THE 301ST SHARIAH ADVISORY COUNCIL OF THE SECURITIES COMMISSION MALAYSIA MEETING (7 May 2026)

CLASSIFICATION OF RENTAL INCOME FROM TENANTS OPERATING CINEMA BUSINESS ACTIVITIES

INTRODUCTION

The classification of rental income derived from tenants operating cinema businesses activities becomes a key consideration in the Shariah screening review of Public Listed Companies (PLCs) that are principally engaged in property investment activities. Although the property investment activities may be Shariah compliant, the leasing of premises to cinema operators necessitates an assessment of the Shariah status of rental income generated therefrom. In particular, due consideration is accorded to the extent of exposure to Shariah non-compliant elements associated with cinema business activities in determining the appropriate classification of such rental income for Shariah screening purposes.

In this regard, the Shariah Advisory Council (SAC) of the Securities Commission Malaysia (SC) deliberated on the Shariah classification of such rental income. In its deliberation, the SAC considered the indirect nature of the PLCs' involvement, whereby the income is generated from leasing arrangements rather than from the ownership, management or operation of cinema businesses.

RESOLUTION

The SAC, at its 301st meeting held on 7 May 2026, deliberated on the Shariah classification of rental income derived from tenants operating cinema business activities. Following its deliberation, the SAC resolved that a Shariah non-tolerable threshold of 65% ("65% Threshold") shall be applied to the total rental income received from such tenants, and the amount shall be included in the computation of the total Shariah non-compliant (SNC) income of the PLCs.

The 65% Threshold shall be subject to periodic review every three years, in line with the reassessment of the revenue derived from sale of movie tickets pursuant to the SAC resolution on "Shariah Assessment on the Revenue Components of Cinema Business Activities" resolved at its 296th meeting held on 13 November 2025. Any revision to the Shariah classification of revenue from movie ticket sales shall be taken into consideration in determining the continued applicability of the 65% Threshold.

SHARIAH JUSTIFICATION

The Shariah assessment of rental income derived from property or asset leasing activities, including rental income from tenants operating cinema businesses activities, is assessed within the framework of *ijarah* (leasing) principle. In an *ijarah* contract, the *manfa`ah* (usufruct/benefit) constituting *mahal al-`aqd* (contractual subject matter) must be permissible from the Shariah perspective. Accordingly, the Shariah classification of the rental income is dependent upon the permissibility of the *manfa`ah* or the intended use of the leased premises from Shariah perspective.

In this regard, all Shariah scholars of the four *madhahib* (schools of thought) unanimously agreed that the permissibility of an *ijarah* contract is contingent upon the permissibility of the *manfa`ah* derived from the leased asset and its utilisation for purposes permitted under the Shariah. If the leased asset is used for prohibited activities, the *ijarah* contract becomes impermissible on the basis that it associates, facilitates and supports such prohibited activities.[1] Consequently, the rental income generated from such contract is also regarded as impermissible.[2]

This principle is supported by the following Islamic legal maxim:

اَلاسْتِئْجَارُ عَلَى اَلْمَعْصِيَةِ لَا يَجُوزُ [3]

"*Leasing for the purpose of committing a forbidden act is impermissible.*"

---

1 Refer to `Ala' al-Din Abu Bakr Mas`ud al-Kasani, *Badai` al-Sanai` fi Tartib al-Sharai`*, Matba`ah Sharikah al-Matbu`at al-`ilmiyyah, Egypt, 1910, 1st Edition, vol. 4, p. 189; Muhammad Ahmad Juzaiy al-Gharnati, *al-Qawanin al-Fiqhiyyah*, Dar Ibn Hazm, Beirut, Lebanon, 1st Edition, 2013, p. 302-303, 460; Abu Zakariyya Mahyi al-Din Yahya al-Nawawi, *Raudhah al-Talibin wa `Umdah al-Muftin*, al-Maktab al-Islami, Beirut, Lebanon, 3rd Edition, 1991, vol. 5, p. 194; Abu Muhammad `Abdullah Ibn Qudamah, *al-Mughni*, Maktabah al-Qahirah, Egypt, 1979, vol. 5, p. 407-408; Mansur Yunus al-Bahuti, *Kashaf al-Qina` `an Matan al-Iqna`*, Wizarah al-`Adl fi al-Mamlakah al-`Arabiyyah al-Sa`udiyyah, Kingdom of Saudi Arabia, 1st Edition, 2008, vol. 9, p. 58.

2 al-Nawawi, *Raudhah al-Talibin wa `Umdah al-Muftin*, op.cit., vol. 5, p. 194.

3 Wahbah al-Mustafa al-Zuhaili, *al-Fiqh al-Islami wa Adillatuhu*, Dar al-Fikr, Damascus, Syria, 2nd Edition, 1985, vol. 4, p. 744.

Based on this legal maxim, the permissibility of an *ijarah* contract depends on the nature of the *manfa`ah* derived from the leased assets, including the activities conducted on the premises and the purpose for which the usufruct is utilised as well as other elements associated with such activities. These factors collectively affect the determination of Shariah classification of rental payment received from such contract.

Applying the above Shariah principle, the rental income is generally classified as follows:

(i) permissible, where the leased asset is utilised for activities that are permissible under the Shariah; and

(ii) impermissible, where the leased asset is utilised for activities that are prohibited under the Shariah.

Nevertheless, in the context of PLCs engaged in property investment activities, leasing arrangements may involve tenants conducting commercial activities comprising a mixture of permissible and non-permissible business activities (Mixed Activities). Cinema business activities fall within this category, as the underlying activities may comprise both permissible and non-permissible elements.

From the Shariah perspective, cinema is not inherently prohibited; rather, its permissibility depends on various factors such as the content and purpose of the films screened, the surrounding environment, and the overall impact of the films produced or screened. Hence, the Shariah assessment of rental income from tenants operating such cinema business activities requires further evaluation on the nature

of the activities conducted within the premise and the extent of Mixed Activities involved.

In practice, cinema business activities generate revenue from various sources, including sale of movie tickets, concessions[4] sales, screen advertising, and other ancillary activities. Certain activities may give rise to Shariah concerns depending on the nature and content of the films screened and related activities conducted. Given the integrated nature of cinema business activities, it is generally impractical to precisely segregate the portion of rental income attributable solely to Shariah-compliant and Shariah non-compliant activities. As such, the SAC adopts a precautionary approach to ensure that the Shariah assessment remains prudent, practicable, and consistent with the objective of avoiding doubtful or impermissible income.

In assessing the Shariah classification of rental income derived from cinema operators, the SAC observed that the sale of movie tickets constitutes primary revenue component. Since such revenue may contain SNC elements arising from the exhibition of movies that do not fully conform with Islamic ethical values, the SAC considers that a significant portion of the rental income received by the PLCs is therefore linked to activities that may contain SNC elements.

In view of the practical challenges in determining the precise proportion of rental income attributable to such SNC elements within cinema activities, the SAC resolved to adopt the 65% Threshold as a prudent and practical measure. The adoption of

[4] Concessions refer to items sold at cinema counters including food and beverages (e.g. popcorn, hot food, soft drinks, mineral water, snacks) and merchandise.

the 65% Threshold is aligned with the SAC's decision on the revenue components of cinema business activities, particularly in determining the Shariah non-tolerable proportion of income generated from sale of movie tickets. Under this approach, 65% of the rental income derived from tenants operating cinema business activities shall be treated as SNC income of the PLCs. In arriving at this decision, the SAC considered that the revenue from sale of movie tickets represents the primary source of income within cinema business activities, and therefore, provides an appropriate basis for determining the extent of SNC exposure associated within such business activities.

The determination of the 65% Threshold is further supported by the following Islamic legal maxim:

الشَّرِيعَةُ مَبْنِيَّةٌ عَلَى الاحْتِيَاطِ[5]

"Shariah is founded on the principle of al-ihtiyat (precautionary stand)."

This legal maxim articulates that when `*illah* (effective cause) for a particular ruling could not be determined consistently and no reliable basis exists to address it, such matter reverts to the principle of *al-ihtiyat*, as an established and recognised principle under the Shariah.[6] In particular, Shariah scholars preferred *al-dalil al-hazir* (prohibiting evidence) over *al-dalil al-mubih* (permitting evidence) and also adopted *dalil al-ihtiyat* (evidence of precaution) in numerous Shariah rulings on this basis.[7]

The SAC has also considered situation where the PLCs (as lessors), do not exercise direct control over the tenants' day-to-day operations, including where the leased

[5] al-Shatibi, Abu Ishaq Ibrahim ibn Musa, *al-Muwafaqat,* Dar Ibn Affan, al-Khubar, Kingdom of Saudi Arabia, 1997, vol. 3, p. 85.
[6] Ibid., vol. 1, p. 530.
[7] Ibn Taimiyyah, Sheikh al-Islam Taqiyuddin Ahmad bin Abdul Halim, *Majmu` al-Fatawa*, Majma` al-Milk Fahd li Taba`ah al-Mashaf al-Sharif, Kingdom of Saudi Arabia, 2004, vol. 20, p. 262.

premises are used for cinema business activities. In such arrangement, the lessor's role is generally limited to the leasing arrangement, without involvement in operational matters such as film selection, ticket pricing, or other business decisions. Accordingly, the Shariah assessment focuses on the nature of the tenants' business activities conducted on the premises, as these activities are the basis of the rental income received by the PLCs. In this regard, the SAC also takes into consideration the principle of *al-ihtiyat*. The adoption of the 65% Threshold on rental income derived from cinema operators that are regarded as SNC serves as a prudent measure to minimise potential exposure to doubtful or impermissible elements in situations where certainty cannot be attained.