

## SUSTAINABILITY STATEMENT

We are pleased to present the sustainable initiatives undertaken by the Manager for the current year, unless specified otherwise. While the statement covers the sustainability practices and initiatives of Pavilion REIT, we have extended the scope to include Pavilion Kuala Lumpur Mall to demonstrate its environmental performance and the neighbourhood DA MEN Mall to highlight community engagement programmes.

Global Reporting Initiative (GRI) Standards is the reporting framework used to develop this statement, wherein the structure and disclosures embedded in this statement are in line with GRI Standards – Core Option.

### Defining Our Commitment to Sustainability

We recognise that building for a sustainable future requires a resolute commitment to economic efficiency, environmental performance and social responsibility. While we have yet to develop a strategy exclusively for sustainability, we continuously lay emphasis on practices such as corporate social responsibility, good governance practices, health and safety practices, training and education, and quality, all of which are built on values that promote sustainability.

Our strategy towards achieving our corporate vision and mission elucidates our investment strategy, capital management strategy as well as property management and asset enhancement strategy. We are cognizant of the rising interest amongst the investor community to make sustainable and responsible investments, and the opportunities for growth that come with prioritising sustainability. With this in mind, we aspire to develop on our strategy with a focus on sustainability in order to have a positive impact on our brand and reputation, employee wellbeing, operational efficiency, investor attractiveness, cost-effectiveness and lessening the environmental burden, where possible.

### CORPORATE VISION

To be the leading and most sought-after REIT in Malaysia

### CORPORATE MISSION

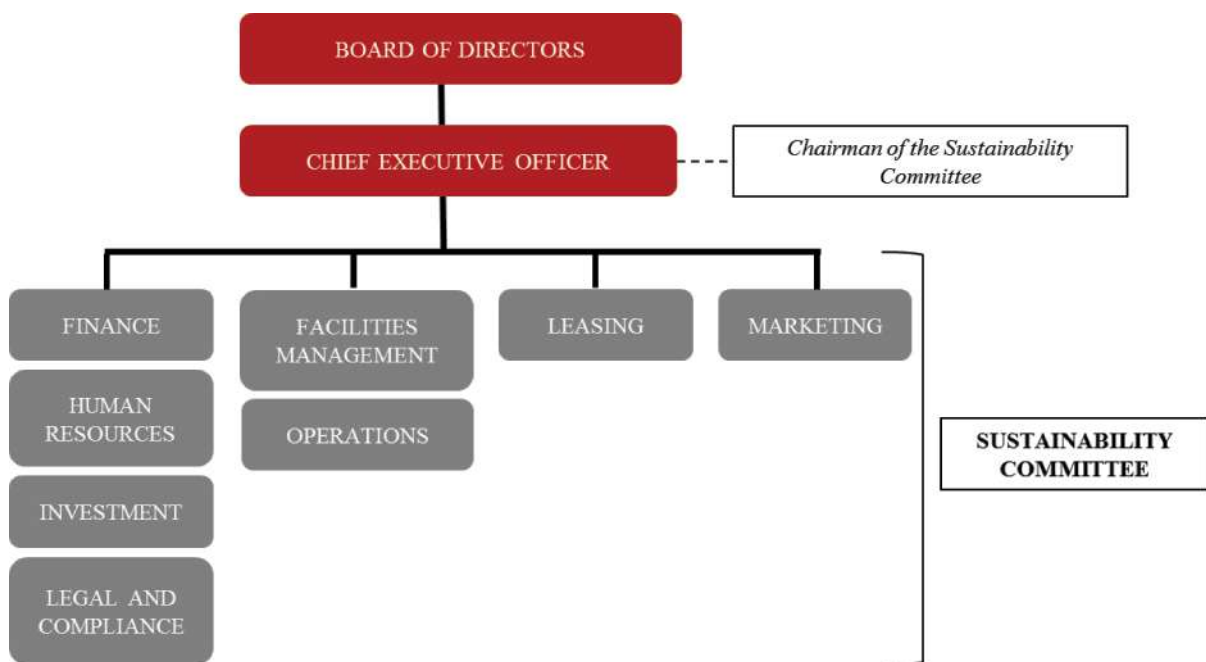
To provide unitholders with regular and stable distributions as well as to achieve long term growth in net asset value per unit, while maintaining an appropriate capital structure.

## Sustainability Statement (cont'd)

### Governance for Sustainability

We recognise the importance of developing strong lines of accountability within the organisation and involving all the different divisions in defining the journey towards greater sustainability. We have established a two-tiered governance structure for sustainability, as shown in the diagram below, with the Board of Directors at the apex. As the Chairman of the Sustainability Committee, the Chief Executive Officer updates the Board of Directors on the Fund's progress in the context of sustainability.

The responsibilities of the Sustainability Committee include integrating sustainability into the Fund's day-to-day operation as well as implementing, executing and monitoring policies and procedures across its properties. The committee is also responsible for the annual sustainability reporting process.



### Stakeholder Engagement Table

Our stakeholders have a direct influence on our business and are important barometers that gauge the impact of our business activities and sustainability initiatives. We engage with a wide range of stakeholder groups on a regular basis to understand their needs and expectations. We recognise that it is important to listen to the opinions of stakeholders, and work with them to move forward. The table below captures our key stakeholder groups, their expectations and the methods and level by which we engage them to meet their expectations.

## Sustainability Statement (cont'd)



Asset level



Organisational level



Project level

Stakeholder Group	Engagement Level	Stakeholder Expectations	Method of Engagement
<b>EMPLOYEES</b>  We respect the individual values and life goals of each and every employee. We also work hard to eliminate any form of discrimination and foster an atmosphere that is conducive for all.		<ul style="list-style-type: none"> <li>• Fair remuneration</li> <li>• Career development and progression opportunities</li> <li>• Work-life integration</li> <li>• Safe and conducive workplace</li> </ul>	<ul style="list-style-type: none"> <li>• Performance appraisal</li> <li>• Training programmes</li> </ul>
<b>INVESTMENT COMMUNITY</b>  We strive to enhance our corporate value by responding to changes in the business environment and maintaining stable profitability. Our focus is to provide unitholders and fund managers with a secure income stream and achieve long-term growth.		<ul style="list-style-type: none"> <li>• Stable and sustainable distribution income</li> <li>• Solid financial performance</li> <li>• Timely and transparent reporting</li> <li>• Prudent risk management</li> </ul>	<ul style="list-style-type: none"> <li>• Announcements</li> <li>• General meetings</li> <li>• One on one meetings</li> <li>• Investor roadshows</li> </ul>
<b>CUSTOMERS</b>  We enjoy the trust and confidence of customers and constantly strive to improve satisfaction by responding sincerely to feedback from our customers.		<ul style="list-style-type: none"> <li>• Safety and security of premises</li> <li>• Variety of options / choices</li> </ul>	<ul style="list-style-type: none"> <li>• Festive giveaways and performances</li> <li>• Promotional events</li> <li>• Customer satisfaction surveys</li> </ul>
<b>TENANTS</b>  Developing good tenant relationships enables us as the Manager to anticipate, understand and respond appropriately to their needs, which in turn helps create a conducive environment for tenants.		<ul style="list-style-type: none"> <li>• Tenant engagement and support</li> <li>• Conducive operating environment</li> </ul>	<ul style="list-style-type: none"> <li>• Tenant engagement and support</li> <li>• Conducive operating environment</li> </ul>

## Sustainability Statement (cont'd)

Stakeholder Group	Engagement Level	Stakeholder Expectations	Method of Engagement
<b>SUPPLIERS, CONTRACTORS AND SERVICE PROVIDERS</b>  Building strong relationships with our suppliers, contractors and service providers as well as routine assessments is essential to delivering our projects, running our operations and ensuring compliance with the internally prescribed standards and applicable laws and regulations.	●	<ul style="list-style-type: none"> <li>• Fair treatment</li> <li>• Transparent procurement processes</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings</li> <li>• Safety briefings and workshops</li> </ul>
<b>REGULATORY AUTHORITIES</b>  We recognise the importance of monitoring our economic, environmental, social and governance policies and procedures, and ensuring they are aligned with regulatory requirements through regular attestations, compliance monitoring programmes and reporting in order to work in a healthy and transparent business environment.	●●●	<ul style="list-style-type: none"> <li>• Regulatory compliance</li> <li>• Keeping abreast with policy and regulatory changes</li> </ul>	<ul style="list-style-type: none"> <li>• Direct dialogue</li> <li>• Policy briefings</li> <li>• Consultation sessions and conferences</li> </ul>
<b>LOCAL COMMUNITIES</b>  As a corporate responsible citizen, we continuously seek to support and build resilience amongst communities where we operate.	●	<ul style="list-style-type: none"> <li>• Creating a positive impact on the surrounding community</li> <li>• Responsible corporate citizenship giving back to the community</li> </ul>	<ul style="list-style-type: none"> <li>• CSR programmes (to accompany every major festive season, otherwise on an ad hoc basis)</li> <li>• Projects to improve mobility and traffic congestion</li> </ul>
<b>MEDIA</b>  Regularly communicating with media on project developments and our business performance is key in order to propagate our brand value and ensure transparency in the eyes of the public.	●	<ul style="list-style-type: none"> <li>• Timely and transparent communication</li> <li>• Market and business performance outlook</li> </ul>	<ul style="list-style-type: none"> <li>• Media launches</li> <li>• Media interviews</li> <li>• Media releases</li> </ul>

## Sustainability Statement (cont'd)

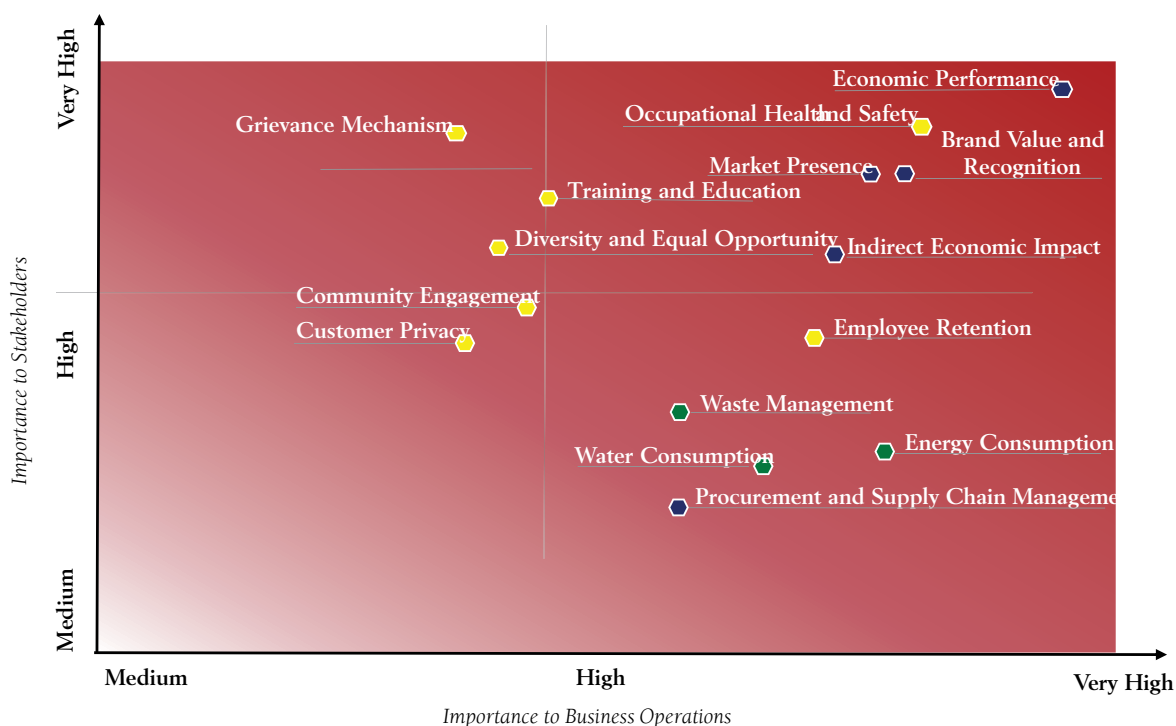
### Identifying Materiality

In 2018, we sought to recognise and deepen our understanding of how these risks or material sustainability matters can lead to substantial efficiency gains and enhancing the Fund's reputation for sustainability. The Sustainability Committee attended workshops, where they identified the key economic, environmental and social sustainability related risks embedded along the Manager's value chain.

The steps below describe the materiality assessment that the Sustainability Committee conducted to derive the materiality matrix as shown below.

STEP 1	STEP 2	STEP 3
Identifying the economic, environmental and social material matters that impact the business and influence the decision-making of key stakeholder groups	Ranking the selected matters on its importance (medium, high and very high) to the different stakeholder groups	Ranking the selected matters on its importance (medium, high and very high) to the manager's business operations

The table below maps the material sustainability matters to the relevant stakeholder group that it concerns as well as the GRI indicators that is used to aptly describe our approach to address these matters.



Legend		
<span style="color: blue;">■</span> Economic	<span style="color: green;">■</span> Environmental	<span style="color: yellow;">■</span> Social

*Sustainability  
Statement (cont'd)*

	Material Matter	Relevant Stakeholder Group	GRI Indicator
•	Economic Performance	Investors, Analysts, Tenants	Economic Performance
•	Occupational Health and Safety	Employees, Customers, Suppliers, Contractors and Service Providers	Occupational Health and Safety
•	Market Presence	Employees, Investors	Market Presence
•	Brand Value and Recognition	Investors, Analysts, Tenants, Employees	General Disclosure
•	Training and Education	Employees	Training and Education
•	Indirect Economic Impact	Customers, Tenants	Indirect Economic Impact
•	Employee Retention	Employees	Employment
•	Diversity and Equal Opportunity	Employees	Diversity and Equal Opportunity
•	Community Engagement	Local Communities	Local Communities
•	Customer Privacy	Customers	Customer Privacy
•	Waste Management	Regulatory Authorities	Effluents and Waste
•	Water Consumption	Regulatory Authorities	Water
•	Energy Consumption	Regulatory Authorities	Energy
•	Procurement and Supply Chain Management	Suppliers, Vendors and Service Providers	Procurement Practices

## Sustainability Statement (cont'd)

### INVESTING IN SUSTAINABILITY

Our property portfolio comprises predominantly retail buildings, including several mixed-use developments with elements of retail components. Established in December 2011, we have grown our portfolio to include four retail and an office tower that amounts to a cumulative valuation of RM5.9 million

### ECONOMIC PERFORMANCE

The Manager is responsible for managing Pavilion REIT's business operations that include operating cash flows, financing arrangements as well as investment and debt maturity profile to ensure that the expectations of our stakeholders are met and our business operations continues to grow sustainably.

In managing financing risks, the Manager has to navigate rising interest rates while maintaining consumer confidence in their investments. We overcome these challenges through strict business practices and by optimising capital management strategy towards obtaining committed and fixed rate funding from financial institutions to balance our funding for short term portfolio, maintaining economic balance and cost effectiveness.

An indirect economic impact of our acquisition of Elite Pavilion Mall (RM580.0 million) is the subway linkage to Fahrenheit88 mall for the local community to enjoy, ensuring that pedestrians and commuters of the general public are able to travel from one mall to another under shelter and comfort of air-conditioning and security.

### BRAND VALUE AND RECOGNITION

The real estate industry has remained as one of the largest contributors to Malaysia's growing economy. Despite the economic and political uncertainties that occurred in the recent years, the real estate market has maintained its stability. We are committed to sustainable development through value creation by managing our economic, environment and social risks which subsequently enhances our brand value and recognition within the REIT industry.

Our brand value proportionally improves with better recognition in the industry, leading to higher tenant engagement and unitholder investments.

Various marketing tools are used to enhance marketing and branding efforts as presented in the illustration. We are aware of the added benefits of rigorous marketing which can significantly boosts Pavilion Kuala Lumpur Mall's positioning as the defining authority in shopping, dining and urban leisure. Preliminary branding efforts have been extended to include Elite Pavilion Mall where the Manager has an allocation to create customer awareness on the location and tenants' demographic at the building using physical and digital avenues.



## Sustainability Statement (cont'd)



### Awards for Excellence

Pavilion Kuala Lumpur Mall has brought several notable achievements which include the Gold Award for Best Experiential Marketing by PPK and the Best Shopping Mall Award (2017) by Going Places Readers' Choice Awards.



#### **Gold Award for Best Experiential Marketing** by

*Persatuan Pengurusan Kompleks (PPK) Malaysia 2018*

In September 2018, Pavilion Kuala Lumpur received the Gold Award for Best Experiential Marketing. Organised annually by Persatuan Pengurusan Kompleks Malaysia (PPK), also known as the Malaysia Shopping Malls Association, the competition recognises Malaysia's most innovative shopping centres for outstanding achievement in marketing. Judged by 5 regional judges, the winning campaign 'Dream Garden of Prosperity', was a celebration of dreams in conjunction with Chinese New Year 2018.

This is the second time consecutively that Pavilion KL was awarded the Gold Award for Best Experiential Marketing, the first being 'The Rise to Opulence' in 2017.



#### **Best Shopping Mall** by

*Going Places Readers' Choice Awards 2017*

In June 2018, Pavilion Kuala Lumpur, was named Best Shopping Mall in Going Places Readers' Choice Awards 2017. Organised by Going Places, the in-flight magazine for Malaysia Airlines, the awards recognised the industry's best for outstanding achievement in tourism and hospitality.

This is the third consecutive win for Pavilion Kuala Lumpur.



## Sustainability Statement (cont'd)

### Market Presence

While we do focus our efforts on expanding our portfolio through new investments to increase our market presence, we endeavour to extend our brand visibility to grow the national economy by ensuring fair and equal remuneration and local hiring. Our senior managers are Malaysians and we practice equal gender wage ratio, thereby emphasising on integrating local culture into our business practices as well as affirming our stance on maintaining equal opportunity regardless of gender, race or religion.

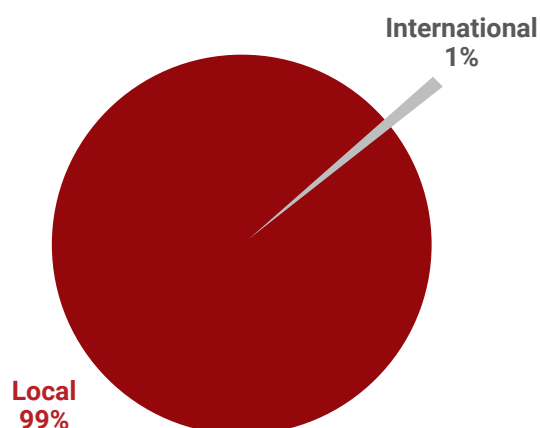


### PROCUREMENT PRACTICES

As a Fund, our main goal is to maintain a real estate portfolio that generates stable distributions for our unitholders and meet the requirements of our stakeholders. Suppliers are engaged to ensure that our business continues to operate smoothly and that our buildings are in excellent working condition. Their services are procured for general purchases, marketing and promotional purposes as well as building maintenance.

For this financial year, we are proud to disclose that approximately more than 99% of our supplier services are procured locally, all operating within Malaysia, and with less than 1% of supplies coming from international service providers for marketing and promotional purposes.

### SUPPLIER ENGAGED



## Sustainability Statement (cont'd)

### Customer Privacy

We are aware of the risks relating to data privacy and security that comes with using technology to streamline services and to enhance operational efficiency. The necessary checks and measures to prevent such risks are in place and these include:

- Implementing in-house standards and policies
- Training staff not to visit suspicious websites
- Training staff not to respond to suspicious emails
- Briefing employees in the event of a major security flaw of its implications
- Avoiding the sub-contracting of IT services to a non-credible third party
- Disallowing vendors to access our servers and databases

Our shopper data-gathering process is transparent and performed directly by the shopper or assisted by customer service personnel. A shopper is required to review their data that will be recorded by the system via a privacy statement that is formulated in accordance with PDPA 2010. Any changes that affects the privacy statement is updated to ensure compliance with the regulation.

In 2018, there has been no security breach nor suspected breach as we diligently monitor our servers and reports on the IT systems to ensure they meet the operational and business requirements of performance, capacity and utilisation.

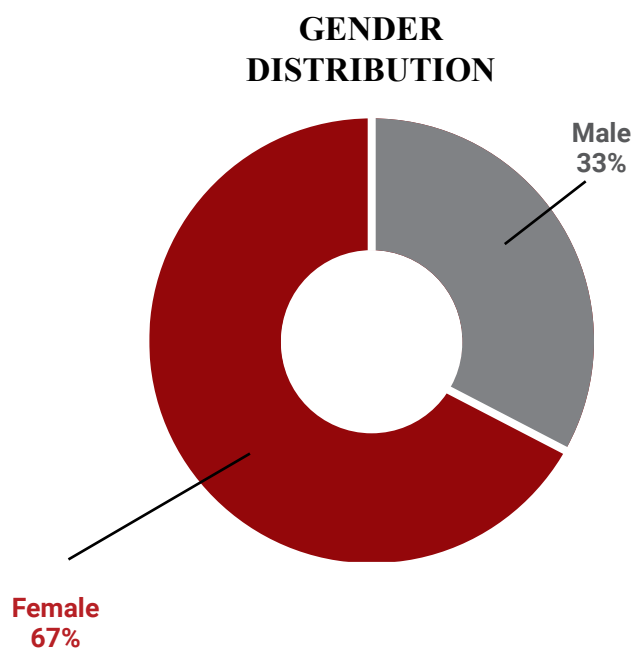
### Building Employee Relations

Our goal is to develop a high-performance culture that prioritises fair practice and embraces diversity. We consider human capital development to be a key part our strategy to recruit, retain and develop employees while emphasising on work-life balance to maintain a healthy and harmonious workplace.

### Diversity and Inclusiveness

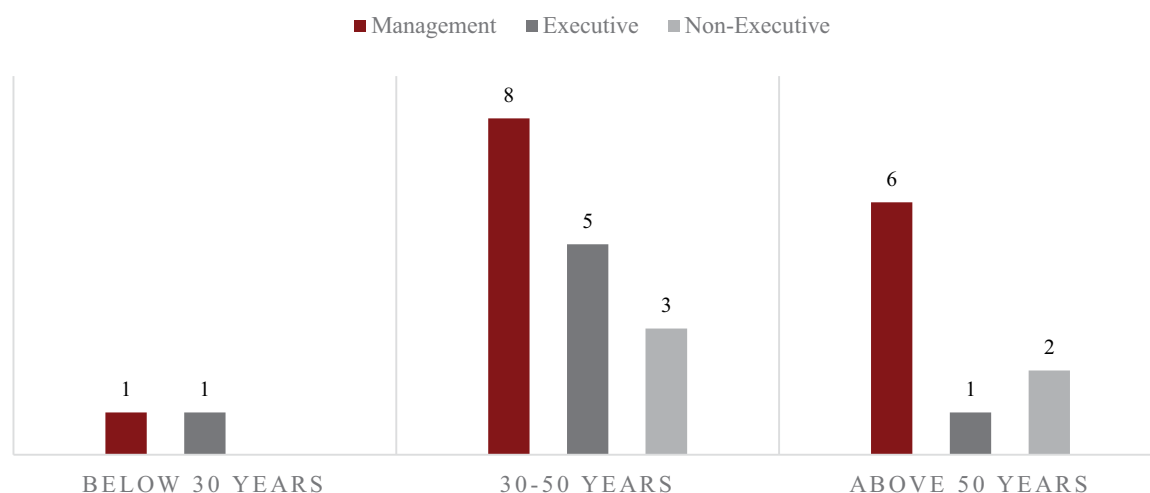
There are a total of 27 employees at Pavilion REIT Management Sdn. Bhd., of which 9 are male and 18 are female. As shown in the gender distribution pie chart the male to female percentage breakdown is 33:67.

We do not show any bias in our recruitment practices as we hire purely on meritorious grounds, regardless of gender, race and religion. The employee distribution graph below illustrates the age distribution of our employees within each employment category. While management comprises assistant managers and above, the executive category comprises all the executives and senior executives.



## Sustainability Statement (cont'd)

### EMPLOYEE DISTRIBUTION



#### Employee Retention

In 2018, we had zero employee turnover. We attribute this to our continuous efforts in maintaining a fair and productive work environment for all. By offering varying benefit plans to our employees, we provide room for them to maintain a good work-life integration.

The benefits include insurance for medical and health purposes, a variety of subsidies for meals, travelling and mobile phone allowances, as well as different types of leave allowance.



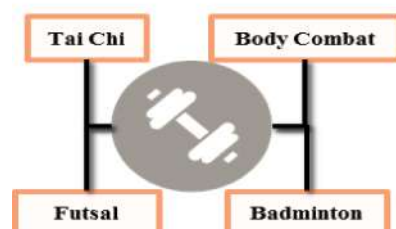
- **Medical**
  - Outpatient
  - Inpatient
- **Health Insurance**
- **Annual Medical Check-Up**

- **Allowance**
  - Travel
  - Handphone
  - Car Park
  - Meal
  - Mileage claim

- **Leave**
  - Maternity
  - Paternity
  - Marriage
  - Compassionate
  - Examination

- **Others**
  - Subscription of Professional Membership
  - Sponsorship of Development Programme

#### Fitness Classes



The health and wellbeing of our employees is important to us. Besides the medical benefits, we sponsor a variety of fitness classes for our employees to encourage them to lead a healthy lifestyle. These fitness classes also provide an avenue for our employees to socialise and reduce work-related stress.

#### Training and Education

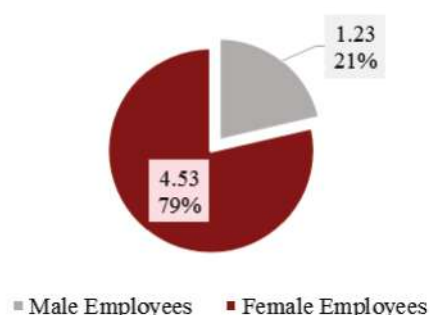
Nurturing and developing our workforce is a top priority for us and it contributes to our ability to attract and retain talent. By focusing on improving and developing our employee skills, we remain updated on current investing trends and management approach in the real estate industry.

## Sustainability Statement (cont'd)

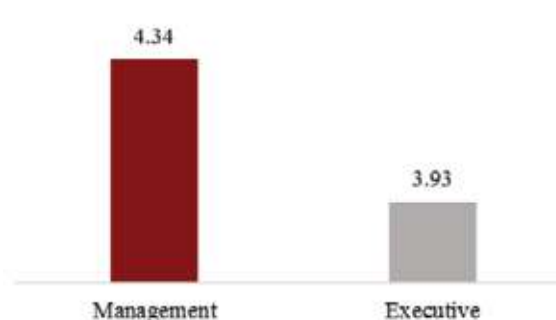
### Training Hours

As of December 2018, the average training hours for our male and female employees are 1.23 hours and 4.53 hours respectively. Our emphasis is to develop the talent we retain to ensure that our business remains industry-relevant. Moving forward, the Manager endeavours to continue to enhance the types of training our employees are enrolled for to optimise and develop their professional skills and contribute to the growth of the Fund.

**AVERAGE TRAINING  
HOURS BY GENDER**



**AVERAGE TRAINING  
HOURS BY DESIGNATION**



### Key Programmes

The training programmes attended by our employees cover topical and current issues related to investment, finance and human resources. Managing the Fund requires extensive knowledge on investment trends related to the real estate industry in order to attract new unitholders and tenants to invest and occupy our buildings. Several key training programmes attended by our employees include:

- Litigation Processes for Tenancy
- Managing Conciliation Processes
- Malaysian Business Reporting System (MBRS) for Preparers – Financial Statements
- Malaysian Code of Corporate Governance (MCCG) 2017 and Bursa Listing Requirements.

### Creating a Safe and Healthy Workplace

As the Manager, we are aware of occupational health and safety ('OHS') issues that would impact our stakeholders. Implementation of safety measures would ensure any concerns that arises would be mitigated and addressed accordingly. Through the establishment of an OHS committee as well as an emergency response team, we manage the OHS performance of the REIT's properties and ensure full compliance to OHS laws and regulation in Malaysia.

### Environment, Health and Safety ("EHS")

Since inception, the CEO has endorsed for EHS policy to be applied across all REIT's properties to govern safe conduct on all business activities and preserve the safety of stakeholders. The policy encompasses prevention and continuous improvement measures including an outline of the duty of employees in maintaining the properties' OHS performance.

## Sustainability Statement (cont'd)



### Pavilion REIT Management Environment, Health & Safety Policy

#### Prevention & Continuous Improvement

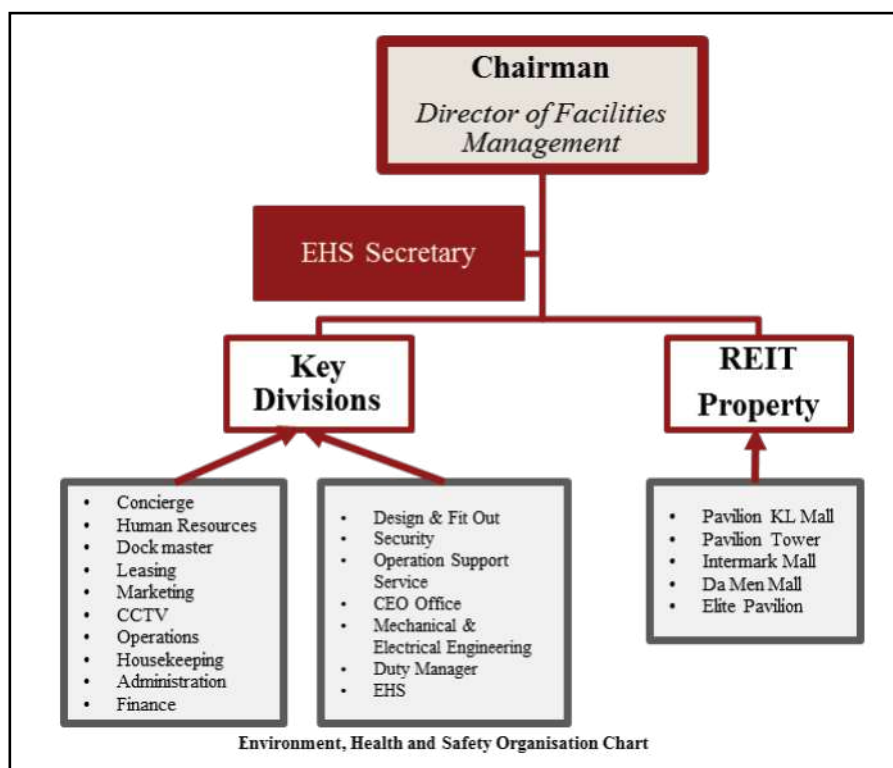
- Provide adequate resources for effective environmental, health and safety management
- Prevent workplace accidents, near misses, dangerous occurrences and occupational diseases and occupational poisoning
- Provide adequate environment, health and safety training programmes
- Provide and maintain a safe and healthy workplace and environment

#### Duty of Employees

- Adhering to the EHS rules and regulations
- Reporting all work-related and environmental incidents
- Assisting in the investigations of accidents, near misses, dangerous occurrences, occupational diseases and occupational poisoning
- Participating in the EHS programmes and actively involved in peer guidance
- Working in a safe and healthy manner through self-regulations principles

#### Environment, Health and Safety ('EHS') Committee and Emergency Response Team ('ERT')

To effectively govern OHS performance, EHS and ERT have been established that comprises members of workforce from various division as illustrated below:



Efforts to strengthen OHS performance are in place via EHS Committee and the ERT. Their responsibilities include quarterly meetings to discuss, share and track all safety and health matters that were reported at the Fund's properties and at the Manager's office. The EHS Committee conducts quarterly safety inspections at the Manager's office with fire drills simulated annually to familiarise tenants and employees on evacuation routes and procedure.

## Sustainability Statement (cont'd)

### Safety Training

As part of the commitment to ensure stakeholder safety, emergency preparedness is optimised through regular and various training methods for the ERT which include first aid certifications for qualified personnel.

The training for emergency preparedness are classified under four main categories: first aid, understanding and managing safety, specialist, and fire safety/emergency response. Each category is supported by relevant training programmes that key personnel are required to undertake to maintain their first aid qualifications and create awareness on handling emergency situations. Examples of key training programmes, by category, is presented in the illustration below.

First Aid	Understanding and Managing Safety	Specialist	Fire Safety/Emergency Response
<ul style="list-style-type: none"> <li>• CPR/AED Refresher</li> <li>• Medic Training</li> <li>• Epilepsy</li> </ul>	<ul style="list-style-type: none"> <li>• Safety Committee Inspection Training</li> <li>• Chemical Handling &amp; Personal Protective Equipment</li> <li>• Hazard Identification Risk Assessment and Risk Control &amp; Determination</li> <li>• Working at Height</li> <li>• Food Safety &amp; Hygiene Inspection Training</li> <li>• First Aid Training for Tenant</li> <li>• Workplace Threat &amp; Violence</li> <li>• Power Failure</li> <li>• Managing Child Birth</li> <li>• Contractor Safety Induction</li> </ul>	<ul style="list-style-type: none"> <li>• Safety, Legal, Handling of Weapons (Pistol), Bullets and Shooting Course</li> <li>• Building Lock Down – Office</li> <li>• Standard Operating Procedure (SOP) – Handling Bomb Threat Call and Search Procedure</li> <li>• Civil Disturbance</li> <li>• Kidnapping</li> <li>• Earthquake</li> <li>• Handling Riot/H ostage</li> </ul>	<ul style="list-style-type: none"> <li>• Fireman Breathing Apparatus Training</li> <li>• Fire Safety Conference</li> <li>• Fire Drill Briefing for Tenant</li> <li>• Mall Fire Drill</li> <li>• Fire Extinguisher Practice</li> <li>• Fireman, Search &amp; Rescue Training</li> <li>• ERT &amp; BOMBA Training</li> <li>• Introduction to Fireman PPE, Wet Riser &amp; Hose Reel</li> <li>• Natural Gas Leak</li> <li>• Medic Training for First Responder</li> </ul>

## Sustainability Statement (cont'd)

### Building Social Harmony

We strive towards supporting our local community in areas we operate and make positive contributions that facilitate harmonious and peaceful living. At Pavilion Kuala Lumpur and DA MEN malls, we host various community programmes that are open to the public to participate and enjoy together amongst family and friends. The illustration below highlights the community programmes hosted at our malls for this financial year.

#### Pavilion Kuala Lumpur Mall



- Dream Garden of Prosperity, Chinese New Year CSR Campaign
- The Sunshine Programme
- Sponsorship of Students to attend Oral Rehabilitation Symposium
- Raya Seribu Impian, Hari Raya 2018 CSR Programme
- Yayasan Budi Penyayang Malaysia (PENYAYANG)
- Bukit Bintang Girls School (BBGS) Alumni Berhad
- Malaysia Retailers Association (MRA)
- Lion-Parkson Foundation
- International Council of Shopping Centres (ICSC)

#### DA MEN Mall

- National Science Week (S.T.E.M. Project)
- Promotion Space to retail Penan baskets and bags
- Table Tennis Tournament for local and international players
- MONOCLE – ICAD Degree Showcase 2018
- UNICEF Awareness Campaign
- Moshi Moshi Da Men Campaign
- Kami Anak Merdeka Festival 2018
- The Malaysian Big Latch, The Gift of Love Celebration





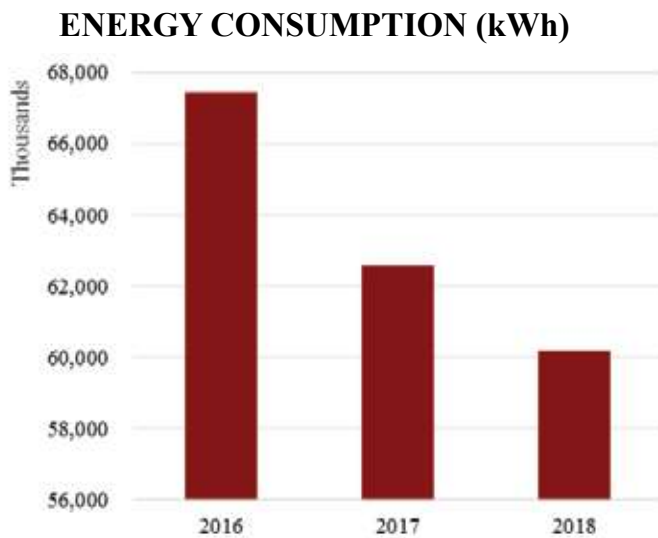
## Sustainability Statement (cont'd)

### Managing Environmental Footprint

The efficient use of environmental resources such as energy, water and prudent management of waste contributes to our operational efficiency and long-term sustainability and mitigates ecological risks. Our malls have become an integral part of the society and we seek to mitigate any negative environmental impact arising from our operations without compromising the safety, security and experience of our tenants and customers.

### ENERGY CONSUMPTION

The total energy consumption for Pavilion Kuala Lumpur Mall is illustrated in the graph below.



Year	Electricity Consumption ('000) (kWh)
2016	67,440
2017	62,581
2018	60,161

In reducing consumption, our efforts include continuous enhancement and replacement of the current T5 model to the more energy efficient LED without compromising the comfort and brightness illumination to shoppers, and the installation of sensors in baby nursing rooms and disabled toilets as the usage of these facilities are lower in comparison to the public toilets. As a result of these efforts, the energy consumption for Pavilion Kuala Lumpur Mall has shown a reduction of consumption of 3.9% in 2018 when compared to the total energy consumed in 2017.

We recognise that approximately 40.0% of our total electricity consumption is for operating the chillers. These chillers incur high demand of electricity especially during hot weather when their cooling load increases or when there is a high volume of shopper traffic. As part of our continuous efforts in reducing energy consumption, we are seeking alternative solutions to reduce the consumption from chillers.

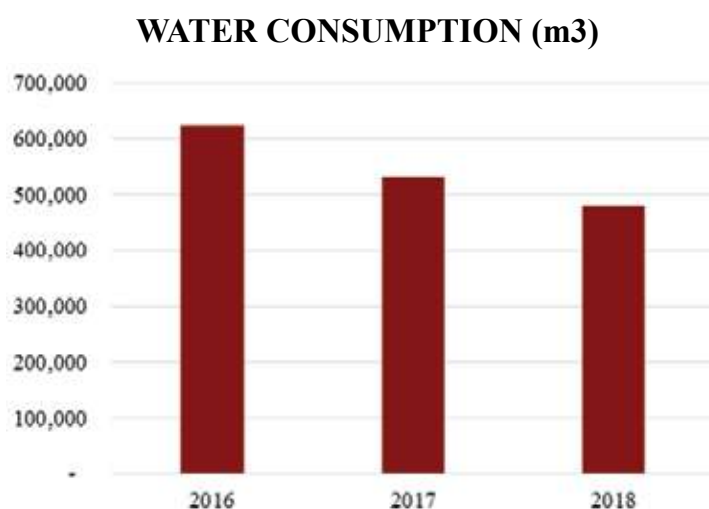
Renewable energy is an area that we recognise will lessen our environmental burden. Therefore, we are exploring the option of installing solar panels in Pavilion Kuala Lumpur Mall. Currently, we are in discussion with Tenaga Nasional Berhad to negotiate a feasible proposal to address the impeding factors of high capital cost which will also negatively affect the returns on such an investment.

## Sustainability Statement (cont'd)

### WATER CONSUMPTION

When taking into consideration the day-to-day operations at the malls, the highest water consumption is used for public restrooms which include sanitary facilities. Other sources of water usage include air conditioning systems, cooling towers and the chilled water expansion tanks.

The total water consumption for Pavilion Kuala Lumpur Mall is illustrated in the graph below.

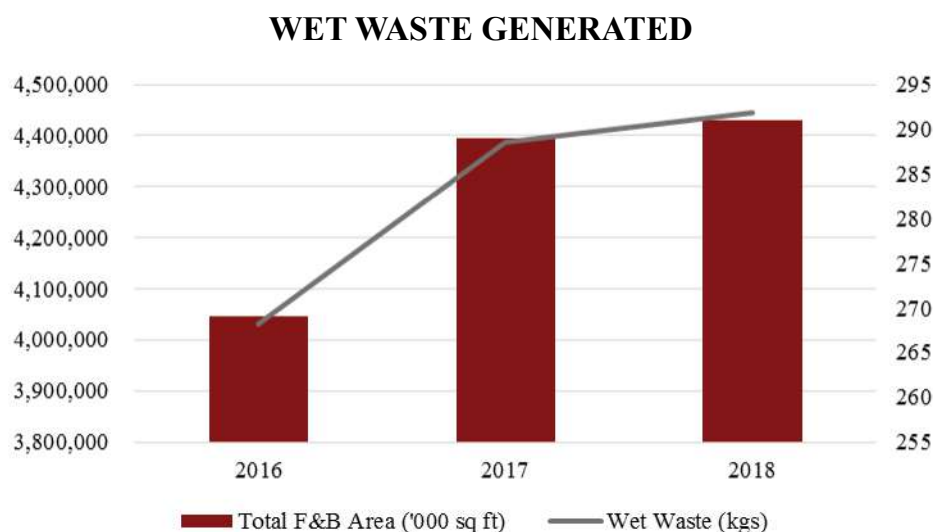


Year	Water Consumption (m3)
2016	624,566
2017	531,059
2018	478,624

Our efforts for water management includes installing automated sanitary fittings and conducting regular maintenance checks with prompt reporting for corrective action. As a result of these initiatives, we are pleased to report that the average water consumption (m3) for Pavilion Kuala Lumpur showed a 9.9% reduction in 2018 when compared to the water consumed in 2017.

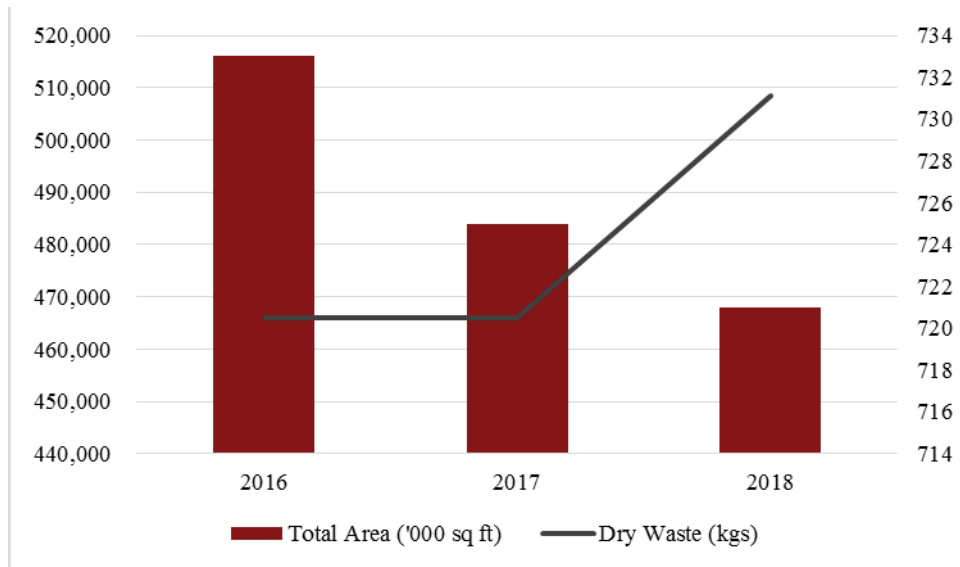
### WASTE MANAGEMENT

Waste that is generated at Pavilion Kuala Lumpur Mall is recorded on a monthly basis and the two main categories are wet waste and dry waste. The chart below illustrates the wet and dry waste generated as compared to the total area occupied in 2016, 2017 and 2018. One of the main reasons for the increase in waste generated over the years is the corresponding increase in tenants. Across the three years, the increase in the wet waste generated is mainly due to the increase in the number of food and beverage tenants.



## Sustainability Statement (cont'd)

### DRY WASTE GENERATED

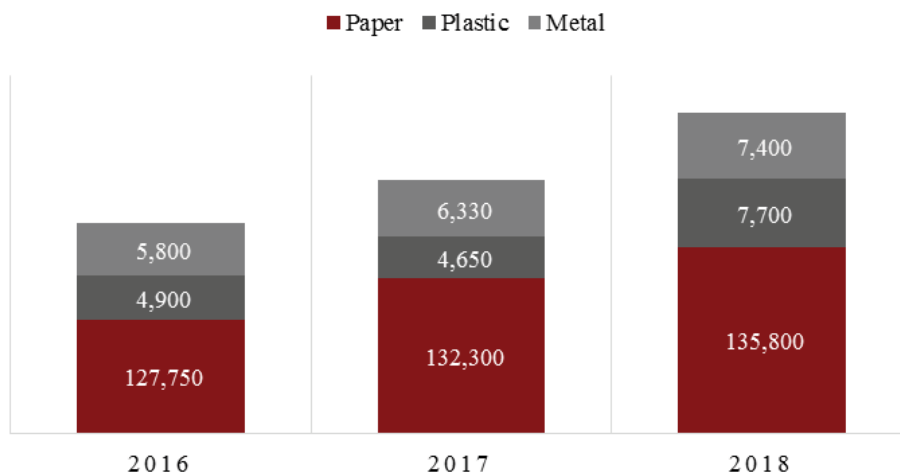


Food waste constitutes the wet waste that is generated and in managing this waste stream, plans to recycle these food wastes into compost which can be subsequently used as a soil enhancer or organic fertilizer is being re-evaluated. Some of the challenges faced includes proper segregation of food waste and the high initial investment cost for a suitably sized composting system given the quantity of food waste generated daily.

Segregation is a fundamental step in managing and reducing waste that enters the landfill. Hencewith, two general workers are engaged at the refuse chamber room to segregate recyclable waste such as paper, plastic and metal from non-recyclable waste. To encourage waste segregation by our customers and tenants, we have placed recycling bins for paper, plastic and metal on every floor.

The quantity of paper, plastic and metal waste that was recycled in the past years are as illustrated in the chart below.

### RECYCLED WASTE (KG)

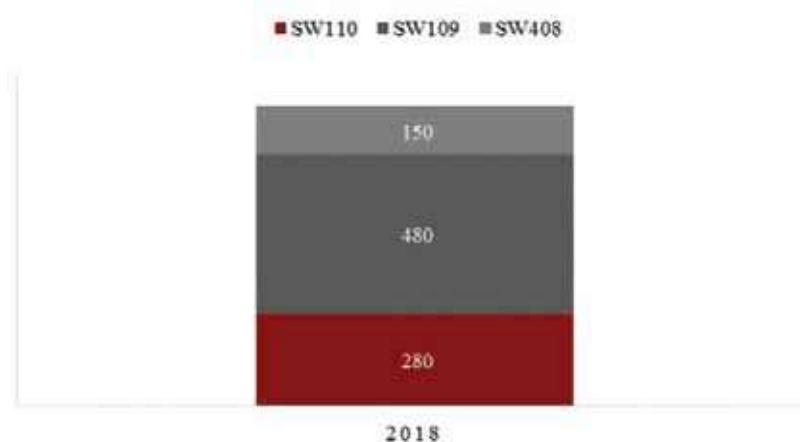


## Sustainability Statement (cont'd)

Scheduled waste refers to waste streams regulated under the Environmental Quality (Scheduled Waste) Regulations, 2005 which is enforced by the Department of Environment (DOE), Malaysia. In accordance to the regulation, we engage a DOE-licensed contractor for occasional collection and disposal at authorised recycling and/or disposal facilities.

As the disposal is done as and when required, there were no disposal arranged for the 2016 and 2017 with latest disposal being made in 2018. The quantity of scheduled waste (computer waste (SW110), spent fluorescent tubes (SW109) and saw dust contaminated with oil (SW408) that was recycled is illustrated in the chart below.

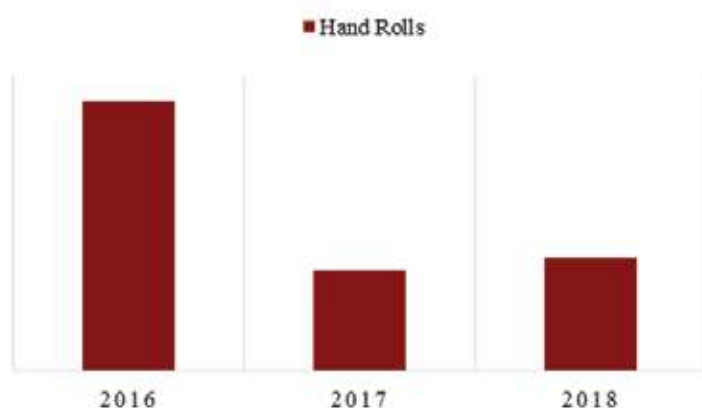
### SCHEDULED WASTE (KG)



### PAPER WASTE REDUCTION

As part of the effort to reduce deforestation and paper pollution, hand dryers have progressively been introduced into Pavilion Kuala Lumpur Mall toilets in order to reduce the usage of hand towels.

### USAGE OF RECYCLE HAND TOWELS (ROLLS)



Year	Usage of Hand Towels (Rolls)
2016	29,604
2017	27,026
2018	27,221

### Conclusion

Pavilion REIT is committed to managing the relevant economic, environmental and social risks and opportunities across its portfolio as these matters are being recognised of increasing importance in the context of strengthening sustainability performance and of increasing influence to stakeholders. The Manager is confident that with a robust strategy that addresses these sustainability risks, we will build the long-term resilience of the Fund while contributing positively to the environment and society, and at the same time, creating long-term value for stakeholders.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

Pavilion REIT Management Sdn Bhd, the Manager of Pavilion Real Estate Investment Trust, was set-up to manage and administer Pavilion REIT. Licensed by the Securities Commission under the Capital Market Services Act, the Manager in carrying out its responsibilities advocates good corporate governance to retain high values of clarity, responsibility and honesty and be subjected to provisions of the Deed, Listed REIT Guidelines, MMLR, Malaysian Code on Corporate Governance 2017 and any other relevant laws.

The Manager shall, in managing Pavilion REIT, undertake primary management activities in relation to Pavilion REIT, including but not limited to overall strategy, risk management strategy, new acquisition and disposal analysis, marketing and communications, individual asset performance and business planning, market performance analysis and other activities as provided under the Deed with proper, diligent and efficient manner with acceptable and efficacious business practices in the real estate investment industry.

### Principal A : Board Leadership and Effectiveness

The Board members, with their wide, varied range of expertise, skills and experiences have adopted the primary responsibilities as listed in the MMLR and Malaysian Code on Corporate Governance 2017, all of which is to steward Pavilion REIT's business and facilitate the discharge of the Manager's responsibilities with a view to enhance unitholders value and interest and maintaining high standards of transparency, accountability and integrity. The Board Charter was formally approved and adopted by the Board on 1 November 2012.

The Board meets at least once every quarter and focuses on principal matters such as strategic issues and planning, including performance reviews and promoting business sustainability, setting the risk appetite, acquisitions and disposals, financial performance and advocating ethical standards through a code of conduct.

Notices, agenda and meeting papers are circulated to directors in a timely manner to ensure that the directors have sufficient time to review the matters under consideration. All members of the Board have access to the advice and services of Company Secretary and compliance officer and are entitled to obtain independent professional advice in discharging their duties.

Members of Board consists of twelve members, of which three are non-independent executive directors, five non-independent non-executive directors and four independent non-executive directors.

Although the Chairman is an executive director with only one third of its Board being independent non-executive directors, the Board believes that the Chairman, who has significant interest in Pavilion REIT will act in the best interest of Pavilion REIT unitholders.

The Chairman carries out a leadership role in the conduct of the Board and is primarily responsible for ensuring the adequacy and integrity of the governance process besides guiding and mediating the Board's action and maintaining regular dialogues with the CEO.

The CEO, whose position is held separately by a different person, is responsible to ensure the effective implementation of strategic plan and policies established by the Board to manage the daily conduct of its business to ensure the smooth operations, supervision and management of Pavilion REIT. The proposed and approved policies and standard operating procedures for level of authority for transactions, maintenance and operations of Pavilion REIT's properties as well as acquisitions and divestments of investments procedures will continuously be reviewed, enhanced and updated in line with changes in the operating environment.

Audit Committee and Nominating Committees, comprising mainly of independent directors have also been setup to assist the Board in discharging its duties and responsibilities via terms and reference approved by the Board members. The Committee members would meet to discuss on matters within their scope and thereafter the Committee Chairman would recommend them to the Board for decision. All Committee and Board meetings are minuted. More details are available under the section of Audit Committee Report and Nominating Report respectively.

## Corporate Governance Statement (cont'd)

Any director that has any interest, whether directly or indirectly, in a contract or proposed contract would have to declare his / her interest and not participate in deliberations and shall abstain from casting his / her votes in any matter arising therefrom. Should there be an actual, potential or perceived conflict of interest or a related corporate and a director, or an associate of a director as a spouse or other family members, the director involved shall make full disclosure and act honestly in the best interest of Pavilion REIT. The Audit Committee is responsible to review any related party transactions or conflict of interest situations and the Manager will ensure compliance with the Deed and any other regulatory guidelines.

Directors shall devote sufficient time to carry out their responsibilities. The Board will obtain this commitment from its members at the time of appointment. Directors shall notify the Chairman before accepting any new directorships and the notification shall provide for an indication of time that will be spent on the new appointment. The remuneration or fees due to its Directors are paid by the Manager and not Pavilion REIT.

The Board met six times during the financial year ended 31 December 2018 with details of attendance as stated below :

Name of Directors	Designation	Number of meetings attended
Tan Sri Lim Siew Choon	Chairman and Non-Independent Executive Director	6/6
Puan Sri Tan Kewi Yong	Non-Independent Executive Director	6/6
Dato' Lee Tuck Fook	Non-Independent Executive Director	5/6
Ahmed Ali H A Al-Hammadi	Non-Independent Non-Executive Director	3/6
Ahmad Mohammed F Q Al-Khanji	Non-Independent Non-Executive Director	6/6
Mohd Abdulrazzaq A A Al-Hashmi	Non-Independent Non-Executive Director	6/6
Navid Chamdia	Non-Independent Non-Executive Director	4/6
Ooi Ah Heong	Non-Independent Non-Executive Director	6/6
Dato' Mohzani bin Abdul Wahab	Independent Non-Executive Director	6/6
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	6/6
Dato' Choo Chuo Siong	Independent Non-Executive Director	6/6
Syed Mohd Fareed bin Shaikh Alhabshi	Independent Non-Executive Director	5/6

During the financial year under review, the Directors had attended various conferences and programmes to enhance their knowledge and expertise as well as to keep abreast with the relevant changes in law, regulations and business environment.

Training programmes, seminar and conferences attended by the Directors during the financial year were :

- Corporate Governance Briefing Sessions – MCCG Reporting & CG Guide
- Cryptocurrency, Blockchain & Beyond : A Cautionary Tale
- Independent Directors Programme – The Essence of Independence
- Invest Malaysia Conference 2018
- Power Talk & Directors Dialogue “Effective Boards in a VUCA World”

The Nomination Committee had reviewed and accessed each Board member and concluded that their performance is satisfactory with performance level and qualifications being met and in compliance with requirements. Independent directors are autonomous and can deliver objective judgement for the Board's deliberation.

Moving forward, an Investment / Risk Committee is proposed to be set-up to provide oversight over the operation and management of the Fund with more corporate governance matters being disclosed on its website.

## Corporate Governance Statement (cont'd)

### Principal B : Effective Audit and Risk Management

Audit Committee members, comprising mainly of independent directors, are responsible to evaluate risks, review financial reporting, gauge internal and external audit processes as well as to review related party transactions and conflict of interest situations. Additional information are available under the section of Audit Committee Report and Statement of Risk Management and Internal Control.

The Nominating Committee had determined that Audit Committee and its members have discharged their duties effectively and in accordance with their terms and reference.

### Principal C : Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders

The Board acknowledges that providing prompt and accurate disclosure of information to unitholders is critical. Hencewith, disclosures are made via annual report and announcements on Bursa Malaysia, corporate website, roadshows and conferences. Consistent engagement ensures that Pavilion REIT's information are transmitted on timely basis. Annual general meeting is also another platform for unitholders to engage with the Manager to seek clarification, update and feedback.

The CEO, as the official spokesperson for the Fund, regularly meets with analyst and fund managers to provide them with updates or upon request, besides attending investors' roadshows and seminars. Besides timely announcements and disclosures to Bursa Malaysia, its website, [www.pavilion-reit.com](http://www.pavilion-reit.com) is also regularly being updated. Please refer to Investors Relation and Fund Performance section for details of roadshows or seminars attended.

The Manager will continue to enhance its communication channels to ensure its unitholders, fund managers and stakeholders obtain information that are timely and relevant.



## NOMINATING COMMITTEE REPORT

The Nominating Committee has been established on 24 April 2013 and currently comprises five Non-Executive Directors with a majority of whom are independent directors.

Name of Directors	Designation	Number of Meetings Attended
Dato' Maznah binti Abdul Jalil (Chairperson)	Independent Non-Executive Director	1/1
Dato' Mohzani bin Abdul Wahab	Independent Non-Executive Director	1/1
Dato' Choo Chuo Siong	Independent Non-Executive Director	1/1
Ooi Ah Heong	Non-Independent Non-Executive Director	0/1
Mohd Abdulrazzaq A A Al-Hashmi	Non-Independent Non-Executive Director	1/1

The Nominating Committee is responsible for assessing the performance of the Board and directors on an on-going basis. It also reviews the required mix of skills, experience and other qualities of the Directors to ensure that the Board and Board Committees are functioning effectively and efficiently. The Nominating Committee focuses on the skills, experience, competence and integrity to enable the Board to make effective business decisions and recommendations. For the independent directors, they are assessed based on their independence and abilities to discharge their responsibilities and functions with objective judgement.

The Nominating Committee is also tasked with identifying, nominating, orientating and recommending candidature for new directors. There were no new appointment of director considered during the financial year ended 31 December 2018.

The Board has not specified any gender policies in its evaluation of candidacy. However, the evaluation will be reviewed and revised from time to time to meet the needs of the Manager.

During the financial year ended 31 December 2018, the Nominating Committee had assessed and reviewed the following aspects:

- (i) the performance of the Board and Board Committees;
- (ii) the contribution of each of the Directors;
- (iii) the independence of the Independent Non-Executive Directors;
- (iv) the term of office, performance of Audit Committee and each of its members;
- (v) the terms and reference of the Nominating Committee Charter; and
- (vi) to recommend those Directors retiring be nominated for re-election/re-appointment having regard to the individual's experience, contributions and performance.

The Nominating Committee is satisfied with the performance of the Board, Board Committees and contribution of each of the Directors. The Independent Non-Executive Directors have maintained their independence and are competent to continue serving as the independent directors. The Audit Committee and its members have discharged their duties effectively and in accordance with their terms of reference.

## AUDIT COMMITTEE REPORT

The Audit Committee, formed on 24 October 2012 comprising of 4 members has been entrusted to assess the risks and control environment, oversee financial reporting, evaluate the internal and external audit process as well as to review conflict of interest situations and related party transactions.

Name of Directors	Designation	Number of Meetings Attended
Dato' Mohzani bin Abdul Wahab (Chairman)	Independent Non-Executive Director	4/4
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	4/4
Dato' Choo Chuo Siong	Independent Non-Executive Director	4/4
Navid Chamdia	Non-Independent Non-Executive Director	3/4

Summary of work undertaken by Audit Committee during the year under review is as listed below :-

- reviewed and deliberated with the Manager's management the quarterly financial results to recommend to the Board for approval and release to Bursa Malaysia. Consideration was given by Audit Committee to understand financial results of each properties with close attention given to update under "Prospects"
- reviewed list of related party transactions every quarter to determine whether there has been any material change as compared to the previous quarter and whether the transactions have been established under normal commercial terms that are no less favourable than those arranged with independent parties
- reviewed the internal control plan prepared by BDO Governance Advisory Sdn Bhd ("BDO") and its availability of staff
- on 26 July 2018, a meeting was held by Audit Committee with BDO to assess the internal control review report prepared by them. BDO gave explanation on findings of review, proposed recommendations and corresponding Manager's responses, which were noted by the Audit Committee
- reviewed audit plan with external auditor, KPMG PLT by understanding its audit methodology, significant risk areas and accounting policies / disclosures and timing. KPMG PLT were also asked of its succession planning of its key personnel leading the audit and sufficiency of resources.
- on 29 January 2019, the Audit Committee were briefed privately by KPMG PLT (without presence of the Manager's management) on status of its audit
- reviewed and commented on the audit committee report and statement of risk management and internal control for inclusion into the annual report
- evaluated the work scope, approach and fees to outsourced internal auditor and recommended for their engagement
- evaluated the approach and fees of external auditor and recommended for their engagement for the following year

For the current year, BDO has been engaged to perform internal audit review for Pavilion REIT. Summary of its work undertaken during the year under review is as listed below :-

- presented its work scope and timeframe covering key business processes of procurement to payment of property operating expenditure and property enhancement expenditure, tenancy management to collection of rentals, acquisition and divestment of investment properties as well as fund management activities
- reviewed the adequacy and test the integrity of the system of internal controls
- assessed compliance with policies and procedures and recommend best business practices
- reviewed and identified potential areas for improvement in the effectiveness and efficiency of the processes
- conducted a high level review and on-site health-check of a GST return based on the Fund's business activities and supporting documentation to ensure correct, complete disclosure and compliance
- selected samplings to determine whether treatment have been correctly applied, reported in accordance with applicable tax codes and made valid tax credit claims
- conducted follow up review on status of implementation of management plan pertaining to previous year internal control review
- presented findings of internal audit review to Audit Committee members

### Audit and Non-Audit Fees

Audit and non-audit fees payable to the external auditor of Pavilion REIT for the current financial year amounted to RM200,000 and RM87,000 respectively.

## STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

The Manager realises the significance of establishing a sufficient and effective risk management and internal control system, and has attended to this under the Pavilion REIT Operation Manual approved by the Board. Such process has been in place for the past years under review, including up to the date of approval of this statement for inclusion in the annual report.

There is a policy in place pertaining to the level of authority required for transactions and standard operating procedures pertaining to operations and maintenance of Pavilion REIT's properties as well as acquisitions and divestments of property.

The Audit Committee and Board meet at least once every quarter to review the financial performance of Pavilion REIT against the approved budget. The Board also reviews the business risk of Pavilion REIT, where identified by the CEO, internal auditor and external auditor and acts accordingly, where deemed appropriate. Board's approval is required for any proposed acquisition or disposal of investment property, which would be evaluated from the aspect of economic, environment, financial and risks relevant to the property industry / sector. The CEO meets the management regularly to review, monitor and manage risks identified by the management and thereafter, update the Audit Committee as required.

Standard Operating Procedures for management of Pavilion REIT properties have been adopted, which comprise operational guide, control and monitoring procedures / reports.

BDO Governance Advisory Sdn Bhd ("BDO") has been appointed as internal auditor whereby they had performed internal control review of the following areas:-

- i) Procurement to payment of property operating expenses and property enhancements;
- ii) Tenancy management to collection of rentals;
- iii) Acquisition and divestment of investment properties
- iv) Fund management activities; and
- v) Goods and Services Tax health check review

The execution strategy that BDO adopts is one that is risk-based and process life cycle focused. Risk-based approach allows BDO to prioritise audit on functions or processes that are of the highest concern, or which will have significant impact to Pavilion REIT in the event of control failures.

A process life cycle approach allows BDO to:

- Understand and evaluate business processes and related business controls from a risk perspective along the entire life cycle;
- Identify control, inadequacies within the processes and recommend practical solution; and
- Consider the effectiveness and efficiency of processes and controls, ie not just in terms on integrity but also in terms of process improvement opportunities.

The Audit Committee has reviewed the findings presented by BDO during the year. Recommendations made by BDO to document procedures in accordance with good practices will be revised, improved and updated in line with changes in the operating environment.

The Board has received assurance from the CEO that the risk management and internal control system is operating sufficiently and effectively, in all material aspects.

The Board is of the view that the risk management and internal control system in place for the year under review is adequate and effective. Nevertheless, it will always be improved and updated in line with changes in the operating environment.

Due to inherent restrictions, the controls which are employed are intended to cope with and are not expected to eliminate all risks of failure to achieve business objectives. Established controls can only provide realistic and not total assurance against material misstatement of management and financial information or against financial losses and fraud.

## MANAGER'S REPORT

The Manager is pleased to present its report together with the audited financial statement of Pavilion REIT for the financial year ended 31 December 2018.

Pavilion REIT is a Malaysia-domiciled real estate investment trust constituted pursuant to the Deed and was formally admitted to the Main Market of Bursa Malaysia Securities Berhad on 7 December 2011.

There is no change in the strategy or direction in Pavilion REIT's intention of investing, directly and indirectly in a diversified portfolio of income producing real estate used solely or predominantly for retail purposes with the primary objective to provide the unitholders with regular and stable distributions and achieve long-term growth in NAV per unit, while maintaining an appropriate capital structure.

### Directors

Directors of the Manager who served during the financial year until the date of this report are:

Tan Sri Lim Siew Choon  
Puan Sri Tan Kewi Yong  
Dato' Lee Tuck Fook  
Ahmed Ali H A Al-Hammadi  
Ahmad Mohammed F Q Al-Khanji  
Mohd Abdulrazzaq A A Al-Hashmi  
Navid Chamdia  
Ooi Ah Heong  
Dato' Mohzani Bin Abdul Wahab  
Dato' Maznah Binti Abdul Jalil  
Dato' Choo Chuo Siong  
Syed Mohd Fareed Bin Shaikh Alhabshi

### Directors' Interests in Shares

The interests in the unitholdings of a real estate investment trust managed by the Manager and the shareholdings in the Manager and of its related corporations of those who were Directors at the financial year end are as follows:

	At 1.1.2018	Number of units		At 31.12.2018
		Bought	Sold	
Direct unitholdings in Pavilion REIT:				
Tan Sri Lim Siew Choon	845,425,000	–	–	845,425,000
Puan Sri Tan Kewi Yong	281,875,000	–	–	281,875,000
Dato' Lee Tuck Fook	100,000	–	–	100,000
Navid Chamdia	100,000	–	–	100,000
Ooi Ah Heong	100,000	–	–	100,000
Dato' Mohzani Bin Abdul Wahab	100,000	–	–	100,000
Dato' Maznah Binti Abdul Jalil	100,000	–	–	100,000

	At 1.1.2018	Number of ordinary shares		At 31.12.2018
		Bought	Sold	
Direct interest in the ultimate holding corporation of the Manager, Pavilion Pacific Ltd:				
Tan Sri Lim Siew Choon	75	–	–	75
Puan Sri Tan Kewi Yong	25	–	–	25
Indirect interest in a related company of the Manager, Urusharta Cemerlang Sdn Bhd:				
Tan Sri Lim Siew Choon	113,730,000	–	–	113,730,000
Puan Sri Tan Kewi Yong	113,730,000	–	–	113,730,000
Indirect interest in the Manager:				
Tan Sri Lim Siew Choon	2,550,000	–	–	2,550,000
Puan Sri Tan Kewi Yong	2,550,000	–	–	2,550,000

## Manager's Report (cont'd)

By virtue of their interest in the shares of Pavilion Pacific Ltd, the ultimate holding corporation of the Manager, Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong are deemed to have interest in the shares of the subsidiaries to the extent that the ultimate holding corporation has an interest.

Except as disclosed above, the other Directors of the Manager holding office at 31 December 2018 had no interest in the ordinary shares of the Manager and of its related companies during the financial year.

### Directors' Benefit

For the year ended 31 December 2018, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by Pavilion REIT or a related corporation with the Director or with a firm which the Director is a member, or with a company in which the Director has substantial financial interest except as disclosed in the Financial Statements of Pavilion REIT.

There were no arrangements during and at the end of the twelve months period which had the object of enabling Directors of the Manager to acquire benefits by means of acquisition of Units or debentures of Pavilion REIT or any other body corporate except as disclosed in the Financial Statements of Pavilion REIT.

### Soft Commission

There was no soft commission received by the Manager during the reporting financial year.

### Manager's Fee

Pursuant to the Deed, the Manager is entitled to receive the following :-

- i) a base fee ("Base Fee") of up to 1.0% per annum of the total asset value of Pavilion REIT (excluding cash and bank balances which are held in non-interest bearing accounts).
- ii) a performance fee ("Performance Fee") of up to 5.0% per annum of net property income of Pavilion REIT.
- iii) an incentive fee ("Incentive Fee") receivable as follows effective from the second full financial year in which Pavilion REIT has been established and in operation (subject to the relevant approval by Pavilion REIT's unitholders being obtained).

Fee Receivable (% per annum of the total asset value of Pavilion REIT)	Criteria – Provided that annual growth in the distributable income in a Financial Year (calculated before accounting for Incentive Fee in that Financial Year):
Up to 0.10%	Exceeds 7.5% and up to 10.0%
Up to 0.15%	Exceeds 10.0% and up to 12.5%
Up to 0.20%	Exceeds 12.5%

- iv) an acquisition fee ("Acquisition Fee") of 1.0% of transaction value in relation to an acquisition of any real estate and real estate related assets directly or indirectly acquired.
- v) a divestment fee ("Divestment Fee") of 0.5% of transaction value in relation to disposal of any real estate and real estate related assets directly or indirectly sold or divested.

The Base Fee, Performance Fee, Acquisition Fee and Divestment Fee shall be receivable in the form of cash, new Units of Pavilion REIT or a combination thereof at the sole discretion of the Manager. The Incentive Fee is receivable in Units only.

Fund management fees in cash are receivable within seven (7) days of the following events:

- i) in respect of the Base Fee and Performance Fee, the announcement of the relevant quarterly financial reports;
- ii) in respect of the Acquisition Fee and Divestment Fee, the completion of the relevant acquisition/divestment.

Fund management fees in units are receivable upon approval from the authority for the listing of and quotation of Pavilion REIT Units. Where approval cannot be obtained, the fees shall be receivable in cash.

## Manager's Report (cont'd)

### Other Information

Before the statement of profit or loss and other comprehensive income and statement of financial position of Pavilion REIT were made out, the Manager took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Manager is not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in Pavilion REIT inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of Pavilion REIT misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of Pavilion REIT misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of Pavilion REIT misleading.

At the date of this report, there does not exist:

- i) any charge on the assets of Pavilion REIT that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of Pavilion REIT that has arisen since the end of the financial year.

No contingent liability or other liability of Pavilion REIT has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Manager, will or may substantially affect the ability of Pavilion REIT to meet its obligations as and when they fall due.

In the opinion of the Manager, the financial performance of Pavilion REIT for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

### Material Litigation

There is no material litigation pending that is not disclosed in this report.

### Sanctions and/or Penalties

There is no public sanction and/or penalty imposed on Pavilion REIT, the Manager or Directors of the Manager by the relevant regulatory bodies during the financial year ended 31 December 2018.

### Auditor

The auditors of Pavilion REIT, Messrs KPMG PLT, have indicated their willingness to accept re-appointment.

For and on behalf of Pavilion REIT Management Sdn Bhd

**TAN SRI LIM SIEW CHOON**  
Chairman

**DATO' LEE TUCK FOOK**  
Non-Independent Executive Director

Kuala Lumpur  
29 January 2019



# Financial Statements

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## STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
<b>Assets</b>			
Plant and equipment	4	1,570	2,129
Investment properties	5	5,893,000	5,268,000
Other non-current assets	6	–	58,000
<b>Total non-current assets</b>		5,894,570	5,328,129
Inventories		2,084	1,554
Trade and other receivables	7	81,302	48,098
Cash and bank balances	8	379,768	275,383
<b>Total current assets</b>		463,154	325,035
<b>Total assets</b>		6,357,724	5,653,164
<b>Liabilities</b>			
Borrowings	9	1,431,874	1,462,681
Payables and accruals	10	46,987	73,107
<b>Total non-current liabilities</b>		1,478,861	1,535,788
Borrowings	9	715,959	–
Payables and accruals	10	184,948	177,099
<b>Total current liability</b>		900,907	177,099
<b>Total liabilities</b>		2,379,768	1,712,887
<b>Net asset value</b>		3,977,956	3,940,277
<b>Financed by</b>			
<b>Unitholders' fund</b>			
Unitholders' capital	11	2,924,229	2,913,849
Accumulated income		1,053,727	1,026,428
<b>Total unitholders' fund</b>		3,977,956	3,940,277
<b>Net asset value ("NAV")</b>			
Before income distribution		3,977,956	3,940,277
After income distribution*		3,843,126	3,810,589
<b>Number of units in circulation ('000 units)</b>	11	3,036,705	3,030,094
<b>NAV per unit (RM)</b>			
Before income distribution		1.3100	1.3004
After income distribution*		1.2656	1.2576

\*after proposed final income distribution of 4.44 sen per unit (2017: 4.28 sen per unit)

The notes on pages 78 to 113 are an integral part of these financial statements

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Rental income		486,239	429,313
Revenue from contract customers		12 44,677	32,662
Other income		24,061	28,026
<b>Gross revenue</b>		554,977	490,001
Utilities		(64,748)	(57,959)
Maintenance		(49,888)	(49,781)
Property taxes		(15,277)	(12,793)
Other operating expenses		(50,277)	(46,555)
<b>Net property income</b>		374,787	322,913
Fair value gain on investment properties		33,618	17,028
Interest income		10,864	8,165
Gain on disposal of investment property		–	274
<b>Net investment income</b>		419,269	348,380
Manager's management fees	13	(29,722)	(26,651)
Trustee's fees	1(c)	(470)	(470)
Valuation fee		(708)	(548)
Other trust expenses	1(c)	(1,938)	(530)
Borrowing costs	14	(97,747)	(70,734)
<b>Income before taxation</b>		288,684	249,447
Tax expense	15	–	–
<b>Income after taxation/Total comprehensive income attributable to unitholders</b>		288,684	249,447
<b>Income after taxation is made up as follows:</b>			
Realised		255,066	232,419
Unrealised		33,618	17,028
		288,684	249,447
<b>Basic/Diluted earnings per unit (sen)</b>	16	9.51	8.24
Total comprehensive income		288,684	249,447
Distribution adjustments	A	(22,086)	236
Distributable income		266,598	249,683
<b>Distribution per unit (sen) - interim</b>		4.34	3.96
<b>Distribution per unit (sen) - final</b>		4.44	4.28
<b>Note A</b>			
<b>Distribution adjustments comprise:</b>			
Amortisation of transaction costs		3,543	3,435
Depreciation	4	559	504
Fair value gain of investment properties		(33,618)	(17,028)
Manager's management fees payable in units	13	7,430	13,325
		(22,086)	236

The notes on pages 78 to 113 are an integral part of these financial statements

## STATEMENT OF CHANGES IN NET ASSET VALUE

for the year ended 31 December 2018

	Note	Unitholders' capital RM'000	Accumulated income/ (deficit) RM'000	Total funds RM'000
<b>At 1 January 2017</b>		2,900,708	1,020,141	3,920,849
Income after taxation/Total comprehensive income for the year attributable to unitholders		–	249,447	249,447
<b>Unitholders' transactions</b>				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		13,141	–	13,141
Distribution to unitholders	17	–	(243,160)	(243,160)
Increase/(Decrease) in net assets resulting from unitholders' transactions		13,141	(243,160)	(230,019)
<b>Net assets at 31 December 2017/ 1 January 2018</b>		2,913,849	1,026,428	3,940,277
Income after taxation/Total comprehensive income for the year attributable to unitholders		–	288,684	288,684
<b>Unitholders' transactions</b>				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		10,380	–	10,380
Distribution to unitholders	17	–	(261,385)	(261,385)
Increase/(Decrease) in net assets resulting from unitholders' transactions		10,380	(261,385)	(251,005)
<b>Net assets at 31 December 2018</b>		2,924,229	1,053,727	3,977,956

Note 11

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
<b>Cash flows from operating activities</b>			
Income before taxation		288,684	249,447
Adjustments for:			
Borrowing costs	14	97,747	70,734
Depreciation	4	559	504
Fair value gain on investment properties		(33,618)	(17,028)
Gain on disposal of investment property		–	(274)
Gain on disposal of plant and equipment		(24)	(1)
Impairment loss on trade receivables		407	1,459
Interest income		(10,864)	(8,165)
Plant and equipment written off		–	14
<b>Operating income before changes in working capital</b>		342,891	296,690
Changes in inventories		(530)	(239)
Changes in receivables		(33,611)	(5,691)
Changes in payables		(43,824)	1,905
Changes in tenants' deposits		11,433	2,186
<b>Net cash from operating activities</b>		276,359	294,851
<b>Cash flows from investing activities</b>			
Acquisition of investment properties		(505,362)	–
Deposit for acquisition of investment properties		–	(58,000)
Interest received		10,864	8,165
Payment for enhancement of investment properties		(3,520)	(22,540)
Pledged deposit		(19,032)	(1,270)
Proceeds from disposal of investment property		–	88
Proceeds from disposal of plant and equipment		24	1
Purchase of plant and equipment		–	(689)
<b>Net cash used in investing activities</b>		(517,026)	(74,245)
<b>Cash flows from financing activities</b>			
Distribution to unitholders		(261,385)	(243,160)
Interest paid		(94,204)	(67,299)
Payment of financing expenses		(1,191)	(276)
Proceed from borrowings		800,000	47,171
Repayment of borrowings		(117,200)	–
<b>Net cash from/(used in) financing activities</b>		326,020	(263,564)
Net increase/(decrease) in cash and cash equivalents		85,353	(42,958)
Cash and cash equivalents at 1 January		234,395	277,353
<b>Cash and cash equivalents at 31 December</b>	(i)	319,748	234,395

*Statement of  
Cash Flows  
for the year ended 31 December 2018 (cont'd)*

**Note to Statement of cash flows**

(i) Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	<b>Note</b>	<b>2018 RM'000</b>	<b>2017 RM'000</b>
Cash and bank balances	8	36,116	18,706
Deposits placed with licensed banks	8	343,652	256,677
		<hr/>	<hr/>
Less: Pledged deposits	8	379,768 (60,020)	275,383 (40,988)
		<hr/>	<hr/>
		319,748	234,395
		<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General

Pavilion Real Estate Investment Trust ("Pavilion REIT") is a Malaysia-domiciled real estate investment trust constituted pursuant to a trust deed dated 13 October 2011 ("the Deed") between Pavilion REIT Management Sdn. Bhd. ("the Manager") and MTrustee Berhad ("the Trustee"). The Deed is regulated by the Securities Commission Act 1993, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Listing Requirements of Bursa Malaysia Securities Berhad, the Rules of the Depository and taxation laws and rulings. Pavilion REIT will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of Clause 26 of the Deed. The addresses of the Manager's registered office and principal place of business are as follows:

#### **Registered office**

6-2, Level 6, East Wing  
Menara Goldstone  
(Holiday Inn Express)  
No.84, Jalan Raja Chulan  
50200 Kuala Lumpur

#### **Principal place of business**

Lot 10.00.00, Level 10  
Pavilion Kuala Lumpur  
168, Jalan Bukit Bintang  
55100 Kuala Lumpur

The financial statements as at and for the financial year ended 31 December 2018 comprise the Pavilion REIT and its wholly-owned special purpose companies, Pavilion REIT Venture Capital Sdn. Bhd. and Pavilion REIT Bond Capital Berhad, companies incorporated in Malaysia, of which the principal activity are to raise financing for and on behalf of Pavilion REIT.

Pavilion REIT is to invest, directly and indirectly in a diversified portfolio of income producing real estate used solely or predominantly for retail purposes with the primary objective to provide the unitholders with regular and stable distributions and achieve long-term growth in net assets value ("NAV") (being the total unitholders' fund) per unit, while maintaining an appropriate capital structure.

Pavilion REIT was formally admitted to the Main Market of Bursa Malaysia Securities Berhad on 7 December 2011.

The financial statements were approved by the Board of Directors of the Manager on 29 January 2019.

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

#### **(a) Property management fees**

The Property Manager, Henry Butcher Malaysia Sdn. Bhd., is entitled to property management fee of RM380,000 (2017: RM380,000) per annum (excluding goods and services tax). In addition, the Property Manager is also entitled to full reimbursement of costs and expenses incurred in the operation, maintenance, management and marketing of the properties held by Pavilion REIT (including but not limited to the cost relating to the employment and remuneration of on-site staff provided) ("Permitted Expenses") as well as fees and reimbursements for Permitted Expenses payable to its service providers.

#### **(b) Manager's management fees**

Pursuant to the Deed, the Manager is entitled to receive the following fees from Pavilion REIT:

- (i) a base fee ("Base Fee") of up to 1.0% per annum of the Total Asset Value of Pavilion REIT (excluding cash and bank balances which are held in non-interest bearing accounts).
- (ii) a performance fee ("Performance Fee") of up to 5.0% per annum of Net Property Income.

## Notes to the Financial Statements (cont'd)

### 1. General (Cont'd)

#### (b) Manager's management fees (Cont'd)

- (iii) an incentive fee ("Incentive Fee") payable as follows effective from the second full financial year in which Pavilion REIT has been established and in operation (subject to the relevant approval by unitholders being obtained).

Fee Payable (% per annum of the Total Asset Value of Pavilion REIT)	Criteria – Provided that annual growth in the Distributable Income in a Financial Year (calculated before accounting for Incentive Fee in that Financial Year):
Up to 0.10%	Exceeds 7.5% and up to 10.0%
Up to 0.15%	Exceeds 10.0% and up to 12.5%
Up to 0.20%	Exceeds 12.5%

- (iv) an acquisition fee ("Acquisition Fee") of 1.0% of transaction value in relation to an acquisition of any real estate and real estate related assets directly or indirectly acquired.
- (v) a divestment fee ("Divestment Fee") of 0.5% of transaction value in relation to disposal of any real estate and real estate related assets directly or indirectly sold or divested.

The Manager shall be paid the Base Fee, Performance Fee, Acquisition Fee and Divestment Fee in the form of cash, new units or a combination thereof at the election of the Manager in its sole discretion. The Incentive Fee is payable in units only.

The payment of the Manager's management fee in the form of new units will be in accordance with the following formula:

$$\text{New Units to be issued as payment of the Management Company's management fee} = \frac{\text{Management Company's management fee payable in Units}}{\text{Market Price}}$$

For this purpose, "Market Price" means the volume weighted average market price of the Units for the last 5 Market Days preceding the following events:

- (i) in respect of the Base Fee and Performance Fee, the announcement of the relevant quarterly financial reports;
- (ii) in respect of the Incentive Fee, the announcement of the annual financial statements; or
- (iii) in respect of the Acquisition Fee and Divestment Fee, the completion of the relevant acquisition/divestment,

(each a "**Trigger Event**").

With reference to any book closing date, where the Trigger Event is before but the issuance of the new Units relating to such Trigger Event is after the said book closing date, the Market Price will be further adjusted for the entitlement relating to such book closing date.

The Manager will make an immediate announcement to Bursa Securities disclosing the number of new units to be issued and the issue price of the new units when new units are issued as payment for Management Fee. Payment of the Management Fees in units shall also be subjected to Pavilion REIT complying with the public spread requirements stated in the Main Market Listing Requirements and there being no adverse implications under the Malaysian Code on Take-Overs and Mergers 2016.

#### (c) Trustee's fees

In accordance to the Deed, an annual trusteeship fee of up to 0.05% per annum of NAV, but limited to RM470,000 for the current financial year, is to be paid to Trustee.

For the financial year, Pavilion REIT has incurred reimbursed expenses to the Trustee of RM525 (2017: RM621) which is part of other trust expenses.



## Notes to the Financial Statements (cont'd)

### 2. Basis of preparation

#### (a) Statement of compliance

The financial statements of Pavilion REIT have been prepared in accordance with the provisions of the Deed, Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by Pavilion REIT:

##### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019**

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

##### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020**

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

##### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021**

- MFRS 17, *Insurance Contracts*

##### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed**

- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Pavilion REIT plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for amendments to MFRS 11 and 128 which are not applicable to Pavilion REIT.
- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020,
- Pavilion REIT does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to Pavilion REIT.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current year and prior years financial statements of Pavilion REIT except as mentioned below:

## Notes to the Financial Statements (cont'd)

### 2. Basis of preparation (Cont'd)

#### (a) Statement of compliance (Cont'd)

##### **MFRS 16, Leases**

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The expected changes that may arise from the adoption of MFRS 16 are not expected to have a material impact to Pavilion REIT.

#### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 3 and on a going concern basis.

Pavilion REIT has net current liabilities of RM437,753,000 as at 31 December 2018 because borrowings of RM715,959,000 will be due in 2019.

The following matters have been considered by the Manager in determining the appropriateness of the going concern basis in the preparation of the financial statements of Pavilion REIT:

- i. Borrowings of RM715,959,000 which are included in current liabilities are secured by investment properties as mentioned in Note 9 to the financial statements will be refinanced, and
- ii. The Manager expects Pavilion REIT will continue to be profitable and generate operating cash inflows for Pavilion REIT in the next twelve months.

#### (c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the functional currency of Pavilion REIT. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

#### (d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

There are no significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 5 – investment properties and Note 15.2 – unrecognised deferred tax assets.

## Notes to the Financial Statements (cont'd)

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to the years presented in these financial statements by Pavilion REIT, except as disclosed below:

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

- i) financial instruments;
- ii) revenue recognition; and
- iii) impairment losses of financial instruments

as compared to those adopted in previous financial statements. There were no material impact arising from the adoption of MFRS 15 and MFRS 9 on Pavilion REIT's financial statements.

#### (a) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by Pavilion REIT. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Pavilion REIT controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive.

Pavilion REIT also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Pavilion REIT's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

##### (ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to Pavilion REIT.

For new acquisitions, Pavilion REIT measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, Pavilion REIT elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that Pavilion REIT incurs in connection with a business combination are expensed as incurred.

## Notes to the Financial Statements (cont'd)

### 3. Significant accounting policies (Cont'd)

#### (a) Basis of consolidation (Cont'd)

##### (iii) Loss of control

Upon the loss of control of a subsidiary, Pavilion REIT derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If Pavilion REIT retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity accounted investee or as a financial asset depending on the level of influence retained.

##### (iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these financial statements.

#### (b) Financial instruments

Unless specifically disclosed below, Pavilion REIT generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, Pavilion REIT have elected not to restate the comparatives.

##### (i) Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, Pavilion REIT becomes a party to the contractual provisions of the instrument.

##### Current financial year

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

##### Previous financial year

Financial instrument was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

##### (ii) Financial instrument categories and subsequent measurement

Pavilion REIT categorises financial instruments as follows:

##### **Financial assets**

##### Current financial year

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless Pavilion REIT changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

## Notes to the Financial Statements (cont'd)

### 3. Significant accounting policies (Cont'd)

#### (b) Financial instruments (Cont'd)

##### (ii) Financial instrument categories and subsequent measurement (Cont'd)

###### **Financial assets (Cont'd)**

###### **Amortised cost**

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impairment financial assets (see Note 3 (h)(i)) where the effective interest rate is applied to the amortised cost.

###### **Previous financial year**

In the previous financial year, financial assets of Pavilion REIT were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurements* as follows:

###### **Loans and receivables**

Loans and receivables category comprised debt instruments that were not quoted in an active market, trade and other receivables and cash equivalents.

Financial assets categorised as loans and receivables were subsequently measured at amortised cost using the effective interest method.

All financial assets were subject to impairment assessment (see Note 3(h)(i)).

###### **Financial liabilities**

###### **Current financial year**

The categories of financial liabilities at initial recognition are as follows:

###### **Amortised cost**

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

###### **Previous financial year**

All financial liabilities were subsequently measured at amortised cost.

## Notes to the Financial Statements (cont'd)

### 3. Significant accounting policies (Cont'd)

#### (b) Financial instruments (Cont'd)

##### (iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or transferred or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### (c) Plant and equipment

##### (i) Recognition and measurement

Items of plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

##### (ii) Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Pavilion REIT, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

##### (iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment.

The estimated useful lives for the current and comparative year are as follows:

Furniture and fittings	10 years
IT equipment and software	3 years
Motor vehicles	5 years
Renovation	10 years
Tools and office equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at end of the financial year, and adjusted as appropriate.

## Notes to the Financial Statements (cont'd)

### 3. Significant accounting policies (Cont'd)

#### (d) Investment property

##### **Investment property carried at fair value**

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any changes therein recognised in the profit or loss for the financial year in which they arise. For investment properties acquired under equity-settled share-based payment transactions, the investment properties are initially measured at fair value, with corresponding increase in equity.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the financial year in which the item is derecognised.

External, independent valuation firm(s), having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values Pavilion REIT's investment properties portfolio every year.

#### (e) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in terms of which Pavilion REIT assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

#### (f) Inventories

Inventories represent general supplies used in the daily operations of Pavilion REIT.

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is measured based on first-in-first-out basis, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

#### (g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

## Notes to the Financial Statements (cont'd)

### 3. Significant accounting policies (Cont'd)

#### (h) Impairment

##### (i) Financial assets

Pavilion REIT generally applied the following account policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, Pavilion REIT elected not to restate the comparatives.

##### **Current financial year**

Pavilion REIT recognised loss allowances for expected credit losses on financial assets measured at amortised costs. Expected credit losses are a probability-weighted estimate of credit losses.

Pavilion REIT measure loss allowances at an amount equal to lifetime expected credit loss except for cash and bank balance for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when expected credit loss, Pavilion REIT consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Pavilion REIT's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which Pavilion REIT are exposed to credit risk.

Pavilion REIT estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, Pavilion REIT assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospects of recovery. This is generally the case when Pavilion REIT determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Pavilion REIT's procedures for recovery amount due.

##### **Previous financial year**

All financial assets were assessed at each reporting date whether there was any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, were not recognised.

An impairment loss in respect of loans and receivables was recognised in profit or loss and was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account.



## Notes to the Financial Statements (cont'd)

### 3. Significant accounting policies (Cont'd)

#### (h) Impairment (Cont'd)

##### (ii) Other assets

The carrying amounts of other assets (except for inventories and investment properties that are measured at fair value) are reviewed at the end of each financial year to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

#### (i) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

#### (j) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

#### (k) Revenue and other income

##### (i) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease.

##### (ii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

*Notes to the  
Financial Statements (cont'd)*

### 3. Significant accounting policies (Cont'd)

#### (k) Revenue and other income (Cont'd)

##### (iii) Other income

Other income consists of provision of facilities and usage of space to customers and other miscellaneous income, and is recognised in the profit or loss when (or as) the customers obtain control of the good or service.

#### (l) Expenses

##### (i) Property expenses

Property expenses consist of property management fees, quit rents and assessment, and other property outgoings in relation to investment properties where such expenses are the responsibility of Pavilion REIT.

Property management fees are recognised on an accrual basis.

##### (ii) Manager's management fees

Manager's management fees are recognised on an accrual basis using the applicable formula, stipulated in Note 1(b).

##### (iii) Trustee's fees

Trustee's fees are recognised on an accrual basis using the applicable formula, stipulated in Note 1(c).

#### (m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the financial year, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, and the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the financial year.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 3(d), the amount of deferred tax recognised is measured using the tax rates that would apply on the sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each financial year and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## Notes to the Financial Statements (cont'd)

### 3. Significant accounting policies (Cont'd)

#### (n) Earnings per unit

Pavilion REIT's earnings per unit ("EPU") is presented based on basic and diluted format.

Basic EPU is calculated by dividing the profit or loss attributable to unitholders of Pavilion REIT by the weighted average number of units outstanding during the year.

Diluted EPU is determined by adjusting the profit or loss attributable to unitholders against the weighted average number of units outstanding adjusted for the effects of all dilutive potential units.

#### (o) Operating segments

An operating segment is a component of Pavilion REIT that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Pavilion REIT's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Manager of Pavilion REIT, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete segmental financial information is available.

#### (p) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, Pavilion REIT uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

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

Pavilion REIT recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

*Notes to the  
Financial Statements (cont'd)*

**4. Plant and equipment**

	<b>Furniture and fittings RM'000</b>	<b>IT equipment and software RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Renovation RM'000</b>	<b>Tools and office equipment RM'000</b>	<b>Total RM'000</b>
<b>Cost</b>						
At 1 January 2017	1,469	950	22	415	2,328	5,184
Addition	4	54	78	–	553	689
Disposal	–	–	–	–	(8)	(8)
Write off	(3)	(22)	–	–	(10)	(35)
At 31 December 2017/ 1 January 2018	1,470	982	100	415	2,863	5,830
Addition	–	–	–	–	–	–
Disposal	–	–	–	–	(74)	(74)
Write off	(1)	–	–	–	(3)	(4)
At 31 December 2018	1,469	982	100	415	2,786	5,752
<b>Accumulated depreciation</b>						
At 1 January 2017	644	589	14	4	1,975	3,226
Depreciation for the year	147	164	5	42	146	504
Disposal	–	–	–	–	(8)	(8)
Write off	(2)	(9)	–	–	(10)	(21)
At 31 December 2017/ 1 January 2018	789	744	19	46	2,103	3,701
Depreciation for the year	148	158	18	41	194	559
Disposal	–	–	–	–	(74)	(74)
Write off	(1)	–	–	–	(3)	(4)
At 31 December 2018	936	902	37	87	2,220	4,182
<b>Carrying amounts</b>						
At 1 January 2017	825	361	8	411	353	1,958
At 31 December 2017/ 1 January 2018	681	238	81	369	760	2,129
At 31 December 2018	533	80	63	328	566	1,570

## Notes to the Financial Statements (cont'd)

### 5. Investment properties

	2018 RM'000	2017 RM'000
At 1 January	5,268,000	5,229,000
Enhancements/Capital expenditure	3,520	22,540
Addition to investment properties	587,862	–
Disposal of investment property	–	(568)
Change in fair values recognised in profit or loss	33,618	17,028
At 31 December	5,893,000	5,268,000

Investment properties are charged as securities for bank borrowings as disclosed in Note 9.

Addition to investment properties included acquisition fee paid to the Manager based on 1.0% (2017: nil) of purchase consideration of Elite Pavilion Mall.

There was no divestment fee paid to the Manager relating to disposal of investment property (2017: 0.5% of transaction value).

Details of the investment properties are as follows:

	Date of acquisition	Date of valuation	Location	Tenure	Occupancy rates as at 31.12.2018 %	Fair value as at 31.12.2018 RM'000	Cost as at 31.12.2018 RM'000	Percentage of fair value to NAV as at 31.12.2018 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2018	Kuala Lumpur	Leasehold*	99	4,700,000	3,517,223	118
Pavilion Tower	7.12.2011	31.12.2018	Kuala Lumpur	Leasehold*	94	133,000	128,000	3
DA MEN Mall	25.3.2016	31.12.2018	Subang Jaya	Interest in perpetuity	74	310,000	500,377	8
Intermark Mall	25.3.2016	31.12.2018	Kuala Lumpur	Interest in perpetuity	94	170,000	164,190	4
Elite Pavilion Mall	27.4.2018	31.12.2018	Kuala Lumpur	Interest in perpetuity#	97	580,000	587,862	15
Investment properties						5,893,000	4,897,652	

	Date of acquisition	Date of valuation	Location	Tenure	Occupancy rates as at 31.12.2017 %	Fair value as at 31.12.2017 RM'000	Cost as at 31.12.2017 RM'000	Percentage of fair value to NAV as at 31.12.2017 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2017	Kuala Lumpur	Leasehold*	99	4,550,000	3,515,591	115
Pavilion Tower	7.12.2011	31.12.2017	Kuala Lumpur	Leasehold*	98	133,000	128,000	3
DA MEN Mall	25.3.2016	31.12.2017	Subang Jaya	Interest in perpetuity	86	416,000	498,481	11
Intermark Mall	25.3.2016	31.12.2017	Kuala Lumpur	Interest in perpetuity	90	169,000	164,198	4
Investment properties						5,268,000	4,306,270	

\* The lease has a period of 99 years expiring in 2109.

# The Extension-Connection has a period of 99 years expiring in 2109.

NAV Net asset value

## Notes to the Financial Statements (cont'd)

### 5. Investment properties (Cont'd)

#### 5.1 Fair value information

All investment properties are categorised as Level 3 fair value.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Description of valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.	<ul style="list-style-type: none"> <li>Risk-adjusted term capitalisation rates ranging from 6.00% to 6.75% (2017: 6.00%) for Pavilion Kuala Lumpur Mall, 6.25% to 6.75% (2017: 6.00%) for Pavilion Tower, 6.00% to 6.50% for Elite Pavilion Mall and 6.00% (2017: 6.50% to 7.00%) for Intermark Mall and DA MEN Mall.</li> <li>Risk-adjusted reversion capitalisation rate of 6.50% (2017: 6.50%) for Pavilion Kuala Lumpur Mall and Pavilion Tower, 6.25% for Elite Pavilion Mall and 6.50% (2017: 6.75%) for Intermark Mall and DA MEN Mall.</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>risk-adjusted term capitalisation rates were lower (higher).</li> <li>risk-adjusted reversion capitalisation rates were lower (higher).</li> </ul>

#### Level 3 fair value

Individual strata titles in respect of the Pavilion Kuala Lumpur Mall, Pavilion Tower and Elite Pavilion Mall have not been issued. The valuation is on the basis/assumption that individual strata titles in respect of the subject properties are forthcoming and when issued, will be free from all encumbrances and restrictive condition over the respective strata floor areas and Pavilion Kuala Lumpur Mall and Pavilion Tower will convey 99-year leasehold interest expiring in year 2109.

The transfer of the land title in respect of Pavilion Kuala Lumpur Mall, Pavilion Tower and Elite Pavilion Mall in favour of the Trustee are pending submission by respective land owners to the Land Office.

The land title in respect of the DA MEN Mall had been transferred in favour of the Trustee on 29 August 2018.

#### Valuation processes applied by the Manager for Level 3 fair value

The fair value of investment properties is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. In relying on the valuation reports, the Manager has exercised its judgment and is satisfied that the valuation methods and estimates are reflective of current market conditions.

#### Highest and best use

Pavilion REIT's investment properties are currently four retail malls and an office building. The properties on their own is the highest and best use, as three of the retail malls are on prime land in the city centre. The other retail mall is within a mix development which consist of residential and shop office. The office building has been refurbished in recent years, thus it is not cost effective to convert it to a retail mall at the moment. The office building also complements the retail mall by bringing human traffic to the retail mall, especially during lunch hours.

## Notes to the Financial Statements (cont'd)

### 6. Other non-current assets

Included in other non-current assets were deposits placed for the proposed acquisition of investment property (see Note 26.1). This acquisition was completed during the financial year.

### 7. Trade and other receivables

	2018 RM'000	2017 RM'000
<b>Current</b>		
<b>Trade</b>		
Trade receivables	39,922	32,169
Less: Impairment losses	(1,825)	(1,702)
	38,097	30,467
<b>Non-trade</b>		
Other receivables	34,391	8,984
Deposits	2,071	2,165
Prepayments	6,743	6,482
	43,205	17,631
	81,302	48,098

Included in other receivables is GST receivable amounting RM34,170,000 (2017: RM5,088,000).

### 8. Cash and bank balances

	2018 RM'000	2017 RM'000
Cash and bank balances	36,116	18,706
Deposits placed with licensed banks	343,652	256,677
	379,768	275,383

Included in the deposits placed with licensed banks is an amount of RM60,020,000 (2017: RM40,988,000) which is maintained in Debt Service Reserve Accounts with licensed banks to cover a minimum of six months interest for banking facilities granted to Pavilion REIT (Note 9).

*Notes to the  
Financial Statements (cont'd)*

## 9. Borrowings

	Note	2018 RM'000	2017 RM'000
<b>Non-current</b>			
Secured syndicated term loan	9.1	735,900	735,900
Secured term loan	9.2	–	433,159
Unrated medium term notes	9.3	700,000	300,000
Less: Unamortised transaction costs		(4,026)	(6,378)
		1,431,874	1,462,681
<b>Current</b>			
Secured term loan	9.2	415,959	–
Unrated medium term notes	9.3	300,000	–
		715,959	–
		2,147,833	1,462,681
Average interest rate of borrowings		4.8%	4.6%
Gearing/Borrowings ratio		33.8%	25.9%

### 9.1 Secured syndicated credit facilities of RM815.9 million

Pavilion REIT entered into a facility agreement and its supplementary facility agreement dated 3 November 2011 and 23 November 2011 respectively ("Facility Agreements") through its wholly owned subsidiary, Pavilion REIT Venture Capital Sdn. Bhd. ("Borrower") for syndicated credit facilities ("Facilities") of up to RM815.9 million with licensed banks ("Lenders") comprising revolving term loan facilities and bank guarantee as follows:

- (i) RTL1 - a revolving term loan ("RTL") facility of up to RM705.9 million to part finance the acquisition of investment properties and future acquisitions by Pavilion REIT;
- (ii) RTL2 - a revolving term loan facility of up to RM100.0 million to finance general working capital of Pavilion REIT (including acquisition of assets); and
- (iii) BG/RTL3 - a bank guarantee ("BG") of up to RM10.0 million for the issuance of performance bonds, bank guarantees, indemnities or undertakings and a revolving term loan facility for the conversion of any amounts paid out under the performance bonds, bank guarantees, indemnities or undertakings issued under bank guarantee.

The financing facilities are secured by debenture incorporating fixed and floating charge over all present and future assets of Pavilion REIT.

The tenure of the syndicated credit facilities had been extended to another five years from 7 December 2016 up to a maturity date of 7 December 2021. The Lenders have the option to convert RTL1 to a fixed interest rate at their sole discretion and subject to the consent of all Lenders.

The revolving credit borrowings are secured over Pavilion Kuala Lumpur Mall and Pavilion Tower as disclosed in Note 5 with a fair value of RM4,833,000,000 (2017: RM4,683,000,000) and an amount of RM21,180,000 (2017: RM20,498,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.



## Notes to the Financial Statements (cont'd)

### 9. Borrowings (Cont'd)

#### 9.2 Secured term loan facilities of RM486.8 million

Pavilion REIT entered into a facility agreement and its supplementary letter of offer dated 22 March 2016 and 23 March 2016 respectively through its Trustee ("Borrower") for credit facilities of up to RM486.8 million with licensed bank (the "Bank") comprising term loan, revolving credit facilities and bank guarantee as follows:

- (i) TL - a term loan ("TL") facility of RM461.8 million to part finance the purchase consideration for the acquisition of the DA MEN Mall;
- (ii) RC - a revolving credit ("RC") facility of up to RM25.0 million to part finance its working capital requirements; and
- (iii) BG - a bank guarantee facility of up to the maximum aggregate principal amount of RM3.0 million subject always to the RC/BG combined limit for the issuance of performance and financial guarantee in respect of the DA MEN Mall.

The secured term loan facilities are secured over DA MEN Mall as disclosed in Note 5 with a fair value of RM310,000,000 (2017: RM416,000,000) and an amount of RM13,138,000 (2017: RM12,690,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.

#### 9.3 Medium term notes of RM8.0 billion

On 24 June 2015, the Securities Commission Malaysia had approved and authorised the establishment of a proposed medium term notes ("MTNs") programme of RM8.0 billion in nominal value ("MTN Programme") to be undertaken by Pavilion REIT Bond Capital Berhad ("Issuer"), a company wholly owned by Pavilion REIT. The MTN Programme shall have a tenure of twenty years from the date of the first issuance of MTNs under the MTN Programme. An issuance of MTNs under the MTN Programme may either be rated or unrated, as the Issuer may decide.

The medium term notes are secured over Pavilion Kuala Lumpur Mall and Pavilion Tower as disclosed in Note 5 with a fair value of RM4,833,000,000 (2017: RM4,683,000,000) and an amount of RM25,702,000 (2017: RM7,800,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.

#### 9.4 Reconciliations of movement of liabilities to cash flows arising from financing activities

	At 1 January RM'000	Net changes from financing cash flows RM'000	Other changes RM'000	At 31 December RM'000
<b>2018</b>				
Secured syndicated term loan	735,900	–	–	735,900
Secured term loan	433,159	(17,200)	–	415,959
Unrated medium term notes	300,000	700,000	–	1,000,000
Less: Unamortised transaction costs	(6,378)	(1,191)	3,543	(4,026)
	1,462,681	681,609	3,543	2,147,833
<b>2017</b>				
Secured syndicated term loan	705,900	30,000	–	735,900
Secured term loan	415,988	17,171	–	433,159
Unrated medium term notes	300,000	–	–	300,000
Less: Unamortised transaction costs	(9,537)	(276)	3,435	(6,378)
	1,412,351	46,895	3,435	1,462,681

*Notes to the  
Financial Statements (cont'd)*

## 10. Payables and accruals

	Note	2018 RM'000	2017 RM'000
<b>Non-current</b>			
<b>Trade</b>			
Tenants' deposits	10.1	46,987	73,107
<b>Current</b>			
<b>Trade</b>			
Trade payables		17,660	20,279
Tenants' deposits	10.1	81,026	43,473
		98,686	63,752
<b>Non-trade</b>			
Other payables and accrued expenses	10.2	86,262	113,347
		184,948	177,099
		231,935	250,206

10.1 Tenants' deposits are in respect of refundable deposits received from tenants for tenancy or marketing agreements. Tenancy agreements tenure are for period between one to three years. The amount is unsecured and interest free.

10.2 Included in other payables and accrued expenses are the following amounts due to:

	2018 RM'000	2017 RM'000
The Manager	9,987	10,856
Trustee	40	40
Urusharta Cemerlang (KL) Sdn. Bhd.	24,500	–
Equine Park Country Resort Sdn. Bhd.	–	48,685
	34,527	59,581

Amounts due to the Manager and Trustee are unsecured, interest-free and payable monthly in arrears.

Amount due to Urusharta Cemerlang (KL) Sdn. Bhd. ("UCKL") is the balance of purchase price for the acquisition of Elite Pavilion Mall and it is interest free. It is payable upon the application of subdivision of the building on the Land being made to the appropriate authorities for the purpose of issuance of the strata titles and upon the electrical sub-station is constructed in accordance to all applicable planning permissions and approvals and specifications from and required by the appropriate authorities.

Amount due to Equine Park Country Resort Sdn. Bhd. ("Vendor") was the balance of purchase price for the acquisition of DA MEN Mall and it was interest free. The amount was repaid upon the delivery of the strata titles by the Vendor of the aforesaid property.

## Notes to the Financial Statements (cont'd)

### 11. Total unitholders' funds

#### 11.1 Unitholders' capital

	2018 Number of units '000	2017 Number of units '000
Issued and fully paid up:		
At 1 January	3,030,094	3,022,525
Manager's management fees paid in units	6,611	7,569
At 31 December	3,036,705	3,030,094
	2018 RM'000	2017 RM'000
Issued and fully paid up:		
At 1 January	2,913,849	2,900,708
Manager's management fees paid in units	10,380	13,141
At 31 December	2,924,229	2,913,849

#### 11.2 Unitholdings of substantial unitholders, the Manager and the Manager's Directors

The Manager was issued units in Pavilion REIT as part settlement of Manager's management fees, details of which are as follows:

	Number of units '000	Amount RM'000
<b>2018</b>		
Issued at:		
i) RM1.5511 per unit for entitlement for the 6 months ended 31 December 2017	4,408	6,838
ii) RM1.6080 per unit for entitlement for the 6 months ended 30 June 2018	2,202	3,540
iii) RM1.5851 per unit for entitlement to disposal fees	1	2
Total Manager's fees paid in units	6,611	10,380
<b>2017</b>		
Issued at:		
i) RM1.7707 per unit for entitlement for the 6 months ended 31 December 2016	3,759	6,656
ii) RM1.7024 per unit for entitlement for the 6 months ended 30 June 2017	3,810	6,485
Total Manager's fees paid in units	7,569	13,141

*Notes to the  
Financial Statements (cont'd)*

## 11. Total unitholders' funds (Cont'd)

### 11.2 Unitholdings of substantial unitholders, the Manager and the Manager's Directors (Cont'd)

Pavilion REIT's substantial unitholders, the Manager and the Manager's Directors' direct unitholdings in Pavilion REIT are as follows:

	2018		2017	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
<i>Pavilion REIT's substantial unitholders' direct unitholdings in Pavilion REIT:</i>				
Qatar Holding LLC	1,082,900	1,775,956	1,082,900	1,743,469
Tan Sri Lim Siew Choon	845,425	1,386,497	845,425	1,361,134
Puan Sri Tan Kewi Yong	281,875	462,275	281,875	453,819
Employees Provident Fund Board	155,600	255,184	130,703	210,432
<i>The Manager's direct unitholdings in Pavilion REIT</i>				
	12,728	20,874	9,725	15,657
<i>The Manager's Directors' direct unitholdings in Pavilion REIT:</i>				
Tan Sri Lim Siew Choon	845,425	1,386,497	845,425	1,361,134
Puan Sri Tan Kewi Yong	281,875	462,275	281,875	453,819
Dato' Lee Tuck Fook	100	164	100	161
Navid Chamdia	100	164	100	161
Ooi Ah Heong	100	164	100	161
Dato' Mohzani Bin Abdul Wahab	100	164	100	161
Dato' Maznah Binti Abdul Jalil	100	164	100	161

Notes:

The market value of the units was computed based on the closing market price as at 31 December 2018 of RM1.64 (2017: RM1.61).

## 12. Revenue from contract customers

Nature of goods or services	Timing of recognition or method used to recognise revenue	Significant payment terms
Advertisement	Revenue is recognised over time when services are delivered.	Credit period ranging from 30 to 90 days from invoice date.
Electricity		Credit period of 30 days from invoice date.

## Notes to the Financial Statements (cont'd)

### 13. Manager's management fees

	2018 RM'000	2017 RM'000
Base fee	18,478	16,959
Performance fee	11,244	9,688
Divestment fee	–	4
	29,722	26,651
Acquisition fee	5,800	–

During the financial year, the Manager received a base fee of 0.3% (2017: 0.3%) per annum of the Total Asset Value of Pavilion REIT, a performance fee of 3.0% (2017: 3.0%) per annum of Net Property Income. No divestment fee incurred during the year (2017: 0.5% of transaction value) in relation to disposal of real estate related assets.

Acquisition fee of 1.0% (2017: nil) of transaction value in relation to the acquisition of Elite Pavilion Mall was capitalised as part of the acquisition cost of investment properties as disclosed in Note 5.

Manager's management fees payable in units amounts to RM7,430,000 (2017: RM13,325,000) which represents 25% (2017: 50%) of the total manager's management fees payable.

### 14. Borrowing costs

	2018 RM'000	2017 RM'000
Interest expense	94,204	67,299
Amortisation of transaction costs	3,543	3,435
	97,747	70,734

### 15. Tax expense

#### 15.1 Reconciliation of tax expense

	2018 RM'000	2017 RM'000
Income before taxation	288,684	249,447
Income tax using Malaysian tax rate of 24% (2017: 24%)	69,284	59,867
Non-deductible expenses	3,564	3,737
Non-taxable income	35,608	(4,087)
Unrealised fair value losses on investment properties for which deferred tax assets was not recognised	(27,541)	–
Effect of income exempted from tax	(80,915)	(59,517)
	–	–

*Notes to the  
Financial Statements (cont'd)*

## 15. Tax expense (Cont'd)

### 15.1 Reconciliation of tax expense (Cont'd)

Pursuant to Section 61A of the Malaysian Income Tax Act, 1967 ("Act"), income of Pavilion REIT will be exempted from tax provided that at least 90% of its total income (as defined in the Act) is distributed to the investors in the basis period of Pavilion REIT for that year of assessment within two months after the close of the financial year. If the 90% distribution condition is not complied with or the 90% distribution is not made within two months after the close of Pavilion REIT financial year which forms the basis period for a year of assessment, Pavilion REIT will be subject to income tax at the prevailing tax rate on its total income. Income which has been taxed at the Pavilion REIT level will have tax credits attached when subsequently distributed to unitholders.

As Pavilion REIT proposed to distribute 100% of its distributable income to its unitholders for financial year ended 31 December 2018, no provision for taxation has been made for the current year.

### 15.2 Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the unrealised fair value loss on investment properties of RM192,430,000 (2017: RM77,679,000).

No deferred tax assets was recognised because Pavilion REIT intends to consume substantially all economic benefits through generation of rental income and these income will be subjected to income tax at prevailing rate.

Since Pavilion REIT intends to continue to distribute more than 90% of its distributable income, the expected tax rate levied will be zero.

## 16. Earnings per unit – basic and diluted

The calculation of earnings per unit is based on income after taxation attributable to unitholders for the year of RM288,684,000 (2017: RM249,447,000) divided by the weighted average number of units in circulation during the year of 3,034,816,261 (2017: 3,027,333,368).

## 17. Distribution to unitholders

Distribution to unitholders is from the following sources:

	2018 RM'000	2017 RM'000
Rental income	486,239	429,313
Revenue from contract customers	44,677	32,662
Other income	24,061	28,026
Fair value gain on investment properties	33,618	17,028
Interest income	10,864	8,165
Gain on disposal of investment property	–	274
	599,459	515,468
Less: Total expenses	(310,775)	(266,021)
	288,684	249,447
Distribution adjustments	(22,086)	236
Distributable income	266,598	249,683
Distribution to unitholders	261,385	243,160

## Notes to the Financial Statements (cont'd)

### 17. Distribution to unitholders (Cont'd)

	2018	2017
Interim distribution per unit (sen)	4.34	3.96
Final distribution per unit (sen)	4.44 *	4.28
Net distribution per unit** (sen)	8.78	8.24

\* The final distributable income for the 6 months ended 31 December 2018 is proposed to be 4.44 sen per unit or RM134.8 million to be payable on 28 February 2019.

\*\* Withholding tax will be deducted for distributions made to the following categories of unitholders

	Withholding tax rate	
	2018	2017
Resident corporate	N/A^	N/A^
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	24%	24%
Non-resident institutional	10%	10%

^ to tax at prevailing rate

### 18. Portfolio turnover ratio

	2018	2017
Portfolio Turnover Ratio ("PTR") (times)	_*	_*

\*Included in the amount is 0.1479 times (2017: 0.0002 times).

The calculation of PTR is based on the average of total acquisitions and disposals of investments in Pavilion REIT for the year to the average net asset value during the year.

During the year, Pavilion REIT had completed its acquisitions for Elite Pavilion Mall on the 27 April 2018 for purchase consideration of RM580,000,000. (2017: disposed an area measuring 2,324 square feet to Urusharta Cemerlang Sdn. Bhd. for a purchase consideration of RM880,000). The effect of the acquisition during the year to PTR is insignificant.

Since the basis of calculating PTR can vary among real estate investment trusts, there is no sound basis for providing an accurate comparison of Pavilion REIT's PTR against other real estate investment trusts.

### 19. Management expense ratio

	2018	2017
Management expense ratio ("MER") (%)	0.83	0.72

The calculation of the MER is based on the total fees of Pavilion REIT incurred during the year, including manager's management fees, trustee's fees, valuation fee and other trust expenses, to the net asset value as at year end.

Comparison of the MER of Pavilion REIT with other real estate investment trusts which uses different basis of calculation may not be an accurate comparison.

*Notes to the  
Financial Statements (cont'd)*

## 20. Operating segments

Pavilion REIT has two reportable segments, Retail and Office. For each of the segment, the Manager of Pavilion REIT's Chief Executive Officer reviews internal management reports regularly.

Performance is measured based on segment net property income as management believes that such information is the most relevant in evaluating the results of the segments.

The total of segment assets/liability is measured based on all assets/liabilities of a segment, as included in internal management reports that are reviewed by the Manager of Pavilion REIT's Chief Executive Officer.

	<b>Retail RM'000</b>	<b>Office RM'000</b>	<b>Total RM'000</b>
<b>For the year ended 31 December 2018</b>			
<b>Segment profit</b>	366,753	8,034	374,787
<i>Included in the measure of segment profit are:</i>			
Gross revenue	542,088	12,889	554,977
Property expenses	175,335	4,855	180,190
<b>At 31 December 2018</b>			
<b>Segment assets and liabilities</b>			
Segment assets	6,176,860	133,982	6,310,842
Segment liabilities	2,339,330	30,643	2,369,973
<b>For the year ended 31 December 2018</b>			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	533,382	–	533,382
Fair value gain to non-current assets	33,618	–	33,618
<b>For the year ended 31 December 2017</b>			
<b>Segment profit</b>	314,907	8,006	322,913
<i>Included in the measure of segment profit are:</i>			
Gross revenue	477,544	12,457	490,001
Property expenses	162,637	4,451	167,088
<b>At 31 December 2017</b>			
<b>Segment assets and liabilities</b>			
Segment assets	5,491,305	133,561	5,624,866
Segment liabilities	1,678,700	30,251	1,708,951
<b>For the year ended 31 December 2017</b>			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	79,972	–	79,972
Fair value gain to non-current assets	17,028	–	17,028



## Notes to the Financial Statements (cont'd)

### 20. Operating segments (Cont'd)

#### Reconciliation of reportable segment profit

	2018 RM'000	2017 RM'000
Total profit for reportable segments	374,787	322,913
Fair value gain on investment properties	33,618	17,028
Gain on disposal of investment property	–	274
Interest income	9,430	7,330
Other non-allocated income	1,434	835
Trust expenses	(32,838)	(28,199)
Borrowing costs	(97,747)	(70,734)
Income before taxation	288,684	249,447
Taxation	–	–
Income after taxation	288,684	249,447

#### Reconciliation of reportable segment assets and liabilities

	Segment assets RM'000	Segment liabilities RM'000
<b>2018</b>		
Total reportable segments	6,310,842	(2,369,973)
Other non-allocated assets/(liabilities)	46,882	(9,795)
Total assets/(liabilities)	6,357,724	(2,379,768)
<b>2017</b>		
Total reportable segments	5,624,866	(1,708,951)
Other non-allocated assets/(liabilities)	28,298	(3,936)
Total assets/(liabilities)	5,653,164	(1,712,887)

#### Geographical information

No geographical segment information has been prepared as all the investment properties of Pavilion REIT are located in Malaysia.

*Notes to the  
Financial Statements (cont'd)*

## 21. Financial instruments

### 21.1 Categories of financial instruments

	Carrying amounts RM'000	Amortised costs RM'000
<b>2018</b>		
<b>Financial assets</b>		
Receivables and deposits	74,559	74,559
Cash and bank balances	379,768	379,768
	454,327	454,327
<b>Financial liabilities</b>		
Payables and accruals	231,935	231,935
Borrowings	2,147,833	2,147,833
	2,379,768	2,379,768
	Carrying amounts RM'000	Loans and receivables RM'000
<b>2017</b>		
<b>Financial assets</b>		
Receivables and deposits	41,616	41,616
Cash and bank balances	275,383	275,383
	316,999	316,999
	Carrying amounts RM'000	Financial liabilities measured at amortised cost RM'000
<b>2017</b>		
<b>Financial liabilities</b>		
Payables and accruals	250,206	250,206
Borrowings	1,462,681	1,462,681
	1,712,887	1,712,887

Receivables and deposits and cash and bank balances that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.

### 21.2 Net gains and losses arising from financial instruments

	2018 RM'000	2017 RM'000
Financial assets at amortised cost	10,457	–
Loans and receivables	–	6,706
Financial liabilities at amortised cost	(97,747)	(70,734)
	(87,290)	(64,028)

## Notes to the Financial Statements (cont'd)

### 21. Financial instruments (Cont'd)

#### 21.3 Financial risks management

Pavilion REIT has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

#### 21.4 Credit risk

Credit risk is the risk of a financial loss to Pavilion REIT if the tenants or counterparty to a financial instrument fails to meet its contractual obligations. Pavilion REIT's exposure to credit risk arises principally from trade and other receivables and cash and cash equivalents. Pavilion REIT performs ongoing credit evaluation of its tenants and generally does not require collateral other than tenants' deposits.

At the end of the financial year, the maximum exposure to credit risk arising from financial assets are represented by the carrying amount of financial assets in the statement of financial position.

##### Receivables

*Risk management objectives, policies and processes for managing the risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

There are no significant changes as compared to previous year.

*Exposure to credit risk and credit quality*

As at the end of the financial year, the maximum exposure to credit risk arising from trade receivables are represented by the carrying amount in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. Pavilion REIT manages credit risk using credit verification process to ensure credit worthiness and good credit standing before tenancy agreements are entered into with tenants or credit granted to counter parties together with constant monitoring of any outstanding balances to ensure minimum credit risk exposure.

*Impairment losses*

The following table provides information about the exposure to credit risk and expected credit losses for receivables as at 31 December 2018.

	<b>Gross – carrying amount RM'000</b>	<b>Loss allowance RM'000</b>	<b>Net balance RM'000</b>
<b>2018</b>			
Not past due	506	–	506
Past due 0 - 30 days	10,353	–	10,353
Past due 31 - 90 days	7,947	–	7,947
Past due more than 90 days	21,116	(1,825)	19,291
	<b>39,922</b>	<b>(1,825)</b>	<b>38,097</b>

*Notes to the  
Financial Statements (cont'd)*

## 21. Financial instruments (Cont'd)

### 21.4 Credit risk (Cont'd)

#### *Impairment losses (Cont'd)*

The movements in the allowance for impairment losses of receivables during the financial year were:

	<b>2018</b>	
	<b>Credit impaired RM'000</b>	<b>Total RM'000</b>
<b>Balance at 1 January as per MFRS 139/9</b>	1,702	1,702
Amount written off	(62)	(62)
Net remeasurement of loss allowance	185	185
<b>Balance as at 31 December</b>	<b>1,825</b>	<b>1,825</b>

The allowance account in respect of trade receivables is used to record impairment losses. Unless Pavilion REIT is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

#### *Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement*

The ageing of trade receivables as at the end of the financial year was as follows:

	<b>Gross RM'000</b>	<b>Impairment loss RM'000</b>	<b>Net RM'000</b>
<b>2017</b>			
Not past due	594	–	594
Past due 0 - 30 days	8,018	–	8,018
Past due 31 - 90 days	11,773	(9)	11,764
Past due more than 90 days	11,784	(1,693)	10,091
	<b>32,169</b>	<b>(1,702)</b>	<b>30,467</b>

The movements in the allowance for impairment losses of receivables during the financial year were:

	<b>2017 RM'000</b>
At 1 January	2,864
Impairment loss reversal	(1,162)
At 31 December	<b>1,702</b>

### **Cash and cash equivalents**

The cash and cash equivalents are held with banks and financial institutions. As at the end of the financial year, the maximum exposure to credit risk is represented by their carrying amount in the statement of financial position.

These banks and financial institutions have low credit risks. Consequently, Pavilion REIT are of the view that the loss allowance is not material and hence, it is not provided for.

## Notes to the Financial Statements (cont'd)

### 21. Financial instruments (Cont'd)

#### 21.5 Liquidity risk

Liquidity risk is the risk that Pavilion REIT will not be able to meet its financial obligations as they fall due. Pavilion REIT's exposure to liquidity risk arises principally from its various payables and borrowings.

The Manager maintains a level of cash and cash equivalents and bank facilities deemed adequate to finance Pavilion REIT's operations, to distribute income to unitholders, and to mitigate the effects of fluctuations in cash flows. In addition, the Manager also monitors and observes the Securities Commission's Guidelines on Real Estate Investment Trust concerning limits on total borrowings financing.

##### Maturity analysis

The table below summarises the maturity profile of Pavilion REIT's financial liabilities as at the end of the financial year based on undiscounted contractual payments.

	Carrying amount RM'000	Contractual interest rate%	Contractual cash flow RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
<b>2018</b>						
<b>Financial liabilities</b>						
Borrowings	2,147,833	4.80 - 5.12	2,413,711	794,234	70,425	1,549,052
Payable and accruals	231,935	–	231,935	184,948	26,165	20,822
	2,379,768		2,645,646	979,182	96,590	1,569,874
<b>2017</b>						
<b>Financial liabilities</b>						
Borrowings	1,462,681	4.48 - 4.85	1,639,085	64,434	775,109	799,542
Payable and accruals	250,206	–	250,206	177,099	51,604	21,503
	1,712,887		1,889,291	241,533	826,713	821,045

#### 21.6 Market risk

Market risk is the risk that changes in market prices such as interest rates will affect Pavilion REIT's financial position or cash flows.

##### 21.6.1 Interest rate risk

Pavilion REIT's exposure to changes in interest rates relates principally to interest-earning financial assets and interest-bearing financial liabilities.

##### *Risk management objectives, policies and processes for managing the risk*

Interest rate risk is managed by the Manager on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

The interest rate risks are uncertainties resulting from the effects of fluctuations in the prevailing level of the market interest rates on its financial position and cash flows. Interest rate risk exposure to Pavilion REIT is in respect of short-term deposits and borrowings.

*Notes to the  
Financial Statements (cont'd)*

## 21. Financial instruments (Cont'd)

### 21.6 Market risk (Cont'd)

#### 21.6.1 Interest rate risk (Cont'd)

*Exposure to interest rate risk*

The interest rate profile of Pavilion REIT's significant interest-bearing financial instruments, based on carrying amounts at the end of the financial year was:

	2018 RM'000	2017 RM'000
<b>Fixed rate instrument</b>		
Financial asset - Deposits placed with licensed banks	343,652	256,677
Financial liabilities - Borrowings	(1,000,000)	(300,000)
	(656,348)	(43,323)
<b>Floating rate instruments</b>		
Financial liabilities - Borrowings	(1,147,833)	(1,162,681)

*Interest rate risk sensitivity analysis*

(a) *Fair value sensitivity analysis for fixed rate instruments*

Pavilion REIT does not account for any fixed rate financial instruments at fair value. Therefore, a change in interest rates at the end of the financial year would not affect profit or loss or equity.

(b) *Cash flow sensitivity analysis for variable rate instruments*

Cash flow risk arising from variable rate instruments is not material to Pavilion REIT. Hence, sensitivity analysis is not presented.

### 21.7 Fair value information

The carrying amounts of cash and bank balances, receivables and deposits, payables and accruals approximate their fair values due to the relatively short term nature of these financial instruments.

The table below analyses financial instruments not carried at fair value, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	RM'000	RM'000
<b>2018</b>					
<b>Financial liabilities</b>					
Tenants' deposits	–	–	(119,837)	(119,837)	(128,013)
Borrowings	–	–	(2,057,536)	(2,057,536)	(2,147,833)
	–	–	(2,177,373)	(2,177,373)	(2,275,846)
<b>2017</b>					
<b>Financial liabilities</b>					
Tenants' deposits	–	–	(110,944)	(110,944)	(116,580)
Borrowings	–	–	(1,434,359)	(1,434,359)	(1,462,681)
	–	–	(1,545,303)	(1,545,303)	(1,579,261)

## Notes to the Financial Statements (cont'd)

### 21. Financial instruments (Cont'd)

#### 21.7 Fair value information (Cont'd)

##### Level 3 fair value

The following table shows the valuation techniques used in the determination of fair values within Level 3.

*Financial instruments not carried at fair value*

Type	Description of valuation technique and inputs used
Tenants' deposits, borrowings	Discounted cash flows using a rate based on the current market rate of borrowing of Pavilion REIT at the reporting date.

The discount rates used above have incorporated credit risk of Pavilion REIT and liquidity risk of the instruments. The inputs for these risks are unobservable because there are no identical or similar instruments to benchmark to.

### 22. Capital management

Pavilion REIT's objectives when managing capital is to provide unitholders with regular and stable distributions and achieve long-term growth in NAV per unit, while maintaining an appropriate capital structure.

Pavilion REIT's capital is represented by its unitholders' fund in the statement of financial position. The capital requirements imposed on Pavilion REIT is to ensure it maintains a healthy gearing/borrowings ratio of maximum 50% and meets the minimum interest coverage ratio which is an effective indicator of its financial strengths in addition to complying with the financial covenants prescribed by financial institutions as stated in the Facility Agreements. The Directors of the Manager will monitor and are determined to maintain an optimal gearing/borrowings ratio that will provide an ideal debt equity ratio that also complies with regulatory requirements.

As at 31 December 2018, Pavilion REIT recorded a gearing/borrowings ratio of 33.8% (2017: 25.9%) and interest coverage ratio in excess of the minimum requirement (2017: in excess of the minimum requirement). The calculation of the gearing/borrowings ratio and interest coverage ratio is based on the definition stated in the Facility Agreements. Pavilion REIT has not breached the financial covenants.

#### Distribution Policy

The Deed provides that the Manager shall, with the approval of the Trustee, for each distribution period, distribute all (or such other percentage as determined by the Manager at its absolute discretion) of Pavilion REIT's distributable income. It is the intention of the Manager to distribute at least 90.0% of Pavilion REIT's distributable income on a half-yearly basis (or such other interval as determined by the Manager at its absolute discretion).

### 23. Operating leases

#### Leases as lessor

Pavilion REIT leases out its investment properties (Note 5) under operating leases. The future minimum lease receivable under non-cancellable leases are as follows:

	2018 RM'000	2017 RM'000
Less than one year	370,870	354,417
Between one and five years	177,935	351,191
	548,805	705,608

*Notes to the  
Financial Statements (cont'd)*

## 24. Capital commitments

Capital expenditure in respect of the following has not been provided for in the financial statements:

	2018 RM'000	2017 RM'000
<b>Capital expenditure commitments</b>		
<b>Investment properties</b>		
<i>Authorised and contracted for:</i>		
- Within one year	–	522,000

## 25. Significant related party transactions

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

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of Pavilion REIT either directly or indirectly. The key management personnel include all the Directors of Pavilion REIT Management Sdn. Bhd. and MTrustee Berhad, and certain members of senior management of Pavilion REIT Management Sdn. Bhd. and MTrustee Berhad.

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

Companies related to the Manager	Nature of transactions	Transaction value		Balance outstanding	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Pavilion REIT Management Sdn. Bhd.	Rental income and its related charges	467	455	–	–
Malton Berhad Group *	Rental income and its related charges	3,251	3,086	9	8
Lumayan Indah Sdn. Bhd. ∞	Rental income and its related charges	143	118	12	1
Impian Ekspresi Sdn. Bhd. ◇	Rental income and its related charges	1,429	765	312	64
Kuala Lumpur Pavilion Sdn. Bhd. ^	Expenses of MRT station naming rights fee and its related charges	(1,316)	(1,575)	–	–
Urusharta Cemerlang (KL) Sdn. Bhd. Δ	Rental income and its related charges	775	776	3	–
	Reimbursement of electricity supply to Elite Pavilion Mall	3,234	6,086	353	1,214
Urusharta Cemerlang Sdn. Bhd. α	Disposal of part area in Pavilion Kuala Lumpur Mall	–	880	–	792

The above transactions have been entered into in the normal course of business and have been established based on negotiated terms and conditions.



## Notes to the Financial Statements (cont'd)

### 25. Significant related party transactions (Cont'd)

The above parties are deemed related as follows:

- \* Malton Berhad Group are deemed parties related to the Manager by virtue of the directorship and interest of Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong, his spouse, in Malton Berhad.
- ∞ Ahmad Mohammed F Q Al-Khanji, Mohd Abdulrazzaq A A Al-Hashmi and Navid Chamdia are directors of the Manager and Lumayan Indah Sdn. Bhd.
- ◇ Impian Ekspresi Sdn. Bhd. is deemed party related to the Manager by virtue of Tan Sri Lim Siew Choon's directorship and deemed interest in Impian Ekspresi Sdn. Bhd. and his spouse, Puan Sri Tan Kewi Yong.
- ^ Tan Sri Lim Siew Choon, Puan Sri Tan Kewi Yong and Dato' Lee Tuck Fook are directors of Kuala Lumpur Pavilion Sdn. Bhd. Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong hold the entire issued and paid up share capital of Kuala Lumpur Pavilion Sdn. Bhd.
- Δ Tan Sri Lim Siew Choon, Ahmad Mohammed F Q Al-Khanji, Mohd Abdulrazzaq A A Al-Hashmi and Navid Chamdia are directors of the Manager and Urusharta Cemerlang (KL) Sdn. Bhd. ("UCKL").

Tan Sri Lim Siew Choon is deemed interested in UCKL through his interest in the ultimate holding company and Puan Sri Tan Kewi Yong is his spouse.

Ahmad Mohammed F Q Al-Khanji and Mohd Abdulrazzaq A A Al-Hashmi are also directors of a substantial shareholder of the holding company of UCKL.

- α Tan Sri Lim Siew Choon, Puan Sri Tan Kewi Yong, Dato' Lee Tuck Fook, Ahmed Ali H A Al-Hammadi, Ahmad Mohammed F Q Al-Khanji, Mohd Abdulrazzaq A A Al-Hashmi and Navid Chamdia are directors of the Manager and Urusharta Cemerlang Sdn. Bhd. ("UCSB").

Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong are deemed interested in UCSB through their interest in the ultimate holding company.

Ahmad Mohammed F Q Al-Khanji and Mohd Abdulrazzaq A A Al-Hashmi are also directors of a company which is a substantial shareholder of UCSB.

### 26. Significant events during the financial year

- 26.1 On 27 July 2017, the Board of Directors of the Manager, CIMB Investment Bank Berhad and Maybank Investment Bank Berhad announced that MTrustee Berhad, as trustee of Pavilion REIT ("Trustee"), had entered into the following agreements in relation to the "Proposed Acquisition":

- a) Conditional sale and purchase agreement with Urusharta Cemerlang (KL) Sdn. Bhd. ("UCKL") for the acquisition of Elite Pavilion Mall comprising the followings, for a total purchase consideration of RM580,000,000 ("Elite SPA"):
  - i Level B3, Level B2, Level B1, Level 1 – Level 10 (inclusive), Level 10M, Level 10MM, Level 11 (including roof) and Level 52 (including the external façade of Level 52 up to roof level) of the building, and the stratified parcels comprising, amongst others, 50 car park bays located at Level B3 to Level 2 within the building. The strata floor area is approximately 437,585 square feet;
  - ii The assignment of all benefits, rights and entitlements to an underground pedestrian tunnel with strata floor area of approximately 8,697 square feet together with retail outlets and other relevant spaces that interconnects Elite Pavilion Mall with Fahrenheit 88 shopping mall across Jalan Bukit Bintang, Kuala Lumpur ("Subway Linkage");
  - iii The transfer of tenancies within Elite Pavilion Mall and the Subway Linkage under the transfer agreements ("Transferred Agreements").

## *Notes to the Financial Statements (cont'd)*

### 26. Significant events during the financial year (Cont'd)

- b) An agreement with Urusharta Cemerlang Sdn. Bhd. ("UCSB") and UCKL for UCSB to vest to the Trustee of all rights, title, interest, benefits, and entitlement to and ownership of amongst others, the pedestrian link bridges on Levels 4 to 7 with seating and/or retail areas located on Levels 4 to 10 that interconnect Elite Pavilion Mall with Pavilion KL Mall (with strata floor area of approximately 18,407 square feet) together with the transfer of all rights, benefits and entitlement to the on-going tenancies on these areas to the Trustee ("Vesting Agreement").

In conjunction with the Proposed Acquisition, the Board had proposed to undertake a Proposed Placement of up to 218,000,000 new units in Pavilion REIT ("Unit"), by way of bookbuilding to partly fund the Proposed Acquisition and also defray its related expenses.

On 17 October 2017, Securities Commission had approved the issuance of up to 218,000,000 new Units under the Proposed Placement, listing and quotation of up to 218,000,000 new Units under the Proposed Placement on the Main Market of Bursa Securities. On 30 November 2017, Bursa Securities had approved the listing and quotation of up to 218,000,000 new Units to be issued pursuant to the Proposed Placement on the Main Market of Bursa Securities. The Proposed Acquisition was duly approved by the unitholders of Pavilion REIT at the unitholders' meeting held on 16 January 2018.

On the 30 March 2018, the Board decided not to proceed with the Proposed Placement after taking into consideration the prevailing market price performance of the units as well as the debt funding option and capacity available to Pavilion REIT. In light of that, the Proposed Acquisition was fully funded via borrowings.

The Elite SPA and Vesting Agreement were inter-conditional upon each other and have been completed concurrently on 27 April 2018.

- 26.2 On 13 August 2018, the Board of Directors of the Manager announced that Pioneer Haven Sdn. Bhd., a wholly-owned subsidiary of Malton Berhad, had on 8 August 2018 formally invited Pavilion REIT to participate in the ownership of an on-going development comprising one block of retail mall with five (5) levels of retail spaces and two (2) levels of basement parking to be provisionally known as Pavilion Bukit Jalil ("Invitation").

MTrustee Berhad, as trustee for Pavilion REIT had on 13 August 2018 accepted the Invitation for both parties to enter into a non-disclosure agreement to commence due diligence, discussion on method of participation and negotiate relevant terms and conditions.

On 17 January 2019, the Board of Directors of the Manager announced that Pavilion REIT will not participate in the Invitation.

## STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 73 to 113 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, so as to give a true and fair view of the financial position of Pavilion Real Estate Investment Trust as at 31 December 2018 and of their financial performance and cash flows for the year ended on that date.

For and on behalf of the Manager,  
Pavilion REIT Management Sdn. Bhd.,  
Signed in accordance with a resolution of the Directors of the Manager:

**Tan Sri Lim Siew Choon**  
Director

**Dato' Lee Tuck Fook**  
Director

Kuala Lumpur,

Date: 29 January 2019

## STATUTORY DECLARATION

I, Dato' Lee Tuck Fook, the Director of Pavilion REIT Management Sdn. Bhd. primarily responsible for the financial management of Pavilion Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 73 to 113 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Dato' Lee Tuck Fook, I/C No 540601-04-5333, at Kuala Lumpur on 29 January 2019.

**Dato' Lee Tuck Fook**

Before me:

Commissioner for Oaths

## TRUSTEE'S REPORT

to the Unitholders of Pavilion Real Estate Investment Trust (Established in Malaysia)

We have acted as Trustee of Pavilion Real Estate Investment Trust ("Pavilion REIT") for the financial year ended 31 December 2018. In our opinion and to the best of our knowledge, Pavilion REIT Management Sdn. Bhd. ("the Manager") has managed Pavilion REIT in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Deed dated 13 October 2011, the Securities Commission's Guidelines on Real Estate Investment Trusts, applicable securities laws and other applicable laws during the financial year then ended.

We have ensured the procedures and processes employed by the Manager to value and price the units of Pavilion REIT are adequate and that such valuation/pricing is carried out in accordance with the Deed and other regulatory requirements.

We also confirm that the income distributions declared during the financial year ended 31 December 2018 are in line with and are reflective of the objectives of Pavilion REIT. Final income distribution of 4.44 sen per unit has been declared for the financial year ended 31 December 2018 and is payable on 28 February 2019.

For and on behalf of the Trustee,  
MTrustee Berhad

**Nurizan Binti Jalil**  
Chief Executive Officer

Selangor,

Date: 29 January 2019

# INDEPENDENT AUDITORS' REPORT

to the Unitholders of Pavilion Real Estate Investment Trust (Established In Malaysia)

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Pavilion Real Estate Investment Trust ("Pavilion REIT"), which comprise the statements of financial position 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 for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 73 to 113.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Pavilion REIT as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

### 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 auditors' 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 Pavilion REIT in accordance with the By-Laws (*on Professional Ethics, Conduct and Practice*) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### Key Audit Matter

Key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements of Pavilion REIT in the current year. This matter was addressed in the context of our audit of the financial statements of Pavilion REIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### Valuation of investment properties

Pavilion REIT owns a portfolio of investment properties comprising 4 shopping malls and an office block located in Malaysia. Investment properties represent the single largest category of assets on the statement of financial position.

These investment properties are stated at their fair values based on independent external valuations.

The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied i.e. a small change in the assumptions can have a significant impact to the valuation.

This is a key audit matter because some of the key assumptions are unobservable and hence, required significant judgement from us.

## *Independent Auditors' Report (cont'd)*

### **How the matter was addressed in our audit**

We performed the following audit procedures, among others:

- We assessed the Manager's processes for the selection of the external valuers, the determination of the scope of work of the valuers, and assessed the valuations reported by the external valuers.
- We considered the qualifications and competence of the external valuers vis-à-vis the expert's qualifications, membership of a professional body or industry association, and license to practice.
- We assessed the valuation methodologies used by the Manager against those applied by external valuers for similar property types. We also considered the other alternative valuation methods commonly used by external valuers.
- We tested the integrity of rental income data applied in the projected cash flows used in the valuation by comparing them with lease agreements.
- We challenged the capitalisation rates used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, held further discussions with the valuers.
- We also considered the adequacy of the disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

### **Information Other than the Financial Statements and Auditors' Report Thereon**

Pavilion REIT Management Sdn. Bhd. ("The Manager") of Pavilion REIT is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements of Pavilion REIT and our auditors' report thereon.

Our opinion on the financial statements of Pavilion REIT does not cover the Annual Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of Pavilion REIT, our responsibility is to read the Annual Report and, in doing so, consider whether the Annual Report is materially inconsistent with the financial statements of Pavilion REIT or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Annual Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Manager for the Financial Statements of Pavilion REIT**

The Manager is responsible for the preparation of financial statements of Pavilion REIT that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determine is necessary to enable the preparation of financial statements of Pavilion REIT that are free from material misstatement, whether due to fraud or error.

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

## *Independent Auditors' Report (cont'd)*

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- i) Identify and assess the risks of material misstatement of the financial statements of Pavilion REIT, 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.
- ii) 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 internal control of Pavilion REIT.
- iii) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- iv) 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 ability of Pavilion REIT to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of Pavilion REIT 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 Pavilion REIT to cease to continue as a going concern.
- v) Evaluate the overall presentation, structure and content of the financial statements of Pavilion REIT, including the disclosures, and whether the financial statements of Pavilion REIT represent the underlying transactions and events in a manner that gives a true and fair view.
- vi) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Pavilion REIT to express an opinion on the financial statements of Pavilion REIT. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Manager, we determine those matters that were of most significance in the audit of the financial statements of Pavilion REIT for the current year and is therefore the key audit matter. We describe this matter 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 auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*Independent  
Auditors' Report (cont'd)*

**Other Matter**

This report is made solely to the unitholders of Pavilion REIT in accordance with the trust deed of Pavilion REIT and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**KPMG PLT**  
(LLP0010081-LCA & AF 0758)  
Chartered Accountants

Petaling Jaya

Date: 29 January 2019

**Chan Kam Chiew**  
Approval Number: 02055/06/2020 J  
Chartered Accountant



## ANALYSIS OF UNITHOLDINGS

### Distribution of Unitholdings as at 31 December 2018

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units	% of Unitholdings
Less than 100	41	0.70	744	0.00
100 - 1,000	1,356	23.09	924,800	0.03
1,001 - 10,000	3,205	54.58	15,308,400	0.50
10,001 - 100,000	1,044	17.78	34,419,726	1.13
100,001 to less than 5% of issued units	223	3.80	776,051,255	25.56
5% and above of issued units	3	0.05	2,210,000,000	72.78
<b>Total</b>	<b>5,872</b>	<b>100.00</b>	<b>3,036,704,925</b>	<b>100.00</b>

### Thirty largest unitholders as per record of depositors as at 31 December 2018

No	Name of Unitholders	No. of Units	%
1.	HSBC Nominees (Asing) Sdn Bhd CS (Switz) for Qatar Holding LLC	1,082,900,000	35.66
2.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Siew Choon (432218)	845,325,000	27.84
3.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Kewi Yong (129118)	281,775,000	9.28
4.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	135,356,203	4.46
5.	Amanahraya Trustees Berhad Amanah Saham Bumiputera	131,079,200	4.32
6.	Kumpulan Wang Persaraan (Diperbadankan)	83,815,800	2.76
7.	Citigroup Nominees (Tempatan) Sdn Bhd Exempt an for AIA Bhd	44,875,800	1.48
8.	Valuecap Sdn Bhd	42,501,800	1.40
9.	HSBC Nominees (Asing) Sdn Bhd BBH and Co Boston for Asia REIT Master Fund	25,161,400	0.83
10.	Cartaban Nominees (Asing) Sdn Bhd Exempt an for State Street Bank & Trust Company (West CLT OD67)	16,154,900	0.53
11.	Pavilion REIT Management Sdn Bhd	15,828,325	0.52
12.	Amanahraya Trustees Berhad Amanah Saham Malaysia 2 - Wawasan	15,000,000	0.49
13.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Zurich Life Insurance Malaysia Berhad (Life Par)	13,375,500	0.44
14.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LSF)	13,169,700	0.43
15.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Total International Stock Index Fund	10,941,600	0.36
16.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	10,856,400	0.36
17.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Allianz Life Insurance Malaysia Berhad (P)	9,771,000	0.32

## Analysis of Unitholdings (cont'd)

### Thirty largest unitholders as per record of depositors as at 31 December 2018 (Cont'd)

No.	Name of Unitholders	No. of Units	%
18.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Nomura)	9,387,000	0.31
19.	Amanahraya Trustees Berhad Amanah Saham Malaysia	8,949,000	0.29
20.	DB (Malaysia) Nominee (Asing) Sdn Bhd The Bank of New York Mellon for Newton Emerging Income Fund	7,435,000	0.24
21.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Emerging Markets Stock Index Fund	6,381,700	0.21
22.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (CIMB Equities)	6,021,600	0.20
23.	Amanahraya Trustees Berhad Amanah Saham Malaysia 3	6,001,500	0.20
24.	HSBC Nominees (Asing) Sdn Bhd BNP Paribas Secs SVS Paris for REIT Asien 1	5,818,300	0.19
25.	Amanahraya Trustees Berhad ASN Umbrella for ASN Sara (Mixed Asset Conservative) 1	4,959,400	0.16
26.	Maybank Nominees (Tempatan) Sdn Bhd MTrustee Berhad for Tenaga Nasional Berhad Retirement Benefit Trust Fund (RB-TNB-Nomur) (419513)	4,050,000	0.13
27.	Citigroup Nominees (Tempatan) Sdn Bhd MCIS Insurance Berhad (Life Par FD)	3,950,100	0.13
28.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund ZYEF for Vanguard Global Ex-U.S. Real Estate IndexFund	3,880,300	0.13
29.	HSBC Nominees (Asing) Sdn Bhd Six SIS for B&I Pan-Asian Total Return Real Estate Securities Fund	3,665,600	0.12
30.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 3)	3,590,900	0.12

### Major Unitholders (5% and above) as at 31 December 2018

No	Name of Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Qatar Holding LLC	1,082,900,000	35.66	–	–
2.	Tan Sri Lim Siew Choon	845,425,000	27.84	–	–
3.	Puan Sri Tan Kewi Yong	281,875,000	9.28	–	–
4.	Employees Provident Fund Board	155,599,603	5.12	–	–

## Analysis of Unitholdings (cont'd)

### Unitholdings of Directors and Chief Executive Officer as at 31 December 2018

No	Name of Unitholder	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Tan Sri Lim Siew Choon	845,425,000	27.84	–	–
2.	Puan Sri Tan Kewi Yong	281,875,000	9.28	–	–
3.	Dato' Lee Tuck Fook	100,000	*	–	–
4.	Navid Chamdia	100,000	*	–	–
5.	Ooi Ah Heong	100,000	*	–	–
6.	Dato' Mohzani bin Abdul Wahab	100,000	*	–	–
7.	Dato' Maznah binti Abdul Jalil	100,000	*	–	–
8.	Philip Ho Yew Hong	95,000	*	–	–

\*: Negligible

## MARKET OVERVIEW

2nd November 2018 marked the first time in 60 years that the country's budget was presented by a Finance Minister who is not from the Barisan Nasional government and the first time in 20 years that the Finance Minister who presented the budget was not at the same time, the Prime Minister of the country. This would probably not have been possible if not for the astonishing outcome of GE14 on 9th May 2018 when the then opposition Pakatan Harapan coalition came up winners in the election.

In presenting his maiden budget which carried the theme "Credible Malaysia, Dynamic Economy, Prosperous Rakyat", Finance Minister YB Lim Guan Eng, revealed that the Malaysian economy is projected to grow at a slower pace of 4.8% in 2018 and 4.9% in 2019 as compared to the 5.9% growth achieved in 2017. This is against the backdrop of a slower global economic growth of 3.7% in both 2018 and 2019. Bank Negara Malaysia (BNM)'s statistics revealed that the Malaysian economy grew 4.4% in Q3 of 2018 and remained on a steady growth path for the final quarter of the year. The World Bank on the other hand projected a 4.9% growth for Malaysia for 2018, 4.7% in 2019 and 4.6% in 2020.

In view of the tight finances of the new administration, several major infrastructural projects have either been cancelled or postponed e.g. the MRT3 and the high speed rail due to the lack of funds to carry out such projects. Nevertheless, the government has decided to move ahead with some other projects viz-a-viz MRT2 after the cost has been reduced by 23.0% and LRT3 where the cost has been slashed by 47.0%. At the same time, the Klang Valley double track project, will be retendered on an open tender basis where it is hoped that the cost can be brought down significantly to enable the project to be carried out.

The less than stellar results of the Malaysian corporate sector this year as well as the global uncertainties dragged down the FBM KLCI which ended the year at 1,690.58 points, down by 5.2%. Nevertheless, there were some bright spots moving forward as exports hit a record high of RM96.4 billion in October, due in part to front loading activities by Chinese importers in anticipation of an escalation of the China–United States trade war. The Finance Minister also announced a 350.0% jump in foreign direct investments into the country for the first nine months of the year compared to the same period in 2017.

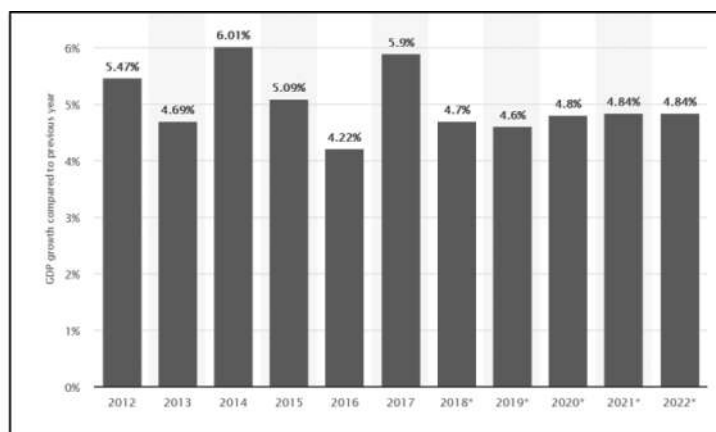


Chart 1 Malaysia – Annual GDP Growth Rate (%) – Source: Statista

Crude oil prices (WTI or Nymex) went up from a starting price of US\$60.37 per barrel on 1st January to hit a high of US\$76.41 and a low of US\$50.29 before dipping further to US\$45.41 as at 31st December 2018 (Source: Macrotrends). The recovery in crude oil prices hoped for after the eleventh hour agreement by OPEC in December 2018 to cut production has yet to happen although prices may head for a recovery in 2019 if there is a breakthrough in talks between the US and China to end the current trade war.

## Market Overview (cont'd)

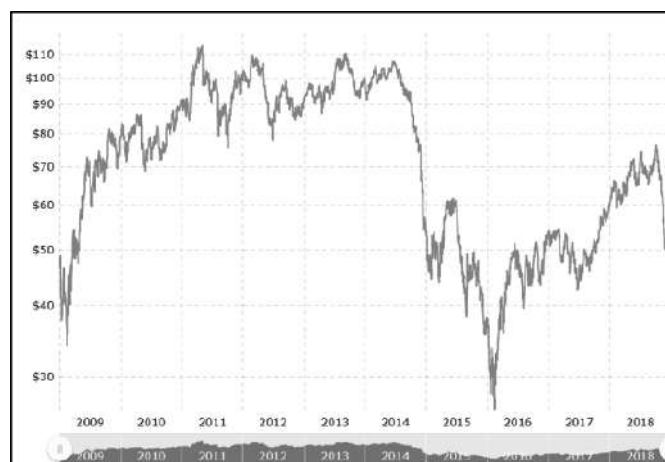


Chart 2: WTI (Nymex) Crude Oil Prices 2009 - 2018

Source: Macrotrends

The Malaysian manufacturing sector enjoyed strong growth, driven by both export-oriented industries led by the good performance of the electrical and electronics sector as well as domestic-oriented industries. Based on the latest statistics available released by BNM, exports of manufactured goods grew by 7.4% in Q3 albeit lower than the 10.7% growth recorded in 2Q 2018, supported by higher exports of electrical and electronic (E&E) manufactured products. However, the volume of non-E&E exports moderated. At the same time, gross imports growth moderated to 6.3% during Q3.

Private investment growth increased slightly to 6.9% in Q3 compared to 6.1% in Q2 and public consumption also grew at a faster pace of 5.2% compared to 3.1% in Q2. Public investments registered a smaller decline of -5.5% during the quarter compared to -9.8% in the previous quarter. Headline inflation declined to 0.5% in Q3 compared to 1.3% in Q2 mainly due to the impact of the zerorisation of GST whilst core inflation eased marginally to 1.4% (1.5% in Q2). The Ringgit had a mixed performance during 2018, starting off at MYR4.0614 : US\$1 as at 1 January 2018 before improving to MYR3.8773 : US\$1 as at 25 January and 3.857 as at 30 March before easing back to MYR4.1303 : US\$1 as at 31 December 2018.

## THE RETAIL SECTOR

### Klang Valley Retail Supply In 2018 Total Retail Supply And Demand

As at December 2018, the Klang Valley (includes Kuala Lumpur, Selangor and Putrajaya) had a total of 273 shopping centres with a combined supply of 77.0 million square feet in retail floor space. The average occupancy rate of these shopping centres dropped slightly for the third consecutive year from 79.9% in 2016 to 78.3% in 2017 and 78.0% in 2018.

The breakdown of the retail floor space supply in Kuala Lumpur, Selangor and Putrajaya is as per the table below:

Table 1 : Retail Supply in Klang Valley, 2018

No.	Location	No. of Malls #	Total Nett Floor Area (square feet)	Average Rental Rate (RM per square feet per month)*	Average Occupancy Rate (%)
1.	Kuala Lumpur	118	35,320,465	12.04	79.4
2.	Selangor	152	39,739,806	9.08	76.5
3.	Putrajaya	3	1,957,573	3.72	82.0
	TOTAL	273	77,017,844	8.85	78.0

# - includes hypermarket malls and arcades

\* - exclude rental rates of anchor tenants such as supermarket, department store, cineplex, bowling alley, etc.

Source: Henry Butcher Retail

## Market Overview (cont'd)

The average rental rate for retail space in the Klang Valley declined slightly for the third consecutive year from RM9.21 per square feet in 2016 to RM8.97 per square feet per month in 2017 and to RM8.85 per square feet per month in 2018. This average does not include rental rates of anchor tenants such as supermarkets, department stores, cineplexes, bowling alleys, etc. who typically pay low rents

The change of the ruling party and the ensuing bonus of a 3-month tax holiday when GST was suspended, did not change the fortunes of the retail sector as Klang Valley shopping centres still faced the same challenges as in 2017, ie higher operations costs, reduced shopping traffic, decreased retail sales and early termination by tenants. It also took a longer time to secure new tenants to fill up lots vacated by these tenants. Just as in previous years, many shopping centre owners needed to introduce rental rebates or reduce rental rates in order to retain existing tenants. Nevertheless, some established and popular shopping centres which suffered from low occupancy rates in 2017 managed to fill up more retail lots in 2018. New shopping centres which opened in 2018 faced difficulty to achieve at least 80% occupancy rate at the time of opening.

### New Openings in 2018

13 shopping centres were completed in 2018 adding an extra nett floor area of more than 2.8 million square feet onto the supply. They are located in all parts of Klang Valley.

The list of new shopping centres which opened in Klang Valley in 2018 include:

Table 2: New Shopping Centres in Klang Valley for 2018

No.	Name	Location	Nett Floor Area (Square Feet)
1.	KLEC Mall	Pantai	250,000
2.	Bangsar Trade Centre	Pantai	100,000
3.	Mitsui Outlet Park Phase 2	Sepang	105,000
4.	M Square	Puchong	186,000
5.	Shoppes at Four Seasons Place	KLCC	300,000
6.	Evo Mall	Bangi	250,000
7.	GM Bukit Bintang	Pudu	122,000
8.	Eko Cheras Mall	Cheras	800,000
9.	163 Retail Park	Mont Kiara	210,000
10.	BMC Mall	Cheras	180,000
11.	Seventeen Mall	Damansara	80,000
12.	One Kesas Concept Mall	Klang	150,000
13.	The Sanctuary Mall	Shah Alam	130,000
	TOTAL		2,863,000

Source: Henry Butcher Retail

About 50% of the newly opened shopping centres are located in Kuala Lumpur and the other half are located in Selangor.

The Shoppes at Four Seasons Place is located next to Suria KLCC. Robinsons occupies the majority of the retail space in this latest shopping centre. Similarly, the majority of the retail space in M Square is taken up by Parkson for its department store and supermarket. 163 Retail Park managed to open with a good occupancy rate. It is anchored by Jaya Grocer. BMC Mall, formerly AEON Mall, opened recently with NSK hypermarket as its anchor tenant.

Achieving a high occupancy rate on opening remained a great challenge for many of the new shopping centres in 2018. Several shopping centres opened their malls with established anchor tenants but failed to achieve high occupancy rates during the first few months of operation. They include KLEC Mall (Bangsar Mart) and Evo Mall (Parkson and Maxvalu). Eko Cheras Mall managed to achieve a high take-up rate upon opening but many retail shops have yet to open before the end of 2018. Bangsar Trade Centre and GM Bukit Bintang opened with only a few tenants. Seventeen Mall is anchored by Maxvalu and Mr. DIY. Many of its shops are tenanted by temporary tenants. One Kesas Concept Mall and The Sanctuary Mall were both completed before the end of 2018 and are now awaiting retailers to start their renovation works.

## Market Overview (cont'd)

### KLANG VALLEY SHOPPING CENTRE PERFORMANCE IN 2018

#### Shopping Centre Market

Consumers continued to visit shopping malls, especially the larger malls during weekends. Nevertheless, when compared to 3 years ago, they just spent less on each visit.

#### Major Events During the Year

In addition to cineplexes and bowling alleys, shopping centres in the Klang Valley are introducing more entertainment and recreational components to enhance their product offerings. The latest attractions found in Klang Valley shopping centres include The Rift in Mid Valley Megamall, FlowRider and AirRider in 1 Utama, VR Arena in the Curve, SuperPark in Avenue K, Battle Arena in Jaya Shopping Centre, Selfie Museum in Fahrenheit 88 and My Best Box in Berjaya Times Square.

More thematic zones have also been created by Klang Valley shopping centre owners to enhance their shoppers' experience. Shoppes at Four Seasons Place has a gourmet food hall at the lower ground level anchored by Malaysia Boleh and Atlas Gourmet Market. The fourth floor of Lot 10 has been converted to a food paradise called J's Gate Dining with an offering of 18 Japanese cafes and restaurants. Suria KLCC re-branded a 37,000 square feet space on the first floor into a men's zone called Men's Gallery. It features brands such as Alfred Dunhill, Hugo Boss, Dior Homme, Boggi Milano, Brooks Brothers, Coach Men, Bally, Fendi and Michael Kors.

More services are now found in shopping centres within the Klang Valley. New types of services include medical clinic, dental clinic, skin centre, eye centre and other specialist centres. More community facilities are also found within the shopping centres. They include children's playground, library, store for donation of used goods, recycle centre, etc. The first public library in a Selangor shopping centre was opened in Jaya One, Petaling Jaya recently.

More online retailers are setting up shops in shopping centres. Examples include Christy Ng, FashionValet, Twenty3, Bawal Aidijuma, Poplook, Finelycup, XiaoMi, Jeoel, etc. The latest major online player to do so is TaoBao Selection from Alibaba, China. It set up a 500 square feet store in Viva Home Mall in Cheras.

In order to increase its occupancy rates, several shopping centres leased their retail lots to non-retail tenants such as offices, showrooms, banquet halls, hotels and property galleries. Examples are Gem-In Mall in Cyberjaya and Selayang Capitol in Selayang.

Tropicana City Mall in Damansara has been renamed as 3 Damansara since June 2018. To attract more shoppers to its malls, Quill City Mall and Citta Mall introduced exhibition halls for more indoor events and promotions. The largest shopping mall which opened was Empire City Mall in Damansara Perdana with 1.8 million square feet of nett floor area. This mall was supposed to open in 2015 but was delayed several times. As at December 2018, only the ice-skating ring as well as several F&B and retail outlets have started operating in this mega mall.

#### Acquisition, Refurbishment and Closure

After its closure in 2015, SSTwo Mall in Petaling Jaya has finally been sold to DK-MY Properties Sdn Bhd for RM180 million. SSTwo Mall has a nett floor area of 460,000 square feet. Meanwhile part of Space U8 in Shah Alam has been put up for sale in the middle of 2018.

AEON Taman Maluri in Cheras is currently building a new extension at its open air car parking area and is scheduled to be ready for opening in 2019. The Sphere in Bangsar South was closed for major refurbishment during the middle of 2017. The new retail centre with the same name has been re-opened in March 2018. It is anchored by MaxValu Prime supermarket.

In order to compete with the newly opened Eko Cheras Mall, Cheras Leisure Mall undertook a refurbishment to enhance its facade and facilities. It also built a bridge linking it to the new MRT station.



## Market Overview (cont'd)

After the closure of Parkson, the owner of Plaza Sungei Wang has re-branded the space as JUMPA. This new retail zone will house a family entertainment park, large-format specialty stores, edgy fashion brands, cafes and restaurants as well as a supermarket. JUMPA will be ready for re-opening in middle of 2019. IOI Mall in Puchong has upgraded its interior design during the year in order to compete with new players in the market. Sunway Pyramid in Bandar Sunway upgraded many its facilities recently. It created Oasis Garden at the escalators connecting the parking bays at Orange Atrium. Oasis Garden is an artificial landscape area with water fountain and sounds of animals, insects and birds. In addition, the mall set up the first Grab Lounge in South East Asia. Digital Mall in Petaling Jaya refurbished its facade and re-launched in August 2018.

Ampang Park which was the first shopping centre to be opened in Kuala Lumpur 44 years ago was completely torn down by the middle of 2018 to make way for the construction of a MRT station.

Parkson which took over the entire shopping centre in 2014 finally moved out of Maju Junction in Kuala Lumpur city centre in early 2018 after experiencing poor business.

Tesco Extra Ampang is reported to be planning a residential development next to its existing hypermarket in order to enhance its property value and investment return. Meanwhile, Tesco Shah Alam, one of the oldest Tesco outlets in Malaysia, closed down in February 2018 to make way for a new mixed-use development.

Sooka in KL Sentral was closed in 2017 and re-opened in 2018 as a medical specialist centre. Subang Avenue in Subang Jaya undertook some minor refurbishments but has yet to re-open to public. AEON Big hypermarket closed down in Jalan Peel in 2018 and the space was taken over by NSK Trade City. The interior of Lucky Plaza Bandar Park in Old Klang Road remained closed with a furniture retailer occupying a front lot. The Singapore owner has been looking for major tenants to take over the empty building. Pandan Safari in Pandan Perdana remained closed after 3 years.

### KLANG VALLEY RETAIL MARKET

2018 was a very interesting year for the Malaysian retail industry. The change of administration after GE14 on 9 May 2018 led to several major changes in government policies. These changes had a direct impact on Malaysian shoppers and retailers.

#### (a) 14th Malaysia General Elections

The toppling of the then ruling BN government on 9 May 2018 was made possible by the majority of Malaysians who voted the Pakatan Harapan coalition into power. Thus, most Malaysians were filled with renewed hope for their future after the election results were announced. This boosted consumers' confidence levels immediately.

During the second quarter of 2018, the Consumer Sentiments Index soared to 132.9 points. This was the highest quarterly growth rate recorded for the last 21 years. Historically, higher consumers' confidence level should lead to higher retail spending on goods. However, this did not happen. Malaysian consumers were waiting for the abolishment of the Goods & Services Tax (GST) as promised by the new ruling party and held back their spending. They expected prices of retail goods to drop after the government removed GST.

#### (b) Zero-Rated Goods & Services Tax

In mid May 2018, the new government announced that the GST rate has been reduced from 6% to 0% effective from 1 June 2018 for a period of 3 months. For the once-in-a-life-time 3-months tax holiday, Malaysian retailers enjoyed an increase in sales. During the 3-month period, some retailers enjoyed a 30% increase in business while others only recorded a 10% improvement. Some retailers did not see any improvement at all. Sales performance varied amongst retailers, depending on additional offers given by the retailers.

High value-added retail goods (such as cars, luxury items, electrical goods, electronics goods, gadgets and furniture) enjoyed the best sales. High value-added services (travel, house renovation, medical, beauty and hair care) also enjoyed better sales as well.



## Market Overview (cont'd)

Retailers in Johor (the state closest to Singapore) enjoyed higher tourist arrivals from Singapore for the cheaper Malaysian goods and services.

No significant increases in sales were recorded for provision shops, sundry shops and mini-markets which dealt with daily necessities as well as hawkers, coffee shops, market stalls and other temporary stalls. No increase in sales were noted for small online retailers as well.

During the last week before 1 September 2018, many consumers rushed to buy more retail goods in order to save money before the SST kicked in. Popular consumer goods snapped up by last-minute shoppers included gadgets, electrical and electronic goods, furniture and home furnishings. Nevertheless, there was no panic buying. In addition, there was no rush to eat in branded food outlets and pricey restaurants before 1 September.

### (c) Re-Introduction of Sales & Services Tax

The Sales & Services Tax (SST) at a rate of 6% was imposed on retail goods and services from 1 September 2018. Retail sales were expected to slow down after the end of the 3-month tax holiday and the start of SST. For the first 2 months from 1 September 2018, most Malaysian consumers adopted a wait-and-see attitude on buying of retail goods and services. Just like the first 3 months after GST was introduced in 1 April 2015, Malaysian consumers observed the retail prices of goods and services, rather than buying them. But for basic necessities and dining out, consumers maintained the same lifestyles.

Many large retailers chose to lock the prices of their products for the month of September and October in order to entice shoppers to buy. The most obvious increases are not for retail goods but for F&B and services with turnover above the threshold stated by the Customs Department. Nevertheless, their prices were more or less maintained at the same level as during the GST period.

### (d) Quarterly Retail Sales Performance

For the first quarter of 2018, the Malaysian retail industry recorded a below-than-expected growth rate of 2.6% in retail sales, as compared to the same period in 2017 (refer to Table below). Continuing from the poor performance recorded a year ago (-1.2% in Q12017), the Malaysian retail market remained subdued during the early part of the year. Shoppers were still careful in their spending on festive goods during the Chinese New Year period.

Table: 3 Malaysian Retail Sales and Other Economic Performance Indicators, 2018

Economic Indicator	Q1	Q2	Q3	Q4	Whole Year
	%				
Retail sales	2.6	2.1	6.7	(e) 4.7	(e) 4.4
GDP	5.4	4.5	4.4	NA	(e) 4.8
Private consumption	6.9	8.0	9.0	NA	NA
Inflation rate	1.8	1.3	0.5	NA	NA

NA- not available

Source: Retail Group Malaysia/ Bank Negara Malaysia

For Q2 2018, Malaysia's retail industry reported a growth rate of 2.1% in retail sales compared to the same period in 2017. In June, the GST was reduced from 6.0% to 0.0%. Hari Raya was also celebrated during the same month as well as the school holidays, World Cup and Father's Day. These occasions should have brought exceptional sales results for many retailers. However, Malaysian consumers did not go all out to spend on all kinds of retail goods mainly because they did not have the extra incomes to do so. The sales performances of retailers varied according to the extra offers given out by them.

For the third quarter of 2018, the Malaysian retail industry achieved an encouraging growth rate of 6.7%, compared to the same period in 2017. The remaining 2 months of the tax break and before SST was re-introduced from 1 September 2018, boosted retail spending during this quarter. The bulk of the purchases were made during the last week of August. This was especially so for high value-added retail goods. Malaysian consumers rushed to retail stores to buy more in order to save more. For the month of September, many retailers maintained their prices in order to attract shoppers.

## Market Overview (cont'd)

For the last quarter of 2018, the retail growth rate is estimated at 4.7%. The year-end School holidays, Double Eleven shopping festival, Black Friday sales, Christmas and new year should contribute to better retail sales performance during this period.

As a whole, Malaysian retail sales is expected to register a growth rate of 4.4% for 2018 as compared to the previous year which grew by only 2.0%.

### (e) Opening and Closure of Foreign Retailers in Klang Valley

During the year, the Klang Valley retail market witnessed closures of several overseas retailers. They include Factorie, Gap, Banana Republic, Pablo Cheese Tart, Index Living Mall and Nana's Green Tea Restaurant. These retailers closed down mainly due to intense competition and higher cost of retail operations.

Nevertheless, despite several major closures, many overseas retailers continued to choose Klang Valley shopping centres to open their first outlets in Malaysia. They included at least 46 brands (in Klang Valley shopping centres only) from 15 countries:

Table 4: List of New Foreign Retailers

No.	Country of Origin	Brand Name	Trade
1.	Taiwan	Sunny Queen	F&B
2.		Tai Croissant	F&B
3.		Tiger Sugar	F&B
4.		Liang Sandwich Bar	F&B
5.	Hong Kong	Drop KL	F&B
6.		Flamingo Bloom	F&B
7.		Xin Dau Ji	F&B
8.	United States	Coldstone Creamery	F&B
9.		Roberto Coin	Fashion accessories
10.		Rayban	Fashion accessories
11.		NERD Unit	Fashion
12.		Dean & DeLuca	F&B
13.		Fred Segal	Fashion
14.		Victoria's Secret	Fashion
15.		Tail & Fin	F&B
16.		Steven Madden	Fashion
17.		Foot Locker	Fashion accessories
18.	South Korea	Nene Chicken	F&B
19.		Lynature	Beauty
20.		Aori Ramen	F&B
21.		Mankwanwhabap	F&B
22.		Chicken Plus	F&B
23.		LeeKaJa	Beauty
24.		Goodne	F&B
25.	China	Hidilao	F&B
26.		Samanea	Fashion
27.		Taobao Selection	Online
28.	United Kingdom	Tom Ford Beauty	Beauty
29.		Lush	Beauty

## Market Overview (cont'd)

No.	Country of Origin	Brand Name	Trade
30.	France	Chanel Fragrance & Beauty	Beauty
31.		Maison Christian Dior	Beauty
32.	Singapore	Muyoo	F&B
33.		Forty Hands	F&B
34.		Love, Bonito	Fashion
35.	Japan	Fuwari	F&B
36.		Genki Sushi	F&B
37.		Tokyo Milk Cheese	F&B
38.		Manekineko	Karaoke
39.		Mo-Mo Paradise	F&B
40.	Netherland	United Nude	Fashion
41.	Brazil	Dudalina	Fashion
42.	Switzerland	Nespresso	Foods
43.		Blancpain	Fashion accessories
44.	Italy	Off White	Fashion
45.	Finland	SuperPark	Recreational park
46.	Thailand	Coca	F&B

### TOURIST ARRIVALS

Malaysia was set to achieve 26.4 million tourist arrivals in 2018. This was lower than the target of 33.1 million tourists. The targeted tourism receipts for 2018 was RM84.9 billion.

Numerous international chain hotels opened in the Klang Valley during the year. They include W Hotel, Banyan Tree, Hyatt House, Pavilion Hotel Kuala Lumpur managed by Banyan Tree, citizenM, Travelodge, Alila, Four Seasons, Days Inn, Movenpick, RuMa, Hilton Garden Inn and New World Hotel. This has attracted more foreign tourists to this metropolitan city during the year.

Nevertheless, Malaysia failed to lure more Chinese tourists in 2018, especially after the change of administration in May 2018. During the October Golden Week in China, there were more than 7 million outbound Chinese tourists representing a 10.0% increment compared to a year ago. However, the number of Chinese tourists visiting Malaysia dropped by 35.0%. This is the first time Malaysia suffered a decline in tourist arrivals from China during their Golden Week holidays.

Malaysia was ranked the 6th most popular global tourist destination for Chinese tourists in 2017 when it attracted 2.3 million tourists from China. In 2018, Malaysia's expected to drop to 10th place with less than 3.0 million tourists received from the world's second largest economy.

## Market Overview (cont'd)

### RENTAL RATES OF SELECTED SHOPPING CENTRES IN KLANG VALLEY

Shopping centres in the Klang Valley registered a slight decline in achieved rental rates in 2018, especially for shopping centres located in suburban areas. Many new shopping centres offered rental rebates and longer rent-free periods to attract prospective tenants instead of offering a direct reduction in rental rates. The rental rates of selected shopping centres in Klang Valley are detailed out in the table below:

Table 5: Rental Rates of Selected Shopping Centres in Klang Valley, 2018

Name	Rental Rate (RM psf per month)					
	Lower Ground	Ground Floor	First Floor	Second Floor	Third Floor	Fourth Floor
Suria KLCC	25.00 – 150.00	50.00 – 150.00	36.00 – 90.00	35.00 – 86.00	30.00 – 90.00	30.00 – 56.00
Low Yat Plaza	10.00 – 20.00	19.00 – 45.00	22.00 – 32.00	11.00 – 31.00	15.00 – 28.00	11.00 – 20.00
Cheras Leisure Mall	15.00 – 29.00	14.00 – 20.00	10.00 – 20.00	8.00 – 15.00	NA	NA
Mid Valley Megamall	28.00 – 60.00	39.00 – 61.00	18.00 – 48.00	11.00 – 30.00	10.00 – 28.00	NA
Sunway Pyramid	14.00 – 28.00	20.00 – 32.00	13.00 – 30.00	13.00 – 26.00	7.00 – 17.00	NA
The Mines	NA	7.00 – 15.00	7.00 – 12.00	6.00 – 9.00	6.00 – 9.00	5.00 – 7.00
SACC Mall	7.00 – 13.00	5.00 – 18.00	5.00 – 13.00	2.00 – 9.00	4.00 – 6.00	NA

Source : Property Market Report, NAPIC / Henry Butcher Retail  
NA – not applicable

### KLANG VALLEY RETAIL SUPPLY IN 2018

At least 8 new shopping centres are expected to open in 2019 with a total nett floor area of close to 3.8 million square feet. They are located in various parts of the Klang Valley and include:

Table 6: New Shopping Centres in Klang Valley for the Year 2019

No.	Name	Location	Nett Floor Area (square feet)
1.	Central i-City Mall	Shah Alam	940,000
2.	Tropicana Garden Mall	Kota Damansara	1,000,000
3.	Setia City Mall Phase 2	Shah Alam	400,000
4.	Skypark Mall	Cyberjaya	150,000
5.	1 Utama E	Bandar Utama	165,000
6.	Galleria @ KL East	Melawati	380,000
7.	Pacific Star	Petaling Jaya	350,000
8.	Horizon Village Outlet	Sepang	400,000
	TOTAL		3,785,000

Source: Henry Butcher Retail

Only one of these new malls is located in Kuala Lumpur whilst the rest of them are located in Selangor (including Cyberjaya and Sepang). Four of them were supposed to open in 2018 but were delayed for various reasons to this year.

- Central i-City Mall was scheduled for opening in January 2019. Sogo, Village Grocer and TGV cineplex are its main anchor tenants.
- Setia City Mall will add a new wing to its existing shopping mall. Lulu hypermarket has been confirmed as its anchor tenant.
- 1 Utama E is the new extension of the old wing of 1 Utama. Phase 1 of 1 Utama E was opened in January 2018 with two sports components- FlowRider and AirRider. 1 Utama E has a total development cost of RM150 million.
- Galleria @ KL East is targeted for opening by end of 2019.

## Market Overview (cont'd)

### (A) OUTLOOK FOR THE KLANG VALLEY SHOPPING CENTRE MARKET IN 2019

Retail Group Malaysia has projected a 4.5% growth rate in retail sales for Malaysia in 2019. The consumer spending pattern this year will be highly dependent on the economic performance and cost of living during the year. The Malaysian government expects the national economy to be driven mainly by private sector consumption and investment whilst government expenditure is likely to moderate during the year in order to cope with the heavy public debt burden. The Malaysian government has projected the national economy to grow by 4.9% in 2019.

After a small increment in average consumer price during 2018 due mainly to zerorisation of GST, inflation is expected to rise faster this year due to the implementation of SST, the higher projected global oil prices and the floating of domestic fuel prices effective from the second half of 2019.

Under Budget 2019, a new mechanism on RON95 fuel subsidy will commence from the second quarter of 2019 in order to control the cost of living for the lower-income group. 90% of Malaysians use RON95 to power their vehicles. This new scheme offers a subsidy of RM0.30 per litre up to 100 litres a month for passenger cars with an engine capacity of 1,500cc and below. Motorcycles with an engine capacity of 125cc or less will be allocated a subsidy of RM0.30 per litre up to 40 litres a month. It is still early to determine the impact of this new scheme on Malaysian consumers until more details are announced.

In addition, a soda tax will be introduced by the Malaysian government effective from 1 April 2019. A RM0.40 tax will be imposed for every 5 grams of sugar or sugar-based sweetener per millilitre of soda drinks. For juice or vegetable-based drinks, a RM0.40 tax will be imposed for every 12 grams of sugar per millilitre. Nevertheless, the soda tax is not expected to have major impact on retail spending.

To strengthen domestic demand, the Malaysian government will launch a 'Buy Malaysian Products' campaign this year to encourage Malaysians to support local-made retail goods.

In 2019, the Malaysian government will continue to distribute a one-off monetary incentive to Malaysians (including civil servants) to reduce their financial burden. A total of 4.1 million households are expected to benefit from it.

An increment of minimum wage by RM50.00 to RM1,100 per month nationwide from 1 January 2019 will also lessen the financial burden of the B40 group (monthly salary below RM3,000). On the other hand, the higher minimum wage will lead to higher cost of goods for retailers. This will lead to higher retail prices eventually.

Retail spending has been weak after the tax holiday in 2018 because most Malaysians did not enjoy higher take-home pay during the year. The poor Ringgit and stock market performances during the last 6 months of 2018 also caused some concern to the general public who remained generally cautious.

Since the general elections, the new central government has been very busy fixing problems and reducing debts. Very few new economic policies have been implemented that will stimulate broad-based economic activities. In the next 6 months, the new government should introduce more new economic master plans and new policies that will stimulate broad-based economic activities to spur higher GDP growth. Higher GDP will lead to higher take-home pays, and higher retail spending subsequently.

### (B) KLANG VALLEY SHOPPING CENTRE MARKET

Just as experienced by the many new shopping centres which opened during the last 3 years, shopping centres targeted for opening in 2019 will continue to face challenges to fill up most of their retail lots upon their opening. To attract tenants to set up shop in their shopping centres, they will need to lower their rental rates and / or offer longer rent-free periods. Despite the rapid growth of online shopping in Malaysia, consumers are still visiting shopping malls, especially the larger ones, during weekends.

The spending patterns of Klang Valley consumers in shopping centres in 2019 will be highly dependent on the Malaysian economic performance during the year. If the economy performs well and benefits all business and industrial sectors, consumers spending will increase and this will in turn benefit shopping centres in general.

## Market Overview (cont'd)

### (C) TARGET TOURIST ARRIVALS

Malaysia targets to attract 28.1 million tourist arrivals in 2019. This has been adjusted and is lower than the earlier target of 34.5 million taking into consideration the changing world market conditions. The target tourist arrival in 2019 will be an increase of 6.4% as compared to the previous year. The expected tourism receipts is about RM92.2 billion in 2019. This will be an increase of 8.6% compared to last year.

An action plan to achieve this target is to improve long-haul connectivity from more European cities. On 2 November 2018, Condor Airlines started direct flights between Frankfurt and Kuala Lumpur. In addition, TUI from Germany has set up an office in Kuala Lumpur, the first in Southeast Asia. TUI is one of the largest tour agencies in Europe. They are expected to bring more tourists from European countries in 2019.

Malaysia Airlines reinstated its direct flights between Brisbane and Kuala Lumpur in the middle of 2018. Malindo Air also introduced daily flights between Melbourne and Kuala Lumpur around the same time as Malaysia Airlines. These should bring more tourists from Australia in 2019.

The 'Malaysia Fantastic Deals' package was launched in December 2018 to offer more value-for-money holiday packages for tourists from India. Tourism Malaysia partnered with Malindo Air and several popular hotels and restaurants in Malaysia to offer a total of 5 packages catered specifically to the Indian market.

The new Malaysian government is also taking steps to revive the dropping tourist arrivals from China. Actions to be taken include lowering the Visa fee and providing speedy Visa approvals.

After a record number of branded hotels started operations last year, more international chain hotels are expected to open in Klang Valley in 2019. They include Monopoly Mansion by Sirocco, Hotel Jen by Shangri-La and INNSIDE Hotel by Melia Hotels.

During Budget 2019, the Malaysian government introduced a departure levy on travellers leaving Malaysian airports starting from 1 June 2019. A fee of RM20.00 per person will be levied on those leaving for ASEAN countries and a fee of RM40.00 per person for those departing to other countries. This may boost domestic tourism during the year. On the other hand, it is not expected to have significant impact on foreign tourist arrivals to Malaysia.

### PURPOSE BUILT OFFICE SECTOR

#### Existing & Incoming Supply

The supply of purpose-built office space (PBO) in Kuala Lumpur increased to approximately 95.7 million sq ft (8.890 million sq m) in the first half of 2018, based on the latest available official statistics. There is another 12.3 million sq ft (1.149 million sq m) in incoming supply which will add substantially onto the space available when completed. This incoming supply are from buildings located within the city centre (11.1 million sq ft or 1.032 million sq m) whilst outside Kuala Lumpur, there is a stock of about 24 million sq ft (2.231 million sq m) supplied by buildings in Putrajaya. Selangor contributes another approximately 40 million sq ft (3.74 million sq m). The figures mentioned include both government and privately owned buildings.

Table 7: Existing Supply of Office Space (Government & Privately Owned Buildings) in Kuala Lumpur & Selangor as at Q3 2018

State	Existing supply (square metre)	Completion (square metre)	Incoming supply (square metre) *	Planned supply (square metre)	New planned supply (square metre)
Kuala Lumpur	8,890,157	12,297	1,149,235	645,914	340,861
W.P. Putrajaya	2,231,321	53,774	364,565	31,545	0
Selangor	3,746,752	39,218	337,284	10,276	0
Total	14,868,230	105,289	1,851,084	687,735	340,861

Source: NAPIC

The bulk of the existing supply of PBO (77%) is located within the city centre as identified as Sections 1 to 100, Bandar Kuala Lumpur.

## Market Overview (cont'd)

Table 8: Existing Supply & Occupancy Rates of Privately-Owned Purpose Built Office Buildings as at Q3 2018

Area	No. of buildings	Existing supply (sq m)	% of supply	Occupancy rate (%)
<b>Kuala Lumpur</b>				
City Centre (Seksyen 1-100, Bandar KL)	202	6,529,950	78	80.5
Outside City Centre (Luar Seksyen 1-100, Bandar KL)	71	1,810,116	22	70.4
<b>Total</b>	<b>273</b>	<b>8,340,066</b>	<b>100</b>	<b>78.3</b>
<b>WP Putrajaya</b>	<b>9</b>	<b>350,470</b>	<b>n.a.</b>	<b>42.7</b>
<b>Selangor</b>	<b>160</b>	<b>3,529,900</b>	<b>n.a.</b>	<b>72.5</b>

Source: NAPIC

A number of office buildings were completed during the year and these include:

- Menara Khuan Choo, Jalan Raja Chulan
- South Point Midvalley City
- Nucleus Tower, Mutiara Damansara
- Tower 6, Skypark, Subang
- KYM Tower, Mutiara Damansara
- Menara Celcom, PJ Sentral
- Menara Etiqa, Bangsar
- Mercu 2 KL Ecocity

In addition, there are a number of major office developments due for completion over the next few years and these are tabulated below:

Table 9: New Office Buildings Due for Completion 2018 and Beyond

Building	Location	NLA (square feet)	Estimated completion
<b>Kuala Lumpur</b>			
Equatorial Plaza	Jalan Sultan Ismail	470,000	2018 / 19
The Exchange 106 (Mulia)	TRX Jalan Tun Razak	2,650,000	2018 / 19
Menara Prudential	TRX Jalan Tun Razak	560,000* GFA	2018 / 19
Affin Bank New HQ	TRX Jalan Tun Razak	823,500	After 2019
HSBC New HQ	TRX Jalan Tun Razak	568,000	After 2019
Merdeka PNB 118	Stadium Merdeka / Chinatown	1,700,000	2019 - 2020
<b>Total</b>		<b>6,771,500</b>	
<b>Petaling Jaya</b>			
Menara Star 2 @ Pacific Star	Petaling Jaya	270,000	After 2018
PJ Sentral	Section 52, Petaling Jaya		
MBSB		281,000	2018
MyIPO		294,000	After 2018
PKNS		862,000	
Paramount Tower 1 & 2	Jalan Universiti PJ	572,000	After 2018
One City Phase 3	USJ	1,500,000	After 2018
Uptown 8	Damansara Uptown	450,000	After 2018
PJCC	PJ	290,000	After 2018
Petaling Tin redevelopment	PJ	300,000	After 2018
MRCB	PJ	184,000	After 2018
i-City Corporate tower 1 & 2	Shah Alam	2,080,000	After 2018
Fraser Square	Section 13 PJ	240,000	After 2018
<b>Total</b>		<b>7,323,000</b>	
<b>Grand Total</b>		<b>14,094,500</b>	

Source: Henry Butcher Research



## Market Overview (cont'd)

Apart from the above projects, our research reveals that there are a number of other major integrated commercial developments in the city containing office components which if launched and completed, will add significantly to the future supply of office space in Kuala Lumpur. Some of these projects are redevelopment projects involving putting up new buildings on sites where the existing buildings have been or will be torn down. Nevertheless, in view of the slowing economy, soft market conditions and the significant increase in supply of office space over the past few years, some of these projects will likely be deferred till later.

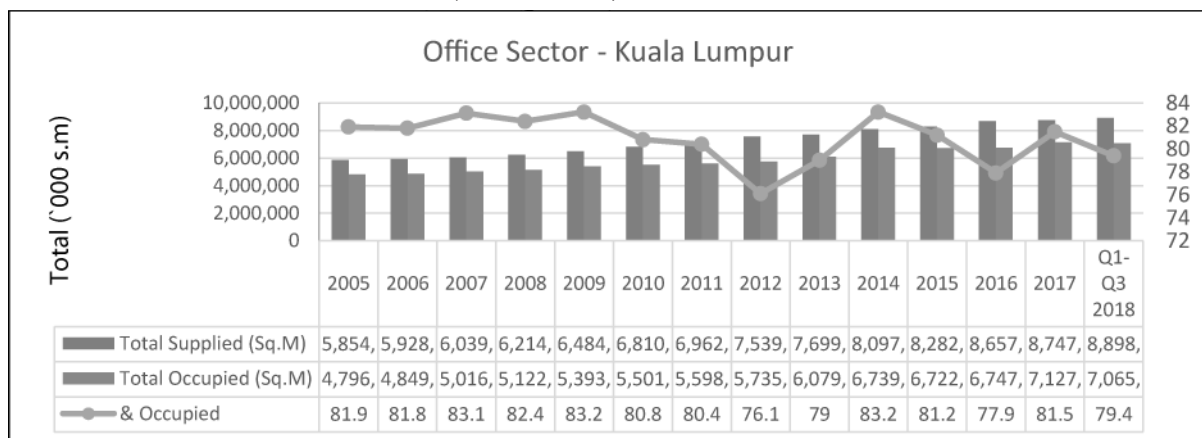
- Lot 185 KLCC – 500,000 square feet of retail & office space & a hotel
- Pavilion Damansara Heights – 10 corporate towers with floor areas of between 75,000 and 234,000 square feet.
- Bukit Bintang City Centre (BBCC) Signature Tower by Eco World Group
- Former Brickfields District HQ – Seni Nadi
- Tradewinds Square, Jalan Sultan Ismail (redevelopment of Kompleks Antarabangsa & Crowne Plaza Hotel) – proposed 110-storey corporate tower, 61-storey mixed use tower and a retail mall
- Tradewinds Towers – 50- and 26-storey office towers to be built on the former Menara Tun Razak site, Jalan Raja Laut
- New 80-storey office tower to be added to Menara Dayabumi
- Bandar Malaysia

### Office Occupancy Rates & Rentals

PBOs within KL city centre recorded an occupancy rate of 81.1% whilst those located outside the city centre have a lower occupancy rate of 73.6%. Overall, PBOs in Kuala Lumpur recorded a drop in occupancy rate to 79.4% compared to 80% in the second half of 2017 and 81.4% in the first half of 2017. Putrajaya also registered a decline in occupancy rate from 93.4% to 90.8% whilst Selangor managed to retain an occupancy rate of 75.4%. A number of the more recently completed buildings, aided by more attractive terms, managed to improve their occupancy rates.

The substantial supply of office space due to come onto the market is expected to result in a rise in vacancy rates and this may put pressure on rental rates going forward. Nevertheless, in view of the current soft market conditions and no signs of any significant new sources of demand for office space, some developers may postpone their projects and this may offer some relief to the sector.

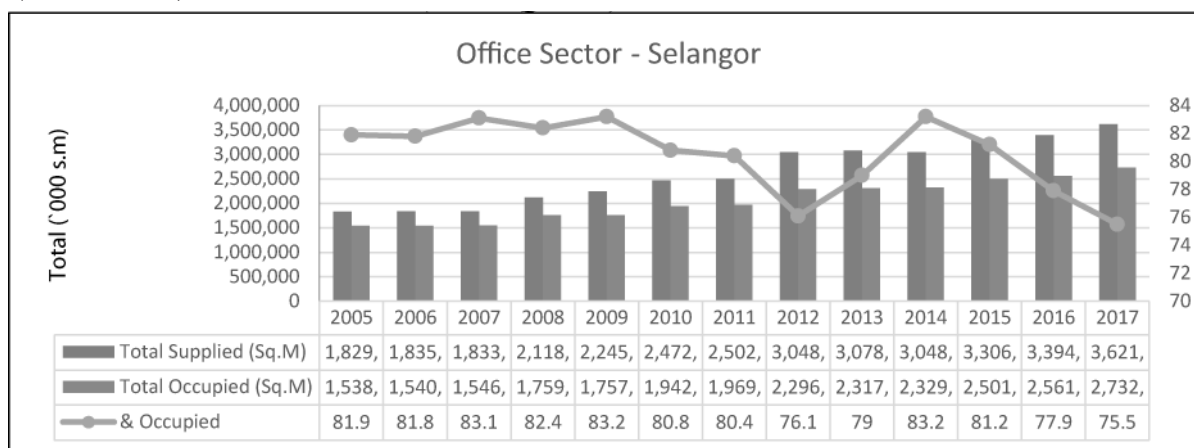
Chart 3: Supply and Occupancy Rates of Office Buildings in Kuala Lumpur  
(2005 to Q3 2018) Source: NAPIC





## Market Overview (cont'd)

Chart 4: Supply and Occupancy Rates of Office Buildings in Selangor  
(2005 to Q3 2018) Source: NAPIC



On the whole, average office rentals in Kuala Lumpur remained relatively stable with some investment grade buildings in good locations recording higher rentals. Older buildings which have not carried out any upgrading offered lower rentals to retain existing tenants and to attract new ones. Based on the Purpose-Built Office rental index published by Napic, the index went up slightly by 0.9%.

Table 10: Range of Office Rentals (2016)

Location	Rental Range (RM per square feet per month)
<b>KLCC / GT</b>	
Grade A+	10.00 – 14.00
Grade A	6.50 – 9.50
Grade B	4.00 – 5.50
<b>CBD</b>	
Grade A	4.50 – 5.50
Grade B	3.80 – 4.50
<b>WCC</b>	3.00 – 8.00
<b>Suburbs</b>	3.00 – 6.50

Source: HBM Research

Office leasing activity during this period was driven by oil and gas related companies (due to the recovery in oil prices in the beginning of the year) as well as co-working / shared office space operators. Amongst co-working space companies which have set up offices in the Klang Valley are Common Ground, Worq, Colony, The Co, White Space and the latest entrant, WeWork, currently the largest co-working space operator in the world who is scheduled to open its first office in Equatorial Plaza in early 2019 with a capacity of 1,900 desks.

## Market Overview (cont'd)

### Major Office Openings / Relocations

The following companies were noted to have opened up offices / relocated to the following buildings:

Table 11: Major Tenant Movements

Building	Tenant	Estimated Space (square feet)
Ming Building, Jalan Ampang	St John International EDU Group	5,116
Naza Tower, KLCC	Wood Group	50,000
Naza Tower KLCC	Royal Netherlands Embassy	6,000
Ilham Tower, KLCC	Coway Malaysia	
Menara Prestige, KLCC	Petrofac Malaysia	37,000
Menara Worldwide	Common Ground	21,500
Menara Hong Leong	Raja Daryl & Loh	30,000
Mercu 3, KL Eco City	F Secure	14,000
Mercu 3, KL Eco City	Zurich	120,000
Mercu 2 KL Eco City	Gibraltar Insurance	
Vertical Tower B, Bangsar South	Regus	18,000
KL Gateway	Hyundai Elevators	8,000
Menara Suezcap	Cargill	23,000
The Vertical Bangsar South	Alibaba	
Vertical Tower B, Bangsar South	IWG Shared services	18,500
The Vertical 2	Accenture	53,000
Southpoint, Mid Valley City	Compass	
Southpoint, Mid Valley City	BHP Billiton	
Southpoint, Mid Valley City	ARCC	20,000
JKG Tower, Jalan Raja Laut	Sime Darby Lockton Insurance	
Sunway Putra Tower	Ekovest	8,386
1 Sentrum, KL Sentral	Kajima,	6,170
Ken TTDI	Nestrade, Globee Services, Common Ground, Ken Grouting, DKSH	7,153
Menara LGB, TTDI	Hibiscus Petroleum	13,500
Tower H, Empire City	Grab Malaysia	40,000
Tower H, Empire City	WPP Group	90,000
Geotower Bandar Sunway	British American Tobacco	10,000
Equatorial Plaza	WeWork	102,000
Menara UOA 2	So Car	8,500
Pillar 11, KL Eco City	Colony	20,000
Q Sentral	Common Ground	15,000
Q Sentral	Jardine Lloyd Thompson	32,701

## Market Overview (cont'd)

### Major Office Sales Transactions

There were not many transactions of office buildings recorded in Kuala Lumpur in 2018. The following were the major transactions that were noted.

Table 12: Major Office Transactions in 2018

Building	Nett Lettable Area (Square feet)	Consideration (RM)	Price RM Per Square Feet
Wisma Mont' Kiara	181,992	121 m	670
Wisma UOA Pantai	157,083	120 m	764

Source: Henry Butcher Research

### Outlook for Office Sector

The slower economic growth projected for the next two years as well as the significant supply of office space which is expected to come onstream without any corresponding increase in demand presents a challenging environment for the office sector in Klang Valley. The new buildings which will be completed over the next year will, unless owner occupied, need a longer time to get the building filled up and may have to offer more attractive rentals and terms to entice tenants. As vacancy rates rise, building owners may feel pressured to reduce their rentals in order to compete and to retain existing tenants whose tenancies are up for renewal. Rentals which have remained relatively stable so far, may come down when occupancy rates decline.

The completion and commencement of operations of the new MRT / LRT line extensions will make certain areas outside the traditional city centre more attractive as office locations and this may lead to a flight to better quality new buildings in city fringe areas like Damansara Heights and Mutiara Damansara / Damansara Perdana.

Nevertheless, although the outlook for the office sector appears challenging, no drastic downturn and decline in rentals is expected.

## THE MALAYSIAN REITS (M-REITS) MARKET OVERVIEW 2018

The FBM KLCI which started the year at 1,782.70 on 2nd January dipped to a low of 1,663.86 in the aftermath of the uncertainty arising from the change of ruling party after GE14. Once the new administration showed signs of settling in, the market confidence returned and the index recovered and reached a high of 1,826.90 on 28 August before the negative impact of the China-US trade war on global stock markets in the last quarter of the year led to the FBM KLCI plummeting down to close 2018 at 1,690.58 (down 5.17%). Nevertheless, the FBM KLCI still performed better than the S&P 500, Dow Jones Industrial as well as the Hang Seng and Nikkei. The REIT index on the other hand which was introduced by Bursa Malaysia in October 2017, started off at 984.32 on 2nd January, dipped to a low of 852.11 on 20 March before topping off at 938.39 on 29th June. The REIT Index closed the year lower at 921.15.

The oversupply of shopping malls, hotels and office space and the current soft property market has presented a challenge to the Malaysian REITs industry. Although most REITs reported improved Net Property Income (NPI) and declared higher dividends, the increase did not come on the back of sector wide improvements with the operating environment continuing to be challenging and rental growth moving at a modest pace without much fresh catalysts.

The number of REITs listed on Bursa Malaysia remains at 18. The largest REIT by market capitalization as at end 2018 is still KLCCP which maintained its top position at RM 13.829 billion (down from the previous year's closing at RM 15.6 billion) followed by IGB REIT at RM 6.115 billion, Sunway REIT at RM 5.095 billion and Pavilion REIT at RM 4.980 billion. There are only four other REITs which have market capitalizations of above RM 1 billion viz-a-viz, Capitaland Malaysia Mall Trust, YTL Hospitality, Axis Real Estate, MRCB-Quill with Al-Aqar Healthcare dropping out of the list this year. Dividend yields appeared to have improved in 2018 with ten (seven in 2017) out of the eighteen REITS which declared dividend yields of above 6% with the highest at 9.11% (8.82% in 2017). There were four REITS which generated dividend yields of 8% and more (AmFirst, CMMT, Hektar and KIP). The performance of the 18 REITs for 2018 are summarized in the table overleaf:

## Market Overview (cont'd)

**Table 13: Malaysian REITS Performance**

No	Company	Property Portfolio	Market Capital (RM)	EPS (cent)	P/E Ratio	ROE (%)	Dividend Yield (%)	NTA (RM)	Share Price (RM)
1.	AHP	Office Shops	171.60 m	8.46	9.22	6.66	6.67	1.270	n.a
2.	Alaqaar	Health Care	964.14 m	11.59	11.30	9.23	4.30	1.256	1.310
3.	Al-Salam	Islamic diversified	469.80 m	n.a	n.a	n.a	3.70	1.053	0.805
4.	AmFirst	Office / Retail	360.36 m	1.72	30.52	1.39	8.00	1.238	0.525
5.	Amanah Raya	Diversified	470.04 m	n.a	n.a	n.a	6.70	1.379	0.820
6.	Atrium	Industrial	135.20 m	15.39	7.21	10.36	6.67	1.485	1.110
7.	Axis	Offices / Industrial / Retail	1.930 b	10.68	14.61	8.13	5.29	1.314	1.560
8.	Capitaland	Retail	2.065 b	7.57	13.34	5.97	8.14	1.269	1.010
9.	Hektar	Retail	512.78 m	9.22	12.04	6.63	8.65	1.391	1.010
10.	IGB	Retail	6.115 b	9.77	17.71	9.23	5.36	1.058	1.730
11.	KIP	Retail	378.98 m	7.37	10.18	7.37	9.11	1.000	0.750
12.	KLCCP	Office / Retail	13.829 b	49.12	15.59	6.78	4.72	7.240	7.660
13.	MRCB-Quill	Office / Retail	1.136 b	6.38	16.61	5.09	7.92	1.254	1.060
14.	Pavilion	Office / Retail	4.980 b	8.92	18.39	6.99	5.02	1.277	1.640
15.	Sunway	Diversified	5.095 b	14.31	12.09	9.82	5.53	1.457	1.730
16.	Tower	Office	258.06 m	n.a	n.a	n.a	2.28	1.932	n.a
17.	UOA	Office	553.96 m	13.48	9.72	7.81	6.53	1.726	1.310
18.	YTL Hospitality	Hotels	2.011 b	13.97	8.45	8.82	6.67	1.584	1.180

Source: Malaysia Stockbiz. KLSE. (Data as at 31.12.18)

Investors were generally cautious about REITs as the majority of the REITs own office buildings and malls and the office and retail sectors have been reported to be in oversupply. The weaker consumer sentiments have also compounded the weakness of the segment. This has affected share prices and it is noted that only one (Axis) of the eighteen REITs registered an increase in their market capitalization compared to a year ago. Nonetheless, analysts feel that in times of volatility in the stock markets, REITs with their stable and attractive yields, offer a safe haven to investors.

## Market Overview (cont'd)

### CONCLUSION

The outlook for both the retail and office sectors in 2019 continues to be challenging, as weaker consumer sentiments and oversupply weighs down heavily on these sectors. The slower pace of economic growth projected for 2019 coupled with reduced government spending on infrastructural projects (as the government has cancelled or deferred certain big projects in view of the country's current inability to fund and undertake such projects) have put a damper on the construction and property sector. The global economic uncertainty exacerbated by the inability of the Trump administration to cut a deal with China in the ongoing trade war as well as the steep fall in oil prices will have an impact on the country's economic well-being going into 2019.

Nevertheless, despite the challenging retail environment, established shopping centres which are well-located, professionally-managed and which are more attuned to the needs of their tenants and customers and which can speedily react to changes in market conditions eg the threat of the growing online shopping trend, will be able to survive the current tough market conditions.

With added supply, the office market will face increasing pressure on both occupancy rates and rentals. The entry and rapid growth of co-working space operators have provided a spark in the otherwise dull office market and REITs could look at this previously ignored market segment for growth.

In conclusion, the REIT sector is facing issues of oversupply in both the office and retail sectors as well as a weaker economic environment and this has put pressure on occupancy and rental rates. Nevertheless, REITs which have assets of impeccable quality situated in prime and popular locations will continue to stand out from its peers and will be able to better weather the more challenging market conditions ahead.

## Glossary

BNM	:	Bank Negara Malaysia
Board	:	Board of Directors of the Manager
Bursa Malaysia	:	Bursa Malaysia Securities Berhad
Company	:	Pavilion REIT Management Sdn Bhd
CEO	:	Chief Executive Officer
CPI	:	Consumer Price Index
CSR	:	Corporate social responsibility
Deed	:	The Deed dated 13 October 2011 entered into between the Trustee and the Manager constituting Pavilion REIT, and any other future amended and restated Deed that is registered with Securities Commission
DPU	:	Distribution per Unit
EPU	:	Earnings per Unit
Fund	:	Pavilion Real Estate Investment Trust
FBM KLCI	:	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FY	:	Financial year from 1 January to 31 December
GDP	:	Gross domestic product
KLP	:	Kuala Lumpur Pavilion Sdn Bhd
Manager	:	Pavilion REIT Management Sdn Bhd
MER	:	Management expense ratio - ratio of trust expenses incurred in operating Pavilion REIT to its NAV
MMLR	:	Main Market Listing Requirements of Bursa Malaysia Securities Berhad
M-REIT	:	Malaysian Real Estate Investment Trust
NAV	:	Net asset value
NLA	:	Net lettable area
NPI	:	Net property income
Pavilion REIT	:	Pavilion Real Estate Investment Trust
Prospectus	:	Pavilion REIT's prospectus dated 14 November 2011
PPKM	:	Persatuan Pengurusan Kompleks Malaysia / Malaysia Shopping Malls Association
QIA	:	Qatar Investment Authority
REIT	:	Real Estate Investment Trust
Trustee	:	MTrustee Berhad
TAV	:	Total asset value
Unit	:	An undivided interest in Pavilion REIT as provided for in the Deed
WALE	:	Weighted average lease expiry

## NOTICE OF ANNUAL GENERAL MEETING

# PAVILION

## REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the Deed dated 13 October 2011 entered into between Pavilion REIT Management Sdn Bhd and AmTrustee Berhad (now known as MTrustee Berhad)\*)

**NOTICE IS HEREBY GIVEN** that the Seventh Annual General Meeting of Pavilion Real Estate Investment Trust ("Pavilion REIT") will be held at Pavilion Hotel Kuala Lumpur, 170 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia on Thursday, 28 March 2019 at 10.00 a.m. to transact the following businesses:-

### ORDINARY BUSINESS

1. To lay the Audited Financial Statements of Pavilion REIT for the year ended 31 December 2018 together with the Trustee's Report to the Unitholders issued by MTrustee Berhad, as trustee of Pavilion REIT and the Report and Statement by the Manager issued by Pavilion REIT Management Sdn Bhd, as the manager of Pavilion REIT and the Auditors' Report thereon.

**(Please refer  
Explanatory Note I)**

### SPECIAL BUSINESS

To consider and, if thought fit, to pass with or without any modification, the following Resolution:

2. **PROPOSED AUTHORITY TO ALLOT AND ISSUE NEW UNITS PURSUANT TO PARAGRAPH 6.59 OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (PROPOSED AUTHORITY)**

**Ordinary  
Resolution**

"THAT pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the approval of the relevant regulatory authorities, where such approval is required, authority be and is hereby given to Directors of Pavilion REIT Management Sdn Bhd ("the Manager") to allot and issue new units in Pavilion REIT ("New Units") from time to time to such persons and for such purposes as the Directors of the Manager may in its absolute discretion deem fit and in the best interest of Pavilion REIT, provided that the aggregate number of New Units issued pursuant to this resolution, when aggregated with the number of units in Pavilion REIT issued during the preceding 12 months, must not exceed 20% of the total number of units issued of Pavilion REIT for the time being comprising of 3,039,020,436 Units;

AND THAT the Proposed Authority shall be effective and continue to be in force from the date of receipt of all relevant authorities' approval or the date the Unitholders pass this resolution, whichever may be the later, until:

- (a) the conclusion of the next annual general meeting ("AGM") of the Unitholders, at which time it shall lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- (b) the expiration of the period within which the next AGM of the Unitholders is required by law to be held; or
- (c) the Proposed Authority is revoked or varied by the Unitholders in a Unitholders' meeting;

*Notice of  
Annual General Meeting (cont'd)*

whichever occurs first ("Validity Period");

AND THAT the New Units to be issued pursuant to the Proposed Authority shall, upon allotment and issuance, rank pari passu in all respects with the existing Units except that the New Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared before the date of allotment and issuance of such New Units;

AND THAT authority be and is hereby given to the Directors of the Manager and the Trustee, acting for and on behalf of Pavilion REIT, to give effect to the aforesaid Proposed Authority with full powers to assent to any condition, variation, modification and/or amendment in any manner as the Manager and the Trustee may deem fit and in the best interest of Pavilion REIT and/or as may be imposed by the relevant authorities, and to deal with all matters relating thereto;

AND FURTHER THAT authority be and is hereby given to the Directors of the Manager and the Trustee, acting for and on behalf of Pavilion REIT, to take all such steps and do all acts, deeds and things in any manner (including the execution of such documents as may be required) as they may deem necessary or expedient to implement, finalise, complete and give full effect to the Proposed Authority."

BY ORDER OF THE BOARD

Pavilion REIT Management Sdn Bhd (939490-H)  
(as the Manager of Pavilion Real Estate Investment Trust)

Lim Mei Yoong (LS 02201)  
Company Secretary

Kuala Lumpur  
28 February 2019



## Notice of Annual General Meeting (cont'd)

### Notes :

1. A unitholder who is entitled to attend at the meeting is entitled to appoint not more than 2 proxies to attend instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.
  2. Where a unitholder is a corporation, its duly authorised representative shall be entitled to attend at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to attend.
  3. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.
  4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
  5. The instrument appointing proxy shall be deposited at the Registered Office of the Manager at 6-2, Level 6, East Wing, Menara Goldstone (Holiday Inn Express), No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 27 March 2019 at 10.00 a.m. being 24 hours before the time appointed for holding the Meeting or any adjournment thereof.
  6. Only unitholders registered in the Record of Depositors as at 21 March 2019 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.
  7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Proposed Ordinary Resolution set out in the Notice of Annual General Meeting will be put to vote by way of poll.
- \* The Deed dated 13 October 2011 entered into between the Trustee and the Manager constituting Pavilion REIT, and any other future amended and restated Deed that is registered with Securities Commission Malaysia.

### Explanatory Notes on:

#### (I) **Ordinary Business**

The Audited Financial Statements are laid before the unitholders for discussion only pursuant to the provision of the Guidelines on Listed Real Estate Investment Trusts ("Listed REITs Guidelines"). The Audited Financial Statements do not require formal approval of the unitholders. Hence, this matter will not be put forward for voting.

#### (II) **Special Business**

The Proposed Ordinary Resolution, if passed, would enable the Directors of the Manager to allot and issue New Units from time to time provided that the aggregate number of the New Units to be issued during the Validity Period, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the total number of units issued of Pavilion REIT for the time being comprising of 3,039,020,436 Units.

The Proposed Authority will allow the Manager the flexibility to allot and issue New Units to raise funds to finance future investments, acquisitions and/or capital expenditure to enhance the value of Pavilion REIT and/or to refinance existing debt as well as for working capital purposes, subject to the relevant laws and regulations. With the Proposed Authority, delays and further costs involved in convening separate general meetings to approve such issue of New Units to raise funds can be avoided.

The Manager may, subject to relevant laws and regulations, use the net proceeds from the issuance of New Units under the Proposed Authority as its absolute discretion for other purposes as permitted for under the Listed REITs Guidelines.

Any allotment and issuance of New Units pursuant to the Proposed Authority will be subject to the relevant approvals of Securities Commission Malaysia and Bursa Malaysia Securities Berhad.

# PAVILION

## REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the Deed dated 13 October 2011 entered into between Pavilion REIT Management Sdn Bhd and AmTrustee Berhad (now known as MTrustee Berhad)\*)

### PROXY FORM

No. of Units Held	CDS Account No.

I/We \_\_\_\_\_ (name of unitholder as per NRIC, in capital letters)

NRIC No./Passport No./Company No. \_\_\_\_\_ Tel./Mobile No. \_\_\_\_\_

of \_\_\_\_\_  
(full address) being a unitholder of PAVILION REAL ESTATE INVESTMENT TRUST ("Pavilion REIT") and entitled to vote hereby appoint:-

#### 1<sup>st</sup> PROXY 'A'

Full name :		Proportion of unitholdings represented	
		No. of Units	%
Address :	NRIC No./Passport No./ Company No.:		

and/or failing \*him/her

#### 2<sup>nd</sup> PROXY 'B'

Full name :		Proportion of unitholdings represented	
		No. of Units	%
Address :	NRIC No./Passport No./ Company No.:		

or failing \*him/her, the Chairman of the Meeting as \*my/our proxy to attend and vote for \*me/us on \*my/our behalf at the Seventh Annual General Meeting of Pavilion REIT to be held at Pavilion Hotel Kuala Lumpur, 170 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia on Thursday, 28 March 2019 at 10.00 a.m. and any adjournment thereof.

\* Strike out whichever not applicable

Please indicate with an "X" in the space below how you wish your votes to be cast. If you do not do so, the proxy/proxies will vote or abstain from voting at his/her/their discretion.

Ordinary Resolution – Special Business	For	Against
Proposed Authority to Allot and Issue New Units		

Dated this \_\_\_\_\_ day \_\_\_\_\_ 2019

Signature of Unitholder/Common Seal

#### Notes :

1. A unitholder who is entitled to attend at the meeting is entitled to appoint not more than 2 proxies to attend instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.
2. Where a unitholder is a corporation, its duly authorised representative shall be entitled to attend at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to attend.
3. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
5. The instrument appointing proxy shall be deposited at the Registered Office of the Manager at 6-2, Level 6, East Wing, Menara Goldstone (Holiday Inn Express), No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 27 March 2019 at 10.00 a.m. being 24 hours before the time appointed for holding the Meeting or any adjournment thereof.
6. Only unitholders registered in the Record of Depositors as at 21 March 2019 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.
7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Proposed Ordinary Resolution set out in the Notice of Annual General Meeting will be put to vote by way of poll.

\* The Deed dated 13 October 2011 entered into between the Trustee and the Manager constituting Pavilion REIT, and any other future amended and restated Deed that is registered with Securities Commission Malaysia.



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AFFIX  
STAMP

The Manager of Pavilion Real Estate Investment Trust  
**PAVILION REIT MANAGEMENT SDN BHD** (939490-H)  
6-2, Level 6, East Wing,  
Menara Goldstone (Holiday Inn Express)  
No. 84, Jalan Raja Chulan  
50200 Kuala Lumpur

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PAVILION KL

ELITE PAVILION

PAVILION TOWER

INTERMARK MALL

DAMEN MALL

THE INTERMARK

Pavilion REIT Management Sdn. Bhd.

Company Number: 939490-H

Level 10, Pavilion Kuala Lumpur, 168 Jalan Bukit Bintang, 55100 Kuala Lumpur  
T : +603 2118 8888 F : +603 2118 8889 Email : [info@pavilion-reit.com](mailto:info@pavilion-reit.com) [www.pavilion-reit.com](http://www.pavilion-reit.com)

COACH

COACH

ENTRANCE