# PAVILION

REAL ESTATE INVESTMENT TRUST

2017

ANNUAL REPORT

# **What's** Inside

## Overview



## Business Review



## Corporate Governance Report and Financial Statements



## Others



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
- 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

(c) Proactively managing the properties and implementing asset enhancement strategies
- maximise quality shopper traffic, especially 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

### Non-Independent Executive Director

Puan Sri Tan Kewi Yong
Dato' Lee Tuck Fook

### Non-Independent Non-Executive Director

Ahmed Ali H A Al-Hammadi
Mohd Abdulrazzaq A A Al-Hashmi
Ooi Ah Heong
Ahmad Mohammed F Q Al-Khanji
Navid Chamdia

### Independent Non-Executive Director

Dato' Mohzani bin Abdul Wahab
Dato' Choo Chuo Siong
Dato' Maznah binti Abdul Jalil
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
Website: www.pavilion-reit.com

## MANAGER'S REGISTERED OFFICE

6-2 Level 6 East Wing
Menara Goldstone (Holiday Inn Express)
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
Navid Chamdia

## NOMINATING COMMITTEE

Dato' Maznah binti Abdul Jalil (Chairperson)
Dato' Mohzani bin Abdul Wahab
Dato' Choo Chuo Siong
Mohd Abdulrazzaq A A Al-Hashmi
Ooi Ah Heong

## COMPANY SECRETARY OF THE MANAGER

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

## TRUSTEE

MTrustee Berhad (Company Number: 163032-V)
B-2-9 (2nd Floor)
Pusat Perdagangan Kuchai
No 2 Jalan 1/127
Off Jalan Kuchai Lama
58200 Kuala Lumpur

Telephone No.: +603 7983 1088
Facsimile No.: +603 7984 9612

## 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 PLT
(LLP0010081-LCA & AF-0758)
Chartered Accountants
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
Public Bank Berhad

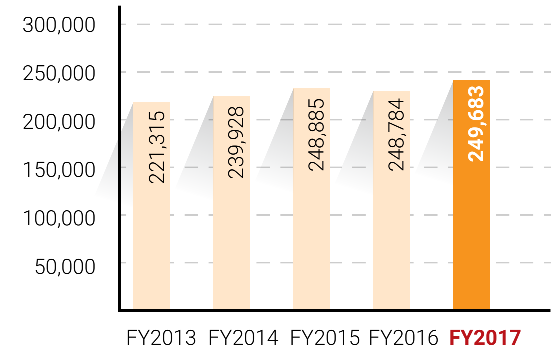
## REGISTRAR

Tricor Investor & Issuing House Services Sdn Bhd (Company Number: 11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3, Bangsar South
No 8 Jalan Kerinchi
59200 Kuala Lumpur, Malaysia

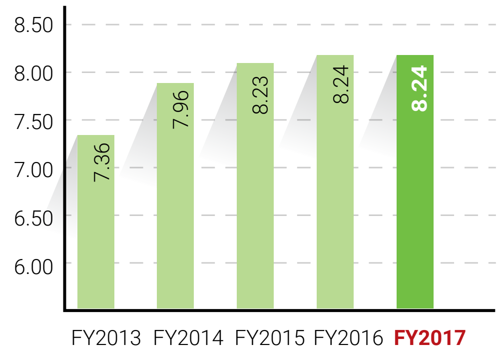
Telephone No.: +603 2783 9299
Facsimile No.: +603 2783 9222

# HIGHLIGHTS

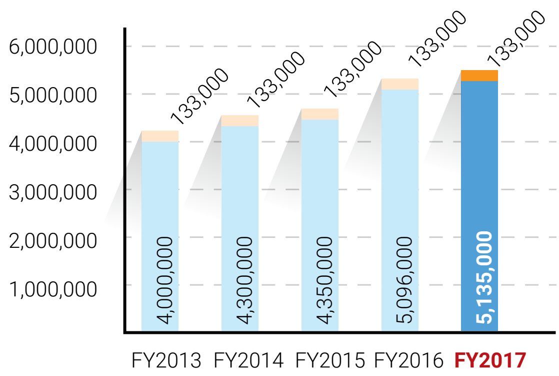
## Distributable Income (RM'000)



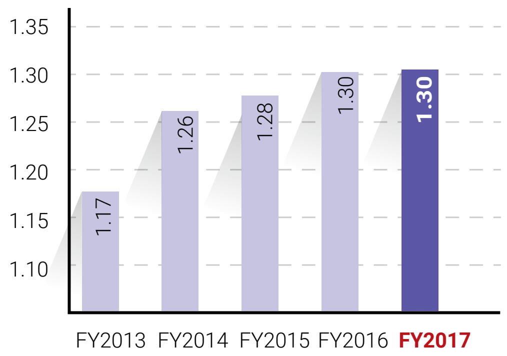

## Distribution per Unit (sen)



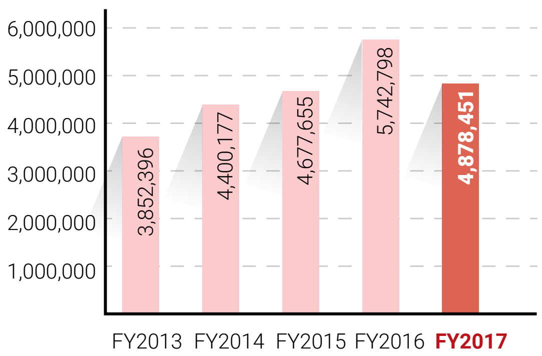

## Investment Properties (RM'000)



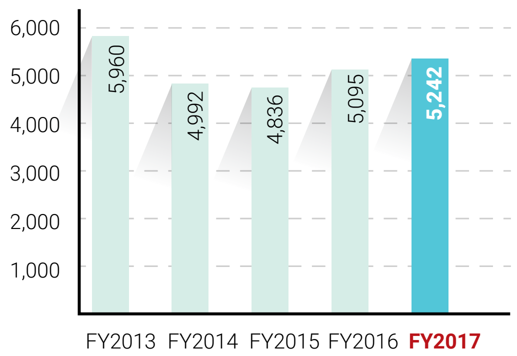

## Net Asset Value per Unit (RM)




## Market Capitalisation (RM'000)




## No of Unitholders




da men
Christmas
PAVILION
The Rise to Opulence
PAVILION

# MESSAGE FROM THE CHAIRMAN




## Economic Review

There were broad improvements overall for the world economy in 2017, with growth rates at 3.6% compared to 3.2% in 2016. With United States leading the way, their economy is showing a drop in unemployment rate to 4.3% this year (2016 – 4.9%) and expected GDP growth at 2.2% in 2017, compared to 1.5% in 2016. This resulted in three rate hikes during the year, increasing the Federal Funds rates to 1.25% - 1.50% and more hikes are anticipated in 2018.

Eurozone GDP growth rate also reached 1.8% in 2017, compared to a long term forecast of 1.2% per annum. This resulted in talks that the European Central Bank will be reducing their Quantitative Easing programme in Europe earlier than anticipated.

In the region, China's GDP remains on track to post a growth of 7% in 2017, as compared to a forecast of 6.5% by Premier Li Keqiang earlier during the year. Japan also experienced the longest streak of annualised real term growth of 1.4% in 16 years largely led by increases in export.

Back in Malaysia, the real GDP for 2017 has been revised upwards from 5.2% to 5.7% for 2017, with 2018 forecasted at a conservative range of 5.00% to 5.50%. This is due to stronger crude oil prices during the year; which started from USD52 per barrel early 2017 and ended at USD61 per barrel by year end. Tourism Malaysia has forecasted higher tourist arrivals for 2018 at 28 million visitors, compared to 26.8 million in 2016. The ringgit has also strengthened against USD from the start of the year at approximately RM4.49:USD1 to RM4.02:USD1 by year end.

During Budget 2018, it was announced that there will not be any increase in taxes and due to the high cost of living, there will be a personal tax cuts for the middle class. This will result in increase in cumulative disposal income by RM1.5 billion with over 261,000 people no longer having to pay income tax.

With the highly anticipated commencement of construction for MRT3 line, ECRL and Kuala Lumpur – Singapore high - speed railway in 2018, this will all contribute positively to the construction sectors and its related products. Henceforth, this will help boost the consumer confidence and spending for the general economy which will benefit the retail sector.

## Market Review

The market has seen M-REIT growth in 2017. With the listing of KIP REIT on 6 February 2017, the combined market capitalisation value of the M-REIT grew by 4% from RM44.2 billion to RM46 billion in 2017. During the year, M-REITs transactions value totalled RM1.16 billion in 2017 with eight completed acquisitions and two disposals by seven REITs as compared to a total of RM1.87 billion recorded in the prior year. The proposed acquisition for Pavilion Kuala Lumpur Mall Extension is only expected to be completed by first quarter of 2018. During the year Bursa Malaysia launched the Malaysian REIT Index in October 2017, which represents the overall REITs market movement that might not be apparent in a single stock. The index closed at a high of 1,057.35 points on the last trading day of 2017.

FBM KLCI index ended 2017 with a rise of 9.4% to 1,796.81 points from 1,641.73 points recorded in 2016. The FBM KLCI index is expected to hit 1,880 points in 2018 due to the upcoming general election, revival of domestic consumption, appreciation of the Ringgit Malaysia and robust flow of construction jobs in the country.

We are likely to see a consolidation of the M-REITs in 2017 as the US Federal Reserve has raised interest rates in 2017 and is highly expected to do so in 2018 again. On the domestic front, Bank Negara Malaysia ("BNM") overnight policy rates has increased from 3.0% to 3.25% on 25 January 2018.

Given these rates hikes and the wider spread between the Malaysian Government Securities (MGS) of 3.9% against the REIT's yield, Pavilion REIT's price closed lower at RM1.61 against RM1.90 in 2016.

## Investment and Asset Performance

In July 2017, Pavilion REIT announced the proposed acquisition of the Elite Pavilion Mall together with its related assets and rights ("Pavilion Kuala Lumpur Mall Extension") consisting of the 10 levels of retail mall, subway linkage and the Extension-Connections for RM580 million. The Manager believes that the acquisition of Pavilion Kuala Lumpur Mall Extension, as a natural extension to the existing Pavilion Kuala Lumpur Mall is a strategic move to the long term aim of diversifying the risk of Pavilion REIT. Besides increasing Pavilion REIT's portfolio growth by increasing its asset under management, the acquisition is expected to be yield accretive.

Despite the challenging economic environment, Pavilion REIT has maintained a portfolio occupancy rate of 95% for its retail assets and 98% for its office asset. In 2017, Pavilion Kuala Lumpur Mall's 208,439 square feet of net lettable areas were renewed with approximately 4.2% positive rental reversion while relocated tenants and replacement tenants contributed to double digit growth for another 75,997 square feet of the net lettable area. Both Intermark Mall and DA MEN Mall have achieved a commendable occupancy rate at 90% and 86% respectively since the acquisitions in March 2016. These malls are currently undergoing an improvement to its tenant mix to further improve the vibrancy and increase footfall to the malls.

With the recent opening of Pavilion Kuala Lumpur – Bukit Bintang MRT Station on 17 July 2017, the Manager anticipate an increase in the footfall to both Pavilion Kuala Lumpur Mall and Pavilion Kuala Lumpur Mall Extension. It is also expect to benefit with the publicity arising from the inclusion of the brand 'Pavilion Bukit Bintang' in the naming of the station.

Further, we are proud to announce that during the year, Pavilion Kuala Lumpur Mall have won 6 additional awards, namely:-

- 'Platinum Award – Best Shopping Mall': Kuala Lumpur Mayor's Tourism Awards 2017
- 'Gold Award, Best Experiential Marketing 2017 – The Rise To Opulence': PPK Malaysia Shopping Mall Association
- 'Gold Award – The Rise To Opulence, Sales Promotion/ Traffic Activation': ICSC Asia Pacific Shopping Centre Awards 2017
- 'Excellence In International Luxury Shopping Mall – Property Development Excellence Award': The Edge 2017
- 'SCBEA Top 5 (PAT)' – Sin Chew Business Excellence Awards 2017
- 'Retail Excellence Awards' – Sin Chew Business Excellence Awards 2017

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 42 international and local retail awards since its opening in 2007.

## Market Outlook

The targeted real GDP growth in Malaysia is projected to increase within an annual range of 5.0% to 5.5%, led by domestic demand; especially due to infrastructure investment and private consumption. Other Asian regional power houses such as China is estimated to slow down to 6.5% in 2018, though exports are set to pick up as global demand strengthens. Japan's GDP growth on the other hand is expected at 1.2% for 2018.

In the recent Malaysian Institute Economic Research survey, the Business Condition Index for fourth quarter of 2017 has improved to 101.5 points as compared to same quarter of the previous year at approximately 81.2 points. Businesses are still very cautious of the outlook as their confidence level have dropped compared to previous two quarters.

# Message from The Chairman(cont'd)


However, compared to the Consumer Sentiment Index of the last quarter of 2017 at 82.6 points, 69.8 points recorded during the same quarter a year earlier is still below the average or desired mark of 100 points. The survey indicated that people are still cautious of the economy, from amongst others, fear of price hikes. This is despite incomes trending up but at a slower pace than the rising cost of living. Thus, independent retail research firm, Retail Group Malaysia has since revised its annual growth forecast downwards from 3.7% to 2.2% for the Malaysian retail industry for 2017.

In terms of the progress of the National Key Economic Area towards achieving its targeted RM36 million tourist arrivals by 2020, the Ministry of Tourism and Culture held a Tourism & Culture Lab 2.0 to review existing tourism initiatives and to expand the areas of focus to cover culture, arts and heritage, crafts, birding, diving and homestay. Meanwhile, for business tourism, Malaysia Convention and Exhibition Bureau continues to build on Malaysia's prominence as one the region's leading business destinations which saw a total of 341 business events, comprising corporate meetings, incentive travel conventions and exhibitions, hence attracting more than 127,849 international delegates and delivered an estimated RM1.5 billion in economic impacts.

## Extraordinary General Meeting (EGM)

Pavilion REIT held their first ever EGM on 16 January 2018, to approve the acquisition of Elite Pavilion Mall together with its related assets and rights ("Pavilion KL Mall Extension") for a total consideration of RM580 million. This proposed acquisition includes a proposed placement of up to 218,000,000 new units representing up to approximately 7.2% of total units in circulation by way of book-building.

The unitholders voted for the above resolution to be passed at 99.998%. This shows the confidence and trust the unitholders have in the Manager and hence we would like to thank all unitholders for their support.

## Annual General Meeting (AGM)

Pavilion REIT's fifth annual general meeting held on 30 March 2017 to lay Pavilion REIT's audited financial statement for the year ended 31 December 2016 together with the approval for general mandate for allotment and issuance of up to 20% of the existing approved fund size went on smoothly.

For the forthcoming AGM this year, other than tabling the 2017 accounts, the Manager will also be proposing to seek the unitholders approval for authority to allot and issue new units up to 20% of the existing approved fund size for potential investments, acquisitions and/or capital expenditure to enhance the value of Pavilion REIT.

## Acknowledgement

I would 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 thank all the management team and employees for all their commitment and contribution to the Fund. Last but not least, the Manager would like to express our heartfelt gratitude to our unitholders, tenants, financiers, business partners and other stakeholders for their continuous support, trust and confidence in Pavilion REIT.

TAN SRI LIM SIEW CHOON
Chairman
25 January 2018

# BOARD OF DIRECTORS

## Tan Sri Lim Siew Choon
*Chairman and Non-Independent Executive Director*

Tan Sri Lim Siew Choon, age 57, a Malaysian male, holds a Bachelor of Business Administration degree (majoring in Finance) from the University of Central Oklahoma in the United States.

He has more than 35 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 Chairman of the Manager on 11 August 2011. He is also an Executive Chairman of WCT Holdings Berhad and also the Non-Independent Non-Executive Chairman of Malton Berhad. His spouse, Puan Sri Tan Kewi Yong is a Non-Independent Executive Director and a major unitholder of Pavilion REIT.

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Puan Sri Tan Kewi Yong
*Non-Independent Executive Director*

Puan Sri Tan Kewi Yong, age 61, a Malaysian female, pursued her tertiary education in the United Kingdom specialising in Business and Marketing Studies.

She has over 34 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.

She has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. She has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Dato' Lee Tuck Fook
*Non-Independent Executive Director*

Dato' Lee Tuck Fook, age 63, a Malaysian male, 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 and a director of Pavilion REIT Bond Capital Berhad. He is also an Independent Non-Executive Director of SAM Engineering & Equipment

(M) Berhad, the Independent Non-Executive Chairman of Pesona Metro Holdings Berhad. On 2 November 2016 he was appointed the Non-Independent Non-Executive Director of WCT Holdings Berhad and subsequently re-designated as Group Managing Director on 3 April 2017.

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Ahmed Ali H A Al-Hammadi
*Non-Independent Non-Executive Director*

Ahmed Ali H A Al-Hammadi, age 36, a Qatari male, graduated with a Bachelor of Science in Economics (Finance and Accounting) from University of Pennsylvania – The Wharton School in Philadelphia, United States of America and Master in Business Administration from Harvard Business School from Boston, United States of America.

He is currently the Head of Active Investments of Qatar Investment Authority (QIA). He is also the Head of Fund Investments Department of QIA.

He oversees the active investment portfolios including sector portfolios, managed portfolios and fund investments which represent the majority of the QIA's international investments and is responsible for fund investments in private equity, equity, hedge funds and real estate.

He was previously an Associate in the Asset Management Department from 2010 – 2014 and was responsible to review and recommend investments for QIA Hedge Fund portfolio, the venture capital program and to initiate the attraction of asset managers to Qatar. From 2008 – 2010, he was the Vice President – Asset Management of EFG-Hermes Qatar where he was in charge of the asset management business in Qatar. Prior to that, he was an associate with Booz Allen Hamilton and worked on the restructuring and strategy recommendation for several financial service firms in the Middle East and was a financial reporting analyst from 2003 and 2005.

He was appointed to the Board of the Manager on 14 June 2016. He does not hold any directorship in any public or public listed company.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Ahmad Mohammed F Q Al-Khanji
*Non-Independent Non-Executive Director*

Ahmad Mohammed F Q Al-Khanji, age 33, a Qatari male, graduated with a Bachelor of Law (LLB) with honors from Oxford Brookes University, Oxford United Kingdom and he hold a Masters in Business Administration from London Business School, London United Kingdom.

He is currently Head of M&A (Legal) – Qatar Investment Authority (QIA). He coordinates with the business units to execute new acquisitions by QIA. He leads and monitors the execution of new acquisitions and ensure adequate protections for QIA, and relationship management with external parties.

He was an assistant legal counsel of Qatargas Operating Company Limited from 2006 – 2010 and was seconded to the project finance team of Allen & Overy LLP in London from September 2008 to March 2009.

He was appointed to the Board of the Manager on 14 June 2016. He does not hold any directorship in any public or public listed company.

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Mohd Abdulrazzaq A A Al-Hashmi
*Non-Independent Non-Executive Director*

Mohd Abdulrazzaq A A Al-Hashmi, age 29, a Qatari male, graduated from Qatar University with a major degree in Finance and minor degree in Marketing. He is a Chartered Financial Analyst level 3 candidate.

He is currently a Senior Associate at Qatar Investment Authority focusing primarily on direct and co-investments in the real estate sector in Europe and America. He is responsible for the appraisal, evaluation on acquisition of key real estate transactions including property valuation, financial feasibility study, and technical and financial due diligence on the target asset/company.

He was appointed to the Board of the Manager on 14 June 2016. He was appointed as a member of the Manager's Nominating Committee on 28 June 2016. He does not hold any directorship in any public or public listed company.

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Navid Chamdia
*Non-Independent Non-Executive Director*

Navid Chamdia, age 44, a male 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 Investment Authority, 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 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. He was appointed as a member of the Audit Committee of the Manager on 28 June 2016. He does not hold any directorship in any public or public listed company.

He has no conflict of interest with Pavilion REIT save for the related party transaction as annexed. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Ooi Ah Heong
*Non-Independent Non-Executive Director*

Ooi Ah Heong, aged 65, a Malaysian male, graduated from the University of Singapore in 1976.

He has over 41 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.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Dato' Mohzani bin Abdul Wahab
*Independent Non-Executive Director*

Dato' Mohzani bin Abdul Wahab, age 64, a Malaysian male, 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, 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.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Dato' Maznah binti Abdul Jalil
*Independent Non-Executive Director*

Dato' Maznah binti Abdul Jalil, age 64, a Malaysian female, graduated with a Bachelor and Master Degree in Business Administration (Finance) from Northern Illinois University and Central Michigan University, respectively.

Currently, she is the Independent Director of Prestariang Berhad and a member of the Board of Governors of University Malaysia of Computer Science & Engineering (UniMy), a subsidiary of Prestariang Berhad. She is the Chairman of SCS Global Advisory Sdn Bhd and a Director of Opus Asset Management 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 also formerly a Director of Universiti Teknologi Mara (Uitm). She was the Executive Director and Chief Financial Officer of Sona Petroleum Berhad, a company in the process of liquidation by court order.

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.

She has no conflict of interest with Pavilion REIT. She has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Dato' Choo Chuo Siong
*Independent Non-Executive Director*

Dato' Choo Chuo Siong, age 52, a Malaysian male, graduated from the 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.

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.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

## Syed Mohd Fareed bin Shaikh Alhabshi
*Independent Non-Executive Director*

Syed Mohd Fareed bin Shaikh Alhabshi, age 62, is a Malaysian male.

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.

# Board of Directors (cont'd)

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 since 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.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

# MANAGEMENT TEAM

**Philip Ho Yew Hong**
*Chief Executive Officer*

Philip Ho, age 51, a Malaysian male, 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 29 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 and listed issuers, nor does he have any conviction for offences within the past 10 years, public sanction or penalty imposed by relevant regulatory bodies during the financial year, 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.

**Dato' Joyce Yap Soh Ching**
*Asset Manager (Retail)*

A Malaysian female, age 60, she was appointed to the position of Asset Manager (Retail) of the Manager on 1 December 2011. 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 36 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. Besides being a past president and current advisor of Malaysia Shopping Malls Association, she is also currently the Chairman of Malaysia Tourism Committee, a member of the Associated Chinese Chambers of Commerce and Industry of Malaysia as well as a member of International Council of Shopping Centre Asia Pacific Advisory Board.

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.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

**Lovell Ho Wai Hoong**
*Asset Manager (Leasing)*

A Malaysian male, age 49, he was appointed to the position of Asset Manager (Leasing) of the Manager on 1 December 2011. 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 24 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 with promotion to Director of Leasing in 2010 and appointment of Senior Director, Retail & Leasing in 2017.

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.

He does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), he also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

**Kung Suan Ai**
*Asset Manager (Marketing)*

A Malaysian female, age 46, she was appointed to the position of Asset Manager (Marketing) of the Manager on 1 December 2011. She holds a Bachelor of Arts (Hons) in Communications from Universiti Kebangsaan Malaysia.

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 REIT retail malls with elevating sensory experience, brand activation, communications, customer relationship management and customer service.

She started her career at Sunway Pyramid in 1996 before joining Mid Valley Megamall as the Advertising and Promotions Manager in 2011. Her portfolio grew to include integrated brand development as the Director of Marketing for Mid Valley City.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

**Francis Ong Heng Khai**
*Asset Manager (Facilities Management)*

A Singaporean male, age 49, he was appointed to the position of Asset Manager (Facilities Management) of the Manager on 1 December 2011. 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 24 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.

He does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), he also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

## Ong Hui Ling
*Head of Corporate Planning*

A Malaysian female, age 48, she was appointed to the position of Head of Corporate Planning of the Manager on 1 January 2012. She holds a Master of Business Administration from Victoria University, Melbourne, Australia.

Involved in treasury and investor relation functions, she has over 27 years of experience, mainly in finance of service, manufacturing, construction, development and retail industries. She was attached Urusharta Cemerlang Sdn Bhd, the developer of Pavilion Kuala Lumpur, as its Head of Finance overseeing finance, credit control and treasury function prior to being part of the team that was involved in setting up Pavilion REIT.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

## Lim Mian Nyee
*Assistant General Manager (Finance)*

A Malaysian female, age 42, she was appointed to the position of Senior Manager (Finance) of the Manager on 1 January 2014. 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 on 1 December 2011 as its Finance Manager, 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.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

# Management Team (cont'd)

## Chong Kok Wai
*Senior Manager (Legal and Compliance)*

A Malaysian male, age 43, he holds a Bachelor of Laws (Hons) from University of London and was admitted to the Malaysian Bar in 2001.

Prior to joining Pavilion REIT Management Sdn Bhd on 15 December 2016 to oversee the area of legal and compliance, he was a practising lawyer and partner for 16 years with M/s. J.P. Chong & Co specializing mainly in the area of litigation and conveyancing. He was also a former member of the Management Committee of Sungei Wang Plaza Management Corporation for the year 2015-2016.

He started his career in Standard Chartered Bank Malaysia Berhad in the Legal, Credit Risk & Loss Prevention – Cards Department and was in charge of monitoring legal action against delinquent and charged off accounts including but not limited to implementation of credit policy and budget planning and was awarded the Best Customer Assistance Officer for the year 1998 during the Consumer Banking Conference.

He does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), he also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

## Eng Hui Yi
*Manager (Investment)*

A Malaysian female, aged 31, she was appointed to the position of Manager (Investment) of the Manager on 1 July 2015. 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.

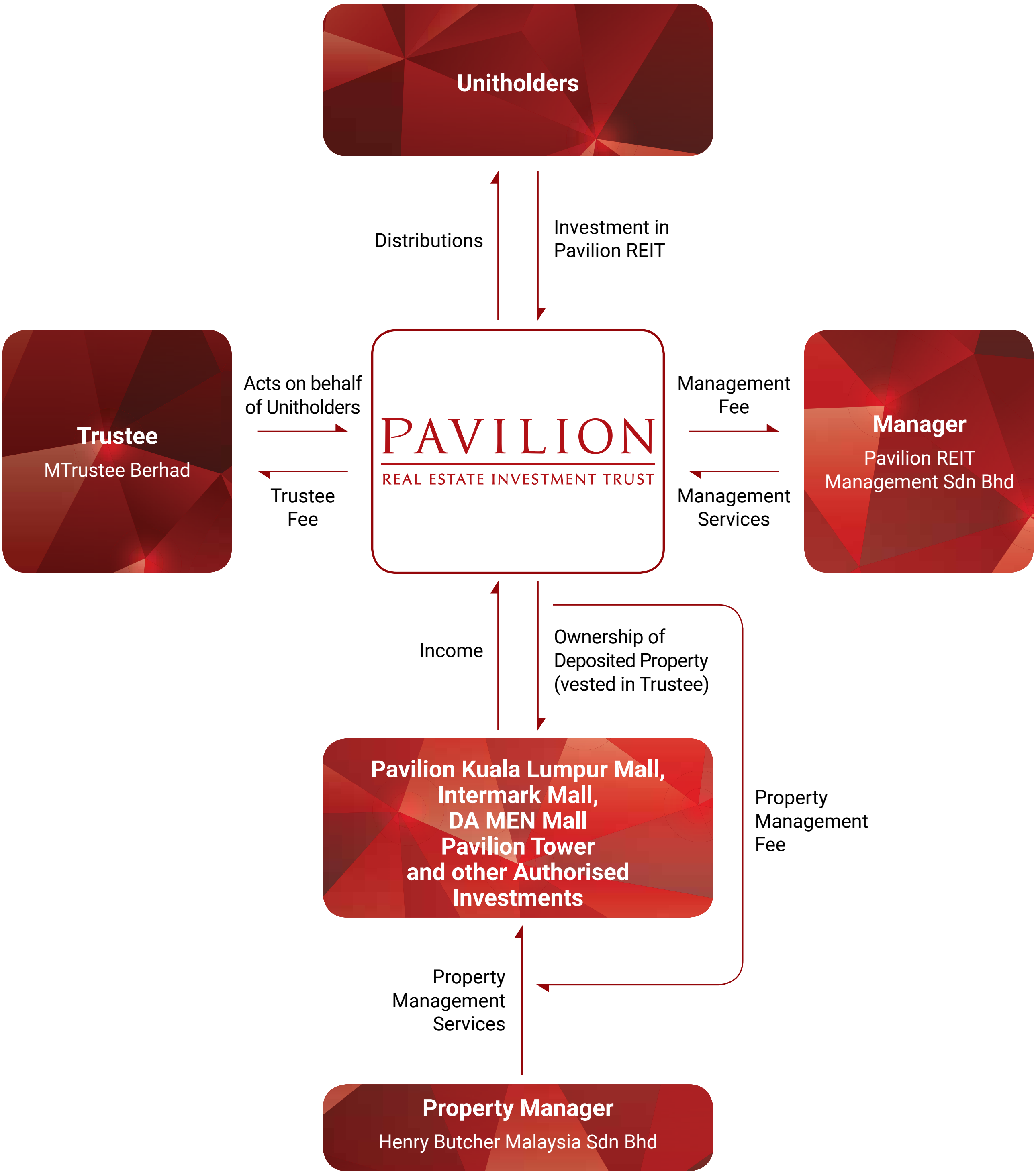
Prior to joining Pavilion REIT Management Sdn Bhd, she was Investment Manager in the Private Equity department of AmInvestment Bank Berhad. She started her career with the Valuation and Business Modelling team of Ernst & Young Kuala Lumpur.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

# SALIENT FEATURES OF PAVILION REIT

| | |
|---|---|
| **Category of Fund** | Real Estate Investment Trust |
| **Type of Fund** | Income and growth |
| **Duration of Fund/ Termination Date** | The earlier of :<br>•The occurrence of any events listed under Clause 26.2 of the Deed<br>• 999 years falling on 17 October 3010<br>•the date on which Pavilion REIT is terminated by the Manager under Clause 26.1(b) of the Deed |
| **Approved Fund Size** | 3,318,000,000 Units |
| **Investment Objective** | 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 |
| **Distribution Policy** | Half yearly distribution of 100% of distributable income for the financial year ended 31 December 2017 with at least 90% of distributable income for each subsequent financial year |
| **Gearing Policy** | Up to 50% of the total asset value of the Fund |
| **Revaluation Policy** | At least once every three years by an independent registered valuer |
| **Financial Year Ending** | 31 December |
| **Listing Market** | Main Market of Bursa Malaysia Securities Berhad |
| **Listing Date** | 7 December 2011 |
| **Board Lot** | 100 Units per board lot |
| **Initial Public Offering Price per Unit** | • Retail – RM0.88<br>• Institution – RM0.90 |
| **Stock Name** | PAVREIT |
| **Stock Code** | 5212 |

# PAVILION REIT STRUCTURE



# MANAGER'S REPORT


As the Manager of Pavilion REIT, we are pleased to share with you the performance of the Fund for the financial year ended 31 December 2017.

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

## Financial performance

Pavilion has again shown that the Fund is more resilient to the economic situation and the Manager is pleased to announce that the Fund has achieved an increase of 6.6% in gross revenue to RM490.0 million this year, with an increase of RM30.3 million.

Net property income increased from RM314.8 million to RM322.9 million in 2017 representing an increase of RM8.1 million, approximately 2.6% up as compared to the previous year. The difference between the growth in turnover and NPI is the increase in operation cost of RM22.2 million during the year due to operation expenses incurred for the two new properties (both acquired in late March 2016 against full year 2017 operation expenses). In Pavilion Kuala Lumpur Mall, overall operation expenses have also increase due to incurrence of air conditioning system improvements, mechanical and electrical maintenance and upgrading works during the year.

As the Fund had a better performance in the 4th quarter, the Manager has announced the full year distribution of 8.24 cent per unit, similar with 2016. During the year, Pavilion Kuala Lumpur Mall's 23% of tenants were due for renewal and the Manager managed to obtain a positive rental reversion 4.2% for 208,439 square feet while relocated tenants and replacement tenants contributed to double digit growth for another 75,997 square feet of the net lettable area. At the year end, all of the tenants remixing has been completed and many new tenants were introduced to the mall such as Laduree, Paul, Giorgio Armani, AX Armani Exchange, Armani, Armani Jeans, Victor Alexander and Lanvin.

Prudent debt management of the Fund's borrowing during the year resulted in a debt to asset ratio of 25.87% of which 20% is with fixed interest rates and 80% with floating rates.

Asset under management has increased slightly to RM5.7 billion during the year, excluding the newly announced acquisition which have yet to be completed as at year end. However, it is anticipated that in 2018, the asset under management will increase by approximately RM589.0 million or 10% upon completion of the acquisition, Pavilion Kuala Lumpur Mall Extension.

## Asset Enhancement Initiatives

During the year the following asset enhancements were implemented:

- There were some notable enhancements to Pavilion Kuala Lumpur Mall such as :
  - (i) upgrading of the iconic façade at the Jalan Bukit Bintang main entrance, which is currently ongoing and expected to complete by 1st quarter 2018
  - (ii) upgrading of the drop off at Couture Pavilion entrance

(iii) enhancement to entrances to Dining Loft at Level 7 by installation of new glazing and sliding door to mitigate loss of air condition

(iv) installation of a Ethylene Tetra Fluoro Ethylene canopy and rain buffer at Connection Level 3.

- At the Intermark Mall, enhancement to the Food Hall was completed by the introduction of two new kiosks as well as upgrading of the CCTV and installation of panic buttons for the improvement of security.

- At DA MEN Mall, enhancement was made to internal and external perimeter which includes landscaping, a new water fountain to welcome customers at the main entrance, increasing seating places and improvements to the surau at lower ground for the comfort of customers.

## New Acquisition

Pavilion REIT has announced on 27 July 2017 the proposed acquisition of Elite Pavilion Mall together with the related assets and rights ("Pavilion KL Mall Extension") for a total cash consideration of RM580.0 million ("Proposed Acquisition") by entering into:

(i) conditional sale and purchase agreement with Urusharta Cemerlang (KL) Sdn Bhd ("UCKL") for the acquisition of Elite Pavilion ("Elite SPA");

(ii) vesting agreement with Urusharta Cemerlang Sdn Bhd ("UCSB") and UCKL for the vesting of the Extension-Connections ("Vesting Agreement"); and

(iii) conditional sale and purchase agreement with UCSB for the disposal of the Disposed Car Park Bays ("Car Park Disposal SPA") (collectively, the "Proposed Acquisition Agreements").

In conjunction with the Proposed Acquisition, the Board proposes to undertake the proposed placement of up to 218,000,000 new units in Pavilion REIT, representing up to about 7.2% of the total units in circulation, by way of book-building to partly fund the Proposed Acquisition.

On 16 January 2018, a unitholders meeting was held to approve the above mentioned acquisition. The unitholders approved the resolution for the Proposed Acquisition with 99.998% voted in favour.

## Outlook of 2018

No doubt 2018 will indeed be more challenging than the previous year. Effective 1 November 2017, an indefinite freeze on approvals for luxury property developments was announced by the government following Bank Negara Malaysia's study. The freeze means (i) a temporary stop to the development of shopping malls and commercial complexes and (ii) luxury condominiums, of which each unit is said to be in the price range of RM1 million and above. However, we understand that this freeze was subsequently relaxed after considering the industry feedback.

In line with our expected timeline, we hope to complete the acquisition of Pavilion KL Mall Extension by the first quarter of 2018, which will lead to an increase in net property income and thereafter distributable income for the year.

Regardless in this challenging retail landscape with the development order freeze announced by the government, the Manager will continue to seek new investment opportunities during the coming year. Investment opportunities will continuously be evaluated to grow the Fund with yield accretive properties and provide sustainable DPU to our unitholders.

PHILIP HO YEW HONG
Chief Executive Officer
25 January 2018

# MANAGEMENT DISCUSSION & ANALYSIS

## Financial Highlights

| Financial Results and Key Performance Indicators | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | Change (%) FY 2017 vs FY 2016 |
|---|---|---|---|---|---|---|
| Gross Revenue (RM'000) | 375,509 | 402,092 | 413,932 | 459,701 | 490,001 | 6.59% |
| Net Property Income ("NPI") (RM'000) | 263,125 | 282,739 | 291,535 | 314,774 | 322,913 | 2.59% |
| Distributable Income (RM'000) | 221,315 | 239,928 | 248,885 | 248,784 | 249,683 | 0.36% |
| Earnings per Unit (sen) | 10.88 | 16.94 | 9.36 | 10.33 | 8.24 | (20.23)% |
| Distribution per Unit (DPU) (sen) | 7.36 | 7.96 | 8.23 | 8.24 | 8.24 | - |
| Distribution Yield (%) :- | | | | | | |
| – based on retail IPO price of RM0.88 | 8.36 | 9.05 | 9.35 | 9.36 | 9.36 | - |
| – based on market price as at 31 December | 5.75 | 5.45 | 5.31 | 4.34 | 5.12 | 17.97% |
| Management Expense Ratio ("MER") (%) | 0.67 | 0.66 | 0.64 | 0.69 | 0.72 | 4.35% |
| Investment Properties (RM'000) | 4,133,000 | 4,433,000 | 4,483,000 | 5,229,000 | 5,268,000 | 0.75% |
| Total Asset Value ("TAV") (RM'000) | 4,355,353 | 4,649,931 | 4,750,753 | 5,592,418 | 5,653,164 | 1.09% |
| Net Asset Value ("NAV") (RM'000) | 3,522,516 | 3,811,016 | 3,851,607 | 3,920,849 | 3,940,277 | 0.50% |
| NAV per Unit (RM) | 1.17 | 1.26 | 1.28 | 1.30 | 1.30 | - |
| Gearing Ratio (%) | 16.22 | 15.22 | 15.88 | 25.25 | 25.87 | 2.46% |
| Portfolio Turnover Ratio (times) | 0.00 | 0.00 | 0.00 | 0.08 | 0.00 | - |

## Financial Review

| | Gross Revenue | | | | Net Property Income | | | |
|---|---|---|---|---|---|---|---|---|
| | FY 2016 | | FY 2017 | | FY 2016 | | FY 2017 | |
| **By Segment** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Pavilion Kuala Lumpur Mall | 398,952 | 86.79 | 412,854 | 84.26 | 283,598 | 90.09 | 286,169 | 88.62 |
| Intermark Mall | 16,161 | 3.51 | 24,753 | 5.05 | 6,486 | 2.06 | 11,969 | 3.71 |
| DA MEN Mall | 32,026 | 6.97 | 39,937 | 8.15 | 15,827 | 5.03 | 16,769 | 5.19 |
| Retail | 447,139 | 97.27 | 477,544 | 97.46 | 305,911 | 97.18 | 314,907 | 97.52 |
| Pavilion Tower – Office | 12,562 | 2.73 | 12,457 | 2.54 | 8,863 | 2.82 | 8,006 | 2.48 |
| **Total** | **459,701** | **100.00** | **490,001** | **100.00** | **314,774** | **100.00** | **322,913** | **100.00** |

Gross revenue achieved in 2017 is RM490.0 million or 6.6% higher when compare to the immediate preceding year. Higher contribution from Pavilion Kuala Lumpur Mall is due to completion of its tenant repositioning exercise.

Intermark and DA MEN Malls, acquired on 26 March 2016, are contributing 8.9% of the overall NPI against 13.2% of total gross revenue. This resulted in NPI increasing to RM322.9 million or 2.6% higher as compared to the immediate preceding year of RM314.8 million.

Income before taxation for the year decreased by 20.1% to RM249.4 million, mainly due to lower recognition in change in fair value of investment properties of RM17.0 million against the immediate preceding year fair value gain of RM76.9 million. Higher borrowing cost was incurred due to drawdown of additional borrowings for progressive payment of the DA MEN Mall investment properties and working capital purposes.

Retail property continues to contribute to approximately 97.5% of Pavilion REIT's total portfolio in terms of gross revenue and net property income. Overall, Pavilion REIT portfolio achieved NPI margin of 65.9% with retail and office achieving a NPI margin of 65.9% and 64.3% respectively.

However, as consumer confidence remains low with more vigilant spending due to higher cost of living, Pavilion REIT malls intends to be cautious in its spending to create experiential and differentiation to attract and retain shoppers' loyalty with operating cost being monitored to optimise efficiency. Hencewith, the Manager expects a modest increase in rental reversion for 2018 with tenants having more options / selections with bargaining power given that there are more retail malls to choose from and shoppers remain cautious in their spending.

## Distribution per Unit ("DPU")

Total DPU for 2017 remains the same as 2016 DPU at 8.24 sen, despite the addition of Units in circulation increasing by 7,568,336 Units to 3,030,093,605 Units as at 31 December 2017.

3.96 sen, earned for 1st half of 2017 was paid on 6 September 2017 with the final distribution of 4.28 sen earned in 2nd half of 2017 is to be paid on 28 February 2018 resulting in NAV per unit of RM1.30 for both 2016 and 2017.

## Statement of Financial Position – Assets and Liabilities

With regards to its financial position, there is minimal increase of 1.1% in its total assets from 5,592.4 million to RM5,653.2 million. Pavilion REIT's borrowings of RM1,462.7 million is similar to 2016 borrowings of RM1,412.3 million, resulting in gearing ratio of 25.9% against previous year end of 25.3%. High payables is primarily due to amount owing to vendor of DA MEN Mall for balance purchase consideration which is due when strata title for the property is issued.

## 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, a conditional sale and purchase agreement was signed for the acquisition of Elite Pavilion Mall. Although Pavilion REIT unitholders had on 16 January 2018 approved the Elite Pavilion Mall acquisition, its unconditional date has yet to be determined as vendor still has condition precedent to meet. Target completion of this acquisition is still during the first quarter of 2018.

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.

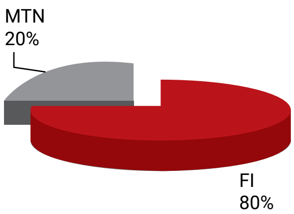
The Fund's investment properties had been re-valued as at the end of the financial year to ensure that its investment properties reflect the current market value and in compliance to Malaysian Financial Reporting Standards 140. This re-valuation resulted in gain of RM17.0 million.

# Management Discussion & Analysis (cont'd)

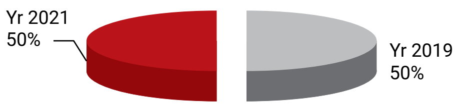
| Property | Market Value @ 31 Dec 2017 | Market Value @ 31 Dec 2016 | Change in Value | Property Yield 2017 | Property Yield 2016 |
|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | % | % |
| **RETAIL** | | | | | |
| Pavilion Kuala Lumpur Mall | 4,550,000 | 4,450,000 | 100,000 | 6% | 6% |
| Intermark Mall | 169,000 | 163,000 | 6,000 | 7% | 5% |
| DA MEN Mall | 416,000 | 483,000 | (67,000) | 4% | 4% |
| | 5,135,000 | 5,096,000 | 39,000 | | |
| **OFFICE** | | | | | |
| Pavilion Tower | 133,000 | 133,000 | - | 6% | 7% |
| Total Portfolio | 5,268,000 | 5,229,000 | 39,000 | | |
| Less Capital Expenditure | | | (22,540) | | |
| Add Disposal | | | 568 | | |
| Fair Value Gain | | | 17,028 | | |

## Capital Management

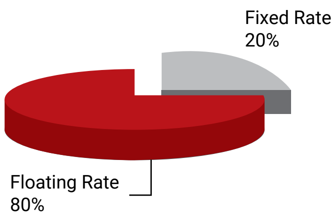
Sources of Funding




Debt Expiry Profile




Coupon / Interest Rate Profile




With average interest cost of 4.6%, Pavilion REIT's gearing of 25.9% is below the market norm of approximately 30% to 40% or REIT Guidelines of up to the permitted 50% of Total Asset Value.

In view of the potential increasing funding cost, the Manager will continue to explore the best available financing options to enable it to have additional options ready for future acquisitions or to re-finance any existing credit facilities when due in the future.

## Statement of Cash Flows

Of the net cash available from operating activities of RM294.9 million, RM74.2 million was used for investing activities with RM263.6 million being used for financing activities. This resulted in net decrease of RM43.0 million with cash and cash equivalent of RM234.4 million as at the end of the year.

Main usage of total cash for investing activities were RM58.0 million as deposit for Elite Pavilion Mall with RM22.5 million being utilised for asset enhancement exercise in its properties, primarily in Pavilion Kuala Lumpur Mall for continuous toilet upgrading works, installation of way finding system, upgrading of drop off entrance and canopy at Couture Pavilion, façade enhancement at Jalan Bukit Bintang, new rain screen at Jalan Raja Chulan connection area with improvements of tenancy lots and creation of additional food and beverages kiosks at the Intermark Mall.

## Operations Review

With only 23% of net lettable area due for renewal in 2017, Pavilion Kuala Lumpur Mall continued with its repositioning exercise during the year to better enhance the mall. This resulted in suitable areas available to accommodate 1st store in

Malaysia such as Betjeman and Barton, Nirav Modi and Viktor Alexander. Other notable tenants that commenced trading are 1TCM, Arzu, bSpace, HK Boy Cart Noodle, Hokkaido Puff, Jaeger LeCoultre, Lanvin, Lemongrass House, Les Nereides Paris, Omaya Korean Spiced Chicken, Shojikiya, Piaget, Pleats Please by Issey Miyake, The Olive Tree, Thai Hou Sek and Woaco. 4.2% rental reversion was achieved for current year renewals of 208,439 square feet with replacement and relocated tenants achieving average mid teen reversion against the previous tenancy.

Intermark Mall's occupancy has improved to 90.0% as at 31 December 2017 from 76.5% as at last year end with new tenants secured such as Bait, McDonalds, Starbucks and The Kenshin Bar. This has resulted in improvement in its net property income yield from 5.2% to 7.1%.

Despite continuous activities to promote the mall with high tenant occupancy, visitation to DA MEN Mall is still not up to mark. Hencewith, tenant revamp will still be on-going with new tenants introduced during the year being Brands Outlet, Little Monster by Parkson, Mr DIY, Outfitters and Al-Hannan which caters to banqueting and events. More niche and community activities will continue to be held to raise awareness of DA MEN Mall being opened.

One of the concept being explored for DA MEN Mall is the online to offline ("O2O") opportunity. This Chinese New Year will feature the mall's first O2O collaboration, ie Taiwan Festive Market which uses the online platform to sell and DA MEN Mall as the offline venue for product collection. With e-commerce environment being more competitive and costly as constrained by search engines, some e-commerce retailers are opening physical store to increase awareness, forge closer customer relations, provide a showroom as well as hoping to draw traffic to its website. Some of these merchants have seen increase in sales in physical store as well as accelerate their e-commerce sales as some shoppers want customer experience without leaving store carrying purchases.

Despite the increasing shift towards online shopping, physical stores are still relevant as evidenced by many e-commerce players such as Amazon that opened its first brick and mortar outlet in Seattle's University Village, Fashion Valet with outlets in Pavilion Kuala Lumpur and Bangsar Village. Madaluxe, an online luxury fashion retail has just opened its first store called MadaLuxe Vault in Citadel Outlets, suburb of Los Angeles – hence keeping up with times for more relevant use of space as consumer culture is critical.

Total property operating expenses incurred were higher as compared to the preceding year ended 31 December 2016. This was mainly due to the routine operating expenses incurred for Intermark and DA MEN Malls that were acquired from 25 March 2016 and higher maintenance cost incurred such as air conditioning system improvement and upgrading work, air chillers rewinding, replacement of escalator handrails, steps and broken combs at Pavilion Kuala Lumpur Mall, replacement of lift and escalator parts and improvement of light fittings at Intermark Mall, tenancy costs incurred for landlord provisions at DA MEN Mall. Non recoverable debts were written off with higher marketing cost incurred to create awareness and promote malls as well as sponsorship of 2017 Sea Games.

Pavilion Tower's occupancy remains above 90% for current year although office market remains soft and challenging with more new office spaces targeted for completion in the next few years and older office buildings trying to retain or capture new tenants by providing more incentives or lowering rent to compete. Good tenant retention with no negative rental reversion will be the strategy for the coming years with continuous upkeep of the building for tenant retention.

## Asset Enhancement Exercises

During the period under review, Pavilion Kuala Lumpur Mall enhanced its mall with continuous toilet upgrading works and enhancement to its common corridor as well as upgrading the drop off entrance and canopy at Couture Pavilion, façade enhancement at Jalan Bukit Bintang entrance, new rain screen at Jalan Raja Chulan connection area and installation of way finding system. Improvements were also expended to some tenancy lots to accommodate requirements of some new tenant as well besides creation of additional food and beverage kiosks at the Intermark Mall.

For 2018, besides setting up of landlord provision to cater for tenant requirements, capital expenditures are being planned to cater for improvements to mall facilities or architectural related.

# Management Discussion & Analysis (cont'd)

## Portfolio Summary

| Type | Retail | Office | Total |
|---|---|---|---|
| **Appraised Value as at 31 December 2017 (RM million)** | 5,135 | 133 | 5,268 |
| **Net Lettable Area (square feet)** | 1,987,098 | 163,844 | 2,150,942 |

## Top 10 Tenants

Pavilion REIT has a total combined tenancies list from the retail and office of 833 leases. Its ten largest tenants contributed to 13.3% of gross rental income for the reporting year.

| Tenant's Name | Trade Sector | Expiry Period |
|---|---|---|
| Apex Excellent Sdn Bhd | Food and Beverage | 2019 Q3 |
| Esprit de Corp (Malaysia) Sdn Bhd | Fashion | 2019 Q3 |
| Gagan (Malaysia) Sdn Bhd | Fashion | 2019 Q4 |
| Golden Screen Cinemas Sdn Bhd | Urban Leisure | 2019 Q4 |
| Padini Dot Com Sdn Bhd | Fashion | 2019 Q3 |
| Parkson Corporation Sdn Bhd | Fashion | 2019 Q3 |
| Ralph Lauren (Malaysia) Sdn Bhd | Fashion | 2019 Q3 |
| Richmont Luxury (Malaysia) Sdn Bhd | Jewellery, Timepiece & Writing Instrument | 2020 Q1 |
| Royal Selangor Marketing Sdn Bhd | Gift and Souvenir | 2019 Q3 |
| Legendary Fashion Trading Sdn Bhd | Fashion | 2019 Q3 |

## Tenancy Profiles

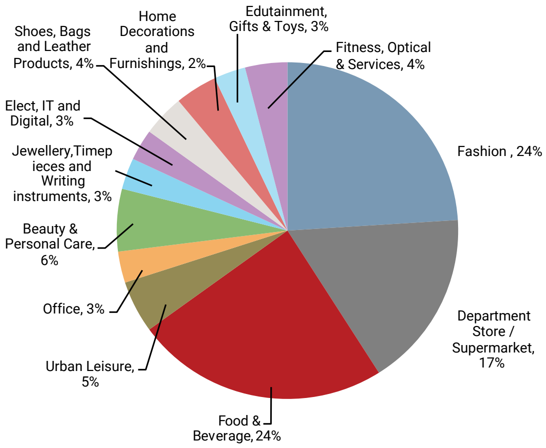
In Pavilion Kuala Lumpur Mall rental reversion of 4.2% was achieved for 208,439 square feet while relocated tenants and replacement tenants contributed to double digit growth for another 75,997 square feet of the net lettable area. Similarly, Intermark Mall's new tenants occupying 8,098 square feet contributed to 28.5% increase in rental against expired tenancy rental.

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.

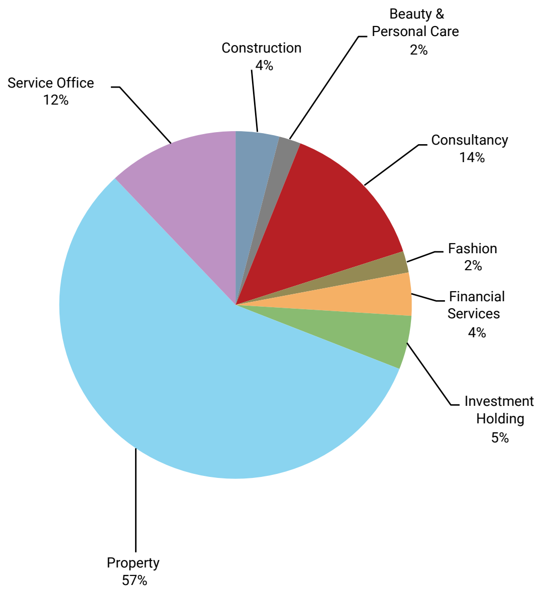
The weighted average lease expiry ("WALE") as at year end has been reduced to 1.56 years against 2016 of 1.78 years, with WALE for retail and office being 1.57 and 1.39 years respectively.

Fashion and food & beverages remains largest trade category by net lettable area for its retail sector with property and consultancy services occupying the most spaces in the office sector.

Trade Category by Net Lettable Area - Retail




Trade Category by Net Lettable Area - Office




# Management Discussion & Analysis (cont'd)

## Highlights of Malls Marketing Activities

**Pavilion Kuala Lumpur Mall**, located in Bukit Bintang Kuala Lumpur, one of the top 10 most visited city in the world, ranked by Euromonitor International 2017, continues to keep up with consumer trends for 2017 which sees consumers seeking value and discounts but on quality goods and conveniences in a rapid and fast changing world. Besides keeping the mall experiential with new product launches and luxury exhibitions, smart technology and connectivity was adopted to create value propositions within the mall with aggressive line-up of campaigns and cross marketing precincts capitalize on events, festivals and promotions.

- **Grand Celebrations**
  These 'must have' yearly festival event featured latest decorations and ideas similar to some of the global shopping centres. For the ***Chinese New Year 'The Rise to Opulence'***, the mall showcased Malaysia Book of Records feat, the 'Largest Phoenix Replica' measuring 40 feet in length, 52 feet in width and 12 feet in height bestowing shoppers with opulence and good fortune. Hari Raya ***'Let's Go Raya'*** was a radiant celebration inspired by the joy of the festival, in partnership with LEGO. The mall showcased Malaysia Book of Records feat, ***'Biggest Mosaic Made of 'LEGO®' Bricks'*** made up of over 87,000 pieces of LEGO bricks, measuring 8 metres in length and 3 metres in width. ***'Flavours of Diwali'*** was Deepavali's theme which reflects on the true essence of Deepavali which embodies these symbols and are united as one with the most creative and largest kolam design in collaboration with Limkokwing University of Creative Technology. ***'Christmas in the Air'*** showcased golden hot air balloons rising high, sprinkling festive cheer to all.

- **Fashion Events**
  The signature '***Pavilion Pit Stop'***, hosted for the 9th year running showcased fashion highlights from international brands, took place at the end of September 2017 with large gathering of local celebrities, key fashion influencers and socialites in town. ***'KL Fashion Week Ready to Wear'*** in August 2017 featured local designers, students and enthusiasts wanting to enter the fashion realm. Fashion blogs, video streaming, celebrity endorsement news went regional and viral, in line with the mall's strategy to adopt social media as a platform to inspire and influence.

- **Celebrities and Collaborations**
  In 2017, there were many international celebrity collaborations which took place in the mall. The lead cast of the much talked-about movie ***'Baby Driver'***, Ansel Elgort and Lily James, together with director Edgar Wright were in town for the local premiere of the film. The ***'Japan Expo Malaysia 2017'*** coincides with the 6th anniversary celebration of the mall's Tokyo Street and the 60th anniversary of Japan-Malaysia diplomatic relations. It was a line-up of exciting performances, including Japanese comedian Pikotaro, who caused a worldwide sensation with his Pen-Pineapple-Apple-Pen song. The award-winning South Korean actors Song Joong-ki, So Ji-sub and Hwang Jung-min came to promote their latest war action flick ***'The Battleship Island'***. In conjunction with the ***'AIA Vitality Witness Festival'***, the life insurance invited the former football superstar, David Beckham to the mall.

- **National Events**
  In August 2017, the mall received the KL 2017 Torch as part of the ***'KL 2017 Torch Run'***, celebrating its commitment as the silver sponsor and official shopping mall partner of the Kuala Lumpur 2017 29th SEA Games. The Youth and Sports Minister Khairy Jamaluddin launched the main theme song for the 29th SEA Games, 'Bangkit Bersama'.

Besides the monthly themed promotions, **Intermark Mall** celebrated the cultural diversity of festivals with ***'Anggun Aidilfitri'*** which showcased the elegance and rich heritage textile of Royal Terengganu Songket. Pavilion REIT's first Christmas in Intermark Mall of ***'Joy to the World'*** with first time collaboration with Coca Cola and Jaya Grocer featured seven world icons such as Eiffel Tower, Leaning Tower of Pisa, The Coliseum, Burj Al-Khalifa and it was entered into the Malaysia Book of Records for the 'Most Number of Beverages used to Build International Landmark Replicas'. Primrose Hill students also performed Christmas medleys as part of the personalized mall engagement positioning.

The neighbourhood **DA MEN Mall**, targeting the greater Subang and Sunway area via social media platforms, comprehensive print media, radio station and community paper continues to promote the mall via activities and new tenants opening. Community engagement commenced the year with ***'World Lion and Dragon Dance Extravaganza'***, showcasing performances by over 20 troupes from Malaysia. For Chinese New Year ***'Spring into Prosperity'***, there was an exclusive collaboration with Inti College to usher the year of rooster with calligraphy art exhibition featuring 68 pieces of 5-feet high rooster.

DA MEN Mall, collaborated with Mina magazine (Cite Publishing) as venue sponsor for ***'The Asia Muse Search 2017'***. The event kicked off with an on-ground recruitment in the mall in April followed by a video shoot of the top 20 contestants going through a series of workshop with the mall's selected tenants. The ***'Made in Malaysia Fashion Showcase'***, a Malaysia Book of Record for the Youngest Fashion Designer collection show, held on 16 September was won by a 10 years old girl. K-Wave Festival was successfully organized with K-Fashion featuring Shoopen and SPAO pop-up stores, K-Beauty with free nail art stampings, K-Food with Korean Shin Sun Mi Food mart, K-Fun with I-Flix Korean movie screenings, K-pop dancers and Hanbok experiences. The Christmas celebration, themed ***"The Rhythms of Christmas"*** aptly reflect on the community's involvement with carolling and performances at the mall.

**Awards**

Pavilion Kuala Lumpur Mall has achieved 42 accolades to date with the current year additions being the followings :-

- **'Platinum Award – Best Shopping Mall'** : Kuala Lumpur Mayor's Tourism Awards 2017
- **'Gold Award, Best Experiential Marketing 2017 – The Rise to Opulence'** : PPK Malaysia
- **'Gold Award – The Rise To Opulence, Sales Promotion/ Traffic Activation'** : ICSC Asia Pacific Shopping Centre Awards 2017
- **'Excellence In International Luxury Shopping Mall – Property Development Excellence Award'** : The Edge 2017
- **'SCBEA Top 5 (PAT)'** : Sin Chew Business Excellence Awards 2017
- **'Retail Excellence Awards'** : Sin Chew Business Excellence Awards 2017

## Market Review

For 2017, Malaysia's GDP growth was expected to range between 5.2% and 5.7%. Despite domestic demand being the driving growth factor together with increase in foreign direct investments and the continued large scale infrastructure spending, GDP growth for 2018 is forecasted to be lower than 2017, ranging between 5.0% and 5.5% due to concerns over higher inflation, employment opportunities and high household debt obligations. For 2017, inflation is estimated to average 4.1% with unemployment averaging 3.3%.

With about 4.5 million square feet of retail mall opened in Klang Valley in 2017 and another 6.0 million square feet targeted to be ready for trading in 2018, retailers would have more options to be selective on which mall would provide them with better opportunities. In general, the newer malls would be more affected as competition would be more intense to lure tenants and it will be tough for any new malls to reach or secure the same level as those of established malls. Well-established malls will continue to perform well but may face the challenge of lower pace in rental growth and occupancies. Besides higher operational cost, other challenges for landlord include lower consumer traffic, reducing retail sales and pre-termination by tenants. Despite the growth of e-commerce retailing, brick and mortar retailers will continue to survive as they are already introducing online facilities as an alternative distribution channel for their customers. Some e-commerce players have also opened physical stores as showcase and to tap on to wider market.

Retail Group Malaysia had estimated retail sales growth rate of 2.2% for 2017 due to worse than expected retail sales performance in third quarter of 2017 which contracted by 1.1%. This is in line with the slight decline in the Consumer Sentiment Index (surveyed by Malaysian Institute of Economic Research) of 77.1 (for 3rd quarter of 2017) from 80.7 in the previous quarter. Despite 2018 Budget allowing for income tax cut and special allowances for civil servants, consumer will still likely to be cautious in spending due to rising prices of materials, higher transportation and food prices as well as fuel inflation. However, with the strengthening of Ringgit, growth in commodity exporters, spending in infrastructure, steady price of crude oil, return of foreign interest in Malaysian equities and debt papers, Retail Group Malaysia has forecast retail sales growth of 6.0% for 2018.

2018 Budget has also declared 2020 Visit Malaysia Year and extended several measures to promote tourism and enhance tourism infrastructure to help revitalise the tourism sector, ie target tourist arrivals of 28 million, soft loan to tour operators and the Tourism Development Infrastructure Fund, 'eVisa Regional Hub' will be expanded to facilitate visa applications worldwide especially for expatriates, foreign students and long term residents under Malaysia My Second Home.

As per World Travel and Tourism Council review in November 2017, Kuala Lumpur is listed in the top 10 fastest growing tourism destination with Bukit Bintang, Kuala Lumpur being ranked by Euromonitor International 2017 as being one of the top 10 most visited city in the world. Therefore, retail malls in good location and with good management are expected to be resilient despite possibility of slower growth. Niche market or differentiation has to be considered for malls that are not performing up to standard bearing in mind 'experiential requirement' and latest customer culture, ie moving with times to cater to needs of customer / consumer.

According to Bank Negara 2017 Q3 Bulletin, incoming office supply in Klang Valley of about 38 million square feet office between 2017 and 2025 could intensify a glut. This office vacancy rate has increased steadily from 20.9% in the first quarter of 2015 to 23.6% in the corresponding quarter in 2017 against regional vacancy average of 6.6%. This vacancy rate is projected to reach an all-time high of 32% by 2021, ie one in three office buildings in the Klang Valley will be empty in three to four years' time.

Despite service office and co-working space being the current popular and cost efficient models, job automation and mobile working arrangements is expected to reduce office space requirements. Office based job growth is forecast to weaken from an annual rate of 3.1% over the past 5 years to 2.6% over the next 5 years in the Asia-Pacific. However, corporate office will still be relevant as it serves as an important place for people to integrate for business and work. Therefore, the strategy for 2018 is to try to retain good tenants with continuous upkeep of property to maintain and enhance the standard of its facilities.

Distribution policy for 2018 is expected to be maintained as per 2017 with continuous look-out for yield accretive assets. Keeping malls experiential and evolving with times is the current focus to build shopping experience to attract and retain shoppers' loyalty to retail malls. Operating cost will be monitored to optimise efficiency. Interest rate environment will be closely monitored to try to reduce its cost as 80% of Pavilion REIT's borrowings are currently on floating rate.

## Risk Management

Risk forms part and parcel of a business environment. Hencewith, the Board, is committed to establishing risk management processes are embedded into each and every key activities and business processes in all its properties as well as the Fund to ensure that risks are identified and mitigated in achieving Pavilion REIT's objective.

Main risk factors are as follows :-

a) Acquisition and investment risk refers to risk of assets / investments not being yield accretive, affecting the overall performance of the Fund. The Manager is very cautious in its proposed investments and evaluate them (from financial, legal and technical aspects) prior to recommending to the Board for approval. For related party transactions, the relevant Board members of the Manager will declare their interest and abstain from voting, with such related party acquisition being driven by the Audit Committee.

b) Valuation risk refers to risk that valuation of property may not be sustainable, hence affecting the Fund's asset value, profitability and gearing. Main parameters for valuation are rental rate, occupancy rate as well as operational cost. The Manager will closely monitor these factors in each of the Fund's property to ensure they are not compromised/ mitigated with appropriate strategies such as tenant mix / concept, continuous engagement with tenant to build relationship for further improvement, cost management and prudent spending with relevant marketing activities. However, as a general guide, newly acquired properties will need time to stabilize as the Manager makes improvement to tenant mix, enhancements and streamlining some of this operational practises such as ensuring priority to safety standards eg provision of first aid room and concierges or customer service representatives are all first aiders.

c) Credit risk and liquidity risk of non-payment by its tenants or counterparties are mitigated by credit evaluation prior to entering into letter of offer or agreement with constant monitoring of outstanding balances to ensure minimum credit exposure is monitored via stringent collection policy. This is to ensure that there are adequate resources to fulfil the requirements of Pavilion REIT's operations and distribution of income to unitholders.

d) Tenant concentration risk of relying on only a handful of tenants are mitigated as the top ten tenants' contribution is 13% of the Fund's gross revenue with the main tenant contributing only 5% of the Fund's gross revenue as at 31 December 2017.

e) Financing risk refers to risk of not being able to obtain fresh facilities or renew its facilities when due, either from financial institution or debt capital market. The Manager has established a RM8.0 billion medium term note programme of 20 years from 25 March 2016, which can either be rated or unrated and to be on either fixed or floating rate. At the same time, the Manager will also continue to engage with various financial institution as well as potential bond holders to determine the best options in the future. Currently, about half of the Funds borrowings are each due in 2019 and 2021 respectively.

f) Interest rate risk refers to the potential unfavourable movement in floating interest rate that will affect income before taxation. At the time of drawdown of facility or refinancing in 2016, with the volatile market then, the Manager felt that the rates offered for fixed interest rate was rather high with potential favourable movement for floating rate. Hence, a decision was made to take up the funding based on floating rate. Besides closely monitoring interest rate to possibly convert to them to fixed rate when timing is deemed appropriate, swap line has also being extended by certain financial institutions to be exercised when appropriate. Borrowing on floating rate is RM1,2 billion or 80% of total borrowings.

g) Operational risk at property is mitigated by having standard operating procedures that are adopted and being continuously reviewed for all the properties under the Fund which comprises operational guide, control and monitoring procedures. Some examples of reports are :-
   i) management of call centre, preventive maintenance, management of incidents
   ii) inventory control and purchasing procedure
   iii) rental of promotional space, visual merchandising
   iv) sourcing, negotiating with potential / existing tenants, tenancy administration
   v) billing, payment, collection and refund
   vi) staff training and recruitment

h) Legal and regulatory compliance. The Manager has a compliance officer, reporting directly to the CEO, who is responsible to provide guidance to ensure that all regulatory and compliance matters are adhered to.

i) Disaster recovery planning. As management information technology plays an important role, the Manager has arranged for daily back-up of information to be housed externally to facilitate recovery in the event of a disaster. With Pavilion Kuala Lumpur Mall having its own emergency response and crisis management plans, these plans are also being adopted for the newly acquired properties with variations where required. Annual fire drills involving all occupants in each property were also held to ensure occupants are kept updated on routes to use and procedures to adhere to in the event of occurrence of disaster.

j) Currency risk is currently not applicable to the Fund as Pavilion REIT does not have any properties located outside Malaysia, with all collections, payments and borrowings denominated in Ringgit Malaysia.

k) Staff resources risk of not being able to attract and retain capable staff are mitigated via staff engagement, periodic staff dialogues, annual review and training with a planned remuneration package that is in line with industry practice.

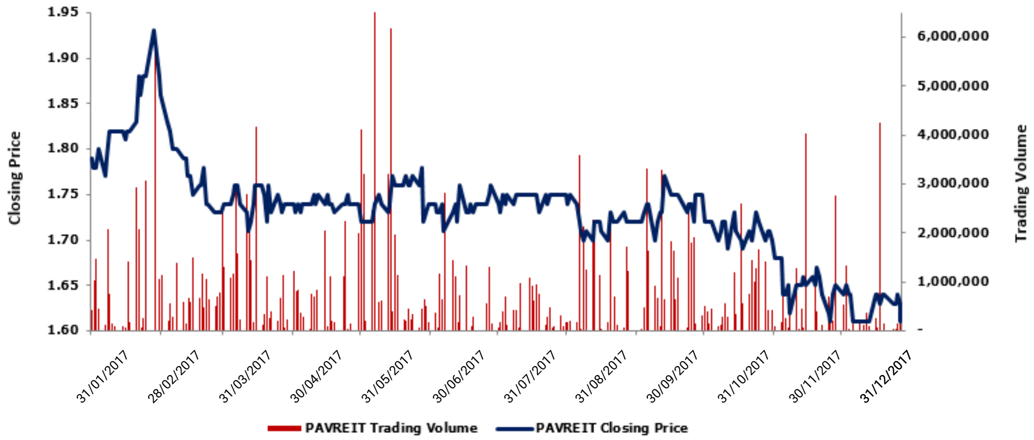
# INVESTORS RELATION AND FUND MANAGEMENT

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.

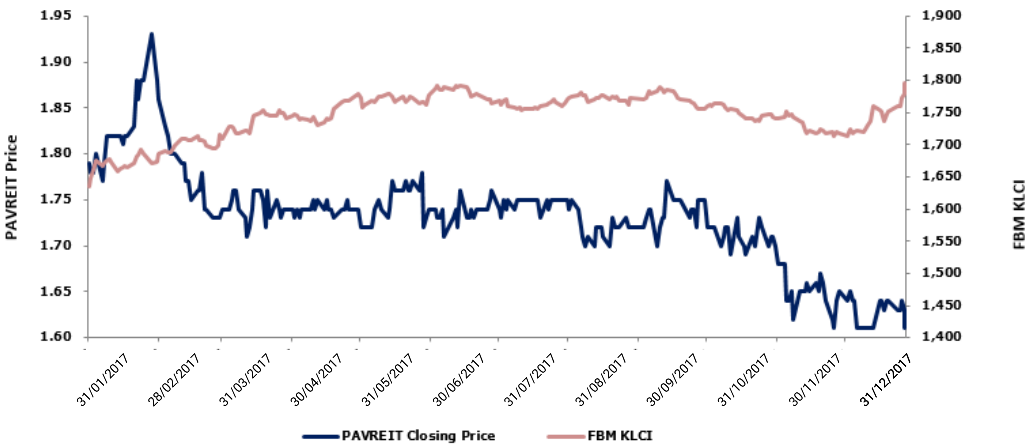
- Half yearly analyst briefing
- Daiwa REIT Day, Singapore
- Citi ASEAN C-Suite Investors Conference, Singapore
- Citi Asia Pacific Conference, Hong Kong

Pavilion REIT's annual general meeting was held on 30 March 2017 whereby its unitholders were updated on the performance of Pavilion REIT for the financial year ended 31 December 2016.

### Pavilion REIT's Monthly Trading Performance




### Pavilion REIT's Unit Price Performance against FBM KLCI



| Trading Summary | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| Net Asset Value per Unit (RM) | | | | | |
| -As at 31 December | 1.17 | 1.26 | 1.28 | 1.30 | 1.30 |
| -Lowest during the year | 1.12 | 1.15 | 1.24 | 1.25 | 1.27 |
| -Highest during the year | 1.17 | 1.26 | 1.28 | 1.30 | 1.30 |
| Closing unit price (RM) as at 31 December | 1.28 | 1.46 | 1.55 | 1.90 | 1.61 |
| Highest traded price during the year (RM) | 1.67 | 1.53 | 1.63 | 1.90 | 1.93 |
| Lowest traded price during the year (RM) | 1.20 | 1.23 | 1.39 | 1.52 | 1.61 |
| Capital appreciation / (depreciation) (%) [1] | (7.91) | 14.06 | 6.16 | 22.58 | (15.26) |
| Annual total return (%)[2] | (2.16) | 19.51 | 11.47 | 26.92 | (10.14) |
| Average total return over 3 years (%) | 20.02 | 16.60 | 9.61 | 19.30 | 9.42 |
| Average total return over 5 years (%) | - | - | - | 17.64 | 9.12 |
| Units in circulation ('000) | 3,009,684 | 3,013,819 | 3,017,842 | 3,022,525 | 3,030,094 |
| Market capitalisation (RM'000) | 3,852,396 | 4,400,177 | 4,677,655 | 5,742,798 | 4,878,451 |

*[1] Capital appreciation/(depreciation) is calculated based on the difference between opening and closing price for the relevant financial year.*
*[2] Annual total return refers to total of capital appreciation and distribution yield.*

# PORTFOLIO DETAILS

## (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** | 10 years |
| **Title** | HS(D) 120091, PT 80 Seksyen 63, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan KL |
| **Encumbrances** | Private caveats have been lodged in favour of MTrustee 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** | 1,333,131 square feet |
| **Number of Car Park Bays** | 2,391* |
| **Occupancy Rate as at 31 December 2017** | 98.9% |
| **Date of Acquisition** | 7 December 2011 |
| **Acquisition Price** | RM3,190 million |
| **Appraised Value** | RM4,550 million |
| **Date of Latest Valuation** | 31 December 2017 |
| **Independent Valuer** | C H Williams Talhar & Wong Sdn Bhd |
| **Capitalisation Rate – Reversionary** | 6.50% |
| **Gross Revenue** | RM413 million |
| **Net Property Income** | RM286 million |
| **Ten Largest Tenants** | Cartier, Food Republic, Forever 21, Golden Screen Cinema, Hermes, Mercato, Padini Concept Store, Parkson Elite, Royal Selangor, Zara |

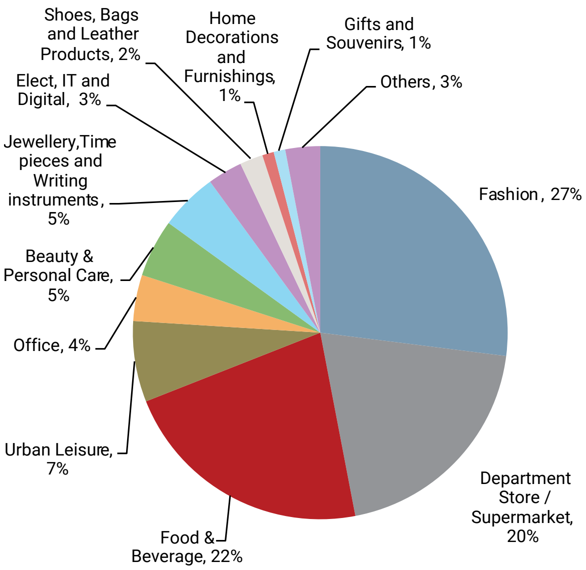
**Net of disposal of gross floor area of approximately 2,324 square feet, which includes 10 car park bays, sold to Urusharta Cemerlang Sdn Bhd for RM880,000 was completed on 30 November 2017.*

### Tenancy Expiry Profile

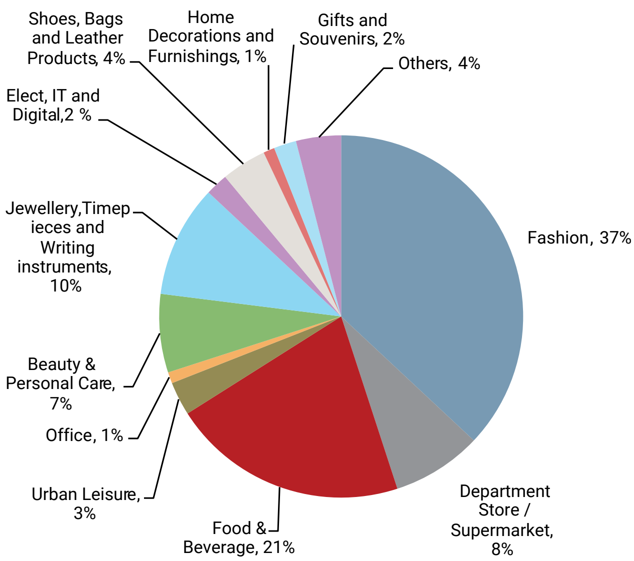
| Period | % of Occupied NLA | % of Gross Rental |
|---|---|---|
| Monthly | 1 | 0 |
| FY2018 | 14 | 16 |
| FY2019 | 64 | 60 |
| FY2020 and thereafter | 21 | 24 |
| **Total** | **100** | **100** |

## Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area




Trade Sector Analysis based on Gross Rental





# Portfolio Details (cont'd)

## (A) RETAIL

| | Intermark Mall |
|---|---|
| **Address** | 348 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia |
| **Description** | 6-storey retail podium with a roof pavilion together with 367 designated car parking bays |
| **Year of Completion** | Refurbished in 2012 |
| **Age of Building** | 5 years |
| **Title** | Geran 75638/M1/B3/2, Parcel No 2, Storey No B3, Building No M1 on part of parent Lot 20000 Seksyen 43, Bandar Kuala Lumpur, Negeri Wilayah Persekutuan |
| **Encumbrances** | Nil |
| **Tenure** | Interest in perpetuity |
| **Gross Floor Area** | 337,427 square feet |
| **Net Lettable Area** | 222,433 square feet |
| **Number of Car Park Bays** | 367 |
| **Occupancy Rate as at 31 December 2017** | 90.0% |
| **Date of Acquisition** | 25 March 2016 |
| **Acquisition Price** | RM160 million |
| **Appraised Value** | RM169 million |
| **Date of Latest Valuation** | 31 December 2017 |
| **Independent Valuer** | Knight Frank Malaysia Sdn Bhd |
| **Capitalisation Rate – Reversionary** | 6.75% |
| **Gross Revenue** | RM25 million |
| **Net Property Income** | RM12 million |
| **Ten Largest Tenants** | Bait, Hanare, Hua Wei, In Colonial, Jaya Grocer, MST Golf, Primrose Hill Active Learning, Savini, Space Furniture, SportsDirect.com |

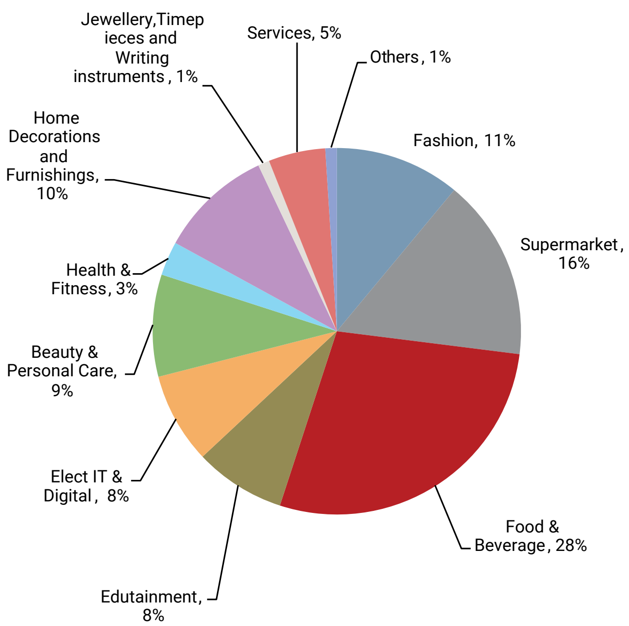
### Tenancy Expiry Profile

| Period | % of Occupied NLA | % of Gross Rental |
|---|---|---|
| Monthly | 0 | 0 |
| FY2018 | 20 | 24 |
| FY2019 | 48 | 41 |
| FY2020 and thereafter | 32 | 35 |
| **Total** | **100** | **100** |

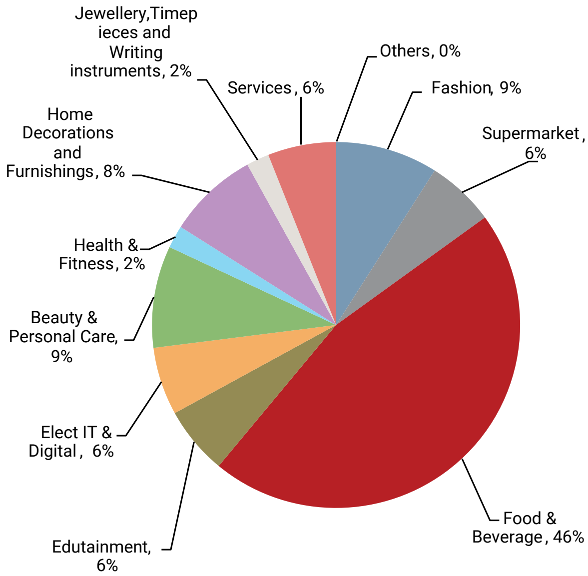
# Portfolio Details (cont'd)

## Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area




Trade Sector Analysis based on Gross Rental




# Portfolio Details (cont'd)



## (A) RETAIL

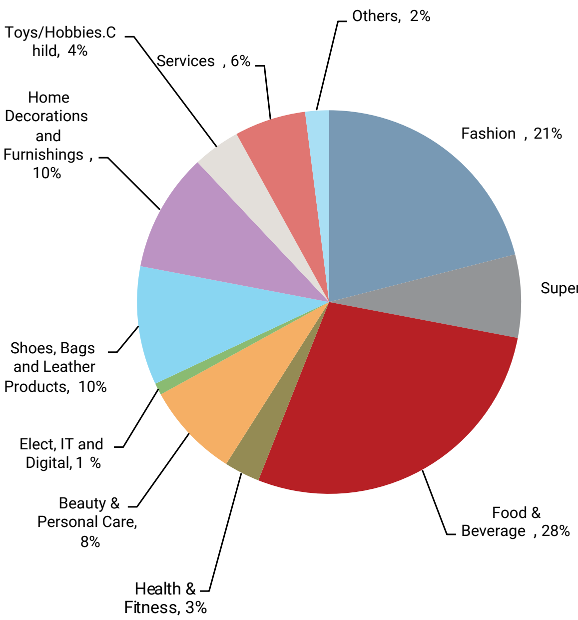
| | DA MEN Mall |
|---|---|
| **Address** | Da:men USJ 1, Persiaran Kewajipan, USJ 1, 47600 Subang Jaya, Selangor Darul Ehsan |
| **Description** | Five storey retail mall together with a lower ground floor and two levels of basement car parks |
| **Year of Completion** | 2015 |
| **Age of Building** | 2 years |
| **Title** | Master Title No. Geran 320023, Pekan Subang Jaya, District of Petaling, Selangor Darul Ehsan |
| **Encumbrances** | Charged to United Overseas Bank (Malaysia) Bhd<br>Private caveats have been lodged in favour of MTrustee Berhad and Public Bank Berhad |
| **Tenure** | Interest in perpetuity |
| **Gross Floor Area** | 705,128 square feet |
| **Net Lettable Area** | 431,534 square feet |
| **Number of Car Park Bays** | 1,638 |
| **Occupancy Rate as at 31 December 2017** | 86.3% |
| **Date of Acquisition** | 25 March 2016 |
| **Acquisition Price** | RM487 million |
| **Appraised Value** | RM416 million |
| **Date of Latest Valuation** | 31 December 2017 |
| **Independent Valuer** | Knight Frank Malaysia Sdn Bhd |
| **Capitalisation Rate – Reversionary** | 6.75 % |
| **Gross Revenue** | RM40 million |
| **Net Property Income** | RM17 million |
| **Top Ten Tenants** | Al Hannan Events, Grand Harbour Restaurant, House of Teak, Jaya Grocer, Morganfield's, SHP Gallery, The Blues, The Canteen, YFS Concept Store, Urban Living Republic |

### Tenancy Expiry Profile

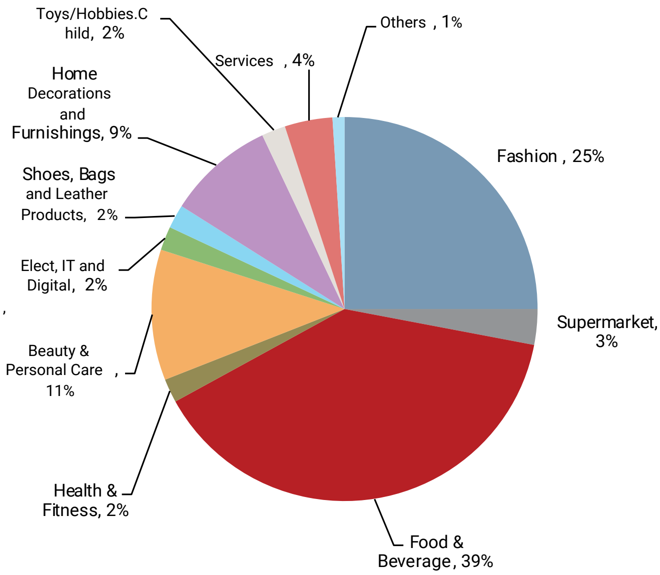
| Period | % of Occupied NLA | % of Gross Rental |
|---|---|---|
| Monthly | 14 | 26 |
| FY2018 | 51 | 54 |
| FY2019 | 23 | 15 |
| FY2020 and thereafter | 12 | 5 |
| **Total** | **100** | **100** |

## Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area




Trade Sector Analysis based on Gross Rental




# Portfolio Details (cont'd)

## (B) OFFICE

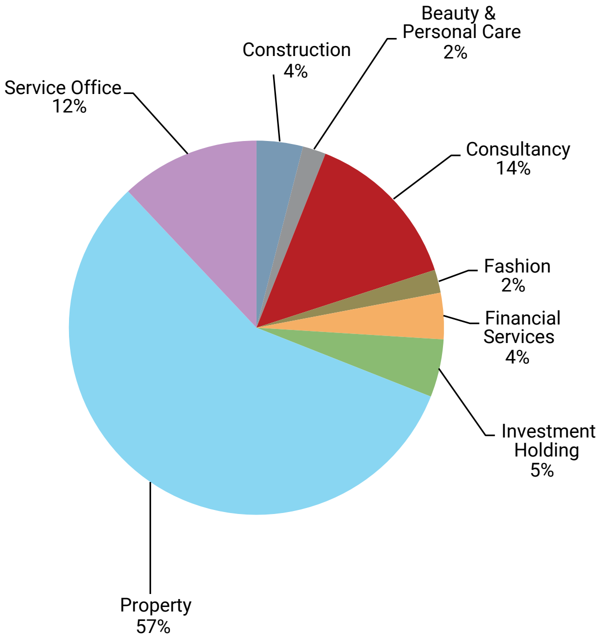
| | Pavilion Tower |
|---|---|
| **Address** | 75 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia |
| **Description** | 20-storey office building together with 6 mechanical / electrical levels |
| **Year of Completion** | 2007 |
| **Age of Building** | 10 years |
| **Title** | HS(D) 120091, PT 80 Sekysen 63, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan KL |
| **Encumbrances** | Private caveats have been lodged in favour of MTrustee Berhad and Alliance Investment Bank Berhad |
| **Tenure** | 99-year lease expiring on 26 October 2109 |
| **Gross Floor Area** | 243,288 square feet |
| **Net Lettable Area** | 163,844 square feet |
| **Occupancy Rate as at 31 December 2017** | 98.5% |
| **Date of Acquisition** | 7 December 2011 |
| **Acquisition Price** | RM123 million |
| **Appraised Value** | RM133 million |
| **Date of Latest Valuation** | 31 December 2017 |
| **Independent Valuer** | C H Williams Talhar & Wong Sdn Bhd |
| **Capitalisation Rate – Reversionary** | 6.50% |
| **Gross Revenue** | RM13 million |
| **Net Property Income** | RM8 million |
| **Top Ten Tenants** | Clever Eagle Sdn Bhd, Gapadu Development Sdn Bhd, Impian Ekspresi Sdn Bhd, Khuan Choo Development Sdn Bhd, KL Pavilion Design Studio Sdn Bhd, KL Metro Sdn Bhd, MRails Tram (Melaka) Sdn Bhd, Pan-Asia Property Management Sdn Bhd, Pioneer Haven Sdn Bhd, Urusharta Cemerlang (KL) Sdn Bhd |

### Tenancy Expiry Profile

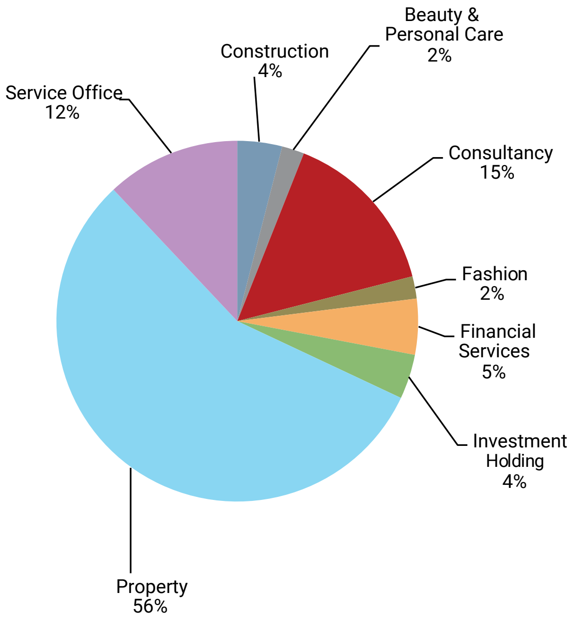
| Period | % of Occupied NLA | % of Gross Rental |
|---|---|---|
| Monthly | 6 | 6 |
| FY2018 | 37 | 38 |
| FY2019 | 33 | 32 |
| FY2020 and thereafter | 24 | 24 |
| **Total** | **100** | **100** |

## Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area




Trade Sector Analysis based on Gross Rental




# CORPORATE & SUSTAINABILITY REPORT

Pavilion REIT has always recognised the importance of sustainability actions to ensure the future generation needs will be met without compromising current needs with priority to energy and waste management. Pending formalization of detailed sustainability matrix such as governance structure, work scope, materiality matrix, quantitative measurements etc, sustainability initiatives are currently led by the CEO, who reports directly to the Board.

## Economic

Pavilion REIT encourages fair play and does not approve of monopoly among vendors. Vendors should give fair wages according to industry practice and conditions with compliance of relevant laws and practises in Malaysia, adherence to safety requirements at all times, priority to local employment as well as usage of local products without use of child labour in the services they render.

With community campaigns becoming a big part of the mall culture, Pavilion REIT malls will continue in its effort to collaborate with non-governmental and charity organisations as well as colleges / universities to promote various causes and create awareness such as Earth Day and Breast Cancer Awareness month, besides celebrating annual cultural diversity such as Chinese New Year, Hari Raya, Deepavali and Christmas.

Pavilion Kuala Lumpur Mall's first corporate social responsibility for 2017 raised funds for ***'Charity at Heart'*** to jointly benefit children's homes and single mothers association. The mall also presented ***'Heroes at Heart'***, a new initiative to celebrate the achievements of Malaysians in various industries as they put Malaysia on the world map, to Qobin Mokhtarrudim, Shahrom Abdullah and Muhammad Irwan Yusoff Abdullah for their accomplishments in completing the 111km skiing expedition to the North Pole with the Malaysian Seven Continents Exploration Club, to En. Azizulhasni Awang for his recent accomplishment in winning the men's keirin gold medal in the 2017 UCI Track Cycling World Championship in Hong Kong.

Pavilion Kuala Lumpur Mall pioneered the ***Pavilion Silver Societe*** this year. With more activities to be held, this membership programme is targeted at Malaysians who are 55 years old and above, offering members with leisure experiences, special celebrations, and services; from workshops during festive occasions to pampering services and many more.

Intermark Mall continued with its support for ***Makna Pink October*** in recognition of cancer awareness month and ***Raffles Graduation Exhibition*** as a platform to create exposure for young graduates and generate support to local fashions, arts and designs industry.

DA MEN Mall's Hari Raya festivity with Moroccan-inspired theme, ***'Jewels of Aidilfitri'*** was celebrated with the senior citizens of Pertubuhan Kebajikan Pusat Jagaan Sri Mesra with the presence of representatives from Majlis Perbandaran Subang Jaya. ***Penan Women Project*** was held to support the Penan tribe to earn regular income from their crafted handmade bags with ***Gift Back to Shelter Home*** encouraging community to donate necessities purchased from tenants.

Besides collaboration with Da Vinci Art Academy, USJ for kids to showcase their creative colouring talent, Inti College promoted earth day art exhibition of upcycling in May and a student art bazaar in June to showcase their handmade products, activities and workshop. SEGI Damansara College also held a graduation show for their students from the faculty of Communication and Creative Design where they were given the opportunity to showcase their final year projects. DA MEN Mall sponsored the first ***JOM Usahawan Amal Merdeka*** organized by MARA Institute to connect with the student community.

***2017 Bursa Bull Charge*** participation on 14 September 2017 aims to support the promotion of financial literacy and entrepreneurship to create an economic sustainability among the vulnerable, marginalised, discriminated, under-privileged and under-represented groups, who need assistance to build, alleviate and sustain their lives.

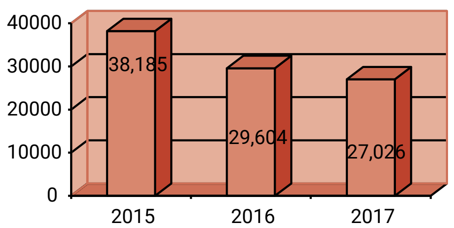
## Environment

Some of the green initiatives implemented may not be easily quantifiable or seen to be beneficial due to changes in tenant mix, tenant occupancy level, number of patrons using facilities and weather climate. Space constraint to existing assets owned may also limit some proposed initiatives such as rain water harvesting that requires space to house storage facility. However, these green initiatives to reduce environmental waste has and will continue to be implemented by creative recycling of annual festival ornaments, reduction in paper usage by e-mailing information instead of sending by mail, installation of car park guidance system to reduce carbon monoxide emission from vehicle as well as to reduce fuel wastages in looking for car parking usage, replacement of water basin taps, WC flushing, soap and paper dispenser from manual to sensor in toilets to reduce wastages and continuous evaluation of potential automation system in order to identify areas of improvement to reduce energy cost.

Besides pest controls being regularly carried out in all of Pavilion REIT common properties to ensure hygiene standard is maintained at all times, proper hygiene & pest control inspections are also being carried out in tenants' lot.

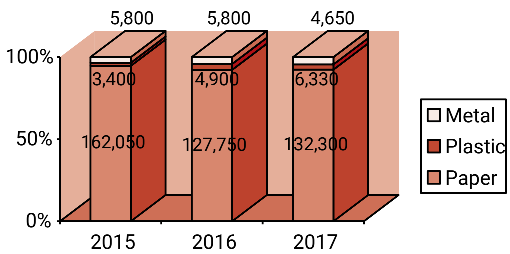
As part of the effort to reduce deforestation and paper pollution, hand dryers have progressively been introduced into Pavilion Kuala Lumpur mall toilets.

**Pavilion Kuala Lumpur Mall : Usage of Recycle Hand Towels (Rolls)**




Besides placement of recycling bins (per set of 3 for paper, plastic and can & bottles) at selected locations in Pavilion Kuala Lumpur mall, the mall has been collaborating with its waste disposal vendor to sort recycle materials.

**Pavilion Kuala Lumpur Mall : Recycle Materials (Kg)**



As part of the effort to recycle water, cold air handling unit condensate water are being collected, stored into storage tank and reused at cooling towers with annual recoverable condensate water for reuse being approximately 4,380 – 8,780 $m^3$. Pavilion Kuala Lumpur's chiller plant automation has just been completed at the end of the year to provide more accurate real time monitoring. It will also be monitored for its efficiency in operation of its air-conditioning system to reduce energy consumption.

The rain screen installed at Connection Jalan Raja Chulan this year is constructed using ETFE foils, a fluorine based incredibly strong plastic. Ethylene Tetra Fluoro Ethylene ("ETFE") canopy roof comprises two layers forming a cushion that is filled with air, controlled and monitored by an air handling unit to maintain pressure. ETFE was selected because it allows for 80% light penetration, 100% recyclable, cost effective with 1% weight of glass and planned for heavy wind and rain, with minimal steel support and maintenance.

Usage of LED in the common area of the Intermark Mall (except for lower concourse level) has resulted in electricity savings of 898 kWh per day or 327,700 kWh annually, which is currently equivalent to about RM115,000. Besides consuming less energy, LED are more durable, has longer life span, produces less heat with zero UV radiations and is eco-friendly, thus reducing maintenance cost.

Pavilion Tower's change of its common area lighting from fluorescent tube or metal halide to LED has resulted in savings of 93,000 kWh or RM33,000 per annum.

For 2018, energy conservation continues to be Pavilion REIT's priority to explore ways for more efficient operation as well as to reduce consumption without compromising comfort. Electric car charging station is also being explored.

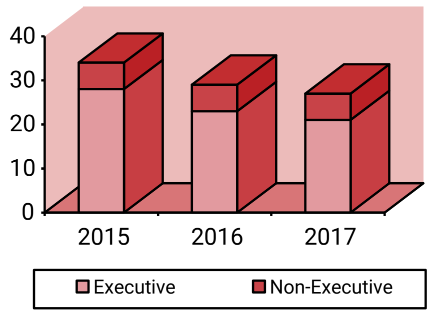
### Social

As landlord of properties, Pavilion REIT has always placed safety of its guests, tenants and occupiers of its property a priority. Hencewith, besides encouraging feedback and participation in safety courses such as first aid courses, use of fire extinguishers etc, annually, all tenants are encouraged to participate in fire drills in the respective buildings to ensure its occupiers are familiar with escape routes in the event of any emergency. Besides having first aid rooms available in all its retail malls, all concierges and customer service representatives in the properties are also trained as first aider to assist if needed. Quarterly environmental, health and safety committee meetings are also held to look into all aspects of safety relating to workplace & the properties.

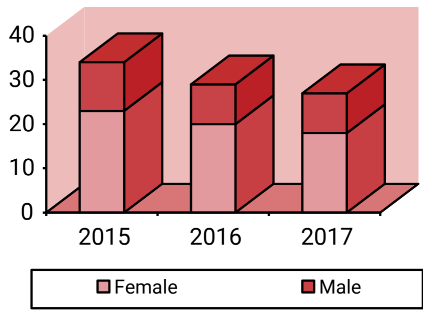
Besides providing training and having regular interaction with staff, annual appraisals and periodic staff dialogues are also being held to facilitate feedback. Employee development career plan is also available to enable staff to chart their job growth and development.

The Manager believes in equal employment opportunity, based on competencies and skill sets without regard to ethnicity or gender. Providing a diverse workplace that offers more than just exposure to staff from different cultures and backgrounds is also important whereby staff can learn from co-workers whose work styles vary and whose attitudes about work varies from their own. This can also serve as a platform to nurture potential staff for career growth and succession planning.

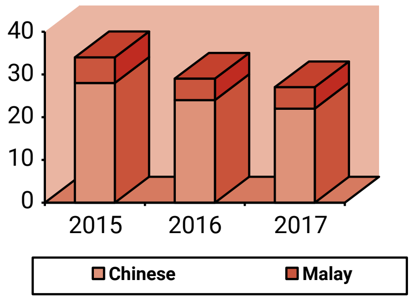
**Employee Category**



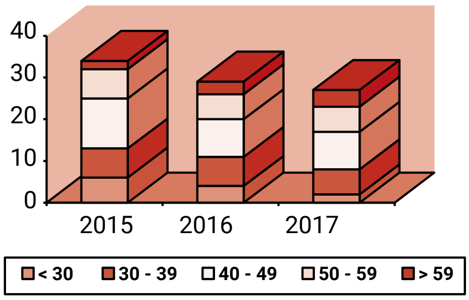

**Employee Gender**




**Employee Ethnicity**




**Employee by Age Group**



# 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 REITs 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 REITs 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.

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 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 2017 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 |
| Puan Sri Tan Kewi Yong | Non-Independent Executive Director | 5/5 |
| Dato' Lee Tuck Fook | Non-Independent Executive Director | 5/5 |
| Ahmed Ali H A Al-Hammadi | Non-Independent Non-Executive Director | 3/5 |
| Ahmad Mohammed F Q Al-Khanji | Non-Independent Non-Executive Director | 3/5 |
| Mohd Abdulrazzaq A A Al-Hashmi | Non-Independent Non-Executive Director | 4/5 |
| Navid Chamdia | Non-Independent Non-Executive Director | 4/5 |
| 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 | 5/5 |

**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 :

- Affin Hwang Capital Conference Series 2017 : Opportunities Amidst Geopolitical Shifts
- Companies Act 2016 : Changes and Implications to Company Directors
- Companies Act 2016 – Key Insights and Implication for Directors, Auditors/Accounts & Company Secretaries
- Maybank Kim Eng's Invest ASEAN Malaysia 2017
- Tan Sri Panglima Andrew Sheng titled "Implications of Trump on the Asian Supply Chain and Investment Environment"
- Corporate Governance Breakfast Series - Leading Change @ The Brain
- Economics and Capital Market 1: Forces Shaping Global Capital Mrkets
- 2018 Budget and Its Impact on Capital Market

**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.

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

# NOMINATING COMMITTEE REPORT

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

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

The Nominating Committee is responsible for identifying, nominating and orientating new directors, assessing 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. The Nominating Committee focuses on the skills, experience, competence and integrity to enable the Board to make effective business decisions and recommendations. For the independent directors, they are assessed based on their independence and abilities to discharge their responsibilities and functions with objective judgement.

The Nominating Committee is also tasked with assessing and recommending the candidature of directors. There were no new appointment of director considered during the financial year ended 31 December 2017.

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

During the financial year ended 31 December 2017, the Nominating Committee had assessed and reviewed the following :

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

The Nominating Committee is satisfied with the performance of the Board, Board Committees and contribution of each of the Directors. The Independent Non-Executive Directors have maintained their independence and are competent to continue serving as the independent directors.

# 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 | 6/6 |
| Dato' Maznah binti Abdul Jalil | Independent Non-Executive Director | 6/6 |
| Dato' Choo Chuo Siong | Independent Non-Executive Director | 6/6 |
| Navid Chamdia ^ | Non-Independent Non-Executive Director | 2/6 |

^ Mr Navid Chamdia did not attend the meetings held on 24 May 2017 and 25 July 2017 pertaining to the acquisition of Elite Pavilion Mall together with the related assets and rights as he is an interested director in the acquisition.

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

(a) reviewed and deliberated with the Manager's management the quarterly financial results to recommend to the Board for approval and release to Bursa Malaysia. Consideration was given by Audit Committee to understand financial results of each properties with close attention given to update under "Prospects'
(b) reviewed list of related party transactions every quarter to determine whether there has been any material change as compared to the previous quarter and whether the transactions have been established under normal commercial terms that are no less favourable than those arranged with independent parties
(c) reviewed the internal control plan prepared by BDO Governance Advisory Sdn Bhd ("BDO") and its availability of staff
(d) On 27 July 2017, a meeting was held by Audit Committee with BDO to assess the internal control review report prepared by them. BDO gave explanation on findings of review, proposed recommendations and corresponding Manager's responses, which were noted by the Audit Committee
(e) reviewed audit plan with external auditor, KPMG PLT by understanding its audit methodology, significant risk areas and accounting policies / disclosures and timing. KPMG PLT were also asked of its succession planning of its key personnel leading the audit and sufficiency of resources
(f) On 25 January 2018, the Audit Committee were briefed privately by KPMG PLT (without presence of the Manager's management) on status of its audit
(g) reviewed and commented on the audit committee report and statement of risk management and internal control for inclusion into the annual report
(h) evaluated the work scope, approach and fees to outsourced internal auditor and recommended for their engagement
(i) evaluated the approach and fees of external auditor and recommended for their engagement for the following year

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

(a) presented its work scope and timeframe covering key business processes of procurement to payment of property operating expenditure and property enhancement expenditure, tenancy management to collection of rentals, acquisition and divestment of investment properties as well as fund management activities
(b) reviewed the adequacy and test the integrity of the system of internal controls
(c) assessed compliance with policies and procedures and recommend best business practices
(d) reviewed and identified potential areas for improvement in the effectiveness and efficiency of the processes
(e) conducted a GST review of policies and procedures and the adherence to them
(f) performed overall compliance of GST returns with sampling check on transactions, reconciliation and accuracy / logical checks of GST entries
(g) conducted follow up review on status of implementation of management plan pertaining to previous year internal control review
(h) presented findings of internal audit review to Audit Committee members

# STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

i) Procurement to Payment of Property Operating Expenses and Property Enhancements;
ii) Tenancy Management to Collection of Rentals;
iii) Fund Management Activities; and
iv) GST Review

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

A process life cycle approach allows BDO to:

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

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

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

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

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

# 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 2017.

**Audit and Non-Audit Fees**

Audit and non-audit fees payable to the external auditor of Pavilion REIT for the financial year ended 31 December 2017 amounted to RM185,000 and RM10,000 respectively.

**Soft Commission**

There was no soft commission received by the Manager during the financial year ended 31 December 2017.

**Material Litigation**

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

**Directors' Benefit**

For the year ended 31 December 2017, 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%<br>Up to 0.15%<br>Up to 0.20% | Exceeds 7.5% and up to 10.0%<br>Exceeds 10.0% and up to 12.5%<br>Exceeds 12.5% |

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

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

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

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

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

**Other Information**

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

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

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

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

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

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

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

In the opinion of the Manager, the financial performance of Pavilion REIT for the financial year ended 31 December 2017 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.

**Auditor**

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

For and on behalf of Pavilion REIT Management Sdn Bhd

**TAN SRI LIM SIEW CHOON**
Chairman

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

Kuala Lumpur
25 January 2018

# **Financial** Statements

# STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

| | Note | 2017 RM'000 | 2016 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Plant and equipment | 4 | 2,129 | 1,958 |
| Investment properties | 5 | 5,268,000 | 5,229,000 |
| Other non-current assets | 6 | 58,000 | – |
| **Total non-current assets** | | 5,328,129 | 5,230,958 |
| Inventories | | 1,554 | 1,315 |
| Trade and other receivables | 7 | 48,098 | 43,074 |
| Cash and bank balances | 8 | 275,383 | 317,071 |
| **Total current assets** | | 325,035 | 361,460 |
| **Total assets** | | 5,653,164 | 5,592,418 |
| **Liabilities** | | | |
| Borrowings | 9 | 1,462,681 | 1,412,351 |
| Payables and accruals | 10 | 73,107 | 65,398 |
| **Total non-current liabilities** | | 1,535,788 | 1,477,749 |
| Payables and accruals | 10 | 177,099 | 193,820 |
| **Total current liability** | | 177,099 | 193,820 |
| **Total liabilities** | | 1,712,887 | 1,671,569 |
| **Net asset value** | | 3,940,277 | 3,920,849 |
| **Financed by** | | | |
| **Unitholders' fund** | | | |
| Unitholders' capital | 11 | 2,913,849 | 2,900,708 |
| Accumulated income | | 1,026,428 | 1,020,141 |
| **Total unitholders' fund** | | 3,940,277 | 3,920,849 |
| **Net asset value ("NAV")** | | 3,940,277 | 3,920,849 |
| **Number of units in circulation ('000 units)** | 11 | 3,030,094 | 3,022,525 |
| **NAV per unit (RM)** | | 1.3004 | 1.2972 |

The notes on pages 62 to 95 are an integral part of these financial statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

| | Note | 2017 RM'000 | 2016 RM'000 |
|---|---|---|---|
| Rental income | | 397,368 | 388,481 |
| Other income | | 92,633 | 71,220 |
| **Gross revenue** | | 490,001 | 459,701 |
| Utilities | | (57,959) | (56,037) |
| Maintenance | | (49,781) | (39,444) |
| Property taxes | | (12,793) | (12,010) |
| Other operating expenses | | (46,555) | (37,436) |
| **Net property income** | | 322,913 | 314,774 |
| Fair value gain on investment properties | | 17,028 | 76,872 |
| Interest income | | 8,165 | 8,715 |
| Gain on disposal of investment property | | 274 | – |
| **Net investment income** | | 348,380 | 400,361 |
| Manager's management fees | 12 | (26,651) | (25,735) |
| Trustee's fees | 1(c) | (470) | (460) |
| Valuation fee | | (548) | (484) |
| Other trust expenses | | (530) | (492) |
| Borrowing costs | 13 | (70,734) | (61,047) |
| **Income before taxation** | | 249,447 | 312,143 |
| Tax expense | 14 | – | – |
| **Income after taxation/Total comprehensive income attributable to unitholders** | | 249,447 | 312,143 |
| **Income after taxation is made up as follows:** | | | |
| Realised | | 232,419 | 235,271 |
| Unrealised | | 17,028 | 76,872 |
| | | 249,447 | 312,143 |
| **Basic/Diluted earnings per unit (sen)** | 15 | 8.24 | 10.33 |
| Total comprehensive income | | 249,447 | 312,143 |
| Distribution adjustments | A | 236 | (63,359) |
| Distributable income | | 249,683 | 248,784 |
| **Distribution per unit (sen) - interim** | | 3.96 | 4.16 |
| **Distribution per unit (sen) - final** | | 4.28 | 4.08 |

**Note A**

| | Note | 2017 RM'000 | 2016 RM'000 |
|---|---|---|---|
| **Distribution adjustments comprise:** | | | |
| Amortisation of transaction costs | | 3,435 | 3,096 |
| Depreciation | 4 | 504 | 656 |
| Fair value gain of investment properties | | (17,028) | (76,872) |
| Manager's management fees payable in units | 12 | 13,325 | 9,761 |
| | | 236 | (63,359) |

The notes on pages 62 to 95 are an integral part of these financial statements.

# STATEMENT OF CHANGES IN NET ASSET VALUE
## for the year ended 31 December 2017

| | Note | Unitholders' capital RM'000 | Accumulated income/ (deficit) RM'000 | Total funds RM'000 |
|---|---|---|---|---|
| **At 1 January 2016** | | 2,893,046 | 958,561 | 3,851,607 |
| Income after taxation/Total comprehensive income for the year attributable to unitholders | | – | 312,143 | 312,143 |
| **Unitholders' transactions** | | | | |
| *Contributions by and distributions to unitholders* | | | | |
| Issue of new units | | 7,662 | – | 7,662 |
| Distribution to unitholders | 16 | – | (250,563) | (250,563) |
| Increase/(Decrease) in net assets resulting from unitholders' transactions | | 7,662 | (250,563) | (242,901) |
| **Net assets at 31 December 2016/ 1 January 2017** | | 2,900,708 | 1,020,141 | 3,920,849 |
| Income after taxation/Total comprehensive income for the year attributable to unitholders | | – | 249,447 | 249,447 |
| **Unitholders' transactions** | | | | |
| *Contributions by and distributions to unitholders* | | | | |
| Issue of new units | | 13,141 | – | 13,141 |
| Distribution to unitholders | 16 | – | (243,160) | (243,160) |
| Increase/(Decrease) in net assets resulting from unitholders' transactions | | 13,141 | (243,160) | (230,019) |
| **Net assets at 31 December 2017** | | 2,913,849 | 1,026,428 | 3,940,277 |
| | | Note 11 | | |

The notes on pages 62 to 95 are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

| | Note | 2017 RM'000 | 2016 RM'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Income before taxation | | 249,447 | 312,143 |
| *Adjustments for:* | | | |
| Borrowing costs | 13 | 70,734 | 61,047 |
| Depreciation | 4 | 504 | 656 |
| Fair value gain on investment properties | | (17,028) | (76,872) |
| Gain on disposal of investment property | | (274) | – |
| Impairment loss on/(Reversal of) trade receivables | | 1,459 | (184) |
| Interest income | | (8,165) | (8,715) |
| (Gain)/Loss on disposal of plant and equipment | | (1) | 18 |
| Plant and equipment written off | | 14 | 3 |
| **Operating income before changes in working capital** | | 296,690 | 288,096 |
| Changes in inventories | | (239) | (78) |
| Changes in receivables | | (5,691) | (26,540) |
| Changes in payables | | 1,905 | 40,747 |
| Changes in tenants' deposits | | 2,186 | 20,464 |
| **Net cash from operating activities** | | 294,851 | 322,689 |
| **Cash flows from investing activities** | | | |
| Acquisition of investment properties | | – | (529,051) |
| Deposit for acquisition of investment properties | | (58,000) | – |
| Interest received | | 8,165 | 8,715 |
| Payment for enhancement of investment properties | | (22,540) | (14,421) |
| Pledged deposit | | (1,270) | (20,442) |
| Proceeds from disposal of investment property | | 88 | – |
| Proceeds from disposal of plant and equipment | | 1 | 1 |
| Purchase of plant and equipment | | (689) | (1,276) |
| **Net cash used in investing activities** | | (74,245) | (556,474) |
| **Cash flows from financing activities** | | | |
| Distribution to unitholders | | (243,160) | (250,563) |
| Interest paid | | (67,299) | (57,951) |
| Payment of financing expenses | | (276) | (11,665) |
| Proceed from borrowings | | 47,171 | 766,587 |
| Repayment of borrowings | | – | (100,000) |
| **Net cash (used in)/from financing activities** | | (263,564) | 346,408 |
| Net (decrease)/increase in cash and cash equivalents | | (42,958) | 112,623 |
| Cash and cash equivalents at 1 January | | 277,353 | 164,730 |
| **Cash and cash equivalents at 31 December** | (i) | 234,395 | 277,353 |

**Note to Statement of cash flows**

(i) Cash and cash equivalents

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

| | Note | 2017 RM'000 | 2016 RM'000 |
|---|---|---|---|
| Cash and bank balances | 8 | 18,706 | 18,938 |
| Deposits placed with licensed banks | 8 | 256,677 | 298,133 |
| | | 275,383 | 317,071 |
| Less: Pledged deposits | 8 | (40,988) | (39,718) |
| | | 234,395 | 277,353 |

The notes on pages 62 to 95 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 MTrustee Berhad ("the Trustee"). The Deed is regulated by the Securities Commission Act 1993, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Listing Requirements of Bursa Malaysia Securities Berhad, the Rules of the Depository and taxation laws and rulings. Pavilion REIT will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of Clause 26 of the Deed. The addresses of the Manager's registered office and principal place of business are as follows:

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

**Principal place of business**
Lot 10.00.00, Level 10
Pavilion Kuala Lumpur
168, Jalan Bukit Bintang
55100 Kuala Lumpur

The financial statements as at and for the financial year ended 31 December 2017 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 RM380,000 (2016: RM380,000) per annum (excluding goods and services tax). In addition, the Property Manager is also entitled to full reimbursement of costs and expenses incurred in the operation, maintenance, management and marketing of the properties held by Pavilion REIT (including but not limited to the cost relating to the employment and remuneration of on-site staff provided) ("Permitted Expenses") as well as fees and reimbursements for Permitted Expenses payable to its service providers.

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

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

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

(ii) a performance fee ("Performance Fee") of up to 5.0% per annum of Net Property Income.

(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%<br>Up to 0.15%<br>Up to 0.20% | Exceeds 7.5% and up to 10.0%<br>Exceeds 10.0% and up to12.5%<br>Exceeds 12.5% |

1. **General (cont'd)**

**(b) Manager's management fees (cont'd)**

(iv) an acquisition fee ("Acquisition Fee") of 1.0% of transaction value in relation to an acquisition of any real estate and real estate related assets directly or indirectly acquired.

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

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

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

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

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

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

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

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

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

**(c) Trustee's fees**

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

The financial statements were approved by the Board of Directors of the Manager on 25 January 2018.

# Notes to the Financial Statements (cont'd)

## 2. Basis of preparation

### (a) Statement of compliance

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

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

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

- MFRS 9, *Financial Instruments* (2014)
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

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

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

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

- MFRS 17, *Insurance Contracts*

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

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

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

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

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

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 1, 2, 4 and 128 which are not applicable to Pavilion REIT.

- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019, except for amendments to MFRS 11 and 128 which are not applicable to Pavilion REIT.

- Pavilion REIT does not plan to apply MFRS 17, Insurance Contracts that is effective for annual periods beginning on 1 January 2021 as it is not applicable to Pavilion REIT.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of 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*.

In the implementation of MFRS 15, Pavilion REIT has preliminary assessed the implementation of MFRS 15 and its impact is not expected to be material.

**(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.

There are no change in measurement of financial assets of Pavilion REIT based on assessment undertaken to date.

In respect of impairment of financial assets, MFRS 9 replaces the "incurred loss" model in MFRS 139 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments.

Pavilion REIT has assessed the estimated impact that the initial application of ECL model will have on the financial statement as at 1 January 2018 and based on assessment undertaken to date, Pavilion REIT does not expect the impact to be material.

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

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

#### (iii) MFRS 16, *Leases*

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

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

Pavilion REIT is currently assessing the financial impact that may arise from the adoption of MFRS 16.

### (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 – investment properties and Note 9 – borrowings.

## 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.

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

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

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

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

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

#### (iii) Loss of control

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

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

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

#### (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, 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.

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

### (c) Plant and equipment

#### (i) Recognition and measurement

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

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

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

#### (ii) Subsequent costs

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

#### (iii) Depreciation

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

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

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

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

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

### (d) Investment property

#### Investment property carried at fair value

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

Investment properties are measured initially at cost and subsequently at fair value with any 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.

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

### (d) Investment property (cont'd)

**Investment property carried at fair value (cont'd)**

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

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

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

### (e) Leases

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

### (f) Inventories

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

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

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

### (g) Cash and cash equivalents

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

### (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.

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

### (h) Impairment (cont'd)

#### (ii) Other assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

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

### (i) Borrowing costs

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

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

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

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

### (j) Equity instruments

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

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

### (k) Revenue and other income

#### (i) Rental income

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

#### (ii) Interest income

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

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

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

#### (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).

### (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.

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

### (n) Earnings per unit

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

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

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

### (o) Operating segments

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

### (p) Fair value measurement

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

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

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

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

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

## 4. Plant and equipment

| | Furniture and fittings RM'000 | IT equipment and software RM'000 | Motor vehicles RM'000 | Renovation RM'000 | Tools and office equipment RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2016 | 1,269 | 588 | 22 | – | 2,146 | 4,025 |
| Addition | 214 | 369 | – | 415 | 278 | 1,276 |
| Disposal | (12) | – | – | – | (87) | (99) |
| Write off | (2) | (7) | – | – | (9) | (18) |
| At 31 December 2016/ 1 January 2017 | 1,469 | 950 | 22 | 415 | 2,328 | 5,184 |
| Addition | 4 | 54 | 78 | – | 553 | 689 |
| Disposal | – | – | – | – | (8) | (8) |
| Write off | (3) | (22) | – | – | (10) | (35) |
| At 31 December 2017 | 1,470 | 982 | 100 | 415 | 2,863 | 5,830 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2016 | 514 | 490 | 10 | – | 1,651 | 2,665 |
| Depreciation for the year | 136 | 106 | 4 | 4 | 406 | 656 |
| Disposal | (5) | – | – | – | (75) | (80) |
| Write off | (1) | (7) | – | – | (7) | (15) |
| At 31 December 2016/ 1 January 2017 | 644 | 589 | 14 | 4 | 1,975 | 3,226 |
| Depreciation for the year | 147 | 164 | 5 | 42 | 146 | 504 |
| Disposal | – | – | – | – | (8) | (8) |
| Write off | (2) | (9) | – | – | (10) | (21) |
| At 31 December 2017 | 789 | 744 | 19 | 46 | 2,103 | 3,701 |
| **Carrying amounts** | | | | | | |
| At 1 January 2016 | 755 | 98 | 12 | – | 495 | 1,360 |
| At 31 December 2016/ 1 January 2017 | 825 | 361 | 8 | 411 | 353 | 1,958 |
| At 31 December 2017 | 681 | 238 | 81 | 369 | 760 | 2,129 |

## 5. Investment properties

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| At 1 January | 5,229,000 | 4,483,000 |
| Enhancements/Capital expenditure | 22,540 | 14,421 |
| Addition to investment properties | – | 654,707 |
| Disposal of investment property | (568) | – |
| Change in fair values recognised in profit or loss | 17,028 | 76,872 |
| At 31 December | 5,268,000 | 5,229,000 |

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

There was no acquisition fee paid to the Manager relating to the acquisition of investment property in 2017 (2016: 1.0% of purchase consideration for DA MEN and Intermark Mall included in the addition to investment properties).

Divestment fee paid to the Manager relating to disposal of investment property based on 0.5% (2016: nil) of transaction value.

Details of the investment properties are as follows:

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

| | Date of acquisition | Date of valuation | Location | Tenure | Occupancy rates as at 31.12.2016 % | Fair value as at 31.12.2016 RM'000 | Cost as at 31.12.2016 RM'000 | Percentage of fair value to NAV as at 31.12.2016 % |
|---|---|---|---|---|---|---|---|---|
| Pavilion Kuala Lumpur Mall | 7.12.2011 | 31.12.2016 | Kuala Lumpur | Leasehold* | 96 | 4,450,000 | 3,498,583 | 113 |
| Pavilion Tower | 7.12.2011 | 31.12.2016 | Kuala Lumpur | Leasehold* | 94 | 133,000 | 128,000 | 3 |
| DA MEN Mall | 25.3.2016 | 31.12.2016 | Subang Jaya | Interest in perpetuity | 87 | 483,000 | 495,160 | 12 |
| Intermark Mall | 25.3.2016 | 31.12.2016 | Kuala Lumpur | Interest in perpetuity | 76 | 163,000 | 162,555 | 4 |
| Investment properties | | | | | | 5,229,000 | 4,284,298 | |

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

# Notes to the Financial Statements (cont'd)

## 5. Investment properties (cont'd)

### 5.1 Fair value information

All investment properties are categorised as Level 3 fair value.

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

| Description of valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|
| The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure | • Risk-adjusted term capitalisation rates ranging from 5.50% to 6.70% (2016: 5.50% to 6.70%) for Pavilion Kuala Lumpur Mall and Pavilion Tower and 6.50% to 7.00% (2016: 6.25% to 6.75%) for Intermark Mall and DA MEN Mall.<br>• Risk-adjusted reversion capitalisation rate of 6.00% (2016: 6.00%) for Pavilion Kuala Lumpur Mall and Pavilion Tower and 6.75% (2016: 6.50%) for Intermark Mall and DA MEN Mall. | The estimated fair value would increase (decrease) if:<br>• risk-adjusted term capitalisation rates were lower (higher).<br>• risk-adjusted reversion capitalisation rates were lower (higher). |

**Level 3 fair value**

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

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

The land title in respect of the Intermark Mall had been transferred in favour of the Trustee on 25 April 2016.

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

## 6. Other non-current assets

Included in other non-current assets were deposits placed for the proposed acquisition of Investment Property (see Note 25).

## 7. Trade and other receivables

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Current** | | |
| **Trade** | | |
| Trade receivables | 32,169 | 32,501 |
| Less: Impairment losses | (1,702) | (2,864) |
| | 30,467 | 29,637 |
| **Non-trade** | | |
| Other receivables | 8,984 | 8,909 |
| Deposits | 2,165 | 1,140 |
| Prepayments | 6,482 | 3,388 |
| | 17,631 | 13,437 |
| | 48,098 | 43,074 |

## 8. Cash and bank balances

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Cash and bank balances | 18,706 | 18,938 |
| Deposits placed with licensed banks | 256,677 | 298,133 |
| | 275,383 | 317,071 |

Included in the deposits placed with licensed banks is an amount of RM40,988,000 (2016: RM39,718,000) which is maintained in Debt Service Reserve Accounts with licensed banks to cover a minimum of six months interest for banking facilities granted to Pavilion REIT (Note 9).

## 9. Borrowings

| | Note | 2017 RM'000 | 2016 RM'000 |
|---|---|---|---|
| **Non-current** | | | |
| Secured syndicated term loan | 9.1 | 735,900 | 705,900 |
| Secured term loan | 9.2 | 433,159 | 415,988 |
| Unrated medium term notes | 9.3 | 300,000 | 300,000 |
| Less: Unamortised transaction costs | | (6,378) | (9,537) |
| | | 1,462,681 | 1,412,351 |
| Average interest rate of borrowings | | 4.6% | 4.1% |

## 9. Borrowings (cont'd)

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

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

(i) RTL1 - a revolving term loan ("RTL") facility of up to RM705.9 million to part finance the acquisition of investment properties and future acquisitions by Pavilion REIT;

(ii) RTL2 - a revolving term loan facility of up to RM100.0 million to finance general working capital of Pavilion REIT (including acquisition of assets); and

(iii) BG/RTL3 - a bank guarantee ("BG") of up to RM10.0 million for the issuance of performance bonds, bank guarantees, indemnities or undertakings and a revolving term loan facility for the conversion of any amounts paid out under the performance bonds, bank guarantees, indemnities or undertakings issued under bank guarantee.

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

The revolving credit borrowings are secured over Pavilion Kuala Lumpur Mall and Pavilion Tower as disclosed in Note 5 with a fair value of RM4,683,000,000 (2016: RM4,583,000,000) and an amount of RM20,498,000 (2016: RM19,893,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.

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

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

(i) TL - a term loan ("TL") facility of RM461.8 million to part finance the purchase consideration for the acquisition of the DA MEN Mall;

(ii) RC - a revolving credit ("RC") facility of up to RM25.0 million to part finance its working capital requirements; and

(iii) BG - a bank guarantee facility of up to the maximum aggregate principal amount of RM3.0 million subject always to the RC/BG combined limit for the issuance of performance and financial guarantee in respect of the DA MEN Mall.

The secured term loan facilities are secured over DA MEN Mall as disclosed in Note 5 with a fair value of RM416,000,000 (2016: RM483,000,000) and an amount of RM12,690,000 (2016: RM12,284,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.

## 9. Borrowings (cont'd)

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

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

As at the date of the financial statements, RM300.0 million of MTNs have been issued.

The medium term notes are secured over Pavilion Kuala Lumpur Mall and Pavilion Tower as disclosed in Note 5 with a fair value of RM4,683,000,000 (2016: RM4,583,000,000) and an amount of RM7,800,000 (2016: RM7,541,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.

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

| | At 1 January 2017 RM'000 | Net changes from financing cash flows RM'000 | Other changes RM'000 | At 31 December 2017 RM'000 |
|---|---|---|---|---|
| Secured syndicated term loan | 705,900 | 30,000 | – | 735,900 |
| Secured term loan | 415,988 | 17,171 | – | 433,159 |
| Unrated medium term notes | 300,000 | – | – | 300,000 |
| Less: Unamortised transaction costs | (9,537) | (276) | 3,435 | (6,378) |
| | 1,412,351 | 46,895 | 3,435 | 1,462,681 |

## 10. Payables and accruals

| | Note | 2017 RM'000 | 2016 RM'000 |
|---|---|---|---|
| **Non-current** | | | |
| **Trade** | | | |
| Tenants' deposits | 10.1 | 73,107 | 65,398 |
| **Current** | | | |
| **Trade** | | | |
| Trade payables | | 20,279 | 22,272 |
| Tenants' deposits | 10.1 | 43,473 | 48,996 |
| | | 63,752 | 71,268 |
| **Non-trade** | | | |
| Other payables and accrued expenses | 10.2 | 113,347 | 122,552 |
| | | 177,099 | 193,820 |
| | | 250,206 | 259,218 |

## 10. Payables and accruals (cont'd)

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

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

| | 2017<br>RM'000 | 2016<br>RM'000 |
|---|---|---|
| The Manager | 10,856 | 8,880 |
| Trustee | 40 | 83 |
| Equine Park Country Resort Sdn. Bhd. | 48,685 | 60,856 |
| | 59,581 | 69,819 |

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

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

## 11. Total unitholders' funds

### 11.1 Unitholders' capital

| | 2017<br>Number<br>of units<br>'000 | 2016<br>Number<br>of units<br>'000 |
|---|---|---|
| Approved fund size: | | |
| At 31 December | 3,318,000 | 3,100,000 |
| Issued and fully paid up: | | |
| At 1 January | 3,022,525 | 3,017,842 |
| Manager's management fees paid in units | 7,569 | 4,683 |
| At 31 December | 3,030,094 | 3,022,525 |

| | 2017<br>RM'000 | 2016<br>RM'000 |
|---|---|---|
| At 1 January | 2,900,708 | 2,893,046 |
| Manager's management fees paid in units | 13,141 | 7,662 |
| At 31 December | 2,913,849 | 2,900,708 |

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

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

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

| | Number of units '000 | Amount RM'000 |
|---|---|---|
| **2017** | | |
| Issued at RM1.7707 per unit for entitlement for the 6 months ended 31 December 2016 | 3,759 | 6,656 |
| Issued at RM1.7024 per unit for entitlement for the 6 months ended 30 June 2017 | 3,810 | 6,485 |
| Total Manager's fees paid in units | 7,569 | 13,141 |
| **2016** | | |
| Issued at RM1.4970 per unit for entitlement for the 6 months ended 31 December 2015 | 1,963 | 2,939 |
| Issued at RM1.7503 per unit for entitlement for the 6 months ended 30 June 2016 | 1,774 | 3,106 |
| Issued at RM1.7102 and RM1.5446 per unit for entitlement to acquisition and disposal fee | 946 | 1,617 |
| Total Manager's fees paid in units | 4,683 | 7,662 |

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | 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 | 1,743,469 | 1,082,900 | 2,057,510 |
| Tan Sri Lim Siew Choon | 845,425 | 1,361,134 | 845,425 | 1,606,308 |
| Puan Sri Tan Kewi Yong | 281,875 | 453,819 | 281,875 | 535,562 |
| Employees Provident Fund Board | 130,703 | 210,432 | 199,119 | 378,327 |
| *The Manager's direct unitholdings in Pavilion REIT* | 9,725 | 15,657 | 4,234 | 8,044 |
| *The Manager's Directors' direct unitholdings in Pavilion REIT:* | | | | |
| Tan Sri Lim Siew Choon | 845,425 | 1,361,134 | 845,425 | 1,606,308 |
| Puan Sri Tan Kewi Yong | 281,875 | 453,819 | 281,875 | 535,562 |
| Dato' Lee Tuck Fook | 100 | 161 | 100 | 190 |
| Navid Chamdia | 100 | 161 | 100 | 190 |
| Ooi Ah Heong | 100 | 161 | 100 | 190 |
| Dato' Mohzani Bin Abdul Wahab | 100 | 161 | 100 | 190 |
| Dato' Maznah Binti Abdul Jalil | 100 | 161 | 100 | 190 |

Notes:
The market value of the units was computed based on the closing market price as at 31 December 2017 of RM1.61 (2016: RM1.90).

## 12. Manager's management fees

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Base fee | 16,959 | 16,292 |
| Performance fee | 9,688 | 9,443 |
| Divestment fee | 4 | – |
| | 26,651 | 25,735 |
| Acquisition fee | – | 6,468 |

During the financial year, the Manager received a base fee of 0.3% (2016: 0.3%) per annum of the Total Asset Value of Pavilion REIT, a performance fee of 3.0% (2016: 3.0%) per annum of Net Property Income and a divestment fee of 0.5% (2016: Nil) of transaction value in relation to disposal of real estate related assets.

No acquisition fee incurred during the year (2016: 1.0% of transaction value in relation to the acquisition of DA MEN Mall and Intermark Mall was capitalised as part of the acquisition cost of investment properties as disclosed in Note 5).

Manager's management fees payable in units amounts to RM13,325,000 (2016: RM11,378,000). 50% (2016: 25%) of total Manager's management fees for the first half of 2017 had been paid in units and 50% (2016: 50%) of the total Manager's management fees for the second half of 2017 would be payable in units. The balance of Manager's management fees will be paid in the following year.

## 13. Borrowing costs

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Interest expense | 67,299 | 57,951 |
| Amortisation of transaction costs | 3,435 | 3,096 |
| | 70,734 | 61,047 |

## 14. Tax expense

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Reconciliation of tax expense** | | |
| Income before taxation | 249,447 | 312,143 |
| Income tax using Malaysian tax rate of 24% (2016: 24%) | 59,867 | 74,914 |
| Non-deductible expenses | 3,737 | 2,602 |
| Non-taxable income | (4,087) | (18,449) |
| Effect of income exempted from tax | (59,517) | (59,067) |
| | – | – |

## 14. Tax expense (cont'd)

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

As Pavilion REIT proposed to distribute 100% of its distributable income to its unitholders for financial year ended 31 December 2017, 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 RM249,447,000 (2016: RM312,143,000) divided by the weighted average number of units in circulation during the year of 3,027,333,368 (2016: 3,020,648,551).

## 16. Distribution to unitholders

Distribution to unitholders is from the following sources:

| | 2017<br>RM'000 | 2016<br>RM'000 |
|---|---|---|
| Rental income | 397,368 | 388,481 |
| Other income | 92,633 | 71,220 |
| Fair value gain on investment properties | 17,028 | 76,872 |
| Interest income | 8,165 | 8,715 |
| Gain on disposal of investment property | 274 | – |
| | 515,468 | 545,288 |
| Less: Total expenses | (266,021) | (233,145) |
| | 249,447 | 312,143 |
| Distribution adjustments | 236 | (63,359) |
| Distributable income | 249,683 | 248,784 |
| Distribution to unitholders | 243,160 | 250,563 |

| | 2017 | 2016 |
|---|---|---|
| Interim distribution per unit (sen) | 3.96 | 4.16 |
| Final distribution per unit (sen) | 4.28 * | 4.08 |
| Net distribution per unit** (sen) | 8.24 | 8.24 |

## 16. Distribution to unitholders (cont'd)

* The final distributable income for the 6 months ended 31 December 2017 is proposed to be 4.28 sen per unit or RM129,688,000 payable on 28 February 2018.

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

| | Withholding tax rate | |
|---|---|---|
| | **2017** | **2016** |
| Resident corporate | N/A^ | N/A^ |
| Resident non-corporate | 10% | 10% |
| Non-resident individual | 10% | 10% |
| Non-resident corporate | 24% | 24% |
| Non-resident institutional | 10% | 10% |

^ to tax at prevailing rate

## 17. Portfolio turnover ratio

| | **2017** | **2016** |
|---|---|---|
| Portfolio Turnover Ratio ("PTR") (times) | -* | 0.08 |

Included in the amount is 0.0002 times.

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

During the year, Pavilion REIT had disposed an area measuring 2,324 square feet to Urusharta Cemerlang Sdn. Bhd. for a purchase consideration of RM880,000. The effect of the disposal during the year to PTR is insignificant. There was no new completed acquisitions during the year (2016: Pavilion REIT had completed its acquisitions for DA MEN Mall and Intermark Mall on the 25 March 2016 for purchase consideration of RM486,844,000 and RM160,000,000 respectively).

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

| | **2017** | **2016** |
|---|---|---|
| Management expense ratio ("MER") (%) | 0.72 | 0.69 |

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.

| | Retail RM'000 | Office RM'000 | Total RM'000 |
|---|---|---|---|
| **For the year ended 31 December 2017** | | | |
| **Segment profit** | 314,907 | 8,006 | 322,913 |
| *Included in the measure of segment profit are:* | | | |
| Gross revenue | 477,544 | 12,457 | 490,001 |
| Property expenses | 162,637 | 4,451 | 167,088 |
| **At 31 December 2017** | | | |
| **Segment assets and liabilities** | | | |
| Segment assets | 5,491,305 | 133,561 | 5,624,866 |
| Segment liabilities | 1,678,700 | 30,251 | 1,708,951 |
| **For the year ended 31 December 2017** | | | |
| *Included in the measure of segment assets and liabilities are:* | | | |
| Additions to non-current assets | 79,972 | – | 79,972 |
| Fair value gain to non-current assets | 17,028 | – | 17,028 |
| **For the year ended 31 December 2016** | | | |
| **Segment profit** | 305,911 | 8,863 | 314,774 |
| *Included in the measure of segment profit are:* | | | |
| Gross revenue | 447,139 | 12,562 | 459,701 |
| Property expenses | 141,228 | 3,699 | 144,927 |
| **At 31 December 2016** | | | |
| **Segment assets and liabilities** | | | |
| Segment assets | 5,430,936 | 134,019 | 5,564,955 |
| Segment liabilities | (1,641,094) | (30,210) | (1,671,304) |
| **For the year ended 31 December 2016** | | | |
| *Included in the measure of segment assets and liabilities are:* | | | |
| Additions to non-current assets | 604,328 | – | 604,328 |
| Fair value gain to non-current assets | 76,872 | – | 76,872 |

## 19. Operating segments (cont'd)

### Reconciliation of reportable segment profit

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Total profit for reportable segments | 322,913 | 314,774 |
| Fair value gain on investment properties | 17,028 | 76,872 |
| Gain on disposal of investment property | 274 | – |
| Interest income | 7,330 | 7,925 |
| Other non–allocated income | 835 | 790 |
| Trust expenses | (28,199) | (27,171) |
| Borrowing costs | (70,734) | (61,047) |
| Income before taxation | 249,447 | 312,143 |
| Taxation | – | – |
| Income after taxation | 249,447 | 312,143 |

### Reconciliation of reportable segment assets and liabilities

| | Segment assets RM'000 | Segment liabilities RM'000 |
|---|---|---|
| **2017** | | |
| Total reportable segments | 5,624,866 | (1,708,951) |
| Other non-allocated assets/(liabilities) | 28,298 | (3,936) |
| Total assets/(liabilities) | 5,653,164 | (1,712,887) |
| **2016** | | |
| Total reportable segments | 5,564,955 | (1,671,304) |
| Other non-allocated assets/(liabilities) | 27,463 | (265) |
| Total assets/(liabilities) | 5,592,418 | (1,671,569) |

### Geographical information

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

## 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 2017 RM'000 | Loans and receivables 2017 RM'000 | Carrying amounts 2016 RM'000 | Loans and receivables 2016 RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Receivables and deposits | 41,616 | 41,616 | 39,686 | 39,686 |
| Cash and bank balances | 275,383 | 275,383 | 317,071 | 317,071 |
| | 316,999 | 316,999 | 356,757 | 356,757 |

| | Carrying amounts 2017 RM'000 | Financial liabilities measured at amortised cost 2017 RM'000 | Carrying amounts 2016 RM'000 | Financial liabilities measured at amortised cost 2016 RM'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Payables and accruals | 250,026 | 250,026 | 259,218 | 259,218 |
| Borrowings | 1,462,681 | 1,462,681 | 1,412,351 | 1,412,351 |
| | 1,712,887 | 1,712,887 | 1,671,569 | 1,671,569 |

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

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Loans and receivables | 6,706 | 8,899 |
| Borrowings | (70,734) | (61,047) |
| | (64,028) | (52,148) |

### 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

## 20. Financial instruments (cont'd)

### 20.4 Credit risk

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

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

**Receivables**

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

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

*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:

| | Gross RM'000 | Impairment loss RM'000 | Net RM'000 |
|---|---|---|---|
| **2017** | | | |
| Not past due | 594 | – | 594 |
| Past due 0 - 30 days | 8,018 | – | 8,018 |
| Past due 31 - 90 days | 11,773 | (9) | 11,764 |
| Past due more than 90 days | 11,784 | (1,693) | 10,091 |
| | 32,169 | (1,702) | 30,467 |
| **2016** | | | |
| Not past due | 1,693 | – | 1,693 |
| Past due 0 - 30 days | 9,176 | – | 9,176 |
| Past due 31 - 90 days | 9,278 | – | 9,278 |
| Past due more than 90 days | 12,354 | (2,864) | 9,490 |
| | 32,501 | (2,864) | 29,637 |

## 20. Financial instruments (cont'd)

### 20.4 Credit risk (cont'd)

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

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| At 1 January | 2,864 | 3,048 |
| Impairment loss reversal | (1,162) | (184) |
| At 31 December | 1,702 | 2,864 |

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.

## 20. Financial instruments (cont'd)

### 20.5 Liquidity risk (cont'd)

*Maturity analysis*

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

| | Carrying amount RM'000 | Contractual interest rate% | Contractual cash flow RM'000 | Less than 1 year RM'000 | 1 - 2 years RM'000 | 2 - 5 years RM'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Financial liabilities** | | | | | | |
| Borrowings | 1,462,681 | 4.48 - 4.85 | 1,639,085 | 64,434 | 775,109 | 799,542 |
| Payable and accruals | 250,206 | – | 250,206 | 177,099 | 51,604 | 21,503 |
| | 1,712,887 | | 1,889,291 | 241,533 | 826,713 | 821,045 |
| **2016** | | | | | | |
| **Financial liabilities** | | | | | | |
| Borrowings | 1,412,351 | 4.85 - 5.02 | 1,668,746 | 68,987 | 68,987 | 1,530,772 |
| Payable and accruals | 259,218 | – | 259,218 | 193,820 | 20,034 | 45,364 |
| | 1,671,569 | | 1,927,964 | 262,807 | 89,021 | 1,576,136 |

### 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.

## 20. Financial instruments (cont'd)

### 20.6 Market risk (cont'd)

#### 20.6.1 Interest rate risk (cont'd)

*Exposure to interest rate risk*

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

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Fixed rate instrument** | | |
| Financial asset - Deposits placed with licensed banks | 256,677 | 298,133 |
| Financial liabilities - Borrowings | (300,000) | (300,000) |
| | (43,323) | (1,867) |
| **Floating rate instruments** | | |
| Financial liabilities - Borrowings | (1,162,681) | (1,112,351) |

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

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

| | Fair value of financial instruments not carried at fair value | | | Total | |
|---|---|---|---|---|---|
| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | fair value RM'000 | Carrying amount RM'000 |
| **2017** | | | | | |
| **Financial liabilities** | | | | | |
| Tenants' deposits | – | – | (110,944) | (110,944) | (116,580) |
| Borrowings | – | – | (1,434,359) | (1,434,359) | (1,462,681) |
| | – | – | (1,545,303) | (1,545,303) | (1,579,261) |
| **2016** | | | | | |
| **Financial liabilities** | | | | | |
| Tenants' deposits | – | – | (120,205) | (120,205) | (114,394) |
| Borrowings | – | – | (1,430,330) | (1,430,330) | (1,412,351) |
| | – | – | (1,550,535) | (1,550,535) | (1,526,745) |

## 20. Financial instruments (cont'd)

### 20.7 Fair value information (cont'd)

**Level 3 fair value**

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

*Financial instruments not carried at fair value*

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

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

## 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 meets the minimum interest coverage ratio which is an effective indicator of its financial strengths in addition to complying with the financial covenants prescribed by financial institutions as stated in the Facility Agreements. The Directors of the Manager will monitor and are determined to maintain an optimal gearing ratio that will provide an ideal debt equity ratio that also complies with regulatory requirements.

As at 31 December 2017, Pavilion REIT recorded a gearing ratio of 25.87% (2016: 25.25%) and interest coverage ratio in excess of the minimum requirement (2016: in excess of the minimum requirement). 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:

| | 2017<br>RM'000 | 2016<br>RM'000 |
|---|---|---|
| Less than one year | 354,417 | 316,870 |
| Between one and five years | 351,191 | 432,302 |
| | 705,608 | 749,172 |

## 23. Capital commitments

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

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Capital expenditure commitments** | | |
| **Investment properties** | | |
| *Authorised and contracted for:* | | |
| - Within one year | 522,000 | – |

## 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 MTrustee Berhad, and certain members of senior management of Pavilion REIT Management Sdn. Bhd. and MTrustee Berhad.

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

| | | Transaction value | | Balance outstanding | |
|---|---|---|---|---|---|
| **Companies related to the Manager** | **Nature of transactions** | **2017 RM'000** | **2016 RM'000** | **2017 RM'000** | **2016 RM'000** |
| Pavilion REIT Management Sdn. Bhd. | Rental income and its related charges | 455 | 463 | – | 4 |
| Malton Berhad Group * | Rental income and its related charges | 3,086 | 3,062 | 8 | 12 |
| Crabtree & Evelyn (Malaysia) Sdn. Bhd. # | Rental income and its related charges | 843 | 1,218 | – | 191 |
| | Purchase of product | (283) | (70) | – | (6) |
| Lumayan Indah Sdn. Bhd. ∞ | Rental income and its related charges | 118 | 3 | 1 | – |
| Impian Ekspresi Sdn. Bhd. ◊ | Rental income and its related charges | 765 | 654 | 64 | 196 |
| Kuala Lumpur Pavilion Sdn. Bhd. ^ | Expenses of MRT station naming rights fee and its related charges | (1,575) | – | – | – |
| Urusharta Cemerlang (KL) Sdn Bhd Δ | Rental income and its related charges | 776 | 774 | – | 3 |
| | Reimbursement of electricity supply to Elite Pavilion Mall | 6,086 | – | 1,214 | – |
| Urusharta Cemerlang Sdn. Bhd. α | Disposal of part area in Pavilion Kuala Lumpur Mall | 880 | – | 792 | – |

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

## 24. Significant related party transactions (cont'd)

The above parties are deemed related as follows:

- * Malton Berhad Group are deemed parties related to the Manager by virtue of the directorship and interest of Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong, his spouse, in Malton Berhad.

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

- ∞ Ahmad Mohammed F Q Al-Khanji, Mohd Abdulrazzaq A A Al-Hashmi and Navid Chamdia are directors of the Manager and Lumayan Indah Sdn. Bhd.

- ◊ Impian Ekspresi Sdn. Bhd. is deemed party related to the Manager by virtue of Tan Sri Lim Siew Choon's directorship and deemed interest in Impian Ekspresi Sdn Bhd and his spouse, Puan Sri Tan Kewi Yong.

- ^ Tan Sri Lim Siew Choon, Puan Sri Tan Kewi Yong and Dato' Lee Tuck Fook are directors of Kuala Lumpur Pavilion Sdn. Bhd. Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong hold the entire issued and paid up share capital of Kuala Lumpur Pavilion Sdn. Bhd.

- Δ Tan Sri Lim Siew Choon, Ahmad Mohammed F Q Al-Khanji, Mohd Abdulrazzaq A A Al-Hashmi and Navid Chamdia are directors of the Manager and Urusharta Cemerlang (KL) Sdn. Bhd. ("UCKL").

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

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

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

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

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

## 25. Significant events during the financial year

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

a) Conditional sale and purchase agreement with Urusharta Cemerlang (KL) Sdn Bhd ("UCKL") for the acquisition of Elite Pavilion Mall comprising the followings, for a total purchase consideration of RM580,000,000 ("Elite SPA"):

   i. Level B3, Level B2, Level B1, Level 1 – Level 10 (inclusive), Level 10M, Level 10MM, Level 11 (including roof) and Level 52 (including the external façade of Level 52 up to roof level) of the building, and the stratified parcels comprising, amongst others, 50 car park bays located at Level B3 to Level 2 within the building. The strata floor area is approximately 437,585 square feet;

   ii. The assignment of all benefits, rights and entitlements to an underground pedestrian tunnel with strata floor area of approximately 8,697 square feet together with retail outlets and other relevant spaces that interconnects Elite Pavilion Mall with Fahrenheit 88 shopping mall across Jalan Bukit Bintang, Kuala Lumpur ("Subway Linkage");

   iii. The transfer of tenancies within Elite Pavilion Mall and the Subway Linkage under the transfer agreements ("Transferred Agreements").

## 25. Significant events during the financial year (cont'd)

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

The Elite SPA and Vesting Agreement are inter-conditional upon each other and are to be completed concurrently.

In conjunction with the Proposed Acquisition, The Board proposes to undertake the Proposed Placement of up to 218,000,000 new units in Pavilion REIT ("Unit") of the total units in circulation, by way of bookbuilding to partly fund the Proposed Acquisition and also defray the expenses relating to the Proposals.

On 17 October 2017, Securities Commission had approved the issuance of up to 218,000,000 new Units under the Proposed Placement, listing and quotation of up to 218,000,000 new Units under the Proposed Placement on the Main Market of Bursa Securities.

On 30 November 2017, Bursa Securities had approved the listing and quotation of up to 218,000,000 new Units to be issued pursuant to the Proposed Placement on the Main Market of Bursa Securities.

In the Unitholders' Meeting convened on 16 January 2018, the unitholders approved the Proposed Acquisition. The Board of Directors of the Manager expects the Proposed Acquisition to be completed by first quarter of 2018.

# STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 57 to 95 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 2017 and of their financial performance and cash flows for the year ended on that date.

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

..................................................
**Tan Sri Lim Siew Choon**
Director

..................................................
**Dato' Lee Tuck Fook**
Director

Kuala Lumpur,

Date: 25 January 2018

# 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 57 to 95 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Dato' Lee Tuck Fook, I/C No 540601-04-5333, at Kuala Lumpur on 25 January 2018.

..................................................
**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 2017. 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 2017 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 2017 as follows:

1) Final income distribution of 4.28 sen per unit payable on 28 February 2018.

For and on behalf of the Trustee,
MTrustee Berhad

....................................................
**Nurizan Binti Jalil**
Chief Executive Officer

Selangor,

Date: 25 January 2018

# INDEPENDENT AUDITORS' REPORT

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



## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Pavilion Real Estate Investment Trust ("Pavilion REIT"), which comprise the statements of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 57 to 95.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Pavilion REIT as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

### Basis for Opinion

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

### Independence and Other Ethical Responsibilities

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

### Key Audit Matter

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

***Valuation of investment properties***

Pavilion REIT owns a portfolio of investment properties comprising 3 shopping malls and an office block located in Malaysia. Investment properties represent the single largest category of assets on the statement of financial position.

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

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

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

**Key Audit Matter (cont'd)**

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

We performed the following audit procedures, among others:

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

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

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

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

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

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

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

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

# Independent Auditors' Report
to the Unitholders of Pavilion Real Estate Investment Trust
(Established in Malaysia) (cont'd)

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

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

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

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

ii) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Pavilion REIT.

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

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

v) Evaluate the overall presentation, structure and content of the financial statements of Pavilion REIT, including the disclosures, and whether the financial statements of Pavilion REIT represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

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

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

**Other Matter**

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

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

**Chan Kam Chiew**
Approval Number: 2055/06/18(J)
Chartered Accountant

Petaling Jaya

Date: 25 January 2018

# ANALYSIS OF UNITHOLDINGS

Overview
Business Review
Corporate Governance Report And Financial Statements
Others

### Distribution of Unitholdings as at 31 December 2017

| Size of Unitholdings | No. of Unitholders | % of Unitholders | No. of Units | % of Unitholdings |
|---|---|---|---|---|
| Less than 100 | 41 | 0.78 | 754 | 0.00 |
| 100 - 1,000 | 1,056 | 20.14 | 773,500 | 0.02 |
| 1,001 - 10,000 | 2,938 | 56.05 | 14,413,500 | 0.48 |
| 10,001 - 100,000 | 999 | 19.06 | 33,622,400 | 1.11 |
| 100,001 to less than 5% of issued units | 205 | 3.91 | 771,283,451 | 25.45 |
| 5% and above of issued units | 3 | 0.06 | 2,210,000000 | 72.94 |
| **Total** | **5,242** | **100.00** | **3,030,093,605** | **100.00** |

### Thirty largest unitholders as per record of depositors as at 31 December 2017

| No | Name of Unitholders | No. of Units | % |
|---|---|---|---|
| 1. | HSBC Nominees (Asing) Sdn Bhd<br>CS (Switz) for Qatar Holding LLC | 1,082,900,000 | 35.74 |
| 2. | Maybank Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Lim Siew Choon (432218) | 845,325,000 | 27.90 |
| 3. | Maybank Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Tan Kewi Yong (129118) | 281,775,000 | 9.30 |
| 4. | Amanahraya Trustees Berhad<br>Amanah Saham Bumiputera | 125,343,200 | 4.14 |
| 5. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board | 114,434,003 | 3.78 |
| 6. | Kumpulan Wang Persaraan (Diperbadankan) | 57,335,300 | 1.89 |
| 7. | DB (Malaysia) Nominee (Asing) Sdn Bhd<br>BNYM SA/NV for Newton Asian Income Fund | 54,169,900 | 1.79 |
| 8. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Exempt an for AIA Bhd | 46,663,000 | 1.54 |
| 9. | Valuecap Sdn Bhd | 39,301,800 | 1.30 |
| 10. | HSBC Nominees (Asing) Sdn Bhd<br>BBH and Co Boston for Asia REIT Master Fund | 29,560,700 | 0.98 |
| 11. | Amanahraya Trustees Berhad<br>Amanah Saham Wawasan 2020 | 20,000,000 | 0.66 |
| 12. | Cartaban Nominees (Asing) Sdn Bhd<br>Exempt an for State Street Bank & Trust Company (West CLT OD67) | 14,533,300 | 0.48 |
| 13. | Malaysia Nominees (Tempatan) Sendirian Berhad<br>Great Eastern Life Assurance (Malaysia) Berhad (LSF) | 13,169,700 | 0.43 |
| 14. | Malaysia Nominees (Tempatan) Sendirian Berhad<br>Great Eastern Life Assurance (Malaysia) Berhad (Par 3) | 13,000,000 | 0.43 |
| 15. | Malaysia Nominees (Tempatan) Sdn Bhd<br>Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100) | 10,388,500 | 0.34 |

**Thirty largest unitholders as per record of depositors as at 31 December 2017 (Cont'd)**

| No | Name of Unitholders | No. of Units | % |
|---|---|---|---|
| 16. | HSBC Nominees (Asing) Sdn Bhd<br>JPMCB NA for Vanguard Total International Stock Index Fund | 10,304,600 | 0.34 |
| 17. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (CIMB PRIN) | 10,269,200 | 0.34 |
| 18. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Allianz Life Insurance Malaysia Berhad (P) | 9,771,000 | 0.32 |
| 19. | Pavilion REIT Management Sdn Bhd | 9,725,005 | 0.32 |
| 20. | Amanahraya Trustees Berhad<br>Amanah Saham Malaysia | 8,749,000 | 0.29 |
| 21. | Cartaban Nominees (Tempatan) Sdn Bhd<br>PAMB for Prulink Equity Fund | 8,038,900 | 0.27 |
| 22. | DB (Malaysia) Nominee (Asing) Sdn Bhd<br>BNYM SA/NV for Newton Emerging Income Fund | 7,558,800 | 0.25 |
| 23. | Amanahraya Trustees Berhad<br>PB Growth Fund | 7,479,200 | 0.25 |
| 24. | HSBC Nominees (Asing) Sdn Bhd<br>Six SIS for B&I Pan-Asian Total Return Real Estate Securities Fund | 7,376,700 | 0.24 |
| 25. | HSBC Nominees (Asing) Sdn Bhd<br>BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund | 6,381,700 | 0.21 |
| 26. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Zurich Insurance Malaysia Berhad (Life Par) | 6,339,000 | 0.21 |
| 27. | HSBC Nominees (Asing) Sdn Bhd<br>JPMCB NA for Jupiter Emerging and Frontier Income Trust PLC | 6,327,500 | 0.21 |
| 28. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (Amundi) | 6,000,000 | 0.20 |
| 29. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Kumpulan Wang Persaraan (Diperbadankan) (CIMB Equities) | 5,594,800 | 0.18 |
| 30. | Amanah Trustees Berhad<br>As 1Malaysia | 5,001,500 | 0.17 |

# Analysis of Unitholdings (cont'd)

### Major Unitholders (5% and above) as at 31 December 2017

| No | Name of Unitholders | Direct Interest No. of Units | % | Deemed Interest No. of Units | % |
|---|---|---|---|---|---|
| 1. | Qatar Holding LLC | 1,082,900,000 | 35.74 | – | – |
| 2. | Tan Sri Lim Siew Choon | 845,425,000 | 27.90 | – | – |
| 3. | Puan Sri Tan Kewi Yong | 281,875,000 | 9.30 | – | – |

### Unitholdings of Directors and Chief Executive Officer as at 31 December 2017

| No | Name of Unitholders | Direct Interest No. of Units | % | Deemed Interest No. of Units | % |
|---|---|---|---|---|---|
| 1. | Tan Sri Lim Siew Choon | 845,425,000 | 27.90 | – | – |
| 2. | Puan Sri Tan Kewi Yong | 281,875,000 | 9.30 | – | – |
| 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*

## GENERAL ECONOMIC OVERVIEW 2017

Based on the latest report released by Bank Negara Malaysia (BNM) for Q3 2017, the Malaysian economy is estimated to have grown strongly by 6.2% in the third quarter, up from 5.8% the previous quarter, leading BNM to forecast the GDP growth for 2017 to be at the upper end of the official growth projections - between 5.2% and 5.7%. The economic growth is supported by strong domestic demand as well as exports due to the favourable global conditions. For 2018, the Ministry of Finance has projected a growth of between 5.0% and 5.5% whilst the International Monetary Authority (IMF) has made a similar forecast.

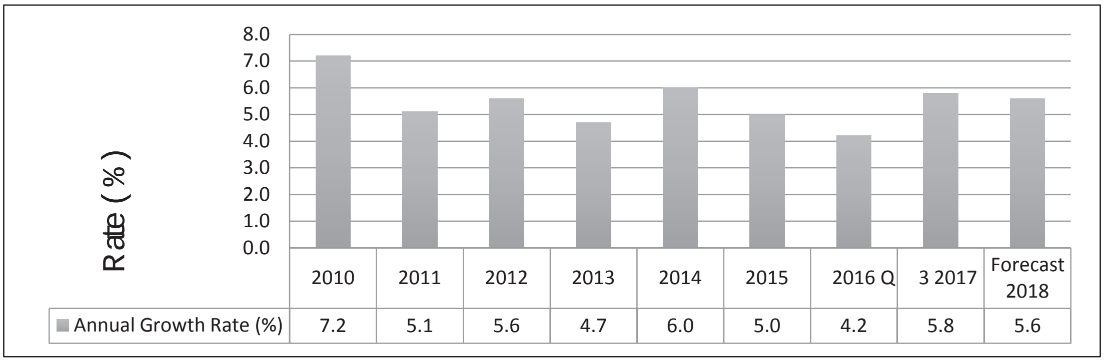



*Chart 1: Malaysia – Annual GDP Growth Rate (%)*
*Source: BNM*

Crude oil prices started the year on a positive note with average prices (WTI) closing at US$53.59/bbl on 31 January before plunging mid-year to US$46.17/bbl on 30 June. Since then, OPEC and Russia, the major oil exporters, have reached an agreement to cut production and this helped to push prices back up to US$58.36/bbl as at 1 December. Nevertheless, the recovery of crude oil prices may stimulate an increase in production of US shale oil and this may impede the effect of the production cut agreement.

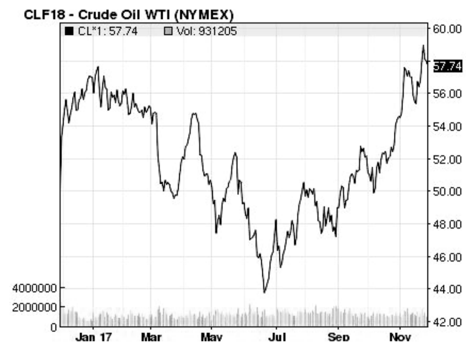



*Chart 2: WTI (Nymex) Crude Oil Prices 2017*
*Source: Nasdaq*

The manufacturing sector enjoyed strong growth, driven by both export-oriented industries led by the good performance of the electrical and electronics sector as well as domestic-oriented industries supported by the food-related as well as building materials sectors.

# Market Overview (cont'd)

In terms of consumption and investment, private consumption rose 7.2% in Q3 2017 (up from 7.1% in Q2) whilst private investments went up by 7.9% (7.4% in Q2). Public consumption on the other hand expanded by 4.2% in Q3 (3.3% in Q2) whilst public investments recovered with a 4.1% growth compared to a decline of 5% in Q2. FDI inflows into the country for the first nine months of the year is set to match the previous year's record high. Headline inflation has declined steadily from 4.3% in Q1 to 4.0% in Q2 and 3.8% in Q3 but is expected to remain at elevated levels in the immediate term due to rising oil prices. The Ringgit continued to improve against the greenback and Singapore dollar and was the best performing currency over two consecutive quarters since Q2 2017.

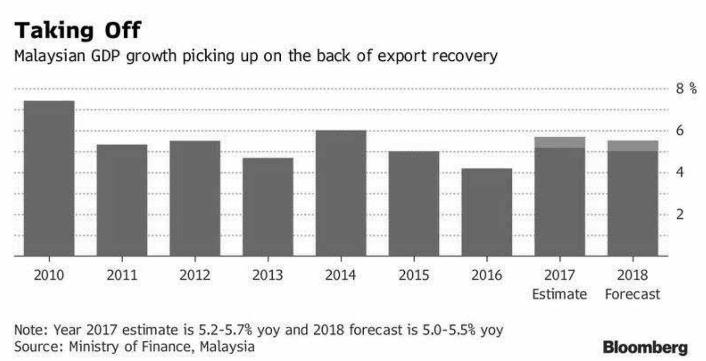



*Chart 3: Malaysia's GDP Growth*
*Source: BNM / MOF*

## THE RETAIL SECTOR

**Klang Valley Retail Supply In 2017**
**Total Retail Supply And Demand**

As at December 2017, Klang Valley (including Kuala Lumpur, Selangor and Putrajaya) had 262 shopping centres with a total retail supply of about 74.3 million square feet. The average occupancy rate of these shopping centres dropped for the second consecutive year from 79.9% in 2016 to 78.3%.

The total retail supply in Kuala Lumpur, Selangor and Putrajaya is as detailed out in the table below:

*Table 1: Retail Supply in Klang Valley, 2017*

| 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 | 112 | 33,538,465 | 12.29 | 79.6 |
| 2 | Selangor | 147 | 38,838,806 | 9.16 | 77.0 |
| 3 | Putrajaya | 3 | 1,957,573 | 3.72 | 82.0 |
| | TOTAL | 262 | 74,334,844 | 8.97 | 78.3 |

*# - includes hypermarket malls and arcades*
** - excludes rental rates of anchor tenants such as supermarket, department store, cineplex, bowling alley, etc.*
*Source : Henry Butcher Retail/ 2H2017 Property Market Report, NAPIC*

The average rental rate for Klang Valley declined for the second consecutive year from RM9.21 per square feet per month in 2016 to RM8.97 per square feet per month in 2017. This average did not include rental rates of anchor tenants such as supermarket, department store, cineplex, bowling alley etc.

For the year of 2017, Klang Valley shopping centres were still facing more or less the same challenges in 2016 - higher operation costs, reduced shopping traffic, decreased retail sales and early termination of tenants. Once again, it took longer to secure new tenants to fill vacant lots.

As in the previous year, many shopping centre owners needed to introduce rental rebates or reduce rental rates in order to retain existing tenants.

Shopping centres that suffered from low occupancy rates in 2016 were able to fill up more retail lots. Their occupancy rates improved this year. On the other hand, new shopping centres that opened this year faced difficulty to secure new tenants to take up their retail shops.

Numerous shopping centres scheduled for opening in 2017 were delayed to the following year. They include M Square, Selayang StarCity Mall, Bangsar Trade Centre, Evo Mall, KL Eco City Mall, Pacific Star and The Shoppes at Four Seasons Place.

### New Openings in 2017

*Table 2: New shopping centres opened in 2017*

| Name | Location | Net Lettable Area (square feet) | Anchor Tenant | Occupancy Rate (%)* |
|---|---|---|---|---|
| MyTown | Cheras | 1,100,000 | Parkson | 90 |
| KL Gateway Mall | Bangsar | 350,000 | Jaya Grocer | 85 |
| Melawati Mall | Melawati | 620,000 | Village Grocer / GSC | 90 |
| Empire City Mall | Damansara | 1,800,000 | Parkson/ Ice Skating Ring | 25 |
| Eight Kinrara | Bandar Kinrara | 70,000 | Anytime Fitness | 60 |
| KIP Mall | Sepang | 250,000 | Econsave / Mr DIY | 80 |
| Centrus Mall | Cyberjaya | 200,000 | None | 5 |
| Amerin Mall | Balakong | 155,000 | SKM Mkt/ Amerin Cineplex | **NA |
| TOTAL | | 4,545,000 | | |

* - occupancy rates were estimated based on observation studies carried out before 15 December 2017
**- Amerin Mall was opened on 15 December 2017.
*Source: Henry Butcher Retail*

A total of 8 shopping centres opened in 2017:

- After much delay, MyTown shopping mall in Cheras opened in early 2017. It is anchored by Parkson, Village Grocer and GSC cineplex. It opened the mall with numerous empty lots, but they were taken up and opened over the months. It is the second largest shopping centre opened this year.
- KL Gateway, located at the main entrance of Bangsar South, opened in early 2017. This retail podium of a mixed-use development is anchored by Village Grocer.
- Melawati Mall, located within Melawati commercial centre, opened to the public during the middle of 2017. It is anchored by Village Grocer, GSC cineplex and Fitness First.
- The largest shopping mall that opened in 2017 is Empire City Mall with 1.8 million square feet of nett floor area. This mall was supposed to open in 2015, but was delayed several times. The ice-skating rink and several F&B outlets in Empire City Mall were ready in time for the SEA Games held in August 2017. The remaining part of this mega shopping mall has yet to be open to public. Other anchor tenants include Parkson, CJ CGV Cinemas, VR park and a large bowling alley.
- Eight Kinrara, a small neighbourhood shopping centre in Bandar Kinrara, struggled to find tenants initially. It is now tenanted by Anytime Fitness, Maybank, F&B outlets and retail tenants.
- KIP Mall Kota Warisan is located in a new growth area of Sepang. It was opened in August 2017 with Econsave as the main anchor tenant.
- Centrus Mall in Cyberjaya was completed and opened to the public in 2017. Only a few tenants are found in this new retail centre.
- Amerin Mall in Balakong is the latest shopping centre opened that before the end of 2017. It is tenanted by SKM Market, Amerin Cineplex, an event hall, F&B outlets and retail tenants.

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## KLANG VALLEY SHOPPING CENTRE PERFORMANCES IN 2017

**Shopping Centre Market**

Similar to 2016, the main challenges for Klang Valley shopping centres in 2017 are reduced consumer spending and rising operation costs.

Compared to 2 years ago, though consumers were still frequenting shopping malls, (especially during weekends, in large shopping malls), there were less purchases made.

**Major Challenges**

Shopping centre owners were facing higher operation costs (air-conditioning, security, cleaning and staff costs) during the year. Yet they are not able to increase their rental rates any higher as compared to 2016.

Shopping centre owners still needed to offer monetary incentives (including lower rental, longer rent-free period, subsidised renovation costs etc) in order to attract reputable tenants to open shops in their shopping centres.

The most important problem faced by shopping malls in Klang Valley in 2017 was the severe reduction in consumers' spending due to rising cost of living and weak economic conditions. This was the main reason that led to drops in average occupancy rate and average rental rate in 2017. This affected even the most popular shopping centres in Klang Valley.

The second challenge is oversupply. Klang Valley has been facing retail oversupply for the last 8 years. However, oversupply was location-specific, prominent in areas like Kuala Lumpur city centre, Petaling Jaya, Damansara, Cheras etc, but not apparent in areas like Klang, Bangi, Kajang and Kepong.

Many shopping centres in Klang Valley had been facing higher vacancy rates since the beginning of 2016. This situation had stabilised during the second half of 2017. Landlords had been proactive to improve the occupancy rates of their malls, including offering attractive rental packages.

**Acquisition, Refurbishment and Closure**

In early 2017, Pelaburan Hartanah Bhd (PHB) bought Empire Shopping Gallery in Subang Jaya for RM570 million.

In June 2017, AEON Co (M) Bhd announced that it will sell AEON Mahkota Cheras shopping centre to Foremost Wealth Management Sdn Bhd for RM87.8 million.

LBS Bina Group Bhd acquired M3 Mall in Gombak for RM105 million in September 2017.

IPC Mall in Damansara undertook major refurbishment and completed recently with new interior and new tenants.

Sogo KL in Kuala Lumpur city centre refurbished its exterior facade and internal layouts while remaining open.

Kompleks Pertama in Kuala Lumpur city centre undertook refurbishment to improve its building facades.

Subang Avenue completed its refurbishment and is ready for its new opening in early 2018.

To fight against new competition in its immediate vicinity, AEON Taman Maluri is building a new extension at its open car parking area.

The Sphere in Bangsar South was closed for redevelopment during the middle of 2017. The new retail centre will be reopened in early 2018.

The Malaysian government paid about RM300 million to acquire Ampang Park from strata lot owners to develop the second MRT line. Ampang Park was the first shopping centre opened in Kuala Lumpur 44 years ago which is targeted for demolishment by next year.

Pandan Safari in Pandan Perdana, Lucky Plaza Bandar Park in Old Klang Road and SSTwo Mall in Petaling Jaya were closed for refurbishment and redevelopment during the last 2 years but they have yet to re-open to public.

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**Freeze on Shopping Centre Development**

In a recent published report by Bank Negara of Malaysia, there is a glut of retail space in Malaysia. In response to this report, the government stopped all new applications to build shopping centres. However, in December 2017, the Malaysian government decided to relax this ruling. No detailed guidelines have been published to-date.

## KLANG VALLEY RETAIL MARKET

2017 was another disappointing year for Klang Valley retailers. This was due to weak consumer spending, intense competition, depreciated currency and rising cost of retail operation.

**Major Challenges During the Year**

The main challenges for Malaysia retail industry in 2017 were more or less the same as 2016.

Major challenges of retailers in Malaysia were:

- Weak consumers' spending
- Low consumers' confidence level
- Rising cost of operation

Retailers did not witness significant improvement in consumers' spending during the year. Despite better economic performance during the year, many Malaysian consumers did not enjoy higher take-home pays.

The currency depreciation since early 2016 has been affecting retailers in costs of retail goods. Retailers' profit margin had been severely affected by the higher costs of imports on raw materials, unfinished goods and retail goods.

Malaysian currency depreciation for the last 2 years had also led to higher cost of living for every Malaysian.

GCH Retail (Malaysia) Sdn Bhd announced the closure of 5 Giant hypermarkets and supermarkets by November 2017 after its leases expired. These outlets were located in Kuala Lumpur, Selangor, Kedah, Perak and Sarawak. In addition, Super Seven replaced Giant hypermarket located within Viva Home Mall in Cheras during the middle of 2017.

**Quarterly Retail Sale Performances**

For the first quarter of 2017, Malaysia's retail industry recorded a disappointing growth rate of -1.2% in retail sales, as compared to the same period in 2016 (refer to Table 3 below).

As compared to the same quarter a year ago, the retail industry contracted by 4.4% due to strong pre-GST sales in 2015. Unfortunately, it had yet to recover.

This poor quarterly growth rate was also due to weak Chinese New Year sales in January 2017. Shoppers were careful in their spending on festive goods.

In addition, prices of retail goods continued to rise since the beginning of 2017, mainly due to our weak Malaysian currency and higher fuel prices. Average pump price for RON95 during the first quarter of 2017 was the highest since the implementation of managed float system in December 2014.

Malaysian consumers turned cautious as they were burdened by higher cost of living.

*Table 3: Malaysia Retail Industry Growth Rate, 2017*

| Quarter | % Growth Rate |
|---|---|
| First | -1.2 |
| Second | 4.9 |
| Third | -1.1 |
| Fourth | 4.5 (e) |
| Average | 2.2 (e) |

*(e) - estimate*
*Source: Retail Group Malaysia*

For the second quarter of 2017, Malaysia retail industry reported an encouraging growth rate of 4.9% in retail sales, as compared to the same period in 2016. After a dismaying performance in the first 3 months of this year, the retail industry managed to recover slightly during the second quarter.

The Hari Raya festival that began end of May boosted retail sales during this period. Malaysian consumers shopped more with heavy price discounts offered by retailers located throughout the country.

For the third quarter of 2017, the Malaysian retail industry reported another disappointing result. For this quarter, retail sales declined by 1.1% as compared to the same period in 2016. After a short recovery during the second quarter of this year, retail sales slid into red again in this quarter.

The retail industry failed to bounce back from the poor performance during the same period in 2016 (1.9% in third quarter of 2016). The early Hari Raya festival this year (in June 2017 as compared to July 2016) partly contributed to the lower retail sale. Despite strong economic performance during the third quarter, majority of consumers did not receive higher take-home pays. The propensity to spend was not high as reflected in the decline in Consumer Sentiment Index during the same period. Rising cost of living had also deteriorated the purchasing power of Malaysian consumers.

Fourth quarter 2017 growth rate's estimate had been revised from 5.5% to 4.5% recently, taking into consideration the growth of 0.3% achieved during the same period a year ago.

With consideration of the latest results, Retail Group Malaysia (RGM) revised its annual growth forecast from 3.7% to 2.2% for Malaysia retail industry in 2017. This was the third revision since end of 2016.

**Major Retail Trends During the Year**

This year, Klang Valley retailers faced another major threat - the rapid rise of e-commerce. Foreign and Malaysian online retailers enjoyed a fruitful year with several major shopping events including #MyCyberSale, Double 11 Single Day and Double 12 Celebration. For the first time, #MyCyberSale was jointly organised by Malaysian Digital Economy Corporation (MDEC) and National ICT Association of Malaysia (Pikom). This 5-day event also broke a record for participation by 1,000 online merchants.

Another major development in the Klang Valley retail industry is the rapid spread of cashless payment systems. With smartphone ownership in Malaysia accounting for 70% of total handphone ownership, more retailers in Klang Valley are accepting mobile wallet payment (such as Alipay, Samsung Pay, Visa Pay, Apple Pay, etc.). The price of smartphones are also getting cheaper. This new method of payment will be widely accepted by Malaysian consumers in the short term.

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**Opening and Closure of Foreign Retailers in Klang Valley**

During the year, Klang Valley's retail market suffered closures of several overseas retailers. They include Nature Republic, Tours les Jour, Hello Kitty Cafe, Bulgogi Brothers, Pumpkin Patch, Tim Ho Wan and Aeropostale.

These retailers closed down mainly due to intense competition and higher cost of retail operation.

Despite several major closures, many overseas retailers continued to choose Klang Valley shopping centres to open their first outlets in Malaysia. They include at least 43 brands (in Klang Valley shopping centres only) from 15 countries:

*Table 4: New Foreign Retailer Entrants*

| No. | Country of Origin | Brand Name | Trade |
|---|---|---|---|
| 1 | Australia | Pie Face | F&B |
| 2 | | Spetta | F&B |
| 3 | | King Living | Furniture |
| 4 | China | HLA | Fashion |
| 5 | | JiuQiu | Bookstore |
| 6 | Denmark | Jack & Jones | Fashion |
| 7 | | Vero Moda | Fashion |
| 8 | Dubai | Juiceco | F&B |
| 9 | France | Sergent Major | Fashion |
| 10 | | Marche Movenpick | F&B |
| 11 | | Louis Quotorze | Fashion |
| 12 | | Laduree | F&B |
| 13 | Hong Kong | Honolulu Cafe | F&B |
| 14 | Italy | Off-White | Fashion |
| 15 | Japan | Pokemon Cafe | F&B |
| 16 | | Owndays Lab | Optical |
| 17 | | Mitsuyado Seimen | F&B |
| 18 | | Yamazaki Bakery | F&B |
| 19 | | Jalan Jalan Japan | Discount store |
| 20 | Singapore | Koi | F&B |
| 21 | | Hillstreet Coffee Shop | F&B |
| 22 | | The Dark Gallery | F&B |
| 23 | | Tender Fresh | F&B |
| 24 | South Africa | Galito's | F&B |
| 25 | South Korea | Shinmapo | F&B |
| 26 | | Kiss the Tiramisu | F&B |
| 27 | | Juicy | F&B |
| 28 | | Softree | F&B |
| 29 | | Isaac Toast | F&B |
| 30 | | Yoogane | F&B |

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| No. | Country of Origin | Brand Name | Trade |
|---|---|---|---|
| 31 | Taiwan | City Milk | F&B |
| 32 | | Sunny Cha | F&B |
| 33 | | Fruit Ninja at Dochi | F&B |
| 34 | | DaYung | F&B |
| 35 | | Dream Colour | F&B |
| 36 | Thailand | Xugar | F&B |
| 37 | | Cafeayan | F&B |
| 38 | | Tearoi | F&B |
| 39 | Turkey | LC Waikiki | Fashion |
| 40 | United States | WingStop | F&B |
| 41 | | Rebecca Minkoff | Fashion |
| 42 | | Wayback Burger | F&B |
| 43 | | TR Fire Grill | F&B |

*Source: Retail Group Malaysia*

## TOURIST ARRIVALS

Malaysia targeted to attract 32 million tourist arrivals in 2017. The weakened Malaysian currency since early 2016 encouraged more foreign tourist arrivals during the year. However, it is unlikely to meet its target for the year.

Effective from 1 September 2017, a flat rate of RM10.00 per room per night is charged on foreign tourists staying in all types of hotel rooms in Malaysia. Nevertheless, this tourism tax is unlikely to have major impact on international tourist arrivals to Malaysia. Thus, it does not have significant negative impact on tourism shopping.

During the year, 2 major events took place in the country. Malaysia hosted the 2017 SEA Games and ASEAN PARA Games. It was estimated that these events attracted 700,000 foreign visitors.

The visa-waiver programme for Chinese tourists has also attracted more arrivals from this country. 4 million Chinese tourist arrivals was the target set for 2017. Introduced in 2016, this programme led to a 27% increment in visits from China. For the first 5 months of this year, this market registered a growth of 7.8%.

2017 was also the final year for Malaysia to host the Formula One race in Sepang International Circuit. Malaysia had been organising this international motor race event since 1999.

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## RENTAL RATES OF SELECTED SHOPPING CENTRES IN KLANG VALLEY

Shopping centres in Klang Valley registered a slight decline in achieved rental rates in 2017. Many landlords offered rental rebates and a longer rent-free period to existing and prospective tenants instead of reduction in rental rates.

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

*Table 5: Rental Rates of Selected Shopping Centres in Klang Valley, 2017*

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

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

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# Market Overview (cont'd)

## KLANG VALLEY RETAIL SUPPLY IN 2018

At least 17 shopping centres are expected to open in 2018 with a total nett floor area of almost 6.0 million square feet. They are located in all parts of Klang Valley.

*Table 6: New Shopping Centres in Klang Valley for the Year 2018*

| No. | Name | Location | Nett Floor Area (square feet) |
|---|---|---|---|
| 1 | KL Eco City Mall | Pantai | 250,000 |
| 2 | Bangsar Trade Centre | Pantai | 100,000 |
| 3 | M Square | Puchong | 186,000 |
| 4 | Pacific Star | Petaling Jaya | 350,000 |
| 5 | Selayang StarCity Mall | Selayang | 550,000 |
| 6 | Shoppes at Four Seasons Place | KL city centre | 300,000 |
| 7 | Evo Mall | Bangi | 250,000 |
| 8 | USJ Wholesale City Mall | Subang Jaya | 100,000 |
| 9 | GM Bukit Bintang | Pudu | 122,000 |
| 10 | Eko Cheras | Cheras | 800,000 |
| 11 | Kiara 163 | Mont Kiara | 210,000 |
| 12 | Menara Dayabumi | Kuala Lumpur CBD | 120,000 |
| 13 | Tropicana Garden Mall | Kota Damansara | 1,000,000 |
| 14 | One Kesas Concept Mall | Klang | 150,000 |
| 15 | Central i-City Mall | Shah Alam | 940,000 |
| 16 | The Sanctuary Mall | Shah Alam | 130,000 |
| 17 | Horizon Village Outlet | Sepang | 400,000 |
| | TOTAL | | 5,958,000 |

*Source: Henry Butcher Retail*

41% of them are located in Kuala Lumpur and the other 59% are located in Selangor. 9 of them (53%) were supposed to open in 2017 but were delayed to 2018.

KL Eco City Mall is targeted to open by the first quarter of 2018. A collaboration with Jaya Grocer, this mall will open a 54,000 square feet Bangsar Mart.

The Shoppes at Four Seasons Place is located next to Suria KLCC. It has secured Robinsons as its anchor tenant and is slated to open by March 2018.

Evo Mall, a joint venture development between PKNS and Andaman Development Sdn Bhd, has confirmed Parkson and a Japanese supermarket as its anchor tenants.

GM Bukit Bintang at The Robertson, a 10-storey fashion wholesale mall next to Pudu Sentral, will open by the second quarter of 2018. This mall is a joint venture between GM Group and Gamuda Land.

The mall at Kiara 163 is scheduled to open by the middle of 2018. The developer was reported to have secured 80% take-up rate. Anchor tenant is Jaya Grocer.

Central i-City Mall in Shah Alam is targeted to open by October 2018. Sogo has been confirmed as its main anchor tenant.

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## OUTLOOK OF KLANG VALLEY SHOPPING CENTRE MARKET IN 2018

Similar to 2017, the weak economic outlook, rising cost of living and increasing retail supply will affect the shopping centre market in Klang Valley next year.

**Klang Valley Consumer Market**

Retail Group Malaysia forecasts Malaysia retail industry growth rate in 2018 to be at 6.0%.

Three key factors that will affect retail sales in 2018:

- General election before middle of this year. This will stimulate economic activity and boost consumers' confidence level.
- Ringgit against US$ returning to 2014 levels before end of next year
- Strong and sustainable economic data in China and United States for next year.

Consumers' spending is directly linked to economic performance. When the economy is performing well and benefits all business and industrial sectors, consumption will increase.

**Klang Valley Shopping Centre Market**

Consumers are still visiting shopping malls – large malls in particular, especially during weekends. However, as compared to 2 years ago, less purchases were made.

Visiting shopping centres is a lifestyle of Malaysian consumers, especially during the weekends. It is a family outing, a friends' gathering place, a movie day, a relaxation spot with free air-conditioning, an exciting place to see nice things, and a one-stop centre for grocery shopping, fashion buying, dining and entertainment. Therefore, shopping traffic to major shopping centres in Klang Valley is not expected to decline.

Similar to many new shopping centres having opened during the last 2 years, shopping centres targeted to open in 2018 will face challenges to fill up most of their retail lots upon their openings. To attract tenants, they will need to lower their rental rates in order to lure them.

**Target Tourist Arrivals**

Malaysia targets to attract 28 million tourist arrivals in 2018.

During Budget 2018 (announced in October 2017), RM3.8 billion has been allocated to promote and enhance tourism facilities in 2018.

A sum of RM2.0 billion has been provided under SME Tourism Fund to give soft loans to tour operators with an interest subsidy of 2%. An additional RM1.0 billion will be given to Tourism Infrastructure Development Fund as soft loans. Another RM500 million will be used to promote tourism through upgrading infrastructure facilities as well as promoting homestay and eco-tourism programmes.

To promote medical tourism in Malaysia, the government is allocating RM30 million to Malaysian Healthcare Travel Council to implement initiatives to promote the country as the Asian hub for fertility treatment with eVisa facility to be extended to cover other specialised medical services and high-value healthcare packages. Malaysian government will also introduce Flagship Medical Tourism Hospital Programme which offers special incentive to private hospitals to attract overseas medical tourists.

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# Market Overview (cont'd)

## PURPOSE BUILT OFFICE SECTOR

### Existing & Incoming Supply

The supply of purpose built office space in Kuala Lumpur increased to approximately 94 million square feet (8.738 million square metre) in the first half of 2017, based on the latest available statistics from NAPIC. There is another 6.5 million square feet (599,762 square metre) of incoming supply which will add onto the space available. Outside Kuala Lumpur, there is a stock of about 22.8 million square feet (2.114 million square metre) supplied by buildings in Putrajaya whilst Selangor contributes approximately 37 million square feet (3.437 million square metre).

*Table 7: Existing Supply of Office Spaces (square metres) in Kuala Lumpur & Selangor as at Q2 2017*

| State | Existing Supply | Completed | Incoming Supply | Planned Supply | New Planned Supply |
|---|---|---|---|---|---|
| Kuala Lumpur | 8,738,261 | 146,951 | 599,762 | 822,534 | 118,488 |
| W.P. Putrajaya | 2,114,207 | 0 | 481,679 | 31,545 | 0 |
| Selangor | 3,437,013 | 42,840 | 447,611 | 10,276 | 10,276 |
| Total | 14,289,481 | 189,791 | 1,529,052 | 864,355 | 128,764 |

*Source: NAPIC*

Based on the latest available detailed space breakdown provided by NAPIC for Q1 2017, nearly 30% of the office space is located within the premier KLCC / Golden Triangle area (KLCC/GT) whilst close to 15% is located within the older Central Business District (CBD). The bulk (approximately 34%) 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 21%.

*Table 8: Existing Supply of Office Space by Districts in Kuala Lumpur as at Q1 2017*

| Area | No. of Buildings | Existing Supply (Square Metres) | % of Supply | Occupancy Rate (%) |
|---|---|---|---|---|
| KLCC/Golden Triangle | 91 | 2,600,424 | 30 | 83.3 |
| CBD | 90 | 1,275,175 | 15 | 86.4 |
| WCC | 143 | 2,994,930 | 34 | 71.9 |
| Suburban | 111 | 1,840,821 | 21 | 65.6 |
| Total | 435 | 8,711,350 | 100 | 76.4 |

There are a number of major office developments due for completion over the next few years as listed below:

*Table 9: New Office Buildings Due for Completion 2017 - >2019*

| Building | Location | NLA (square feet) | Estimated Completion |
|---|---|---|---|
| Kuala Lumpur | | | |
| KL Eco City<br>Tower 1<br>Tower 2<br>Tower 3<br>Boutique offices | Abdullah Hukum | <br>700,000<br>540,000<br>400,000<br>700,000 | 2017 |
| Menara Public Mutual | Jalan Raja Chulan | 420,000 | 2017 |
| South Point | Mid Valley City | 958,000 | 2017 |
| Equatorial Plaza | Jalan Sultan Ismail | 470,000 | 2018 / 19 |
| Etiqa Insurance | Bangsar | 390,000 | 2018 / 19 |
| The Exchange 106 (Mulia) | TRX Jalan Tun Razak | 2,650,000 | 2018 |
| Menara Prudential | TRX Jalan Tun Razak | 560,000* GFA | 2018 |
| Affin Bank New HQ | TRX Jalan Tun Razak | 823,500 | After 2019 |
| HSBC New HQ | TRX Jalan Tun Razak | 568,000 | After 2019 |
| Merdeka PNB 118 | Stadium Merdeka / Chinatown | 1,700,000 | 2019 - 2020 |
| **Total** | | **10,879,500** | |
| Petaling Jaya | | | |
| Mercu Mustapha Kamal 1 & 2 | Damansara Perdana | 290,000<br>181,000 | 2017 |
| Menara Star 2 @ Pacific Star | Petaling Jaya | 270,000 | 2017 |
| Empire City<br>HCK Tower<br>Block H | Empire City Damansara, PJ | <br>347,000<br>239.000 | <br>2017<br>2017 |
| PJ Sentral<br>Celcom<br>MBSB<br>MyIPO<br>PKNS | Section 52, Petaling Jaya | <br>450,000<br>281,000<br>294,000<br>862,000 | 2017<br>onwards |
| Paramount Tower 1 & 2 | Jalan Universiti PJ | 572,000 | After 2018 |
| One City Phase 3 | USJ | 1,500,000 | After 2018 |
| Uptown 8 | Damansara Uptown | 450,000 | After 2018 |
| PJCC | PJ | 290,000 | After 2018 |
| Petaling Tin redevelopment | PJ | 300,000 | After 2018 |
| MRCB | PJ | 184,000 | After 2018 |
| i-City Corporate tower 1 & 2 | Shah Alam | 2,080,000 | After 2018 |
| Fraser Square | Section 13 PJ | 240,000 | After 2018 |
| **Total** | | **8,830,000** | |
| **Grand Total** | | **19,709,500** | |

*Source: Henry Butcher Research*

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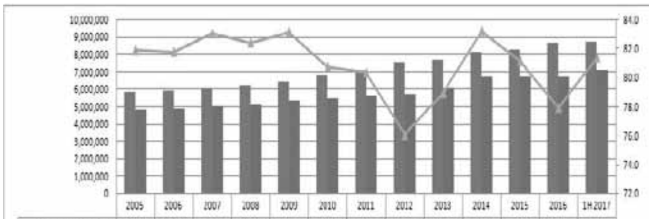
Apart from the projects mentioned above, there are a few other major office developments which are part of massive integrated commercial developments in the city which have been announced and which, if launched and completed, will add significantly to the future supply of office space in Kuala Lumpur.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

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

**Office Occupancy Rates & Rentals**

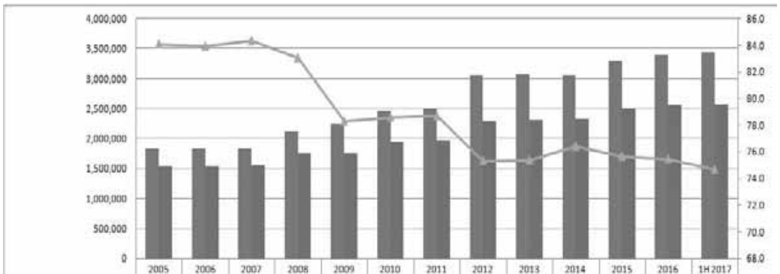
The office occupancy rates provided by NAPIC's report for Q2 2017 do not show the detailed breakdown for Kuala Lumpur according to areas but overall, the figures indicate that the occupancy rate has improved to 81.4% with buildings located within the city centre enjoying a higher occupancy than those outside the city centre. Meanwhile, the occupancy rates of office buildings in Putrajaya was reported to be 52.6% as at Q2 2017 whilst in Selangor the figure is 74.7%.

Nevertheless, the substantial supply of office space due to come onto the market is expected to result in vacancy rates rising significantly and this has prompted Bank Negara Malaysia in its report for Q3 2017, to issue a warning of an impending glut of office space which may result in 1 in 3 offices to be vacant by 2021. This has led to the government deciding to impose a blanket freeze on all new approvals of office buildings as well as shopping malls and luxury condominiums priced above RM1 million. However, the authorities have since then relaxed the freeze and developments which can be justified by the developers will now be allowed.




| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 1H 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Supplied (Sq.m) | 5,854,987 | 5,928,254 | 6,039,111 | 6,214,659 | 6,484,856 | 6,810,670 | 6,962,474 | 7,539,833 | 7,699,538 | 8,097,642 | 8,282,678 | 8,657,577 | 8,738,261 |
| Total Occupied (Sq.m) | 4,796,936 | 4,849,178 | 5,016,212 | 5,122,290 | 5,353,858 | 5,501,669 | 5,598,775 | 5,735,257 | 6,079,454 | 6,739,899 | 6,727,000 | 6,747,246 | 7,112,473 |
| % Occupied | 81.9 | 81.8 | 83.1 | 82.4 | 83.2 | 80.8 | 80.4 | 76.1 | 79.0 | 83.2 | 81.2 | 77.9 | 81.4 |

*Chart 3: Supply and Occupancy Rates of Office Buildings in Kuala Lumpur (2005 to 1H 2017)*
*Source : NAPIC*




| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 1H 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Supplied (Sq.m) | 1,829,946 | 1,835,138 | 1,833,766 | 2,118,793 | 2,245,231 | 2,472,329 | 2,502,966 | 3,048,481 | 3,074,030 | 3,048,797 | 3,306,328 | 3,394,403 | 3,437,013 |
| Total Occupied (Sq.m) | 1,538,899 | 1,540,148 | 1,546,679 | 1,759,438 | 1,757,336 | 1,942,538 | 1,969,738 | 2,296,367 | 2,317,105 | 2,329,736 | 2,501,880 | 2,561,797 | 2,566,786 |
| % Occupied | 84.1 | 83.9 | 84.3 | 83.0 | 78.3 | 78.6 | 78.7 | 75.3 | 75.4 | 76.4 | 75.7 | 75.5 | 74.7 |

*Chart 4: Supply and Occupancy Rates of Office Buildings in Selangor (2005 to 1H 2017)*
*Source: NAPIC*

HENRY BUTCHER MALAYSIA
*International Asset Consultants*

Overall, average rentals in the various sub-markets in Kuala Lumpur's office sector registered a slight decline. We note that newly completed buildings which have just come onto the market are of better specifications and therefore fetch higher rentals and this could have propped up the average rentals. Further, the rentals have not taken into account the incentives offered by the new buildings eg. longer rent free periods. Older buildings which have not carried out any refurbishment exercises are affected by the stiff competition and some have lowered their rentals to arrest the drop in occupancy rates as tenants are enticed by the attractive rentals and incentives offered to relocate to the newer and better quality buildings.

*Table 10: Range of Office Rentals (2016)*

| Location | Rental range (RM per square feet per month) |
|---|---|
| **KLCC / GT** | |
| Grade A+ | 10.00 – 14.00 |
| Grade A | 6.50 – 9.50 |
| Grade B | 4.00 – 5.50 |
| **CBD** | |
| Grade A | 4.50 – 5.50 |
| Grade B | 3.80 – 4.50 |
| **WCC** | 3.00 – 8.00 |
| **Suburbs** | 3.00 – 6.50 |

*Source: HBM Research*

**Major Office Sales Transactions**

There were not many transactions of office buildings in 2017. The following were the major transactions that were noted. The highest price per square feet was recorded by the sale of Menara Selangor Dredging at RM1,323 per square feet.

*Table 11: Major Office Transactions in 2017*

| Building | NLA (square feet) | Consideration (RM) | Price, RM per square feet |
|---|---|---|---|
| Vista Tower, The Intermark | 551,875 | 455 million | 824 |
| Menara Prudential | 164,706 | 125 million | 759 |
| The Ascent @ Paradigm | 1 million (gross floor area including retail space) | 321 million | |
| Menara Selangor Dredging | 362,782 | 480 million | 1,323 |

*Source: Henry Butcher Research*

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*International Asset Consultants*

# Market Overview (cont'd)

**Outlook for Office Sector**

The supply of office space has increased substantially over the past six years and this has raised concerns of a serious glut which may have a drastic impact on the office market. Newly completed buildings are taking a longer time to fill up and more incentives have to be offered to attract tenants. Older buildings which have not been upgraded to meet the needs of modern businesses lose out as tenants take advantage of the attractive rents and incentives to relocate to newer buildings with better amenities and higher quality specifications. As vacancy rates rise, rentals have come under pressure. The completion and commencement of the MRT line as well as new LRT extensions have made areas which are served by the enhanced public transportation links more attractive as office locations and this has spurred the trend of decentralization as well as flight to better quality new buildings in city fringe areas like Damansara Heights and Mutiara Damansara / Damansara Perdana.

Rentals have weakened in the face of higher vacancy rates and although generally still stable, will come under increased pressure when the huge supply of space from the few mega projects undertaken by the government link companies eg Merdeka PNB 118 and TRX are completed in the coming years. The alarm bells raised by Bank Negara Malaysia of the glut in supply and the ramifications it has on the market as well as the banks which finance these projects have put all the stakeholders on high alert. The government's proposed freeze on new approvals, if enforced, will help to avoid worsening the oversupply situation and buy some time to allow the market to digest the new supply. Burdened by these structural issues, the outlook for the office market certainly looks challenging in the coming year.

## THE MALAYSIAN REITS (M-REITS) MARKET OVERVIEW 2017

There are currently 18 REITs listed on Bursa Malaysia, one more than the previous year. The largest REIT by market capitalization as at end 2017 is still KLCCP which maintained its top position at RM15.6 billion followed by IGB REIT at RM 6.32 billion, Sunway REIT at RM5.595 billion and Pavilion REIT at RM4.878 billion. There are five other REITs which have market capitalizations of above RM1 billion viz-a-viz, Capitaland Malaysia Mall Trust, YTL Hospitality, Axis Real Estate, MRCB-Quill and Al-Aqar Healthcare. It is noted that only seven out of the eighteen REITS (it was nine out of seventeen in 2016) managed to generate dividend yields of above 6% with the highest at 8.82% (7.68% in 2016), a reflection of the tougher market conditions. The performance of the 18 REITs for 2017 are summarized in the table below:

| No. | Company | Property portfolio | Market Capital (RM) | EPS (sen) | P/E Ratio | ROE (%) | Dividend Yield (%) | NTA (RM) | Share Price (RM) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | AHP | Office shops | 183.70 m | 2.57 | 32.49 | 2.08 | 5.42 | 1.237 | 0.835 |
| 2 | Alaqar | Health care | 1.041 b | 8.45 | 16.92 | 6.95 | 5.46 | 1.215 | 1.430 |
| 3 | Al-Salam | Islamic diversified | 580.0 m | 5.32 | 18.79 | 5.12 | 6.19 | 1.039 | 1.000 |
| 4 | AmFirst | Office / Retail | 463. 30 m | 3.59 | 18.80 | 2.84 | 6.01 | 1.262 | 0.675 |
| 5 | Amanah Raya | Diversified | 521.63 m | n.a. | n.a. | n.a. | 6.51 | 1.184 | 0.910 |
| 6 | Atrium | Industrial | 135.20 m | 5.10 | 21.76 | 3.62 | 5.32 | 1.409 | 1.110 |
| 7 | Axis | Offices / Industrial / Retail | 1.848 b | 8.34 | 17.99 | 6.58 | 5.57 | 1.267 | 1.500 |
| 8 | Capitaland | Retail | 3.729 b | 7.40 | 24.73 | 5.82 | 5.81 | 1.272 | 1.830 |
| 9 | Hektar | Retail | 600.55 m | 7.06 | 18.41 | 5.12 | 8.82 | 1.378 | 1.300 |
| 10 | IGB | Retail | 6.32 b | 8.44 | 21.32 | 7.85 | 5.38 | 1.075 | 1.800 |
| 11 | Kip | Retail | 437.08 | 6.03 | 14.34 | 6.07 | 3.40 | 0.994 | 0.865 |
| 12 | KLCCP | Office / Retail | 15.60 b | 48.72 | 17.73 | 6.85 | 4.52 | 7.110 | 8.640 |
| 13 | MRCB-Quill | Office / Retail | 1.335 b | 7.48 | 16.71 | 5.88 | 6.76 | 1.273 | 1.250 |
| 14 | Pavilion | Office / Retail | 4.878 b | 9.85 | 16.35 | 7.74 | 5.06 | 1.273 | 1.610 |
| 15 | Sunway | Diversified | 5.595 b | 14.93 | 12.73 | 10.61 | 5.41 | 1.407 | 1.900 |
| 16 | Tower | Office | 342.21 m | 6.66 | 18.32 | 3.46 | 5.68 | 1.926 | 1.220 |
| 17 | UOA | Office | 685.05 m | 10.37 | 15.62 | 6.21 | 6.47 | 1.670 | 1.620 |
| 18 | YTL Hospitality | Hotels | 2.181 b | n.a. | n.a. | n.a. | 6.63 | 1.473 | 1.280 |

*Source: Malaysia Stock Biz & individual REIT websites, share prices as at 29 December 2017*

Investors were generally cautious about REITs as the majority of the REITs own office buildings and malls which have been reported to be in oversupply. The weaker consumer sentiments have also compounded the weakness of the segment. This has affected share prices and it is noted that eight of the REITs registered a drop in their market capitalization compared to a year ago. Nevertheless, it is heartening to note that the other ten have maintained or registered an increase in market capitalization.

In October, a new REIT Index was launched by Bursa Malaysia to complement the other ten in-house calculated indices produced by Bursa Malaysia and will track the performance of all listed REITs on the local bourse. As this new index will allow investors to gain exposure to all of the companies on that index, it will provide investors an alternative to investing in individual REITs.

HENRY BUTCHER MALAYSIA
*International Asset Consultants*

# Market Overview (cont'd)

## CONCLUSION

The outlook for both the retail and office sectors in 2018 appears challenging, as weaker consumer sentiments and oversupply weighs down heavily on these sectors. In fact Bank Negara Malaysia has sounded the warning bells on the over-built situation as it could have a drastic impact on the financial institutions which funded the construction of these office buildings and malls. In response, the government has announced a proposed freeze on approvals of new office buildings, malls and luxury condominiums priced above RM1 million although it later softened the measure by still allowing developers who can prove the viability of these projects to go ahead.

Although the retail market will face a challenging environment, established shopping centres which are well-located, professionally-managed and which are more receptive to the needs of their tenants and customers will be able to survive the current tough market conditions. For new shopping centres which are currently under construction, it will have to be seen whether they will open as scheduled if they have yet to achieve a respectable occupancy rate. Older malls situated in prime locations should be able to maintain their edge but should start planning for refurbishments to upgrade shoppers' experience in order to survive in the current highly competitive market

The office market will face increasing pressure on both occupancy rates and rentals. Older buildings which have not undertaken any refurbishment / upgrading exercises will lose out in a more competitive market as newer buildings are built to specifications of a higher quality and by offering more incentives, will be able to entice away tenants. Nevertheless, without a substantial increase in overall business activities, newly completed office buildings are expected to take a longer time to reach full occupancy.

Overall, the REIT market is facing fundamental issues in the form of weaker business and consumer sentiments and spending as well as an oversupply situation in both the retail and office sectors. This will have a bearish impact on the sector and will affect revenues and income distribution. Nevertheless, REITs which have assets of impeccable quality will be more resilient and will be able to face up to and overcome these short term challenges.

HENRY BUTCHER MALAYSIA
International Asset Consultants

# 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 |
| FY | : | Financial year from 1 January to 31 December |
| GDP | : | Gross domestic product |
| GFA | : | Gross floor area |
| GST | : | Goods & Service Tax |
| IMF | : | International Monetary Fund |
| KLP | : | Kuala Lumpur Pavilion Sdn Bhd |
| Manager | : | Pavilion REIT Management Sdn Bhd |
| M-REIT | : | Malaysian Real Estate Investment Trust |
| MER | : | Management expense ratio<br>- 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 | : | MTrustee Berhad |
| TAV | : | Total asset value |
| Unit | : | An undivided interest in Pavilion REIT as provided for in the Deed |
| WALE | : | Weighted average lease expiry |

# NOTICE OF ANNUAL GENERAL MEETING

PAVILION
REAL ESTATE INVESTMENT TRUST

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

**NOTICE IS HEREBY GIVEN** that the Sixth Annual General Meeting of Pavilion Real Estate Investment Trust ("Pavilion REIT") will be held at Saujana Ballroom, The Saujana Hotel, Saujana Resort, Jalan Lapangan Terbang SAAS, 40150 Selangor Darul Ehsan, Malaysia on Thursday, 29 March 2018 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 2017 together with the Trustee's Report to the Unitholders issued by MTrustee 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 3,318,000,000 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;

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
28 February 2018

Notes :

1. A unitholder who is entitled to attend at the meeting is entitled to appoint not more than 2 proxies to attend instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.
2. Where a unitholder is a corporation, its duly authorised representative shall be entitled to attend at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to attend.
3. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
5. The instrument appointing proxy shall be deposited at the Registered Office of the Manager at 6-2, Level 6, East Wing, Menara Goldstone (Holiday Inn Express), No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 27 March 2018 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 22 March 2018 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.
7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Proposed Ordinary Resolution set out in the Notice of Annual General Meeting will be put to vote by way of poll.

# Notice of Annual General Meeting (cont'd)

## Explanatory Notes on:

**(I) <u>Ordinary Business</u>**

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) <u>Special Business</u>**

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 3,318,000,000 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 entered into between Pavilion REIT Management Sdn Bhd and AmTrustee Berhad (now known as MTrustee Berhad))

## PROXY FORM

| No. of Units Held | CDS Account No. |
|---|---|
| | |

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

NRIC No./Passport No./Company No. ____________________ Tel./Mobile No. ____________

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

**1st PROXY 'A'**

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

and/or failing *him/her

**2nd 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 Sixth Annual General Meeting of Pavilion REIT to be held at Saujana Ballroom, The Saujana Hotel, Saujana Resort, Jalan Lapangan Terbang SAAS, 40150 Selangor Darul Ehsan, Malaysia on Thursday, 29 March 2018 at 10.00 a.m. and any adjournment thereof.

* Strike out whichever not applicable

Please indicate with an "X" in the space below on 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 2018

_____________________________
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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7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Proposed Ordinary Resolution set out in the Notice of Annual General Meeting will be put to vote by way of poll.

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AFFIX
STAMP

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

*Please fold here*

**Pavilion REIT Management Sdn. Bhd.**
Company Number : 939490-H

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T : +603 2118 8888 F : +603 2118 8889 Email : info@pavilion-reit.com

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