

# PAVILION

REAL ESTATE INVESTMENT TRUST

2015 ANNUAL REPORT

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### Disclaimer :

This annual report, prepared by Pavilion REIT Management Sdn Bhd ("the Manager") may contain certain forward-looking statements and is prepared based on the Manager's current view of future events that may involve certain assumptions, risks and uncertainties. Unitholders and investors are advised that past performance does not necessarily signify its future performance.

# VISION, MISSION AND INVESTMENT STRATEGIES

The **principal investment policy** of Pavilion REIT is **investing directly** and **indirectly**, in a diversified portfolio of income producing **real estate** used solely or **predominantly** for retail purposes (including mixed-use developments with a retail component) in **Malaysia** and other countries within the **Asia-Pacific region** as well as real estate related assets.

## VISION

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

## 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.

## STRATEGIES

The Manager intends to achieve the vision and mission of Pavilion REIT through the following strategies:

- (a) Actively pursuing acquisition opportunities in accordance with the authorised investments of Pavilion REIT
  - acquire yield accretive income-producing properties
  - explore repositioning opportunities
- (b) Pursuing an efficient capital management strategy
  - diversify sources of debt funding
  - maintaining a reasonable level of debt service capability
  - securing favourable terms of funding
  - managing financial obligations
- (c) Proactively managing the properties and implementing asset enhancement strategies
  - managing the exposures arising from adverse market interest rates through appropriate hedging strategies
  - actively managing the range of maturities to reduce refinancing risk and optimise the cost of capital
  - maximise quality shopper traffic at Pavilion Kuala Lumpur Mall
  - active management of tenant base in order to increase rental rates and maintain high occupancy rates
  - continued asset enhancement initiatives to increase net lettable area and rental potential improving cost efficiency





# CORPORATE INFORMATION

## BOARD OF DIRECTORS OF THE MANAGER

### Chairman and Non-Independent Executive Director

Tan Sri Lim Siew Choon

### Deputy Chairman and Non-Independent Non-Executive Director

Omer Abdulaziz H A Al-Marwani

### Non-Independent Executive Director

Puan Sri Tan Kewi Yong  
Dato' Lee Tuck Fook

### Non-Independent Non-Executive Director

Saif Mohd A M Al-Madfaa  
Navid Chamdia  
Ooi Ah Heong

### Independent Non-Executive Director

Dato' Mohzani bin Abdul Wahab  
Dato' Maznah binti Abdul Jalil  
Dato' Choo Chuo Siong  
Syed Mohd Fareed bin Shaikh Alhabshi

## MANAGER & ITS PRINCIPAL PLACE OF BUSINESS

Pavilion REIT Management Sdn Bhd  
(Company Number: 939490-H)  
Level 10, Pavilion Kuala Lumpur  
168, Jalan Bukit Bintang  
55100 Kuala Lumpur, Malaysia

Telephone No.: +603 2118 8888  
Facsimile No.: +603 2118 8889  
E-mail: [info@pavilion-reit.com](mailto:info@pavilion-reit.com)  
Website: [www.pavilion-reit.com](http://www.pavilion-reit.com)





CORPORATE  
INFORMATION (cont'd)

**MANAGER'S REGISTERED OFFICE**

6-2 Level 6 East Wing  
Menara ING  
No. 84 Jalan Raja Chulan  
50200 Kuala Lumpur, Malaysia

Telephone No.: +603 2166 9818  
Facsimile No.: +603 2166 6818

**AUDIT COMMITTEE**

Dato' Mohzani bin Abdul Wahab  
(Chairman)  
Dato' Maznah binti Abdul Jalil  
Dato' Choo Chuo Siong  
Omer Abdulaziz H A Al-Marwani

**NOMINATING COMMITTEE**

Dato' Maznah binti Abdul Jalil  
(Chairperson)  
Dato' Mohzani bin Abdul Wahab  
Dato' Choo Chuo Siong  
Omer Abdulaziz H A Al-Marwani  
Ooi Ah Heong

**COMPANY SECRETARY OF THE MANAGER**

Lim Mei Yoong  
(Licensed Secretary No: LS 02201)  
6-2 Level 6 East Wing  
Menara ING  
No. 84 Jalan Raja Chulan  
50200 Kuala Lumpur, Malaysia

**TRUSTEE**

AmTrustee Berhad  
(Company Number: 163032-V)  
Level 22, Bangunan AmBank Group  
55, Jalan Raja Chulan  
50200 Kuala Lumpur, Malaysia

Telephone No.: +603 2036 2633  
Facsimile No.: +603 2032 1914

**PROPERTY MANAGER**

Henry Butcher Malaysia Sdn Bhd  
(Company Number: 160636-P)  
No. 25 Jalan Yap Ah Shak  
Off Jalan Dang Wangi  
50300 Kuala Lumpur, Malaysia

**AUDITOR**

KPMG (Firm No. AF 0758)  
Chartered Accountants  
Level 10, KPMG Tower  
8, First Avenue, Bandar Utama  
47800 Petaling Jaya  
Selangor Darul Ehsan, Malaysia

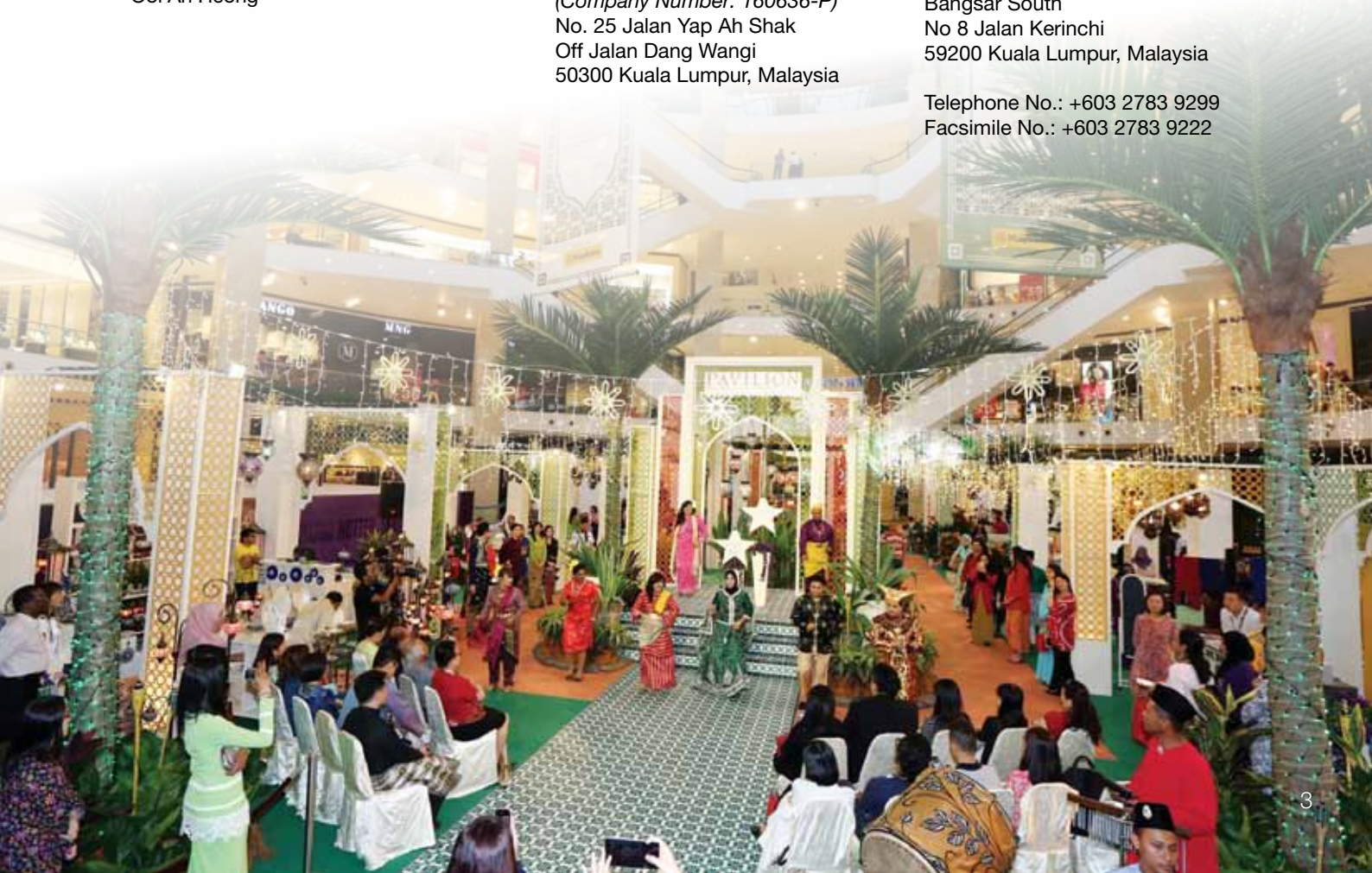
**PRINCIPAL BANKERS**

Affin Bank Berhad  
Alliance Bank Malaysia Berhad  
AmBank (M) Berhad  
CIMB Bank Berhad  
Hong Leong Bank Berhad  
Malayan Banking Berhad

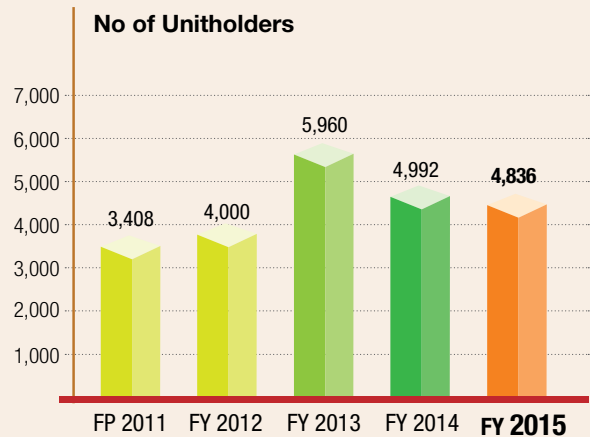
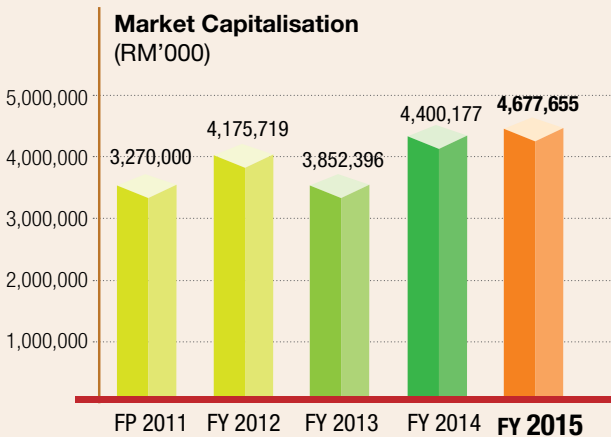
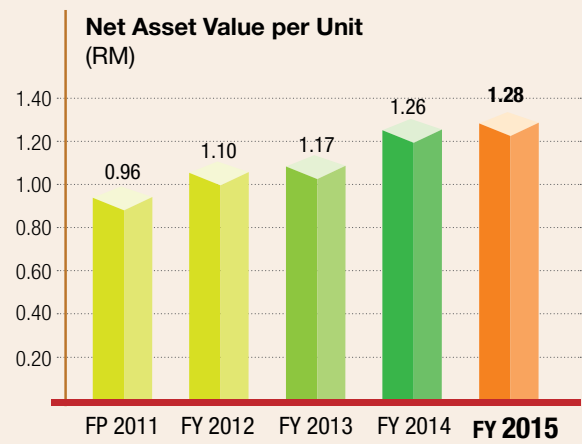
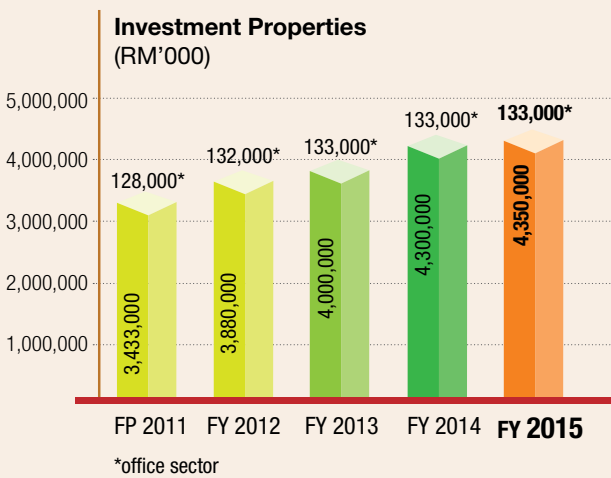
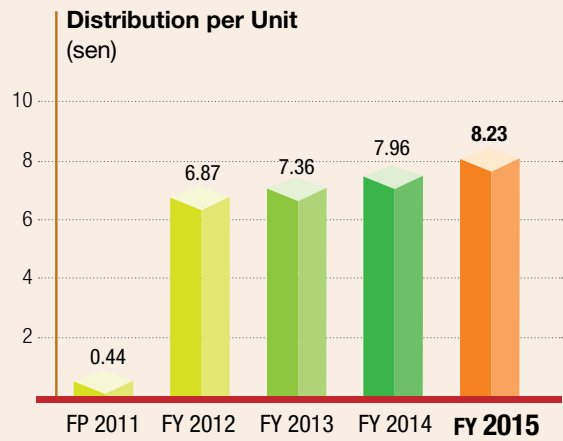
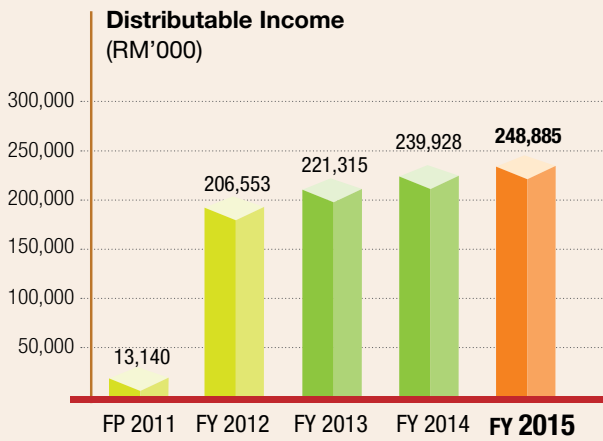
**REGISTRAR**

Tricor Investor Services Sdn Bhd  
(Company Number: 118401-V)  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite, Avenue 3,  
Bangsar South  
No 8 Jalan Kerinchi  
59200 Kuala Lumpur, Malaysia

Telephone No.: +603 2783 9299  
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# HIGHLIGHTS







Pavilion KL 2015 Events



# MESSAGE FROM THE CHAIRMAN

## ECONOMIC OVERVIEW

It has been a very challenging 2015, with global economic growing at only 2.4% and the Eurozone growing at only 2.9%. Closer to home, the Japanese economy seems to be coming to a halt with 1.8% GDP growth, and China GDP is projected to be below 7.0% in 2015.

In spite of all this, the United States economy is showing signs of improvement with unemployment rate at approximately 5%. The improved statistics has added to the speculation during the year that the US Federal Reserve will be increasing their interest rates for the first time since 2008 financial crisis. Additionally, crude oil prices has been moving down from

## MARKET REVIEW

The market has seen M-REIT growth due to stronger unit prices in 2015. With the listing of Al-Salam REIT by Johor Corporation in September 2015, the combined market capital value for the M-REIT grew from RM35.7 billion to RM37.5 billion in 2015 or 5%, despite a weaker year end closing of FBM KLCI of 1,692.51 as compared to the previous year of 1,761.25.

M-REIT acquisitions totalled RM1.54 billion in 2015 with 7 completed acquisitions by five REITs. Sunway REIT started the year with completion of Sunway Hotel Georgetown and Wisma Sunway acquisitions totalling RM134 million followed by MRCB-Quill REIT's RM740 million acquisition of

## INVESTMENT AND ASSET PERFORMANCE

This has indeed been a very interesting year for us, managing in an uncertain, volatile market and yet being able to negotiate and execute two sales and purchase agreements during the year.

The first being the acquisition of da:mén USJ Mall in USJ1, Subang Jaya for RM488 million on 17 September 2015. The mall is a five storey shopping mall with a lower ground floor of approximately 420,920 square feet of net lettable area and 1,672 car parks bays.

This was followed by the second acquisition of the Intermark retail mall on 29 December 2015 for RM160



US\$53 per barrel in early 2015 to a low of US\$36 a barrel in late 2015.

As a result of interest rates hike uncertainty in US, falling crude oil prices, slowing growth in China and weak commodity prices, this has contributed to the volatility in exchange rates throughout the world.

In Malaysia, its economy have not been spared. The introduction of GST, removal of petrol subsidies, higher public transport cost, increased in toll rates, a very volatile and weak foreign exchange during the year all contributed to an expected GDP growth for 2015 at approximately 4.4% to 5.5%.

Despite all this, Pavilion REIT have maintained its resilient financial position in 2015 with 11.5% annual total return based on total capital appreciation and distribution yield.

Platinum Sentral. AXIS REIT acquired Axis Shah Alam Distribution Centre 2 for RM45 million whilst CMMT purchased Tropicana City Mall and Offices for RM540 million middle of the year. Finally, Al-Aqar Healthcare REIT ended the year with the acquisitions of KPJ Seremban Specialist Hospital and KPJ Healthcare University College for a total amount of RM82 million.

We are likely to see a consolidation of the M-REIT in 2016 as US Federal Reserve had increased their rate by 0.25% in late December 2015 and Bank Negara Malaysia's overnight policy rate is currently projected to stay at 3.25%. The yield spread for 2015 between MGS and M-REIT is 0.94% as compared to 1.68% in 2014.

This also contributed to the Fund unit price closing stronger at RM1.55 against RM1.46 in 2014 with a capital appreciation of 6.16%.

million. The mall is a six storey retail building having a main parcel of strata floor area of 337,427 square feet with 367 designated car park bays. The retail mall is part of an integrated development consisting of two office towers and a hotel at the corner of Jalan Ampang and Jalan Tun Razak in Kuala Lumpur.

We believe both acquisitions are strategic to our long term aim of diversifying the risk of Pavilion REIT, rather than being solely reliant on an existing singular retail mall. Besides increasing Pavilion REIT's portfolio of its asset under management from RM4.8 billion to RM5.4 billion that is yield accretive, the acquisitions will also increase the future pay-out to unitholders without undergoing any capital raising exercise.



## MESSAGE FROM THE CHAIRMAN (cont'd)

As for the current Pavilion Kuala Lumpur Mall, a total of 15% of net lettable areas were due for renewal with an achievement of approximately 5% rental reversion during the year.

Asset enhancements exercises undertaken for the year are:-

- Upgrading part of the level 1 floor from the supermarket to the end of the gourmet emporium area.
- Upgrading of some toilets from level 3 to level 6.
- New drop off at Jalan Bukit Bintang.
- Review efficiency of air-condition system.

We are also proud to announce that during the year, Pavilion Kuala Lumpur Mall won 4 additional awards, namely:-

- “Industry Excellence – Retail” – ASEAN Business Awards Malaysia 2015.
- “Winner for the Design Engineering Category” – Kuala Lumpur Mayor Design Award 2015.
- “Gold Awards – 60 years of made in Italy, Public Relations and Events” – ICSC Asia Pacific Shopping Centre Awards 2015”
- “Certification of Excellence Winner 2015” – Trip Advisor

This is a true testimony of the Manager’s commitment to excellence which have resulted in the Pavilion Kuala Lumpur Mall winning a total of 32 international and local retails awards since it commenced operation.

### MARKET OUTLOOK

According to Malaysian Institute of Economic Research, the consumer sentiments index recorded an all-time low of 63.8 points during the year of 2015. We believe that 2016 will

be a testing year due to continued imbalances in global economy resulting from passive recovery in Europe, moderation in China economic growth and the appreciation of USD.

The Malaysian banking and finance sector will come under pressure to be prudent in their lending, tight interest rates margins and cashflow management, whilst oil and gas companies are also scaling down on their assets exploration and investments. This will have an overall effect on the consumer market and spending pattern of Malaysians that will affect the retail sector in general. Likewise, Pavilion has not been spared by this development due to increased cost of living and downsizing exercises.

However, it is good that the government has allocated additional budget to promote Malaysia as a tourist destination with target tourist arrivals of 36 million by 2020, as outlined in the Tourism National Key Economic Area plan. More tourist spending will assist to stimulate the economy thereby resulting in increase in domestic spending.

The targeted Malaysian GDP growth for 2016 is expected to be around 4.0% to 5.0%. Other Asian regional power houses such as China is estimated to have 6.5% to 7.0% GDP growth whilst Japan’s GDP growth is expected at 1.2% for 2016.

### ANNUAL GENERAL MEETING (AGM)

Pavilion REIT’s third annual general meeting held on 26 March 2015 to lay Pavilion REIT’s audited financial statement for the year ended 31 December 2014 went on smoothly.

For the forthcoming AGM this year other than tabling the 2015 accounts, the Manager will also be proposing to seek the unitholders approval for authority to allot and issue new units of up to 20% of the existing approved fund size for potential investments, acquisitions and/or capital expenditure to enhance the value of Pavilion REIT.



### ACKNOWLEDGEMENTS

We would like to express our condolence to the family of the late Mr Mohd Nasser A A Al-Humaidi, our non-independent non-executive director, who passed away during the year.

We would also like to thank all members of the Board for their dedication and input during the year.

On behalf of the Board members, we would also like to extend our appreciation to all management staff and employees for their contribution. Last and not least, our thanks to all the unitholders, tenants, financiers, business partners and other stakeholders for their continuous support, trust and confidence in Pavilion REIT.

**TAN SRI LIM SIEW CHOON**  
Chairman

14 January 2016

# BOARD OF DIRECTORS

## **Tan Sri Lim Siew Choon**

*Chairman and Non-Independent Executive Director*

Tan Sri Lim Siew Choon, age 55, a Malaysian, holds a Bachelor of Business Administration degree (majoring in Finance) from the University of Central Oklahoma in the United States.

He has more than 33 years of management experience in property development, construction, retail design, retail development as well as corporate management.

He was appointed to the Board of the Manager on 7 April 2011 and subsequently appointed the Executive Chairman of the Manager on 11 August 2011. He is currently the Executive Chairman and board member of Malton Berhad. His spouse, Puan Sri Tan Kewi Yong is a Non-Independent Executive Director and a major unitholder of Pavilion REIT.

## **Omer Abdulaziz H A Al-Marwani**

*Deputy Chairman and Non-Independent Non-Executive Director*

Omer Abdulaziz H A Al-Marwani, age 41, a Qatari, graduated with a Bachelor of Accounting degree from Qatar University and he passed the public accountant certification (CPA) in 2002, United States.

He is currently the Chief Financial Officer at Qatar Investment Authority.

He was also the Director of the Finance and Administration Affairs Department at the Qatari Supreme Council for Economic Affairs and Investment since 2003.

He began his career as an accountant at Qatar Petroleum in 1996. From 1997 to 1999, he was the Finance Department Controller at Qatar Islamic Bank. From 1999 to 2002, he was Senior Auditor at the Qatari State Audit Bureau.

He was appointed to the Board of the Manager on 10 August 2011 and subsequently appointed the Deputy Chairman of the Manager on 19 May 2014. He is a member of the Manager's Audit Committee and Nominating Committee. He has no other directorship in other Malaysian public companies.

## **Puan Sri Tan Kewi Yong**

*Non-Independent Executive Director*

Puan Sri Tan Kewi Yong, age 59, a Malaysian, pursued her tertiary education in the United Kingdom specialising in Business and Marketing Studies.

She has over 32 years of management experience in marketing, advertising, finance and human resource management and has been instrumental in setting up various successful business ventures. Her initial involvement was trading and distribution line and over the years, her scope of involvement has extended to cover many other industries.

She was appointed to the Board of the Manager on 7 April 2011. She is currently an Executive Director of Malton Berhad. She is the spouse of Tan Sri Lim Siew Choon.

## **Dato' Lee Tuck Fook**

*Non-Independent Executive Director*

Dato' Lee Tuck Fook, age 61, a Malaysian, is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He also holds a Master degree in Business Administration from the International Management Centre, Buckingham.

He began his career with KPMG in 1974 under articleship, was subsequently admitted as a partner in 1985 until he left the practice in 1990. From 1990 to 1992, he was appointed the Vice President of Samling Group in Sarawak. He later joined the Renong Berhad group as the Managing Director of Renong Overseas Corporation. Between 1994 and 2000, he was the Chairman of the Executive Committee of the board of Peremba-Kentz Ltd. He was the Managing Director of Cement Industries of Malaysia Bhd from 2001 to 2002.

From 2002 to 2006, he was Managing Director of Paracorp Berhad. In 2003 he was appointed the Executive Director of Malton Berhad and was re-designated as its Managing Director in December 2003. He resigned from the board of Malton Berhad in 2009.

He was appointed to the Board of the Manager on 29 July 2011. He is also an Independent Non-Executive Director of SAM Engineering & Equipment (M) Berhad and the Independent Non-Executive Chairman of Pesona Metro Holdings Berhad and a director of Pavilion REIT Bond Capital Berhad.



## BOARD OF DIRECTORS (cont'd)

### Saif Mohd A M Al-Madfaa

*Non-Independent  
Non-Executive Director*

Saif Mohd A M Al-Madfaa, age 42, a Qatari, graduated with Bachelors of Commerce from Cairo University.

He is currently the Director-Internal Audit of Qatar Investment Authority. He has professional experience of 16 years within government and semi-government organisation at various leading positions including internal audit, regulatory audits, finance and employee affairs.

He was appointed to the Board of the Manager on 1 November 2012 with no other directorship in Malaysian public companies.

### Navid Chamdia

*Non-Independent  
Non-Executive Director*

Navid Chamdia, age 43, a British National, graduated from University College London with a first class honours degree in Economics. He is a qualified Chartered Accountant and a member of the Institute of Chartered Accountants from England and Wales. He is also a Chartered Financial Analyst charter holder.

He is currently head of real estate investments at Qatar Holdings LLC, focusing primarily on direct acquisitions, joint ventures and co-investments in Europe, the United States and emerging markets. Navid is also responsible for real estate fund investments made by the Qatar Investment Authority.

Prior to joining Qatar Holdings LLC and Qatar Investment Authority in 2005, he spent 12 years at Ernst & Young's Project Finance division in London advising on the financing and delivery of global real estate and infrastructure projects.

He was appointed to the Board of the Manager on 10 August 2011 with no other directorship in Malaysian public companies.

### Ooi Ah Heong

*Non-Independent  
Non-Executive Director*

Ooi Ah Heong, aged 64, a Malaysian, graduated from the University of Singapore in 1976.

He has over 39 years of experience in the property development business and has years of experience ranging from low-cost housing to high-end condominium development and institutional buildings to shopping and entertainment centres. He is currently the Director of Business Development of Malton Berhad.

He began his career with Yong Dan Mohd Faiz, a quantity surveying firm in Kuala Lumpur in 1976. He joined Tan & Tan Developments as a Project Manager in 1979. He then joined IOI Group as its General Manager. In 1989, he helped to form Pentadel Sdn Bhd. In 1991, he joined Cheras Heights Development, a subsidiary of Perlis Plantation Bhd, as its General Manager. From 1995 to 2002, he acted as an adviser to various property developers on business development opportunities in the property market, including the Khuan Choo Group. He joined Malton Berhad in 2002.

He was appointed to the Board of the Manager on 29 July 2011. He is a member of the Manager's Nominating Committee. He is currently a director of Pavilion REIT Bond Capital Berhad.

### Dato' Mohzani bin Abdul Wahab

*Independent Non-Executive Director*

Dato' Mohzani bin Abdul Wahab, age 62, a Malaysian, graduated with a Bachelor degree in Economics from the University of Malaya, Kuala Lumpur.

He served as the Managing Director of Shell Malaysia Trading Sdn Bhd and Shell Timur Sdn Bhd from 2001 and 2005 respectively until his retirement at the end of 2009. He has years of experience in various senior management positions in Shell's Downstream Oil Products sector. Prior to that, he was a Non-Independent Non-Executive Director of Shell Refining Company (FOM) Berhad for eight years and was a board member of Brunei Shell Marketing. His board experience includes serving on Shell Oman Marketing Plc and the joint venture companies between Petronas and Exxon/Mobil, PS Pipeline and PS Terminal, and other Shell downstream subsidiaries. He also served as a director of a multiparty loyalty program company, Bonuskad Loyalty Sdn Bhd.

Currently he is Chairman of the Investment Panel of Lembaga Tabung Haji, Merchantrade Asia Sdn Bhd, TH Alam Management Sdn Bhd and TH Marine Holding (L) Inc and he sits on the board of Boustead Plantations Berhad, Celcom Axiata Berhad, Hong Leong Investment Bank Berhad as an Independent Non-Executive Director.

He was appointed to the Board of the Manager on 29 July 2011. He is the Chairman of the Manager's Audit Committee and a member of the Nominating Committee.

## BOARD OF DIRECTORS (cont'd)

### **Dato' Maznah binti Abdul Jalil**

*Independent Non-Executive Director*

Dato' Maznah binti Abdul Jalil, age 62, a Malaysian, graduated with a Bachelor and Masters Degree in Business Administration (Finance) from Northern Illinois University and Central Michigan University, respectively.

Currently, she is the Executive Director and Chief Financial Officer of Sona Petroleum Berhad. She is also the Independent Directors of Prestariang Berhad and Phoenix Petroleum (M) Berhad, a Director of Universiti Teknologi Mara (Uitm) and the Chairman of SCS Global Advisory Sdn Bhd.

She joined Master-Carriage (Malaysia) Sdn Bhd as Director of Corporate Affairs in 1992. Prior to that, she was with Amanah Merchant Bank Bhd, in Corporate Finance and Advisory for 13 years. In 1997 she was appointed as Vice President of DRB-HICOM Berhad Group of Companies. She was formerly Chairman of Uni.Asia General Insurance Berhad and Uni. Asia Life Assurance Berhad. She has also previously served on the Board of Edaran Otomobil Nasional Berhad, EON Capital Berhad, EON Bank Berhad, Gadek (Malaysia) Berhad, HICOM Holdings Berhad, Horsedale Development Berhad, Labuan Reinsurance (L) Ltd, Malaysian International Merchant Bankers Berhad and several private limited companies under DRB-HICOM as well as on the board of UOB Bank Berhad. Thereafter, she joined Hong Leong Financial Group Berhad as Executive Vice President, Corporate Finance & Principal Investment prior to her appointment as Executive Vice President, Investment Banking at Kenanga Investment Bank Berhad where she served until 2011.

She was appointed to the Board of the Manager on 29 July 2011. She is a member of the Manager's Audit Committee and the Chairman of the Nominating Committee.

### **Dato' Choo Chuo Siong**

*Independent Non-Executive Director*

Dato' Choo Chuo Siong, age 51, a citizen of Malaysia, graduated from the prestigious London School of Economics, UK with a Bachelor of Science in Economics (Honours).

He is currently the managing director of the Xiao En Group, a family business specialises as a service provider in memorial parks, memorial centre and bereavement care services in Malaysia. He supervises, moderates the Group's daily management and operations personally, and as the chief decision maker in the daily operations of the Group, including corporate master planning.

Apart from the above, he serves as one of the advisors at the Centre of History & Contemporary Research on China – ASEAN, one of the council members of the Best Wishes Foundation and the INXO Arts & Culture (L) Foundation, and as the non-executive director and chairman of the Board of United Pacific Industries Limited, a company listed on the Primary Board of Hong Kong Exchange (stock code: 176) since September 2014.

Apart from actively involving in the bereavement care services, he has also ventured himself into the field of aged care and has vast experience in the field of property development projects ranging from both commercial and residential properties.

He was appointed to the Board of the Manager on 19 June 2012. He is a member of the Manager's Audit Committee and Nominating Committee. He also holds directorship in Xiao En Memorial Park Bhd and Memorial Venture Berhad.

### **Syed Mohd Fareed bin Shaikh Alhabshi**

*Independent Non-Executive Director*

Syed Mohd Fareed bin Shaikh Alhabshi, age 61, is a Malaysian.

He is currently the Chairman of Oilfield Supply Centre (M) Sdn Bhd, a company providing logistics support for oil and gas and power generation industries, manufacturing of pressure vessel, heat exchange, fin tube and general fabrication.

He started his career in 1978 by exporting electronic goods from Singapore to Middle East countries, namely Saudi Arabia, Kuwait and the United Arab Emirates. Thereafter, in 1994, he started an investment holding company for a Saudi Arabian family which owns 80% of National Commercial Bank. In 2002, he started his own interior contracting company, Dragoni International LLC in Dubai. He later sold majority of his interest to Depa Ltd, a public listed company in Dubai.

In 1998, he was appointed the Director of the International Relations of His Royal Highness Prince Khalid bin Abdullah bin Abdul Aziz of Saudi Arabia. He was appointed as the Advisor (Middle East) to the Albukhary Foundation from 2000 to 2013. He was also a Representative of the Middle East to the East Coast Economic Region Development Council from August 2010 until 2012.

He was appointed to the Board of the Manager on 29 July 2011. He is also a director and shareholder of National Gas Berhad and Jalur Lebar Nasional Sdn Bhd.



# MANAGEMENT TEAM

## Philip Ho Yew Hong

Chief Executive Officer

Philip Ho, aged 50, a Malaysian, holds a Master of Business Administration from University of Strathclyde, United Kingdom and a Bachelor of Business in Accounting from Chisholm Institute of Technology, Australia. He is currently a member of the Malaysian Institute of Accountants.

He has over 27 years of experience in corporate planning, mergers & acquisitions, finance, audit, operations management, property development and construction.

Prior to joining Pavilion REIT Management Sdn Bhd, he was the Chief Financial Officer of Urusharta Cemerlang Sdn Bhd, where he was involved in the establishment of Pavilion REIT. During this period, he was also involved in the finance, operations and property investment functions for Urusharta Cemerlang Sdn Bhd's group of companies. Prior to this, he was Chief Operations Officer and Finance Director of Kuala Lumpur Pavilion Sdn Bhd (KLP) during the development and construction stage of the Pavilion Kuala Lumpur Project in 2002.

He was appointed as Chief Executive Officer on 1 December 2011 and has no directorship in other public companies, nor does he have any conviction for offences within the past 10 years other than traffic offences, if any.

He has no conflict of interest with Pavilion REIT, save for the interest in Pavilion REIT as disclosed in the analysis of unitholdings. He also does not have any family relationship with any director of Pavilion REIT Management Sdn Bhd and/or major unitholder of Pavilion REIT.

## Joyce Yap Soh Ching

Asset Manager (Retail)

She holds a Bachelor of Arts (Hons) in Business Studies from North East London Polytechnic, London and a Certificate in Centre Management from PPKM.

During her 33 years working experience, she has held key positions and handled a variety of responsibilities in the areas of development, sales and marketing, leasing of various types of property development and asset management.

In her role as Chief Executive Officer – Retail of KLP, her key responsibility is to formulate, articulate and prioritise departmental goals in line with KLP's strategic objectives which included mall operations, leasing, marketing and human resources. Her role also involves developing and maintaining effective networking relationships with local, regional and international retailers.

Prior to joining KLP, she worked with Gestetner Manufacturing Co., London, General Corporation Bhd, Lion Properties Sdn Bhd, MBf Properties Sdn Bhd, Berjaya Ditan Sdn Bhd and Sunway Pyramid Sdn Bhd.

## Lovell Ho Wai Hoong

Asset Manager (Leasing)

He holds a Bachelor of Business in Marketing from the Royal Melbourne Institute of Technology, Melbourne, Australia. He is also a Certified Marketing Manager by PPKM and a member of PPKM.

He has over 22 years experiences in shopping mall management particularly in the areas of leasing and marketing. In the retail industry, he possesses a wide network of both local and international retailers from renowned local brands to international luxury brands and has successfully secured the required tenant mix.

He joined KLP in 2002 as Senior Leasing Manager, was promoted to General Manager in 2005 and was subsequently appointed as Director of Leasing in 2010.

Prior to joining KLP, he was the Marketing Manager of Sunway Pyramid Sdn Bhd and was responsible for setting the strategic marketing plans and implementing marketing and communication plans for the mall. He began his career with the Shopping Centre Management Division of The Lion Group. During his tenure with The Lion Group, he was involved in the overall leasing and marketing functions for the Lion Group Parade of Shopping Centres throughout the country.

## MANAGEMENT

### TEAM (cont'd)

#### **Kung Suan Ai**

Asset Manager (Marketing)

She holds a Bachelor of Arts (Hons) in Communications from Universiti Kebangsaan Malaysia.

She has 19 years of experience in retail and corporate marketing for shopping centres and integrated developments.

She joined KLP in 2008 as General Manager, Marketing before being appointed as Director of Marketing in 2010. She oversees the marketing and concierge services of Pavilion Kuala Lumpur Mall.

Prior to joining KLP, she was the Director of Marketing for the integrated Mid Valley City development in 2008. Starting her career with Sunway Pyramid, she joined Mid Valley Megamall as Advertising and Promotions Manager in 2001 before being promoted to Director of Advertising & Promotions in 2004.

#### **Francis Ong Heng Khai**

Asset Manager  
(Facilities Management)

He holds a Bachelor of Business (Property) from the University of South Australia, Australia and a Diploma in Building Management from Ngee Ann Polytechnic, Singapore.

He has over 22 years of experience in property management covering residential, commercial and industrial properties.

Prior to joining KLP, he was with CapitaMall Asia Ltd for close to seven years and managed one of their shopping malls, Plaza Singapura which is situated in Singapore's shopping belt along Orchard Road. He was seconded to a new development, ION Orchard in 2008 as Head of Facilities. While with ION Orchard, he was involved in the operations planning and recruitment of the facilities team for the new mall, pre-opening preparations and post-opening operations. He was responsible for the daily operations of the mall, preparation of the operations and maintenance budget, implementation of standard operating procedures and was also involved in asset enhancement initiatives of the respective malls that he had managed.

#### **Lim Mian Nyee**

Senior Manager (Finance)

She is a member of the Association of Chartered Certified Accountants and the Malaysian Institute of Accountants.

Prior to joining Pavilion REIT Management Sdn Bhd, she was the Finance Manager at The Nomad Hotel Management Sdn Bhd, a subsidiary of The Nomad Group Berhad. She oversaw the finance department for the service residences within the The Nomad Group Berhad with main responsibilities in financial reporting, budgeting and planning.

#### **Yap Jer Yee**

Senior Manager  
(Legal and Compliance)

She holds a Bachelor of Laws from Monash University, Australia.

Prior to joining Pavilion REIT Management Sdn. Bhd., she was the Legal Adviser of United Overseas Bank (Malaysia) Bhd. She held an advisory role in the bank with main responsibilities including drafting and reviewing company contracts. She started her career as an Advocate and Solicitor of the High Court of Malaya and subsequently acquired legal experience in commercial, banking and conveyancing areas.

#### **Eng Hui Yi**

Manager (Investment)

She holds a Bachelor of Arts (Hons) in Accounting and Finance from University of the West of England, Bristol.

She has a mixture of experience in valuation, financial modelling, investment analysis, portfolio management, corporate stakeholder management as well as liquidation and disposal work.

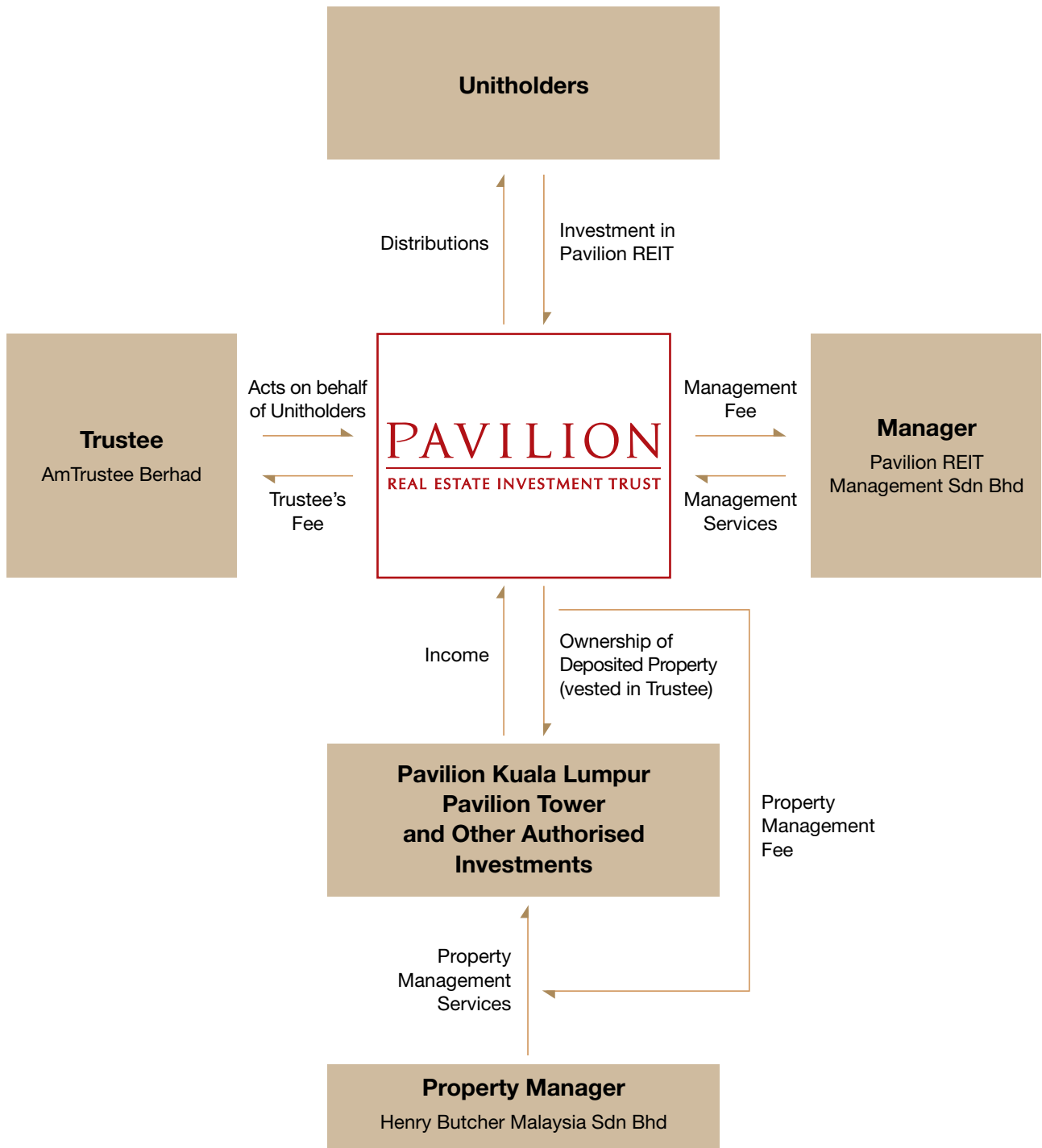
Prior to joining Pavilion REIT Management Sdn Bhd, she was Investment Manager in the Private Equity department of AmlInvestment Bank Berhad. She started her career with the Valuation and Business Modelling team of Ernst & Young Kuala Lumpur.



# SALIENT FEATURES OF PAVILION REIT

<b>Category of Fund</b>	Real Estate Investment Trust
<b>Type of Fund</b>	Income and growth
<b>Duration of Fund/ Termination Date</b>	The earlier of : <ul style="list-style-type: none"> <li>• The occurrence of any events listed under Clause 26.2 of the Deed</li> <li>• 999 years falling on 17 October 3010</li> <li>• the date on which Pavilion REIT is terminated by the Manager under Clause 26.1(b) of the Deed</li> </ul>
<b>Approved Fund Size</b>	3,100,000,000 Units
<b>Investment Objective</b>	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
<b>Distribution Policy</b>	Half yearly distribution with 99.8% of distributable income for the financial year ended 31 December 2015 and at least 90.0% of distributable income for each subsequent financial year
<b>Gearing Policy</b>	Up to 50.0% of the total asset value of the Fund
<b>Revaluation Policy</b>	At least once every three years by an independent registered valuer
<b>Financial Year Ending</b>	31 December
<b>Listing Market</b>	Main Market of Bursa Malaysia Securities Berhad
<b>Listing Date</b>	7 December 2011
<b>Board Lot</b>	100 Units per board lot
<b>Initial Public Offering Price per Unit</b>	<ul style="list-style-type: none"> <li>• Retail – RM0.88</li> <li>• Institution – RM0.90</li> </ul>
<b>Stock Name</b>	PAVREIT
<b>Stock Code</b>	5212

# PAVILION REIT STRUCTURE







## MANAGER'S REPORT

The Manager is pleased to submit their report and audited financial statements to the unitholders of Pavilion REIT for the year ended 31 December 2015.





# MESSAGE

## FROM THE CEO

As the Manager of Pavilion REIT, we are pleased to announce the Fund's performance for the financial year ended 31 December 2015.



### FINANCIAL PERFORMANCE

The year started with volatility in the weakening of the Ringgit Malaysia, falling crude oil prices and implementation of the 6% GST on April 2015. This contributed to a lot of uncertainties and a drop in consumer confidence.

However, Pavilion have again shown that it is more resilient to the economic situation surrounding us and we are pleased to announce that we have achieved an increase of 3% in gross revenue to RM414 million, with net property income increasing to RM292 million, which is an increase of 3.1% as compared to the previous year.

As the Fund has performed better than anticipated, the Manager had announced the full year distribution as RM0.0823 per unit as compared to RM0.0796 per unit in 2014, which is an increase of 3.4%.

Prudent debt management of the Fund's borrowing during the year resulted in total borrowings of RM754 million, with a debt to asset ratio of 15.9% of which 93.5% is with fixed interest rates and 6.5% with floating rates.

Asset under management has only increased slightly to RM4,751 million during the year, excluding the newly announced acquisitions which have yet to be completed as at year end.

However it is anticipated that in 2016, the assets under management will increase by approximately RM648 million or 14.0 % upon completion of the two new acquisitions.

### ASSET ENHANCEMENT INITIATIVES

During the year the following asset enhancements were implemented:

- Upgrading the level 1 floor from the supermarket to the end of the gourmet emporium area.
- Upgrading of some toilets from level 3 to level 6.
- New drop off at Jalan Bukit Bintang.
- Measuring and monitoring of the air condition system for its effectiveness and efficiency.

In addition to the above we have also been re-positioning the mall tenant mix in anticipation of future additional new tenants and brands coming in with the completion of the extension, to which the Fund has the right of first refusal.

### NEW ACQUISITIONS

This has been a very fruitful year for Pavilion REIT, as two sale and purchase agreements were executed during the year to purchase the following properties :-

#### da:mén USJ retail mall in USJ

On 17 September 2015, a conditional sale and purchase agreement was signed for da:mén USJ shopping mall, which consist of a five storey shopping mall with a lower ground floor of approximately 420,920 square feet of net lettable area and 1,672 car park bays.

The mall is strategically located along Jalan Kewajipan, within the thriving locality of USJ1, Subang Jaya. It is also within walking distance to the new LRT station in USJ 7 and BRT line location along Jalan Kewajipan.

The purchase consideration for this mall is RM488 million with the condition precedent that the mall will have 85% occupancy at an average rental of RM9.20 per square feet per month. The mall have since successfully commenced operations on 8 January 2016.

We are monitoring their performance and awaiting for the conditions precedent to be fulfilled for the completion of the acquisition.

#### Intermark retail mall in Kuala Lumpur

On 29 December 2015, the sale and purchase agreement was signed for 'The Intermark' mall, which consist of a six storey retail building having a main parcel of strata floor area of 337,427 square feet and 367 designated car park bays. Intermark mall is part of an integrated development consisting of



## MESSAGE

## FROM THE CEO (cont'd)



39 storey high 'Integra Tower' and 62 storey high 'Vista Tower' together with a 540-room hotel under branding of DoubleTree by Hilton Kuala Lumpur.

The mall is strategically located along Jalan Tun Razak, within the city limits. It has a pedestrian bridge linking the development to the Ampang Park LRT train system.

The purchase consideration for this mall is RM160 million with a three year profit guarantee at RM5 million per annum. The occupancy rate as at 30 September 2015 is approximately 74% with an average gross rental of RM7.19 per square feet per month.

The above acquisitions will be totally funded by debt and upon completion, the Manager anticipate the total borrowings to increase to approximately RM1,402 million or a debt to asset ratio of 27%. The acquisition will be funded via a combination of term loan and medium term notes.

This will diversify the Fund away from relying only on one mall namely the Pavilion Kuala Lumpur mall. Upon completion of these acquisitions, the contributions of investment properties under the Fund will be Pavilion Kuala Lumpur Mall - 84.8%, da:men USJ - 9.5%, Intermark - 3.1% and Pavilion Tower - 2.6%.

The Manager is confident that we will be able to increase the gross income and net property income of these malls in due time.

#### OUTLOOK FOR 2016

We have no doubt that 2016 will indeed be more challenging than the previous year. However, with a strong team of professional managers and staff, we are confident that we will be able to overcome this adversities.

We hope to complete the acquisition of the two new malls by the first quarter of this year, which will led to increase in net property income and thereafter distributable income for the balance of the year. With the two new acquisitions, we are certain that these malls will contribute to the overall growth for the Fund in a positive manner.

In 2016, Pavilion Kuala Lumpur Mall will have 68% of its net lettable area due for renewal. Although most of tenants has expressed their interest for renewal, the Manager is evaluating some changes to the tenant mix to enable it to introduce more new tenants, resulting in a fresh new shopping experience. This will result in some tenants relocating to different locations within the mall, thus resulting in loss of rental during the renovation periods.

Regardless, the Manager will still be looking to at least sustain and try to improve unitholders return in this challenging environment and will continuously seek new investment opportunities during the coming year. Investment opportunities will continuously be evaluated to grow the Fund with yield accretive properties.

**PHILIP HO YEW HONG**  
Chief Executive Officer

14 January 2016

# FINANCIAL HIGHLIGHTS

Financial Results and Key Performance Indicators	FP 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change
						(%)
						FY 2015 vs FY 2014
Gross Revenue (RM'000)	22,539	346,524	375,509	402,092	413,932	2.94%
Net Property Income ("NPI") (RM'000)	16,259	245,289	263,125	282,739	291,535	3.11%
Distributable Income (RM'000)	13,140	206,553	221,315	239,928	248,885	3.73%
Earnings per Unit (sen)	0.41	20.99	10.88	16.94	9.36	(44.75)%
Distribution per Unit (DPU) (sen)	0.44	6.87	7.36	7.96	8.23	3.39%
Distribution Yield (%) :-						
– based on retail IPO price of RM0.88	7.30 ^	7.81	8.36	9.05	9.35	3.31%
– based on market price as at 31 December	5.89 ^	4.94	5.75	5.45	5.31	(2.57)%
Management Expense Ratio ("MER") (%)	0.06	0.68	0.67	0.66	0.64	3.03%
Investment Properties (RM'000)	3,561,000	4,012,000	4,133,000	4,433,000	4,483,000	1.13%
Total Asset Value ("TAV") (RM'000)	3,681,088	4,221,355	4,355,353	4,649,931	4,750,753	2.17%
Net Asset Value ("NAV") (RM'000)	2,867,978	3,297,110	3,522,516	3,811,016	3,851,607	1.07%
NAV per Unit (RM)	0.96	1.10	1.17	1.26	1.28	1.59%
Gearing Ratio (%)	19.14	16.71	16.22	15.22	15.88	4.34%
Portfolio Turnover Ratio (times)	0.00	0.00	0.00	0.00	0.00	-

^ annualised based on distribution per unit of 6.42 sen as the Fund was listed on 7 December 2011

## GROSS REVENUE AND NET PROPERTY INCOME

By Segment	Gross Revenue				Net Property Income			
	FY 2014		FY 2015		FY 2014		FY 2015	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Retail	391,293	97.31	402,646	97.27	276,829	97.91	284,864	97.71
Office	10,799	2.69	11,286	2.73	5,910	2.09	6,671	2.29
Total	402,092	100.00	413,932	100.00	282,739	100.00	291,535	100.00



## FINANCIAL HIGHLIGHTS (cont'd)

Gross revenue achieved in 2015 is RM413.9 million or only 2.9% higher when compared to the immediate preceding year. The main contribution was from rental of 2014 asset enhancement areas such as Beauty Precinct, extension of 'Couture Pavilion' at Level 2 and Dining Loft at Level 7 as well as the increase in service charge that was revised in May 2014

This resulted in NPI increasing to RM291.5 million or 3.1% higher as compared to the immediate preceding year despite incurring additional property operating expenses of floor upgrading exercise at Level 1 around Gourmet Emporium area and recognition of credit to electricity charges given by Tenaga Nasional Berhad in 2014 on one of the electricity metering system.

Retail property continues to contribute approximately 97% of Pavilion REIT's total portfolio in terms of gross revenue and net property income. Overall, Pavilion REIT portfolio achieved NPI margin of 70% with retail and office achieving a NPI margin of 71% and 59% respectively.

The earnings per unit indicated a drop of 44.75%. This movement is due to the lower recognition of fair value gain of RM41.0 million in current year against RM278.1 million recognised in 2014. However, this drop does not affect the net distributable income.

### DISTRIBUTION PER UNIT ("DPU")

Total DPU for 2015 increased to 8.23 sen from 7.96 sen (2014 DPU). This represents 0.27 sen or 3.4% higher than 2014 DPU, despite the addition of Units in circulation increasing by 4,022,701 Units to 3,017,842,237 Units as at 31 December 2015.

4.09 sen, earned for 1st and 2nd quarter of 2015 was paid on 8 September 2015 with the final distribution of 4.14 sen earned in 3rd and 4th quarter 2015, to be paid on 26 February 2016 resulting in NAV per unit of RM1.26 and RM1.28 respectively.

### CAPITAL MANAGEMENT

Pavilion REIT's gearing is 15.88%, which is below the market norm of approximately 30% to 40% or REIT Guidelines of up to the permitted 50% of Total Asset Value. For 2016, part of revolving term loan facility amounting to RM705.9 million will be at a fixed interest rate of 4.35% per annum. Currently, this portion represents 93.5% of total outstanding term loan.

In view of the increasing funding cost, the Manager will continue to explore the best available financing options despite its medium term notes programme being approved by Securities Commission, to enable it to have additional options ready for future acquisitions or to re-finance the revolving term loan facility when due in the future.

### INVESTMENT PROPERTIES AND VALUATION

During the year, there were no changes to the investment objectives set forth during the listing in December 2011.

The Manager has been actively pursuing and evaluating acquisition opportunities. During the year, two sale and purchase agreements had been entered into as below :-

- The conditional sale and purchase agreement dated 17 September 2015 between AmTrustee Berhad as trustee of Pavilion REIT, Equine Park Country Resort Sdn Bhd and Revenue Concept Sdn Bhd for acquisition of da:men retail mall, (of approximately 420,920 square feet of net lettable area with 1,672 car park bays), located in USJ Subang Jaya, for RM488 million
- The sale and purchase agreement between AmTrustee Berhad as the trustee of Pavilion REIT and The Intermark Sdn Bhd dated 29 December 2015 to acquire Intermark retail mall (with main parcel area of approximately 337,427 square feet) for RM160 million.

During the period under review, upgrading of some of its toilets and its common corridor in the Pavilion Kuala Lumpur retail mall continued together with creation of a new drop off entrance at Jalan Bukit Bintang.

The Manager will continue to put their best effort forward to identify future potential investment, negotiate the most efficient capital strategy and continue to implement improvements to its existing investment properties.

The Fund's investment properties had been re-valued as at the end of the financial year to ensure that its investment properties reflect the current market value and in compliance to Malaysian Financial Reporting Standards 140. This re-valuation resulted in gain of RM41.0 million.

## FINANCIAL

## HIGHLIGHTS (cont'd)

Property	Acquisition Price	Market Value @ 31 Dec 2014	Enhancement	Disposal	Market Value @ 31 Dec 2015	Fair Value Adjustments
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Pavilion Kuala Lumpur	3,190,300	4,300,000	13,051	(4,086)	4,350,000	41,035
Pavilion Tower	123,500	133,000	-		133,000	-
	3,313,800	4,433,000	13,051	(4,086)	4,483,000	41,035

## MARKET REVIEW

For 2015, Malaysia's real GDP growth is expected to range between 4.4% and 5.5%. GDP growth for 2016 is forecasted to be between 4.0% and 5.0% due to amongst others, lower growth in private consumption and higher cost of living due to impact of commodity prices, slumping oil prices, continuing subsidy rationalisation programme, weak exchange rates, declining growth in credit to households and softening of labour market.

With consumer sentiment at a low of 70.2 points as at third quarter of 2015, CPI is forecasted to increase from about 2.1% in 2015 to 3.2% in 2016. As at October 2015, CPI rose 2.5% year on year to 114.1 points, averaging 2.0% in the first 10 months of 2015.

Business and consumer confidence have weakened in the past year in the face of the uncertain external and domestic environment. Although consumer spending picked up during the festival period of Christmas last year end, consumer spending is expected to moderate in the coming months due to rising cost of living and weak Ringgit that causes retailers to increase their prices as there are import elements in products / services. High level of household debt could also constrain future discretionary spending of non-essential items. However, with the Government implementing new online visa application to selected countries and allocating RM1.2 billion as 2016 tourism budget, more regional and international tourists is expected to visit Malaysia due to the ease of processing and comparative weaker Ringgit for shopping and holiday.

Oversupply of office spaces will continue in 2016 with stress on occupancy and rental rates as about 6.5 million square feet of new office spaces were made available in Kuala Lumpur in 2015 with more in the future with the completion of mega projects such as Bukit Bintang City Centre, Tun Razak Exchange and Menara Warisan. Trends of spreading out to new buildings at the fringe of city centre conveniently served by public transportation to avoid traffic congestion in the city is also being highly considered.

## TOP 10 TENANTS

Pavilion REIT has a total combined tenancies list from the retail and office of 640 tenancies. Its ten largest tenants contributed to 17.3% of gross rental income as at 31 December 2015.

Tenant's Name	Trade Sector	Expiry Period
Apex Excellent Sdn Bhd	Food and Beverage	2016 Q3
Coach Malaysia Sdn Bhd	Fashion	2016 Q3
DNP Clothing Sdn Bhd	Fashion	2016 Q3
Gagan (Malaysia) Sdn Bhd	Fashion	2016 Q3
Golden Screen Cinemas Sdn Bhd	Urban Leisure	2016 Q4
Hermes Retail (Malaysia) Sdn Bhd	Fashion	2016 Q4
Padini Dot Com Sdn Bhd	Fashion	2016 Q3
Parkson Corporation Sdn Bhd	Fashion	2016 Q3

FINANCIAL  
HIGHLIGHTS (cont'd)

TOP 10 TENANTS (cont'd)

Tenant's Name	Trade Sector	Expiry Period
Royal Selangor Marketing Sdn Bhd	Gift and Souvenir	2016 Q3
Sharaf Fashion Retail Sdn Bhd	Fashion	2016 Q3

**LEASE EXPIRY PROFILE**

Majority of Pavilion REIT's tenancies are for a term of three years each with an option to extend for another term of three years each. Anchor and speciality anchor tenants generally have option for renewal of up to five terms.

The weighted average lease expiry ("WALE") as at year end has been reduced to 1.10 years against 2014 of 1.64 years whereby a substantial portion of retail property tenants would be due for renewal in 2016, with WALE for retail and office being 1.09 and 1.15 years respectively.





## PORTFOLIO

## DETAILS

## PORTFOLIO SUMMARY

Appraised Value as at 31 December 2015	RM 4,483 million
Net Lettable Area	1,492,035 square feet

## (A) RETAIL

## PAVILION KUALA LUMPUR MALL

Address	168 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia
Description	7-storey shopping mall (including 4 split-levels of car parking bays together with a 3-storey retail office block sited atop and annexed with a 4-storey retail/entertainment connection block) and 3 levels of basement car parks
Year of Completion	2007
Age of Building	8 years
Title	Master Title No. Pajakan Negeri 50125, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan
Encumbrances	Private caveats have been lodged in favour of AmTrustee Berhad and Alliance Investment Bank Berhad
Tenure	99-year lease expiring on 26 October 2109
Gross Floor Area	2,250,684 square feet
Net Lettable Area	1,326,964 square feet
Number of Car Park Bays	2,401*
Occupancy Rate as at 31 December 2015	98.5%
Date of Acquisition	7 December 2011
Acquisition Price	RM3,190 million
Appraised Value	RM4,350 million
Date of Latest Valuation	31 December 2015
Independent Valuer	Knight Frank Malaysia Sdn Bhd

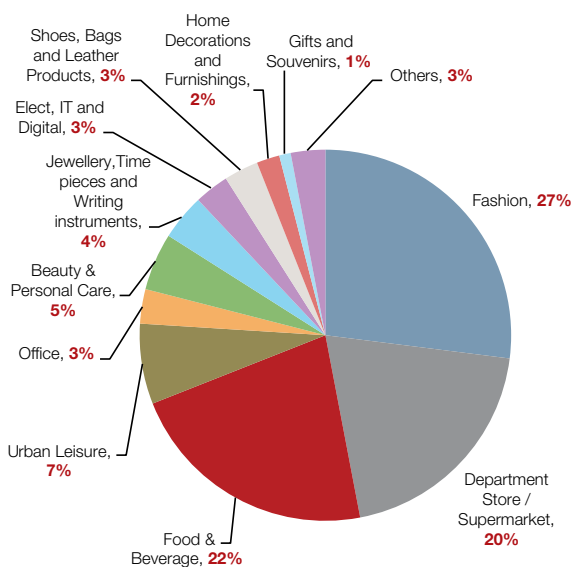
\* net of disposal of an area measuring 1,050 square metres, which includes 72 car park bays, sold to Urusharta Cemerlang Sdn Bhd for RM4,896,000 was completed on 7 December 2015.

## TENANCY EXPIRY PROFILE

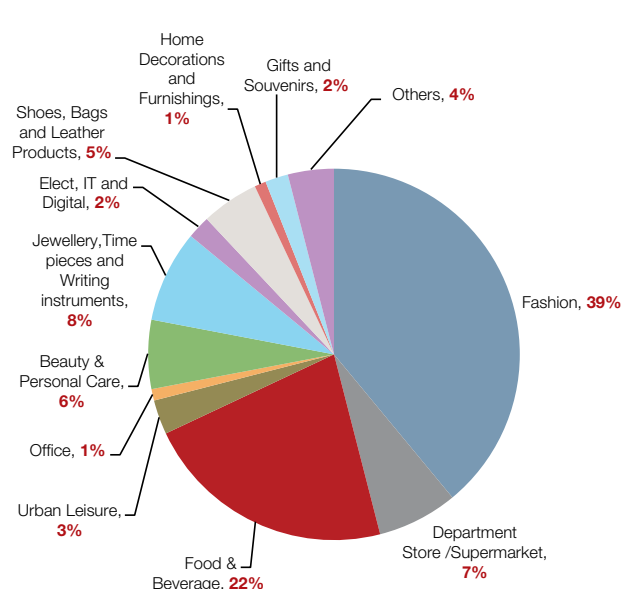
Period	% of Occupied NLA	% of Gross Rental
Monthly	1	1
FY2016	69	66
FY2017	18	19
FY2018	12	14
<b>Total</b>	<b>100</b>	<b>100</b>

**TRADE SECTOR ANALYSIS**

**Trade Sector Analysis based on Net Lettable Area**



**Trade Sector Analysis based on Gross Rental**



**(B) OFFICE**

**PAVILION TOWER**

<b>Address</b>	75 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia
<b>Description</b>	20-storey office building together with 6 mechanical / electrical levels
<b>Year of Completion</b>	2007
<b>Age of Building</b>	8 years
<b>Title</b>	Master Title No. Pajakan Negeri 50125, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan
<b>Encumbrances</b>	Private caveats have been lodged in favour of AmTrustee Berhad and Alliance Investment Bank Berhad
<b>Tenure</b>	99-year lease expiring on 26 October 2109
<b>Gross Floor Area</b>	243,288 square feet
<b>Net Lettable Area</b>	165,071 square feet
<b>Occupancy Rate as at 31 December 2015</b>	98.0%
<b>Date of Acquisition</b>	7 December 2011
<b>Acquisition Price</b>	RM123 million
<b>Appraised Value</b>	RM133 million
<b>Date of Latest Valuation</b>	31 December 2015
<b>Independent Valuer</b>	Knight Frank Malaysia Sdn Bhd

PORTFOLIO

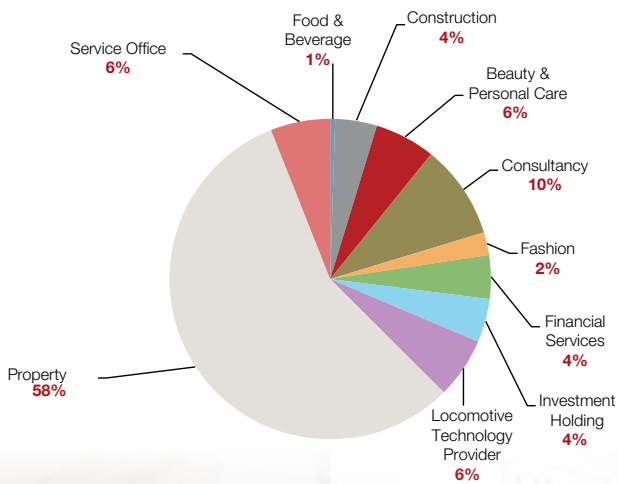
DETAILS (cont'd)

TENANCY EXPIRY PROFILE

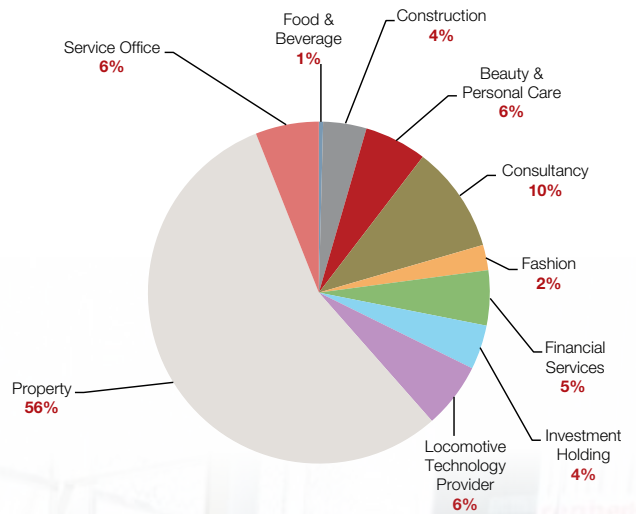
Period	% of Occupied NLA	% of Gross Rental
Monthly	6	6
FY2016	48	48
FY2017	27	27
FY2018	19	19
<b>Total</b>	<b>100</b>	<b>100</b>

TRADE SECTOR ANALYSIS

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental





# ASSET ENHANCEMENT EXERCISE

During the year under review, some of its tenants continued to upgrade their retail outlets. Pavilion Kuala Lumpur Mall continued with its on-going exercise to maintain its image by upgrading its common area such as some of its toilets and floor upgrading exercises at Level 1 around Gourmet Emporium area besides conducting air-conditioning system audit to identify areas of improvement to reduce energy cost.

For 2016, capital expenditures are targeted to improve operating efficiency.



Toilet



Toilet Entrance



Floor at Level 1

# HIGHLIGHTS OF THE YEAR

As an award-winning mall, Pavilion KL Mall continues to build unique shopping experiences and deliver innovative campaigns to retain its competitive edge. Value and reward campaigns remain relevant in enhancing customer loyalty and sales growth. Despite rapid changes in technology and how consumers shop, Pavilion KL Mall is still at the heart of 'retail experience'.

❖ **Grand Festivals**

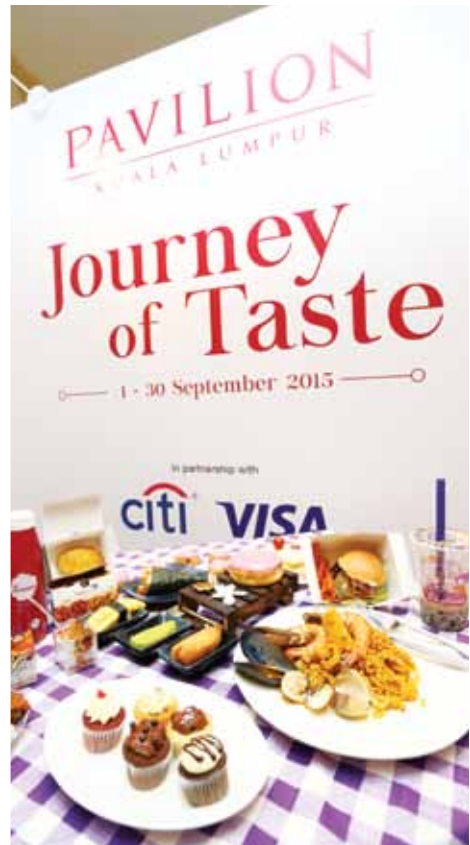
This is an annual attraction, showcasing decoration concepts at par with some of the world's best malls. For the **Chinese New Year 'Peak of Prosperity'**, the mall showcased the Tallest Golden Goat standing majestic at 30 feet high for the Malaysia Book of Records. For **Hari Raya 'Sinar Seri Aidilfitri'**, a canopy of a thousand lights illuminated the decorations amidst a Ramadhan Bazaar. The **Deepavali 'Lights & Hopes'** was a radiant celebration to ignite hopes for a better year in collaboration with KBU International College for a grand kolam showcase. The **'Christmas Sparkles'** featured Asia's Tallest Swarovski Crystal Tree, a debut for Swarovski into Malaysia with the magnificent 75 feet high tree, adorned by over 175,000 crystals worth RM3 million. Coupled with the snowfall, the mall attracted international media publicity and again, exceeded the expectations of the consumers for another successful Christmas and year end celebration.

❖ **Fashion Events**

The signature **'Pavilion Pit Stop'** in April 2015 was designed to reinforce the mall's fashion positioning during the F1 Malaysian Grand Prix. Hosting the Lotus F1 team, the Glam-Coach and Club 21 runway shows, the mall was abuzz with excitement while the **'KL Fashion Week Ready to Wear'** in September 2015 created opportunities for new Malaysian designers, students and enthusiasts to enter the fashion realm. Top celebrities, fashion editors, bloggers, lifestyle society and shoppers were seen at the highly-talked about fashion week.

❖ **Positioning Events**

To position the vast variety of dining experiences, a signature **'Journey of Taste'** campaign was organised with exclusive partner Citibank in September 2015. A journey of food trails and signature F&B creations were introduced, along with 10,000 free food treats for the shoppers.





HIGHLIGHTS OF  
THE YEAR (cont'd)

❖ **Precinct Events**

**Fashion Avenue** remains at the heart of precinct marketing with the *'Fashion Takes Flight'* reward campaign in September/October 2015. 20 business class return tickets to Europe were given away, 2 tickets every week, courtesy of Turkish Airlines.

**Tokyo Street** celebrated another milestone - 4th Anniversary with Chibi Maruko Chan, the famous manga and TV character from Japan, appearing for the first time in South East Asia in August 2015.

and John Cusack along with Jackie Chan met their fans during Chinese New Year. Other appearances included Hong Kong's Chi Lam, Chairmane Cher and Taiwan's Wong Le Hom. Ipman 3 superstar Donnie Yen was delightfully surprised at the huge crowd that gathered for his movie premiere in December 2015. Bollywood superstars Anil Kapoor, Hrithik Roshan, Sharadda Kapoor was at Pavilion KL as Kuala Lumpur hosted the International Indian Film Festival Awards.



**Connection** is actively promoted as a bustling hub for F1, Halloween and New Year countdown events, made interactive with the giant LED TV live screenings and activation activities.

**Beauty Hall** visitors enjoy monthly shopping privileges and tenants were engaged in various campaigns such as International Women's Day, Pink Month and more.

❖ **Celebrity's Preferred Mall**

The mall continues to make headlines with appearances of international stars. Hollywood icons Adrien Brody

**Awards**

Pavilion Kuala Lumpur has achieved 32 accolades to date with the current year additions being the followings:-

- ❖ **"Winner for the Design Engineering Category"**  
– Kuala Lumpur Mayor's Design Award 2015
- ❖ **"Gold Award – 60 Years of Made in Italy, Public Relations and Events"**  
- ICSC Asia Pacific Shopping Centre Awards 2015
- ❖ **"Certificate of Excellence Winner 2015"**  
– Trip Advisor
- ❖ **"Industry Excellence - Retail"**  
– ASEAN Business Awards Malaysia 2015



# CORPORATE SOCIAL RESPONSIBILITY

*Community campaigns have become a big part of the mall culture. Malls have become the focal venue for experiential events and CSR activities. Pavilion KL have been at the forefront of CSR activities and over the years, more non-governmental organisations and charity organisations have been collaborating with the mall to promote various causes.*

**Chinese New Year Charity** to raise funds for Old Folks Homes nationwide and other needy organizations.

**Nepal Relief Fund** with a fund-raising 'Nepal, We Are With You Singing and Giving' activity launched by the Federal Territories Minister and contribution of medical supplies for the 'Rainbow of Life Forces' campaign.

**Hari Raya Outing** for 40 orphans from Rumah Titian Kaseh to enjoy the festive ambience, followed by a buka puasa dinner on 15 July 2015.

**Dengue Free Malaysia** movement was held on 6 September 2015 to aid in the awareness of dengue protection and prevention.

**Kakiseni International Arts Festival** to promote performing arts in Malaysia from 13-16 September 2015. Local buskers and performers showcased their talents through various exhibitions, shows, workshops and more.

**UNICEF Experiential Booth** which featured its first virtual reality film entitled 'Clouds over Sidra' from 12-25 October 2015 to create awareness of the real life struggles of Syrian refugees. The event garnered 150 new donors and extensive media interest.

**2015 Bursa Bull Charge** participation on 20 August 2015 to raise funds and aid in the promotion of entrepreneurship plan and financial knowledge for the under-privileged.





CORPORATE SOCIAL  
RESPONSIBILITY (cont'd)

**Breast Cancer Awareness** in October 2015 with a series of support events including complimentary breast cancer screenings by MURNI, fund raising for Breast Cancer Welfare Association Malaysia (BCWA) and participation in the Pink Charity Ride by Estee Lauder Malaysia.

**Christmas** was the season of sharing and giving and the mall raised funds for seven children homes through the Pavilion Polar Express train ride, Santa's Meet and Mail A Postcard to Santa campaign. On 11 December 2015, The #BUROLOVESGIVING Charity Market was held to raise funds for under-served communities and social organisations. Local celebrities Izrin Iz, Marion Caunter, Nadia Nasimuddin, and Kim Raymond sold their collection of priceless items for charity.



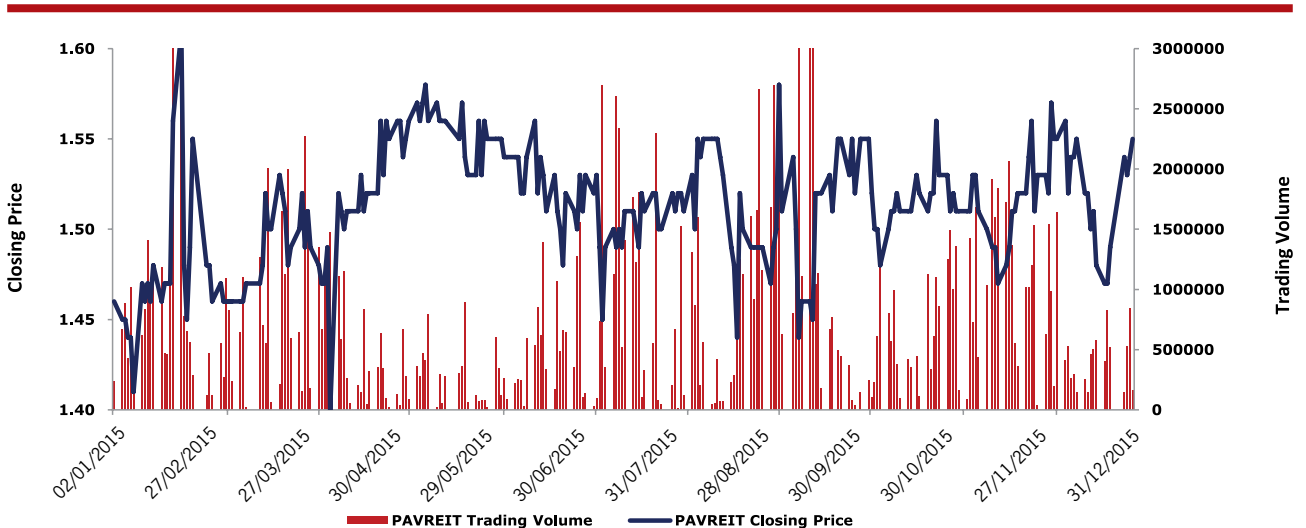
# INVESTORS RELATION AND FUND PERFORMANCE

During the year, the Manager’s management team have continuously met analysts, fund managers and investors, besides attending investors’ roadshows and seminars as listed below.

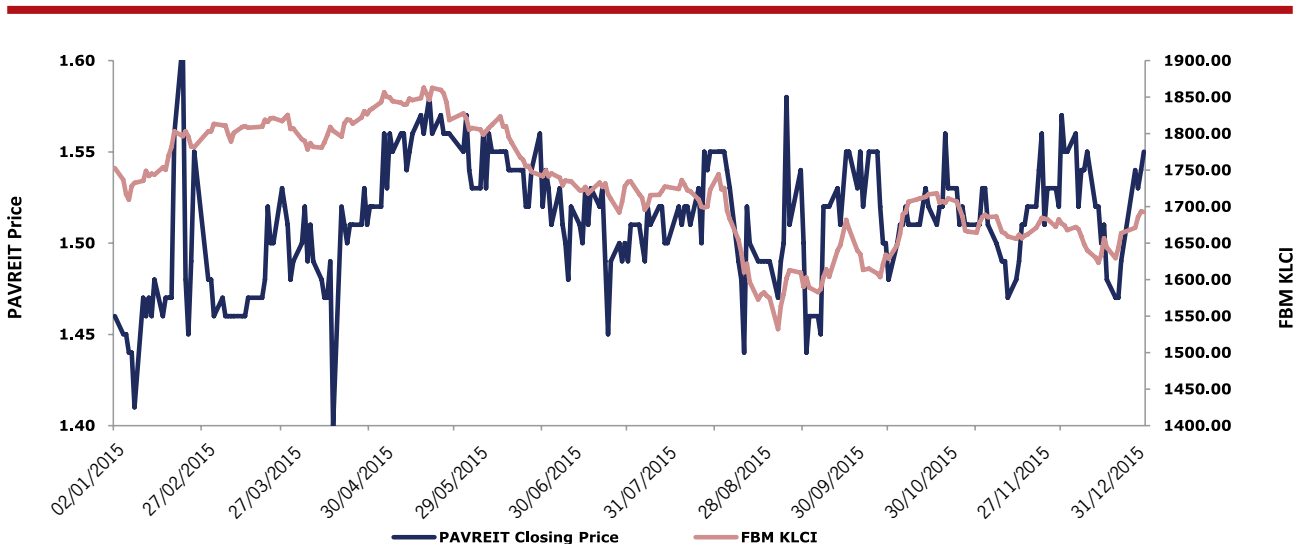
- › Half yearly analyst briefing
- › BNP Paribas Asia Pacific Financial & Property Conference
- › Citigroup Asean Investor Conference, Singapore
- › MacQuire “Makan-Makan Lunch Series”
- › Maybank IB Consumer Day

Pavilion REIT’s annual general meeting was held on 26 March 2015 whereby its unitholders were updated on the performance of Pavilion REIT for the financial year ended 31 December 2014.

## PAVILION REIT’S MONTHLY TRADING PERFORMANCE



## PAVILION REIT’S UNIT PRICE PERFORMANCE AGAINST FBM KLCI





## INVESTORS RELATION AND FUND PERFORMANCE (cont'd)

Trading Summary	FP 2011	FY 2012	FY 2013	FY 2014	FY 2015
Net Asset Value per Unit (RM)					
– As at 31 December	0.96	1.10	1.17	1.26	1.28
– Lowest during the year	0.00	0.95	1.12	1.15	1.24
– Highest during the year	0.96	1.10	1.17	1.26	1.28
Closing unit price (RM) as at 31 December	1.09	1.39	1.28	1.46	1.55
Highest traded price during the period / year (RM)	1.10	1.47	1.67	1.53	1.63
Lowest traded price during the period / year (RM)	0.98	1.04	1.20	1.23	1.39
Capital appreciation / (depreciation) (%) <sup>1</sup>	23.86	27.52	(7.91)	14.06	6.16
Annual total return (%) <sup>2</sup>	29.75	32.46	(2.16)	19.51	11.47
Average total return over 3 years (%)	–	–	20.02	16.60	9.61
Units in circulation ('000)	3,000,000	3,004,115	3,009,684	3,013,819	3,017,842
Market capitalisation (RM'000)	3,270,000	4,175,719	3,852,396	4,400,177	4,677,655

<sup>1</sup> Capital appreciation is calculated based on the difference between opening and closing price for the relevant financial year. For FP 2011, it is the difference between retail IPO price and its closing price

<sup>2</sup> Annual total return refers to total of capital appreciation and distribution yield.



# CORPORATE

## GOVERNANCE STATEMENT

Pavilion REIT Management Sdn Bhd, the Manager of Pavilion Real Estate Investment Trust, was set-up to manage and administer Pavilion REIT. The Manager shall, subject to the provisions of the Deed, carry out all activities, as it may deem necessary for the management of Pavilion REIT and its business.

### Objective

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.

### Board Guidelines and Responsibilities

The Board members, with their wide, varied range of expertise, skills and experiences have adopted the primary responsibilities as listed in the REIT Guidelines and good corporate governance, 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 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. All other recommended best practices proposed by Code of Corporate Governance 2012 have been adopted.

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.

### Guidelines for Related Party Transaction and Conflict of Interest

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. 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 Manager has established internal control procedures to ensure that related party transactions are undertaken in compliance with Securities Commission REIT Guidelines, the Trust Deed and the Main Market Listing Requirements. Any related party transactions are to be established under normal commercial terms that are no less favourable than those arranged with independent parties.

CORPORATE  
GOVERNANCE STATEMENT (cont'd)

In respect of non-real estate related party transactions, the Manager has adopted the following parameter.

- 1) Transactions below the threshold of 0.5% of percentage ratio as stated under Paragraph 10.08(1) of Bursa Malaysia Securities Berhad Listing Requirements, for presentation to the Audit Committee for ratification
- 2) Transactions above the threshold of 0.5% of percentage ratio which are not related to contract subsisting from immediate preceding year is to be reviewed by the Audit Committee and recommended to the Board for announcement on Bursa Securities Malaysia Berhad with Trustee to be informed immediately with relevant details.

Further to the establishment of Audit Committee, a Nominating Committee was formed on 24 April 2013. Please refer to their respective reports enclosed for further details.

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 are available and will be continuously reviewed, enhanced and updated in line with changes in the operating environment.

The CEO, as the official spokesperson for the Fund, has been actively meeting analysts, fund managers and investors 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.

#### Board Meetings

The Board met five times during the financial year ended 31 December 2015 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	5/5
Omer Abdulaziz H A Al-Marwani	Deputy Chairman, Non-Independent Non-Executive Director	4/5
Puan Sri Tan Kewi Yong	Non-Independent Executive Director	5/5
Dato' Lee Tuck Fook	Non-Independent Executive Director	5/5
Mohd Nasser A A Al-Humaidi (Demised on 26 December 2015)	Non-Independent Non-Executive Director	3/5
Saif Mohd A M Al-Madfaa	Non-Independent Non-Executive Director	5/5
Navid Chamdia	Non-Independent Non-Executive Director	3/5
Ooi Ah Heong	Non-Independent Non-Executive Director	5/5
Dato' Mohzani bin Abdul Wahab	Independent Non-Executive Director	5/5
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	5/5
Dato' Choo Chuo Siong	Independent Non-Executive Director	5/5
Syed Mohd Fareed bin Shaikh Alhabshi	Independent Non-Executive Director	4/5



## CORPORATE

## GOVERNANCE STATEMENT (cont'd)

**Directors' training**

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:

- Building Trust with Investor in a Digital Social Age
- ESG Seminar for FTSE4 Good Bursa Malaysia Index
- GST and its Impact on Investment Banking, Commercial Banking and Islamic Banking
- Module 1 : Directors as Gatekeepers of Market Participants
- Module 2A : Business Challenges and Regulatory Expectations – What Directors Need to Know (Equities and Futures Broking)
- Module 2B : Business Challenges and Regulatory Expectations – What Directors Need to Know (Fund Management)
- Module 3 : Risk Oversight and Compliance – Action Plan for Board of Directors
- Module 4 : Emerging and Current Regulatory Issues in the Capital Market
- Technical Analysis as a Method of Investment Risk Management
- The Transformation of Indonesia Forum
- 2015 National Conference on Governance, Risk and Control
- Invest Malaysia 2015 Forum

**Directors Remuneration**

The remuneration or fees due to its Directors are paid by the Manager and not Pavilion REIT.

**Dealings with Conflict of Interest / Related Party Transactions**

Should there be any actual, potential or perceived conflict of interest or related party transaction, the relevant party / director involved shall make full disclosure and act honestly and shall not participate in deliberations and shall abstain from casting his or her vote.

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.

**Communication with Unitholders and Investors**

Information for unitholders and investors are readily available via the various disclosures and announcements on Bursa Securities, its annual report and the corporate website, [www.pavilion-reit.com](http://www.pavilion-reit.com).

The CEO also regularly meets with analyst and fund managers to provide them with updates or upon request.

**Conflict of Interest**

None of the Directors have any conflict of interest with Pavilion REIT, save for the interest as disclosed in the notes to the financial statements.

**Conviction of Offences**

None of the Directors have any conviction for offences within the past ten (10) years other than traffic offences, if any.

**Family Relationship with any Directors and / or Major Unitholder**

Save as disclosed in the Board of Directors, none of the other Directors have any family relationship with any Director of the Manager and/or major unitholder of Pavilion REIT.

# NOMINATING COMMITTEE REPORT

The Board has established a Nominating Committee on 24 April 2013. The Nominating Committee members comprising exclusively of Non-Executive Directors with a majority of whom are independent directors are as follows:-

Chairperson: Dato' Maznah Binti Abdul Jalil (Independent Non-Executive Director)  
 Members: Omer Abdulaziz H A Al-Marwani (Deputy Chairman and Non-Independent Non-Executive Director)  
 Dato' Mohzani Bin Abdul Wahab (Independent Non-Executive Director)  
 Dato' Choo Chuo Siong (Independent Non-Executive Director)  
 Ooi Ah Heong (Non-Independent Non-Executive Director)

The main objectives of the Nominating Committee are to identify, nominate and orientate new directors, assess the Board, Board Committees and the existing directors on an on-going basis, review 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. In the case of independent directors, they are assessed on their independence and abilities to discharge their responsibilities and functions.

The Board has not specified any gender policies in its evaluation of candidacy as the focus is on skills, experience, competence and integrity. 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 2015, the Nominating Committee have carried out the following activities:-

- 1) Assessed the performance of the Board and Board Committees;
- 2) Reviewed the contribution of each of the Directors;
- 3) Reviewed the independence of the Independent Non-Executive Directors;
- 4) Reviewed the terms of reference of the Nominating Committee;
- 5) Assessed and recommended 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 over the performance of the Board, the Board Committees and the contribution of each of the Directors. The Independent Non-Executive Directors have maintained their independence.

Name of Directors	Designation	Number of meetings attended
Dato' Maznah binti Abdul Jalil (Chairperson)	Independent Non-Executive Director	1/1
Omer Abdulaziz H A Al-Marwani	Deputy Chairman and Non-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

## 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
Omer Abdulaziz H A Al-Marwani	Deputy Chairman, Non-Independent Non-Executive Director	3/4
Dato' Choo Chuo Siong	Independent Non-Executive Director	4/4
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	4/4

### Terms of Reference

#### Composition and Size

The Audit Committee shall be appointed from amongst the Board and shall comprise at least three members, a majority of whom are independent directors. All members of the Audit Committee shall be Non-Executive Directors.

Its members must have the required skills to engage with Management and auditors and be prepared to ask key and probing questions about Pavilion REIT's financial and operational risks, compliance with approved financial reporting standards and other relevant regulatory requirements.

At least one (1) member of the Audit Committee must be:

- a member of the Malaysian Institute of Accountants ("MIA"); or
- if he is not a member of the MIA, he must have at least three (3) years' working experience and
  - i. he must have passed the examination specified in Part 1 of the First Schedule of the Accountants Act 1967; or
  - ii. he must be a member of one of the associations of accounts specified in Par II of the First Schedule of the Accountants Act 1967; or
- fulfils such other requirements as prescribed or approved by Bursa.

No alternate Director of the Board shall be appointed a member of Audit Committee.

In the event of any vacancy with the result that the number of members is reduced to below three, the vacancy must be filled within 3 months.

#### Meetings

The Audit Committee shall meet at least four (4) times a year, with due notice of issues to be discussed, and shall record its conclusion in discharging its duties and responsibilities. Additional meetings may be called at any time if so requested by any Audit Committee member, management, internal auditor or external auditor. The quorum for a meeting shall be two (2) members, provided that the majority of members present at the meeting shall be independent.

All or any members of the Committee may participate in a meeting of the Audit Committee by means of a teleconference or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.



Any decision made at meetings shall be by a simple majority. In the event issues requiring the Audit Committee's decision arise between meetings, such issues shall be resolved through circular resolution (limited to non-significant transactions) subsequent to discussions being held amongst the Audit Committee members, either via teleconference, video conference, email, etc. in order for the Audit Committee as a whole to be appraised on such matters and obtain their view points before arriving at a decision. Such circular resolution in writing shall be valid and effectual if it is signed or approved by letter, telex, facsimile or telegram by all members of the Audit Committee and such discussions, including any concerns raised and the rationale for the decisions so made in the resolution shall be tabled at the immediate Audit Committee meeting for formal record keeping. Any significant transactions should be decided at a physical meeting attended by Audit Committee members.

The external auditors have the right to appear at any meeting of the Audit Committee and shall appear before the Audit Committee when required to do so by the Audit Committee. The external and internal auditors may also request a meeting if they consider it necessary. Other Directors and employees shall attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

Considering the complexity of the issues to be discussed, it is imperative that Audit Committee members be provided with the meeting agenda and relevant papers at least a week in advance of each meeting. This will allow the Audit Committee members to give full consideration to the issues and, where necessary, obtain supplementary facts before the meeting.

### **Rights**

In carrying out its duties and responsibilities, the Audit Committee shall:

- (a) have explicit authority to investigate any matter within its terms of reference;
- (b) have the resources which it needs to perform its duties;
- (c) have full and unrestricted access to any information which it requires in the course of performing its duties;
- (d) have unrestricted access to the CEO and the Finance Director;
- (e) have direct communication channels with the external auditors and internal auditors;
- (f) be able to obtain independent professional or other advice in the performance of its duties at the cost of Pavilion REIT;
- (g) be able to invite outsiders with relevant experience to attend its meetings if necessary; and
- (h) be able to convene meetings with external auditors, the internal auditors or both, excluding the attendance of other Directors and employee of the Manager, whenever deemed necessary.

### **Duties and Responsibilities**

The duties and responsibilities of Audit Committee shall be as follows:-

- (a) to review the quarterly and annual financial statements, prior to submission to the Board, focusing particularly on:
  - changes in or implementation of accounting policies and practices;
  - major judgmental areas;
  - significant and unusual events;
  - the going concern assumption;
  - compliance with approved financial reporting standards and other legal requirements;
  - compliance with Bursa's Listing Requirements; and
  - compliance with the Securities Commission's Guidelines on Real Estate Investment Trusts
- (b) to assess whether financial statements present a true and fair view of Pavilion REIT's financial position and performance and comply with regulatory requirements;
- (c) to ensure timely submission of financial statements by the Manager;
- (d) to review with the external auditors:
  - their audit plan;
  - evaluation of the system of internal controls and management information systems;
  - problems and reservation arising from their audits; and
  - audit report;

## AUDIT

## COMMITTEE REPORT (cont'd)

- (e) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (f) to review any management letter sent by the external auditors on Pavilion REIT and the Manager's responses to such letter;
- (g) to assess the adequacy and effectiveness of the systems of internal control and accounting control procedures of Pavilion REIT and the Manager;
- (h) to perform the following in relation to the internal audit function:
  - review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
  - review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
  - review any appraisal or assessment of the performance of members of the internal audit function;
  - approve any appointment or termination of senior staff members of the internal audit function; and
  - take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;
- (i) to consider the nomination/ appointment of external auditors, internal auditors, the audit fee and any questions of resignation or dismissal;
- (j) to review all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels;
- (k) to review any related party transaction and conflict of interests situations that may arise within the Pavilion REIT and the Manager;
- (l) to verify that the allocation of options pursuant to Employees' Share Option Scheme complies with the criteria of allocation;
- (m) to report to the Board its activities, significant results and findings;
- (n) to seek continuing professional education to keep abreast of developments not only in the area of financial reporting but also in regulatory compliance, technology, business risk and the implications of significant changes that may affect Pavilion REIT

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

- (a) reviewed the quarterly financial results to recommend to the Board for approval and release to Bursa Malaysia
- (b) reviewed list of related party transactions
- (c) reviewed the internal control plan and thereafter assessed the internal control review report prepared by the internal auditor
- (d) reviewed audit plan with external auditor and thereafter discussed audit issues that arose from the audit conducted
- (e) reviewed the audit committee report and internal control statement for inclusion into annual report
- (f) evaluated the outsourced internal auditor and recommended for their engagement
- (g) evaluated the external auditor and recommended for their engagement for the following year

## STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

The Manager realizes the significance of ensuring 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 and they are being progressively updated.

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; and
- iv) Fund Management Activities.

The objectives of the review by BDO for the year covered the followings areas:-

- To review the adequacy and test the integrity of the system of internal controls;
- To access compliance with policies and procedures and recommend business practices;
- To review and identify any potential areas for improvement in the effectiveness and efficiency of the process (if any) and
- Presenting the findings on internal control reviews to the Audit Committee

Continuous update of standard operating procedures against practise or process will be closely monitored.

The Board has received assertion from the CEO that the risk management and internal control system is operating adequately 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 revised, improved and updated in line with changes in the operating environment.

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



# ADDITIONAL INFORMATION

## 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 2015.

## Non-audit fees

Non-audit fees payable to the external auditor of Pavilion REIT for the financial year ended 31 December 2015 amounted to RM16,000.

## Soft commission

There was no soft commission received by the Manager during the financial year ended 31 December 2015.

## Material litigation

There is no material litigation pending since the issuance of the latest financial report.

## Directors Benefit

For the year ended 31 December 2015, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Fund 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.

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 the Fund or any other body corporate.

## Manager's Fee

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

- 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.

ADDITIONAL  
INFORMATION (cont'd)

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.

**Other Statutory 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 year 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 2015 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.

ADDITIONAL  
INFORMATION (cont'd)

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**Auditor**

The auditors, Messrs KPMG, 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  
14 January 2016



# FINANCIAL STATEMENTS

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## STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 48 to 87 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 2015 and of its financial performance and cash flows for the year ended on that date.

The information on the breakdown of realised and unrealised income included in Note 26 to the financial statements has been compiled in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

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**

**Dato' Lee Tuck Fook**

Kuala Lumpur,

Date: 14 January 2016

## 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 48 to 88, 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 above named at Kuala Lumpur on 14 January 2016.

**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 2015. 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 2015 are in line with and are reflective of the objectives of Pavilion REIT. Final distributions have been declared for the financial year ended 31 December 2015 as follows:

- 1) Final income distribution of 4.14 sen per unit payable on 26 February 2016.

For and on behalf of the Trustee,  
AmTrustee Berhad

**Tan Kok Cheeng**  
Chief Executive Officer

Selangor,

Date: 14 January 2016



## INDEPENDENT

**AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the financial statements of Pavilion Real Estate Investment Trust ("Pavilion REIT"), which comprise the statement of financial position as at 31 December 2015, and the statements of profit and loss and other comprehensive income, changes in net asset value and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 48 to 87.

*Pavilion REIT Management Sdn. Bhd.'s Responsibility for the Financial Statements*

Pavilion REIT Management Sdn. Bhd. ("the Manager") of Pavilion REIT is responsible for the preparation of the financial statements of Pavilion REIT so as to 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Manager's preparation of financial statements that give a true and fair view 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 Manager's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Pavilion REIT as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

**Other Reporting Responsibilities**

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information on the breakdown of realised and unrealised profit or losses included in statement of profit or loss and other comprehensive income and Note 26 on page 88 to the financial statements has been compiled by Pavilion REIT as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

INDEPENDENT

AUDITORS' REPORT

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

Firm Number: AF 0758  
Chartered Accountants

Petaling Jaya,

Date: 14 January 2016

**Thong Foo Vung**

Approval Number: 2867/08/16(J)  
Chartered Accountant

# STATEMENT OF FINANCIAL POSITION

as at 31 December 2015

	Note	2015 RM'000	2014 RM'000
<b>Assets</b>			
Plant and equipment	4	1,360	1,835
Investment properties	5	4,483,000	4,433,000
Other non-current assets	6	64,800	–
<b>Total non-current assets</b>		4,549,160	4,434,835
Inventories		1,237	1,228
Trade and other receivables	7	16,350	8,328
Cash and cash equivalents	8	184,006	205,540
<b>Total current assets</b>		201,593	215,096
<b>Total assets</b>		4,750,753	4,649,931
<b>Liabilities</b>			
Borrowings	9	754,333	707,525
Payables and accruals	10	29,143	70,308
<b>Total non-current liabilities</b>		783,476	777,833
Payables and accruals	10	115,670	61,082
<b>Total current liabilities</b>		115,670	61,082
<b>Total liabilities</b>		899,146	838,915
<b>Net asset value</b>		3,851,607	3,811,016
<b>Financed by</b>			
<b>Unitholders' fund</b>			
Unitholders' capital	11	2,893,046	2,887,271
Accumulated income		958,561	923,745
<b>Total unitholders' fund</b>		3,851,607	3,811,016
<b>Net asset value ("NAV")</b>		3,851,607	3,811,016
<b>Number of units in circulation ('000 units)</b>	11	3,017,842	3,013,819
<b>NAV per unit (RM)</b>		1.2763	1.2645

The notes on pages 54 to 88 are an integral part of these financial statements.



# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	2015 RM'000	2014 RM'000
Rental income		352,824	339,900
Other income		61,108	62,192
<b>Gross revenue</b>		<b>413,932</b>	<b>402,092</b>
Utilities		(46,852)	(44,070)
Maintenance		(32,121)	(29,951)
Quit rent and assessment		(10,904)	(10,888)
Other operating expenses		(32,520)	(34,444)
<b>Net property income</b>		<b>291,535</b>	<b>282,739</b>
Fair value gain on investment properties		41,035	278,112
Gain on disposal of investment property		593	–
Interest income		6,211	6,084
<b>Net investment income</b>		<b>339,374</b>	<b>566,935</b>
Manager's management fees	12	(23,022)	(22,432)
Trustee's fees	1(c)	(400)	(400)
Valuation fee		(401)	(423)
Other trust expenses		(917)	(1,717)
Borrowing costs	13	(32,297)	(31,488)
<b>Income before taxation</b>		<b>282,337</b>	<b>510,475</b>
Tax expense	14	–	–
<b>Income after taxation/Total comprehensive income attributable to unitholders</b>		<b>282,337</b>	<b>510,475</b>
<b>Income after taxation is made up as follows:</b>			
Realised		241,302	232,363
Unrealised		41,035	278,112
		<b>282,337</b>	<b>510,475</b>
<b>Earnings per unit (sen)</b>	15	9.36	16.94

STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME  
for the year ended 31 December 2015  
(cont'd)

	Note	2015 RM'000	2014 RM'000
Total comprehensive income		282,337	510,475
Distribution adjustments	A	(33,452)	(270,547)
<hr/>			
Distributable income		248,885	239,928
<hr/>			
<b>Distribution per unit (sen) - interim</b>		4.09	3.84
<b>Distribution per unit (sen) - final</b>		4.14	4.12

**Note A****Distribution adjustments comprise:**

Amortisation of transaction costs		1,216	1,242
Depreciation		611	715
Fair value gain of investment properties		(41,035)	(278,112)
Manager's management fees payable in units	12	5,756	5,608
<hr/>			
		(33,452)	(270,547)

The notes on pages 54 to 88 are an integral part of these financial statements.

## STATEMENT OF CHANGES

## IN NET ASSET VALUE

for the year ended 31 December 2015

	Note	Unitholders' capital RM'000	Accumulated income/ (deficit) RM'000	Total funds RM'000
<b>At 1 January 2014</b>		2,881,933	640,583	3,522,516
Income after taxation/Total comprehensive income for the year attributable to unitholders		–	510,475	510,475
<b>Unitholders' transactions</b>				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		5,338	–	5,338
Distribution to unitholders	16	–	(227,313)	(227,313)
Increase/(Decrease) in net assets resulting from unitholders' transactions		5,338	(227,313)	(221,975)
<b>Net assets at 31 December 2014/ 1 January 2015</b>		2,887,271	923,745	3,811,016
Income after taxation/Total comprehensive income for the year attributable to unitholders		–	282,337	282,337
<b>Unitholders' transactions</b>				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		5,775	–	5,775
Distribution to unitholders	16	–	(247,521)	(247,521)
Increase/(Decrease) in net assets resulting from unitholders' transactions		5,775	(247,521)	(241,746)
<b>Net assets at 31 December 2015</b>		2,893,046	958,561	3,851,607

Note 11

The notes on pages 54 to 88 are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	Note	2015 RM'000	2014 RM'000
<b>Cash flows from operating activities</b>			
Income before taxation		282,337	510,475
<i>Adjustments for:</i>			
Borrowing costs	13	32,297	31,488
Depreciation	4	611	715
Fair value gain on investment properties		(41,035)	(278,112)
Gain on disposal of investment property		(593)	–
Impairment loss on trade receivables		982	219
Interest income		(6,211)	(6,084)
Loss on disposal of plant and equipment		–	8
Plant and equipment written off		16	25
<b>Operating income before changes in working capital</b>		268,404	258,734
Changes in inventories		(9)	(13)
Changes in receivables		(9,004)	2,436
Changes in payables		14,538	6,351
Changes in tenants' deposits		4,443	4,023
<b>Net cash from operating activities</b>		278,372	271,531
<b>Cash flows from investing activities</b>			
Deposit for acquisition of investment properties		(64,800)	–
Interest received		6,211	6,084
Payment for enhancement of investment properties		(13,051)	(21,888)
Pledged deposit		(615)	(576)
Proceeds from disposal of investment property		4,896	–
Proceeds from disposal of plant and equipment		–	3
Purchase of plant and equipment		(152)	–
<b>Net cash used in investing activities</b>		(67,511)	(16,377)
<b>Cash flows from financing activities</b>			
Distribution to unitholders		(247,521)	(227,313)
Interest paid		(31,081)	(30,246)
Payment of financing expenses		(8)	(200)
Proceed from borrowings		45,600	–
<b>Net cash used in financing activities</b>		(233,010)	(257,759)
Net decrease in cash and cash equivalents		(22,149)	(2,605)
Cash and cash equivalents at 1 January		186,879	189,484
<b>Cash and cash equivalents at 31 December</b>	(i)	164,730	186,879



## STATEMENT OF

## CASH FLOWS

for the year ended 31 December 2015

(cont'd)

## (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>2015 RM'000</b>	<b>2014 RM'000</b>
Cash and bank balances	8	4,738	2,539
Deposits placed with licensed banks	8	179,268	203,001
		184,006	205,540
Less: Pledged deposits		(19,276)	(18,661)
		164,730	186,879

The notes on pages 54 to 88 are an integral part of these financial statements.

# 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 AmTrustee 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 ING  
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 2015 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.

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 RM30,000 (2014: RM30,000) per month (excluding service tax/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 (continued)

(b) Manager's management fees (continued)

- (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 2010.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 1. General (continued)

#### (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 RM400,000 for the current financial year, is to be paid to Trustee.

The financial statements were approved by the Board of Directors of the Manager on 14 January 2016.

### 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 2016***

- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018***

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*

#### ***MFRSs, Interpretations and amendments effective for 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*



NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**2. Basis of preparation (continued)**

**(a) Statement of compliance (continued)**

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

- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for amendments to MFRS 5, MFRS 10, MFRS 11 and MFRS 127 which are not applicable to Pavilion REIT.
- from the annual period beginning on 1 January 2018 for those accounting standards, that are effective for annual periods beginning on or after 1 January 2018.

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

**(i) MFRS 15, Revenue from Contracts with Customers**

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

Pavilion REIT is currently assessing the financial impact that may arise from the adoption of MFRS 15.

**(ii) MFRS 9, Financial Instruments**

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

Pavilion REIT is currently assessing the financial impact that may arise from the adoption of MFRS 9.

**(b) Basis of measurement**

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

**(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 – fair value of investment properties and Note 9 – borrowings.

## 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, unless otherwise stated.

#### (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.

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.

##### (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 ceases. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**3. Significant accounting policies (continued)**

**(a) Basis of consolidation (continued)**

**(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**

**(i) Initial recognition and measurement**

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

A financial instrument is recognised initially, at its fair value plus transaction costs that are 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***

***Loans and receivables***

Loans and receivables category comprises debt instruments that are not quoted in an active market.

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

Financial assets are subject to review for impairment (see Note 3(h)(i)).

***Financial liabilities***

All financial liabilities are subsequently measured at amortised cost.

**(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 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 and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity 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 or 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.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 3. Significant accounting policies (continued)

#### (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
Office equipment	5 years
Tools and 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 (continued)****(d) Investment properties**

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 change 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.

An external, independent valuation firm, 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 (continued)

#### (h) Impairment

##### (i) Financial assets

All financial assets are assessed at each reporting date whether there is 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, are not recognised.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is 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 is reduced through the use of an allowance account.

##### (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.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)**3. Significant accounting policies (continued)****(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.

**(iii) Other income**

Other income consists of carpark income, utilities charges billed to tenants, events, advertising, turnover rent and other miscellaneous income, and is recognised in the profit or loss on an accrual basis.

**(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).

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 3. Significant accounting policies (continued)

#### (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.

#### (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.



NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)**3. Significant accounting policies (continued)****(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. An operating segment's operating 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

	Furniture and fittings RM'000	IT equipment and software RM'000	Motor vehicles RM'000	Office equipment RM'000	Tools and equipment RM'000	Total RM'000
<b>Cost</b>						
At 1 January 2014	1,293	503	22	127	2,023	3,968
Disposal	–	–	–	–	(20)	(20)
Write off	(14)	–	–	(12)	(15)	(41)
At 31 December 2014/ 1 January 2015	1,279	503	22	115	1,988	3,907
Addition	–	85	–	–	67	152
Write off	(10)	–	–	(2)	(22)	(34)
At 31 December 2015	1,269	588	22	113	2,033	4,025
<b>Accumulated depreciation</b>						
At 1 January 2014	265	278	2	53	784	1,382
Depreciation for the year	128	159	4	25	399	715
Disposal	–	–	–	–	(9)	(9)
Write off	(3)	–	–	(7)	(6)	(16)
At 31 December 2014/ 1 January 2015	390	437	6	71	1,168	2,072
Depreciation for the year	128	53	4	23	403	611
Write off	(4)	–	–	(1)	(13)	(18)
At 31 December 2015	514	490	10	93	1,558	2,665
<b>Carrying amounts</b>						
At 1 January 2014	1,028	225	20	74	1,239	2,586
At 31 December 2014/ 1 January 2015	889	66	16	44	820	1,835
At 31 December 2015	755	98	12	20	475	1,360

NOTES TO THE  
 FINANCIAL STATEMENTS (cont'd)

**5. Investment properties**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	4,433,000	4,133,000
Enhancements/Capital expenditure	13,051	21,888
Disposal of investment property	(4,086)	–
Change in fair value recognised in profit or loss	41,035	278,112
<b>At 31 December</b>	<b>4,483,000</b>	<b>4,433,000</b>

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

Details of the investment properties are as follows:

	Date of acquisition	Date of valuation	Location	Tenure	Occupancy rates as at 31.12.2015 %	Fair value as at 31.12.2015 RM'000	Cost as at 31.12.2015 RM'000	Percentage of fair value to NAV as at 31.12.2015 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2015	Kuala Lumpur	Leasehold*	99	4,350,000	3,487,171	113
Pavilion Tower	7.12.2011	31.12.2015	Kuala Lumpur	Leasehold*	98	133,000	128,000	3
Investment properties						4,483,000	3,615,171	

	Date of acquisition	Date of valuation	Location	Tenure	Occupancy rates as at 31.12.2014 %	Fair value as at 31.12.2014 RM'000	Cost as at 31.12.2014 RM'000	Percentage of fair value to NAV as at 31.12.2014 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2014	Kuala Lumpur	Leasehold*	98	4,300,000	3,478,206	113
Pavilion Tower	7.12.2011	31.12.2014	Kuala Lumpur	Leasehold*	81	133,000	128,000	3
Investment properties						4,433,000	3,606,206	

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

**5.1 Fair value information**

Fair value of investment properties are categorised as follows:

	<b>2015</b>	<b>2014</b>
	<b>Level 3</b>	<b>Level 3</b>
	<b>RM'000</b>	<b>RM'000</b>
Pavilion Kuala Lumpur Mall	4,350,000	4,300,000
Pavilion Tower	133,000	133,000
<b>Total</b>	<b>4,483,000</b>	<b>4,433,000</b>

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

5. Investment properties (continued)

5.1 Fair value information (continued)

Level 3 fair value

The following table shows a reconciliation of Level 3 fair values:

	2015 RM'000	2014 RM'000
At 1 January	4,433,000	4,133,000
Additions	13,051	21,888
Disposal	(4,086)	-
Gains and losses recognised in profit or loss		
Fair value gain on investment properties		
- unrealised	41,035	278,112
At 31 December	4,483,000	4,433,000

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
<p>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.</p>	<ul style="list-style-type: none"> <li>• Risk-adjusted capitalisation rates ranging from 6.25% to 6.75% (2014: 6.25% to 6.75%).</li> <li>• Risk-adjusted discount rate of 6.50% (2014: 6.50%).</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• risk-adjusted capitalisation rates were lower (higher).</li> <li>• risk-adjusted discount rates were lower (higher).</li> </ul>



NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**5. Investment properties (continued)**

**5.1 Fair value information (continued)**

**Level 3 fair value (continued)**

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

The transfer of the land title in respect of Pavilion Kuala Lumpur Mall and Pavilion Tower in favour of the Trustee is pending the issuance of strata title by the public authorities.

**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 a retail mall and an office building. Both the properties on its own is the highest and best use, as the retail mall is on prime land in the city centre. 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.

**6. Other non-current assets**

Included in other non-current assets are deposits placed for the proposed acquisitions of Investment Properties (see Note 25 (b) and (c)).

**7. Trade and other receivables**

	2015 RM'000	2014 RM'000
<b>Current Trade</b>		
Trade receivables	12,133	7,083
Less: Impairment losses	(3,048)	(2,066)
	9,085	5,017
<b>Non-trade</b>		
Other receivables	6,191	2,428
Deposits	744	421
Prepayments	330	462
	7,265	3,311
	16,350	8,328

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**8. Cash and cash equivalents**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances	4,738	2,539
Deposits placed with licensed banks	179,268	203,001
	<hr/> 184,006	<hr/> 205,540

Included in the deposits placed with licensed banks is an amount of RM19,276,000 (2014: RM18,661,000) which is maintained in a Debt Service Reserve Account with a licensed bank to cover a minimum of six months interest for a banking facility granted to Pavilion REIT (Note 9).

**9. Borrowings**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-current</b>		
Secured term loan	755,301	709,701
Less: Unamortised transaction costs	(968)	(2,176)
	<hr/> 754,333	<hr/> 707,525

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:

- (a) RTL1 - a revolving term loan facility of up to RM705.9 million to part finance the acquisition of investment properties and future acquisitions by Pavilion REIT. The loan bears fixed interest rate at 4.2% per annum for the first 3 years from December 2012 and thereafter at a fixed rate of 4.35% per annum till 7 December 2016;
- (b) RTL2 - a revolving term loan facility of up to RM100.0 million to finance general working capital of Pavilion REIT (including acquisition of assets) bearing a floating interest rate at the Lenders' cost of funds plus a margin of 1.0% to 1.1% per annum; and
- (c) BG/RTL3 - a bank guarantee 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 bearing a floating interest rate at the Lender's cost of funds plus a margin of 1.0% to 1.1% per annum.

Since the Medium Term Notes programme ("MTN programme") was established (see note 25 (a)), the repayment date has been extended from five years to seven years (from 7 December 2016 to 7 December 2018) from the first drawdown of RTL1. However, if the loan is not refinanced by 7 December 2016, the Security Agent has the right to manage the disposal of the investment properties as per terms in the Facility Agreements. Pavilion REIT has the intention to refinance the loan within the next twelve months.

The borrowings are secured over investment properties as disclosed in Note 5 with a fair value of RM4,483,000,000 (2014: RM4,433,000,000) and an amount of RM19,276,000 (2014: RM18,661,000) maintained in a Debt Service Reserve Account with a licensed bank as disclosed in Note 8.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**10. Payables and accruals**

	Note	2015 RM'000	2014 RM'000
<b>Non-current</b>			
<b>Trade</b>			
Tenants' deposits	a	29,143	70,308
<b>Current</b>			
<b>Trade</b>			
Trade payables		17,512	11,242
Tenants' deposits	a	64,787	19,179
		82,299	30,421
<b>Non-trade</b>			
Other payables and accrued expenses	b	33,371	30,661
		33,371	30,661
		115,670	61,082
		144,813	131,390

(a) 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.

(b) Included in other payables and accrued expenses are the following amounts due to:

	2015 RM'000	2014 RM'000
The Manager	7,862	8,118
Trustee	34	34
	7,896	8,152

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

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**11. Total unitholders' funds**

**11.1 Unitholders' capital**

	<b>2015 Number of units '000</b>	<b>2014 Number of units '000</b>
Approved fund size: At 31 December	3,100,000	3,100,000
Issued and fully paid up: At 1 January	3,013,819	3,009,684
Manager's management fees paid in units	4,023	4,135
At 31 December	3,017,842	3,013,819
	<b>2015 RM'000</b>	<b>2014 RM'000</b>
At 1 January	2,887,271	2,881,933
Manager's management fees paid in units	5,775	5,338
At 31 December	2,893,046	2,887,271

**11.2 Unitholdings of substantial unitholders, Directors and their related parties**

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

	<b>Number of units '000</b>	<b>Amount RM'000</b>
<b>2015</b>		
Issued at RM1.4007 per unit for entitlement for the 6 months ended 31 December 2014	2,112	2,958
Issued at RM1.4739 per unit for entitlement for the 6 months ended 30 June 2015	1,911	2,817
Total Manager's fees paid in units	4,023	5,775
<b>2014</b>		
Issued at RM1.2659 per unit for entitlement for the 6 months ended 31 December 2013	2,123	2,688
Issued at RM1.3171 per unit for entitlement for the 6 months ended 30 June 2014	2,012	2,650
Total Manager's fees paid in units	4,135	5,338



NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**11. Total unitholders' funds (continued)****11.2 Unitholdings of substantial unitholders, Directors and their related parties (continued)**

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

	2015		2014	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
Pavilion REIT's substantial unitholders' direct unitholdings in Pavilion REIT:				
Qatar Holding LLC	1,082,900	1,678,495	1,082,900	1,581,034
Tan Sri Lim Siew Choon	845,425	1,310,409	845,425	1,234,321
Puan Sri Tan Kewi Yong	281,875	436,906	281,875	411,538
The Manager's Directors' direct unitholdings in Pavilion REIT:				
Tan Sri Lim Siew Choon	845,425	1,310,409	845,425	1,234,321
Puan Sri Tan Kewi Yong	281,875	436,906	281,875	411,538
Dato' Lee Tuck Fook	100	155	100	146
Navid Chamdia	100	155	100	146
Ooi Ah Heong	100	155	100	146
Dato' Mohzani Bin Abdul Wahab	100	155	100	146
Dato' Maznah Binti Abdul Jalil	100	155	100	146
Syed Mohd Fareed Bin Shaikh Alhabshi	-	-	100	146

**Notes:**

The market value of the units was computed based on the closing market price as at 31 December 2015 of RM1.55 (2014: RM1.46).

**12. Manager's management fees**

	2015 RM'000	2014 RM'000
Base fee	14,252	13,950
Performance fee	8,746	8,482
Divestment fee	24	-
	23,022	22,432

During the financial year, the Manager received a base fee of 0.3% (2014: 0.3%) per annum of the Total Asset Value of Pavilion REIT, a performance fee of 3.0% (2014: 3.0%) per annum of Net Property Income and a divestment fee of 0.5% (2014: nil) of transaction value in relation to disposal of real estate related assets. Manager's management fees payable in units amounts to RM5,756,000 (2014: RM5,608,000) which represents 25% (2014: 25%) of the total manager's management fees payable.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**13. Borrowing costs**

	<b>2015</b> <b>RM'000</b>	<b>2014</b> <b>RM'000</b>
Interest expense	31,081	30,246
Amortisation of transaction costs	1,216	1,242
	<hr/> 32,297	<hr/> 31,488

**14. Tax expense**

	<b>2015</b> <b>RM'000</b>	<b>2014</b> <b>RM'000</b>
<b>Reconciliation of tax expense</b>		
Income before taxation	282,337	510,475
	<hr/>	
Income tax using Malaysian tax rate of 25%	70,584	127,619
Non-deductible expenses	2,315	4,177
Non-taxable income	(10,259)	(69,528)
Effect of income exempted from tax	(62,640)	(62,268)
	<hr/> -	<hr/> -

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 99.8% of its distributable income to its unitholders for financial year ended 31 December 2015, no provision for taxation has been made for the current year.

**15. 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 RM282,337,000 (2014: RM510,475,000) divided by the weighted average number of units in circulation during the year of 3,016,434,956 (2014: 3,012,408,329).

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**16. Distribution to unitholders**

Distribution to unitholders is from the following sources:

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Rental income	352,824	339,900
Other income	61,108	62,192
Interest income	6,211	6,084
Gain on disposal of investment property	593	–
Fair value gain on investment properties	41,035	278,112
	<hr/>	<hr/>
Less: Total expenses	461,771 (179,434)	686,288 (175,813)
	<hr/>	<hr/>
Distribution adjustments	282,337 (33,452)	510,475 (270,547)
	<hr/>	<hr/>
Distributable income	248,885	239,928
	<hr/>	<hr/>
Distribution to unitholders	247,521	227,313
	<hr/>	<hr/>
	<b>2015</b>	<b>2014</b>
Interim distribution per unit (sen)	4.09	3.84
Final distribution per unit (sen)	4.14 *	4.12
	<hr/>	<hr/>
Net distribution per unit** (sen)	8.23	7.96

\* The final distributable income for the 6 months ended 31 December 2015 is proposed to be 4.14 sen per unit or RM124,939,000 payable on 26 February 2016.

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

	<b>Withholding tax rate</b>	
	<b>2015</b>	<b>2014</b>
Resident corporate	N/A <sup>^</sup>	N/A <sup>^</sup>
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	25% <sup>#</sup>	25%
Non-resident institutional	10%	10%

<sup>^</sup> to tax at prevailing rate

<sup>#</sup> commencing year 2016, withholding tax rate for non-resident corporate will be reduced to 24%.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**17. Portfolio turnover ratio**

	<b>2015</b>	<b>2014</b>
Portfolio Turnover Ratio ("PTR") (times)	– *	–

\* Included in the amount is 0.001 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 disposed an area measuring 1,050 square metres to Urusharta Cemerlang Sdn. Bhd. for a purchase consideration of RM4,896,000. The effect of the disposal during the year to PTR is insignificant. There was no new completed acquisitions during the year. (2014: no new acquisition and disposal).

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.

**18. Management expense ratio**

	<b>2015</b>	<b>2014</b>
Management expense ratio ("MER") (%)	0.64	0.66

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.

**19. 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.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**19. Operating segments (continued)**

	<b>Retail RM'000</b>	<b>Office RM'000</b>	<b>Total RM'000</b>
<b>For the year ended 31 December 2015</b>			
<b>Segment profit</b>	284,864	6,671	291,535
<i>Included in the measure of segment profit are:</i>			
Gross revenue	402,646	11,286	413,932
Property expenses	117,782	4,615	122,397
<b>At 31 December 2015</b>			
<b>Segment assets and liabilities</b>			
Segment assets	4,597,265	133,914	4,731,179
Segment liabilities	(867,614)	(31,397)	(899,011)
<b>For the year ended 31 December 2015</b>			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	77,851	–	77,851
Fair value gain to non-current assets	41,035	–	41,035
<b>For the year ended 31 December 2014</b>			
<b>Segment profit</b>	276,829	5,910	282,739
<i>Included in the measure of segment profit are:</i>			
Gross revenue	391,293	10,799	402,092
Property expenses	114,464	4,889	119,353
<b>At 31 December 2014</b>			
<b>Segment assets and liabilities</b>			
Segment assets	4,497,707	133,563	4,631,270
Segment liabilities	(808,565)	(30,184)	(838,749)
<b>For the year ended 31 December 2014</b>			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	21,888	–	21,888
Fair value gain to non-current assets	278,112	–	278,112



NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**19. Operating segments (continued)**

**Reconciliation of reportable segment profit**

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Total profit for reportable segments	291,535	282,739
Fair value gain on investment properties	41,035	278,112
Gain on disposal of investment property	593	–
Interest income	5,596	5,508
Other non-allocated income	615	576
Trust expenses	(24,740)	(24,972)
Borrowing costs	(32,297)	(31,488)
<b>Income before taxation</b>	<b>282,337</b>	<b>510,475</b>
Taxation	–	–
<b>Income after taxation</b>	<b>282,337</b>	<b>510,475</b>

**Reconciliation of reportable segment assets and liabilities**

	<b>Segment</b>	<b>Segment</b>
	<b>assets</b>	<b>liabilities</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>		
Total reportable segments	4,731,179	(899,011)
Other non-allocated assets/(liabilities)	19,574	(135)
<b>Total assets/(liabilities)</b>	<b>4,750,753</b>	<b>(899,146)</b>
<b>2014</b>		
Total reportable segments	4,631,270	(838,749)
Other non-allocated assets/(liabilities)	18,661	(166)
<b>Total assets/(liabilities)</b>	<b>4,649,931</b>	<b>(838,915)</b>

**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)

## 20. Financial instruments

### 20.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as loans and receivables and financial liabilities measured at amortised cost.

	Carrying amounts 2015 RM'000	Loans and receivables 2015 RM'000	Carrying amounts 2014 RM'000	Loans and receivables 2014 RM'000
<b>Financial assets</b>				
Receivables and deposits	80,820	80,820	7,866	7,866
Cash and cash equivalents	184,006	184,006	205,540	205,540
	264,826	264,826	213,406	213,406
	Carrying amounts 2015 RM'000	Financial liabilities measured at amortised cost 2015 RM'000	Carrying amounts 2014 RM'000	Financial liabilities measured at amortised cost 2014 RM'000
<b>Financial liabilities</b>				
Payables and accruals	144,813	144,813	131,390	131,390
Borrowings	754,333	754,333	707,525	707,525
	899,146	899,146	838,915	838,915

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

	2015 RM'000	2014 RM'000
Loans and receivables	5,229	5,865
Borrowings	(32,297)	(31,488)
	(27,068)	(25,623)

### 20.3 Financial risks management

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

- Credit risk
- Liquidity risk
- Market risk

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**20. Financial instruments (continued)**

**20.4 Credit risk**

Credit risk is the risk of a financial loss to Pavilion REIT if the tenants or counter party 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.

*Exposure to credit risk and credit quality*

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*

Pavilion REIT maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the financial year was:

	<b>Gross RM'000</b>	<b>Impairment loss RM'000</b>	<b>Net RM'000</b>
<b>2015</b>			
Not past due	6,101	(26)	6,075
Past due 0 - 30 days	1,493	(12)	1,481
Past due 31 - 90 days	362	-	362
Past due more than 90 days	4,177	(3,010)	1,167
	12,133	(3,048)	9,085
<b>2014</b>			
Not past due	2,304	-	2,304
Past due 0 - 30 days	885	(438)	447
Past due 31 - 90 days	768	(125)	643
Past due more than 90 days	3,126	(1,503)	1,623
	7,083	(2,066)	5,017

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**20. Financial instruments (continued)****20.4 Credit risk (continued)**

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

	<b>2015</b> <b>RM'000</b>	<b>2014</b> <b>RM'000</b>
At 1 January	2,066	1,847
Impairment loss recognised	982	219
<hr/>		
At 31 December	3,048	2,066

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.

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

Pavilion REIT's short term deposits are placed at fixed rate investments and upon which management endeavours to obtain the best rate available in the market.

Cash and cash equivalents are placed with licensed financial institutions.

*Exposure to credit risk and credit quality*

As at the end of the financial year, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

*Impairment losses*

As at the end of the financial year, there was no indication that cash and cash equivalents were not recoverable.

**20.5 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.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**20. Financial instruments (continued)**

**20.5 Liquidity risk (continued)**

*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 year RM'000	2 - 5 years RM'000
<b>2015</b>						
<b>Financial liabilities</b>						
Borrowings	754,333	4.35 - 5.10	862,929	33,226	38,520	791,183
Payable and accruals	144,813	-	144,813	115,670	15,446	13,697
	899,146		1,007,742	148,896	53,966	804,880
<b>2014</b>						
<b>Financial liabilities</b>						
Borrowings	707,525	4.20 - 4.95	768,329	29,836	738,493	-
Payable and accruals	131,390	-	131,390	61,083	56,048	14,259
	838,915		899,719	90,919	794,541	14,259

**20.6 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.

**20.6.1 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)

**20. Financial instruments (continued)****20.6 Market risk (continued)****20.6.1 Interest rate risk (continued)***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:

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Fixed rate instrument</b>		
Financial asset - Deposits placed with licensed banks	179,268	203,001
Financial liabilities - Borrowings	(704,932)	(703,724)
	(525,664)	(500,723)
<b>Floating rate instruments</b>		
Financial liabilities - Borrowings	(49,401)	(3,801)

*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.

**20.7 Fair value information**

The carrying amounts of cash and cash equivalents, 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.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

20. Financial instruments (continued)

20.7 Fair value information (continued)

	Fair value of financial instruments not carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
<b>2015</b>					
<b>Financial liabilities</b>					
Tenants' deposits	-	-	(87,355)	(87,355)	(93,930)
Borrowings	-	-	(763,117)	(763,117)	(754,333)
	-	-	(850,472)	(850,472)	(848,263)
<b>2014</b>					
<b>Financial liabilities</b>					
Tenants' deposits	-	-	(82,434)	(82,434)	(89,487)
Borrowings	-	-	(700,883)	(700,883)	(707,525)
	-	-	(783,317)	(783,317)	(797,012)

**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.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

## 21. 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 ratio of maximum 50% and interest coverage ratio of minimum 2.0 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 ratio that will provide an ideal debt equity ratio that also complies with regulatory requirements.

As at 31 December 2015, Pavilion REIT recorded a gearing ratio of 15.88% (2014: 15.22%) and interest coverage ratio of 16.01 (2014: 16.23). The calculation of the gearing 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).

## 22. 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:

	2015 RM'000	2014 RM'000
Less than one year	279,858	299,268
Between one and five years	130,832	274,881
	410,690	574,149

## 23. Capital commitments

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

	2015 RM'000	2014 RM'000
<b>Capital expenditure commitments</b>		
<b>Investment Properties</b>		
<i>Authorised and contracted for:</i>		
- Within one year	583,200	-
<i>Authorised but not contracted for:</i>		
- Within one year	13,359	34,120

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**24. 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 AmTrustee Berhad, and certain members of senior management of Pavilion REIT Management Sdn. Bhd. and AmTrustee Berhad.

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

<b>Companies related to the Manager</b>	<b>Nature of transactions</b>	<b>Transaction value 2015 RM'000</b>	<b>Transaction value 2014 RM'000</b>	<b>Balance outstanding 2015 RM'000</b>	<b>Balance outstanding 2014 RM'000</b>
Pavilion REIT Management Sdn. Bhd.	Rental income and its related charges	472	403	-	-
Malton Berhad Group *	Rental income and its related charges	2,749	2,288	6	8
Crabtree & Evelyn (Malaysia) Sdn. Bhd. #	Rental income and its related charges	1,175	1,338	3	8
	Purchase of product	564	674	32	118
Lumayan Indah Sdn. Bhd. ∞	Rental income and its related charges	771	792	3	2
Impian Ekspresi Sdn. Bhd. ◊	Rental income and its related charges	760	505	178	63
Kuala Lumpur Pavilion Sdn. Bhd. ^	Property management fees and charges payable	4,078	19,284	869	1,282
Urusharta Cemerlang Sdn. Bhd. α	Disposal of part area in Pavilion Kuala Lumpur Mall	4,896	-	-	-

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

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.

# Crabtree & Evelyn (Malaysia) Sdn. Bhd. is deemed parties related to the Manager by virtue of Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong's deemed interest in Crabtree & Evelyn (Malaysia) Sdn. Bhd.

NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**24. Significant related party transactions (continued)**

- ∞ Omer Abdulaziz H A Al-Marwani, Mohd Nasser A A Al-Humaidi and Navid Chamdia as directors of the Manager also holds directorship in Lumayan Indah Sdn. Bhd.
- ◇ Impian Ekspresi Sdn. Bhd. is deemed party related to the manager by virtue of Tan Sri Lim Siew Choon's deemed interest in Impian Ekspresi Sdn. Bhd.
- ^ 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.
- α Tan Sri Lim Siew Choon, Puan Sri Tan Kewi Yong, Omer Abdulaziz H A Al-Marwani, Mohd Nasser A A Al-Humaidi and Navid Chamdia are directors of Urusharta Cemerlang Sdn. Bhd. ("UCSB"). Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong control 51% shares in UCSB via Urusharta Cemerlang Development Sdn. Bhd. Omer Abdulaziz H A Al-Marwani and Mohd Nasser A A Al-Humaidi are directors of Urusharta Cemerlang Project Corporation Sdn. Bhd. which hold 49% shares in UCSB.

**25. Significant events during the financial year**

- (a) 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 issue 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.

As at the date of the financial statements, no MTNs have been issued.

- (b) On 17 September 2015, the Board of Directors of the Manager announced that AmTrustee Berhad, had entered into a conditional sale and purchase agreement with Equine Park Country Resort Sdn. Bhd. and Revenue Concept Sdn. Bhd. for acquisition of the Property (as defined below), comprising the followings, for a total purchase consideration of RM488,000,000:
- (i) A five (5) storey shopping mall with a lower ground floor of approximately 420,920 square feet of net lettable area known as da:mén USJ; and
  - (ii) Two (2) levels of basement car park with 1,672 car parking bays

all of which are erected on a piece of freehold land currently held under Grant 320023 for Lot 91576, Pekan Subang Jaya, District of Petaling, State of Selangor measuring approximately 3.499 hectares.

As at the date of the financial statements, subjected to the fulfillment of the conditions precedent of the SPA as detailed in the 17 September 2015 announcement, the acquisition is expected to be completed by the first quarter of 2016.

- (c) On 29 December 2015, the Board of Directors of the Manager announced that AmTrustee Berhad, had entered into a sale and purchase agreement with The Intermark Sdn. Bhd. for the acquisition of a six (6)-storey retail building having a main parcel of strata floor area of 31,348 square metres (approximately 337,427 square feet) for a total cash consideration of RM160,000,000.

The acquisition is expected to be completed by first quarter of 2016.



NOTES TO THE  
FINANCIAL STATEMENTS (cont'd)

**26. Supplementary financial information on the breakdown of realised and unrealised profits or losses**

The breakdown of the accumulated income of Pavilion REIT as at 31 December into realised and unrealised profits or losses, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Total accumulated income of Pavilion REIT		
- realised	90,732	96,951
- unrealised	867,829	826,794
	<hr/>	<hr/>
Total accumulated income	958,561	923,745
	<hr/>	<hr/>

The determination of realised and unrealised profits or losses is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

# ANALYSIS OF UNITHOLDINGS

## Distribution of Unitholdings as at 31 December 2015

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units	% of Unitholdings
Less than 100	35	0.72	653	0.00
100 - 1,000	862	17.83	656,675	0.02
1,001 - 10,000	2,741	56.68	13,887,400	0.46
10,001 - 100,000	987	20.41	34,647,076	1.15
100,001 to less than 5% of issued units	207	4.28	577,698,530	19.14
5% and above of issued units	4	0.08	2,390,951,903	79.23
<b>Total</b>	<b>4,836</b>	<b>100.00</b>	<b>3,017,842,237</b>	<b>100.00</b>

## Thirty largest unitholders as per record of depositors as at 31 December 2015

No	Name of Unitholders	No. of Units	%
1.	HSBC Nominees (Asing) Sdn Bhd CS Zurich for Qatar Holding LLC	1,082,900,000	35.88
2.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Siew Choon (432218)	845,325,000	28.01
3.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Kewi Yong (129118)	281,775,000	9.34
4.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	180,951,903	6.00
5.	Amanahraya Trustees Berhad Amanah Saham Bumiputera	146,213,300	4.84
6.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Newton Asian Income Fund	70,183,200	2.33
7.	Citigroup Nominees (Tempatan) Sdn Bhd Exempt an for AIA Bhd	32,923,600	1.09
8.	CIMB Group Nominees (Tempatan) Sdn Bhd Yayasan Hasanah (AUR-VCAM)	23,378,400	0.77
9.	Kumpulan Wang Persaraan (Diperbadankan)	23,249,500	0.77
10.	Cartaban Nominees (Tempatan) Sdn Bhd Exempt an for Eastspring Investments Berhad	22,754,300	0.75
11.	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	19,129,800	0.63
12.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LSF)	13,340,000	0.44
13.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 3)	13,000,000	0.43

## ANALYSIS OF UNITHOLDINGS (cont'd)

### Thirty largest unitholders as per record of depositors as at 31 December 2015 (continued)

No	Name of Unitholders	No. of Units	%
14.	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	11,618,000	0.38
15.	Amanahraya Trustees Berhad As 1Malaysia	10,030,300	0.33
16.	Pertubuhan Keselamatan Sosial	9,859,100	0.33
17.	Citigroup Nominees (Tempatan) Sdn Bhd Allianz Life Insurance Malaysia Berhad (P)	9,771,000	0.32
18.	HSBC Nominees (Asing) Sdn Bhd Six SIS for B&I Pan-Asian Total Return Real Estate Securities Fund	9,228,000	0.31
19.	HSBC Nominees (Asing) Sdn Bhd Exempt an for JPMorgan Chase Bank, National Association (U.S.A.)	8,680,693	0.29
20.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Newton Emerging Income Fund	8,214,400	0.27
21.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	6,566,900	0.22
22.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Zurich Insurance Malaysia Berhad (Life Par)	6,402,400	0.21
23.	Cartaban Nominees (Asing) Sdn Bhd Exempt an for State Street Bank & Trust Company (West CLT OD67)	6,333,600	0.21
24.	Amanahraya Trustees Berhad Amanah Saham Malaysia	6,000,000	0.20
25.	Pavilion REIT Management Sdn Bhd	5,402,837	0.18
26.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (CIMB-P 6939-404)	5,051,500	0.17
27.	CIMB Commerce Trustee Berhad Public Focus Select Fund	4,583,700	0.15
28.	HSBC Nominees (Asing) Sdn Bhd BNP Paribas SECS SVS Paris for Arqaam Capital Limited	4,505,600	0.15
29.	Citigroup Nominees (Tempatan) Sdn Bhd MCIS Insurance Berhad (Life Par FD)	3,950,100	0.13
30.	Amanahraya Trustees Berhad Public Dividend Select Fund	3,883,000	0.13

ANALYSIS OF  
UNITHOLDINGS (cont'd)

**Major Unitholders (5% and above) as at 31 December 2015**

No	Name of Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Qatar Holding LLC	1,082,900,000	35.88	–	–
2.	Tan Sri Lim Siew Choon	845,425,000	28.01	–	–
3.	Puan Sri Tan Kewi Yong	281,875,000	9.34	–	–
4.	Employees Provident Fund Board	180,951,903	6.00	–	–

**Unitholdings of Directors and Chief Executive Officer as at 31 December 2015**

No	Name of Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Tan Sri Lim Siew Choon	845,425,000	28.01	–	–
2.	Puan Sri Tan Kewi Yong	281,875,000	9.34	–	–
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 REPORT

## GENERAL ECONOMIC OVERVIEW 2015

The Malaysian economy is projected to grow by between 4.5% and 5.5% in 2015, down from 6.0% the year before, weighed down by reduced earnings from oil exports and lower commodity prices. Crude oil prices fell to its lowest in eleven years to below US\$40 per barrel compared to above US\$100 per barrel less than two years ago. The country also saw the Ringgit fall to its lowest level against the US dollar in seventeen years as well as against other major currencies. This will make imports more costly and increase the burden on companies which have borrowed in US Dollars. In the long run however, it will make Malaysian goods cheaper and more attractive and this will provide a boost to domestic exporters of both commodities as well as manufactured goods as well as the local tourism industry.

The anxiously awaited implementation of the goods and services tax finally took place in April 2015. As with any new taxes, there was some confusion and uncertainties over the interpretation and actual implementation of the tax. As far as the property sector is concerned, transactions involving land and buildings meant for residential purposes is GST exempt rated whilst GST will be imposed on commercial and industrial land and building sale and leasing transactions. In the initial period after the implementation of GST, some investors adopted a wait and see attitude as they assessed the impact of the tax on property prices and the market in general whilst consumers began to tighten their belts in the face of an overall increase in cost of living arising from price adjustments to accommodate the GST. Not only did products and services used for daily consumption see increases in prices, transportation costs also went up via higher toll charges and light rail transit / train fares and electricity tariffs as well.

Nevertheless, the government is still confident of steering the economy through the current difficult period which will face some additional challenges in the wake of the recent interest rate hike by the U.S. Federal Reserve. The government has projected in Budget 2016 that the economy will grow at a slightly slower pace of between 4.0% and 5.0% in 2016, barring any unforeseen internal and external shocks on the economy but this projected growth rate may have to be reviewed if crude oil prices is not able to recover above US\$40 per barrel or even fall further.

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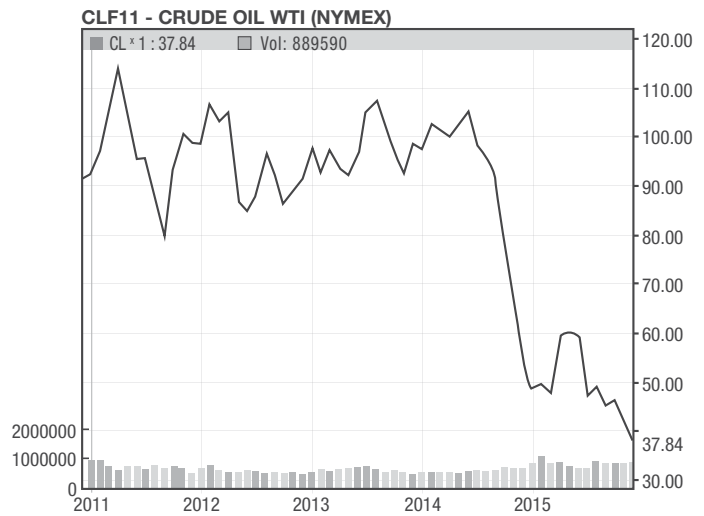
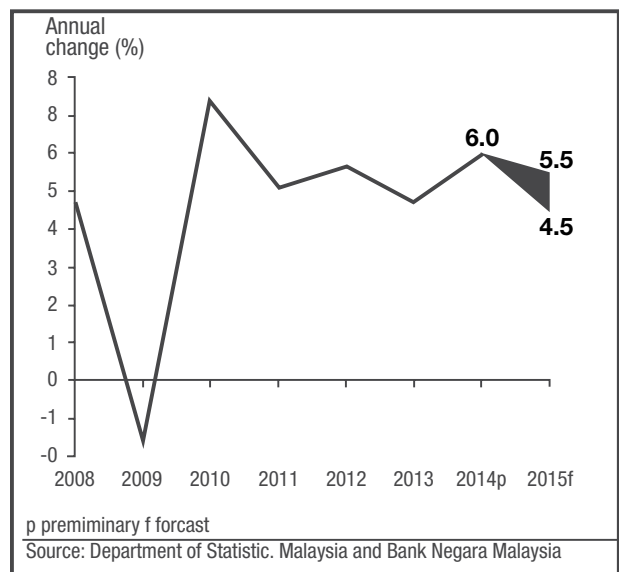


Chart 1: Crude Oil Prices  
Source: Nasdaq



Statistics 2: Malaysia GDP growth



**THE RETAIL SECTOR****SUPPLY & OCCUPANCY RATES OF SHOPPING CENTRES**

As at December 2015, Klang Valley (covering Kuala Lumpur, Selangor and Putrajaya) has 241 shopping centres with a total supply of retail space of about 64.1 million square feet. The average occupancy rate of these shopping centres were estimated to be approximately 80.4%.

The table below summarises the distribution of the retail space:

Table 1: Existing Retail Space Supply in Klang Valley, 2015

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	103	28,180,618	13.03	82.0
2	Selangor	135	33,920,485	10.12	79.0
3	Putrajaya	3	1,957,573	4.31	82.0
	TOTAL	241	64,058,677	9.76	80.4

# - include hypermarket malls and arcades

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

Source : Henry Butcher Retail/ 3rd Qtr 2015 Property Market Report, NAPIC

There were a number of new shopping centres which opened in 2015 including:

Table 2: Newly Opened Shopping Centres in 2015

Name	Location	NLA (sf)	Anchor Tenants	Occupancy Rate (%)*
Sunway Putra Mall	KL City North	580,000	Cold Storage, TGV	85
The Place @ One City	USJ Subang Jaya	350,000	D'Grocer, Kids Gallery	50
Gem-In Mall	Cyberjaya	250,000	Fitness Forever	75
Atria	Damansara Jaya	660,000	Village Grocer, Mango	85
Mitsui Outlet Park	Sepang	270,000	NA	98
Evolve Concept Mall	Ara Damansara	400,000	Jaya Grocer, Logo	40
IDCC	Shah Alam	200,000	NA	50
The Place @ Cyberjaya	Cyberjaya	150,000	NA	10
Star Avenue	Sungai Buloh	350,000	Giant	30
TOTAL		3,210,000		

N.A - Not applicable/ not available - occupancy rates were estimated based on observation studies in December (Source: Henry Butcher Retail)

## MARKET

## REPORT (cont'd)

**RENTAL RATES**

The average rental rate for Klang Valley shopping centres was estimated to be around RM9.76 per square feet per month. This average did not include rental rates of anchor tenants such as supermarkets, department stores, cineplexes, bowling alleys etc as anchor tenants were extended lower preferential rates by mall owners.

For the year of 2015, Klang Valley shopping centres faced higher operation costs, reduced shopping traffic, decreased retail sales and early termination of tenants. Compared to 2014, average occupancy rates dropped whilst average rental rates rose slightly due to higher cost of operations.

Many shopping centre owners needed to introduce rental rebates in order to retain existing tenants whilst many new shopping centre managers needed to extend rent free periods for tenants as it took longer to draw shoppers to their shopping centres.

**ROUND UP OF RETAIL SCENE**

For the first 6 months of 2015, two shopping malls closed down for redevelopment. They were the Bukit Bintang Plaza in Kuala Lumpur city centre and SSTwo Mall in Petaling Jaya, Selangor.

Maju Junction in Kuala Lumpur closed down and reopened with Parkson department store as its chief tenant at end of June 2015 together with a number of food & beverage outlets.

In early 2015, Tropicana Corp Bhd completed the sale of Tropicana City Mall to CapitaMalls Malaysia Trust at RM565 million (including Tropicana City office tower). Around the same time, the former CapSquare retail centre in Kuala Lumpur city centre was refurbished and re-tenanted by its new owner, Jakel Trading Sdn Bhd, as a textile mall. In April, 71% of the retail space and 100% of car park lots in Galaxy Ampang in Taman Dagang, Selangor were advertised for sale. During the same month, Malaysian Resources Corp Bhd announced that it intended to sell its entire 51% equity take in Nu Sentral Sdn Bhd (owner of Nu Sentral shopping mall) to Pelaburan Hartanah Bhd for RM 119.77 million. Mid Point in Pandan Indah was refurbished since end of 2014 and re-opened in mid 2015. The developer of da:men, The Equine Park Country Resort Sdn Bhd, sold its shopping mall to Pavilion Real Estate Investment Trust (REIT) in September for RM488 million.

In October, MRT Corporation informed the owners of Ampang Park in Kuala Lumpur's Golden Triangle that it will demolish the building to make way for MRT2. This resulted in protests from the owners of the mall which is one of the oldest shopping centres in Malaysia. In the same month, Kuala Lumpur City Hall found a new developer, Profit Consortium Sdn Bhd, for the abandoned Plaza Rakyat in Kuala Lumpur central business district area.

The 3-storey retail podium of Faber Towers in Taman Desa was refurbished and re-opened with new tenants during the last quarter of 2015. Anchor tenants include de Market supermarket and Anytime Fitness. UDA Holdings Bhd announced plans to redevelop Kompleks Niaga Utama in Bangsar into a mixed-use development.

In November, IKEA furniture store opened its largest retail store in Cheras with 450,000 square feet of retail floor area. TREC, the one-stop entertainment hub in Kuala Lumpur city centre, opened its first phase in November with the new Zouk club and several night entertainment outlets. Under new ownership, KL Festival Mall in Setapak was renamed as Setapak Central recently. First Subang in Subang Jaya underwent a complete refurbishment and re-opened with a new name, ss15 Courtyard in December 2015. Giant supermarket remained as the anchor tenant of this 3-storey shopping centre.

On 12 July 2015, a riot broke out in front of Plaza Low Yat after 2 youths purportedly stole a smartphone from a retail shop inside the specialty shopping centre a day earlier. Mara Digital, located on the third floor of Medan Mara in Kuala Lumpur city centre, opened with 38 tenants during the last month of 2015. This new IT centre was created in response to the Low Yat Plaza incident.

## PERFORMANCE OF THE SHOPPING CENTRES

### Shopping Centre Market

The main challenge for Klang Valley shopping centres in 2015 has been reduced consumer spending and rising operation costs. Arising from the introduction of GST in April 2015, Klang Valley consumers held back their spending despite sustainable disposable incomes. Shopping traffic of shopping centres dropped significantly during the first two months after the introduction of GST. Nevertheless, they are still crowded during peak hours on weekdays and on weekends.

The increased operation costs of shopping malls in Klang Valley has hurt their bottom lines. Higher costs were contributed from increased electricity tariffs, GST as well as higher charges by service providers (security, cleaning, car parking, maintenance, etc.) of the shopping centres.

Good quality shopping centres in Kuala Lumpur continued to attract international retailers to open in Malaysia. New retail outlets from overseas countries opened in 2015 included Under Armour, Piquadro, Palladium, Yubiso, SPAO, MIXXO, WHO.A.U, etc. In addition, new foreign food and beverages outlets that opened in 2015 included Longhorn Steakhouse, Olive Garden, Coco Ichibanya, t-Lounge, Ilao Ilao, 4Fingers, etc. Large-format specialty retailers such as H&M, Uniqlo and Mango continued their expansion in shopping centres in Klang Valley.

### Retail Market

Retail sales performance during the first two months of 2015 was below expectations despite the Chinese New Year festival, the receipt of bonuses by employees and the distribution of BR1M4.0. Malaysian consumers were confused by the different public messages on the prices of retail goods and services after March 2015 and were by and large hesitant to spend more despite lower petrol prices.

Consumer spending nevertheless rose sharply during the last two weeks of March. This was because of more announcements made by the private sector on the prices of retail goods and services from April 2015. Retailers of big-ticket items were also clearing their old stocks aggressively with large discounts. The majority of retailers still needed to use heavy discounts to encourage consumers to buy before the introduction of GST.

For the first quarter of 2015, the Malaysian retail industry recorded a growth rate of 4.6% in retail sales, as compared to the same period in 2014.

The introduction of GST affected all retail sub-sectors (from retailers selling grocery, fashion and fashion accessories, electrical & electronics, foods and beverage and overseas travel) since 1 April 2015. Businesses of many retailers dropped by around 20% to 50%.

Consumers have been holding back on their purchases to observe the price movements of the retail goods and services. They were also waiting for more promotions by the retailers.

In addition, the confusion caused by the government (such as service charges for F&B, Telco top-up cards, last minute announcements of products to be tax exempted, sudden increase in taxi fares etc.) were one of the main causes for the drop in retail sales. Consumers were frustrated by the conflicting messages by the different government departments and decided to delay their purchases. Due to GST and the weaker Ringgit, cost of living has risen since 1 April 2015 and this reduced the spending power of consumers further.

For the second quarter of 2015, the Malaysian retail industry recorded a poor growth rate of a negative 11.9% in retail sales, as compared to the same period in 2014. This was the worst quarterly retail growth rate since the Asian financial and economic crisis in 1998.

## MARKET

## REPORT (cont'd)

Malaysians of the Muslim faith returned to shop for their Hari Raya festival two weeks before Hari Raya in July. However, the retail sales were still discouraging as compared to last year.

The political developments in Malaysia affected retail sales indirectly during the third quarter of the year as they affected consumer sentiments and their buying mood as a result of which, consumers were spending less. Arising from this, Malaysia's retail industry recorded another lower-than-expected growth rate of 1.6% in retail sales for the third quarter, as compared to the same period in 2014.

The Malaysian retail industry has yet to recover from the negative impact of the GST on consumer spending whilst the unexpected drop in the value of the Ringgit worsened it. The weak Ringgit during the last several months has resulted in higher import costs which in turn affected all retail sub-sectors. Higher retail prices since September 2015 has further reduced the purchasing power of Malaysian consumers.

For the last quarter of 2015, the estimated retail growth rate was 3.8%, as compared to the same period in 2014. The projected retail sales growth rate of the Malaysian retail industry in 2015 by Retail Group Malaysia was 2.0% due to the poor retail figures achieved during the second and third quarters of 2015.

**Tourist Arrivals**

Malaysia did not manage to achieve its target of 29.4 million tourist arrivals in 2015. Klang Valley, with the highest tourist count in the country, has been affected by the lower tourist arrivals. Several factors contributed to this lower-than-expected growth.

The 3 aviation disasters which occurred in 2014 resulted in foreign tourists deferring their visits to Malaysia for the time being due to safety concerns.

Although the weaker Ringgit should encourage more tourist arrivals, the travel industry did not see any significant increase in tourists during this period. The weak Ringgit had also led to lower overseas advertising and promotional expenditures to draw more international tourists. The restructuring of Malaysia Airlines System in the first half of 2015 also led to a lower number of flights landing in Malaysia.

Shopping malls in Bukit Bintang area and KLCC area are still the most popular shopping attractions in 2015.

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

Shopping centres located in the city centre of Kuala Lumpur continued to achieve the highest rental rates in the Klang Valley.

Similar to the previous year, shopping centres in Kuala Lumpur enjoyed slightly higher growth in average rental rates as compared to their counterparts in Selangor.

The rental rates of selected shopping centres in Klang Valley are detailed out in the table below:

*Table 3: Rental Rates of Selected Shopping Centres in Klang Valley, 2015*

Name	Rental Rate (RM psf per month)					
	Lower Ground	Ground Floor	First Floor	Second Floor	Third Floor	Fourth Floor
Suria KLCC	34.00 – 189.00	34.00 – 152.00	30.00 – 86.00	30.00 – 76.00	30.00 – 80.00	23.00 – 40.00
Low Yat Plaza	10.00 – 20.00	19.00 – 55.00	22.00 – 32.00	11.00 – 31.00	15.00 – 28.00	11.00 – 20.00
Cheras Leisure Mall	16.00 – 29.00	14.00 – 22.00	10.00 – 22.00	8.00 – 20.00	NA	NA
Mid Valley Megamall	25.00 – 42.00	35.00 – 52.00	23.00 – 35.00	15.00 – 22.00	12.00 – 17.00	NA
Sunway Pyramid	14.00 – 28.00	22.00 – 32.00	14.00 – 30.00	12.00 – 26.00	7.00 – 17.00	NA
The Mines	NA	6.00 – 15.00	5.00 – 12.00	4.50 – 9.00	5.00 – 9.00	2.50 – 5.00
SACC Mall	6.00 – 14.00	4.00 – 13.00	3.00 – 20.00	2.50 – 6.00	3.00 – 8.00	NA

Source : Property Market Report, NAPIC / Henry Butcher Retail

NA – not applicable



## MARKET

## REPORT (cont'd)

**PROJECTED SUPPLY OF RETAIL SPACE IN KLANG VALLEY IN 2016**

At least 20 shopping centres are expected to open in 2016 with a total net floor area of about 8.1 million square feet. They are located in all parts of the Klang Valley.

The list of new shopping centres in the Klang Valley include:

Table 4 : New Shopping Centres in Klang Valley for the Year 2016

No.	Name	Location	Net Floor Area (sf)
1	da:men	USJ Subang Jaya	420,000
2	M3 Mall	Taman Melawati	200,000
3	Aeon Mall	Shah Alam	800,000
4	Glo Damansara	Damansara	380,000
5	Centrus Mall	Cyberjaya	200,000
6	Star Central Mall	Cyberjaya	150,000
7	Damansara City Mall	Damansara Heights	180,000
8	M Square	Puchong	186,000
9	Pearl Suria Mall	Old Klang Road	200,000
10	Empire City Mall	Damansara	1,800,000
11	KL Gateway	Bangsar South	350,000
12	Star City Mall	Selayang	550,000
13	KL International Outlet	Sepang	400,000
14	GM Klang Block B	Klang	350,000
15	Bangsar Trade Centre	Pantai	100,000
16	Sunway Pyramid Phase 3	Bandar Sunway	65,000
17	The Starling Mall	Damansara	380,000
18	Evo Mall	Bangi	250,000
19	Sunway Velocity	Cheras	880,000
20	KL Eco City	Pantai	300,000
	TOTAL		8,141,000

Numerous shopping centres were planned to open before the end of 2015 but were subsequently delayed. They include Empire City Mall, M Square, Centrus Mall, AEON Mall Shah Alam, Glo Damansara, Sunway Velocity, Bangsar Trade Centre, Sunway Pyramid Phase 3 and da:men. The largest shopping mall due to open in 2016 is Empire City Mall with 1.8 million square feet of net floor area. This mall was supposed to open in 2015, but was delayed until the second quarter of 2016. Confirmed anchor tenants include Parkson, CJ CGV Cinemas, an Olympic-size ice skating ring and a large bowling alley.

In addition to Empire City Mall, the Damansara area will face market saturation with the opening of Glo Damansara, Damansara City Mall and The Starling.

The second factory outlet in Klang Valley, Kuala Lumpur International Outlet (KLIO), is scheduled for opening in July 2016.

After D'Pulze, more shopping centres will open in Cyberjaya. They include Centrus Mall and Star Central Mall.

## OUTLOOK OF THE KLANG VALLEY SHOPPING CENTRE MARKET IN 2016

With the uncertain economic outlook, rising cost of living and increasing supply of retail space, the shopping centre market in Klang Valley will continue to face challenges in the first half of 2016.

### Klang Valley Consumer Market

Budget 2016 which was announced in October 2015 did not offer adequate policies and incentives to stimulate domestic consumer spending. Recent increases in toll rates (started in October 2015) and rail ticket prices (started in December 2015) have increased the cost of living of Klang Valley's working population, the largest contributor to the Malaysian retail market. Higher transportation costs will also lead to another round of increases in prices of retail goods and services during the first quarter of 2016 due to higher business operation costs.

The Malaysian currency is not expected to improve back to 2014 levels in the first half of 2016. This will add more pressure to importers of raw materials, semi-finished goods and finished goods that are meant for final consumption by Malaysians. Another round of hikes in prices of retail goods and services from the second quarter of 2016 onwards will result in further deterioration of the spending power of Malaysian consumers.

The electricity tariff rebates for Peninsular Malaysia will be reduced from 2.25 sen per kWh to 1.52 sen per kWh for a period of 6 months from 1 January 2016. This will result in higher costs for businesses, including shopping centres. The business operators are likely to pass the burden to consumers in the form of higher retail prices.

In addition, more highway operators may be expected to increase their toll rates in 2016. Once raised, it will lead to higher prices for retail goods and services.

Based on all the above factors, Retail Group Malaysia forecasts a 4.0% growth rate for Malaysia's retail industry in 2016.

### Klang Valley Shopping Centre Industry

Despite lower purchasing power, Klang Valley consumers are expected to continue to visit shopping centres in 2016. High shopping traffic is expected during weekends, eve of public holidays, public holidays, school holidays, festivals and annual sales events organised by Ministry of Tourism.

Large and regional shopping malls in Klang Valley which are able to offer a wide variety of goods and services will continue to attract the most shoppers on both weekdays and weekends.

### Projected Tourist Arrivals

The Malaysian government is targeting 30.5 million tourist arrivals with expected tourism receipts of RM103 billion in 2016. The Ministry of Tourism has been allocated a higher budget of RM1.2 billion in Budget 2016 to attract more foreign tourists to Malaysia. The weaker Ringgit will encourage not only more regional tourists (including Singapore, Indonesia, Thailand and Brunei), but also international tourists to travel to Malaysia for holidaying and shopping in 2016.

It was also announced in Budget 2016 that Malaysia will introduce e-visas from mid-2016. This new visa application system will begin with China, India, Myanmar, Nepal, Sri Lanka, United States and Canada and will make it easier for foreign tourists to obtain their visas.

The extension of income tax exemption from year of assessment 2016 to 2018 on statutory income for tour operators handling at least 750 foreign tourists or 1,500 domestic tourists will allow these tour operators to invest their savings to boost this market.

The implementation of Malaysia's visa-free programme for Chinese tour groups has been delayed. Hopefully, this programme will be activated in early 2016 in order to attract more high-spending Chinese tourists to visit Malaysia.

All of the above will bring more international and domestic tourists to visit Klang Valley in 2016 and thus more sales can be generated by shopping centres as well as major tourist attractions located in the city centre.

## MARKET

## REPORT (cont'd)

**PURPOSE BUILT OFFICE SECTOR****Existing & incoming supply**

The supply of purpose built office space in Kuala Lumpur totaled approximately 89.4 million square feet as at the first half of 2015, up from the 87.1 million square feet recorded as at end of 2014, based on latest available statistics from NAPIC. Approximately 30% of the office space are located within the premier KLCC / Golden Triangle area (KLCC/GT) whilst 15% is located within the older Central Business District (CBD). The bulk (approximately 35%) of the existing supply are in buildings located within the city centre (WCC) but outside the KLCC / GT and CBD whilst suburban commercial hubs contribute the balance 19%.

Table 5: Existing Supply of Office Space in Kuala Lumpur (Government and Private Buildings)

Location	Estimated supply of office space as at end of 2015 (square feet)
KLCC/GT	27,356,186
CBD	13,784,995
WCC	30,962,171
Suburbs	17,297,237
<b>Total</b>	<b>89,400,590</b>

There were a number of office buildings completed during the second half of the year or due for completion by end of the year and this has contributed to a significant increase to the overall supply which will total about 92 million square feet by year end.

Table 6: New Office Buildings Completed / Due for Completion in 2015 in Kuala Lumpur

Name	Location	Nett Lettable Area (square feet)
Crest Jalan Sultan Ismail	Off Jalan Sultan Ismail	190,000
Menara Centara	Jalan TAR	166,000
Menara Ilham (IB Tower)	Jalan Binjai, KLCC	394,000
Menara Bangkok Bank	Jalan Sultan Ismail	464,000
Naza Tower	Platinum Park, KLCC	535,000
Damansara City Tower 1 & 2	Damansara	756,000
Q Sentral	KL Sentral	1,050,000
Lembaga Tabung Haji Tower	Platinum Park, KLCC	348,000
Menara Kembar Bank Rakyat	KL Sentral	962,000
Menara MBMR	Jalan Syed Putra	240,000
Menara Ken	TTDI	250,000
KL Trillion	Jalan Tun Razak	304,000
The Vertical Phase 1 & 2	Bangsar South	830,000
<b>Total</b>		<b>6,489,000</b>

Between 2016 and 2018 there are a number of major office developments due for completion and these are tabulated below:

Table 7: New Office Buildings Due for Completion 2016 - 2018

Building	Location	NLA (square feet)	Estimated completion
KL Eco City	Abdullah Hukum	*	2016
South Point	MidValley City	958,000	2016
Pacific Star	PJ	270,000	2016
HCK Tower	Empire City Damansara	347,000	2016
Block H	Empire City Damansara	239,000	2016
Warisan Merdeka	Stadium Merdeka / Chinatown	1,700,000	2018 - 2020
Aurora Tower	Jalan Ampang, KLCC	988,000	To be relaunched in 2016

\* Mixed development with office component comprising 3 corporate office towers, 12 boutique office blocks & 1 strata office block

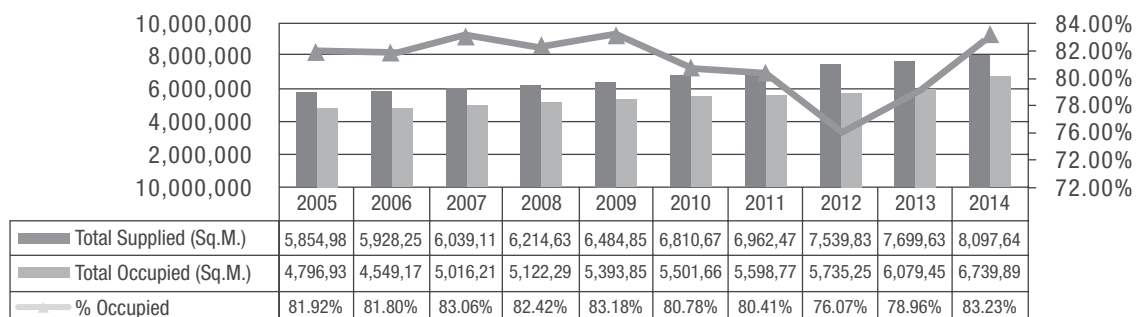
Besides the above projects currently under construction, there are a few major office developments which are part of massive integrated commercial developments in the city which have been announced and which, if launched and completed, will add significantly to the future supply of office space in Kuala Lumpur. Some of these projects involved demolishing old buildings and redeveloping the sites to take advantage of higher plot ratios now allowed by the authorities:

- Tun Razak Exchange (TRX), Jalan Tun Razak
  - o Parcel sold to Mulia Group, Indonesia
  - o Parcel sold to Lembaga Tabung Haji
  - o Parcel sold to Affin Bank
  - o Parcel sold to WCT
- Lot 185 KLCC
- Bandar Malaysia
- Bukit Bintang City Centre
- Former Brickfields District HQ – Seni Nadi
- Tradewinds Centre, Jalan Sultan Ismail (redevelopment of Kompleks Antarabangsa & Crowne Plaza Hotel)
- Redevelopment of Menara Tun Razak, Jalan Raja Laut
- Redevelopment of Pusat Bandar Damansara

### Office occupancy rates & rentals

Overall office occupancy rates in Kuala Lumpur has been maintained at around 83% as at first half of 2015 although the additional supply coming onto the market by the end of the year are expected to push vacancy rates up and force occupancy rates to dip to around 80%. The substantial increase in supply over the past five years has also begun to put pressure on occupancy rates as well as rentals especially as demand from the finance and oil and gas industries which have driven demand over the past few years have waned in the light of the sharp decline in oil prices.

Chart 3: Supply and Occupancy Rates of Office Buildings in Kuala Lumpur (2005 to 2014)



## MARKET REPORT (cont'd)

Table 7: Range of Office Rentals (2015)

Location	Rental range (RM psf 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

### Major office leasing & sales transactions

There were a number of major office relocations during the year and the main ones involving space of more than 50,000 square feet are summarized in the table below:

Table 8: Major Office Leases / Relocations

Company	New office location	Area occupied (square feet)
AmGeneral Insurance Berhad	Menara Shell, KL Sentral	140,000
MSIG	Menara Hap Seng 2	80,000
Ericsson	Sunway Pinnacle	50,000
MRCB	Nu Tower 2, KL Sentral	90,000
Google Malaysia	1 Sentrum, KL Sentral	54,000

As for sales of office buildings in 2015, the following major transactions were noted:

Table 9: Major Office Transactions

Building	NLA (Sq ft)	Consideration (RM)	Price RM psf
Integra Tower, Intermark	760,000	1,065,000,000	1,400
Plaza Pekeliling, Ipoh Road	144,000	28,280,000	196
Menara Raja Laut	398,000	220,000,000	553
Wisma Amanah Raya	154,000	78,000,000	507
Menara Kurnia PJ*	220,000	85,000,000	386

\* Sale together with 471 car park bays



**Outlook for office sector**

The significant increase in the supply of office space over the past five years have begun to put pressure on occupancy rates and newly completed buildings are taking a longer time to fill up. Nevertheless, the bulk of the existing supply of office space are located in old buildings of more than ten years in age and tenants are taking the opportunity to upgrade to better quality premises with improved infrastructure and facilities in the newer buildings especially those which are served by public transport such as the light rail transit.

The trend of decentralization is also continuing as better quality new buildings in city fringe areas like KL Sentral and Damansara are attracting companies to move out of the congested city centre. Buildings which have MSC status and are green certified have an edge as they are preferred particularly by multinational companies. Shariah compliant buildings have a harder time filling up the space in view of the restriction to take in only Shariah compliant tenants.

Rentals have been quite stable to date, despite the significant increase in supply. Nevertheless, both occupancy rates and rentals could come down in the face of the huge supply of space which is expected to come onto the market from 2016. The oil and gas and finance industries which have been the main sources of demand for office space over the past few years are no longer performing as well as before with crude oil prices having fallen to record lows and the country's economic growth slowing down. A number of banks have carried out voluntary staff separation schemes and this would have meant a reduction of the office space needed by these banks. Without additional stimulus measures by the government to boost the economy and demand for office space, the next few years look challenging for the office sector.

**THE MALAYSIAN REITS (M-REITS) MARKET OVERVIEW 2015**

There are currently 17 REITs listed on Bursa Malaysia as at the end of 2015. There are 5 office REITs and 5 which focusses on retail / malls. The other REITs are in industrial and plantations (1 each) whilst the remaining 4 are diversified REITs. The 6 largest REITs listed on Bursa Malaysia which have a market capitalization of above RM2 billion are KLCCP, Sunway REIT, Pavilion REIT, IGB REIT and CMMT. The performance of the 17 REITs for 2015 are summarized in the table below:

REIT	Period	DPU (sen)	Price (RM)	Yield	NAV (RM)	Assets Type
Atrium REIT	Q3 – Sep15	1.6500	1.080	8.102%	1.3911	Industrial
YTL Hospitality REIT	Q1 – Sep15	1.9200	1.030	7.743%	1.4100	Diversified
MRCB Quill REIT	1H – Jun15	2.2200	1.090	7.509%	1.3134	Office
AmanahRaya REIT	Q3 – Sep15	1.5100	0.855	7.369%	1.1298	Retail
UOA Real Estate Inv Trust	1H – Jun15	5.3200	1.560	7.083%	1.5075	Office
Hektar REIT	Q3 – Sep15	2.6000	1.530	6.863%	1.5568	Retail
CMMT	1H – Jun15	4.6100	1.360	6.610%	1.2790	Malls
IGB REIT	1H – Jun15	4.4700	1.280	6.539%	1.0773	Malls
AI-AQAR Healthcare REIT	1H – Jun15	3.7900	1.290	5.876%	1.1713	Plantation
Sunway REIT	Q1 – Sep15	2.1200	1.460	5.870%	1.3366	Diversified
Tower REIT	1H – Jun15	3.2000	1.200	5.333%	1.8981	Office
Axis REIT	Q3 – Sep15	2.2000	1.550	5.677%	1.2347	Office

## MARKET REPORT (cont'd)

REIT	Period	DPU (sen)	Price (RM)	Yield	NAV (RM)	Assets Type
Pavilion REIT	1H – Jun15	4.0900	1.550	5.297%	1.2425	Malls
AmFirst REIT	1H – Sep15	2.0300	0.745	5.450%	1.2249	Office
Al Salam REIT	Listed 2015	n.a.	0.950	n.a.	n.a.	Islamic diversified
Amanah Harta Tanah PNB	Q3 -Sep 15	3.5000	1.010	7.33%	1.4973	Office / shops
KLCC Stapled Securities	Q3-Sep 2015	8.1500	6.870	4.88%	6.6886	Shariah Diversified

Source: *mreit.reitdata.com & malaysiastock.biz* (share prices as at 14.12.15)

The average yield for the period under review of 16 of the 17 REITs listed on Bursa Malaysia (excluding Al Salam REIT which was listed only in September and which has yet to declare any dividends) works out to 6.47%. This provides a decent REIT yield spread of more than 2% above 10 year conventional Malaysian Government Securities (MGS) which had trading yields of between 4.34% and 4.37% as at 14th December 2015.

With consumer spending forecast to be kept in check as consumers tighten their belts to brace themselves against the higher cost of living due to the implementation of GST as well as rate hikes in toll charges and public transportation and an imminent hike in electricity tariffs, retailers could face a more challenging environment in the year ahead. The country has also failed to meet the projected tourist arrivals for the year. The slower pace of economic growth projected for 2016 could also dampen demand for office space as companies pull handbrakes on expansion plans. These may affect occupancy and rental rates of shopping centres and office buildings. Nevertheless, REITs which have signed long leases and secured reputable and strong tenants would be able to weather the situation comfortably.

### CONCLUSION

The outlook for both the retail and office sectors in 2016 looks challenging. Nevertheless, adversity breeds innovation and shopping mall operators as well as retailers are expected to come out with new ways to attract shoppers as well as reach out to previously untapped or underserved segments of the market to sustain their businesses. More incentives like longer rent free periods and turnover based rental structures will be increasingly adopted by mall owners to attract new tenants or retain existing ones. Hopefully the Ringgit's decline will make Malaysia more attractive as a holiday and shopping destination for regional as well as international tourists and this would boost revenue for the retail industry.

Although the office market is faced with a potential oversupply situation over the next few years and occupancy and rental rates would come under pressure, the market has been quite stable so far. Owners of older buildings could start thinking about refurbishing their buildings or tearing them down and rebuilding in order to survive in a more competitive market place. Newer buildings would have higher quality infrastructure and more amenities and would adopt greener standards and practices. The government should take into consideration basic supply-demand dynamics before embarking on more mammoth office building projects in the mould of Menara Warisan (KL 118) as this would have a massive impact in unbalancing the market equilibrium. To maintain stability in the market, it will be good if the government can introduce more incentives and create a more conducive business environment to attract more multinationals to set up office in the country or expand their existing business operations which would then lead to a higher level of demand for office space. The office market, although facing a tougher and more challenging leasing environment in the year ahead is nevertheless expected to be resilient and ride out the bumps that come along its way.

REITs has not been a hot favourite amongst Malaysian investors as they are not seen to be as exciting as property and stocks whilst these markets are sizzling but are expected to gain more prominence in investors' portfolios with its steady and decent yields amidst a mundane stock market and a slowing property sector.

## GLOSSARY

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
DPU	:	Distribution per Unit
EPU	:	Earnings per Unit
Fund	:	Pavilion Real Estate Investment Trust
FBM KLCI	:	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FP	:	Financial period from 7 December 2011 to 31 December 2011
FY	:	Financial year from 1 January to 31 December
GDP	:	Gross domestic product
GFA	:	Gross floor area
GST	:	Goods & Service Tax
KLP	:	Kuala Lumpur Pavilion Sdn Bhd
Manager	:	Pavilion REIT Management Sdn Bhd
M-REIT	:	Malaysian Real Estate Investment Trust
MER	:	Management expense ratio - ratio of trust expenses incurred in operating Pavilion REIT to its NAV
MGS	:	Malaysian Government Securities
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
REIT	:	Real Estate Investment Trust
Trustee	:	AmTrustee 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

**NOTICE IS HEREBY GIVEN** that the Fourth Annual General Meeting of Pavilion Real Estate Investment Trust (“Pavilion REIT”) will be held at the Saujana Ballroom, The Saujana Hotel, Saujana Resort, Jalan Lapangan Terbang SAAS, 40150 Selangor Darul Ehsan, Malaysia on Tuesday, 5 April 2016 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 2015 together with the Trustee’s Report to the Unitholders issued by AmTrustee Berhad, as trustee of Pavilion REIT and the 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 CLAUSE 14.03 OF THE SECURITIES COMMISSION MALAYSIA’S GUIDELINES ON REAL ESTATE INVESTMENT TRUSTS (REITS GUIDELINES) (PROPOSED AUTHORITY)**

**Ordinary  
Resolution**

“THAT pursuant to the REITs Guidelines, 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 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 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 approved fund size of Pavilion REIT of 3,100,000,000 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;

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 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;

NOTICE OF  
ANNUAL GENERAL MEETING (cont'd)

AND FURTHER THAT authority be and is hereby given to 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  
26 February 2016

**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 ING, No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 3 April 2016 at 10.00 a.m. being 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
6. Only unitholders registered in the Record of Depositors as at 29 March 2016 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.

## NOTICE OF ANNUAL GENERAL MEETING (cont'd)

### **Explanatory Notes on:**

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

This Agenda is meant for discussion only as under the provision of the REITs Guidelines, 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 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 approved fund size of Pavilion REIT of 3,100,000,000 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 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)

### 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 Fourth Annual General Meeting of Pavilion REIT to be held at the Saujana Ballroom, The Saujana Hotel, Saujana Resort, Jalan Lapangan Terbang SAAS, 40150 Selangor Darul Ehsan, Malaysia on Tuesday, 5 April 2016 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 \_\_\_\_\_ 2016

\_\_\_\_\_  
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.
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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.
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5. The instrument appointing proxy shall be deposited at the Registered Office of Pavilion REIT Management Sdn Bhd at 6-2, Level 6, East Wing, Menara ING, No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 3 April 2016 at 10.00 a.m. being 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
6. Only unitholders registered in the Record of Depositors as at 29 March 2016 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.



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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 ING  
No. 84, Jalan Raja Chulan  
50200 Kuala Lumpur

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**PAVILION REIT MANAGEMENT SDN. BHD.**

Company Number : 939490-H

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

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[www.pavilion-reit.com](http://www.pavilion-reit.com)

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