Section 4
Sustainability Report


PUSAT KERITING RAMBUT
LUXE
studio
DIMILIKI OLEH : LUXE PROFESSIONAL

About This Report

Scope And Boundary

This report presents Al-Salām Real Estate Investment Trust's ("Al-Salām REIT or the REIT") sustainability report which has been prepared in accordance with the applicable Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") using the Bursa Malaysia Sustainability Reporting Guide 2015.

The report focuses on Al-Salām REIT's core activity as a business space REIT for the period 1st January 2018 to 31st December 2018, and features selected sustainability initiatives at its property portfolio mainly on KOMTAR JBCC, Menara KOMTAR, Pasaraya Komuniti @Mart Kempas and Malaysian College of Hospitality & Management ("MCHM").

Our Journey Towards A Sustainable REIT

The Manager ensures that sustainability values are created economically, environmentally and socially by emphasising their core principles throughout the REIT and management.

Vision

To integrate sustainable business practices in the core processes of the business activities.

Mission

To drive for growth and performance whilst ensuring continuous commitment to balance the concerns of the stakeholders by protecting the environment, health and safety of the employees, customers and the global communities.

Sustainability Strategy

Ultimately, the journey to have a sustainable REIT is highlighted in a broader perspective to ensure the commitment and focus of the Manager towards a sustainable REIT is balanced with an overall sustainability strategy.

CORPORATE GOVERNANCE	ENVIRONMENT	ECONOMIC	SOCIAL
Enhancing Board / management accountability through transparency business decisions and compliance to Malaysia Corporate Governance Codes and financial / non-financial disclosures	Being socially and environmentally responsible by driving environmentally themed initiatives by lowering energy consumption and minimising waste generated from the properties Priorities and emphasis on acquisition of "green Building" in future acquisition that would minimise operational costs and protect the environment	Strengthening income streams from all our properties to ensure optimum returns to unit holders/stakeholders	Supporting events that promote social engagement with local communities Diversity in gender ratio and employee composition and ensuring equality in compensation package across genders
MANAGEMENT ACCOUNTABILITY The CEO, management team, executives to business unit and service providers will be explicitly accountable for achieving sustainability goals	**GREEN ENVIRONMENT** The Fund will approach investment decision with full consideration on the social and environmental impacts of the investment through its business cycles and serve to not only minimize negative environmental and social impacts, but also serve as solutions to key sustainability challenges	**SUPPLY CHAIN** Ensure that suppliers meet the social and economic standards set by the Company; whilst ensuring that at least 75% are local companies	**EMPLOYEES** The Fund Manager and core service providers will foster a diverse, inclusive and engaged work environment that holds sustainability considerations as a core part of recruitment, training and benefits
DISCLOSURES Disclosure of sustainability risks, opportunities, performance, goals and strategies helps build constructive relationships with key stakeholders, opens up new business opportunities, and enhance a company's social license to operate		**BUSINESS MODEL INNOVATION** The Fund will innovate its services to enhance tenants' satisfaction in building collaborative business relationships	**EXECUTIVE & EMPLOYMENT COMPENSATION** Sustainability performance results will be a core component of compensation packages and incentives plans for all executives and employees across gender.

Governance And Accountability

As part of the Manager's initiatives to have more sustainable operations for the properties of the REIT, the Manager ensures that the Board of Directors ("Board") and the Sustainability Steering Committee ("SSC") take ownership of their responsibilities to incorporate sustainable roles and establish a sustainable tone at the top.

Responsibilities Of The Board

- Endorses and oversees the implementation of the REIT's sustainable strategy to ensure key targets are met.
- Takes responsibility and accountability for the REIT's communication on sustainability issues to stakeholders.
- Establishes a culture of integrity by placing emphasis on communication about sustainability across the REIT.
- Endorses material sustainability matters and the governance structure.

Responsibilities Of The SSC

- Develops the overarching sustainability strategy for the REIT based on material sustainability matters identified by the Sustainability Working Committee.
- Provide recommendations and improvements to the Board on the material sustainability matters related to the REIT.
- Formulates targets and initiatives to achieve sustainability goals pledged by the REIT.
- Assesses the effectiveness of the sustainable initiatives put in place, and monitors and maintains records on these initiatives.

The Board and SSC discuss highlights of the REIT's sustainability initiatives on a periodic basis to ensure that the goals are met through effective implementation and monitoring.

Engaging Stakeholders

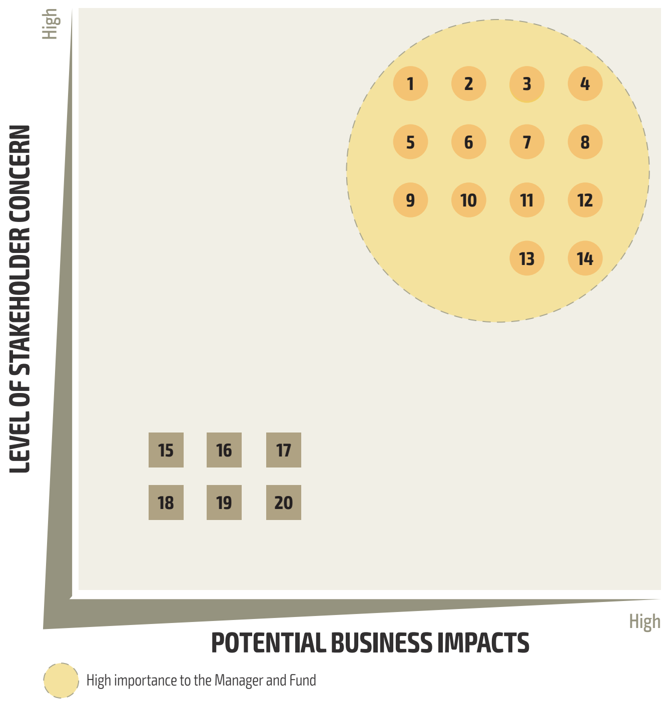
Engaging with the stakeholders is part of the Manager's key agendas for having a sustainability-focused REIT to understand the concerns of the primary stakeholders and be receptive towards the input received. The table below shows the key stakeholders and the methods of engagement by the Manager on behalf of the REIT.

Stakeholders	Areas of Concern	Methods of Engagement
Employees	• Career Development • Staff Well-being • Employee Benefit	• Performance Appraisal • Training Programme • Employee Satisfaction Survey • Medical and Group Takaful Coverage
Investors	• Corporate Financial Performance • Corporate Governance • Safety and Security • Investor Relationship Management	• Annual General Meeting • Corporate Website • Investor Feedback Management
Tenants	• Safety and Security • Business Activity and Ethics	• Contract Agreement • Tenant Survey • Joint Community Programme
Property/Maintenance Managers	• Marketing and Financial Performance • Tenants and Occupancy • Facility Management • Administration and Risk Management	• Contract Agreement • Evaluation and Performance Review • Regular Building Audits
Regulatory Agencies and Statutory Bodies	• Labour Practices • Environmental Management and Compliance	• Regular Meeting • Regular Inspection
Suppliers	• Transparent Procurement Process	• Evaluation and Performance Review
Non-Governmental Organisations ("NGOs")	• Social Contribution • Environmental Impact	• Community Events

Materiality Assessment

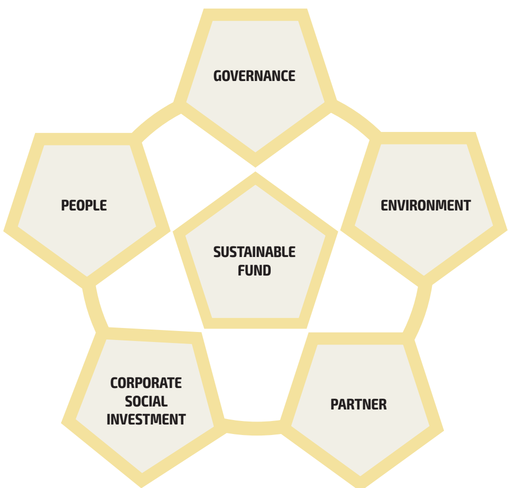
A materiality assessment is vital in identifying and prioritising sustainability matters that may be influential in determining the direction of REIT operations by the Manager. The sustainability matters are identified from an Environment, Economic, Social and Governance (EESG) perspective.

To ensure that the material sustainable matters remain substantial for this financial year, a similar survey consisting of the material issues identified in 2017 was assessed by the team comprising of the key personnel of the Manager and the guidance of an external consultant on behalf of the REIT. Overall, the team re-categorised the sustainability matters to ensure broader coverage and identified new matters to be prioritised. The results of the materiality review are reflected in the matrix below:



#	Material EESG matters
1	Procurement Practices (Value Chain)
2	Community Investment
3	Occupational Health & Safety
4	Regulatory Compliance
5	Risk Management
6	Corporate Governance
7	Water Management
8	Waste & Effluent Management
9	Energy Management
10	Labour Practices
11	Production & Services Responsibility
12	Supply Chain
13	Human Rights
14	Diversity
15	Financial Performance
16	Indirect Economic Impact
17	Anti-Corruption
18	Anti-Competitive Behaviour
19	Land Remediation, Contaminations or Degradation
20	Emissions

Sustainability Pillars



To withhold the core principles of the REIT for sustainability, the Manager established five key sustainability pillars. Listed below are the key sustainability pillars that are vital in ensuring that the actions taken by the Manager on behalf of the REIT support the overall sustainability objectives.

Governance

Standard Operating Procedures

The Manager has in place standard operating procedures to govern the day-to-day processes to implement the best management practices for the REIT.

Enterprise-Wide Risk Management (ERM)

On a quarterly basis, the Manager regularly reviews the risks that are significant to the operations and takes the necessary actions to mitigate the risks as part of the ERM exercise.

In Quarter 4 of 2018, the Manager conducted a validation exercise on the controls for 5 High impact risks identified that were relevant to the Financial, Operational and Strategic perspectives.

Whistleblowing Management

Any stakeholders to the Manager may raise their concerns for any inappropriate matters through the Manager's existing whistleblowing channel.

To date, there were no whistleblowing incidents reported through the available channels to the Manager.

Other Committees

Apart from the BOD and SSC, the Manager has put in various committees to ensure continuous governance in the overall operations such as:

Committee	Objectives
Audit Committee	Review issues on accounting policies and presentation of external financial reporting and ensure an objective and professional relationship is maintained with the appointed auditors.
Executive Committee	Oversees the day-to-day activities of the Board on behalf of the Board and provide the necessary recommendations in relation to the REIT, review management reports and forward summary reports to all Board members.
Remuneration & Nomination Committee	Ensure that remuneration arrangements support the strategic aims of a business and enable the recruitment, motivation and retention of senior executives while also complying with the requirements of regulation.
Risk Management Committee	Ensure that risk management is part of the Manager's day-to-day operations and ensure consistency of operational procedures and practices within the organisation to ensure effective risk management.

The relevant committees discuss matters of the REIT on a periodic basis in relation to the objectives of the establishment of these committees. Ultimately, updates relevant to the REIT will be reviewed by the Executive Committee and reported to Board on a timely basis.

Environment

Energy Management

The Manager proactively implements energy conservation initiatives to ensure a greener environment.

Some of the current and future initiatives are as stated below:

- Scheduled operations of chillers and the air-handling unit (AHU) system at KOMTAR JBCC to coincide with the peak times of the properties.
- Installation of split units at designated areas at KOMTAR JBCC for improved energy usage.
- Proposed replacement of older technology for Menara KOMTAR for greater energy efficiency and power saving.

By implementing the current initiatives and planning for the future initiatives above, the Manager is proud to report a decrease in energy consumption as at December 2018 in comparison to the energy consumption as at December 2017 for the key properties below:

TOTAL ENERGY CONSUMPTION (kwh)			
Property	As at December 2017	As at December 2018	% reduction
KOMTAR JBCC	5,854,065	5,436,974	7.1 %
Menara KOMTAR	3,881,000	3,718,000	4.2 %
Pasaraya Komuniti @Mart Kempas	1,322,216	1,217,448	7.9 %

Moving forward, the Manager will strive to enhance their energy conservation initiatives for all other properties to be in line with their sustainability strategy.

Water Management

The table below shows the water consumption as at December 2017 versus as at December 2018:

TOTAL WATER CONSUMPTION (m^3)			
Property	As at December 2017	As at December 2018	% reduction
KOMTAR JBCC	151,536	174,145	(14.9 %)
Menara KOMTAR	17,664	22,859	(29.4 %)
Pasaraya Komuniti @Mart Kempas	50,547	41,446	18.0 %

Seeing the overall increase in water consumption due to increased tenant activities, the Manager intends to identify value-adding water conservation methods for the future.

Waste Management

The Manager ensures that the waste generated from the tenant activities and other sources relevant to the operations under the REIT is collected and disposed responsibly in accordance to the stipulated legal requirements. In addition, the Manager ensures that a licensed contractor is appointed to ensure responsible disposals.

Moving forward, the Manager intends to improve their waste management initiatives by taking into consideration waste segregation 3R; Reuse, Reduce, Recycle.

PEOPLE

EMPLOYEE PROFILE

The employees of the Manager that assist in managing the REIT consist of qualified individuals with the relevant expertise in the investment practices.

The Manager strives for a culture that respects and balances the diversity of our employees to create equal opportunities for all employees regardless of the demographic status.

To date, the breakdown of employees is as follows:

Entity	Management	Executive	Non-Executive	Total
DRMSB	8	13	7	**28**
Synergy Mall Management Sdn Bhd ("SMMSB") – KOMTAR JBCC	4	12	20	**36**
SMMSB – Menara KOMTAR	2	2	4	**8**
SMMSB – Pasaraya Komuniti @Mart Kempas	1	4	11	**16**
TOTAL	**15**	**31**	**42**	**88**

Entity	Male	Female	Total
DRMSB	16	12	**28**
SMMSB – KOMTAR JBCC	20	16	**36**
SMMSB – Menara KOMTAR	5	3	**8**
SMMSB – Pasaraya Komuniti @Mart Kempas	8	8	**16**
TOTAL	**49**	**39**	**88**

The Manager of the REIT strives to ensure that the recruitment of employees are based on their skill sets without any preference on gender or age distribution.

EMPLOYEE TRAINING

In addition, the Manager emphasises on personal development to enhance the knowledge base of their employees. The table below shows the overall increase in training hours achieved in 2018 from the previous year:

Entity	2017 (Hrs)	2018 (Hrs)
DRMSB	152	703
SMMSB – KOMTAR JBCC	1,254	1,253
SMMSB – Menara KOMTAR	692	509
SMMSB – Pasaraya Komuniti @Mart Kempas	745	858
TOTAL	**2,843**	**3,323**

Employee Turnover Rate

The Manager takes strenuous effort to maintain a reasonable turnover rate by keeping the employees contented at all times. The table below shows the turnover rates for the year 2017 and 2018:

Entity	2017 Turnover rate (%)	2018 Turnover rate (%)
DRMSB	0	7.27
SMMSB – KOMTAR JBCC	6.97	0
SMMSB – Menara KOMTAR	0	12.0
SMMSB – Pasaraya Komuniti @Mart Kempas	0	0

Employee Welfare & Rights

The Manager strives to ensure that the employees maintain a satisfactory physical and mental well-being. The Manager firmly believes in ensuring the physical and mental well-being of the employees to strive for continuous growth. With that, the Manager provides allowances, retirement provisions, healthcare benefits, disability and insurance coverage and medical compensation. The Manager conducts annual employee appraisals and the employees to provide feedback during the review. Ultimately, the Manager has a Code of Conduct & Business Ethics Policy to ensure the employees are properly guided.

Occupational Health & Safety

The Manager aims to provide a safe environment for the employees to work in and ensure safety in the conduct of professional task of the tenants of the properties. At each property, the Manager has put in place a team of well-trained people to establish an Emergency Response Team to manage and handle emergency crises. Apart from that, the Manager of the REIT has an Occupational Safety, Health, Environment & Security Committee to discuss safety measures and issues on a periodic basis.

On an on-going basis, the Manager ensures that the relevant parties adhere by the established safety regulations before any work is performed on the properties. Annually, fire drills and emergency evacuation procedures are conducted at the REIT properties to create awareness among the relevant stakeholders.

The table below shows the dates of the fire-drills and emergency evacuation procedures conducted in the financial year:

Entity	Date of fire-drills / emergency procedure held
KOMTAR JBCC	8th August 2018
Menara KOMTAR	8th August 2018
Pasaraya Komuniti @Mart Kempas	19th April 2018

Partner

Procurement / Supply Chain Management

The Manager aims to achieve the best practices when engaging with all kinds of stakeholders across the supply chain. As such, this begins by dealing with the right suppliers to obtain the maximum benefit. The Manager ensures that the appointment of outsourced service providers and suppliers go through a fair comparison in line with the standard operating procedures and are constantly applied as part of the procurement process. Apart from the pre-qualification of outsourced service providers and suppliers, an annual evaluation is conducted to ensure continuous satisfaction in the deliverables to the Manager and the REIT. To date, the Manager is proud to emphasise that the outsourced service providers and suppliers appointed are locally based.

Tenant Management

The Manager cooperates with a professional leasing consultant to ensure that the best quality tenants are engaged and retained through an annual tenant evaluation. As at December 2018, 9 new tenants have been engaged for KOMTAR JBCC.

To preserve a harmonious relationship, the Manager also conducts a tenant feedback survey on a periodic basis and provide various means of feedback channels. As at 2018, it was reported that the tenants reported an average satisfaction score of approximately 80% for KOMTAR JBCC and Menara KOMTAR. On a continuous basis, the Manager aims to address all concerns effectively and efficiently.

As MCHM is under a triple net lease agreement with a separate entity, the Manager ensures that a Tenant Satisfaction Survey is conducted on an annual basis to ensure that the tenant has an overall satisfying tenure period with the Manager under the REIT.

Shopper Management

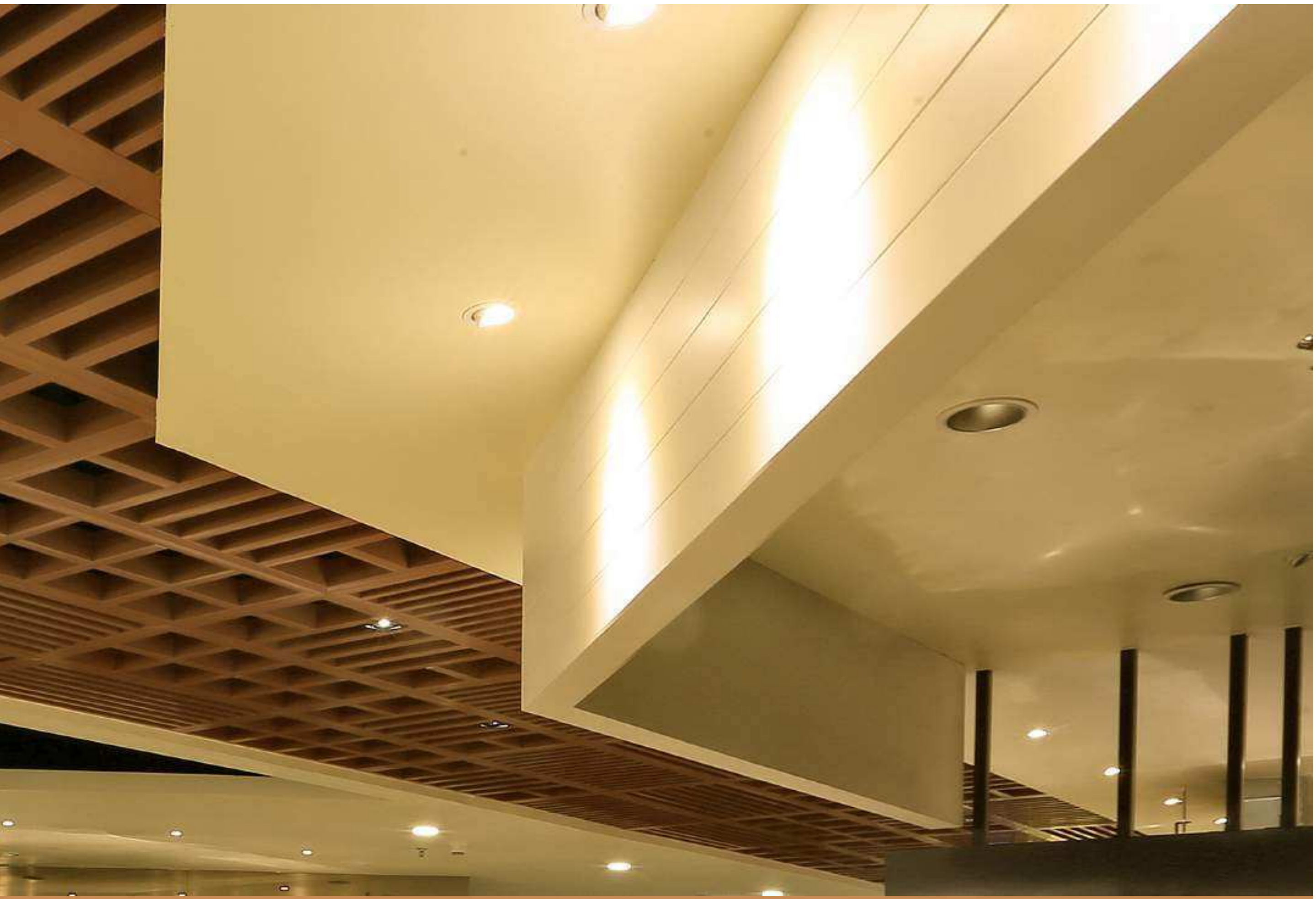
The Manager takes priority to ensure the shopper have a valued experience at KOMTAR JBCC and reaches out for any feedback via various means. As at December 2018, it is reported that there was a reduction in shopper complaints to 10 as compared to 13 in December 2017, indicating a better shopper experience.

Corporate Social Investment

The Manager continues to put in Corporate Social Responsibility (CSR) efforts in various ways. Some of the key CSR initiatives throughout the year are highlighted below:

- Blood donation drive and basic health screening at KOMTAR JBCC for shoppers in collaboration with KPJ Hospital Abdul Samad & Hospital Sultan Ismail.
- Charity visit to Rumah Fitrah Qaseh during Ramadan to contribute Ramadan & Raya preparations to underprivileged children.
- Farmer's Market at KOMTAR JBCC to support the Internal Woman's Association activity whereby a sales percentage will be donated to charity organisations.
- Breast Cancer Awareness campaign held at KOMTAR JBCC in conjunction with Breast Cancer Awareness Month.
- Mon Marche Bazaar to support Jabatan Pembangunan Wanita to encourage women, especially single mothers to be involved in business for continuous development.
- Program Bubur Lambuk Amal 2018 by the employees of Menara KOMTAR to provide funding in support of local welfares.
- Provision of promotional spaces / booths at Pasaraya Komuniti @Mart Kempas throughout the year.
- Donations of daily supplies and cash vouchers alongside 'buka puasa' ceremony at Pasaraya Komuniti @ Mart Kempas.

Section 5
Corporate Governance



Board Charter

1. Introduction

The Board of Directors of the Manager (the Board) regards corporate governance as vitally important to the success of Al-Salām REIT business and is committed to apply and to ensure that the following principles of good governance is practised in all of its business dealings in respect of its Unitholders and relevant stakeholders:

- The Board is the focal point of the corporate governance system. It is ultimately accountable and responsible for the performance and affairs of Al-Salām REIT.

- All Board members are expected to act in a professional manner, thereby upholding the core values of integrity and enterprise with due regard to their fiduciary duties and responsibilities.

- All Board members are responsible for achieving a high level of good governance.

This Board Charter shall constitute and form an integral part of each Director's duties and responsibilities.

2. Objective

The objectives of this Board Charter are to ensure that all Board members acting on behalf of the Manager are aware of their duties and responsibilities as Board members and the various legislations and regulations affecting their conduct and to ensure that the principles and practices of good corporate governance are applied in all their dealings in respect, and on behalf of Al-Salām REIT.

3. The Board

3.1 Role

The key roles of the Board are to:

a) Guide the corporate strategies and directions of the Manager (including acquisition and divestment of Authorised Investment);
b) Oversee the proper conduct of the Manager (including budgeting approval and all other financial matters);
c) Set the guidelines for internal controls;
d) Ensure compliance with the Relevant Laws and Requirements;
e) Determine and approve the distribution amounts to Unitholders and payment of the Management Fee; and
f) Evaluate and approve the acquisition and divestment of Authorised Investment.

3.2 Composition and Board Balance

The composition of the Board of Directors is as follows:

a) 1 Non-Independent Non-Executive Chairman
b) 4 Non-Independent Non-Executive Directors
c) 3 Independent Non-Executive Directors
d) 1 Non-Independent Executive Director

Practice 4.1 of the MCCG 2017 states that at least half of the board comprises independent directors. At present, the Board comprises 30% of independent directors and therefore yet to be in line with Practice 4.1. The Board believes that the interests of Unitholders would be better served by a Chairman and a team of Board members who act collectively in the best overall interests of Unitholders.

Practice 4.5 of the MCCG 2017 also states that for Large Companies (companies on the FTSE Bursa Malaysia Top 100 Index or companies with market capitalisation of RM2 billion and above), the Board must have at least 30% female directors. Based on the current market capitalisation position of RM469.80 million, Al-Salām REIT is not deemed to fall under Large Companies. However, the Board is moving towards to be in line with the Practice 4.5 on gender diversity whereby the current female directors' composition in the Board stands at 22%.

3.3 Appointments

The appointment of a new Director is a matter for consideration and decision by the full Board upon appropriate recommendation from the Nomination and Remuneration Committee.

New Directors are expected to have such expertise so as to qualify them to make a positive contribution to the Board performance of its duties and to give sufficient time and attention to the affairs of Al-Salām REIT.

The Company Secretary has the responsibility of ensuring that relevant procedures relating to the appointments of new Directors are properly executed.

3.4 Directors' Training

In addition to the Mandatory Accreditation Programme ("MAP") as required by Bursa Malaysia Securities Berhad ("Bursa Securities"), Board members are also encouraged to attend seminars and training programmes organised by the relevant regulatory authorities and professional bodies to broaden their knowledge and to keep abreast with the relevant changes in laws, regulations and the business environment. The Board will assess the training needs of the Directors.

The Board is also constantly updated by the Company Secretary on changes to the relevant guidelines on the regulatory and statutory requirements.

3.5 Board Meetings and Supply of Information

The Board meets regularly at least once every quarter to discuss and approve the release of the quarterly and annual financial results, review acquisitions or disposals, annual budget, capital expenditure requirements, property reports, investor relations reports, performance of the Manager and Al-Salām REIT against the approved budget. When necessary, the Board meets at a special meeting to review and approve acquisitions or disposals for recommendation to the trustee of Al-Salām REIT or any other issues requiring the immediate attention of the Board.

Notices and agenda of meetings duly endorsed by the Chairman together with the relevant board papers are normally given at least one (1) week prior to the meetings for the Board to study and evaluate the matters to be discussed. The board papers provided include inter alia, the financial results, business plan and budget, progress report on the properties' developments, regulatory/statutory updates and other operational and financial issues for the Board's information and/or approval.

4. Chairman And Chief Executive Officer (CEO)

4.1 Chairman

The Chairman is responsible for leadership of the Board in ensuring the effectiveness of all aspects of its role. The Chairman is responsible for:

a) Leading the Board in setting the values and standards of Al-Salām REIT;
b) Maintaining a relationship of trust with and between the Executive and Non-Executive Directors;
c) Ensuring the provision of accurate, timely and clear information to Directors;
d) Ensuring effective communication with Unitholders and relevant stakeholders; and
e) Ensuring that members of the Board work together with the Management in a constructive manner to address strategies, business operations, financial performance and risk management issues.

4.2 Chief Executive Officer (CEO)

- The CEO is the conduit between the Board and the Management in ensuring the success of the governance and management functions of Al-Salām REIT.
- The CEO has the executive responsibility for the day-to-day operation of business, and the execution of the agreed business policies and directions set by the Board and of all operational decisions in managing Al-Salām REIT.
- All Board authorities conferred on the Management is delegated through the CEO and this will be considered as the CEO's authority and accountability as far as the Board is concerned.

5. Committees

In carrying its functions, the Board is supported by the Audit Committee, Executive Committee and Nomination and Remuneration Committee, all of which operate within defined terms of reference. These committees provide the appropriate checks and balances.

5.1 Audit Committee (AC)

A. Membership

(i) The members of the AC shall be appointed by the Board and shall consist of not less than 3 members.
(ii) All members must be Non-Executive Directors.
(iii) All members should be financially literate and at least one member must be a member of the Malaysian Institute of Accountants (MIA) or have the relevant qualifications and experience as specified in the Bursa Malaysia Securities Main Market Listing Requirements.
(iv) The Chairman of the AC, elected from amongst the Audit Committee members shall be an Independent Director.
(v) No alternate Director of the Board shall be appointed as a member of the AC.

B. Purposes

(i) To ensure transparency, integrity and accountability in the Fund's activities so as to safeguard the rights and interests of the Unitholders;
(ii) To provide assistance to the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices;
(iii) To improve the Fund's business efficiency, the quality of the accounting and audit function and strengthen public confidence in the Fund's reported financial results; and
(iv) To maintain open lines of communication between the Board and the External Auditors.

C. Duties and Responsibilities

The objective of the AC is to assist the Board in fulfilling its fiduciary responsibilities relating to corporate governance, internal controls, financial and accounting records and policies as well as financial reporting practices of Al-Salām REIT. The AC's responsibilities include:

(i) To review the quarterly and year-end financial statements of the Fund prior to the approval by the Board;
(ii) To provide an independent assessment of the adequacy and effectiveness of risk management functions;
(iii) To review the internal audit programme, the results of the internal audit process or investigation undertaken and ensure that appropriate action is taken on the recommendations of the internal audit function;
(iv) To review with external auditors the audit plan, scope of audit and audit reports; and
(v) To review any related party transactions and conflict of interest situation that may arise.

D. Meetings

A minimum of 4 meetings shall be planned during the financial year and the quorum for the meeting shall be 2 members. In the absence of the Chairman, the members present shall elect a chairman for the meeting from amongst the members present. Reports of the AC meeting shall be tabled by the AC'S Chairman at the Board of Directors meeting.

5.2 Executive Committee (EC)

The EC meets on a scheduled basis at least 4 times a year. The minutes of the EC meetings are tabled to the Board for notification and further action by the Board, where necessary.

This EC oversees the activities of the Manager and Al-Salām REIT on behalf of the Board which includes:

(a) Making recommendations to the Board on all acquisitions, investments and disposals;
(b) Making recommendations to the Board on any financing offers, capital management proposals and additional banking facilities;
(c) Reporting and recommending to the Board any corporate exercise, including the issuance of new Al-Salām REIT units;
(d) Making recommendations to the Board on financial budgets; and
(e) Forwarding summary reports on activities undertaken by the Manager and minutes of EC meetings to Board members, where applicable.

5.3 Nomination and Remuneration Committee (NRC)

A. Membership

(i) The committee shall have at least 3 members, all of whom shall be non-executive directors with the majority being independent directors.
(ii) The members and the Chairperson shall be appointed by the Board.
(iii) The appointment of members terminates when the member ceases to be a director of the Company.
(iv) The NRC shall have no executive powers.
(v) In the event of equality of votes, the Chairperson of the NRC shall have a casting vote. In the absence of the Chairperson of the NRC, the members present shall elect one of their members to chair the meeting.

B. Purposes

• Nomination
(i) Identify and recommend candidates for Board directorship.
(ii) Recommend directors to fill the seats on Board Committee.
(iii) Evaluate the effectiveness of the Board and Board Committee (including the size and composition) and contributions of each individual director.
(iv) Ensure an appropriate framework and plan for Board succession.
(v) Assess the quality of performance and training needs are addressed.

• Remuneration
(i) Provide assistance to the Board in determining the remuneration of Executive Directors, Managing Director and Senior Management. In fulfilling these responsibilities, the NRC is to ensure that executive directors and applicable senior management of the Company:
  - are fairly rewarded for their individual contribution to overall performance;
  - are compensated reasonably in light of the Company's objectives; and
  - are compensated similar to other companies.

(ii) Establish the Executive Director and/or Managing Director's goals and objectives.
(iii) Review the Executive Director and/or Managing Director's performance against the goals and objectives set.

6. Remuneration Policies

The remuneration of the Directors is paid by the Manager and not by the Fund. The remuneration of the Executive Director is structured based on linking rewards to corporate and individual performance. For Non-Executive Directors, they receive a basic fee, an additional fee for serving on any of the committees and an attendance fee for participation in meetings of the Board and any of the committee meetings.

7. Financial Reporting

7.1 Compliance Officer

The Manager has a designated compliance officer working towards ensuring the compliance with all legislations, rules and guidelines issued by the Securities Commission and Bursa Securities as well as Al-Salām REIT's Deed.

7.2 External Auditors

The Board has established formal and transparent arrangements for considering how financial reporting and internal control principles will be applied and for maintaining an appropriate relationship with the External Auditors through its Audit Committee.

The Audit Committee also keeps under review the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the External Auditors. The Board ensures that the External Auditors do not supply a substantial volume of non-audit services.

The appointment of External Auditors, who may be nominated by the Manager, must be approved by the Trustee. The External Auditors appointed must be independent of the Manager and the Trustee. The remuneration of the External Auditors must be approved by the Trustee.

8. Risk Management

8.1 Internal Control

The Board is responsible for maintaining a system of internal control that covers financial and operational controls and risk management. The system provides reasonable but not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

8.2 Conflict of Interest

The Manager has established the following procedures to deal with potential conflicts of interest and related party transactions which it (including its Directors, executive officers and employees) may encounter in managing Al-Salām REIT:-

a) Any related party transaction must be duly disclosed by the related parties to the Audit Committee and the Board;
b) The Audit Committee shall review the terms of the related party transaction before recommending to the Board;
c) The Board shall ensure that at least one-third of its Directors are Independent Directors; and
d) In circumstances where any Director of officer of the Manager may have a direct or indirect interest in any related party transaction, they will abstain from deliberation and voting at any Board meeting and will require the Trustee's approval prior to entering into any transaction/agreement.

The Manager shall avoid instances of conflict of interest in any transaction and shall ensure that Al-Salām REIT is not disadvantaged by the transaction concerned. In addition, the Manager shall ensure that such transactions are undertaken in full compliance with the SC REIT Guidelines, the Trust Deed and the Listing Requirements.

8.3 Related Party Transactions and Recurrent Related Party Transactions

In dealing with any related party transaction, all related party transactions carried out by or on behalf of Al-Salām REIT should be conducted as follows:-

a) Carried out in full compliance with the REIT Guidelines and the Trust Deed;
b) Carried out at arm's length basis;
c) In the best interest of Unitholders;
d) Adequately disclosed to Unitholders;
e) Consented by the Trustee; and
f) Consistent with the investment objectives and strategies of Al-Salām REIT.

All related party transactions are subject to review by the Audit Committee prior to recommendation to the Board. If a member of the Audit Committee has an interest in a transaction, he/she is to abstain from participating in the review and recommendation process in relation to that transaction.

8.4 Internal Audit

The Internal Audit function is outsourced to Crowe Horwath Governance Sdn Bhd. However, the primary obligation, accountability and responsibility with regards to the scope of internal audit services shall remain with the Board and the Manager at all times.

9. Annual General Meeting (AGM)

- The Board regards the AGM as an important event in the corporate calendar of which all Directors and key personnel should attend. The Board regards the AGM as the principal forum for dialogue with Unitholders and aims to ensure that the AGM provides an important opportunity for effective communication with, and constructive feedback from the Unitholders.
- The Chairman encourages active participation by the Unitholders during the AGM. The Chairman and where appropriate, the Chief Executive Officer responds to Unitholders' queries during the AGM.

10. Communication And Investor Relations

The Board values constant dialogue and is committed to clear communication with Unitholders and investors. In this respect, as part of Al-Salām REIT's active investor relations programme, discussions and dialogues are held with fund managers, financial analysts, Unitholders and the media to convey information about Al-Salām REIT's performance, corporate strategy and other matters affecting Unitholders' interests.

The Manager communicates information on Al-Salām REIT to Unitholders and the investing community through announcements that are released to Bursa Securities via Bursa LINK. Such announcements include the quarterly results, material transactions and other developments relating to Al-Salām REIT requiring disclosure under the Listing Requirements of Bursa Securities. Communication channels with Unitholders are also made accessible via:

- Press and analysts' briefings
- One-on-one/group meetings, conference calls, investor luncheons, domestic/overseas roadshows and conferences
- Annual Reports
- Press releases on major developments of Al-Salām REIT
- Al-Salām REIT's website at www.alsalamreit.com.my

With the majority of units in Al-Salām REIT held by institutional investors, the Manager considers meetings with local and foreign fund managers an integral part of investor relations. These meetings and roadshows with investors enabled the Manager to update potential and current Unitholders on Al-Salām REIT's significant developments and its medium to long term strategies.

In addition to ensuring that the published Annual Report and quarterly results announced to Bursa Securities are available to all Unitholders, Al-Salām REIT has established a website at www.alsalamreit.com.my from which investors and Unitholders can access for information.

While the Manager endeavours to provide as much information as possible to Unitholders and stakeholders, it is mindful of the legal and regulatory framework governing the release of material and price-sensitive information.

11. Company Secretary

The Board appoints the Company Secretary, who plays an important advisory role, and ensures that the Company Secretary fulfils the functions for which he/ she has been appointed.

The Company Secretary is accountable to the Board on all governance matters and must keep abreast of and inform the Board of current governance practices.

The Board members have unlimited access to the professional advice and services of the Company Secretary.

Corporate Governance Statement

The Board of Directors of the Manager (the Board) recognises the value of good corporate governance and prioritises in ensuring that high standards of corporate governance is upheld and practised with the ultimate objective of protecting and enhancing Unitholders' value and protecting the interests of all stakeholders. The Board is committed to ensure the continuity of good corporate governance practice that will add value to the business and affairs of the Manager.

The Manager has been guided by the measures set out in the Guidelines on Real Estate Investment Trust issued by the Securities Commission (REIT Guidelines), the Listing Requirements of Bursa Malaysia (Listing Requirements) and the principles and guidance of the new Malaysian Code on Corporate Governance 2017.

The Manager's Role

In accordance with the Trust Deed, the Manager is appointed to manage the assets and administer the Fund. Its primary objective is to provide the Unitholders with long term and stable income distributions with the potential of sustainable growth as well as to enhance the net asset value of Al-Salām REIT's units.

The Manager has been issued a Capital Markets Services License (CMSL) by the Securities Commission (SC) on 27 June 2013 as required under the new licensing regime for REIT Managers which took effect from 28 December 2012. Two of the Board members, namely Wan Azman bin Ismail (eCMSRL/B7253)/2017) and Yusaini bin Sidek (CMSRL/B3780/2013) as well as two of the employees, namely Shahril Zairis bin Ramli (CMSRL/B3781/2013) and Suhaimi bin Saad (CMSRL/B3782/2013) respectively issued with a Capital Markets Services Representatives License (CMSRL).

Al-Salām REIT is externally managed by the Manager and as such, it has no employees. The Manager has appointed experienced and qualified personnel to handle its day-to-day operations. All Directors and employees of the Manager are remunerated by the Manager and not by Al-Salām REIT.

The Manager is required to ensure that the business and operations of Al-Salām REIT are carried and conducted in a proper, diligent and efficient manner, and in accordance with the acceptable business practices in the real estate investment trust industry in Malaysia. Subject to the provisions of the Trust Deed, the Manager has full and complete control in managing the Fund (including all assets and liabilities of Al-Salām REIT) for the benefits of the Unitholders.

The Manager's main functions, amongst others, are as follows:

- **Investment Strategy**
  Formulate and implement Al-Salām REIT's investment strategy.

- **Acquisition and Divestment**
  Make recommendations and coordinate with the Trustee and implement the acquisition of new assets and divestment of Al-Salām REIT's existing investments.

- **Asset Management**
  Supervise and oversee the management of Al-Salām REIT's properties including procurement of service providers to carry out specified activities, including but not limited to onsite property management, property maintenance, rent collection and arrear control. The Manager is also responsible for developing a business plan in the short, medium and long term with a view to maximising the income of Al-Salām REIT.

- **Risk Management**
  Determine the level of risk tolerance and actively identify, assess and monitor the principal risks of Al-Salām REIT and ensuring the implementation of appropriate systems to mitigate and manage these risks.

- **Financing**
  Formulate plans for equity and debt financing for Al-Salām REIT's funding requirements with the objective of optimising the capital structure and cost of capital.

- **Accounting Records**
  Keep books and prepare or cause to be prepared accounts and annual reports, including annual budget for Al-Salām REIT.

- **Investor Relations**
  Developing and maintaining investor relations including information coordination and distribution as well as customer service to investors.

- **Compliance Management**
  Supervise all regulatory filings on behalf of Al-Salām REIT, and ensure that Al-Salām REITis in compliance with the applicable provisions of the Securities Commission Act, SC REIT Guidelines, Bursa Securities Listing Requirements, Trust Deed and all relevant contracts.

- **Internal Audit**
  The Internal Audit function is outsourced and undertaken by Crowe Horwath Governance Sdn Bhd effective from 12 January 2017. The primary obligation, accountability and responsibility with regards to the scope of internal audit services shall remain with the Board and the Manager at all times.

Principles Of The Corporate Governance Code

1. BOARD LEADERSHIP AND EFFECTIVENESS

1.1 Board Responsibilities

In discharging their duties and responsibilities, the Board ensures that all decisions made are in the best interests of the Fund and stakeholders. As prescribed by the MCCG 2017, the Board assumes, inter alia, the following responsibilities:

- **Reviewing and adopting a strategic plan for the Fund**
  The strategic and business plan for the period 2019 – 2023 was tabled, discussed and approved by the Board at its meeting on 30 November 2018. Additionally, on an ongoing basis as need arises, the Board will assess whether strategic consideration being proposed at Board meetings during the year are in line with the objectives and broad outline of the adopted strategic plans. The Board will ensure that the strategic plan supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability.

- **Overseeing the conduct and overall management of the Manager and the business of Al-Salām REIT**
  The Board is responsible to oversee, supervise and review the Fund's annual budget, operational and financial performance on a periodic basis against the budget. At Board meetings, all operational matters will be discussed and appropriate consultation will be sought if necessary. Where and when available, the performance of the Fund will be benchmarked and compared against the performance of its competitors.

- **Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures**
  The Board will set the risk appetite within which the Board expects the Manager to operate and ensure there in an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks. The Risk Management Report will be tabled on a quarterly basis in the Board meeting to review the Fund's risks.

- **Succession planning**
  The Board will deliberate on the latest plans and actions taken in respect of the succession planning to ensure that all candidates appointed to the Board and senior management positions are of sufficient calibre.

- **Effective communication with stakeholders**
  The Board will ensure that there is an effective communication with stakeholders. The Manager has introduced many activities with regards to engagement and communication with investors to ensure that they are well informed about the Fund affairs and developments. Details of investor relations activities are disclosed on page 46 of this Annual Report.

- **Reviewing the adequacy and the integrity of the management information and internal controls system of the Fund**
  The Board's function as regard to fulfilling these responsibilities effectively are supported and reinforced through the various Committees established at both the Board and Manager's level. The active functioning of these Committees

through their regular meetings and discussions would provide a strong check and balance and reasonable assurance on the adequacy of the Fund's internal controls.

Access to Information and Advice
Prior to each Board meeting, the Board papers will be circulated to all Directors so that each Director has ample time to peruse and review them for further deliberation at the Board meeting. The Board papers includes among others, the following details:

- Minutes of meeting of all Committees of the Board
- Any matters arising from previous meetings
- Business strategies and corporate proposals
- Review of operational matters and financial report of the Group
- Progress report on risk management
- Executive Committee and Audit Committee report

The Board is fully aware of its duties and responsibilities with regards to the above and decisions and deliberation at the Board meetings are recorded and minuted by the Company Secretary.

Company Secretary
The Manager's Joint Company Secretary and/or her assistants attend all Board meetings and, together with the Directors are responsible for the proper conduct of the meetings according to applicable rules and regulations. The Joint Company Secretary regularly updated the Board on new regulations and directives issued by regulatory authorities.

1.2 Board Composition
Board composition influences the ability of the board to fulfil its oversight responsibilities. An effective board should include the right group of people with an appropriate mix of skills, knowledge, experience and independent elements that fit the objectives and strategic goals. The right Board composition will ensure sufficient diversity and independence to avert groupthink or blind spots in the decision-making processes. It also enables the Board to be better equipped to respond to challenges that may arise and deliver value.

The composition of the Board of Directors is as follows:

a) 1 Non-Independent Non-Executive Chairman
b) 4 Non-Independent Non-Executive Directors
c) 3 Independent Non-Executive Directors
d) 1 Non-Independent Executive Director

Practice 4.1 of the MCCG 2017 states that at least half of the board comprises independent directors. At present, the Board comprises 30% of independent directors and therefore yet to be in line with Practice 4.1. The Board believes that the interests of Unitholders would be better served by a Chairman and a team of Board members who act collectively in the best overall interests of Unitholders. As the Chairman is representing JCorp which ultimately has substantial interest in the Fund, he is well placed to act on behalf of Unitholders and in their best interests.

Practice 4.5 of the MCCG 2017 also states that for Large Companies (companies on the FTSE Bursa Malaysia Top 100 Index or companies with market capitalisation of RM2 billion and above), the Board must have at least 30% female directors. Based on the current market capitalisation as at 31 December 2018 of RM469.80 million, Al-Salām REIT is not deemed to fall under Large Companies. However, the Board is moving towards to be in line with the Practice 4.5 on gender diversity whereby the current female directors' composition in the Board of Al-Salām REIT stands at 22%.

During the year ended 31 December 2018, the Board members convened five meetings and all Directors have complied with the minimum 50% attendance as required by Para 15.05 of the Listing Requirements. The members of the Board and their attendances at Board meetings in 2018 are set out below:

	10th BOD 21.02.2018	Special BOD 19.04.2018	11th BOD 06.06.2018	12th BOD 13.09.2018	13th BOD 30.11.2018
Dato' Kamaruzzaman bin Abu Kassim	✓	✓	✗	✓	✓
Wan Azman bin Ismail	✓	✓	✓	✓	✓
Zainah binti Mustafa	✓	✓	✓	✓	✓
Dr. Mohd Hafetz bin Ahmad	✓	✓	✓	✓	✓
Dato' Dr. Rahah binti Ismail	✓	✓	✓	✓	✓
Lukman bin Hj. Abu Bakar	✓	✓	✓	✓	✓
Yusaini bin Hj. Sidek	✓	✓	✓	✓	✓
Dato' Amiruddin bin Abdul Satar	✓	✓	✓	✓	✓
Mohd Yusof bin Ahmad	✓	✓	✓	✗	✓

Directors' Training
All Directors have attended and completed the Mandatory Accreditation Programme prescribed by Bursa Securities, and the Board will continue to evaluate and determine the training needs of its Directors on an ongoing basis. Throughout the financial year under review, the Directors attended various conferences, seminars and training programmes covering areas that included corporate governance, leadership, updates on REIT industry and global business developments.

1.3 Remuneration
The remuneration of the Directors is paid by the Manager and not by the Fund. The remuneration of the Executive Director is structured based on linking rewards to corporate and individual performance. For Non-Executive Directors, they receive a basic fee, an additional fee for serving on any of the committees and an attendance fee for participation in meetings of the Board and any of the committee meetings.

2. Effective Audit And Risk Management

2.1 Audit Committee
An effective Audit Committee will bring transparency, focus and independent judgment needed to oversee the financial reporting process. The Audit Committee is chaired by Zainah binti Mustafa and comprises of 2 other members, Lukman bin Hj. Abu Bakar and Dr. Mohd Hafetz bin Ahmad. The Committee meets on a scheduled basis at least 4 times a year. The composition of the Audit Committee, its terms of reference, attendance of meetings and duties and responsibilities are set out on page 80 and 89 of the Annual Report. The minutes of the Audit Committee meetings are tabled to the Board for notification and further action by the Board, where necessary.

Compliance with Applicable Financial Reporting Standards
In presenting the annual financial statements, annual report and quarterly announcements to Unitholders, the Board aims to present a balanced and understandable assessment of Al-Salām REIT's financial position, performance and prospects.

The Board has taken the necessary steps to ensure that Al-Salām REIT had complied with all applicable Financial Reporting Standards and relevant provision of laws and regulations in Malaysia and the respective countries in which the subsidiaries operate, consistently and that the policies are supported by reasonable and prudent judgement and estimates.

The Audit Committee assists the Board in ensuring both annual financial statements and quarterly announcements are accurate and the preparation is consistent with the accounting policies adopted by Al-Salām REIT.

Relationship with the External Auditors
The Board through the Audit Committee has maintained a formal procedure of carrying out an independent review of quarterly reports, annual audited financial statements, External Auditor's audit plan, report, internal control issues and procedures.

The External Auditors are invited to attend Al-Salām REIT's general meeting and are available to answer any questions from Unitholders on the conduct of the statutory audit and the contents of the Annual Audited Financial Statements.

2.2 Risk Management and Internal Control Framework

The Manager is led and oversaw by experienced Board of Directors with a wide and varied range of expertise. This broad spectrum of skills and experience gives added strength to the leadership, thus ensuring the Manager is under the guidance of an accountable and competent Board.

There is a clear segregation of roles and responsibilities between the Chairman and the Executive Director to ensure a balance of power and authority. This also provides a healthy professional relationship between the Board and Management with clarity of roles and robust deliberation on the business activities of Al-Salām REIT.

The Chairman ensures that members of the Board work together with the Management in a constructive manner to address strategies, business operations, financial performance and risk management issues. The Executive Director has full executive responsibilities over the execution of the agreed business policies and directions set by the Board and of all operational decisions in managing Al-Salām REIT.

3. Integrity In Corporate Reporting And Meaningful Relationship With Stakeholders

3.1 Communication with Stakeholders

The Board recognises the importance of timely dissemination of information to the Unitholders and accordingly ensures that they are well informed of any major developments of Al-Salām REIT. Such information is communicated through the annual report, the Fund's various disclosures and announcements to Bursa Securities, including quarterly and annual results, and the corporate website.

As part of Al-Salām REIT's active investor relations programme, discussions and dialogues are held with fund managers, financial analysts, Unitholders and the media to convey information about Al-Salām REIT's performance, corporate strategy and other matters affecting Unitholders' interests.

Details of the investor and public relations programs undertaken by the Manager are set out on page 46 of this Annual Report.

3.2 Conduct of General Meeting

The Annual General Meeting is a vital platform for dialogue and interaction between the Board and the Unitholders. The Manager had on 19 April 2018 convened its 3rd Annual General Meeting to seek the Unitholders' approval for amongst others:-

- Proposed to allot and issue new units
- Proposed increase in the existing approved fund size

At the Annual General Meeting, the Chairman presented the progress and performance of the business and encouraged Unitholders to participate in the question-and-answer session.

Directors' Responsibility Statement On Audited Financial Statements

The Board is responsible in the preparation of the Audited Financial Statements to give a true and fair view of the state of affairs, results and cash flows of the Manager and Al-Salām REIT at the end of each financial year.

In preparing the financial statements, the Board will ensure that suitable accounting policies have been applied consistently, and that reasonable and prudent judgements and estimates have been made.

All applicable approved accounting standards and relevant provisions of laws and regulations have been complied with. The Board is also responsible for ensuring that proper accounting and other records are kept which disclose with reasonable accuracy, the financial position of the Manager and Al-Salām REIT and to ensure that the financial statements comply with the relevant statutory requirements. The Board has the overall responsibility for taking such steps that are reasonably open to them to safeguard the assets of Al-Salām REIT to prevent and detect fraud and other irregularities.

Audit Committee Report

The audit committee plays a major role in corporate governance regarding the organisation's direction, control, and accountability. As a representative of the board of directors and main part of the corporate governance mechanism, the audit committee is involved in the organisation's both internal and external audits, internal control, accounting and financial reporting, regulatory compliance, and risk management. The audit committee will be ensure independence to the internal and external auditors which give results to true and fair financial reporting that will meet the expectation of and protect the interests of all the stakeholders and mainly shareholders.

Composition

For the financial year ended 31 December 2018, the Audit Committee comprised 3 Directors, all of whom are also members of the Board of the Manager.

The composition of the Audit Committee is as follows:

1. Zainah binti Mustafa
   Chairman/Independent Non-Executive Director
2. Lukman bin Hj. Abu Bakar
   Member/Non-Independent Non-Executive Director
3. Dr. Mohd Hafetz bin Ahmad
   Member/Independent Non-Executive Director

Meetings And Attendance

The Audit Committee held 4 meetings during the financial year and the details of attendance of the Committee Members are as follows:

Name of Committee Member	No. of meetings attended
Zainah binti Mustafa Chairman/Independent Non-Executive Director	4 out of 4
Lukman bin Hj. Abu Bakar Member/Non-Independent Non-Executive Director	4 out of 4
Dr. Mohd Hafetz bin Ahmad Member/Independent Non-Executive Director	4 out of 4

Discharging Of Functions & Duties

During the financial year ended 31 December 2018, the Audit Committee has met its responsibilities in discharging its functions and duties in accordance with its terms of reference as follows:

1. Overseeing Financial Reporting

(a) Reviewed and discussed with Management the quarterly management accounts, taking into consideration that the necessary processes and controls are in place in the preparation of the financial reports.

(b) Reviewed and discussed the quarterly results with Management. The Committee also reviewed and discussed the annual financial statements and the External Auditors' audit report with the External Auditors, Internal Auditors as well as Management. Having satisfied itself that the financial results and reports complied with relevant accounting standards & legal requirement, the Audit Committee duly recommended the same for the Board's approval.

(c) Minutes of previous Committee meetings were tabled at the subsequent Board meetings by the Audit Committee Chairman. Significant issues were highlighted together with followed up actions to rectify them were reported to the Board.

(d) The Committee took note of significant changes and amendments to the regulations, accounting standards and other regulatory requirements that could affect the financial reporting of Al-Salām REIT.

2. Assessing Risks and Control Environment

(a) The Committee reviewed the adequacy and effectiveness of the risk management framework and the appropriateness of Management's responses to key risk areas and proposed recommendations for improvements to be implemented.

(b) The Management reported to the Committee on a quarterly basis, all identified risks that were recorded in a risk management scorecard which had facilitated systematic review and monitoring of the risk areas.

(c) The Committee also reviewed and deliberated on matters relating to internal control highlighted by the External Auditors in the course of their statutory audit of the financial statements.

3. Evaluate the Audit Process

(i) Internal Audit

(a) Reviewed the annual internal audit plan with Management to ensure adequate audit coverage of the key risk areas and processes of the business operations activities of Al-Salām REIT.

(b) Reviewed the adequacy and relevance of the scope, functions, resources, risk based internal audit plan and results of the internal audit processes.

(c) Reviewed the audit activities carried out by the Management and discussed the audit reports, their major findings and recommendations to ensure corrective actions were taken in addressing the risk issues reported.

(d) Monitored and reviewed the progress of follow-ups on audit findings to ensure remedial / corrective actions have been taken by Management on a timely basis.

(e) Evaluated the adequacy and effectiveness of Internal Audit Function as well as the performance of the Internal Auditors against the audit plan.

(ii) External Audit

(a) On 13 November 2018, the Audit Committee had reviewed and discussed with the Management and the External Auditors, Deloitte PLT, the Audit Planning Memorandum for 2018. At the aforesaid meeting, the External Auditors explained their audit approach and system of evaluation inclusive of the areas of audit emphasis and scope for the year and their audit strategies as well as the audit procedures prior to the commencement of annual audit.

4. Reviewing Related Party Transaction & Conflict of Interest Situations

(a) The Audit Committee reviewed the potential conflict of interest, related party transactions and recurring related party transactions based on its existing framework which requires that such potential conflict of interest, related party transaction and recurring related party transaction situations be:

- Carried out in compliance with the REIT Guidelines and the Deed;
- Carried out on an arms' length basis and under normal commercial terms;
- Carried out in the best interest of the Unitholders;
- Abstention from voting at Board Meetings for interested parties;
- Adequately disclose to the unitholders via Bursa Announcements, Quarterly Reports and Annual Report; and
- Approved by the Trustee.

(b) The Committee took note that there were no management conflict of interest situations for operational matters (including any transaction, procedure or course of conduct) as reported by the Chief Executive Officer at the quarterly meetings.

Statement On Risk Management & Internal Control

The Board is committed to nurture and preserve a sound system of risk management and internal controls and good corporate governance practises as set out in the Board's Statement on Risk Management and Internal Control made in compliance with the Principle B of Malaysia Code of Corporate Governance 2017 and Chapter 15.09 of the Main Market Listing Requirements and guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

In 2018, the Board has approved the Enterprise Risk Management ("ERM") Framework, which takes effect starting 1 August 2018.

The ERM Framework outlines the following aspects of Risk Management:-
- ERM Policy Statement of the Manager;
- Organisational Structure and Assigned Roles and Responsibilities;
- The Executive Roles and Responsibilities of the Board, Risk Management Committee, Risk Owners of Damansara REIT Managers Sdn Berhad and Internal Audit; and
- Risk Management Approach : Risk Analysis Methods and Risk Appetite.

ERM Policy Statement

The Manager recognises that it is obliged to systematically manage and regularly review its risk profile at a strategic, financial, operational and compliance level. The Manager has done this by developing / adopting risk management framework that determines the process and identifies tools for realising its objectives. Not only does it wish to minimise its risk but also maximises its opportunities. It enhances the Manager's capability to respond timely to the changing environment and its ability to make better decisions.

Risk Registers are developed and subject to regular review by the Executive Committee and reported to the BOD.

The Board has a stewardship responsibility to understand these risks, provide guidance on dealing with these risks and to ensure risks are managed proactively, in a structured and consistent manner.

The objectives of the policy statement are to ensure:-
- a common and consistent approach for management of risks is adopted within DRMSB;
- the management of risk contributes to the quality of performance and continuous improvement of DRMSB businesses, its operations and delivery of services and products; and
- all significant risks are identified, evaluated, managed and reported in a timely manner to the Executive Committee and the BOD.

The policies of the Board for ERM are:-
- **To integrate risk management into the culture, business activities and decision making processes.**
  Risk management concept, thinking and initiatives must be embedded in the day-to-day business operations and decision-making process. Risks that can be managed through embedded, routine systems and processes should be so managed and monitored. Where risks cannot be so managed, they must be subject to individualised risk management techniques appropriate to a particular risk.

- **To anticipate and respond to the changing operational, social, environmental and regulatory requirements proactively.**
  As far as reasonably possible, risks must be identified, analysed and dealt with by Management proactively based on their experience, industry knowledge and information available from the market place. DRMSB must not experience any crystalisation of major risk unexpected by the Board. However, this does not mean risk will not transpire, but there are comprehensive plans put in place to respond timely and address the risk impact.

- **To manage risks pragmatically, to an acceptable level given the particular circumstances of each situation.**
  In dealing with risks, the Board understands that it is not always possible, cost effective or desirable to manage or eliminate risk all together. A cost-benefit approach is needed where the returns must commensurate with the risks taken and reduce cost of risk controls.

- **Risk assessment reporting**
  To require that all papers that are submitted to the Board by Management relating to strategy, key project approval, significant action or investment must include a detailed risk assessment report.

- **To implement a robust and sustainable ERM framework that is aligned with vision and missions, and in accordance with best practices.**
  The Board recognises that a structured and consistent ERM framework is instrumental to deploy its operational strategy effectively.

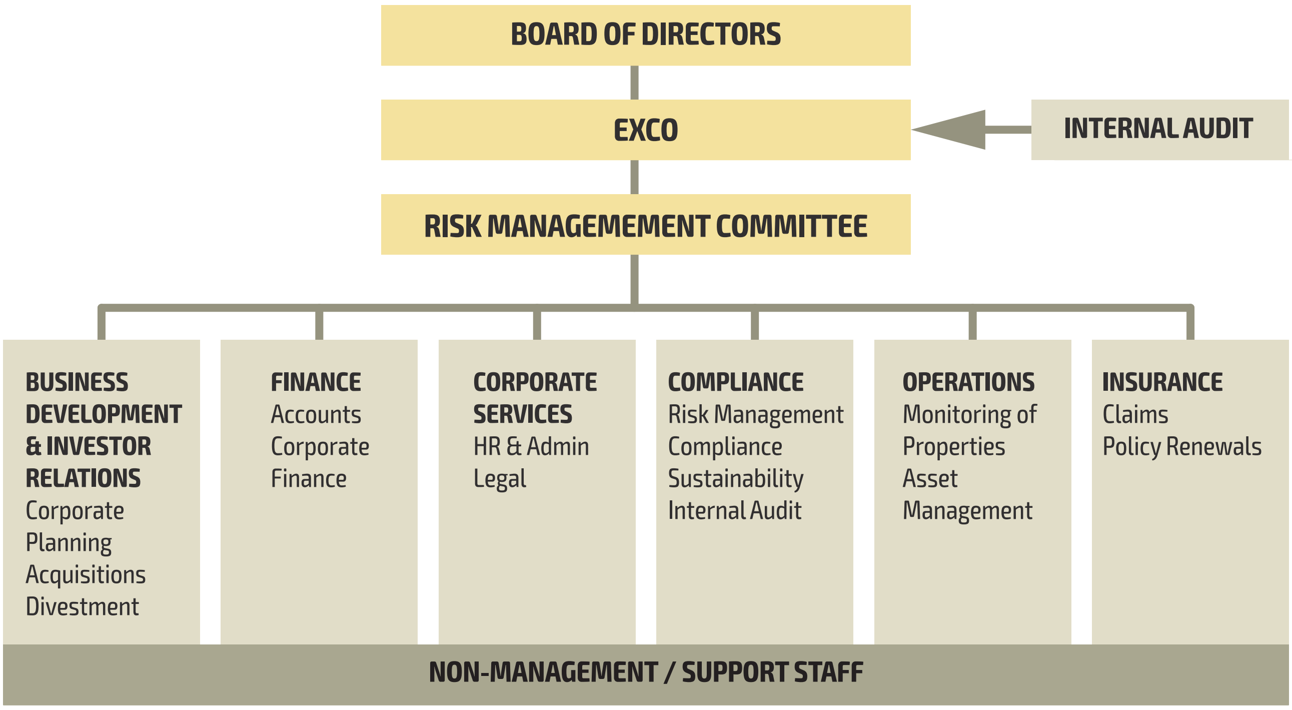
These policies will be achieved via:-

- Periodic reporting to the Board on risk management activities and keep the Board apprised and advised of all aspects of ERM and significant individual risks and risk trends;
- Provision of adequate and suitable resources, including tool(s) and manpower to ensure the ERM framework and system are operating effectively;
- Provision of adequate education and communication to ensure staff comprehend the requirements, benefits, and their role and responsibilities for risk management; and
- Maintaining documented risk information (via risk registers and risk action plans) and procedures for the control of risks.
- Organisational Structure and Assigned Roles and Responsibilities.

Risk Management Structure

The Risk Management Structure is designed to ensure effective communication, consultation and education in risk management are necessary to achieve a successful integration of the risk processes into the business and to provide provide reports, which may be conveyed in full, to the Audit Committee, as part of the half-yearly Risk Report.

DRMSB's ERM Risk Reporting Structure



The Executive Roles And Responsibilities Of The Board, Risk Management Committee, Risk Owner And Internal Audit

The Board acknowledges its responsibility for maintaining a sound system of risk management and internal control to safeguard the Unitholders' interests and the Fund's assets, as well as to discharge its responsibility in identifying principal risks and ensuring the implementation of an appropriate risk management and internal control system to manage those risks in accordance with Principle B – Effective Audit and Risk Management of the MCCG 2017.

Specific roles and responsibilities for risk management are summarised as follows:-

Roles	Principal Responsibilities For ERM
BOARD OF DIRECTORS	1. Adopt the ERM Policy; 2. Articulate and provide direction on risk appetite, organisational control environment and risk culture; 3. Final decision on risk parameters, risk appetite, risk profiles, risk treatment options, and risk action plans; 4. Assess and keep abreast with key risk indicators; and 5. Monitor the overall ERM framework's performance and implementation effectiveness.
EXECUTIVE COMMITTEE (EXCO)	1. Provide guidance and advice on appropriateness of risk treatment option selected and risk action plans development; 2. Articulate and challenge risk ratings, control effectiveness, risk treatment options and risk action plans identified by risk owners; and 3. Provide an independent view on specific risk and control issues, the state of internal controls, trends and events.
RISK MANAGEMENT COMMITTEE	1. Assist the Board in establishing and maintaining effective policies and guidelines to ensure proper management of risks to which the company/Fund is exposed to and to take appropriate and timely action to manage such risks; 2. Review and endorse the risk parameters, risk appetite, risk profiles, risk treatment options, risk action plans and key risk indicators; 3. Communicate requirements of the ERM Policy to staff and ensure continuous enhancement of ERM. 4. Formulate and implement ERM mechanism to accomplish requirements of the ERM policy; 5. Discuss, rank and debate risk ratings, control effectiveness, risk treatment and action plans identified by Risk Owner; and 6. Ensure that the ERM reports prepared are submitted to Board of Directors in a timely manner, and special risk report / flash reports are submitted in the event of any risk(s) that required urgent attention.
RISK MANAGEMENT DEPARTMENT	1. Continuously communicate, evaluate and improve the ERM Policy and ERM mechanism; 2. Facilitate the risk assessment, implementation of risk action plan and key risk indicators process; 3. Prepare risk parameters, risk appetite, monitoring of risk action plans and provide independent review on key risk indicators; 4. Provide independent input on risk assessment (risk types and risk ratings), and action plans comprehensiveness; 5. Conduct risk identification, evaluation and review of risk treatment process on a periodic basis to ensure the Group's risk management effectiveness; 6. Prepare and report to the Risk Management Committee in a timely manner, and ensure special risk report / flash report is prepared in the event of any risk(s) that required urgent attention; and 7. Lead the ERM educational programmes, and continuous sharing insights into risk and market trends with Risk Owner.
RISK OWNERS	1. Identification and assessment of risks, implementation and monitoring of risk action plans and key risk indicators; 2. Prepare and report to the Risk Officer on a timely manner and timely preparation of flash reports in the event of any risk(s) that required urgent attention; and 3. Maintain highest alert on both internal and external activities or circumstances that may have adverse risk impacts and consequences to DRMSB.
RISK CO-OWNERS	1. Provide support to Risk Owner on key risks identified and to assist in the implementation of risk action plans and key risk indicators thereof; and 2. Engage and discuss with Risk Owner on internal and external activities or circumstances that may give rise to new risks or changes on rating or control effectiveness of existing risks.
STAFF	1. Provide assistance to Risk Owner and / or Risk Co-owners on key risks identified and to support the implementation of risk action plans and key risk indicators; and 2. Engage and discuss with Risk Owner and / or Risk Co-owners on internal and external activities or circumstances that may give rise to new risks or changes on rating or control effectiveness of existing risks.
INTERNAL AUDIT	1. Assist the Risk Management Committee and the Audit Committee in reviewing the effectiveness of ERM and internal controls and providing an independent view on specific risks and control issues, the state of internal controls, trends and events.

The Manager's Risk Management And Internal Control System

The periodic meetings of the Board, Board Committees and management are the main platform by which the Manager's performance and conduct are monitored. The day-to-day operations of the business are entrusted to the CEO and the management teams. The CEO continuously communicates the Board's expectations and directions to the management at the management meetings where all risks relating to strategy, operational and financial are discussed and dealt with action plans.

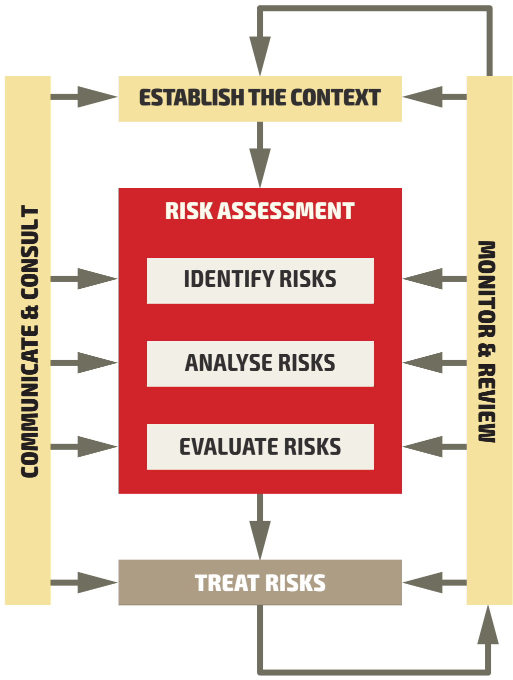
The Board is responsible for setting the business direction and strategies as well as overseeing the conduct of the Manager's operations through its Board Committees and management reporting mechanisms. Through these mechanisms, the Board is informed of all major issues pertaining to risks, governance, internal controls and compliance with regulatory requirements.

Risk Management Framework Approach: Risk Analysis Methods And Risk Appetite

The Manager adopts ERM practices that enable it to continuously identify, assess, treat and manage risks that affect Al-Salām REIT in achieving its objectives within defined risk parameters in a timely and effective manner. All identified risks are recorded in a risk register to facilitate systematic review and monitoring.

The ERM practices are embedded into key activities and business processes, enabling proper risk management at the operation level of each property as well as the fund level. Risks identified shall be systematically evaluated with proper mitigating action plans developed to manage the risks to an acceptable level and monitored on a continuous basis.

The approach is summarised as below:



The business environment is constantly changing and hence needs to continually monitor and review its risks and the effectiveness of its management of risk over time.

The period of risk review will be determined by the risk rating, with higher rated risks and associated controls/risk mitigation strategies reviewed more often.

Risk monitoring and review will:-

- ensure risks appropriately reflect the reality of the operating environment;
- involve the review of risk ratings (likelihood & Impact);
- involve a review of the adequacy and effectiveness of existing risk controls / treatment plans and recommend changes to treatment priorities & timeframes;
- identify emerging or new risks; and
- include consideration of the appropriate "responsible person(s)" for ongoing monitoring and review of risks.

Additionally, monitoring and measuring includes evaluation of the risk awareness culture and the risk management framework, and assessment of the extent to which risk management tasks are aligned, suitable, adequate, and effective way of achieving established objectives.

This will enable the internal audit function to periodically review the effectivenessof the risk management function in the Manager and providing an independent view on specific risks and control issues, the state of internal controls, trends and events.

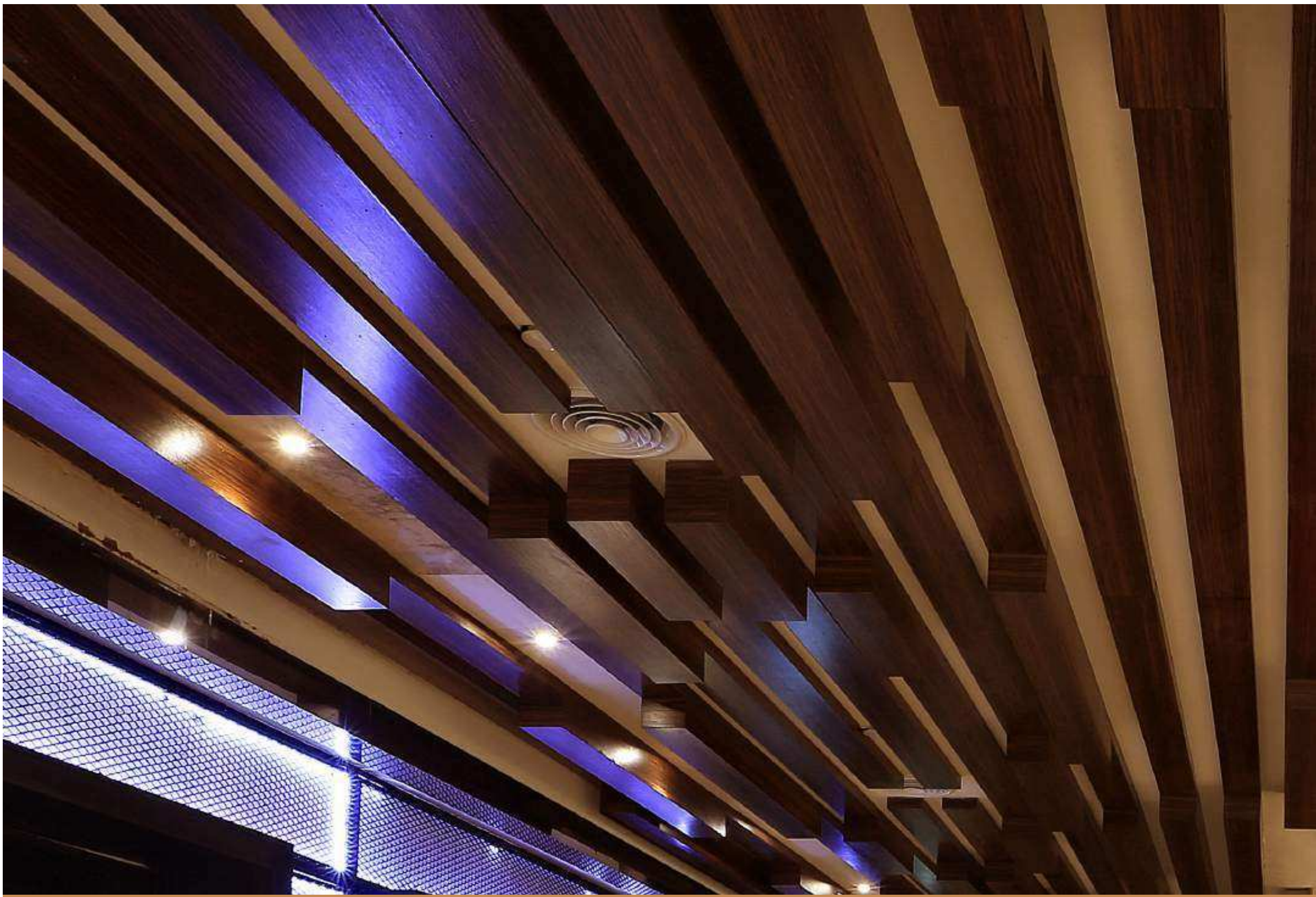
When the need arises, the Manager will review the risk management framework and risk management process which involves the review of risk management policy and plans as well as risks, risk categories, risk treatments, controls, residual risks, and risk assessment process.

Based on results of monitoring and reviews, decisions should be made on how the risk management program can be improved. These decisions should lead to improvements in the organisation's management of risk and its risk management culture.

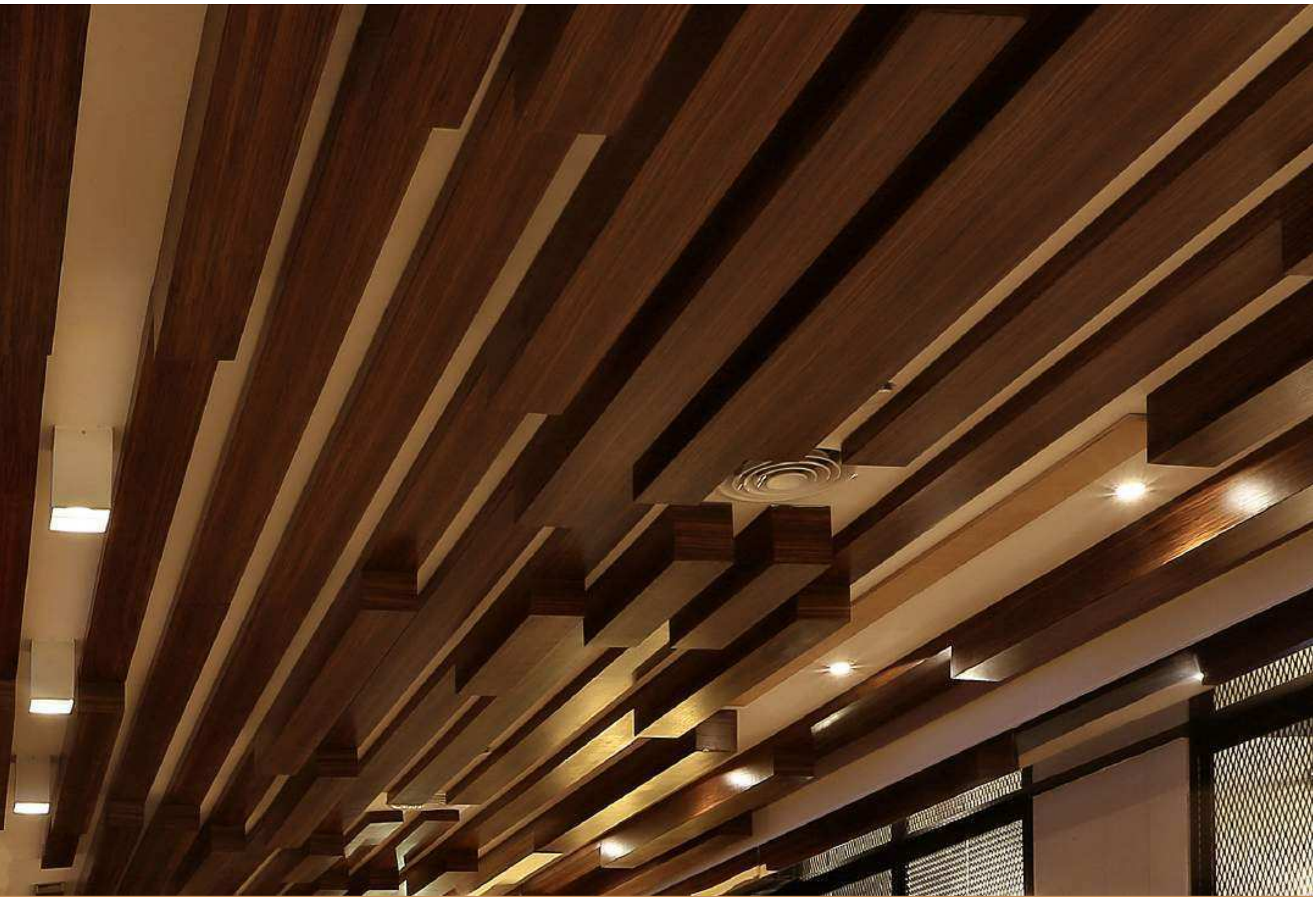
Internal Control

The following key elements embody the current internal control system adopted by the Manager:-

a) The Board has put in place its own management reporting mechanisms which enable the Board to review the performance of the Manager and the Fund.
b) The Board approved annual budgets and business plans prepared by each property.
c) Investment strategies and criteria which are formulated by the management and agreed by the Executive Committee and/or recommendation on any acquisition or divestment would be presented to the Board for approval before forwarding to the Trustee for final approval.
d) Comprehensive policies and procedures manual that provide guidelines on, and authority limits over various operations, financial and human resources matters.
e) Regular management meetings involving the review of the operations and financial performance of each property with Property Managers and the Trustee.
f) The Audit Committee with formal terms of reference clearly outlining its functions and duties delegated by the Board.
g) The internal audit reviews carried out by the outsourced internal auditor based on the risk-based internal audit plan approved by the Audit Committee.
h) A systematic performance appraisal system for all levels of staff.
i) The Code of Ethics is to be implemented in 2019 to mitigate Integrity Risks
j) The Management has also reviewed its Standard Operating Procedure ("SOP") for the Manager and the funds, across all departments
k) Relevant training provided to staff across all functions to maintain a high level of competency and capability.



Section 6
Financial Reports



MANAGER'S REPORT

The Directors of **DAMANSARA REIT MANAGERS SDN BERHAD** (the "Manager"), the Manager of **AL-SALĀM REAL ESTATE INVESTMENT TRUST** (the "Fund"), have pleasure in submitting their report and the audited financial statements of the Group and of the Fund for the financial year ended 31 December 2018.

THE FUND AND ITS INVESTMENT OBJECTIVE

The Fund is a Malaysia-based real estate and investment trust established pursuant to the execution of a Trust Deed dated 26 March 2015 between the Fund, the Manager and AmanahRaya Trustees Berhad (the "Trustee"). The said Trust Deed was registered with the Securities Commission Malaysia on 30 March 2015 which is the Fund's establishment date. The Fund was listed on the Main Market of Bursa Malaysia Securities Berhad on 29 September 2015.

The Manager's key objective is to provide unitholders with regular and stable income distributions, sustainable long term unit prices and distributable income and capital growth, while maintaining an appropriate capital structure.

This objective is sought to be achieved by optimising the performance and enhancing the overall quality for a large and geographically diversified portfolio of Shariah-compliant real estate assets through various permissible investment and business strategies.

On 29 January 2018, the Manager, after consultation with the Trustee, declared a final income distribution of 3.15 sen per unit totalling RM18.27 million for the financial year ended 31 December 2017. The said distribution was paid on 28 February 2018.

On 24 May 2018, the Manager, after consultation with the Trustee, declared a first interim income distribution of 1.00 sen per unit totalling RM5.80 million for the financial year ended 31 December 2018. The said distribution was paid on 9 July 2018.

On 29 August 2018, the Manager, after consultation with the Trustee, declared a second interim income distribution of 1.00 sen per unit totalling RM5.80 million for the financial year ended 31 December 2018. The said distribution was paid on 19 October 2018.

On 30 November 2018, the Manager, after consultation with the Trustee, declared a third interim income distribution of 1.00 sen per unit totalling RM5.80 million for the financial year ended 31 December 2018. The distribution was approved by the Trustee and has been included as a liability in the financial statements. The said distribution was paid on 14 January 2019.

On 30 January 2019, the Manager, after consultation with the Trustee, declared a third interim income distribution of 2.35 sen per unit totalling RM13.63 million for the financial year ended 31 December 2018. The distribution was approved by the Trustee and has not been included as a liability in the financial statements. The total distributions for the financial year ended 31 December 2018 amount to RM31,030,000 (2017: RM34,799,868). Total distribution is 5.35 sen per unit (2017: 6.00 sen per unit).

THE MANAGER AND ITS PRINCIPAL ACTIVITY

The Manager is a company incorporated in Malaysia and is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, a company incorporated in Malaysia. The Directors of the Manager consider Johor Corporation as the ultimate holding entity of the Manager, a body corporate established under the Johor Corporation Enactment No. 4, 1968 (as amended by Enactment No. 5, 1995).

The principal activity of the Manager is that of managing real estate investment trusts. There has been no significant change in the nature of the principal activity during the financial year.

On 1 March 2018, the Fund has set up a wholly-owned subsidiary, ALSREIT Capital Sdn. Bhd., a company incorporated in Malaysia.

The principal activity of the subsidiary is set out in Note 12 to the financial statements.

MANAGER'S INVESTMENT STRATEGIES AND POLICIES

The Fund is authorised to invest in real estate, special-purpose-vehicles ("SPVs"), real estate-related assets, non-real estate-related assets, cash, Shariah-compliant deposits, Islamic money market instruments and any other investments not specified above but specified as a permissible investment in the Guidelines on Real Estate Investment Trust ("the REIT Guidelines") and the Guidelines for Islamic Real Estate Investment Trust ("the Islamic REIT Guidelines") as issued by the Securities Commission Malaysia or as otherwise permitted by the Securities Commission Malaysia.

To achieve the Fund's primary objective, the Manager will seek to achieve the following strategies:

(a) Active asset management strategy

The Manager will seek to optimise the rental rates, occupancy rates and Net Lettable Area ("NLA") of the Fund's properties in order to improve the returns from the Fund's property portfolio.

(b) Acquisition growth strategy

The Manager will source for and acquire properties that fit within the Fund's investment strategy to enhance returns to unitholders and to capitalise on opportunities for future income and net asset value growth.

(c) Capital and risk management strategy

The Manager will endeavour to employ an appropriate mix of debt and equity in financing acquisitions, seek to manage financing and refinancing risk and to adopt an active financing rate management strategy to manage the risks associated with changes in financing rates.

The investments of the Fund are subject to the following investment limits imposed by the REIT Guidelines:

(a) at least 50% of the Fund's total asset value must be invested in real estate assets at all times; and

(b) not more than 25% of the Fund's total asset value may be invested in non-real estate-related assets and/or cash, Shariah-compliant deposits and Islamic money market instruments,

provided that instruments in both real estate-related assets and non-real estate-related assets are limited as follows:

(a) the value of the Fund's investments in securities issued by any single issuer must not exceed 5% of the Fund's total asset value;

(b) the value of the Fund's investment in securities issued by any group of companies must not exceed 10% of the Fund's total asset value; and

(c) the Fund's investment in any class of securities must not exceed 10% of the securities issued by any single issuer; or

such other limits and investments as may be permitted by the Securities Commission Malaysia or the REIT Guidelines.

DIRECTORS OF THE MANAGER

The Directors of the Manager in office during the financial year and during the period from the end of the financial year to the date of this report are:

Dato' Kamaruzzaman bin Abu Kassim
Wan Azman bin Ismail
Lukman bin Abu Bakar
Yusaini bin Sidek
Zainah binti Mustafa
Dr Mohd Hafetz bin Ahmad
Mohd Yusof bin Ahmad
Dato' Amiruddin bin Abdul Satar
Dato' Dr. Rahah binti Ismail

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that period, did there subsist any arrangement to which the Manager of the Fund is a party, with the object or objects of enabling the Directors of the Manager to acquire benefits by means of the acquisition of units in or debentures of the Fund or any other body corporate.

Since the date of the previous financial year, no Director of the Manager has received or become entitled to receive any benefit (other than benefits which accrue from the fee paid to the Manager or from transactions made with companies related to the Manager) by reason of a contract made by the Manager or the Fund or a related corporation with any Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of Directors' unitholding of the Fund, the interests of Directors of the Manager in office at the end of the financial year are as follows:

	Number of Units in the Fund			
The Manager's Directors and shareholders	As of 1.1.2018	Acquired	Disposed	As of 31.12.2018
Dato' Kamaruzzaman bin Abu Kassim				
- Direct	6,150	-	-	6,150
- Indirect	160,100	91,000	-	251,100

Except as disclosed above, none of the other Directors of the Manager in office at the end of the financial year had any interest in shares in the Fund or its related corporations during and at the end of the financial year.

MANAGER'S REMUNERATION

Pursuant to the Trust Deed dated 26 March 2015, the Manager is entitled to receive from the Fund:

(a) A base management fee of up to 1% per annum of total asset value (excluding cash and bank balances) of the Fund calculated on a monthly accrual basis;

(b) An acquisition fee of 1% of the transaction value (being the total purchase price) of any investment property directly or indirectly acquired from time to time by the Trustee for and on behalf of the Fund pro-rated, if applicable, to the proportion of the Fund's interest and payable to the Manager upon completion of the acquisition of the investment property; and

(c) A disposal fee of 0.5% of the transaction value (being the total sales price) of any investment property directly or indirectly sold from time to time by the Trustee for and on behalf of the Fund pro-rated, if applicable, to the proportion of the Fund's interest and payable to the Manager upon completion of the disposal of the investment property.

SOFT COMMISSION

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

RESERVES AND PROVISIONS

There was no material transfer to and from reserves or provisions during the financial year.

OTHER INFORMATION

(a) Before the financial statements of the Group and of the Fund were made out, the Manager took reasonable steps:

    (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that there are no known bad debts to be written off and that no allowance for doubtful debts is necessary; and

    (ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Fund had been written down to an amount which the current assets might be expected so to realise.

(b) At the date of this report, the Manager is not aware of any circumstances which would render:

    (i) it necessary to write off any bad debts or to make any allowance for doubtful debts in respect of the financial statements of the Group and of the Fund; and
    (ii) the values attributed to the current assets in the financial statements of the Group and of the Fund misleading.

(c) At the date of this report, the Manager is not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Fund misleading or inappropriate.

(d) At the date of this report, the Manager is not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Fund which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

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

(ii) any contingent liability of the Group and of the Fund which has arisen since the end of the financial year.

(f) In the opinion of the Manager:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Fund to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Fund for the financial year in which this report is made.

AUDITORS

The auditors, Deloitte PLT, have indicated their willingness to continue in office.

AUDITORS' REMUNERATION

The amount payable as remuneration of the auditors of the financial year ended 31 December 2018 is as disclosed in the Statements of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2018.

Signed on behalf of the Board of the Manager as approved by the Board of the Manager,
in accordance with a resolution of the Directors of the Manager,

DATO' KAMARUZZAMAN BIN ABU KASSIM

WAN AZMAN BIN ISMAIL

Kuala Lumpur
31 January 2019

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of **AL-SALĀM REAL ESTATE INVESTMENT TRUST** ("the Fund"), which comprise the statements of financial position of the Group and of the Fund as at 31 December 2018, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Fund for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 107 to 158.

In our opinion, the accompanying financial statements of the Group and of the Fund give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with applicable provisions of the Trust Deed dated 26 March 2015, Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts ("SC Guidelines").

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Our audit performed and responses thereon
Valuation of investment properties Investment properties of the Group and of the Fund amounting to RM1,092.7 million as at 31 December 2018 (2017: RM927.5 million) are the most quantitatively material account balance in the financial statements. Further, the investment properties are measured at fair value which inherently is subject to significant valuation estimates. The fair values of the Fund's investment properties, as determined by a firm of independent valuers, are primarily based on the capitalisation of net income method with comparison and cost methodologies used as a secondary check. The accounting policy and key sources of estimation uncertainty for valuation of investment properties are set out in Note 3 and Note 4.2(a) to the Financial Statements, respectively, and the details of the investment properties of the Fund have been disclosed in Note 11 to the Financial Statements.	**Our audit procedures included the following:** (a) Assessed and discussed with management their process for reviewing the work of the independent valuers. (b) Assessed the competency, independence and integrity of the independent valuers. (c) Obtained the valuation reports and discussed with the independent valuers the results of their work. (d) Tested the integrity of the data provided to the independent valuers to underlying lease agreements. (e) Benchmarked and challenged the key assumptions to external industry data and comparable property transactions, in particular the allowance for void, term yield rates, reversionary yield rates, capitalisation rates and discount rates. (f) We have also assessed the adequacy and appropriateness of the disclosures on valuation methodology and estimation made in the financial statements.
Revenue recognition - percentage rent Certain tenancy agreements between the Fund and its tenants contain clauses relating to "percentage rent" whereby rent received and/or receivable is the higher of base rent and a percentage of sales earned by the tenant during the financial year. A reliable estimate of percentage rent is necessarily reliant on the availability of tenants' audited financial statements and historical sales trends. Percentage rent is only recognised by the Fund when it can be reliably measured. The accounting policy and critical judgement in applying the policy for rental revenue are set out in Note 3 and Note 4.1(a) to the Financial Statements, respectively, and the different revenue streams of the Fund have been disclosed in Note 5 to the Financial Statements.	**Our audit procedures included the following:** (a) Read the tenancy agreements between the Fund and a sample of its tenants. (b) Obtained the reconciliations prepared by the Manager of the Fund pertaining to the calculation of percentage rent and assessed the appropriateness of percentage rent revenue recognition against the accounting policies of the Fund. Our evaluation of revenue recognition includes an assessment of availability of the tenants' audited financial statements and historical sales trends of the tenants as reported to the property manager of the Fund. (c) Assessed the adequacy and appropriateness of the related disclosures made in the Financial Statements.

Information Other than the Financial Statements and Auditors' Report Thereon

The Manager of the Fund is responsible for the other information. The other information comprises information included in the 2018 Annual Report of the Group and of the Fund but does not include the financial statements of the Group and of the Fund and our auditors' report thereon.

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

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

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

Responsibilities of the Manager and Trustee for the Financial Statements

The Manager of the Fund is responsible for the preparation of these financial statements so as to give a true and fair view in accordance with applicable provisions of the Trust Deed dated 26 March 2015, Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts. The Manager of the Fund is also responsible for such internal controls as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Trustee is responsible for ensuring that the Manager maintains proper accounting and other records as are necessary to enable fair presentation of these financial statements.

In preparing the financial statements of the Group and of the Fund, the Manager of the Fund is responsible for assessing the Group's and the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager of the Fund either intends to liquidate the Group and the Fund or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Other Matter

This report is made solely to the unitholders of the Group and of the Fund, as a body, in accordance with the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts and for no other purpose. We do not assume responsibility towards any other person for the contents of this report.

Deloitte PLT

DELOITTE PLT (LLP0010145-LCA)
Chartered Accountants (AF 0080)

SITI HAJAR BINTI OSMAN
Partner - 03061/04/2019 J
Chartered Accountant

Kuala Lumpur
31 January 2019

Statements Of Profit Or Loss

And Other Comprehensive Income For The Financial Year Ended 31 December 2018

	Note	The Group 2018 RM	The Fund 2018 RM	2017 RM
Gross rental income	5	75,408,052	75,408,052	73,333,345
Other income	6	6,742,696	6,742,696	6,699,417
Total revenue		82,150,748	82,150,748	80,032,762
Utilities expenses		(6,778,164)	(6,778,164)	(6,677,878)
Maintenance expenses		(3,788,020)	(3,788,020)	(3,837,171)
Quit rent and assessment		(1,614,101)	(1,614,101)	(1,452,438)
Property manager fee		(270,000)	(270,000)	(270,000)
Other property expenses		(11,455,436)	(11,455,436)	(10,907,964)
Total property expenses		(23,905,721)	(23,905,721)	(23,145,451)
Net property income		58,245,027	58,245,027	56,887,311
Investment income	7	1,025,884	1,025,884	1,187,792
Fair value gain on investment properties	11	7,581,684	7,581,684	5,063,150
Total investment income		8,607,568	8,607,568	6,250,942
Net investment income		66,852,595	66,852,595	63,138,253
Islamic financing costs:				
Finance costs		(22,076,860)	(18,803,277)	(17,577,304)
Amount owing to a subsidiary		-	(3,273,583)	-
Imputed finance costs		(1,307,321)	(1,307,321)	(894,012)
Manager's fees		(1,503,100)	(1,503,100)	(2,341,523)
Trustee's fees		(122,492)	(122,492)	(121,777)
Audit fees		(155,000)	(130,000)	(120,000)
Valuation fees		(560,000)	(560,000)	(350,000)
Other expenses		(826,411)	(826,391)	(1,128,005)
Total Fund expenses		(26,551,184)	(26,526,164)	(22,532,621)

	Note	The Group	The Fund	
		2018	2018	2017
		RM	RM	RM
Profit before tax		40,301,411	40,326,431	40,605,632
Income tax expense	8	-	-	-
Profit for the financial year and total comprehensive income for the financial year		40,301,411	40,326,431	40,605,632
Total comprehensive income for the financial year is made up as follows:				
Realised		31,866,722	31,891,742	35,542,482
Unrealised:				
Unbilled rental income	5	853,005	853,005	-
Fair value gain on investment properties	11	7,581,684	7,581,684	5,063,150
		40,301,411	40,326,431	40,605,632
Earnings per unit (sen):	9			
Gross		6.95	6.95	7.00
Net		6.95	6.95	7.00
Net income distribution	10	35,669,935	35,669,935	36,249,858
Income distribution per unit (sen):	10			
Gross		6.15	6.15	6.25
Net		6.15	6.15	6.25

The accompanying Notes form an integral part of the Financial Statements.

Statements Of Financial Position

As At 31 December 2018

	Note	The Group 2018 RM	The Fund 2018 RM	The Fund 2017 RM
ASSETS				
Non-Current Assets				
Investment properties	11	1,092,686,000	1,092,686,000	927,470,000
Investment in subsidiary	12	-	2	-
Equipment	13	895,143	895,143	557,188
Total Non-Current Assets		1,093,581,143	1,093,581,145	928,027,188
Current Assets				
Trade receivables	14	4,853,859	4,853,859	4,523,787
Other receivables and prepaid expenses	14	7,920,284	7,833,822	8,745,852
Amount owing by related companies	20	3,321,296	3,321,296	2,392,790
Fixed deposits with licensed banks	15	34,273,000	34,273,000	32,415,000
Cash and bank balances	15	12,489,624	10,071,233	12,651,281
Total Current Assets		62,858,063	60,353,210	60,728,710
Total Assets		**1,156,439,206**	**1,153,934,355**	**988,755,898**
LIABILITIES				
Current Liabilities				
Other payables and accrued expenses	16	10,929,645	10,016,463	6,945,237
Amount owing to related companies	20	1,080,530	1,080,530	366,571
Islamic financing	17	-	-	3,100,000
Total Current Liabilities		12,010,075	11,096,993	10,411,808

	Note	The Group 2018 RM	The Fund 2018 RM	The Fund 2017 RM
Non-Current Liabilities				
Other payables	16	13,974,324	13,974,324	14,349,488
Islamic financing	17	509,527,596	348,592,979	347,698,967
Amount owing to a subsidiary	20	-	159,317,928	-
Total Non-Current Liabilities		523,501,920	521,885,231	362,048,455
Total Liabilities		535,512,095	532,982,224	372,460,263
Net Asset Value		620,927,111	620,952,131	616,295,635
UNITHOLDERS' FUND				
Unitholders' capital	18	572,545,319	572,545,319	572,545,319
Undistributed income		48,381,792	48,406,812	43,750,316
Total Unitholders' Fund		620,927,111	620,952,131	616,295,635
Number of units in circulation		580,000,000	580,000,000	580,000,000
Net Asset Value per unit (ex-distribution)		1.0706	1.0706	1.0626

The accompanying Notes form an integral part of the Financial Statements.

Statements Of Changes In Equity

For The Financial Year Ended 31 December 2018

	Note	Unitholders' Capital RM	Undistributed income Realised RM	Undistributed income Unrealised RM	Total RM
The Group					
As at 1 January 2018		572,545,319	20,344,661	23,405,655	616,295,635
Unitholders' transactions:					
Distributions to unitholders	10	-	(35,669,935)	-	(35,669,935)
Total comprehensive income for the year		-	31,866,722	8,434,689	40,301,411
As at 31 December 2018		572,545,319	16,541,448	31,840,344	620,927,111
The Fund					
As at 1 January 2017		572,545,319	21,052,037	18,342,505	611,939,861
Unitholders' transactions:					
Distributions to unitholders	10	-	(36,249,858)	-	(36,249,858)
Total comprehensive income for the year		-	35,542,482	5,063,150	40,605,632
As at 31 December 2017		572,545,319	20,344,661	23,405,655	616,295,635
As at 1 January 2018		572,545,319	20,344,661	23,405,655	616,295,635
Unitholders' transactions:					
Distributions to unitholders	10	-	(35,669,935)	-	(35,669,935)
Total comprehensive income for the year		-	31,891,742	8,434,689	40,326,431
As at 31 December 2018		572,545,319	16,566,468	31,840,344	620,952,131

The accompanying Notes form an integral part of the Financial Statements.

Statements Of Cash Flows

For The Financial Year Ended 31 December 2018

	Note	The Group 2018 RM	The Fund 2018 RM	The Fund 2017 RM
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit before tax		40,301,411	40,326,431	40,605,632
Adjustments for:				
Islamic financing costs:				
Finance costs		22,076,860	22,076,860	17,577,304
Imputed finance costs		1,307,321	1,307,321	894,012
Depreciation of equipment		59,959	59,959	21,327
Fair value gain on investment properties		(7,581,684)	(7,581,684)	(5,063,150)
Investment income		(1,025,884)	(1,025,884)	(1,187,792)
Unbilled rental income		(853,005)	(853,005)	-
Operating Profit Before Working Capital Changes		54,284,978	54,309,998	52,847,333
(Increase)/Decrease in:				
Trade receivables		(330,072)	(330,072)	(699,577)
Other receivables and prepaid expenses		1,765,036	1,765,035	(5,698,325)
Amount owing by related companies		(928,506)	(928,506)	(825,998)
(Decrease)/Increase in:				
Other payables and accrued expenses		(3,057,893)	(3,082,894)	1,819,493
Amount owing to related companies		713,959	713,959	366,571
Net Cash From Operating Activities		52,447,502	52,447,520	47,809,497

	Note	The Group	The Fund	
		2018	2018	2017
		RM	RM	RM
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Income received from other investments		1,025,884	1,025,884	1,181,609
Purchase of equipment	13	(397,914)	(397,914)	(434,531)
Increase in pledged deposits with licensed banks	15	(2,776,407)	(358,000)	(330,000)
Additions to investment properties	11	(5,779,425)	(5,779,425)	(316,850)
Investment in subsidiary	12	-	(2)	-
Net Cash (Used in)/From Investing Activities		(7,927,862)	(5,509,457)	100,228
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES				
Income distributions paid	10	(29,869,935)	(29,869,935)	(36,249,858)
Islamic financing costs paid		(21,209,723)	(21,209,723)	(15,163,312)
Transaction cost paid		(2,350,155)	(2,350,155)	(2,301,033)
Increase in amount owing to a subsidiary		-	2,993,295	-
Net proceed in Islamic financing		7,830,109	2,418,407	3,100,000
Net Cash Used In Financing Activities		(45,599,704)	(48,018,111)	(50,614,103)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,080,064)	(1,080,048)	(2,704,378)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		35,151,281	35,151,281	37,855,659
CASH AND CASH EQUIVALENTS AT END OF YEAR	15	34,071,217	34,071,233	35,151,281

The accompanying Notes form an integral part of the Financial Statements.

1. CORPORATE INFORMATION

Al-Salām Real Estate Investment Trust (the "Fund") is a Malaysian domiciled Islamic Real Estate Investment Trust constituted pursuant to a Trust Deed dated 26 March 2015 between the Fund, Damansara REIT Managers Sdn Berhad ("the Manager") and AmanahRaya Trustees Berhad ("the Trustee"). The Trust Deed was registered with the Securities Commission Malaysia ("SC Malaysia") on 30 March 2015.

The Fund is regulated by the Capital Markets and Services Act, 2007, SC Malaysia Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts ("the SC Guidelines"), the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), the Rules of the Depository, and taxation laws and rulings of Malaysia. The Fund will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of the Trust Deed.

The Fund commenced its business operations on 6 May 2015 and was listed on the Main Market of Bursa Malaysia on 29 September 2015.

The principal activity of the Group and of the Fund is to invest in Shariah-compliant properties with the primary objective of providing unitholders with regular and stable income distributions, sustainable long term unit prices and distributable income and capital growth, while maintaining an appropriate capital structure.

On 1 March 2018, the Fund has set up a wholly-owned subsidiary, ALSREIT Capital Sdn. Bhd., a company incorporated in Malaysia.

The registered office of the Manager is located at Level 16, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor, Malaysia.

The principal place of business of the Manager is located at Unit 1-19-02, Level 19, Block 1, V SQUARE, Jalan Utara, 46200 Petaling Jaya, Selangor, Malaysia.

The Fund has entered into several service agreements in relation to the management of the Fund and its property operations. The fees structure of these services is as follows:

(a) Property manager's fees

Under a Property Management Agreement dated 6 May 2015 between the Fund, the Manager and Exastrata Solutions Sdn Bhd ("the Property Manager"), the Property Manager is entitled to receive property manager's fees. The property manager's fee was RM7,000 (excluding GST) per month for the months of May 2015 to August 2015. The property manager's fee was increased to a fixed fee of RM22,500 (excluding GST) per month upon the listing of the Fund on the Main Market of Bursa Malaysia and on the completion of all acquisitions of investment properties by the Fund (Note 11) in 2015.

Effective on 1 September 2018, Government of Malaysia has introduce the Sales and Service Tax ("SST") which will supersede the GST implementation. During the period of 1 September to 31 December 2018, the property manager's fee is subject to SST of 6%.

The property manager's fee for the current financial year is RM270,000 (2017: RM270,000).

(b) Manager's fees

Pursuant to the Trust Deed dated 26 March 2015, the Manager is entitled to receive the following fees from the Fund:

(i) A base management fee of up to 1% per annum of total asset value (excluding cash and bank balances) of the Fund calculated on a monthly accrual basis. The Manager's base management fee for the current financial year is RM1,503,100 (2017: RM2,341,523).

(ii) An acquisition fee of 1% of the transaction value (being the total purchase price) of any investment property directly or indirectly acquired from time to time by the Trustee for and on behalf of the Fund pro-rated, if applicable, to the proportion of the Fund's interest and payable to the Manager upon completion of the acquisition of the investment property. The Manager's acquisition fee for the current financial year is RM 1,550,000 (2017:nil).

(iii) A disposal fee of 0.5% of the transaction value (being the total sales price) of any investment property directly or indirectly sold from time to time by the Trustees for and on behalf of the Fund pro-rated, if applicable, to the proportion of the Fund's interest and payable to the Manager upon completion of the disposal of the investment property. The Manager did not earn any disposal fee for the current and previous financial year.

(c) Trustee's fees

Pursuant to the Trust Deed dated 26 March 2015, the Trustee is entitled to receive a fee of up to 0.02% per annum of the net asset value of the Fund, calculated based on the monthly accrual basis and payable monthly in arrears. The Trustee's fees for the current financial year is RM122,492 (2017: RM121,777).

The financial statements of the Group and of the Fund were authorised by the Board of Directors of the Manager for issuance on 31 January 2019.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Fund have been prepared in accordance with the applicable provisions of the Trust Deed dated 26 March 2015, Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the SC Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts ("SC Guidelines").

2.1 Adoption of Revised Malaysian Financial Reporting Standards

In the current financial year, the Group and the Fund adopted all the revised MFRSs issued by the Malaysian Accounting Standards Board ("MASB") that are relevant to their operations and effective for annual periods beginning on or after 1 January 2018:

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
Amendments to MFRS 140	Transfer of Investment Property
Amendments to MFRSs	Annual Improvements to MFRSs 2014 - 2017 Cycle
IC Interpretation 22	Foreign Currency Transaction and Advance Consideration

The adoption of these new MFRSs, amendments to MFRSs, and IC Interpretation did not result in significant changes to the accounting policies of the Group and the Fund and had no significant effect on the financial performance or position of the Group and the Fund except for the adoption of MFRS 9 and MFRS 15 as disclosed in Note 27.

2.2 Standards, Amendments to MFRSs and Issues Committee Interpretations ("IC Intrepretation") in issue but not yet effective

At the date of the authorisation for issue of these financial statements, the new and revised Standards and Amendments which were in issue but not yet effective and not early adopted by the Group and the Fund are as listed below:

MFRS 16	Leases[1]
MFRS 17	Insurance Contracts[3]
Amendments to MFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures[1]
Amendments to MFRSs	Annual Improvements to MFRSs 2015 - 2017 Cycle[1]
MFRSs	Amendments to References to the Conceptual Framework in MFRS Standards[2]
Amendments to MFRS 3	Definition of a Business[2]
Amendments to MFRS 101 and MFRS 108	Definition of Material[2]
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
IC Interpretation 23	Uncertainty over Income Tax Payments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date deferred to a date to be announced by MASB

The Manager anticipates that the abovementioned Standards and Amendments will be adopted in the annual financial statements of the Group and of the Fund when they become effective and that the adoption of these Standards and Amendments will have no material impact on the financial statements of the Group and of the Fund in the period of initial application except as discussed below:

MFRS 16 Leases

MFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. MFRS 16 will supersede the current lease guidance including MFRS 117 Leases and the related interpretations when it becomes effective.

MFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinction of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measure at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under the MFRS 16 model, the lease payments will be split into a principal and an interest portion which we be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, MFRS 16 substantially carries forward the lessor accounting requirements in MFRS 117, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by MFRS 16.

The Manager has undertaken a review of the impact of the adoption of MFRS 16 and has concluded that the adoption of this Standard will not have a material impact on the amounts reported and disclosures in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and of the Fund have been prepared under the historical cost convention except for certain non-current assets that are measured at revalued amounts or fair values, at the end of each reporting period as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in the exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for any share-based payment transactions that are within the scope of MFRS 2, leasing transactions that are within the scope of MFRS 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value-in-use in MFRS 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Fund and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Fund. Consistent accounting policies are applied to like transactions and events in similar circumstances.

The Fund controls an investee if and only if the Fund has all the following:

(i) Power over the investee (such as existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) Exposure, or rights, to variable returns from its involvement with the investee; and

(iii) The ability to use its power over the investee to affect its returns.

When the Fund has less than a majority of the voting rights of an investee, the Fund considers the following in assessing whether or not the Fund's voting rights in an investee are sufficient to give it power over the investee:

(i) The contractual arrangement with the other vote holders of the investee;

(ii) Rights arising from other contractual arrangements; and

(iii) The Fund's voting rights and potential voting rights.

Subsidiaries are consolidated when the Fund obtains control over the subsidiary and ceases when the Fund loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to undistributed income. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

Business Combinations

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

In business combinations achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Subsidiary

A subsidiary is an entity over which the Group has all the following:

(i) Power over the investee (such as existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) Exposure, or rights, to variable returns from its involvement with the investee; and

(iii) The ability to use its power over the investee to affect its returns.

In the Fund's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses if any. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

Foreign Currency

The financial statements of the Group and of the Fund are presented in Ringgit Malaysia ("RM"), the currency of the primary economic environment in which the Group operates (its functional currency).

In preparing the financial statements of the Fund and its subsidiary, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of the gain or loss is also recognised directly in other comprehensive income.

Revenue recognition

Prior to the adoption of MFRS 15, the Group's and the Fund's revenue are recognised at fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's and the Fund's activities. With the adoption of MFRS 15 "Revenue from Contracts with Customers" in the current financial year, the Group's and the Fund's revenue from contracts with customers are recognised by reference to each distinct performance obligation in the contract with customer.

A contract with customer exists when the contract has commercial substance, the Group, the Fund and their customers have approved the contract and intend to perform their respective obligations, the Group's, the Fund's and the customer's rights regarding the goods or services to be transferred and the payment terms can be identified, and it is probable that the Group and the Fund will collect the consideration to which it will be entitled to in exchange of those goods or services.

Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Group and the Fund expect to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties such as sales and service taxes or goods and service tax. If the amount of consideration varies due to discounts, rebates, penalties or other similar items, the Group and the Fund estimate the amount of consideration that it expects to be entitled based on the expected value method or the most likely outcome but the estimation is constrained up to the amount that is highly probable of no significant reversal in the future. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or service promised in the contract. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

(a) Gross rental income

Revenue from rental of investment properties, including service charges, are recognised on a straight line basis in accordance with terms and conditions of the tenancy agreement between the Group and its tenants.

(b) Percentage rent

Rental income earned from certain tenants include percentage rent clauses whereby rent received and/or receivable is the higher of base rent and a percentage of sales earned by the tenant during the financial year. Percentage rent is recognised when it can be reliably measured by the Group.

(c) Investment income

Investment income, which comprise income earned from Islamic fixed deposit placements, are recognised on an accrual basis.

(d) Parking income and events and advertising income

Parking income and events and advertising income are recognised on an accruals basis in the accounting period in which the services are being rendered.

Income Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current Tax

Tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's and the Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

In accordance with Section 61A(1) of the Income Tax Act 1967, the total income of the Fund will be exempted from income tax provided that at least 90% of the total taxable income of the Fund is distributed to unit holders within two months from the end of the financial year.

(b) Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised.

The carrying amount of deferred tax assets, if any, is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Fund expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Fund intend to settle their current tax assets and liabilities on a net basis.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the investment property over time, rather than through sale. The Manager reviewed that the Group's and the Fund's investment property portfolios and concluded that all of the Group's and the Fund's investment properties are held under a business model whose objective is to consume substantially all the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the Manager has determined that the "sale" presumption set out in the amendments to MFRS 112 is rebutted. As a result, the Group and the Fund have recognised deferred taxes on changes in fair value of the investment properties using the tax rates that would apply on the consumption of the economic benefits embodied in the investment properties over time.

In accordance with Section 61A(1) of the Income Tax Act 1967, the total income of the Fund will be exempted from income tax provided that at least 90% of the total taxable income of the Fund is distributed to unit holders within two months from the end of the financial year.

(c) Current and Deferred Tax for the Year

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

Investment Properties

Investment properties are properties held to earn rentals and/or capital appreciation. Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gain and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Equipment

Equipment are stated at cost less accumulated depreciation and any impairment losses.

Equipment are depreciated on the straight-line method at an annual rate of 10% based on its estimated useful lives.

The estimated useful lives, residual values and depreciation method of equipment are reviewed at the end of each reporting period, with the effect of any change in estimates accounted for prospectively.

Gain or loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in profit or loss.

Impairment of Non-Financial Assets

At the end of each reporting period, the Group and the Fund review the carrying amounts of their non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Fund estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

(a) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of financing return on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) As lessor

Leases where the Group and the Fund retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the fair value (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group and the Fund have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Debt financing costs incurred arising from extinguishment of borrowings are accounted for in profit or loss in the period during which the extinguishment is concluded. Debt financing costs incurred on new borrowings are capitalised and amortised over the period of borrowings. All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of financing costs and other costs that the Group and the Fund incurred in connection with the borrowing of funds.

Provisions

Provisions are recognised when the Group and the Fund have a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group and the Fund will be required to settle the obligation, and a reliable estimate of the amount can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial Instruments

MFRS 9 replaces the provisions of MFRS 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. The adoption of MFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group and Fund have elected to apply the limited exemption in MFRS 9 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a consequence:

(a) any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings,
(b) financial assets are not reclassified in the statements of the financial positons for the comparative period,
(c) provisions for impairment have not been restated in the comparative period.

Financial Assets - classification and measurement

Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group and the Fund classify their financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, the Group and the Fund have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVTOCI").

The Group and the Fund reclassify debt investments when and only when the business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group and the Fund commit to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Fund have transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group and the Fund measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest ("SPPI").

Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Fund's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group and the Fund classify their debt instruments:

(a) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Profit income from these financial assets is included in investment revenue using the effective profit rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.

(b) Fair Value through Other Comprehensive Income ("FVTOCI")

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, profit income and foreign exchange gains and losses which are recognised in profit or loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other income/(losses). Profit income from these financial assets is included in investment revenue using the effective profit rate method. Foreign exchange gains and losses are presented in other income/(losses) and impairment expenses are presented as separate line item in profit or loss.

Changes in the fair value of financial assets at FVTPL are recognised in other income/(losses) in profit or loss as applicable.

(c) Fair Value through Profit or Loss ("FVTPL")

Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. The Group and the Fund may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in profit or loss and presented net within other income/(losses) in the period which it arises.

Equity instruments

The Group and the Fund subsequently measure all equity investments at fair value. Where the Group's and the Fund's management have elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's and the Fund's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other income/(losses) in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

Accounting policies applied until 31 December 2017

(i) Classification

Until 31 December 2017, the Group and the Fund classified their financial assets in the following categories:

i. financial assets at fair value through profit or loss,
ii. loans and receivables,
iii. held-to-maturity investments, and
iv. available-for-sale financial assets ("AFS")

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Financial assets at Fair Value through Profit or Loss ("FVTPL")

The Group and the Fund classified their financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets.

If not, they are presented as non-current assets. The Group's and the Fund's loans and receivables comprise 'trade and other receivables', 'fixed deposits with licensed banks', 'cash and bank balances', and 'amount due from related companies' in the statements of financial position.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative quoted financial assets with fixed or determinable payments and fixed maturities that the Group's and the Fund's management have the positive intention and ability to hold to maturity. If the Group and the Fund were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as AFS. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Available-for-sale financial assets ("AFS")

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(ii) Reclassification

The Group and Fund may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group and the Fund may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or AFS categories if the Group and the Fund have the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective profit rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the effective profit rates prospectively.

(iii) Subsequent measurement

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective profit method.

AFS financial assets and financial assets at FVTPL were subsequently carried at fair value.

Changes in the fair values of financial assets at FVTPL, including the effects of currency translation, profit income and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of AFS financial assets are recognised in other comprehensive income, except for impairment losses.

Impairment of financial assets

Accounting policies applied from 1 January 2018

Impairment for debt instruments

The Group and the Fund assess at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

(i) Impairment for debt instruments

The Group and the Fund assess on a forward looking basis the ECL associated with its debt instruments carried at amortised cost and at FVTOCI and financial guarantee contracts issued. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group and the Fund have three types of financial instruments that are subject to the ECL model:

- Trade receivables
- Other receivables
- Amount owing by related companies

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

ECL represent a probability-weighted estimate of the difference between the present value of contractual cash flows and the present value of cash flows the Group and the Fund expect to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(a) General 3-stage approach for other receivables and amount owing by related companies

At the end of each reporting period, the Group and the Fund measure ECL through a loss allowance at an amount equal to the 12-month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required.

Note 27 sets out the measurement details of ECL.

(b) Simplified approach for trade receivables

The Group and the Fund apply the MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

Note 27 sets out the measurement details of ECL.

Accounting policies applied until 31 December 2017

In the prior year, the Group and the Fund assessed impairment of financial assets based on the incurred loss model.

Assets carried at amortised cost

The Group and the Fund assess at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract. As a practical expedient, the Group and the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Assets classified as AFS

The Group and the Fund assess at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group and the Fund use criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Accounting policies applied from 1 January 2018

(ii) Significant increase in credit risk

The Group and the Fund consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group and the Fund compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

The following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- actual or expected significant changes in the operating results of the debtor
- significant increases in credit risk on other financial instruments of the same debtor
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the group and changes in the operating results of the debtor.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

(iii) Definition of default and credit-impaired financial assets

The Group and the Fund define a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

The Group and the Fund define a financial instrument as in default, when the counterparty fails to make contractual payment within 90 days of when they fall due.

Qualitative criteria:

The debtor meets unlikeliness to pay criteria, which indicates the debtor is in significant financial difficulty. The Group and the Fund consider the following instances:

- the debtor is in breach of financial covenants
- concessions have been made by the lender relating to the debtor's financial difficulty
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- the debtor is insolvent

Financial instruments that are credit-impaired are assessed on individual basis.

(iv) Groupings of instruments for ECL measured on collective basis

(a) Collective assessment

To measure ECL, trade receivables from rental receivable from lessees have been grouped based on shared credit risk characteristics, geographical location and the days past due.

(b) Individual assessment

Trade receivables which are in default or credit-impaired are assessed individually, other receivables and amount owing by related companies in the Fund's separate financial statements are assessed on individual basis for ECL measurement, as credit risk information is obtained and monitored based on each other receivables and amount owing by related companies.

(v) Write off

(a) Trade receivables

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within profit before taxes. Subsequent recoveries of amounts previously written off are credited against the same line item.

(b) Other receivables

The Group and the Fund write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Group and the Fund may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains.

Financial liabilities

Financial liabilities are recognised on the statements of financial position when, and only when, the Group and the Fund become a party to the contractual provisions of the financial instrument. Financial liabilities comprise other payables, Islamic financing, amounts due to subsidiaries and related companies.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transactions costs. As for amount owing to a subsidiary of the Fund, they are recognised initially at fair value. If there are any difference between cash disbursed and fair value on initial recognition, the difference would be accounted as additional investment in the subsidiary as it reflects the substance of the transaction.

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective profit method except for the derivatives in a loss position which are measured at fair value through profit or loss at the end of each reporting period.

For financial liabilities other than the derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Gains or losses arising from changes in fair value of the derivatives that does not qualify for hedge accounting are recognised in profit or loss within other income/(losses), net. Net gains or losses on derivatives include exchange differences.

Islamic financing are classified as current liabilities unless the Group and the Fund have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Fees paid on the establishment of Islamic financing facilities are recognised as transaction costs of the Islamic financing to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

From 1 January 2018, when Islamic financing measured at amortised cost is modified without this resulting in derecognition, any gains or losses, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective profit rate, shall be recognised immediately in profit or loss in finance cost.

Offsetting of financial instruments

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

Cash and Cash Equivalents

The Group and the Fund adopt the indirect method in the preparation of the statements of cash flows.

Cash and cash equivalents comprise cash and bank balances, term deposits and other short-term, highly liquid investments that are readily convertible into cash with insignificant risk of changes in value, and excludes amounts which are restricted for general use.

Segment Reporting

For management purposes, the Group and the Fund are organised into operating segments based on industry which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the Manager of the Group and the Fund who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 23, including the factors used to identify the reportable segments and the measurement basis of segment information.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's and the Fund's accounting policies, which are described in Note 3, the Manager is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical Judgements in Applying the Fund's Accounting Policies

In the process of applying the Group's and the Fund's accounting policies, the Manager is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements other than disclosed below:

(a) Recognition of percentage rent

In accordance with the accounting policies of the Group and of the Fund, as stated in Note 3, revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Certain tenancy agreements between the Fund and its tenants contain clauses as to percentage rent whereby rent received and/or receivable by the Fund is the higher of (i) the base rent as determined in the tenancy agreement and (ii) a percentage of sales revenue earned by the tenant during the financial year. For the financial year ended 31 December 2018, the Manager assessed the appropriateness of recognising revenue from percentage rent against the accounting policies of the Group and of the Fund by considering the availability of tenants' audited financial statements and historical sales trends. The Group and the Fund only recognise percentage rent revenue to the extent financial information is available for the Manager to make a reliable estimate.

4.2 Key Sources of Estimation Uncertainty

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

(a) Fair value of investment properties

The fair values of the Fund's investment properties have been arrived at on the basis of valuation carried out by Messrs. Cheston International (KL) Sdn Bhd, Messrs. VPC Alliance (Kajang) Sdn Bhd and Messrs. IM Global Property Consultant Sdn Bhd, independent valuers not related to the Group and the Fund, in accordance with Malaysia Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The fair values were determined based on capitalisation of net income method ("investment method") as the primary valuation method with comparison and cost methodologies as a secondary check. In estimating the fair values of the investment properties, the highest and best use of the investment properties is their current use. The valuers have considered the results of the above methods in their valuation and applied professional judgment in the determination of the fair values of the Fund's investment properties. Further details are disclosed in Note 11.

5. GROSS RENTAL INCOME

	The Group 2018 RM	The Fund 2018 RM	2017 RM
Base rental income	65,044,487	65,044,487	63,247,755
Service charges	5,887,300	5,887,300	5,722,536
Percentage rent	3,623,260	3,623,260	4,363,054
Unbilled rental income	853,005	853,005	-
	75,408,052	75,408,052	73,333,345

6. OTHER INCOME

	The Group 2018 RM	The Fund 2018 RM	2017 RM
Timing of revenue recognition:			
At a point in time			
Parking income	3,225,731	3,225,731	3,052,740
Event and advertising income	3,516,965	3,516,965	3,646,677
	6,742,696	6,742,696	6,699,417

7. INVESTMENT INCOME

	The Group 2018 RM	The Fund 2018 RM	2017 RM
Income from Islamic deposit placements	1,025,884	1,025,884	1,187,792

8. INCOME TAX

Pursuant to the Section 61A of the Income Tax Act 1967, where 90% or more of the total income of the unit trust is distributed to the unitholder, the total income of the unit trust for that year of assessment shall be exempted from tax. The Manager also expects to distribute the net income within two months from the end of each financial year and accordingly, no estimated current tax payable or deferred tax is required to be provided in the financial statements.

Taxation of the Unitholders

Pursuant to Section 109D(2) of the Malaysian Income Tax Act 1967, where 90% or more of the Real Estate Investment Trust's ("REIT") total taxable income is distributed by the REIT, distributions to unitholders (other than resident corporate investors) will be subject to tax based on a withholding tax mechanism at the following rates:

Unitholders	Tax rate
Individuals and all other non-corporate investors such as institutional investors	10%
Non-resident corporate investors	24%

Resident corporate investors are required to report the distributions in their normal corporate tax return and subject to the normal corporate tax rate of 24%.

9. EARNINGS PER UNIT

The gross and net earnings per unit, which are calculated based on the profit before tax and profit for the financial year of the Group and the Fund, respectively, divided by the weighted average number of units in circulation as of 31 December 2018, are as follows:

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Earnings attributable to unitholders:			
Profit before tax and profit for the year	40,301,411	40,326,431	40,605,632
Number of units	580,000,000	580,000,000	580,000,000
Gross earnings per unit (sen)	6.95	6.95	7.00
Net earnings per unit (sen)	6.95	6.95	7.00

10. NET INCOME DISTRIBUTION

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Final distribution 2016 - 3.40 sen per unit	-	-	19,719,924
Interim distribution 2017 - 2.85 sen per unit	-	-	16,529,934
Final distribution 2017 - 3.15 sen per unit	18,269,935	18,269,935	
First interim distribution 2018			
1.00 sen per unit	5,800,000	5,800,000	-
Second interim distribution 2018			
1.00 sen per unit	5,800,000	5,800,000	-
Third interim distribution 2018			
1.00 sen per unit	5,800,000	5,800,000	-
	35,669,935	35,669,935	36,249,858

On 29 January 2018, the Manager, after consultation with the Trustee, declared a final income distribution of 3.15 sen per unit totalling RM18.27 million for the financial year ended 31 December 2017. The said distribution was paid on 28 February 2018.

On 24 May 2018, the Manager, after consultation with the Trustee, declared a first interim income distribution of 1.00 sen per unit totalling RM5.80 million for the financial year ended 31 December 2018. The said distribution was paid on 9 July 2018.

On 29 August 2018, the Manager, after consultation with the Trustee, declared a second interim income distribution of 1.00 sen per unit totalling RM5.80 million for the financial year ended 31 December 2018. The said distribution was paid on 19 October 2018.

On 30 November 2018, the Manager, after consultation with the Trustee, declared a third interim income distribution of 1.00 sen per unit totalling RM5.80 million for the financial year ended 31 December 2018. The distribution was approved by the Trustee and has been included as a liability in the financial statements. The said distribution was paid on 14 January 2019.

On 30 January 2019, the Manager, after consultation with the Trustee, declared a third interim income distribution of 2.35 sen per unit totalling RM13.63 million for the financial year ended 31 December 2018. The distribution was approved by the Trustee and has not been included as a liability in the financial statements. The total distributions for the financial year ended 31 December 2018 amount to RM31.03 million (2017: RM34.8 million). Total distribution is 5.35 sen per unit (2017: 6.00 sen per unit).

Distribution to unitholders is derived from the following sources:

	The Group	**The Fund**	
	2018	**2018**	**2017**
	RM	**RM**	**RM**
Net property income	58,245,027	58,245,027	56,887,311
Investment income	1,025,884	1,025,884	1,187,792
Less: Unbilled rental income	(853,005)	(853,005)	-
	58,417,906	58,417,906	58,075,103
Less: Fund expenses	(26,551,184)	(26,526,164)	(22,532,621)
Realised income for the year	31,866,722	31,891,742	35,542,482
Undistributed income brought forward	20,344,661	20,344,661	21,052,037
Less: Undistributed income	(16,541,448)	(16,566,468)	(20,344,661)
	35,669,935	35,669,935	36,249,858
Number of units in circulation	580,000,000	580,000,000	580,000,000
Income distribution per unit (sen):			
Gross	6.15	6.15	6.25
Net	6.15	6.15	6.25

11. INVESTMENT PROPERTIES

	The Group	**The Fund**	
	2018	**2018**	**2017**
	RM	**RM**	**RM**
At beginning of year	927,470,000	927,470,000	922,090,000
Additions	157,634,316	157,634,316	316,850
Fair value of gain on investment properties	7,581,684	7,581,684	5,063,150
At end of year	1,092,686,000	1,092,686,000	927,470,000

Addition to investment properties by the Group and the Fund during the financial year through the following:

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Payment by cash	5,779,425	5,779,425	316,850
Amount owing to a subsidiary	151,854,891	151,854,891	-
Additions	157,634,316	157,634,316	316,850

Fair value measurement of the Fund's investment properties

The fair values of the Fund's investment properties as at 31 December 2018 have been arrived at on the basis of valuation carried out by Messrs. Cheston International (KL) Sdn Bhd ("Cheston"), Messrs. VPC Alliance (Kajang) Sdn Bhd and Messrs. IM Global Property Consultant Sdn Bhd, independent valuers not related to the Group and the Fund. The respective valuers are registered members of the Board of Valuers, Appraisers and Estate Agents, Malaysia, and they have appropriate qualifications and recent experience in the valuation of the properties in the relevant locations. The valuation of the Fund's investment properties were performed in accordance with the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The fair values were determined based on the capitalisation of net income method and is premised on the principle that the value of an income-producing property is represented by the "present worth of future rights to income, or utility". The values estimated under this method are derived by ascertaining the market rent of the properties; deducting all reasonable annual operating expenses (as would be experienced under typical management) and then capitalising the resultant net operating income by an appropriate rate of capitalisation to obtain the present value of the income stream. In undertaking their assessment of the value using this approach, the market rental income and expected future rental income are taken into consideration. In arriving at the net income, the outgoings i.e. quit rent, assessment, insurance, repairs and maintenance and management, are deducted from gross rental income together with allowance for void.

In estimating the fair values of the investment properties, the highest and best use of the investment properties is their current use.

The fair value of the investment properties are classified as Level 3 for fair value hierarchy disclosure purposes. The significant unobservable inputs applied by the independent valuer in applying the investment method above are as follows:

Significant unobservable inputs	**Inter-relationship between significant unobservable inputs and fair value measurement**
Term yield ranging from 6.00% - 7.00% (2017: 6.00% - 7.00%)	- Higher term yield rates, lower fair value
Reversionary yield ranging from 6.25% - 7.25% (2017: 6.25% - 7.25%)	- Higher reversionary yield rates, lower fair value
Allowance for void of 0.00% - 10.00% (2017: 3.00% - 10.00%)	- Higher allowance for void rate, lower fair value

The valuer had adopted market corroborated capitalisation rates, which is the most frequently adopted methodology by the property industry in Malaysia and in Australia, based on information pertaining to recent comparable sales which are publicly available, adjusted for the location, quality and characteristics of the investment properties.

A summary of the investment properties of the Group and of the Fund, as required to be disclosed by the SC Guidelines, is as follows:

Description of property	Tenure of land	Term of lease Years	Remaining term of lease Years	Location	Date of valuation	2018 Fair value RM	2017 Fair value RM	Fair Value hierarchy
KOMTAR JBCC	Freehold	-	-	Johor Bahru, Johor	22.10.2018	465,000,000	465,000,000	3
Menara KOMTAR	Freehold	-	-	Johor Bahru, Johor	22.10.2018	73,000,000	73,000,000	3
@Mart Kempas	Leasehold	99	89	Johor Bahru, Johor	21.10.2018	65,000,000	65,000,000	3
KFCH International College	Freehold	-	-	Johor Bahru, Johor	26.11.2018	30,000,000	29,000,000	3
Mydin Hypermart	Leasehold	99	92	Gong Badak, Terengganu	29.10.2018	158,000,000	-	3
QSR Properties:								
Restaurant in shop lots								
KFC restaurant	Freehold	-	-	Kajang, Selangor	31.12.2018	9,700,000	9,700,000	3
KFC restaurant	Freehold	-	-	Jitra, Kedah	31.12.2018	530,000	520,000	3
KFC restaurant	Leasehold	93	84	Ayer Hitam, Johor	31.12.2018	2,000,000	2,000,000	3
KFC restaurant	Leasehold	99	73	Bayan Lepas, Penang	31.12.2018	4,000,000	3,900,000	3
KFC restaurant	Leasehold	99	78	Petaling Jaya, Selangor	31.12.2018	9,400,000	9,300,000	3
KFC restaurant	Leasehold	74	68	Port Dickson, Negeri Sembilan	31.12.2018	1,710,000	1,700,000	3
KFC restaurant	Leasehold	99	75	Kuala Perlis,Perlis	31.12.2018	480,000	470,000	3
PHD restaurant	Freehold	-	-	Ulu Tiram, Johor	31.12.2018	870,000	860,000	3
PHD restaurant	Freehold	-	-	Kota Tinggi, Johor	31.12.2018	830,000	820,000	3
Restaurants in shopping mall								
KFC Restaurant in Queensbay Mall	Freehold	-	-	Bayan Lepas, Penang	31.12.2018	13,840,000	13,100,000	3
KFC Restaurant in Kompleks Bukit Jambul	Freehold	-	-	Bayan Lepas, Penang	31.12.2018	2,833,000	2,800,000	3
KFC Restaurant in Megamall Pinang Shopping Complex	Leasehold	99	77	Perai, Penang	31.12.2018	2,742,000	2,700,000	3
Pizza Hut Restaurant in Megamall Pinang Shopping Complex	Leasehold	99	77	Perai, Penang	31.12.2018	1,662,000	2,000,000	3

Description of property	Tenure of land	Term of lease Years	Remaining term of lease Years	Location	Date of valuation	2018 Fair value RM	2017 Fair value RM	Fair Value hierarchy
Restaurants with drive-through facility								
Pizza Hut and KFC	Leasehold	99	68	Jln Kuchai Lama, Kuala Lumpur	31.12.2018	15,000,000	14,300,000	3
Pizza Hut and KFC	Leasehold	99	47	Sungai Petani, Kedah	31.12.2018	5,300,000	5,200,000	3
Pizza Hut and KFC	Freehold	-	-	Senai, Johor	31.12.2018	8,500,000	8,400,000	3
Pizza Hut and KFC	Freehold	-	-	Tmn Damansara Aliff, Johor Bahru	31.12.2018	12,100,000	12,000,000	3
Pizza Hut and KFC	Freehold	-	-	Taman Perling, Johor Bahru	31.12.2018	13,800,000	13,500,000	3
Pizza Hut and KFC	Freehold	-	-	Ipoh, Perak	31.12.2018	8,700,000	8,600,000	3
Pizza Hut and KFC	Leasehold	96	79	Off Jln Kepong, Kuala Lumpur	31.12.2018	16,000,000	15,500,000	3
Pizza Hut and KFC	Leasehold	83	66	Pusat Bandar Wangsa Maju, Kuala Lumpur	31.12.2018	27,000,000	26,000,000	3
Pizza Hut and KFC	Leasehold	99	91	Hang Tuah Jaya, Melaka	31.12.2018	8,700,000	8,300,000	3
Warehouse and factory								
Warehouse	Freehold	-	-	Simpang Ampat, Penang	31.12.2018	1,600,000	1,400,000	3
Warehouse and factory	Leasehold	99	79	Kota Kinabalu, Sabah	31.12.2018	3,000,000	3,000,000	3
Warehouse	Leasehold	99	70	Pelabuhan Klang, Selangor	31.12.2018	47,291,000	47,000,000	3
Warehouse and factory	Leasehold	99	70	Pelabuhan Klang, Selangor	31.12.2018	27,000,000	27,000,000	3
Warehouse and factory	Freehold	-	-	Shah Alam, Selangor	31.12.2018	57,098,000	55,400,000	3

Investment properties of the Fund amounting to RM1,062,699,000 (2017: RM715,200,000) are charged as security for the Islamic financing facilities granted by domestic financial institutions to the Fund as mentioned in Note 17.

12. INVESTMENT IN SUBSIDIARY

	The Fund	
	2018	2017
	RM	RM
Unquoted shares, at costs	2	-

The details of the subsidiary are as follows:

Name of Subsidiary	Country of Incorporation	Proportion of ownership interest and voting power held by the Group 2018	2017	Principal Activity
		%	%	
ALSREIT Capital Sdn Bhd[(i)]	Malaysia	100	-	Special purpose company for the purpose of raising Islamic Financing for the Fund

(i) Audited by Deloitte PLT

13. EQUIPMENT

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Cost			
At 1 January	586,821	586,821	152,290
Additions	397,914	397,914	434,531
At 31 December	984,735	984,735	586,821
Accumulated Depreciation			
At 1 January	(29,633)	(29,633)	(8,306)
Charge for the year	(59,959)	(59,959)	(21,327)
At 31 December	(89,592)	(89,592)	(29,633)
Net Book Value			
At 31 December	895,143	895,143	557,188

14. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Trade receivables	2,426,289	2,426,289	1,753,686
Accrued percentage rent	2,427,570	2,427,570	2,770,101
	4,853,859	4,853,859	4,523,787

Trade receivables comprise rental receivable from lessees. The credit period granted by the Group and the Fund on rental receivable from lessees ranges from 30 to 60 days (2017: 30 to 60 days).

The ageing analysis of the Group's and of the Fund's trade receivables is as follows:

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
0 - 30 days	2,642,683	2,642,683	3,789,287
31 - 60 days	359,046	359,046	214,633
61 - 90 days	31,732	31,732	-
91 - 120 days	1,820,399	1,820,399	519,867
	4,853,859	4,853,859	4,523,787

The Group and the Fund have not recognised any allowance for doubtful debts as the Group and the Fund hold tenant deposits as credit enhancement and the amounts are considered recoverable.

Other receivables and prepaid expenses consist of:

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Other receivables	1,647,529	1,641,096	1,688,355
Unbilled revenue	853,005	853,005	-
Prepaid expenses	1,599,052	1,519,023	1,647,497
Deposit for acquisition of properties	3,820,698	3,820,698	5,410,000
Other receivables and prepaid expenses	7,920,284	7,833,822	8,745,852
Less:			
Prepaid expenses	(1,599,052)	(1,519,023)	(1,647,497)
Deposit for acquisition of properties	(3,820,698)	(3,820,698)	(5,410,000)
Add:			
Trade receivables	4,853,859	4,853,859	4,523,787
Amounts owing by related companies	3,321,296	3,321,296	2,392,790
Fixed deposits with licensed banks	34,273,000	34,273,000	32,415,000
Cash and bank balances	12,489,624	10,017,233	12,651,281
Total loans and receivables	57,438,313	54,959,489	53,671,213

Deposits for acquisition of properties in 2018 represent deposits paid for the proposed acquisition of 22 properties across Malaysia by AmanahRaya Trustees Berhad (the "Trustee").

Amounts owing by related companies, which arose mainly from rental income receivable and collections, unsecured, interest-free and repayable on demand. Transactions with related parties are disclosed in Note 20.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statements of cash flows comprise the following items:

	The Group 2018 RM	The Fund 2018 RM	2017 RM
Deposits with licensed banks			
Cash and bank balances	34,273,000	34,273,000	32,415,000
	12,489,624	10,071,233	12,651,281
	46,762,624	44,344,233	45,066,281
Less: Pledged deposits with licensed banks	(12,691,407)	(10,273,000)	(9,915,000)
	34,071,217	34,071,233	35,151,281

Deposits with licensed banks earn profit at rates ranging from 2.70% to 3.60% (2017: 2.55% to 3.40%) per annum and have maturity periods ranging from 5 days to 3 months (2017: 4 days to 3 months). The deposits with licensed banks of the Group and of the Fund amounting to RM12,691,407 and RM10,273,000 (2017: RM9,915,000) respectively are placed as reserve for repayment of finance costs on long-term Islamic financing as mentioned in Note 17 and hence, are not available for general use.

16. OTHER PAYABLES AND ACCRUED EXPENSES

	The Group 2018 RM	The Fund 2018 RM	2017 RM
Non-current:			
Other payables - tenant deposits received	13,974,324	13,974,324	14,349,488
Current:			
Other payables	5,757,258	5,757,258	924,471
Accrued expenses	3,730,805	3,705,804	5,446,321
Accrued financing cost	1,441,582	553,401	574,445
	10,929,645	10,016,463	6,945,237
Add :			
Islamic financing - Non-current (Note 17)	509,527,596	348,592,979	347,698,967
Islamic financing - Current (Note 17)	-	-	3,100,000
Amounts owing to related companies - Current	1,080,530	1,080,530	366,571
Amounts owing to a subsidiary	-	159,317,928	-
	510,608,126	508,991,437	351,165,538
Total financial liabilities carried at amortised cost	535,512,095	532,982,224	372,460,263

Amounts owing to related companies, which arose mainly from management fee, collections and payments paid on behalf of the Fund, are unsecured, interest-free and repayable on demand. The transactions with related companies are disclosed in Note 20.

17. ISLAMIC FINANCING

	The Group 2018 RM	The Fund 2018 RM	The Fund 2017 RM
Current:			
Commodity Murabahah Revolving Credit-i	-	-	3,100,000
Non-current:			
Commodity Murabahah Term Financing-i	350,000,000	350,000,000	350,000,000
Sukuk Ijarah	162,785,000	-	-
Transaction costs	(3,257,404)	(1,407,021)	(2,301,033)
	509,527,596	348,592,979	347,698,967
Total Islamic Financing	509,527,596	348,592,979	350,798,967

Current

Islamic financing - current facility is a Commodity Murabahah Revolving Credit-I ("CMRC-i") dated 14 June 2017 where the facility amount given up to the aggregate principal limit of RM10 million from RHB Islamic Bank Berhad to part finance the general working capital requirements of the Fund.

The effective rate for the CMRC-i will be based on Costs of Funds ("COF") + 1.50% per annum.

Non-current

Islamic financing - non-current facility is a Commodity Murabahah Term Financing-i ("CMTF-i") dated 14 April 2015 amounting to RM350.0 million from RHB Islamic Bank Berhad and Maybank Islamic Berhad (collectively "the Banks") to part finance the acquisition of the investment properties of the Fund in 2015. The nominal value of the CMTF-i comprised Tranche 1 and Tranche 2, amounting to RM136.04 million and RM213.96 million, respectively.

The CMTF-i profit is payable over a period of 60 months from the date of first disbursement with full repayment of principal sum on the 60th month. The effective profit rate for the CMTF-i will be based on COF + 1.35% per annum for the first 16 months, COF + 1.40% per annum for the next 8 months and COF + 1.50% per annum for the remaining duration of the CMTF-i. The COF is based on each respective Banks' COF. The average effective profit rate for the CMTF-i is 5.38% (2017: 4.99%).

The total transaction costs of RM4,470,060 incurred in 2015 were debited against the amount of the Islamic financing facility on drawdown date comprising, amongst others, processing and stamping fees, legal advisory fees and other establishment fees.

On 24 August 2018, ALSREIT Capital Sdn Bhd established a Sukuk Ijarah Programme comprising Islamic Medium Term Notes ("IMTN") of up to RM1.5 billion in nominal value and issued RM162,785,000 in nominal value of IMTNs ("Issue 1") with transaction cost amounting RM1,850,383.

The Islamic financing facility is secured against investment properties totaling RM1,062,699,000 (2017: RM715,200,000) as mentioned in Note 11.

The Sukuk Ijarah Programme has a significant covenant in which the Group shall at all times, maintain the following Finance Service Cover Ratio ("FSCR"):

(a) FSCR at Issuer level of not less than 1.5 times; and
(b) FSCR at Al-Salām REIT level of not less than 1.5 times; and
(c) such other financial covenant(s) as may be determined by the Rating Agency and to be mutually agreed to by ALSREIT Capital Sdn Bhd.

Reconciliation of liabilities arising from financing activities

The table below details the changes in the Group's and the Fund's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's and the Fund's statements of cash flows as cash flows from financing activities.

	Non-current RM	**Current RM**	**Total RM**
The Group			
2018			
Islamic Financing			
At beginning of year	348,273,412	3,100,000	351,373,412
Repayment	(23,559,878)	-	(23,559,878)
Net financing cash flows	162,785,000	(3,100,000)	159,685,000
	487,498,534	-	487,498,534
Non-cash changes			
Accruals of finance costs	22,076,860	-	22,076,860
Imputed finance cost	1,307,321	-	1,307,321
At end of year	510,882,715	-	510,882,715

	Non-current RM	**Current RM**	**Total RM**
The Fund			
2018			
Islamic Financing			
At beginning of year	348,273,412	3,100,000	351,373,412
Repayment	(18,824,321)	(3,100,000)	(21,924,321)
	329,449,091	-	329,449,091
Non-cash changes			
Accruals of finance costs	18,803,277	-	18,803,277
Imputed finance cost	894,012	-	894,012
At end of year	349,146,380	-	349,146,380

The Fund 2018 Amount owing to a subsidiary	RM
At beginning of year	-
Financing cash flows	162,785,000
Repayment	(4,735,557)
Transfer to fixed deposits	(2,418,407)
	155,631,036
Non-cash changes	
Accruals of finance cost	3,273,583
Imputed finance cost	413,309
At end of year	159,317,928

18. UNITHOLDERS' CAPITAL

The Group	No. of units 2018	2018 RM
Unitholders' capital	580,000,000	580,000,000

The Fund	No. of units 2018	No. of units 2017	2018 RM	2017 RM
Unitholders' capital	580,000,000	580,000,000	572,545,319	572,545,319

The Fund issued 580,000,000 units of RM1 each in conjunction with the Fund's IPO on the Main Market of Bursa Malaysia on 29 September 2015 of which 327,640,000 units of RM1 each were issued to vendors of the Fund's investment properties to partially finance the acquisition of the said investment properties. The remaining 252,360,000 units of RM1 each were issued as part of the IPO to institutional investors and the Malaysian public.

Details of units held by the related companies of the Manager which comprise companies related to Johor Corporation, a body corporate established under the Johor Corporation Enactment No. 4, 1968 (as amended by the Enactment No. 5, 1995), and substantial unitholders of the Fund, and their market value as of 31 December 2018 based on the Record of Depositors are as follows:

The Group	No. of units 2018	2018 RM
Related companies:		
Johor Corporation	24,436,600	19,793,646
Damansara Assets Sdn Bhd	278,539,417	225,616,928
Kulim (Malaysia) Berhad	23,829,600	19,301,976
Waqaf An-Nur Corporation Berhad	57,975,301	45,959,994
Johor Land Berhad	1,499,500	1,214,595
KPJ Healthcare Berhad	2,000,000	1,620,000
Kumpulan Bertam Plantations Berhad	296,000	239,760
Tenaga Utama (Johor) Berhad	7,688	6,227

The Fund	No. of units 2018	No. of units 2017	2018 RM	2017 RM
Related companies:				
Johor Corporation	24,436,600	23,543,400	19,793,646	23,543,400
Damansara Assets Sdn Bhd	278,539,417	251,039,417	225,616,928	251,039,417
Kulim (Malaysia) Berhad	23,829,600	23,406,600	19,301,976	23,406,600
Waqaf An-Nur Corporation Berhad	57,975,301	57,859,401	45,959,994	57,859,401
Johor Land Berhad	1,499,500	1,100,000	1,214,595	1,100,000
KPJ Healthcare Berhad	2,000,000	2,000,000	1,620,000	2,000,000
Kumpulan Bertam Plantations Berhad	296,000	296,000	239,760	296,000
Tenaga Utama (Johor) Berhad	7,688	-	6,227	-

Market value for purposes of disclosure above is based on the closing price of the Fund as shown on the board of the Main Market of Bursa Malaysia, which was RM0.81 per unit as at 31 December 2018 (2017: RM1.00).

19. MANAGEMENT EXPENSE RATIO ("MER")

	The Fund 2018 %	The Fund 2017 %
MER	0.51	0.66

The calculation of MER is based on the total fees of the Fund incurred for the year, including the Manager's fees, Trustee's fees, audit fee, tax agent's fee and administrative expenses, to the average net asset value of the Fund during the year calculated on a monthly basis. Since the average net asset value is calculated on a monthly basis, comparison of the MER of the Fund with other Real Estate Investment Trusts ("REIT") which use a different basis of calculation may not be an accurate comparison.

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of these have financial statements, related companies are considered to be related to the Group and the Fund if the Group and the Fund have the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the Fund and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Significant related party transactions other than those separately disclosed elsewhere in the financial statements are as follows:

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Rental income received/receivable from related companies	34,539,941	34,950,722	27,860,572
Other property management fees charged by related companies of the Manager (including in other operating expenses)	7,634,987	7,634,987	4,487,125
Finance cost paid/payable to a subsidiary	-	3,273,583	-

The related party transactions described above were entered into in the normal course of business and are based on negotiated and mutually agreed terms.

Amount owing to a subsidiary represents unsecured advances received from the proceeds raised from Islamic financing by the subsidiary of RM160,934,617. The finance costs and repayment terms of the unsecured advances mirror the finance costs and repayment terms of the Islamic financing of Sukuk Ijarah raised by the said subsidiary as disclosed in Note 17. Also included in the amount owing to a subsidiary are the accrued profit from the cash reserves totaling RM1,616,689 that are presented as net amount as there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

21. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The carrying amount of the various financial assets and financial liabilities reflected in the statements of financial position approximate their fair values other than as disclosed below:

	Carrying amount	Fair value
	RM	RM
The Group		
2018		
Financial liability at amortised cost		
Islamic financing - non-current	509,527,596	480,815,308

The Fund	Carrying amount RM	Fair value RM
2018		
Financial liability at amortised cost		
Islamic financing - non-current	348,592,979	323,399,500
Amount owing to a subsidiary	159,317,928	157,415,808
	507,910,907	480,815,308
2017		
Financial liability at amortised cost		
Islamic financing - non-current	347,698,967	341,932,000

The fair value of the non-current Islamic financing was estimated using discounted cash flow analysis based on market equivalent profit rate of 5.58% (2017: 5.21%) per annum for similar type of instruments of similar risk and cash flow profiles. The disclosure of the fair value of the non-current Islamic financing is considered a Level 2 fair value hierarchy disclosure.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Fund's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Group's and Fund's portfolios whilst managing their credit risks, liquidity risks and financing rate risks. The Group and the Fund have taken measures to minimise their exposure to the risks associated with its financing, investing and operating activities and operates within clearly defined guidelines as set out in the SC Guidelines and the Fund's Trust Deed.

The following sections provide details regarding the Group's and the Fund's exposure to the above-mentioned financial risks and the objectives, policies and procedures for the management of these risks:

(a) Credit Risk Management

Credit risk refers to the risk that a counter party will default on its contractual obligation resulting in financial loss to the Group and the Fund. Credit risk with respect to trade and other receivables is managed through the application of credit approvals, credit limits and monitoring procedures. Credit is extended to the customers based upon careful evaluation of the customers' financial condition and credit history.

Exposure to credit risk

At the reporting date, the Group's and the Fund's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 14.

Credit risk concentration profile

The Group and the Fund determine concentrations of credit risk by monitoring individual profile of their trade receivables on an ongoing basis. At the end of the reporting period, the Group and the Fund do not have any significant exposure to any individual customer or counterparty nor do they have any major concentration of credit risk related to any financial instrument.

Financial instruments that are neither past due nor impaired

Information regarding receivables that are neither past due nor impaired is disclosed in Note 14. Deposits with banks and other financial institutions are placed with reputable financial institutions with good credit ratings.

(b) Liquidity Risk Management

Liquidity risk is the risk that the Group and the Fund may encounter difficulty in meeting financial obligations on time due to shortage of funds. The Group's and the Fund's exposure to liquidity risk arises from mismatches of the maturities of financial assets and liabilities. The Group's and the Fund's approach are to maintain a balance between continuity of funding and flexibility through the use of their credit and financing facilities.

The Group and the Fund manage liquidity risk by maintaining adequate reserves, banking facilities and financing facilities, by continuously monitoring forecast and actual cash flow from their portfolios, and by matching the maturity profiles of financial assets and liabilities.

Financial assets

The following table details the Group's and the Fund's expected contractual maturity for its non-derivative financial assets:

The Group **31 December 2018**	**Weighted Average effective profit rate** **%**	**Carrying amount** **RM**	**Contractual cash flows** **RM**	**On demand or within 1 year** **RM**
Non-profit bearing financial assets:				
Trade receivables (Note 14)		4,853,859	4,853,859	4,853,859
Other receivables (Note 14)		1,647,259	1,647,259	1,647,259
Amount owing by related companies		3,321,296	3,321,296	3,321,296
Profit bearing financial asset:				
Fixed profit rate instruments -				
deposits financial institutions	3.60	34,273,000	34,629,110	34,629,110
Cash and bank balances		12,489,624	12,489,624	12,489,624
		56,585,038	56,941,148	56,941,148

The Fund **31 December 2018**	**Weighted Average effective profit rate %**	**Carrying amount RM**	**Contractual cash flows RM**	**On demand or within 1 year RM**
Non-profit bearing financial assets:				
Trade receivables (Note 14)		4,853,859	4,853,859	4,853,859
Other receivables (Note 14)		1,641,096	1,641,096	1,641,096
Amount owing by related companies		3,321,296	3,321,296	3,321,296
Profit bearing financial asset:				
Fixed profit rate instruments - deposits financial institutions	3.60	34,273,000	34,629,110	34,629,110
Cash and bank balances		10,071,233	10,071,233	10,071,233
		54,160,484	54,516,594	54,516,594

The Fund **31 December 2017**	**Weighted Average effective profit rate %**	**Carrying amount RM**	**Contractual cash flows RM**	**On demand or within 1 year RM**
Non-profit bearing financial assets:				
Trade receivables		4,523,787	4,523,787	4,523,787
Other receivables (Note 14)		1,688,355	1,688,355	1,688,355
Amount owing by related companies		2,392,790	2,392,790	2,392,790
Profit bearing financial asset:				
Fixed profit rate instruments - deposits financial institutions	3.60	32,415,000	32,583,205	32,583,205
Cash and bank balances		12,651,281	12,651,281	12,651,281
		53,671,213	53,839,418	53,839,418

The Group 31 December 2018	Weighted Average effective profit rate %	Carrying amount RM	Contractual cash flows RM	On demand or within 1 year RM	Within 2 to 5 years RM
Non-profit bearing financial liabilities:					
Other payables and accrued expenses		24,903,969	24,903,969	10,929,645	13,974,324
Amount owing to related companies		1,080,530	1,080,530	1,080,530	-
Profit bearing financial liabilities:					
Variable profit rate instruments -					
Islamic financing - Non-current	5.58	509,527,596	530,473,056	6,312,779	524,160,277
		535,512,095	556,457,555	18,322,954	538,134,601

The Fund 31 December 2018	Weighted Average effective profit rate %	Carrying amount RM	Contractual cash flows RM	On demand or within 1 year RM	Within 2 to 5 years RM
Non-profit bearing financial liabilities:					
Other payables and accrued expenses		23,990,787	23,990,787	10,016,463	13,974,324
Amount owing to related companies		1,080,530	1,080,530	1,080,530	-
Profit bearing financial liabilities:					
Variable profit rate instruments -					
Islamic financing - Non-current	5.47	348,592,979	358,298,706	1,618,104	356,680,602
Amount owing to a subsidiary	5.69	159,317,928	172,174,350	4,694,675	167,479,675
		532,982,224	555,544,373	17,409,722	538,134,601

The Fund 31 December 2017	Weighted Average effective profit rate %	Carrying amount RM	Contractual cash flows RM	On demand or within 1 year RM	Within 2 to 5 years RM
Non-profit bearing financial liabilities:					
Other payables and accrued expenses		21,294,725	21,294,725	6,945,237	14,349,488
Amount owing to related companies		366,571	366,571	366,571	-
Profit bearing financial liabilities:					
Islamic Financing - Current	5.49	3,100,000	3,270,190	3,270,190	-
Variable profit rate instruments - Islamic financing - Non-current	5.21	347,698,967	394,114,696	19,496,594	376,618,102
		372,460,263	419,046,182	30,078,592	390,967,590

(c) Financing Rate Risk Management

Financing rate risk is the risk that the fair value or future cash flows of the Group's and the Fund's financial instruments will fluctuate because of changes in the market financing rates.

The Group and the Fund manage their financing rate exposure by maintaining matching their cash flows from rental income and fixed rate profit bearing deposits with the Group's and the Fund's variable rate profit bearing borrowings. The Group and the Fund place cash deposits on a short-term basis and therefore allows the Group and the Fund to respond to significant changes of financing rate promptly.

Financing rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to financing rates on the Group's and the Fund's variable rate profit bearing borrowings. The analysis is prepared assuming the amount of variable rate profit bearing borrowings outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point increase or decrease is used for the analysis and this represents management's assessment of reasonable possible change in financing rate.

If financing rates had been 25 basis point higher/lower and all other variables were held constant, the Group's and the Fund's net profit/total comprehensive income for the year would decrease/increase by RM1,281,963 and RM1,281,963 (2017: RM Nil and RM882,750) respectively. The assumed movement in basis points for financing rate sensitivity analysis is based on the currently observable market environment.

23. SEGMENT REPORTING

Segment information is presented in respect of the Group's and the Fund's business segments based on the nature of the industry of the Group's and Fund's investment properties, which reflect the Group's and the Fund's internal reporting structure that are regularly reviewed by the Group's and the Fund's chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.

For management purposes, the Group and the Fund are organised into the following operating divisions:

- Retail outlets
- Office buildings
- Food and beverage ("F&B") properties comprising restaurant and non-restaurant outlets
- Others comprising Fund level operations

No information on geographical areas is presented as the Group and the Fund operate solely in Malaysia.

The accounting policies of the reportable segments below are the same as the Group's and the Fund's accounting policies described in Note 3.

The Group 2018	Retail outlets RM	Office buildings RM	F&B restaurants RM	F&B Non-restaurants RM	Other - Fund level operations RM	Total RM
Total revenue	51,891,831	9,370,182	9,962,996	10,925,739	-	82,150,748
Total property expenses	(19,533,116)	(3,792,611)	(16,191)	(293,803)	(270,000)	(23,905,721)
Net property income	32,358,715	5,577,571	9,946,805	10,631,936	(270,000)	58,245,027
Fair value gain on investment properties	365,684	-	4,027,000	3,189,000	-	7,581,684
Investment income	-	-	-	-	1,025,884	1,025,884
Total income	32,724,399	5,577,571	13,973,805	13,820,936	755,884	66,852,595
Total fund expenditure	-	-	-	-	(3,167,003)	(3,167,003)
Operating profit	32,724,399	5,577,571	13,973,805	13,820,936	(2,411,119)	63,685,592
Islamic financing costs	-	-	-	-	(23,384,181)	(23,384,181)
Profit before tax	32,724,399	5,577,571	13,973,805	13,820,936	(25,795,300)	40,301,411
Income tax expense	-	-	-	-	-	-
Profit for the financial year	32,724,399	5,577,571	13,973,805	13,820,936	(25,795,300)	40,301,411
Total assets	802,520,566	92,881,651	165,697,000	173,764,432	(78,424,443)	1,156,439,206
Total liabilities	16,379,605	2,422,260	-	709,302	516,000,928	535,512,095

The Fund 2018	Retail outlets RM	Office buildings RM	F&B restaurants RM	F&B Non-restaurants RM	Other - Fund level operations RM	Total RM
Total revenue	51,891,831	9,370,182	9,962,996	10,925,739	-	82,150,748
Total property expenses	(19,533,116)	(3,792,611)	(16,191)	(293,803)	(270,000)	(23,905,721)
Net property income	32,358,715	5,577,571	9,946,805	10,631,936	(270,000)	58,245,027
Fair value gain on investment properties	365,684	-	4,027,000	3,189,000	-	7,581,684
Investment income	-	-	-	-	1,025,884	1,025,884
Total income	32,724,399	5,577,571	13,973,805	13,820,936	755,884	66,852,595
Total fund expenditure	-	-	-	-	(3,141,983)	(3,141,983)
Operating profit	32,724,399	5,577,571	13,973,805	13,820,936	(2,386,099)	63,710,612
Islamic financing costs	-	-	-	-	(23,384,181)	(23,384,181)
Profit before tax	32,724,399	5,577,571	13,973,805	13,820,936	(25,770,280)	40,326,431
Income tax expense	-	-	-	-	-	-
Profit for the financial year	32,724,399	5,577,571	13,973,805	13,820,936	(25,770,280)	40,326,431
Total assets	801,767,796	92,881,651	165,697,000	173,762,393	(80,174,485)	1,153,934,355
Total liabilities	16,379,605	2,422,260	-	709,302	513,471,057	532,982,224

The Fund 2017	Retail outlets RM	Office buildings RM	F&B restaurants RM	F&B Non-restaurants RM	Other - Fund level operations RM	Total RM
Total revenue	50,298,557	9,136,457	9,802,650	10,795,098	-	80,032,762
Total property expenses	(18,810,119)	(3,685,042)	(12,854)	(367,436)	(270,000)	(23,145,451)
Net property income	31,488,438	5,451,415	9,789,796	10,427,662	(270,000)	56,887,311
Fair value gain on investment properties	-	683,150	3,080,000	1,300,000	-	5,063,150
Investment income	-	-	-	-	1,187,792	1,187,792
Total income	31,488,438	6,134,565	12,869,796	11,727,662	917,792	63,138,253
Total fund expenditure	-	-	-	-	(4,061,305)	(4,061,305)
Operating profit	31,488,438	6,134,565	12,869,796	11,727,662	(3,143,513)	59,076,948
Islamic financing costs	-	-	-	-	(18,471,316)	(18,471,316)
Profit before tax	31,488,438	6,134,565	12,869,796	11,727,662	(21,614,829)	40,605,632
Income tax expense	-	-	-	-	-	-
Profit for the financial year	31,488,438	6,134,565	12,869,796	11,727,662	(21,614,829)	40,605,632
Total assets	615,161,560	91,611,248	161,670,000	168,317,061	(48,003,971)	988,755,898
Total liabilities	16,670,453	2,495,492	-	721,326	352,572,992	372,460,263

24. CAPITAL MANAGEMENT

The Group and the Fund manage their capital to ensure that the Group and the Fund will be able to continue as going concern while maximising the return to unitholders through the optimisation of the debt and equity balance. The Group's and the Fund's overall strategy remain unchanged from 2017.

The capital structure of the Group and the Fund consist of net debt (borrowings as detailed in Note 17) offset by cash and cash equivalents (Note 15) and Unitholders' fund of the Fund (Note 18) (comprising Unitholders' capital and undistributed income).

The Group and the Fund are not subject to any externally imposed capital requirements. However, the Group and the Fund are required to comply with the SC Guidelines on borrowings.

The SC Guidelines requires that the total borrowings of the Group and the Fund (including borrowings through issuance of debt securities) should not exceed 50% of the total asset value of the Group and the Fund at the time the borrowings are incurred. Notwithstanding, the Group's and the Fund's total borrowings may exceed this limit with the sanction of the unitholders by way of an ordinary resolution.

The Manager's risk management committee reviews the capital structure of the Group and of the Fund on a regular basis to ensure that the SC Guidelines are complied with.

Gearing ratios

The Group's and the Fund's gearing ratios are calculated based on the proportion of total borrowings to the total asset value in accordance with the SC Guidelines. The gearing ratios at the end of the reporting period is as follows.

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Total borrowings (Note 17)	509,527,596	348,592,979	350,798,967
Amount due to a subsidiary	-	159,317,928	-
	509,527,596	507,910,907	350,798,967
Total assets value as per statements of financial position	1,156,439,206	1,153,934,355	988,755,898
Total borrowings to total assets value ratio	44.1%	44.0%	35.5%

25. COMMITMENTS

The Group and the Fund lease out their investment properties under operating leases. The future minimum lease payments to be received under non-cancellable leases are as follows:

	The Group	The Fund	
	2018	2018	2017
	RM	RM	RM
Less than one year	19,773,000	19,773,000	50,262,021
Between one and five years	350,000,000	350,000,000	211,516,053
More than five years	162,785,000	162,785,000	168,244,931
	532,558,000	532,558,000	430,023,005

26. SIGNIFICANT EVENTS

On 4 December 2018, the Fund announced that the Trustee, for and on behalf of the Fund, had entered into 3 conditional sale and purchase agreements with Kentucky Fried Chicken (Malaysia) Sdn Bhd, KFC (Peninsular Malaysia) Sdn Bhd, KFC (Sabah) Sdn Bhd and SPM Restaurants Sdn Bhd on 30 November 2018 for the acquisition of 22 properties located across Malaysia for a purchase consideration of RM115 million.

The purchase consideration to be satisfied entirely in cash and is intended to be funded via proceeds from the proposed placement and borrowings.

The proposed acquisitions are conditional upon the leaseback agreement with QSR Stores Sdn Bhd and Pizza Hut Restaurants Sdn Bhd for the lease of the properties for a period of 3 years commencing from the completion of the proposed acquisitions. The lease is renewable every 3 years up to a maximum of 15 years with an option to renew for a further period of 15 years.

As of the date of the issuances of these financial statements, the acquisitions have not been completed.

27. ADOPTION OF MFRS 9 AND MFRS 15

Adoption of MFRS 15

With the adoption of MFRS 15, revenue is recognised by reference to each distinct performance obligation in the contract with customer. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or services promised in the contract. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

There were no material financial impacts to the statements of financial position and the statements of profit or loss and other comprehensive income of the Group and of the Fund arising from the adoption of MFRS 15.

Adoption of MFRS 9

The accounting policies were changed to reflect the application of MFRS 9 from the beginning of the first MFRS reporting period. MFRS 9 replaces the provisions of MFRS 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 'Financial Instruments: Disclosures'. The cumulative effects of the changes are recognised in the statements of financial position as at the beginning of the first MFRS reporting period, which is on 1 January 2018.

The nature of adjustments made to the statements of financial position of the Fund as at 1 January 2018 in respect of items within the scope of MFRS 9 are described as follows:

(a) Classification and measurement of financial assets

Until 31 December 2017, financial assets were classified in the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale ("AFS") financial assets. Note 3 sets out the details of accounting policies for classification and measurement of financial instruments under MFRS 139.

From 1 January 2018, the Fund adopted the following MFRS 9 classification approach to all types of financial assets:

- Investments in debt instruments: There are 3 subsequent measurement categories: amortised cost, fair value with changes either recognised through other comprehensive income ("FVTOCI") or through profit or loss ("FVTPL").
- Investments in equity instruments: These instruments are always measured at fair value with changes in fair value presented in profit or loss unless the Fund has made an irrevocable choice to present changes in fair value in other comprehensive income for investments that are not held for trading.
- Embedded derivatives in financial asset host contracts: The Fund applies the classification and measurement of financial assets to the entire hybrid instrument for financial assets with embedded derivatives.
- The new accounting policies for classification and measurement of financial instruments under MFRS 9 are set out in Note 3.

The table below illustrates the classification and measurement of financial assets and financial liabilities under MFRS 139 and MFRS 9 at the date of initial application, 1 January 2018.

	Measurement category		**Carrying amount**		
	Under MFRS 139	**Under MFRS 9**	**Original RM**	**New RM**	**Difference RM**
The Fund					
Financial assets					
Trade receivables	Loans & receivables	Financial assets at amortised cost	4,523,787	4,523,787	-
Other receivables	Loans & receivables	Financial assets at amortised cost	1,688,355	1,688,355	-
Amount owing by related companies	Loans & receivables	Financial assets at amortised cost	2,392,790	2,392,790	-
Fixed deposits with licensed banks	Loans & receivables	Financial assets at amortised cost	32,415,000	32,415,000	-
Cash and bank balances	Loans & receivables	Financial assets at amortised cost	12,651,281	12,651,281	-

	Under MFRS 139	**Under MFRS 9**	**Original RM**	**New RM**	**Difference RM**
The Fund					
Financial liabilities					
Other payables and accrued expenses	Other financial liabilities	Financial assets at amortised cost	21,294,725	21,294,725	-
Amount owing to related companies	Other financial liabilities	Financial assets at amortised cost	366,571	366,571	-
Islamic financing	Other financial liabilities	Financial assets at amortised cost	350,798,967	350,798,967	-

(b) Impairment of financial assets

Until 31 December 2017, the Fund assessed the impairment of loans and receivables based on the incurred impairment loss model. Note 3.6 sets out the details of accounting policies for impairment of financial assets under MFRS 139.

From 1 January 2018, the Group and the Fund apply the expected credit loss ("ECL") model to determine impairment on investment in debt instruments that are measured at amortised cost and at FVTOCI.

The new accounting policies for impairment under MFRS 9 are set out in Note

(i) Trade receivables and contract assets that do not contain significant financing components

For all trade receivables that do not contain significant financing components, the Group and the Fund apply the MFRS 9 simplified approach which is to measure the loss allowance at an amount equal to lifetime ECL at initial recognition and throughout its life. No additional loss allowance is recognised on these trade receivables upon application of MFRS 9 after the Manager had considered the days past due, historical default experience and the future prospects of the industries in which the trade receivables operate.

(ii) Other receivables

Other receivables are classified as amortised cost in the Group's and the Fund's financial statements because the Group's and the Fund's business model is to hold and collect the contractual cash flows and those cash flows represent SPPI. The Group and the Fund applied the general 3-stage approach when determining ECL for the other receivables.

The Manager concludes that no additional loss allowance is recognised on these other receivables upon application of MFRS 9 after considering the days past due, historical default experience and the future prospects of the industries in which the receivable operates.

(iii) Amount owing by related companies

Amount owing by related companies that are repayable on demand and non-profit bearing are classified as amortised cost in the Fund's separate financial statements because the Fund's business model is to hold and collect the contractual cash flows and those cash flows represent SPPI. The Fund applied the general 3-stage approach when determining ECL for these amount owing by related parties.

No additional loss allowance is recognised on these amount owing by related companies upon application of MFRS 9 as all strategies indicate that the Fund could fully recover the outstanding balance of the amount owing by related companies.

Statement By The Directors Of The Manager
To The Unitholders Of Al-Salām Real Estate Investment Trust

We, **DATO' KAMARUZZAMAN BIN ABU KASSIM** and **WAN AZMAN BIN ISMAIL**, being two of the Directors of **DAMANSARA REIT MANAGERS SDN BERHAD** (the "Manager"), do hereby state that, in the opinion of the Manager, the financial statements of **AL-SALĀM REAL ESTATE INVESTMENT TRUST** (the "Fund") and of its subsidiary (the "Group") are drawn up in accordance with applicable provisions of the Trust Deed dated 26 March 2015, Malaysian Financial Reporting Standards, International Financial Reporting Standards and Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts so as to give a true and fair view of the financial position of the Group of the Fund as at 31 December 2018 and of the financial performance and the cash flows of the Group and of the Fund for the year ended on the date.

Signed on behalf of the Board in accordance
with a resolution of the Directors of the Manager,

DATO' KAMARUZZAMAN BIN ABU KASSIM

WAN AZMAN BIN ISMAIL

Kuala Lumpur,
31 January 2019

Declaration By The Director Of The Manager

Primarily Responsible For The Financial Management Of The Fund

I, **WAN AZMAN BIN ISMAIL**, the Executive Director of **DAMANSARA REIT MANAGERS SDN BERHAD** ("the Manager") and primarily responsible for the financial management of **AL-SALĀM REAL ESTATE INVESTMENT TRUST** (the "Group" and the "Fund"), do solemnly and sincerely declare that the accompanying financial statements, are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

WAN AZMAN BIN ISMAIL

Subscribed and solemnly declared by the
abovenamed **WAN AZMAN BIN ISMAIL**
at **KUALA LUMPUR** this 31st January 2019.

PESURUHJAYA SUMPAH
W 465
KAPT (B) JASNI BIN YUSOFF
1 JAN 2019 - 31 DIS 2021
MALAYSIA

COMMISSIONER FOR OATHS

Lot 1.08, Tingkat 1
Bangunan KWSP , Jln Raja Laut
50350 Kuala Lumpur
Tel: 019 6680745

Shariah Committee Report

To The Unitholders Of Al-Salām Real Estate Investment Trust

We have acted as the Shariah Adviser of **AL-SALĀM REAL ESTATE INVESTMENT TRUST** (the "Fund"). Our responsibility is to ensure that the procedures and processes employed by **DAMANSARA REIT MANAGERS SDN BERHAD** (the "Manager") and that the provisions of the Trust Deed are in accordance with Shariah principles.

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

In addition, we also confirm that the investment portfolio of the Group and of the Fund is Shariah-compliant, which comprises:

(a) Rental income from investment properties which complied with the Guidelines for Islamic Real Estate Investment Trust; and

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

For the Members of Shariah Committee

DATO' (DR.) HAJI NOOH BIN GADOT
CHAIRMAN, SHARIAH COMMITTEE

Kuala Lumpur,
31 January 2019

Trustee's Report
For The Financial Year Ended 31 December 2018

To the Unitholders of **AL-SALĀM REAL ESTATE INVESTMENT TRUST**

We, AMANAHRAYA TRUSTEES BERHAD, have acted as Trustee of AL-SALĀM REAL ESTATE INVESTMENT TRUST for the financial year ended 31 December 2018. In our opinion, DAMANSARA REIT MANAGERS SDN BERHAD, the Manager, has managed AL-SALĀM REAL ESTATE INVESTMENT TRUST in accordance with the limitations imposed on the investment powers of the management company and the Trustee under the Deed, other provisions of the Deed, the applicable Guidelines on Real Estate Investment Trust, the Capital Markets and Services Act 2007 and other applicable laws during the financial year then ended.

We are of the opinion that:

(a) the procedures and processes employed by the Manager to value and / or price the units of AL-SALĀM REAL ESTATE INVESTMENT TRUST are adequate and that such valuation / pricing is carried out in accordance with the Deed and other regulatory requirement; and

(b) the distribution of returns made by AL-SALĀM REAL ESTATE INVESTMENT TRUST as declared by the Manager is in accordance with the investment objective of AL-SALĀM REAL ESTATE INVESTMENT TRUST.

Yours faithfully
AMANAHRAYA TRUSTEES BERHAD

ZAINUDIN BIN SUHAIMI
General Manager

Kuala Lumpur, Malaysia
4 February 2019

Analysis Of Unitholdings

Unitholdings Statistics As At 31 December 2018 (AS PER RECORD OF DEPOSITOR)

BREAK DOWN OF UNITHOLDINGS

Size of Unitholdings	No. of Unitholders	%	No. of Units	%
Less than 100	203	2.45	8,350	-
100 – 1000	3,918	47.31	2,212,947	0.38
1,001 – 10,000	3,632	43.86	11,129,279	1.92
10,001 – 100,000	475	5.74	11,264,786	1.94
100,001 to less than 5 of Issued Capital	49	0.59	122,716,020	21.16
5 and above of Issued Capital	4	0.05	432,668,618	74.60
TOTAL	8,281	100.00	580,000,000	100.00

Top Thirty Securities Account Holders

(Without aggregating the securities from different securities accounts belonging to the same depositor)

	Name	No. of Units	%
1	Damansara Assets Sdn. Bhd.	249,127,652	42.95
2	Tabung Amanah Warisan Negeri Johor	96,153,900	16.58
3	Waqaf An-Nur Corporation Berhad	57,975,301	10.00
4	Maju Noms (T) Sdn Bhd - A/C Damansara Assets Sdn Bhd	29,411,765	5.07
5	Johor Corporation	24,436,600	4.21
6	Kulim (Malaysia) Berhad	23,826,600	4.11
7	Pelaburan Hartanah Berhad	20,000,000	3.45
8	Lembaga Tabung Haji	16,859,100	2.91
9	Cartaban Noms (T) Sdn Bhd - A/C Standard Chartered Saadiq Bhd SCBMB Trustee for Muamalat 1	13,000,000	2.24
10	Maybank Noms (T) Sdn Bhd - A/C Bank Kerjasama Rakyat (M) Berhad (412803)	4,000,000	0.69
11	Labuan Reinsurance (L) Ltd	2,594,000	0.45
12	Amanahraya Trustees Berhad - A/C AS Malaysia 3	2,200,000	0.38
13	KPJ Healthcare Berhad	2,000,000	0.34
14	Johor Land Berhad	1,499,500	0.26
15	Citigroup Noms (T) Sdn Bhd - A/C Kenanga Islamic Investors Bhd for Tabung Warisan Negeri Selangor (REITS)	1,495,000	0.26
16	Maybank Noms (T) Sdn Bhd - A/C MTrustee Berhad For Pacific Pearl Fund (UT-PM-PPF)(419471)	1,000,000	0.17
17	Citigroup Noms (T) Sdn Bhd - A/C Kumpulan Wang Persaraan (Diperbadankan) (MYBK AM SC E)	900,000	0.16
18	Affin Hwang Noms (T) Sdn. Bhd. - A/C For Mohd Fauzy bin Abdullah (M09)	650,000	0.10
19	CIMB Group Noms (T) Sdn Bhd - A/C Exempt An for CIMB Bank Bhd (Dana Johor)	604,311	0.10
20	Tenh Hong Way	600,000	0.10
21	CIMSec Noms (T) Sdn Bhd - A/C CIMB Bank for Arshad Bin Ayub (MY1393)	600,000	0.10
22	Maybank Secs Noms (T) Sdn Bhd - A/C Malayan Banking Berhad For Pelaburan Johor Berhad (MBB Dana Johor)	520,501	0.09
23	Goh Siew Cheng	421,600	0.07
24	Ahamad Bin Mohamad	397,720	0.07
25	Maybank Noms (T) Sdn Bhd - A/C Etiqa Takaful Berhad (Family PIF)	330,900	0.06
26	Kumpulan Bertam Plantations Berhad	296,000	0.05
27	Kwan Chee Tong	258,800	0.04
28	Maybank Noms (T) Sdn Bhd - A/C For Kamaruzzaman bin Abu Kassim	251,100	0.04
29	Labuan Reinsurance (L) Ltd	250,000	0.04
30	Ismail bin Mat Ali	230,088	0.04

Substantial Unitholders (5% and above)

Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1. Johor Corporation	24,436,600	4.21	364,147,506[(i)]	62.78
2. Damansara Assets Sdn Bhd	278,539,417	48.02	-	-
3. Tabung Amanah Warisan Negeri Johor	96,153,900	16.58	-	-
4. Waqaf An-Nur Corporation Berhad	57,975,301	10.00	-	-

Note:
(i) Deemed interested by virtue of its interest in Damansara Assets Sdn Bhd, Waqaf An-Nur Corporation Berhad, Kulim (Malaysia) Berhad, KPJ Healthcare Berhad, Johor Land Berhad, Kumpulan Bertam Plantations Berhad and Tenaga Utama (J) Berhad under Section 8 of the Companies Act, 2016

Analysis of Unitholders

		No. of Unitholders	%	No. of Units	%
Malaysian	- Bumiputra	1,860	22.46	543,622,351	93.73
	- Non-Bumiputra	6,386	77.12	35,565,144	6.13
Foreigners		35	0.42	812,505	0.14
TOTAL		8,281	100.00	580,000,000	100.00

Unit Analysis as at 31 December 2018

ROD	Total		Bumiputra		Non-Bumiputra		Foreign	
	Holder	No. of Unit	Holder	No. of Unit	Holder	No. of Unit	Holder	No. of Unit
Government Bodies	2	120,590,500	2	120,590,500	-	-	-	-
Finance	2	19,059,100	2	19,059,100	-	-	-	-
Investment Trust	1	7,400	-	-	1	7,400	-	-
Nominees	428	55,655,382	270	39,401,140	152	15,920,642	6	333,600
Companies	19	357,705,102	14	357,646,082	5	59,020	-	-
Clubs / Associations	4	27,961	3	25,001	1	2,960	-	-
Co - Operatives	14	329,929	12	320,035	2	9,894	-	-
Others	1	9	-	-	1	9	-	-
Individual	7,810	26,624,617	1,557	6,580,493	6,224	19,565,219	29	478,905
Total	**8,281**	**580,000,000**	**1,860**	**543,622,351**	**6,386**	**35,565,144**	**35**	**812,505**
%	**100.00**	**100.00**	**22.46**	**93.73**	**77.12**	**6.13**	**0.42**	**0.14**

MANAGED BY:

DAMANSARA REIT MANAGERS SDN BERHAD

717704-V

www.alsalamreit.com.my