently utilised to distribute dividends to the holders of Stapled Securities.

# CAPITAL MANAGEMENT

The financial standing of the Group remains fundamentally strong and consistent. Gearing ratio as at 31 December 2019 is low and prudent at 17.8% upon the renewal of RM500 million of KLCC REIT's Sukuk during the year. The gearing ratio is also well below the REIT industry benchmark of about 30%, and the threshold set by the Securities Commission of 50%.

KLCCP Stapled Group's approach to managing capital is set out in the KLCC Group Corporate Financing Policy, with the objective to maintain an optimal capital structure and ensuring availability of funds in order to support its business and maximise shareholder value.

The foundation in our capital management strategy is to sync stable income stream to the long-term financings and maturity schedule whilst also keeping financial ratios within the industry benchmark. The debt equity structure undertaken also takes into consideration the tax impact to ensure that the optimal structure is achieved.

	2019	2018	2017	2016	2015
Total borrowings (RM'mil)	<b>2,346.6</b>	2,244.7	2,251.1	2,552.4	2,560.6
Average cost of debt (%)	<b>4.6</b>	4.6	4.6	4.5	4.5
Fixed: Floating ratio	<b>84</b>	84	84	85	86
Average maturity period (years)	<b>4.6</b>	4.1	5.1	5.6	6.5
Gearing ratio (%)					
- Gross	<b>17.8</b>	17.1	17.2	19.9	20.4
- Net	<b>11.1</b>	11.5	11.5	12.0	11.6

KLCC REIT and Suria KLCC restructured its facilities in 2014 with the establishment of Sukuk Murabahah with a combined limit of RM3.0 billion and RM600 million respectively which were rated AAA by RAM ratings. In 2015, Asas Klasik Sdn Bhd, a 75% owned subsidiary of KLCCP which owns MOKL Hotel, restructured its existing borrowings of RM330 million into 2 restructured term loan facilities in the aggregate sum of RM378.0 million.

During the year, the second and fifth tranches of Sukuk Murabahah with total amounting to RM500 million fell due in April and was repaid and successfully renewed with a repayment term to 2026. With that, the Group's average maturity period has been extended to 4.6 years compared to 4.1 in 2018.

A repayment of RM7.5 million of MOKL Hotel's term loan facilities was also made during the year resulting in a marginal decrease in financing from the term loan.

As of 31 December 2019, KLCC REIT utilised approximately RM1.4 billion of the RM3.0 billion Sukuk Murabahah. With more than 50% of the unutilised programme together with the mandate granted by the holders of Stapled Securities to issue new shares up to 100% of the approved share capital, the Group has the financial flexibility to tap into the debt equity markets to gear up further, to support future acquisitions.



## Capital Expenditure

In line with KLCCP Stapled Group's efforts to embark on asset enhancement initiatives to bring renewed vibrancy and add value to the assets, commitment to several major capital expenditure, namely the reconfiguration exercise in Suria KLCC had been observed during the year. Suria KLCC spent approximately RM55 million for the reconfiguration exercise as well as the escalator modernisation and various system upgrades. These expenditure commitments were funded from the available internal cash.

The remaining refurbishment at the hotel were partially funded by the existing term loan facilities of RM378.0 million.

In respect to the redevelopment of the City Point Podium, the Group will review the funding requirements and will raise debt funding where necessary, in tandem with the progress on ground. As of current development, all expenses incurred were sourced through internal funds.

## CAPITAL MANAGEMENT



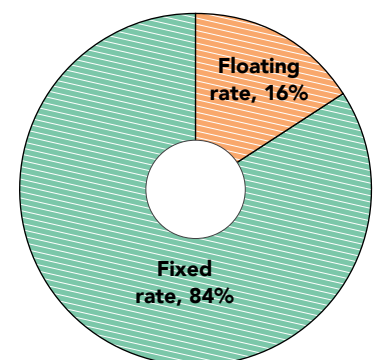
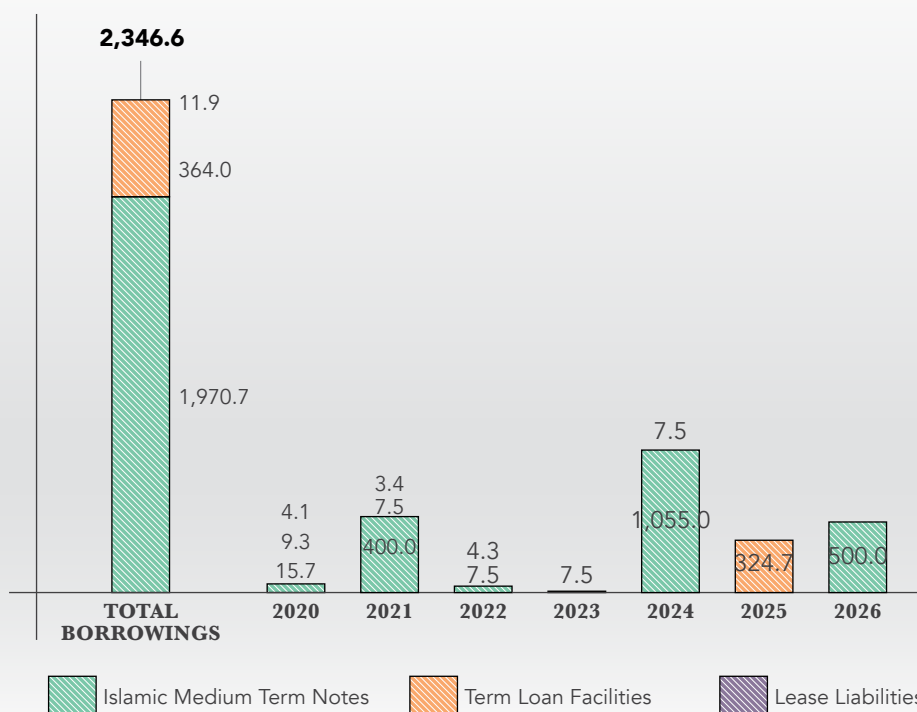
### FINANCIAL RISK MANAGEMENT

Whilst KLCCP Stapled Group is subjected to financial risk in the course of its business on a day to day, the Group's financial risk management, mostly guided by the PETRONAS Integrated Financial Risk Management (IFRM) Guideline entails the process in which the financial risks are identified, analysed, appraised and deliberated to its acceptable level. The identified risk will be continuously monitored and regulated with proper level of mitigation plans in accordance with the Group's view of the balance between risk and reward.

### Credit Risk

Credit risk is the inability to collect amounts owing to us that could bring about adverse impact on the financial performance. Although credit risk appetite differs from one business segment to another, the Group strives to minimise credit risk through efforts such as entering into contracts with highly credit rated counterparties, necessitate collaterals or any form of credit enhancements.

### Debt Maturity Profile (RM'mil)



**Total Borrowings**  
**RM2,346.6 million**

## CAPITAL MANAGEMENT

The Group's credit risk arises predominantly from the trade receivables which is inherent to our operation. The trade receivables are mainly associated with the debts from the retail and hotel segments as the office segment is secured with locked-in long-term leases where the lease rentals are paid timely and in advance.

As at 31 December 2019, the following is the aging of the Group's trade receivables.

Trade Receivables' Aging	RM'mil
Not past due	7,720
Past due 1 to 30 days	632
Past due 31 to 60 days	326
Past due 61 to 90 days	60
Past due more than 90 days	365
	<b>9,103</b>
Less: Allowance for impairment losses	(235)
	<b>8,868</b>

For the Retail segment, the retail operators also carry out thorough credit evaluation using qualitative and quantitative criteria on new tenants and continuous follow up with the tenants to ensure collectability. Constant monitoring of the tenants' affordability of the rental charges is also part of the credit risk mitigation. Similarly, the hotel segment also conducts thorough reviews and assessments of the credit worthiness of customers who are provided credit limits to ensure timely collection of payment obligation when falls due.

### Liquidity Risk

The Group maintained adequate cash and bank balances to meet its working capital requirement as part of the overall liquidity management. A periodic cash flow forecast is undertaken to determine optimal cash requirement, taking into consideration all realisation of receivables, payment of suppliers and other capital and financial obligations. This proactive cash management ensures that any idle monies are placed in interest bearing accounts.

As disclosed under the debt maturity profile, KLCCP Stapled Group's outstanding borrowings are only due within the medium to long-term. In addition, KLCCP Stapled Group has significant headroom which will allow it to tap into financing as and when required.

### Interest Rate Risk

It is in the Group's interest to manage the exposure to interest rate risk in order to provide certainty to the income distribution/dividend. The Group has always maintained relatively high borrowings on fixed rate, wherein borrowings with floating interest rate only represent RM364.0 million or 16% of the Group's total borrowings. In perspective, a 0.5% point increase in the interest rate will only increase the interest expense by RM1.8 million per annum and decrease the distribution per Stapled Security by 0.10 sen.

The remaining of the exposure to interest rate represents the higher or lower interest income from the interest bearing cash and bank balances. The Group reported an interest income of RM31.6 million during the year at the back of average interest rate of 3.45%. A supposedly 5% change in the interest rate, will result in an additional income of approximately RM1.6 million.

### Foreign Currency Risk

Foreign currency risk is the risk arising from the 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.



To read more, refer to *Understanding Our Principal Risks* on pages 60 to 66

# PROSPECTS

As Malaysia enters year 2020, the expectation on the market's growth is fairly subdued with external headwinds and uncertainties persisting. Malaysian Rating Corp Bhd (MARC) has decelerated Malaysia's real gross domestic product (GDP) growth to 4.3%, below the Government's forecast of 4.8%, due to weaker external trade performance and softer domestic demand growth. Even though the trade tensions between the US and China could marginally benefit Malaysia in the short term, the overall weakening of global trade growth will continue to weigh on its export sector.

A promising outlook has been projected for the local consumer sector for 2020, spurred by higher disposable income that will be driven by Budget 2020 initiatives, major sporting events and the spillover from Visit Malaysia Year 2020 (VMY 2020). However, with the novel Coronavirus (COVID-19) outbreak restricting travel worldwide, the tourism industry may face some challenges in the short-term, impacting the hospitality and retail industries.

With the pre-emptive measure by Central Bank of Malaysia to secure the improving growth trajectory amid price stability, Central Bank of Malaysia cut the OPR to 2.75% on 22 January 2020. This lower OPR is expected to lift MREITs' valuation. The compression in MGS yields is expected to drive investor demand for alternative yielding assets, thereby positively re-rating the REIT sector.

KLCCP Stapled Group will continue its focus on future-proofing its business on creating value from the KLCC Precinct, progressing lifestyle towards a digitally smart, connected and sustainable city. The office segment anchored by the long-term locked-in tenancy structure under the Triple Net Lease arrangements for PETRONAS Twin Towers, Menara 3 PETRONAS and Menara Dayabumi will continue to be defensive and provide strength and stability for the Group. We will also actively seek anchor tenant for the proposed City Point podium redevelopment and continue to personalise the tenant experience to engage our connected tenants at our office properties.

Our retail segment led by Suria KLCC, will see a boost to its earnings from the opened Phase 1 reconfigured space and once the Phase 2 fully opens by mid-2020. With customer experience as the new brand, Suria KLCC will continue its focus on understanding and catering to shopper needs' and in delivering a bespoke and engaging retail experience that meet lifestyle needs of our customers, which they cannot get on-line. Our retail malls will leverage on its various digital exertions, to shape the consumer experience and take the shopping experience to the next level.

MOKL Hotel is expected to continue to operate in a challenging luxury hotel market with strong competition from the new hotels. International city-wide conventions and meetings for 2020 are expected to see solid pace of bookings compared to 2019 and the new extension of the KLCC Convention Centre will deliver more MICE related business in the years to come. Some uplift is also expected from the affordable currency exchange that makes Malaysia an attractive tourist destination. The hotel will focus on intensifying its digital marketing to broaden its network and capture market share. Its brand-defining personalised guest service will remain important differentiators moving forward for MOKL Hotel.

In respect to management services, our car parking management will be spearheading the digital efforts within the Group towards elevating quality and experience of its car parking services enhancing its cashless initiatives with total digital surveillance within the car park whilst our facility management company will accelerate its transformation as a solutions partner, leveraging Industrial Revolution 4.0 technologies namely IoT, Cloud and Big Data to better manage energy consumption, reduce operating costs and make smarter intuitive decisions.

In spite of the looming headwinds, KLCCP Stapled Group is well positioned to weather the challenging times ahead and is expected to remain responsive to the opportunities and vagaries of the market. The initiatives and efforts undertaken in 2019 will set the momentum while the ongoing investment to enhance operational excellence will enable the Group to deliver on its strategies and build on its capabilities to provide value to all our stakeholders in the coming year.