Visit Pavilion 2018

PAVILION

REAL ESTATE INVESTMENT TRUST

2018 Annual Report

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The principal investment policy of Pavilion REIT is to invest directly and indirectly, in a diversified portfolio of income producing real estate assets 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.

Vision, Mission and Investment Strategies

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 and Elite Pavilion malls
- active management of tenant base in order to optimise tenant mix and maintain high occupancy rates
- continued asset enhancement initiatives to increase net lettable area and rental potential
- improving operational efficiency and cost effectiveness
- commitment to sustainability to have positive impact on brand recognition, reputation and lessen environmental impact

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

Independent Non-Executive Director
Dato' Mohzani bin Abdul Wahab
Dato' Maznah binti Abdul Jalil
Dato' Choo Chuo Siong
Syed Mohd Fareed bin Shaikh Alhabshi

MANAGER & ITS PRINCIPAL PLACE OF BUSINESS

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

Telephone No.: +603 2118 8888
Facsimile No.: +603 2118 8889
E-mail: info@pavilion-reit.com
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

Corporate Information (cont'd)

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

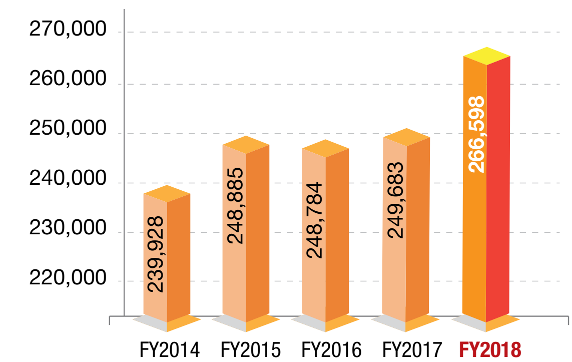
REGISTRAR

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

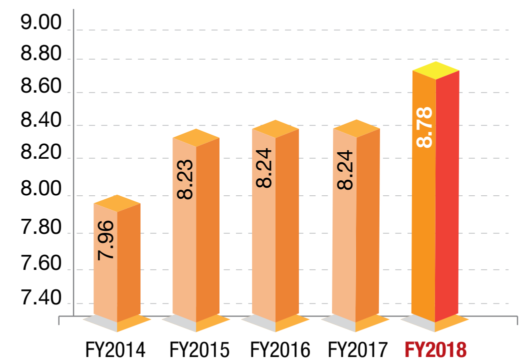
Telephone No.: +603 2783 9299
Facsimile No.: +603 2783 9222

HIGHLIGHTS

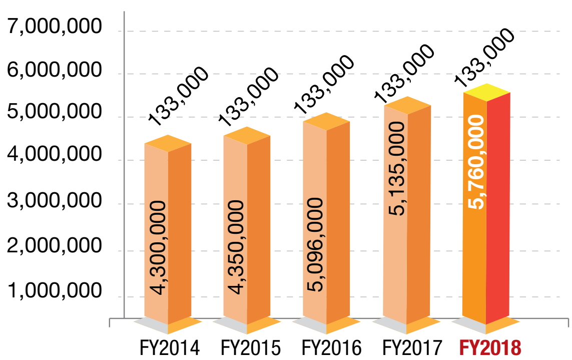
Distributable Income (RM'000)



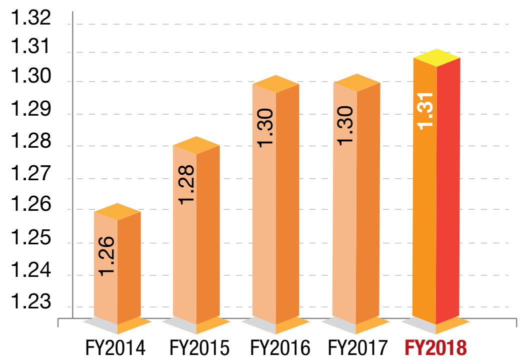
Distribution per Unit (sen)



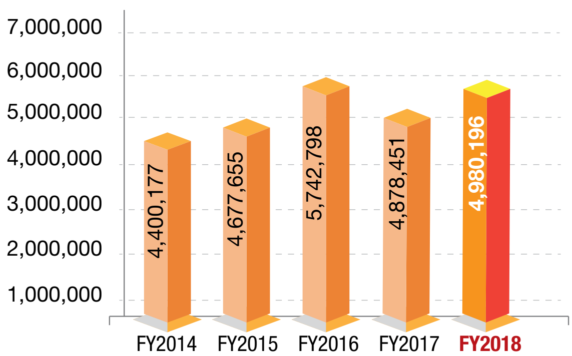
Investment Properties (RM'000)



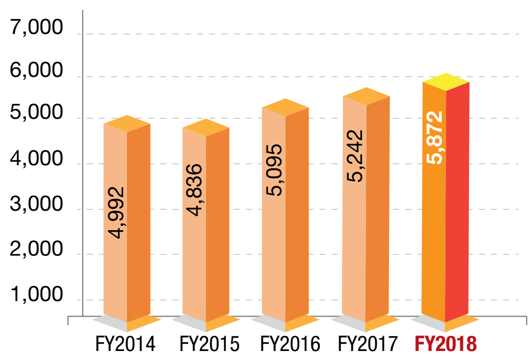
Net Asset Value per Unit (RM)



Market Capitalisation (RM'000)



No of Unitholders




JAPAN EXPO
MALAYSIA 2018
JAPAN EXPO
MALAYSIA 2018


PAVILION
Walkathon 2018
10,000.00


PAVILION
KUALA LUMPUR


Visit Pavilion 2018


PAVILION

MESSAGE FROM THE CHAIRMAN

Economic Review

Global economy growth was positive in early 2018, with the United States (US) leading the charge with low unemployment rates and strong indicators of growth. However, this was disrupted by United States introducing tariff for China imported products, which started a trade war with China, thus affecting the world till year end.

The European Union (EU) have also shown signs of slowing down due to the uncertainty of Brexit and the tariff issue they had with the US, which was subsequently resolved. EU was forecasting a GDP growth of 2.0 to 2.1% for 2018.

In China, due to the trade war with US it also forecast to close 2018 with only 6.6% GDP growth, one of its slowest paces since 1990.

Back in Malaysia, the real GDP for 2018 was revised down to 4.7%, slightly lower than the original forecast due to concerns over interest rates hikes and uncertainty arising from the change of government.

Market Review

The market has seen Malaysian REIT (M-REIT) index closed lower than the previous year at 924.87 (2017 – 1,057.35) a drop of 12.5%. Total market capitalisation of the M-REIT industry dropped from RM46.0 billion to RM41.4 billion, a drop of RM4.6 billion or 10.0%. The M-REIT market is down due to interest rate increases in US, which reached an unprecedented 4 times hike during 2018 resulting in interest rate of 2.25% - 2.50%.

During this period, FBM KLCI opened at 1,796.81 at the beginning of 2018 and by year end, the market dropped to 1,690.58, a drop of 106.34 or 5.9%.

A total amount of RM1.89 billion worth of acquisitions were completed by M-REIT and a total of RM0.26 billion of assets were disposed in 2018. In addition to this, an amount of RM1.05 billion of acquisition were announced but have yet to be completed before the year end. This represented a healthy amount of transactions for the industry, compared to only RM1.16 billion in 2017.

2018 was also the year where we saw the introduction of the much anticipated changes on rules to the REIT industry by Securities Commission and Bursa Malaysia Securities Berhad. The new guidelines and the updated main market listing requirements allow the market to be more progressive with further opportunity for the M-REIT industry to expand their future pipelines by allowing them the opportunity to participate in the development stage of a project. We hope this will allow M-REIT to be more competitive within the regional markets.

M-REIT market has also been very volatile in 2018 and in the case of Pavilion REIT, its unit price dropped to as low as RM1.32 per unit as at 21 February 2018. However, it again outperformed the market at the year-end by closing at 2.1% higher than the previous year and its market capitalisation increased from RM4.88 billion to RM4.98 billion, an increase of RM100.00 million. Pavilion REIT unit closed the year at RM1.65 as compared to RM1.61 a year earlier.

Investment and Asset Performance

In 2018, Pavilion REIT completed the acquisition of the Elite Pavilion Mall together with its related assets and rights (Pavilion Kuala Lumpur Mall extension) consisting of 10 levels of retail mall, subway linkages and the extension-connections for the amount of RM580.0 million on 27 April 2018. This addition culminated to over RM5.90 billion of investment properties as compared to RM5.3 billion a year earlier.

During the year, Pavilion REIT's gross revenue have increase to RM555.0 million as compared to RM490.0 million achieved in 2017. An increase of RM65.0 million was mainly contributed by RM42.5 million from the Elite Pavilion Mall acquisition during the year. This showed a collective respectable growth of RM22.5 million or 4.6% from other existing properties.

We are proud to announce that in 2018, Pavilion Kuala Lumpur Mall have won two additional awards, bringing the total awards won to date at 44. The new awards won were

- Best Shopping Mall – Going Places Readers' Choice Award and
- Gold Award, Best Experiential Marketing – Dream Garden of Prosperity PPK Malaysia Shopping Mall Association Award 2018.

Message from The Chairman (cont'd)

Environment and Sustainability

In 2018, we have made a giant step forward by formalising a committee to push ahead with sustainability agenda. The team, headed by the Chief Executive Officer have since met periodically and developed a framework for a commitment to sustainability. We continuously lay emphasis on best practices such as corporate social responsibilities, good governance practices, health and safety practices, training, education and quality, all of which are built on values that promote sustainability.

We are actively working with the team to improve on power efficiency, recycle and reuse products and ensure that all wastages are disposed of to the proper authorised sites.

A few ecological risks we have managed to improve on this year in Pavilion Kuala Lumpur Mall are: -

- Energy consumption dropped by 3.9% when compared to total energy consumption in 2017. This was achieved by use of newer technology for lighting and chiller efficiency.
- Consumption of water has also been reduced by 9.9% this year as compared to previous year mainly due to the installation of automated sanitary fittings and conducting regular maintenance checks with prompt reporting for corrective action.
- Waste management is under constant monitoring due to increase in waste that are due to increase in visitors as well as tenants in the mall. As segregation is a fundamental step in managing waste, steps have been taken to sort out the recyclable items, wet and dry wastes for proper disposal.

We are committed to long-term sustainability of the environment and society without compromising on value creation for our unitholders.

Market Outlook

Malaysian GDP is estimated to be in the region of 4.7% for 2019. Meanwhile global economy is also forecasted to be softer at 2.9%, a drop from 3.0%. The local economy is affected due to slower demand, lower public investment, completion of several major projects in the previous year, prudent approach towards new projects and policy uncertainties.

Malaysian Institute of Economic Research Business Conditions Index reached an all-time high level for the past 13 quarters at 116.3 points (2Q 2018). And since then have dropped slightly to 108.8 point in 3Q 2018. This is an indication that business confidence is still good. The consumer's sentiments index is a reflexion of individual Malaysian sentiments of the market. It soared to the highest in 21 years at 132.9 as at 2Q 2018 after the election and above 100.0, the base line for the first time in over 3 years (4Q 2014 to 1Q 2018). Since then, the index has dropped back to 107.5 in 3Q 2018.

With Bank Negara Malaysia's recent announcement of overnight policy rates being maintained at 3.25% per annum and softer worldwide view, economists are predicting that its rates may be reduced in 2019.

However, the government does acknowledge that tourism industry is a key contributor to GDP at 14.9% or RM201.4 billion in 2017. Given this importance, the authorities will pay closer attention to ensure the target for tourist arrival will be achieve. The government have allocated RM100.0 million for the promotion and marketing campaigns to increase tourists to the country. In addition, medical tourism will also get an allocation of RM20.0 million to collaborate with local private hospitals and a 2% subsidy interest for RM500.0 million of loan facilities will be provided to handicraft and homestay operators to expand their business.

We anticipate the economy to progress with caution and the retail industry to be facing a stronger headwind in 2019 compared to the previous years, due to uncertain outcome in the US China trade war, softer global outlook and pending formalization of policies, directions and actions to improve on Malaysia's business and consumer sentiments.

Annual General Meeting (AGM)

Pavilion REIT 6th Annual General Meeting held on 29 March 2018 to present the Pavilion REIT's Audited Financial Statement for the year ended 31 December 2017 together with the approved general mandate for allotment and issuance of up to 20% of the existing approved fund size went on smoothly.

Message from The Chairman (cont'd)

The Board intends to seek a similar approval in the forthcoming AGM.

Acknowledgement

I would like to thank the Board members, management team and staff for their commitment, dedication and hard work during the year.

And to our stakeholders, tenants, financiers, trustee and business partners, thank you for your continuous support you have given to the Fund during the year.

TAN SRI LIM SIEW CHOON
Chairman
29 January 2019

BOARD OF DIRECTORS

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

Tan Sri Lim Siew Choon, age 58, 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 36 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 5 years, other than traffic offences, if any.

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

Puan Sri Tan Kewi Yong, age 62, a Malaysian female, pursued her tertiary education in the United Kingdom specialising in Business and Marketing Studies.

She has over 35 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 5 years, other than traffic offences, if any.

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

Dato' Lee Tuck Fook, age 64, 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 5 years, other than traffic offences, if any.

Board of Directors (cont'd)

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

Ahmed Ali H A Al-Hammadi, age 37, 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 within 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 save for the related party transaction 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 5 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 34, 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 (MBA) from London Business School, London United Kingdom.

He is currently the Acting Director of Legal Department of QIA.

He was the Head of M&A (Legal – QIA) from March 2014 to September 2018 where he led and monitored the execution of new acquisitions and ensured adequate protections for QIA, and relationship management with external parties. From 2006 – 2010, he was an assistant legal counsel of Qatargas Operating Company Limited 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 5 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 30, 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 QIA 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 5 years, other than traffic offences, if any.

Navid Chamdia *Non-Independent Non-Executive Director*

Navid Chamdia, age 45, 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 QIA, 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 QIA.

Prior to joining QIA 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 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 5 years, other than traffic offences, if any.

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

Ooi Ah Heong, aged 66, a Malaysian male, graduated from the University of Singapore in 1976.

He has over 42 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 5 years, other than traffic offences, if any.

Board of Directors (cont'd)

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

Dato' Mohzani bin Abdul Wahab, age 65, 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 Hong Leong Investment Bank Berhad, TH Properties Sdn Bhd, 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.

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 5 years, other than traffic offences, if any.

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

Dato' Maznah binti Abdul Jalil, age 65, a Malaysian female, graduated with a Bachelor of Science from Northern Illinois University and Masters of Science degree in Business Administration (Finance) from Central Michigan University.

Currently, she is a board member of Felcra Berhad, Lembaga Tabung Angkatan Tentera and Opus Asset Management Sdn Bhd and the Chairman of SCS Global Advisory Sdn Bhd. She is also 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 joined Master-Carriage (Malaysia) Sdn Bhd as Director of Corporate Affairs in 1992. Prior to that, she was with Amanah Merchant Bank Bhd as a Manager 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 UOB Bank (Malaysia) Berhad, 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. 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). In 2013, she was the Executive Director and Chief Financial Officer of Sona Petroleum Berhad, (a Special Purpose Acquisition Company) a company which is 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 5 years, other than traffic offences, if any.

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

Dato' Choo Chuo Siong, age 53, 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 5 years, other than traffic offences, if any.

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

Syed Mohd Fareed bin Shaikh Alhabshi, age 64, 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.

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 and subsequently resigned in 2018. He was also appointed as the Advisor (Middle East) to the Albukhary Foundation from 2000 to 2013 and was 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 5 years, other than traffic offences, if any.

MANAGEMENT TEAM

Philip Ho Yew Hong *Chief Executive Officer*

Philip Ho, age 52, 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 30 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 5 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 61, 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, a Certificate in Centre Management from PPKM and is a registered property manager in Malaysia.

During her 37 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 5 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Management Team (cont'd)

Lovell Ho Wai Hoong *Asset Manager (Leasing)*

A Malaysian male, age 50, 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 25 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 5 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, aged 47, 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 Director of Marketing in 2010. In this position, she oversees the Marketing Department in enhancing the value and positioning of the Pavilion REIT retail malls through effective brand strategy and service experience.

Her passion for the mall industry began in Sunway Pyramid in 1996 when Malaysia's first themed mall was introduced. Dedicated in her quest to acquire mass marketing experience, she joined Mid Valley City in 2001 as the Assistant Marketing Manager. She was promoted to Director of Marketing for Mid Valley City in 2008, involved in the strategic brand development for the integrated 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 5 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Management Team (cont'd)

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

A Singaporean male, age 50, 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 25 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 5 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 49, 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 28 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 5 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 43, she was appointed to the position of Assistant General Manager (Finance) of the Manager on 1 January 2017. 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 and thereafter being promoted as Senior Manager (Finance) on 1 January 2014, 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 5 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

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

A Malaysian male, age 44, 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 5 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Eng Hui Yi *Senior Manager (Investment)*

A Malaysian female, aged 32, she was appointed to the position of Manager (Investment) of the Manager on 1 July 2015 and subsequently promoted to Senior Manager (Investment) on 1 January 2018. 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.

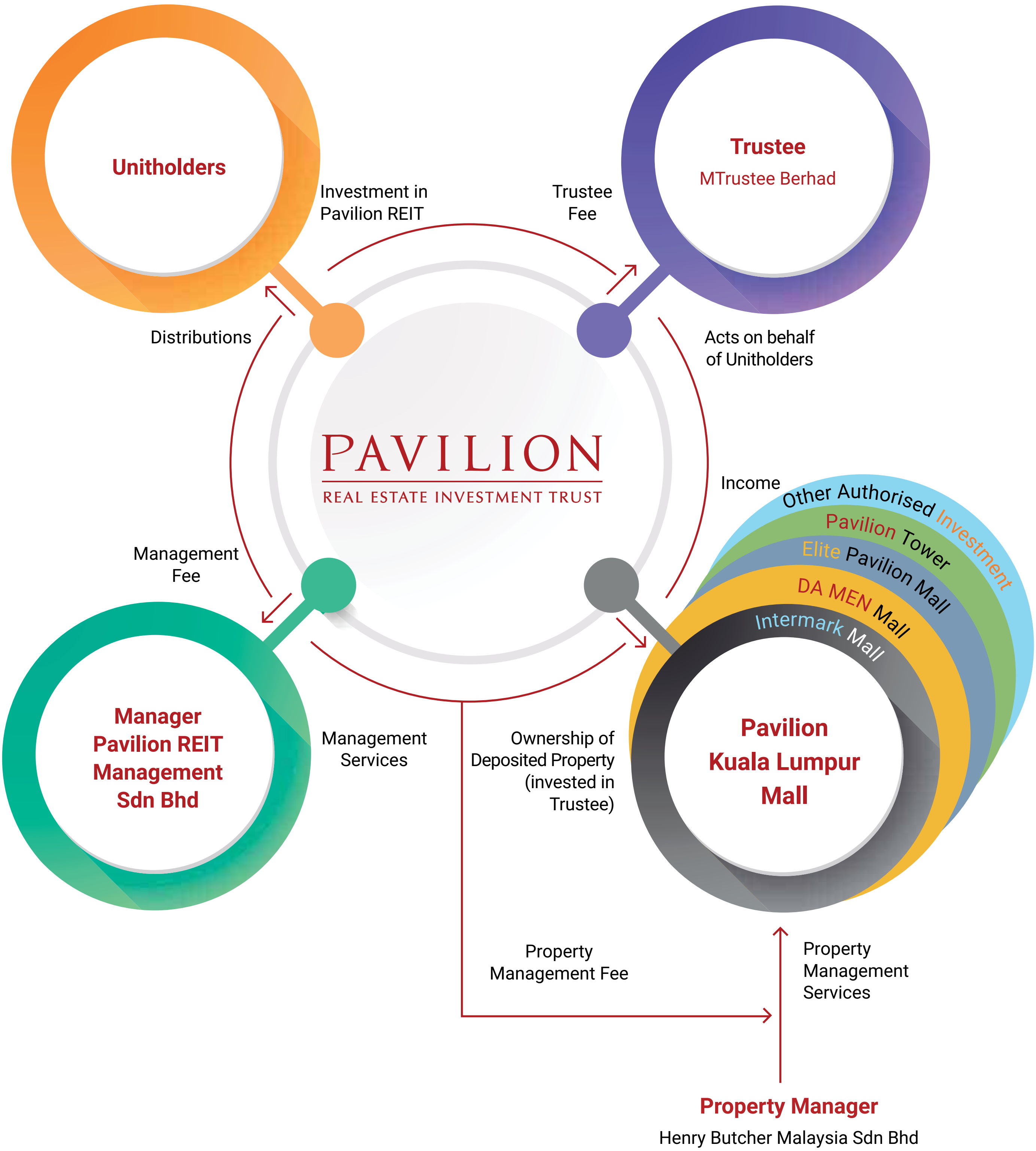
Prior to joining Pavilion REIT Management Sdn Bhd, she was Investment Manager in the Private Equity department of AmInvestment Bank Berhad. She started her career with the Valuation and Business Modelling team of Ernst & Young Kuala Lumpur.

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 5 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 : • The occurrence of any events listed under Clause 26.2 of the Deed • 999 years falling on 17 October 3010 • the date on which Pavilion REIT is terminated by the Manager under Clause 26.1(b) of the Deed
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 2018 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	Annually by independent registered valuers
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
Price per Unit	• Retail – RM0.88 • Institution – RM0.90
Stock Name	PAVREIT
Stock Code	5212

PAVILION REIT STRUCTURE




PAVILION


90


GRAND PRIZE
Star
Russia


JAPAN EXPO


003

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Financial Performance

Pavilion REIT have achieved a new milestone with its total revenue exceeding RM555.0 million for the first time in 2018. This represented a growth of RM65.0 million or 13.3% as compared to the previous year of RM490.0 million. The higher gross turnover was achieved with the completion of acquisition of Elite Pavilion during the year together with stable and higher average occupancy from its investment properties. Valuation of its investment properties increased from RM5.3 billion to RM5.9 billion.

Net property income increased to RM374.8 million as compared to RM322.9 million, representing an increase of RM51.9 million or 16.1% with total distributable income increased by a healthy 6.8% from RM249.7 million to RM266.6 million.

The Manager had announced the full year distribution of 8.78 cents per unit compared to 8.24 cent per unit in 2017 which represents an increase of 6.6% 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.

Performance of the Investment Properties

We have during the year formalized a Sustainability Committee and identified material sustainability matters. Strategies are being developed to ensure continuous positive impact on Pavilion REIT's branding, reputation, employee wellbeing, operational efficiency, investor attractiveness and costeffectiveness while lessening the environmental burden, where possible.

With the completion of major repositioning of its tenant mix in Pavilion Kuala Lumpur Mall, we continued to concentrate effort to improve on energy efficiency, reduces wastages and manage waste management.

For DA MEN Mall, we have worked with the authorities to change the directions of the internal drive way. With the new direction which allows traffic to enter and egress / exit to Jalan Kewajipan, our shoppers and visitors will find it easier, faster and time saving if exit during peak hours as compared to only the previous options / routes.

New Acquisition

In 2018, Pavilion REIT completed the acquisition of the Elite Pavilion Mall together with the related assets and rights for a total consideration of RM580.0 million. This acquisition was financed via debt as opposed to its earlier proposal to finance the acquisition via a placement of up to 218,000,000 new units as Pavilion REIT's price in early 2018 was not conducive for raising funds from the equity market against the debt funding option.

Outlook

In 2019, we will consolidate our investment portfolio and concentrate on improving their performances and maintain overall expenses.

PHILIP HO YEW HONG
Chief Executive Officer
29 January 2019

MANAGEMENT DISCUSSION & ANALYSIS

Financial Highlights

Financial Results and Key Performance Indicators	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Change (%) FY 2018 vs FY 2017
Gross Revenue (RM'000)	402,092	413,932	459,701	490,001	554,977	13.26%
Net Property Income ("NPI") (RM'000)	282,739	291,535	314,774	322,913	374,787	16.06%
Distributable Income (RM'000)	239,928	248,885	248,784	249,683	266,598	6.77%
Earnings per Unit (sen)	16.94	9.36	10.33	8.24	9.51	15.41%
Distribution per Unit (DPU) (sen)	7.96	8.23	8.24	8.24	8.78	6.55%
Distribution Yield (%) :-						
– based on retail IPO price of RM0.88	9.05	9.35	9.36	9.36	9.98	6.62%
– based on market price as at 31 December	5.45	5.31	4.34	5.12	5.35	4.49%
Management Expense Ratio ("MER") (%)	0.66	0.64	0.69	0.72	0.83	15.28%
Investment Properties (RM'000)	4,433,000	4,483,000	5,229,000	5,268,000	5,893,000	11.86%
Total Asset Value ("TAV") (RM'000)	4,649,931	4,750,753	5,592,418	5,653,164	6,357,724	12.46%
Net Asset Value ("NAV") (RM'000)	3,811,016	3,851,607	3,920,849	3,940,277	3,977,956	0.96%
NAV per Unit (RM)	1.26	1.28	1.30	1.30	1.31	0.77%
Gearing Ratio (%)	15.22	15.88	25.25	25.87	33.78	30.58%
Portfolio Turnover Ratio (times)	0.00	0.00	0.08	0.00	0.15	-

Financial Review

	Gross Revenue				Net Property Income			
	FY 2017		FY 2018		FY 2017		FY 2018	
By Segment	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Pavilion Kuala Lumpur Mall	412,854	84.26	440,591	79.39	286,169	88.62	313,375	83.61
Intermark Mall	24,753	5.05	29,184	5.26	11,969	3.71	17,300	4.62
DA MEN Mall	39,937	8.15	29.761	5.36	16,769	5.19	8,611	2.30
Elite Pavilion Mall	0	-	42,552	7.67	0	-	27,467	7.33
Retail	477,544	97.46	542,088	97.68	314,907	97.52	366,753	97.86
Pavilion Tower – Office	12,457	2.54	12,889	2.32	8,006	2.48	8,034	2.14
Total	**490,001**	**100.00**	**554,977**	**100.00**	**322,913**	**100.00**	**374,787**	**100.00**

Gross revenue achieved in 2018 was RM555.0 million or 13.3% higher when compared to the immediate preceding year. This change was contributed by income from the new property, Elite Pavilion Mall that was acquired on 27 April 2018, higher rental income from Pavilion Kuala Lumpur Mall after the repositioning exercise and higher occupancy at Intermark Mall. Lower gross revenue from DA MEN Mall was due to drop in occupancy and average rental rate.

Increase in operating cost was due to cost incurred by Elite Pavilion Mall with other properties operating cost having nominal changes as compared to the previous year. This resulted in 16.1% or RM51.9 million increase in Pavilion REIT's net operating income. Pavilion Kuala Lumpur Mall and its seamlessly connected Elite Pavilion Mall collectively contributes to 90.9% of net property income of Pavilion REIT with office sector contribution of 2.1%.

Retail property continues to contribute to approximately 98.0% of Pavilion REIT's total portfolio in terms of gross revenue and net property income. Overall, Pavilion REIT portfolio achieved NPI margin of 67.5% with retail and office achieving a NPI margin of 67.7% and 62.3% respectively.

Change in fair value of investment properties was RM33.6 million against the immediate preceding year fair value gain of RM17.0 million. Higher other trust expenses was due to consultancy fees incurred for evaluating the participation in ownership of Pavilion Bukit Jalil. As the acquisition of Elite Pavilion Mall was finance by borrowings, this resulted in higher borrowing cost incurred as compared to the previous year. All these resulted in increase of 15.7% in income before taxation for the year to RM288.7 million.

Distribution per Unit ("DPU")

Total DPU for 2018 increased by 0.54 sen to 8.78 sen from 2017 DPU of 8.24 sen, with additional 6,611,320 Units being issued during the year resulting in 3,036,704,925 Units as at 31 December 2018.

4.34 sen earned for first half of 2018 was paid on 5 September 2018 with the final distribution of 4.44 sen earned in second half of 2018 is to be paid on 28 February 2019 resulting in NAV per unit of RM1.30 and RM1.31 for 2017 and 2018 respectively.

Statement of Financial Position – Assets and Liabilities

Pavilion REIT's total asset value increased by RM704.6 million to RM6,357.7 million for current year. The increase was mainly due to acquisition of Elite Pavilion Mall as well as revaluation gain of RM33.6 million. With the acquisition of Elite Pavilion Mall being financed by debt and to meet working capital requirements, Pavilion REIT's borrowings increased from RM1,462.7 million to RM2,147.8 million, resulting in gearing ratio of 33.8% against previous year end of 25.9%. Despite acquisition of a new mall, there is only minimal change in Pavilion REIT's net asset value mainly due to devaluation of DA MEN Mall.

Investment Properties and Valuation

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

Elite Pavilion Mall acquisition became unconditional during the year and was completed on 27 April 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.

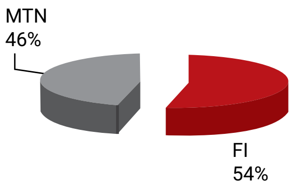
The Fund's investment properties had been re-valued as at the end of the financial year to ensure that its investment properties reflect the current market value and in compliance to Malaysian Financial Reporting Standards 140. This revaluation resulted in gain of RM33.6 million.

Management Discussion & Analysis (cont'd)

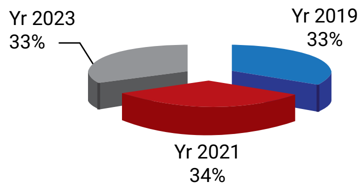
Property	Market Value @ 31 Dec 2018	Market Value @ 31 Dec 2017	Change in Value	Property Yield 2018	Property Yield 2017
	RM'000	RM'000	RM'000	%	%
RETAIL					
Pavilion Kuala Lumpur Mall	4,700,000	4,450,000	150,000	7%	6%
Intermark Mall	170,000	169,000	1,000	10%	7%
DA MEN Mall	310,000	416,000	(106,000)	3%	4%
Elite Pavilion Mall	580,000	-	580,000	7%*	
	5,760,000	5,135,000	625,000		
OFFICE					
Pavilion Tower	133,000	133,000	-	6%	6%
Total Portfolio	5,893,000	5,268,000	625,000		
Less Capital Expenditure			(3,520)		
Less Acquisition			(587,862)		
Fair Value Gain			33,618		*Annualized

Capital Management

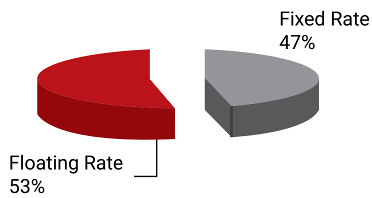
Sources of Funding



Debt Expiry Profile



Coupon / Interest Rate Profile



With average interest cost of 4.8%, Pavilion REIT's gearing of 33.8% 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 RM276.4 million, RM517.0 million was used for investing activities with RM326.0 million being net cash from financing activities. This caused the increase in net cash of RM85.3 million in the current year resulting in cash and cash equivalents of RM319.7 million against preceding year end cash of RM234.4 million.

Proceeds from borrowings of RM800.0 million was used for acquisition of Elite Pavilion Mall and as working capital for primarily road and tenancy lots enhancement at DA MEN Mall as well as toilet upgrading at Pavilion Kuala Lumpur Mall.

Utilisation of Proceeds

There were no proceeds raised from corporate proposals during the financial year.

Operations Review

Pavilion Kuala Lumpur Mall saw its gross revenue hike up from RM412.8 million to RM440.6 million as retails outlets commence operation after the major tenant repositioning exercise. 1st store in Malaysia that commenced business in the mall are Aori Ramen, Emperor Jewellery, Henry Jacques, Lush Fresh Handmade Cosmetics, Nerd Unit and Wing Wing Krispy Chicken. Other notable tenants that commenced trading are 3INA Make Up, Asics, Christian Dior & Cle De Peau Beaute, Dune London, Origani, Royce, Putien and Tokyo Milk Cheese Factory. 4.4% positive rental reversion was achieved for current year renewals with replacement and relocated tenants achieving average upside double digit reversion against the previous tenancy.

Elite Pavilion Mall which is seamlessly connected to Pavilion Kuala Lumpur Mall also has high tenant occupancy with a number of flagship outlet such as ABC Cooking Studio, JDSports (King of Trainers), HuaWei, Lego, Muji and The Planet Traveller. Unfortunately, as pedestrian traffic to the higher floors are still not up to mark, more effort is being put to secure tenants that will attract shoppers / patron. Acquisition of Elite Pavilion Mall on 27 April 2018 resulted in an increase in Pavilion REIT's total property operating expenses by 7.8% in the current year as compared to the preceding year end. Elite Pavilion Mall's property expenses are also expected to increase as the mall's warranty on equipment expires in early 2019.

Intermark Mall's occupancy has further improved to 94.4% as at 31 December 2018 from 90.0% as at last year end with new tenants secured such as Paul, The Bowling Club and a Chinese restaurant. This would result in its net property income yield of about 7.0% annually.

Despite continuous activities to promote the DA MEN Mall, a number of tenants have decided against renewal upon expiration of their tenancy as visitation to the neighbourhood mall still remains challenging. In December 2018, a new road has been created and opened to enable vehicles to exit directly into the main road of Jalan Kewajipan, instead of exiting to the side or back road leading to Giant supermarket. It is also hoped that with an insurance agency and its agents and staff moving into the commercial shop offices by middle of 2019, the mall will be livelier and thereby able to attract better tenants. More niche and community activities will continue to be held to raise awareness of DA MEN Mall being a place to gather.

As the properties are aging, continuous and regular upkeep will be sustained to continue to refresh and maintain the standard of the respective malls. However, Pavilion REIT will ensure its cost management process is further refined to optimise return to unitholders as well as to ensure sustainable practises are adopted where applicable.

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, a new exit for vehicles to the main road of Jalan Kewajipan together with internal road enhancement and route change layout was undertaken at DA MEN Mall to enable automobiles to exit the development more easily rather than depart to the side or behind road that leads to Giant hypermarket. Enhancement of tenant lots were also incurred at DA MEN Mall with toilet upgrading exercise at Pavilion Kuala Lumpur Mall.

For 2019, 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 2018 (RM million)	5,760	133	5,893
Net Lettable Area (square feet)	2,231,665	163,844	2,395,509

Top 10 Tenants

Pavilion REIT has a total combined tenancies list from the retail and office of 867 leases. Its ten largest tenants contributed to 12.0% of gross rental income for the reporting year.

Tenant's Name	Trade Sector	Expiry Period
Apex Excellent Sdn Bhd	Food and Beverage	2019 Q3
Hermes Retail (Malaysia) Sdn Bhd	Fashion	2019 Q4
Gagan (Malaysia) Sdn Bhd	Fashion	2019 Q4
Golden Screen Cinemas Sdn Bhd	Urban Leisure	2019 Q4
GCH Retail (Malaysia) Sdn Bhd	Supermarket	2019 Q3
Padini Dot Com Sdn Bhd	Fashion	2019 Q3
Parkson Corporation 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 positive rental reversion of 4.4% was achieved for 159,023 square feet while relocated tenants and replacement tenants contributed to double digit growth for another 22,301 square feet of the net lettable area. Intermark Mall's positive rental reversion of 6.2% was achieved for 31,709 square feet with neighbourhood DA MEN Mall being challenging to attract and retain tenants.

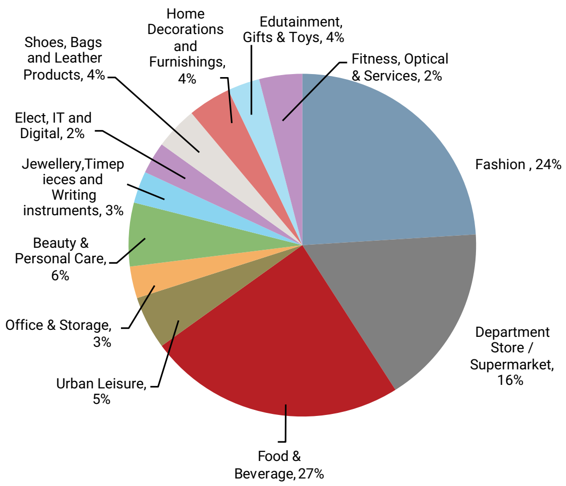
Majority of Pavilion REIT's tenancies are for a term of three years each with an option to extend for another term of three years each. Anchor and speciality anchor tenants generally have option for renewal of up to five terms.

The weighted average lease expiry ("WALE") as at year end has been reduced to 1.15 years against 2017 of 1.56 years, with WALE for retail and office being 1.15 and 1.21 years respectively.

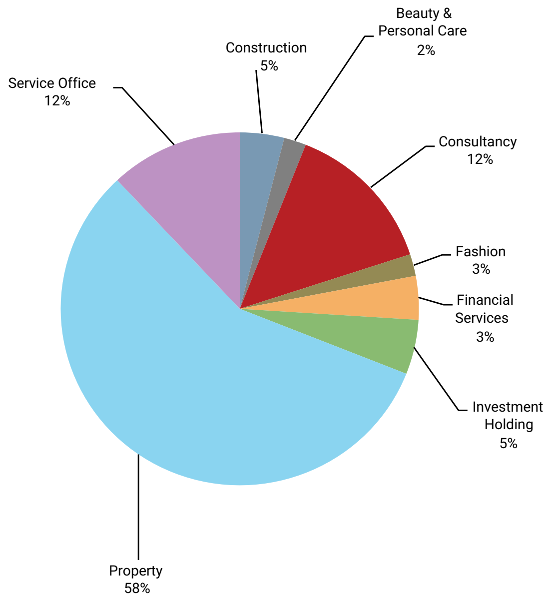
Fashion and food & beverages remains largest trade category by net lettable area for its retail sector with property and consultancy services occupying the most spaces in the office sector.

Management Discussion & Analysis (cont'd)

Trade Category by Net Lettable Area - Retail



Trade Category by Net Lettable Area - Office



Management Discussion & Analysis (cont'd)

Highlights of Malls Marketing Activities

Visit Pavilion 2018, the 10th Anniversary 'Celebration of Dreams' at Pavilion Kuala Lumpur Mall was a year filled with experiences, rewards and indulgences. The overarching 'dream' theme was reflected in key festival and campaigns throughout the year and it delivered the promise of high excitement and engagement to visitors and the community.

Partnership was a key strategy for Visit Pavilion 2018 to elevate the standards of Pavilion Kuala Lumpur Mall as a dream destination. Maybank's year-long partnership provided gifting and shopping privileges to their premium card members whilst brand partners adopted decoration ambience and performances, achieving higher brand engagement and creativity.

The first time synergistic partnership with Disney by Pavilion REIT malls for the 'Celebrate the Magic' Christmas at Pavilion Kuala Lumpur together with Elite Pavilion, Intermark and DA MEN malls drew high consumer interest and media attention, particularly Intermark and DA MEN malls which saw a surge in activity participation, in-mall redemption and social media interaction.

For **Pavilion Kuala Lumpur Mall**, 2019 will be a year to focus on generating quality consumerism, innovation and regional partnerships. As we advance into the realm of digital, mobile and loyalty marketing, such advancements will be integrated into campaigns, in line with the global marketing trends and the consumer lifestyle.

- **Festive Celebrations**
  Visit Pavilion 2018 started the year with 111 lions and two 27 metre long dragons performed by over 1,000 members of various troupes. This led to the Chinese New Year **'Dream Garden of Prosperity'**, which won the gold award for best experiential marketing from PPK Malaysia Shopping Mall Association. Its **'Wishes in the Air'** of the 'Most Number of Hanging Fabric Petal Flowers' was in showcased in Malaysia Book of Records feat. **'Raya Seribu Impian'** was held in collaboration Media Prima with decoration by Swarovski. **'Dream Diwali'** reflected the dream kolam of a giant peacock, positioned as a tourist attraction. **'Dream Christmas'** featured a 20 feet giant Mickey sculpture, 1,000 mini Mickeys on a revolving Christmas tree, showcase of 100 artistic Mickey figurines decorated by luxury and lifestyle tenants.

- **Fashion Events**
  April's spring summer fashion **'Love Spring'** showed case over 20 celebrity wedding gowns on display, the first in Malaysia. The social media was bursting with images of designers and celebrities spotted at Pavilion Kuala Lumpur's annual **'KL Fashion Week Ready to Wear'** held in August 2018 which showcases young and upcoming Malaysian designers and the creation of opportunities for them to thrive in the mall and retail world.

- **Celebrities, Events and Collaborations**
  Korean fans had their dreams fulfilled when IN2IT K-pop group performed at the mall for their Asian Tour while Korean actress Lee Sung-Kyoung and actor Park Bo Gum launched the new Laneige beauty and Samsung S9 respectively in March 2018. Chinese New Year also saw seven Hong Kong TVB stars had a Big Big Star Party with Hong Kong stars Loiusa So and Johnson Lee launching their "Staycation' movie. April started strong with footballer Ronaldinho drawing in the crowds for the Heineken Champions League.

  'Raya Seribu Impian' was made merrier when Dato' Syafinaz hosted orphanages at its launch with Faizal Tahir surprising orphans with gifts. At the same time, Vivy Yusof also launched the DUCK scarf collection with Pelangi Cinta's top local actors meeting their fans in the mall. In July, **'Dream Goals'** was an exciting showcase of World Cup with the Hublot launch, Hugo Boss and Carlsberg pop-ups, Wes Brown ex-Manchester United player appearance at JD Sports and the Celcom Finals Party on 15 July. The Bukit Bintang road was closed for the live viewing on the mega Elite LED screen. **'Dream Japan'** festival that celebrates Tokyo Street's 7th Anniversary saw the return of viral sensation Pikotaro who launched his new song at Japan Expo in July.

- **National Events**
  Pavilion Kuala Lumpur Mall was chosen for the Merdeka music video #KitaPunyaMalaysia performed by Bunkface along with a social experiment for the 61st National Day celebration. The experiment by MediaPrima went viral and generated brand goodwill for the mall, as it demonstrated the high level of unity amongst mall visitors of all races.

Other than holding lifestyle and property fairs besides and car roadshow, **Intermark Mall** celebrated the cultural diversity of festivals with **'Streams of Harmony'** for Chinese New Year and Hari Raya's **'Shining Shawal'** in collaboration with Taylors International School KL to provide a platform for performing arts. **'Delightful Diwali'** showcased the unique handwoven kolam created by students of Raffles College from recycle fabrics, each dyed using natural ingredients to raise social awareness of recycling and repurposing. With **'Merry Mickey Christmas'** the mall celebrated 90 years of Mickey and transformed the mall into a dazzling display of Mickey Mouse and Minnie Mouse in their best Christmas outfits over the glittering 90 years.

Malaysia's first O2O Taiwan Street Online-to-Offline Marketplace for Lunar New Year was held in the neighbourhood **DA MEN Mall** with the mall's theme of **'Sweet Happiness'**. The **'Riuhnya Raya'** strategy was aligned towards creating fun and interactive school holiday activities. The strategy of community and non- government organisation partnerships continued with INTI and SEGI College coming together to present **'Harmony Diwali'** flower kolams at mall entrances to bless visitors with prosperity. A Harmony Garden using paper flowers was created by the community before the mall was transformed into a Disney **'Tsumtastic Christmas'** celebration.

In line with the strategy of raising DA MEN Mall as community friendly, more interactive & family driven, activities were consistently held during the year. Some of the more notable events held were **'Women Lifestyle Market'** to retail homegrown products, Japan cultural activities of **'Moshi Moshi Japan Festival'**, **'Festival Anak Merdeka'** a collaboration with Art Market, a platform for disable and OKU artists to thrive. The Breastfeeding Advocates Network organized the **'Gift of Love'** campaign in September with a merchandise bazaar, activities and an attempt at a new Malaysia Book of Records for the largest breastfeeding gathering. **'Halloween Cosmart'**, a collaboration with Comic Fiesta attracted over 5,000 visitors with internal cosplayers, competitions, talks and workshops.

Support and promotion of education community continued with Science, Technology, Engineering and Mathematics ('STEM') activities and carnivals in March, April and November which includes drone flying, micro drone and virtual reality. Sri KL International Table Tennis Competition, Smart Reader Spelling Challenge Grand Final and Global Maths Calculation Competition were all held in DA MEN Mall with INTI College continued its support by hosting the fashion and design students' graduation exhibition and the World Wildlife Fund **'Save the Tiger'** origami exhibition.

Awards

Pavilion Kuala Lumpur Mall has achieved 44 accolades to date with the current year additions being the followings :-

- **'Gold Award, Best Experiential Marketing –** Dream Garden of Prosperity' : PPK Malaysia Shopping Mall Association Awards 2018
- **'Best Shopping Mall' :** Going Places Readers' Choice Awards 2017

Market Review

The Ministry of Finance anticipates Malaysia's economy to grow at a gentler pace of 4.8% and 4.9% for 2018 and 2019 respectively as compared to the 5.9% growth achieved in 2017. The World Bank also lowered Malaysia's 2018 GDP forecast to 4.7% due to lower spending and investment by government as well as slowdown in spending by both private and public sectors, external trade tension and market volatility. With private sector as the key economic driver, the World Bank forecast Malaysia to also achieve GDP growth of 4.7% in 2019 and is able to withstand external encounters despite high amount of integration financial and trade linkages in the world economy. RAM Rating Services Bhd expects inflation to average 1.0% and 2.7% for 2018 and 2019 respectively.

With about 2.9 million square feet of retail mall opened in Klang Valley in 2018 (about 50% opened in Kuala Lumpur with the balance in Selangor) and another 3.8 million square feet targeted to be ready for trading in 2019, 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 4.4% and 4.5% for 2018 and 2019 respectively with inflation expected to increase. This is due to implementation of service tax and minimum wages of RM1,100 per month that may lead to retailers charging higher retail prices that will eventually be absorbed by consumers. However, we believe that consumer sentiment is sustainable due to the government's consumer friendly programmes such as re-introduction of petrol subsidy, capping of electricity tariff and the introduction of public transport support will encourage spending.

As published by the Malaysian Institute of Economic Research, consumer confidence index increased from 77.1 points a year ago to 107.5 points for third quarter ended 2018. However, there is only a slight increase in year on year business conditions index from 103.1 points to 116.3 points as at the end of 3rd quarter 2018. Unfortunately, according to RAM's Business Confidence Index issued in early January 2019, weak economic condition has been cited as the main factor reflecting low business confidence. Hencewith, the retail market is expected to be flat for the first half of 2019.

Nevertheless, with tourism as a key growth driver and the third highest contributor to Malaysia's foreign exchange receipt, 30 million foreign tourists contributing RM100 billion in receipts is targeted by 2020. In the 2019 Budget, RM100 million grant has been allocated to private sector for running promotional and marketing campaigns overseas to increase the number of visitors to the country. Besides supporting local made retail goods and services, the government's 'Buy Malaysia Products' campaign this year with a budget of RM20 million will also draw exhibition events to be held all over the country.

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, i.e. moving with times to cater to needs of customer / consumer.

However, as consumers are being cautious and selective in spending, Pavilion REIT malls intend to be prudent 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 2019 with tenants having more options / selections with bargaining power given that there are more retail malls to choose from.

As per Knight Frank Malaysia's 2nd half 2018 Real Estate Highlights, with the recent completion of Menara Khuan Choo and Equatorial Plaza, the cumulative supply of purpose built office space in the KL City increased to 52.35 million square feet while in KL Fringe, the completion of Menara Etiqa and Menara Southpoint, brought its cumulative supply to 29.50 million square feet. Overall, the occupancy of Klang Valley office market recorded marginal decline during the review period following completion of more new office space while the average rental continued to hold steady as new buildings command higher rentals. Dated office buildings in the city are expected to undergo repositioning / upgrading works to cater to the needs of occupiers. Co-working and shared services facilities continues to gain momentum. 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 2019 is to try to retain good tenants with continuous upkeep of property to maintain and enhance the standard of its facilities.

Distribution policy for 2019 is expected to be maintained as per 2018 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.

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.

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 12.0% of the Fund's gross revenue with the main tenant contributing only 4.7% of the Fund's gross revenue as at 31 December 2018.

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 a third each of the Funds borrowings are each due in 2019, 2021 and 2023 respectively.

f) Interest rate risk refers to the potential unfavourable movement in floating interest rate that will affect income before taxation. 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 53.5% 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 to the Board 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. All Pavilion REIT properties also have their own emergency response and crisis management plans. 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

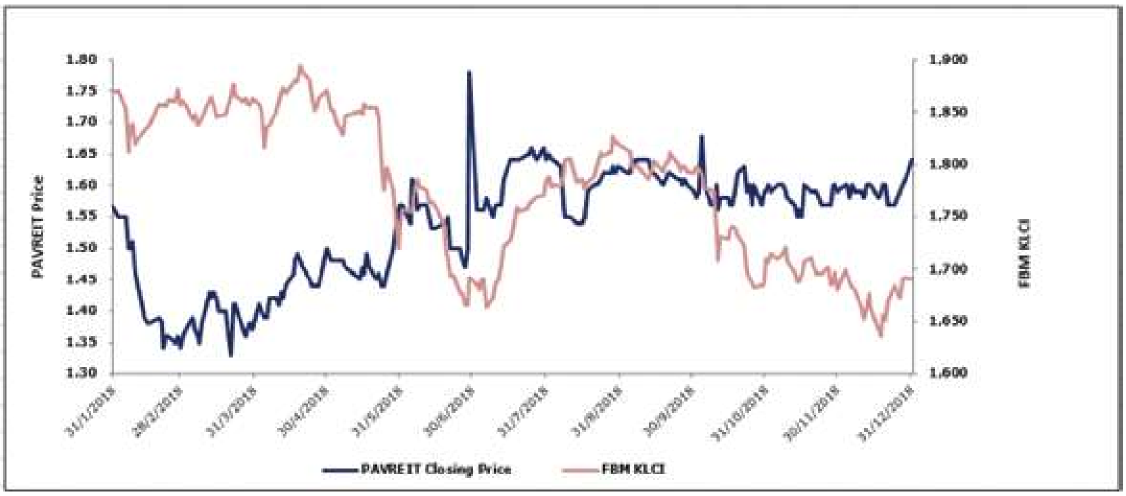
During the year, the Manager's management team have continuously met analysts, fund managers and investors, besides attending investors' roadshows and seminars as listed below.

- Half yearly analyst briefing
- Citi Asia Pacific Property Conference, Hong Kong
- Malaysia REITs Corporate Day – REITs in the New Economy, Kuala Lumpur

Pavilion REIT's annual general meeting was held on 29 March 2018 whereby its unitholders were updated on the performance of Pavilion REIT for the financial year ended 31 December 2017.

Pavilion REIT's Monthly Trading Performance

Pavilion REIT's Unit Price Performance against FBM KLCI



Investors Relation and Fund Management (cont'd)

Trading Summary	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Net Asset Value per Unit (RM)					
-As at 31 December	1.26	1.28	1.30	1.30	1.31
-Lowest during the year	1.15	1.24	1.25	1.27	1.28
-Highest during the year	1.26	1.28	1.30	1.30	1.31
Closing unit price (RM) as at 31 December	1.46	1.55	1.90	1.61	1.64
Highest traded price during the year (RM)	1.53	1.63	1.90	1.93	1.78
Lowest traded price during the year (RM)	1.23	1.39	1.52	1.61	1.32
Capital appreciation / (depreciation) (%) [1]	14.06	6.16	22.58	(15.26)	1.24
Annual total return (%)[2]	19.51	11.47	26.92	(10.14)	6.59
Average total return over 3 years (%)	16.60	9.61	19.30	9.42	7.79
Average total return over 5 years (%)	-	-	17.64	9.12	10.87
Units in circulation ('000)	3,013,819	3,017,842	3,022,525	3,030,094	3,036,705
Market capitalisation (RM'000)	4,400,177	4,677,655	5,742,798	4,878,451	4,980,196

[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	11 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	2,250,684 square feet
Net Lettable Area	1,334,331 square feet
Number of Car Park Bays	2,391
Occupancy Rate as at 31 December 2018	98.7%
Date of Acquisition	7 December 2011
Acquisition Price	RM3,190 million
Appraised Value	RM4,700 million
Date of Latest Valuation	31 December 2018
Independent Valuer	Knight Frank Malaysia Sdn Bhd
Capitalisation Rate – Reversionary	6.50%
Gross Revenue	RM441 million
Net Property Income	RM313 million
Ten Largest Tenants	Cartier, Food Republic, Forever 21, Golden Screen Cinema, Hermes, Mercato, Padini Concept Store, Parkson Elite, Royal Selangor, Zara

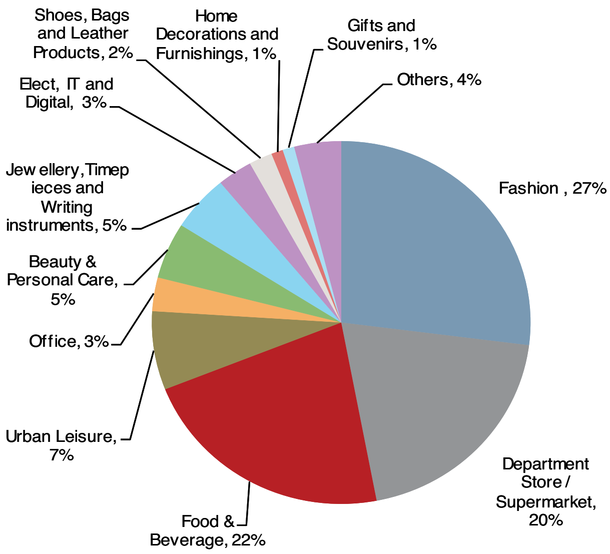
Portfolio Details (cont'd)

Tenancy Expiry Profile

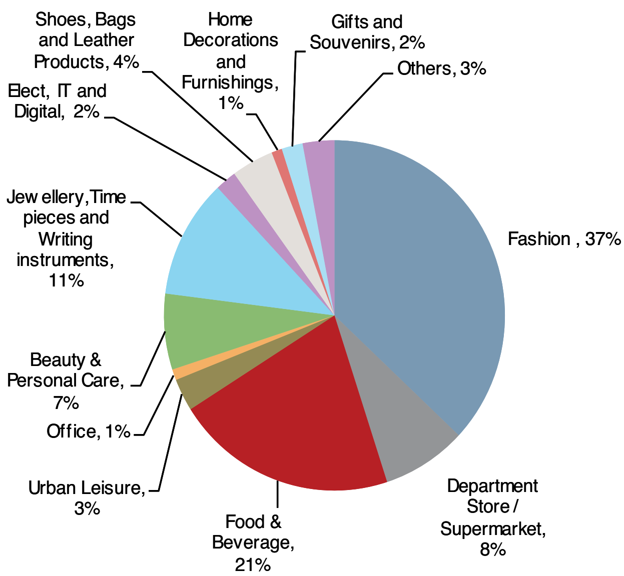
Period	% of Occupied NLA	% of Gross Rental
Monthly	1	1
FY2019	65	60
FY2020	22	25
FY2021 and thereafter	12	14
Total	**100**	**100**

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	6 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	222,565 square feet
Number of Car Park Bays	367
Occupancy Rate as at 31 December 2018	94.4%
Date of Acquisition	25 March 2016
Acquisition Price	RM160 million
Appraised Value	RM170 million
Date of Latest Valuation	31 December 2018
Independent Valuer	C H Williams Talhar & Wong Sdn Bhd
Capitalisation Rate – Reversionary	6.50%
Gross Revenue	RM29 million
Net Property Income	RM17 million
Top Ten Tenants	Hanare, Hua Wei, In Colonial, Jaya Grocer, McDonald's, MST Golf, Primrose Hill Active Learning, Savini, Space Furniture, SportsDirect.com

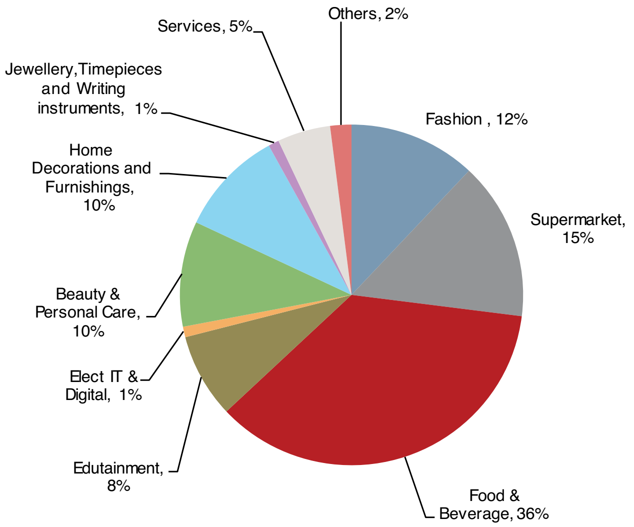
Portfolio Details (cont'd)

Tenancy Expiry Profile

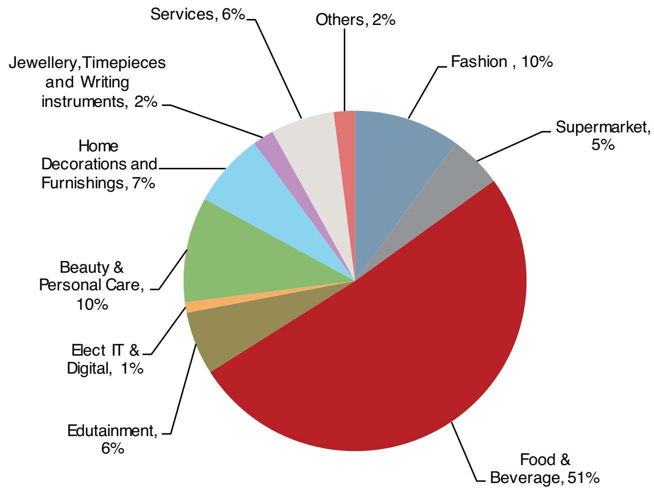
Period	% of Occupied NLA	% of Gross Rental
Monthly	4	4
FY2019	51	45
FY2020	29	33
FY2021 and thereafter	16	18
Total	**100**	**100**

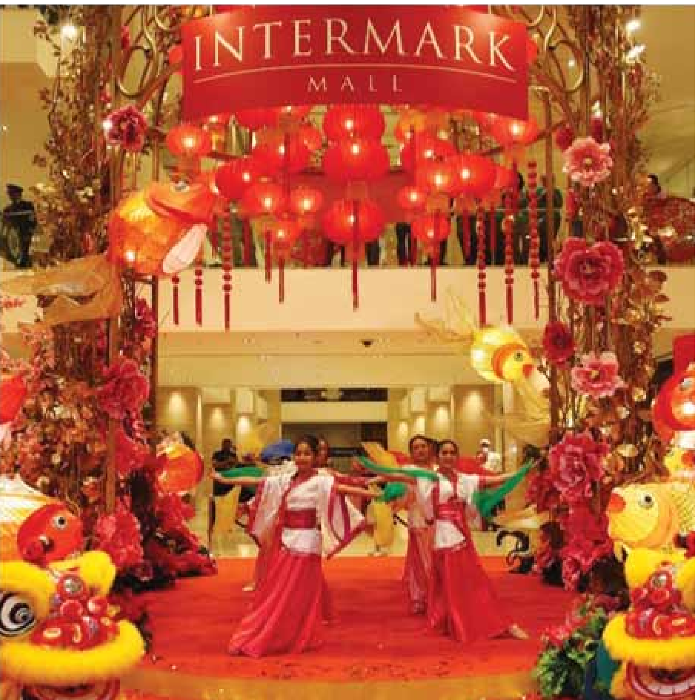
Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental





Portfolio Details (cont'd)

(A) RETAIL

	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	3 years
Title	Geran 320023/M1-A/1/1, Building No M1-A, Storey No 1, Parcel No 1 on part of parent Lot 91576 Pekan Subang Jaya, Daerah Petaling, Negeri Selangor Geran 320023/M1-A/1/2, Building No M1-A, Storey No 1, Parcel No 2 on part of parent Lot 91576 Pekan Subang Jaya, Daerah Petaling, Negeri Selangor
Encumbrances	Pending registration to Public Bank Berhad
Tenure	Interest in perpetuity
Gross Floor Area	705,128 square feet
Net Lettable Area	434,938 square feet
Number of Car Park Bays	1,638
Occupancy Rate as at 31 December 2018	74.4%
Date of Acquisition	25 March 2016
Acquisition Price	RM487 million
Appraised Value	RM310 million
Date of Latest Valuation	31 December 2018
Independent Valuer	C H Williams Talhar & Wong Sdn Bhd
Capitalisation Rate – Reversionary	6.50 %
Gross Revenue	RM30 million
Net Property Income	RM9 million
Top Ten Tenants	Al Hannan Events, Food Arcade, Grand Harbour Restaurant, House of Teak, Jaya Grocer, Morganfield's, SHP Gallery, The Blues, Square Room & Co / MOS, Urban Living Republic

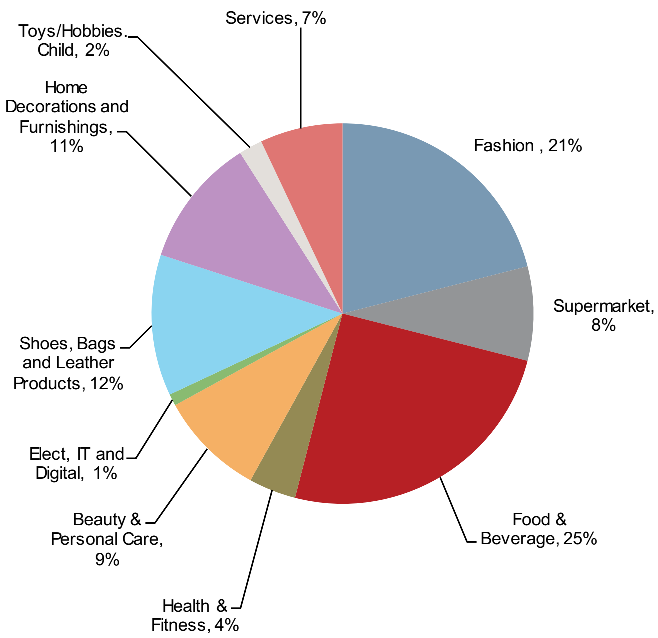
Portfolio Details (cont'd)

Tenancy Expiry Profile

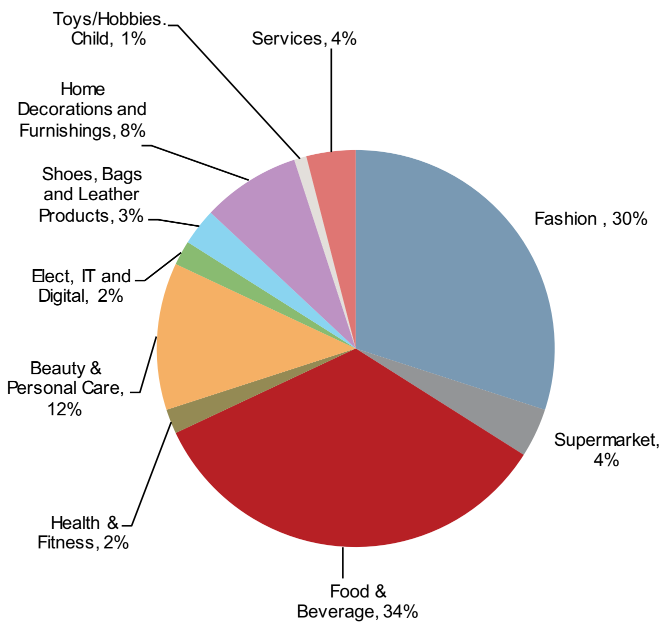
Period	% of Occupied NLA	% of Gross Rental
Monthly	21	43
FY2019	38	25
FY2020	17	9
FY2021 and thereafter	24	23
Total	**100**	**100**

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



Portfolio Details (cont'd)

(A) RETAIL

	Elite Pavilion Mall
Address	166 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia
Description	10-storey shopping mall with stratified parcels consisting of car park bays on Level B3 to Level 2 ('Elite Pavilion') interconnected to Pavilion Kuala Lumpur Mall via pedestrian link bridges and seating / retail areas on Level 4 to Level 10 ("Extension-Connections') and an underground pedestrian tunnel with retail outlets which contractual rights will expire on 10 October 2037 ('Subway Linkage')
Year of Completion	2016
Age of Building	2 years
Title	HS(D) 120601, PT 116, Sekysen 57, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan KL for Elite Pavilion HS(D) 120091, PT 80 Sekysen 63, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan KL for Extension-Connections
Encumbrances	Nil
Tenure	Interest in perpetuity for Elite Pavilion 99-year lease expiring on 26 October 2109 for Extension-Connections
Gross Floor Area	464,689 square feet
Net Lettable Area	241,831 square feet
Number of Car Park Bays	50
Occupancy Rate as at 31 December 2018	96.7%
Date of Acquisition	27 April 2018
Acquisition Price	RM580 million
Appraised Value	RM580 million
Date of Latest Valuation	31 December 2018
Independent Valuer	Knight Frank Malaysia Sdn Bhd
Capitalisation Rate – Reversionary	6.25% for Elite Pavilion
Gross Revenue	RM43 million
Net Property Income	RM27 million
Top Ten Tenants	Acme Bar & Coffee, Coach, COS, JD Sports, Lukfook Jewellery, Mango and Mango Man, Muji & Café, Rimova, Toys 'R' Us, TSL

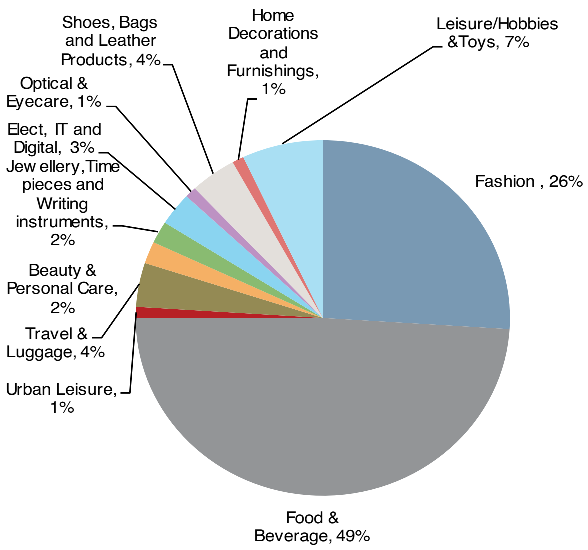
Portfolio Details (cont'd)

Tenancy Expiry Profile

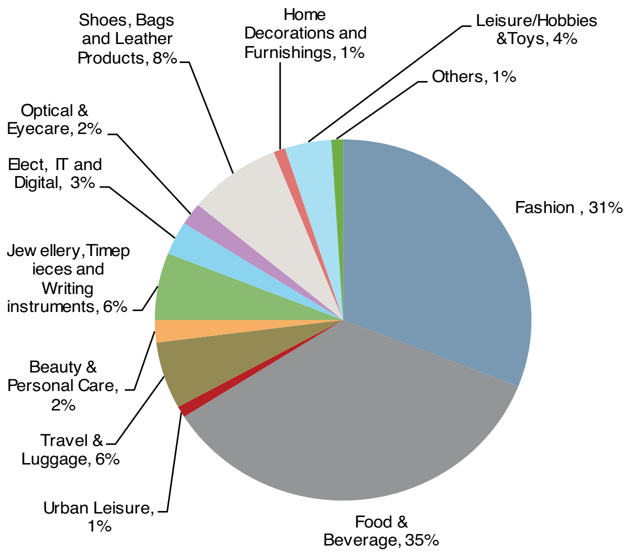
Period	% of Occupied NLA	% of Gross Rental
Monthly	0	0
FY2019	60	76
FY2020	20	14
FY2021 and thereafter	20	10
Total	**100**	**100**

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	11 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 2018	94.0%
Date of Acquisition	7 December 2011
Acquisition Price	RM123 million
Appraised Value	RM133 million
Date of Latest Valuation	31 December 2018
Independent Valuer	Knight Frank Malaysia Sdn Bhd
Capitalisation Rate – Reversionary	6.50%
Gross Revenue	RM13 million
Net Property Income	RM8 million
Ten Largest 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

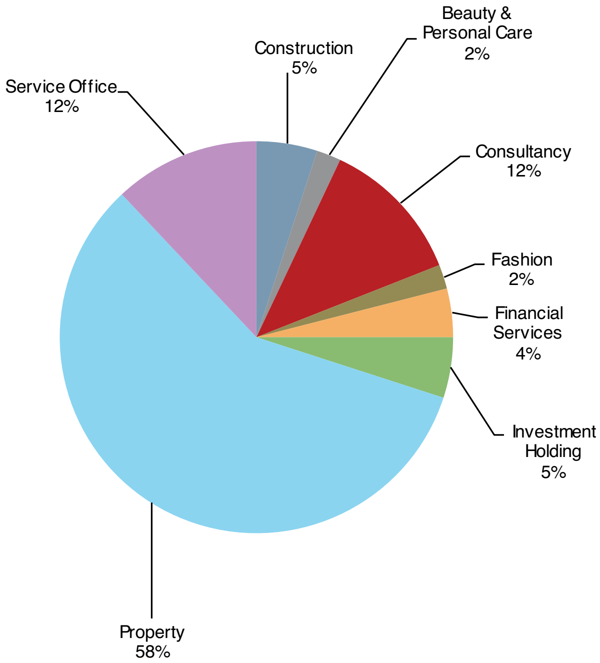
Portfolio Details (cont'd)

Tenancy Expiry Profile

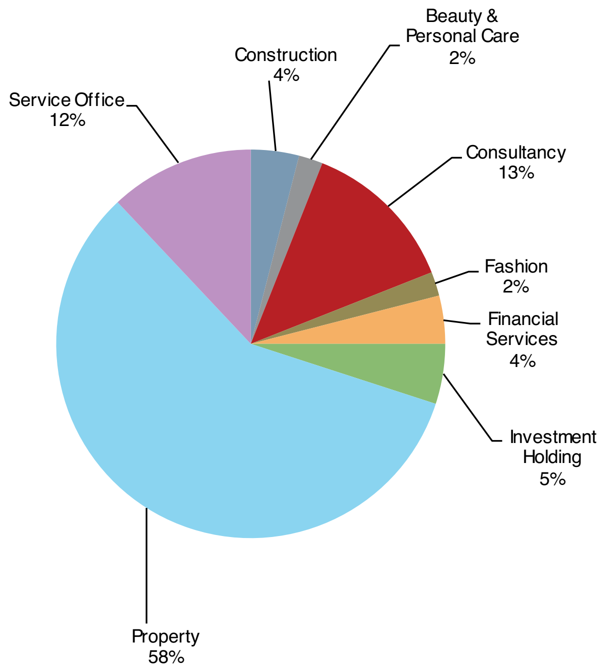
Period	% of Occupied NLA	% of Gross Rental
Monthly	8	8
FY2019	42	41
FY2020	36	37
FY2021 and thereafter	14	14
Total	**100**	**100**

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



SUSTAINABILITY STATEMENT

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

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

Defining Our Commitment to Sustainability

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

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

CORPORATE VISION

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

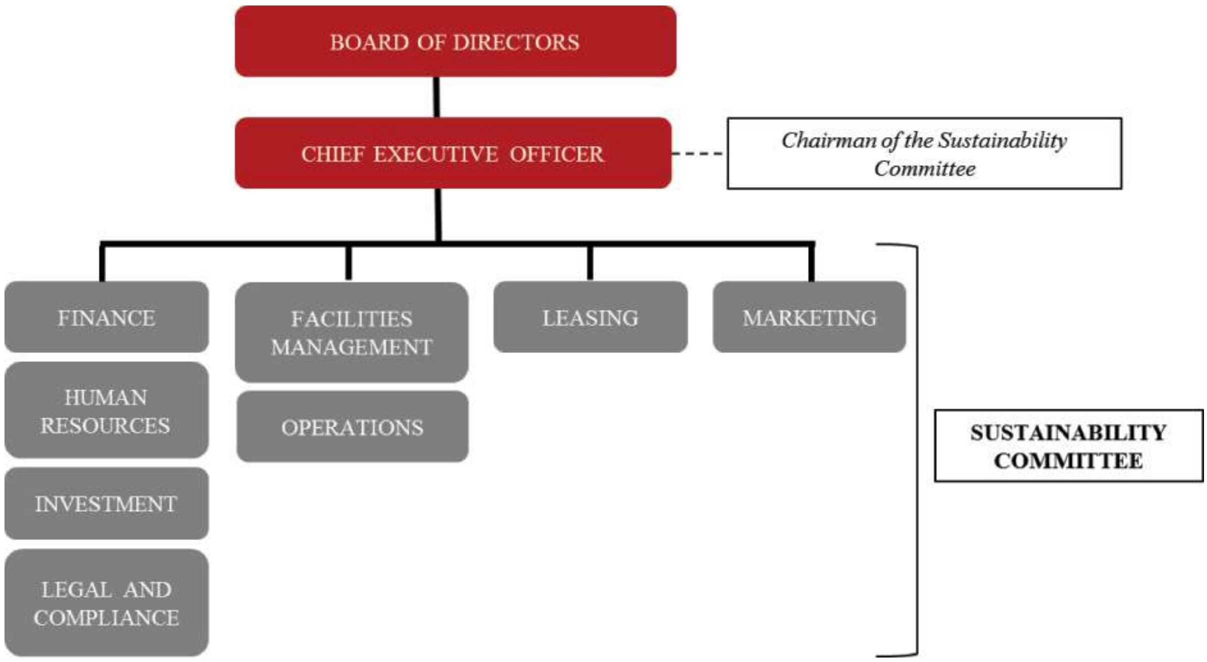
CORPORATE MISSION

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

Governance for Sustainability

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

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



Stakeholder Engagement Table

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

Sustainability Statement (cont'd)

Asset level **Organisational level** **Project level**

Stakeholder Group	Engagement Level	Stakeholder Expectations	Method of Engagement
EMPLOYEES We respect the individual values and life goals of each and every employee. We also work hard to eliminate any form of discrimination and foster an atmosphere that is conducive for all.		• Fair remuneration • Career development and progression opportunities • Work-life integration • Safe and conducive workplace	• Performance appraisal • Training programmes
INVESTMENT COMMUNITY We strive to enhance our corporate value by responding to changes in the business environment and maintaining stable profitability. Our focus is to provide unitholders and fund managers with a secure income stream and achieve long-term growth.		• Stable and sustainable distribution income • Solid financial performance • Timely and transparent reporting • Prudent risk management	• Announcements • General meetings • One on one meetings • Investor roadshows
CUSTOMERS We enjoy the trust and confidence of customers and constantly strive to improve satisfaction by responding sincerely to feedback from our customers.		• Safety and security of premises • Variety of options / choices	• Festive giveaways and performances • Promotional events • Customer satisfaction surveys
TENANTS Developing good tenant relationships enables us as the Manager to anticipate, understand and respond appropriately to their needs, which in turn helps create a conducive environment for tenants.		• Tenant engagement and support • Conducive operating environment	• Tenant engagement and support • Conducive operating environment

Stakeholder Group	Engagement Level	Stakeholder Expectations	Method of Engagement
SUPPLIERS, CONTRACTORS AND SERVICE PROVIDERS Building strong relationships with our suppliers, contractors and service providers as well as routine assessments is essential to delivering our projects, running our operations and ensuring compliance with the internally prescribed standards and applicable laws and regulations.		• Fair treatment • Transparent procurement processes	• Meetings • Safety briefings and workshops
REGULATORY AUTHORITIES We recognise the importance of monitoring oureconomic, environmental, social and governance policies and procedures, and ensuring they are aligned with regulatory requirements through regular attestations, compliance monitoring programmes and reporting in order to work in a healthy and transparent business environment.		• Regulatory compliance • Keeping abreast with policy and regulatory changes	• Direct dialogue • Policy briefings • Consultation sessions and conferences
LOCAL COMMUNITIES As a corporate responsible citizen, we continuously seek to support and build resilience amongst communities where we operate.		• Creating a positive impact on the surrounding community • Responsible corporate citizengiving back to the community	• CSR programmes (to accompany every major festive season, otherwise on an ad hoc basis) • Projects to improve mobility and traffic congestion
MEDIA Regularly communicating with media on project developments and our business performance is key in order to propagate our brand value and ensure transparency in the eyes of the public .		• Timely and transparent communication • Market and business performance outlook	• Media launches • Media interviews • Media releases

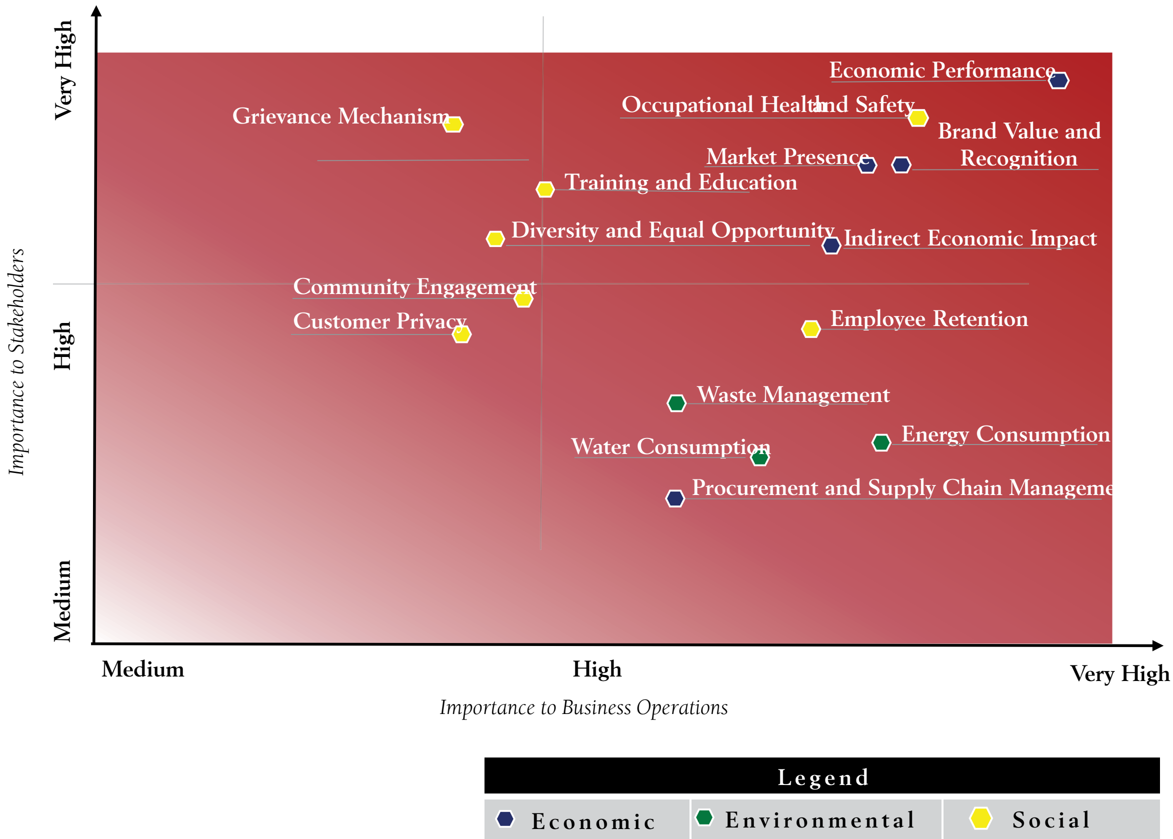
Identifying Materiality

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

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

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

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



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

Sustainability Statement (cont'd)

INVESTING IN SUSTAINABILITY

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

ECONOMIC PERFORMANCE

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

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

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

BRAND VALUE AND RECOGNITION

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

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

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

Awards for Excellence

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

Gold Award for Best Experiential Marketing
by
Persatuan Pengurusan Kompleks (PPK) Malaysia 2018

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

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

Best Shopping Mall
by
Going Places Readers' Choice Awards 2017

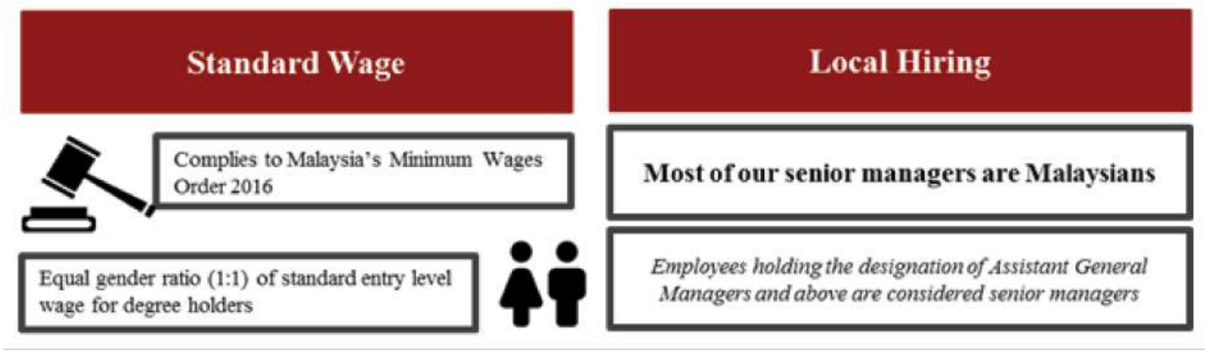
In June 2018, Pavilion Kuala Lumpur, was named Best Shopping Mall in Going Places Readers' Choice Awards 2017. Organised by Going Places, the in-flight magazine for Malaysia Airlines, the awards recognised the industry's best for outstanding achievement in tourism and hospitality.

This is the third consecutive win for Pavilion Kuala Lumpur.

Sustainability Statement (cont'd)

Market Presence

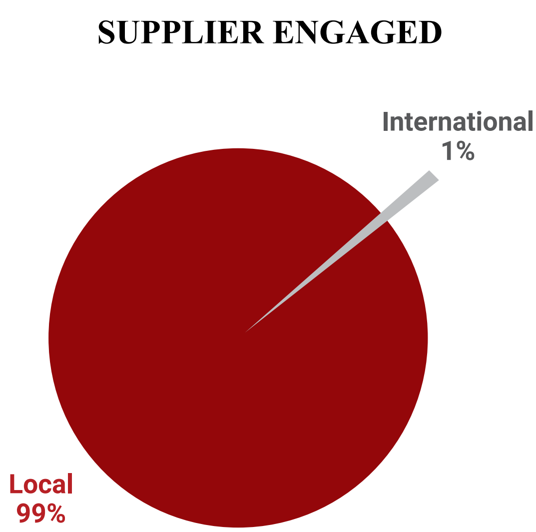
While we do focus our efforts on expanding our portfolio through new investments to increase our market presence, we endeavour to extend our brand visibility to grow the national economy by ensuring fair and equal remuneration and local hiring. Our senior managers are Malaysians and we practice equal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



PROCUREMENT PRACTICES

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

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



Customer Privacy

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

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

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

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

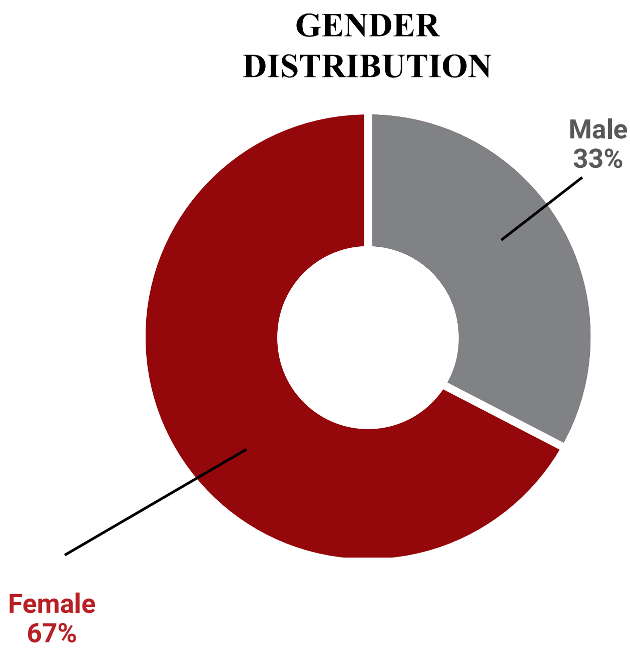
Building Employee Relations

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

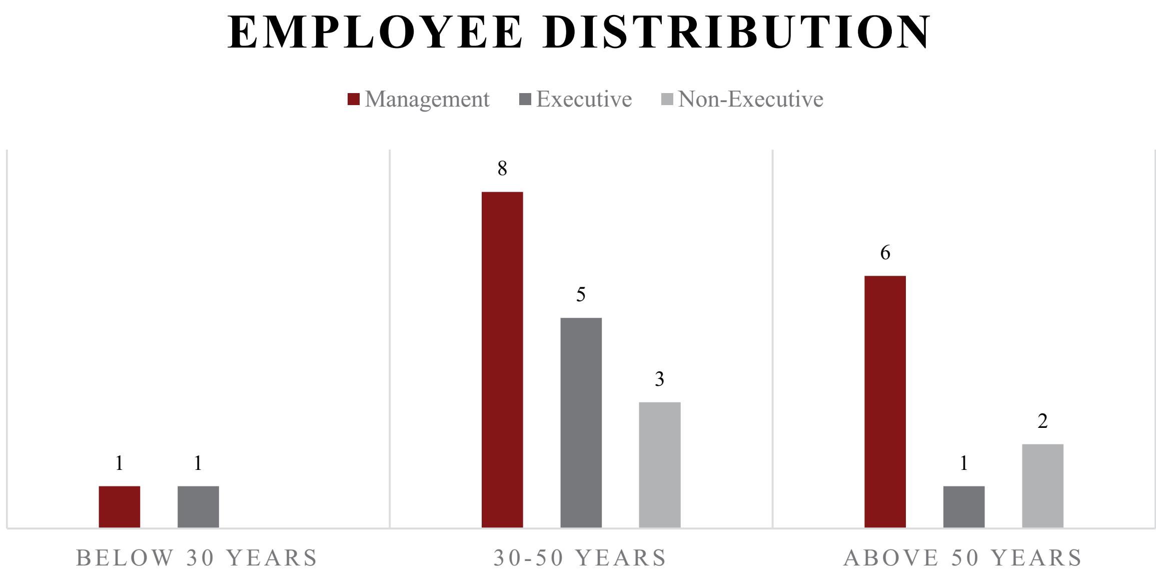
Diversity and Inclusiveness

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

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



Sustainability Statement (cont'd)



Employee Retention

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

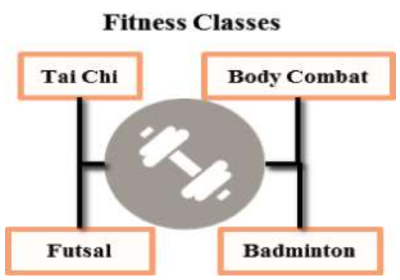
The benefits include insurance for medical and health purposes, a variety of subsidies for meals, travelling and mobile phone allowances, as well as different types of leave allowance.

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

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

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

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



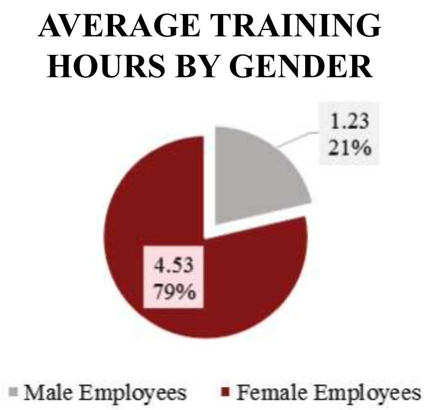
The health and wellbeing of our employees is important to us. Besides the medical benefits, we sponsor a variety of fitness classes for our employees to encourage them to lead a healthy lifestyle. These fitness classes also provide an avenue for our employees to socialise and reduce work-related stress.

Training and Education

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

Training Hours

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



Key Programmes

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

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

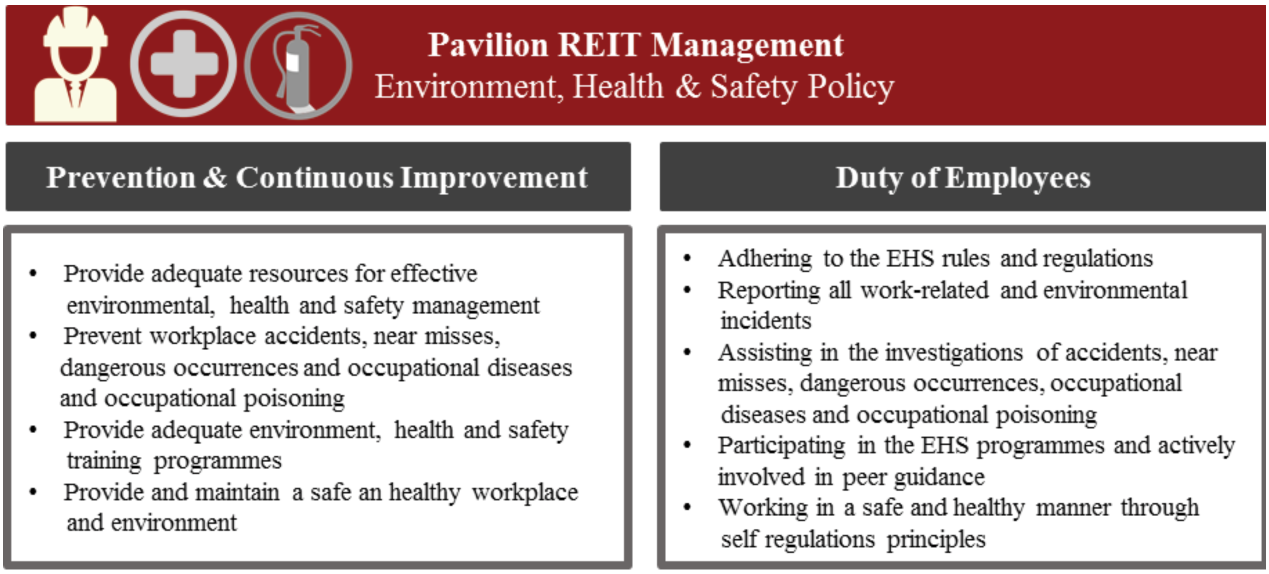
Creating a Safe and Healthy Workplace

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

Environment, Health and Safety ("EHS")

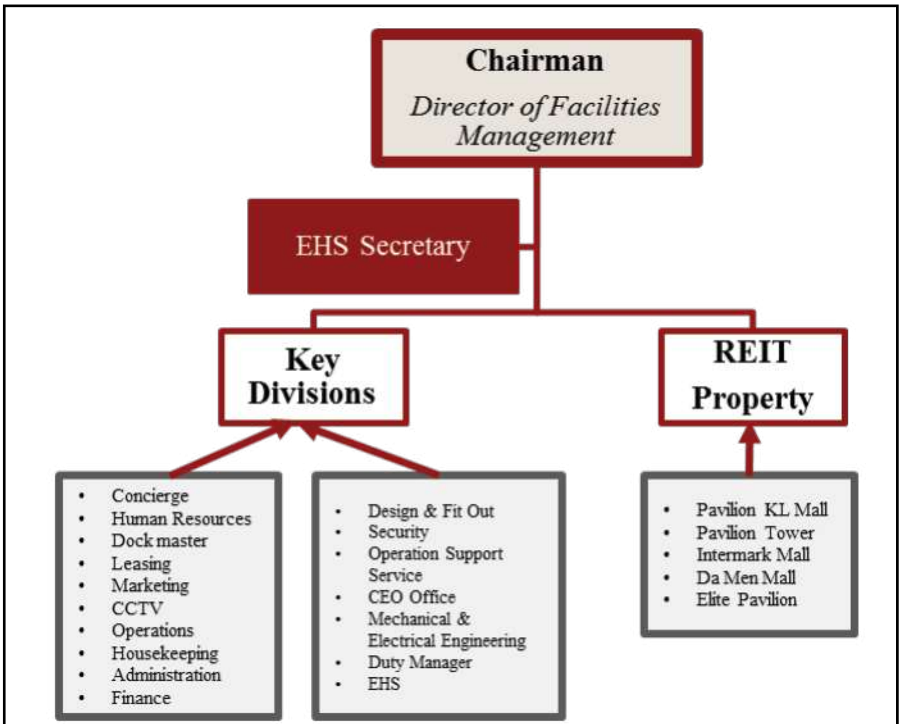
Since inception, the CEO has endorsed for EHS policy to be applied across all REIT's properties to govern safe conduct on all business activities and preserve the safety of stakeholders. The policy encompasses prevention and continuous improvement measures including an outline of the duty of employees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

Sustainability Statement (cont'd)



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

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



Environment, Health and Safety Organisation Chart

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

Safety Training

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

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

First Aid	Understanding and Managing Safety	Specialist	Fire Safety/Emergency Response
• CPR/AED Refresher • Medic Training • Epilepsy	• Safety Committee Inspection Training • Chemical Handling & Personal Prot ective Equipment • Hazard Identification Risk Assessment and Risk Control & Determination • Working at Height • Food Safety & Hygiene Inspection Training • First Aid Training for Tenant • Workplace Threat & Violence • Power Failure • Managing Child Birth • Contractor S afety Induction	• Safety, Legal, Handling of Weapons (Pistol), Bullets and Shooting Course • Building Lock Down – Office • Standard Operating Procedure (SOP) – Handling Bomb Threat Call and Search Procedure • Civil Disturbance • Kidnapping • Earthquake • Handling Riot/H ostage	• Fireman Breathing Apparatus Training • Fire Safety Conference • Fire Drill Briefing for Tenant • Mall Fire Drill • Fire Extinguisher Practice • Fireman, Search & Rescue Training • ERT & BOMBA Training • Introduction to Fireman PPE, Wet Riser & Hose Reel • Natural Gas Leak • Medic Training for First Responder

Sustainability Statement (cont'd)

Building Social Harmony

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

Pavilion Kuala Lumpur Mall

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

DA MEN Mall

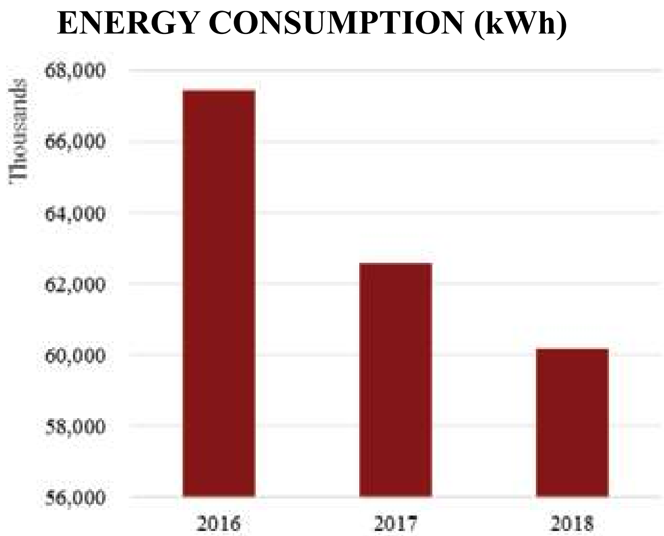
- National Science Week (S.T.E.M. Project)
- Promotion Space to retail Penan baskets and bags
- Table Tennis Tournament for local and international players
- MONOCLE – ICAD Degree Showcase 2018
- UNICEF Awareness Campaign
- Moshi Moshi Da Men Campaign
- Kami Anak Merdeka Festival 2018
- The Malaysian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

Managing Environmental Footprint

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

ENERGY CONSUMPTION

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



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

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

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

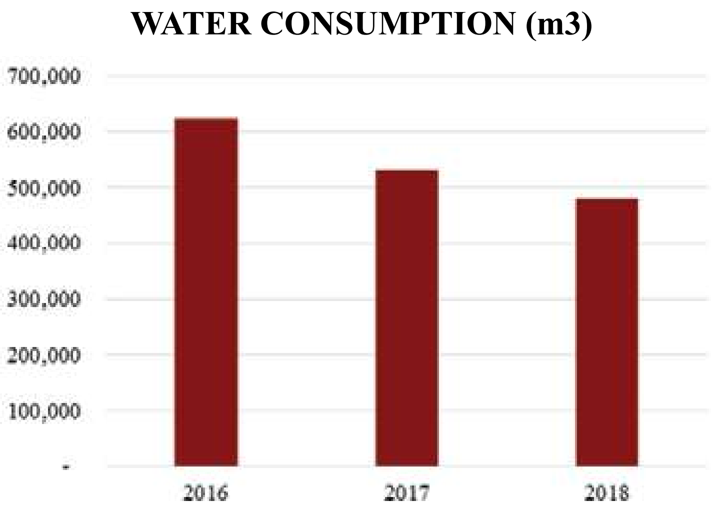
Renewable energy is an area that we recognise will lessen our environmental burden. Therefore, we are exploring the option of installing solar panels in Pavilion Kuala Lumpur Mall. Currently, we are in discussion with Tenaga Nasional Berhad to negotiate a feasible proposal to address the impeding factors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

Sustainability Statement (cont'd)

WATER CONSUMPTION

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

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

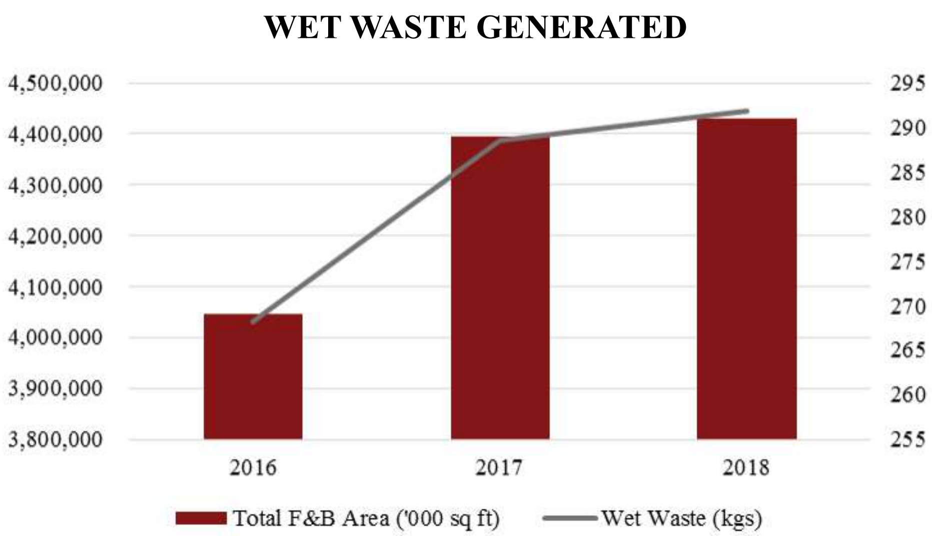


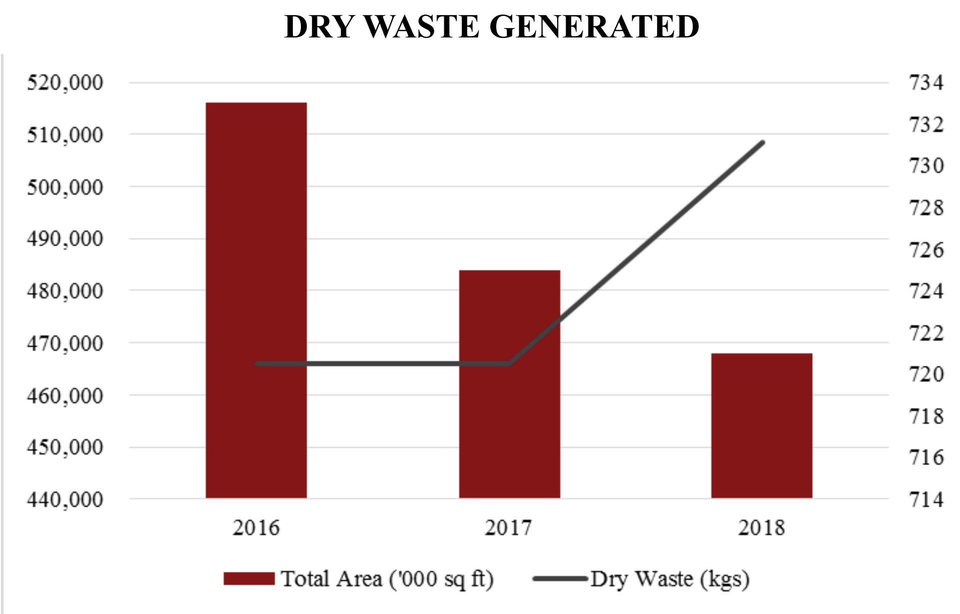
Year	Water Consumption (m3)
2016	624,566
2017	531,059
2018	478,624

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

WASTE MANAGEMENT

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

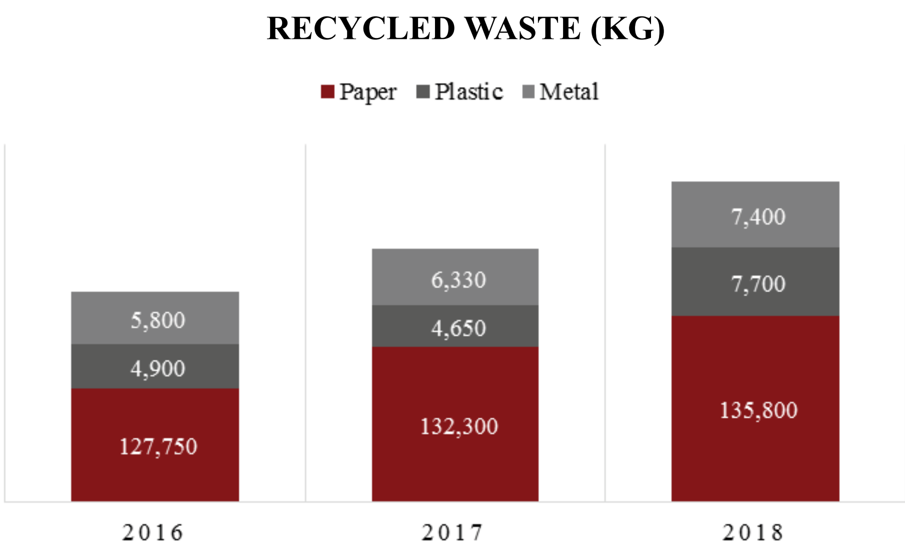




Food waste constitutes the wet waste that is generated and in managing this waste stream, plans to recycle these food wastes into compost which can be subsequently used as a soil enhancer or organic fertilizer is being re-evaluated. Some of the challenges faced includes proper segregation of food waste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

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

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



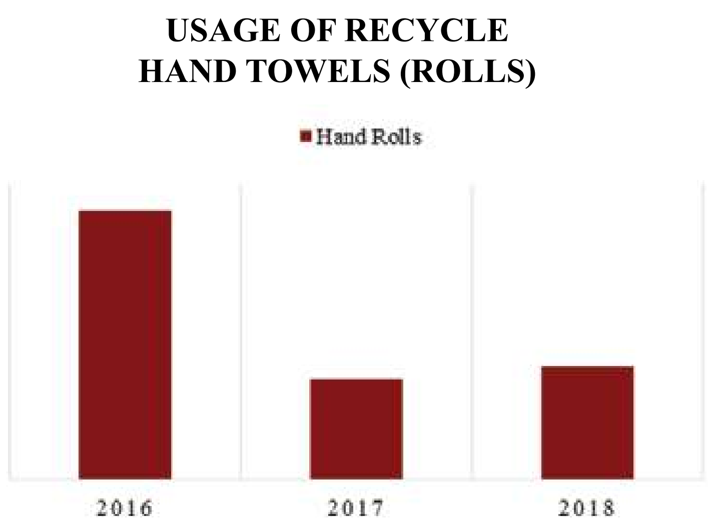
Sustainability Statement (cont'd)

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

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

PAPER WASTE REDUCTION

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



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

Conclusion

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

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

Principal A : Board Leadership and Effectiveness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Principal B : Effective Audit and Risk Management

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

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

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

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

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

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

NOMINATING COMMITTEE REPORT

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

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

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

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

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

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

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

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

AUDIT COMMITTEE REPORT

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

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

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

(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 26 July 2018, a meeting was held by Audit Committee with BDO to assess the internal control review report prepared by them. BDO gave explanation on findings of review, proposed recommendations and corresponding Manager's responses, which were noted by the Audit Committee
(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 29 January 2019, 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 high level review and on-site health-check of a GST return based on the Fund's business activities and supporting documentation to ensure correct, complete disclosure and compliance
(f) selected samplings to determine whether treatment have been correctly applied, reported in accordance with applicable tax codes and made valid tax credit claims
(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

Audit and Non-Audit Fees

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

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

A process life cycle approach allows BDO to:

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

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

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

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

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

MANAGER'S REPORT

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

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

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

Directors

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

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

Directors' Interests in Shares

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

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

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

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

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

Directors' Benefit

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

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

Soft Commission

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

Manager's Fee

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

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

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

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

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

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

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

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

Other Information

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

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

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

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

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

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

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

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

Material Litigation

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

Sanctions and/or Penalties

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

Auditor

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

For and on behalf of Pavilion REIT Management Sdn Bhd

TAN SRI LIM SIEW CHOON
Chairman

DATO' LEE TUCK FOOK
Non-Independent Executive Director

Kuala Lumpur
29 January 2019

Financial Statements

STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

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

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

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

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

Note A
Distribution adjustments comprise:

	Note	2018 RM'000	2017 RM'000
Amortisation of transaction costs		3,543	3,435
Depreciation	4	559	504
Fair value gain of investment properties		(33,618)	(17,028)
Manager's management fees payable in units	13	7,430	13,325
		(22,086)	236

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

STATEMENT OF CHANGES IN NET ASSET VALUE
for the year ended 31 December 2018

	Note	Unitholders' capital RM'000	Accumulated income/ (deficit) RM'000	Total funds RM'000
At 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	17	–	(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/ 1 January 2018		2,913,849	1,026,428	3,940,277
Income after taxation/Total comprehensive income for the year attributable to unitholders		–	288,684	288,684
Unitholders' transactions				
Contributions by and distributions to unitholders				
Issue of new units		10,380	–	10,380
Distribution to unitholders	17	–	(261,385)	(261,385)
Increase/(Decrease) in net assets resulting from unitholders' transactions		10,380	(261,385)	(251,005)
Net assets at 31 December 2018		2,924,229	1,053,727	3,977,956
		Note 11		

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. General

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

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

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

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

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

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

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

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

(a) Property management fees

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

(b) Manager's management fees

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

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

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

1. General (Cont'd)

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

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

Fee Payable (% per annum of the Total Asset Value of Pavilion REIT)	Criteria – Provided that annual growth in the Distributable Income in a Financial Year (calculated before accounting for Incentive Fee in that Financial Year):
Up to 0.10% Up to 0.15% Up to 0.20%	Exceeds 7.5% and up to 10.0% Exceeds 10.0% and up to12.5% Exceeds 12.5%

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

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

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

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

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

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

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

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

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

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

(c) Trustee's fees

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

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

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

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

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

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

- MFRS 17, *Insurance Contracts*

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

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

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

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

- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020,

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

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

2. Basis of preparation (Cont'd)

(a) Statement of compliance (Cont'd)

MFRS 16, *Leases*

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

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

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

(b) Basis of measurement

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

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

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

i. Borrowings of RM715,959,000 which are included in current liabilities are secured by investment properties as mentioned in Note 9 to the financial statements will be refinanced, and

ii. The Manager expects Pavilion REIT will continue to be profitable and generate operating cash inflows for Pavilion REIT in the next twelve months.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

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

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

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

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

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

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

(ii) Business combinations

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

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

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

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

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

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

3. Significant accounting policies (Cont'd)

(a) Basis of consolidation (Cont'd)

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b) Financial instruments

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

(i) Recognition and initial measurement

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

Current financial year

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

Previous financial year

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

(ii) Financial instrument categories and subsequent measurement

Pavilion REIT categorises financial instruments as follows:

Financial assets

Current financial year

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

3. Significant accounting policies (Cont'd)

(b) Financial instruments (Cont'd)

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

Financial assets (Cont'd)

Amortised cost

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

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

Previous financial year

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

Loans and receivables

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

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

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

Financial liabilities

Current financial year

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

Amortised cost

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

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

Previous financial year

All financial liabilities were subsequently measured at amortised cost.

3. Significant accounting policies (Cont'd)

(b) Financial instruments (Cont'd)

(iii) Derecognition

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

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

(c) Plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

3. Significant accounting policies (Cont'd)

(d) Investment property

Investment property carried at fair value

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

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

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

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

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

(e) Leases

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

(f) Inventories

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

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

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

(g) Cash and cash equivalents

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

3. Significant accounting policies (Cont'd)

(h) Impairment

(i) Financial assets

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

Current financial year

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

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

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

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

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

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

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

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

Previous financial year

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

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

Notes to the Financial Statements (cont'd)

3. Significant accounting policies (Cont'd)

(h) Impairment (Cont'd)

(ii) Other assets

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

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

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

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

(i) Borrowing costs

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

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

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

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

(j) Equity instruments

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

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

(k) Revenue and other income

(i) Rental income

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

(ii) Interest income

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

3. Significant accounting policies (Cont'd)

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

(iii) Other income

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

(l) Expenses

(i) Property expenses

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

Property management fees are recognised on an accrual basis.

(ii) Manager's management fees

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

(iii) Trustee's fees

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

(m) Income tax

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

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

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

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

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

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

Notes to the Financial Statements (cont'd)

5. Investment properties

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

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

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

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

Details of the investment properties are as follows:

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

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

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

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

NAV Net asset value

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 6.00% to 6.75% (2017: 6.00%) for Pavilion Kuala Lumpur Mall, 6.25% to 6.75% (2017: 6.00%) for Pavilion Tower, 6.00% to 6.50% for Elite Pavilion Mall and 6.00% (2017: 6.50% to 7.00%) for Intermark Mall and DA MEN Mall. • Risk-adjusted reversion capitalisation rate of 6.50% (2017: 6.50%) for Pavilion Kuala Lumpur Mall and Pavilion Tower, 6.25% for Elite Pavilion Mall and 6.50% (2017: 6.75%) for Intermark Mall and DA MEN Mall.	The estimated fair value would increase (decrease) if: • risk-adjusted term capitalisation rates were lower (higher). • 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 Elite Pavilion Mall have not been issued. The valuation is on the basis/assumption that individual strata titles in respect of the subject properties are forthcoming and when issued, will be free from all encumbrances and restrictive condition over the respective strata floor areas and Pavilion Kuala Lumpur Mall and Pavilion Tower will convey 99-year leasehold interest expiring in year 2109.

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

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

Valuation processes applied by the Manager for Level 3 fair value

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

Highest and best use

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

6. Other non-current assets

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

7. Trade and other receivables

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

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

8. Cash and bank balances

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

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

9. Borrowings

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

9.1 Secured syndicated credit facilities of RM815.9 million

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

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

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

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

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

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

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

9. Borrowings (Cont'd)

9.2 Secured term loan facilities of RM486.8 million

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

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

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

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

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

9.3 Medium term notes of RM8.0 billion

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

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

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

	At 1 January RM'000	Net changes from financing cash flows RM'000	Other changes RM '000	At 31 December RM'000
2018				
Secured syndicated term loan	735,900	–	–	735,900
Secured term loan	433,159	(17,200)	–	415,959
Unrated medium term notes	300,000	700,000	–	1,000,000
Less: Unamortised transaction costs	(6,378)	(1,191)	3,543	(4,026)
	1,462,681	681,609	3,543	2,147,833
2017				
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	2018 RM'000	2017 RM'000
Non-current			
Trade			
Tenants' deposits	10.1	46,987	73,107
Current			
Trade			
Trade payables		17,660	20,279
Tenants' deposits	10.1	81,026	43,473
		98,686	63,752
Non-trade			
Other payables and accrued expenses	10.2	86,262	113,347
		184,948	177,099
		231,935	250,206

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

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

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

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

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

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

Notes to the Financial Statements (cont'd)

11. Total unitholders' funds

11.1 Unitholders' capital

	2018 Number of units '000	2017 Number of units '000
Issued and fully paid up:		
At 1 January	3,030,094	3,022,525
Manager's management fees paid in units	6,611	7,569
At 31 December	3,036,705	3,030,094

	2018 RM'000	2017 RM'000
Issued and fully paid up:		
At 1 January	2,913,849	2,900,708
Manager's management fees paid in units	10,380	13,141
At 31 December	2,924,229	2,913,849

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

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

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

11. Total unitholders' funds (Cont'd)

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

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

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

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

12. Revenue from contract customers

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

Notes to the Financial Statements (cont'd)

13. Manager's management fees

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

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

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

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

14. Borrowing costs

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

15. Tax expense

15.1 Reconciliation of tax expense

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

15. Tax expense (Cont'd)

15.1 Reconciliation of tax expense (Cont'd)

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

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

15.2 Unrecognised deferred tax assets

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

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

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

16. Earnings per unit – basic and diluted

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

17. Distribution to unitholders

Distribution to unitholders is from the following sources:

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

Notes to the Financial Statements (cont'd)

17. Distribution to unitholders (Cont'd)

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

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

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

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

^ to tax at prevailing rate

18. Portfolio turnover ratio

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

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

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

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

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

19. Management expense ratio

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

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

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

20. Operating segments

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

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

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

	Retail RM'000	Office RM'000	Total RM'000
For the year ended 31 December 2018			
Segment profit	366,753	8,034	374,787
Included in the measure of segment profit are:			
Gross revenue	542,088	12,889	554,977
Property expenses	175,335	4,855	180,190
At 31 December 2018			
Segment assets and liabilities			
Segment assets	6,176,860	133,982	6,310,842
Segment liabilities	2,339,330	30,643	2,369,973
For the year ended 31 December 2018			
Included in the measure of segment assets and liabilities are:			
Additions to non-current assets	533,382	–	533,382
Fair value gain to non-current assets	33,618	–	33,618
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

Notes to the
Financial Statements (cont'd)

20. Operating segments (Cont'd)

Reconciliation of reportable segment profit

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

Reconciliation of reportable segment assets and liabilities

	Segment assets RM'000	Segment liabilities RM'000
2018		
Total reportable segments	6,310,842	(2,369,973)
Other non-allocated assets/(liabilities)	46,882	(9,795)
Total assets/(liabilities)	6,357,724	(2,379,768)
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)

Geographical information

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

21. Financial instruments

21.1 Categories of financial instruments

	Carrying amounts RM'000	Amortised costs RM'000
2018		
Financial assets		
Receivables and deposits	74,559	74,559
Cash and bank balances	379,768	379,768
	454,327	454,327
Financial liabilities		
Payables and accruals	231,935	231,935
Borrowings	2,147,833	2,147,833
	2,379,768	2,379,768

	Carrying amounts RM'000	Loans and receivables RM'000
2017		
Financial assets		
Receivables and deposits	41,616	41,616
Cash and bank balances	275,383	275,383
	316,999	316,999

	Carrying amounts RM'000	Financial liabilities measured at amortised cost RM'000
2017		
Financial liabilities		
Payables and accruals	250,206	250,206
Borrowings	1,462,681	1,462,681
	1,712,887	1,712,887

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

21.2 Net gains and losses arising from financial instruments

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

21. Financial instruments (Cont'd)

21.3 Financial risks management

Pavilion REIT has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

21.4 Credit risk

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

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

Receivables

Risk management objectives, policies and processes for managing the risk

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

There are no significant changes as compared to previous year.

Exposure to credit risk and credit quality

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

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

Impairment losses

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

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

21. Financial instruments (Cont'd)

21.4 Credit risk (Cont'd)

Impairment losses (Cont'd)

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

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

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

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

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

	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

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

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

Cash and cash equivalents

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

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

21. Financial instruments (Cont'd)

21.5 Liquidity risk

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

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

Maturity analysis

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

	Carrying amount RM'000	Contractual interest rate%	Contractual cash flow RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2018						
Financial liabilities						
Borrowings	2,147,833	4.80 - 5.12	2,413,711	794,234	70,425	1,549,052
Payable and accruals	231,935	–	231,935	184,948	26,165	20,822
	2,379,768		2,645,646	979,182	96,590	1,569,874
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

21.6 Market risk

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

21.6.1 Interest rate risk

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

Risk management objectives, policies and processes for managing the risk

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

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

21. Financial instruments (Cont'd)

21.6 Market risk (Cont'd)

21.6.1 Interest rate risk (Cont'd)

Exposure to interest rate risk

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

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

Interest rate risk sensitivity analysis

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

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

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

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

21.7 Fair value information

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

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

	Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	RM'000	RM'000
2018					
Financial liabilities					
Tenants' deposits	–	–	(119,837)	(119,837)	(128,013)
Borrowings	–	–	(2,057,536)	(2,057,536)	(2,147,833)
	–	–	(2,177,373)	(2,177,373)	(2,275,846)
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)

21. Financial instruments (Cont'd)

21.7 Fair value information (Cont'd)

Level 3 fair value

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

Financial instruments not carried at fair value

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

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

22. Capital management

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

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

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

Distribution Policy

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

23. Operating leases

Leases as lessor

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

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

24. Capital commitments

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

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

25. Significant related party transactions

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

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

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

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

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

25. Significant related party transactions (Cont'd)

The above parties are deemed related as follows:

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

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

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

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

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

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

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

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

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

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

26. Significant events during the financial year

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STATEMENT BY THE MANAGER

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

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

Tan Sri Lim Siew Choon
Director

Dato' Lee Tuck Fook
Director

Kuala Lumpur,

Date: 29 January 2019

STATUTORY DECLARATION

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

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

Dato' Lee Tuck Fook

Before me:

Commissioner for Oaths

TRUSTEE'S REPORT

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

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

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

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

For and on behalf of the Trustee,
MTrustee Berhad

Nurizan Binti Jalil
Chief Executive Officer

Selangor,

Date: 29 January 2019

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pavilion Real Estate Investment Trust ("Pavilion REIT"), which comprise the statements of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 73 to 113.

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

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matter

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

Valuation of investment properties

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

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

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

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

How the matter was addressed in our audit

We performed the following audit procedures, among others:

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Responsibilities of the Manager for the Financial Statements of Pavilion REIT

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

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

Independent Auditors' Report (cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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: 02055/06/2020 J
Chartered Accountant

Petaling Jaya

Date: 29 January 2019

ANALYSIS OF UNITHOLDINGS

Distribution of Unitholdings as at 31 December 2018

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

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

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

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

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

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

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

Analysis of Unitholdings (cont'd)

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

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

*: Negligible

MARKET OVERVIEW

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

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

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

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

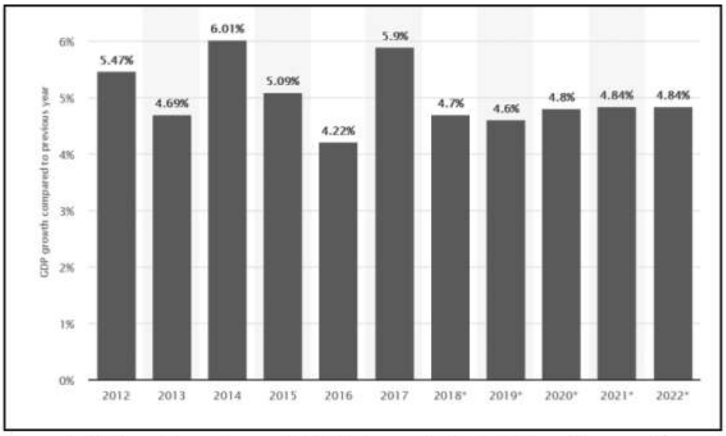


Chart 1 Malaysia – Annual GDP Growth Rate (%) – Source: Statista

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

Market Overview (cont'd)

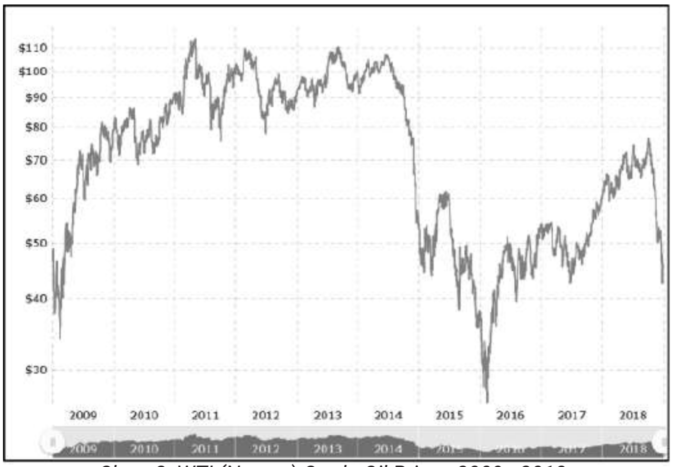


Chart 2: WTI (Nymex) Crude Oil Prices 2009 - 2018
Source: Macrotrends

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

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

THE RETAIL SECTOR

Klang Valley Retail Supply In 2018
Total Retail Supply And Demand

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

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

Table 1 : Retail Supply in Klang Valley, 2018

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

- includes hypermarket malls and arcades
* - exclude rental rates of anchor tenants such as supermarket, department store, cineplex, bowling alley, etc.
Source: Henry Butcher Retail

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

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

New Openings in 2018

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

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

Table 2: New Shopping Centres in Klang Valley for 2018

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

Source: Henry Butcher Retail

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

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

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

Market Overview (cont'd)

KLANG VALLEY SHOPPING CENTRE PERFORMANCE IN 2018

Shopping Centre Market

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

Major Events During the Year

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

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

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

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

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

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

Acquisition, Refurbishment and Closure

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

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

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

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

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

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

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

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

KLANG VALLEY RETAIL MARKET

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

(a) 14th Malaysia General Elections

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

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

(b) Zero-Rated Goods & Services Tax

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

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

Market Overview (cont'd)

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

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

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

(c) Re-Introduction of Sales & Services Tax

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

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

(d) Quarterly Retail Sales Performance

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

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

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

NA- not available
Source: Retail Group Malaysia/ Bank Negara Malaysia

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

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

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

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

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

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

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

Table 4: List of New Foreign Retailers

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

Market Overview (cont'd)

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

TOURIST ARRIVALS

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

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

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

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

RENTAL RATES OF SELECTED SHOPPING CENTRES IN KLANG VALLEY

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

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

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

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

KLANG VALLEY RETAIL SUPPLY IN 2018

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

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

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

Source: Henry Butcher Retail

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

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

Market Overview (cont'd)

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

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

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

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

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

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

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

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

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

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

(B) KLANG VALLEY SHOPPING CENTRE MARKET

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

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

(C) TARGET TOURIST ARRIVALS

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

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

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

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

The new Malaysian government is also taking steps to revive the dropping tourist arrivals from China. Actions to be taken include lowering the Visa fee and providing speedy Visa approvals.
After a record number of branded hotels started operations last year, more international chain hotels are expected to open in Klang Valley in 2019. They include Monopoly Mansion by Sirocco, Hotel Jen by Shangri-La and INNSIDE Hotel by Melia Hotels.

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

PURPOSE BUILT OFFICE SECTOR

Existing & Incoming Supply

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

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

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

Source: NAPIC

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

Market Overview (cont'd)

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

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

Source: NAPIC

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

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

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

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

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

Source: Henry Butcher Research

HENRY BUTCHER MALAYSIA
International Asset Consultants

Market Overview (cont'd)

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

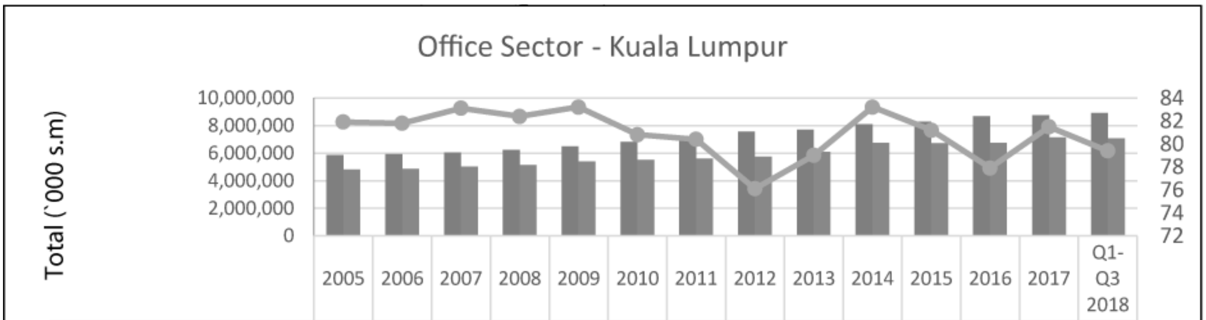
- Lot 185 KLCC – 500,000 square feet of retail & office space & a hotel
- Pavilion Damansara Heights – 10 corporate towers with floor areas of between 75,000 and 234,000 square feet.
- Bukit Bintang City Centre (BBCC) Signature Tower by Eco World Group
- Former Brickfields District HQ – Seni Nadi
- Tradewinds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

Office Occupancy Rates & Rentals

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

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

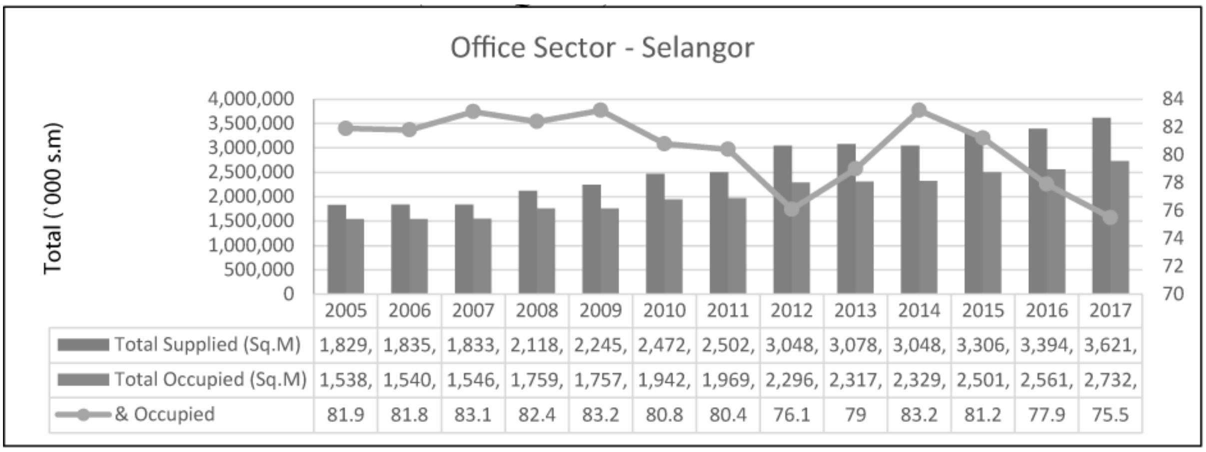
Chart 3: Supply and Occupancy Rates of Office Buildings in Kuala Lumpur (2005 to Q3 2018) Source: NAPIC



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Q1-Q3 2018
Total Supplied (Sq.M)	5,854,	5,928,	6,039,	6,214,	6,484,	6,810,	6,962,	7,539,	7,699,	8,097,	8,282,	8,657,	8,747,	8,898,
Total Occupied (Sq.M)	4,796,	4,849,	5,016,	5,122,	5,393,	5,501,	5,598,	5,735,	6,079,	6,739,	6,722,	6,747,	7,127,	7,065,
& Occupied	81.9	81.8	83.1	82.4	83.2	80.8	80.4	76.1	79	83.2	81.2	77.9	81.5	79.4

Market Overview (cont'd)

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



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

Table 10: Range of Office Rentals (2016)

Location	Rental Range (RM per square feet per month)
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

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

Major Office Openings / Relocations

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

Table 11: Major Tenant Movements

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

Market Overview (cont'd)

Major Office Sales Transactions

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

Table 12: Major Office Transactions in 2018

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

Source: Henry Butcher Research

Outlook for Office Sector

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

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

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

THE MALAYSIAN REITS (M-REITS) MARKET OVERVIEW 2018

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

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

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

Market Overview (cont'd)

Table 13: Malaysian REITS Performance

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

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

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

Market Overview (cont'd)

CONCLUSION

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

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

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

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

Glossary

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

NOTICE OF ANNUAL GENERAL MEETING

PAVILION

REAL ESTATE INVESTMENT TRUST

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

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

ORDINARY BUSINESS

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

SPECIAL BUSINESS

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

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

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

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

   (a) the conclusion of the next annual general meeting ("AGM") of the Unitholders, at which time it shall lapse, unless by a resolution passed at the meeting, the authority is renewed; or

   (b) the expiration of the period within which the next AGM of the Unitholders is required by law to be held; or

   (c) the Proposed Authority is revoked or varied by the Unitholders in a Unitholders' meeting;

whichever occurs first ("Validity Period");

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

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

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

BY ORDER OF THE BOARD
Pavilion REIT Management Sdn Bhd (939490-H)
(as the Manager of Pavilion Real Estate Investment Trust)

Lim Mei Yoong (LS 02201)
Company Secretary

Kuala Lumpur
28 February 2019

Notes :

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

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

Explanatory Notes on:

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

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

(II) <u>Special Business</u>

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

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

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

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

PAVILION

REAL ESTATE INVESTMENT TRUST

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

PROXY FORM

No. of Units Held	CDS Account No.

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

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

of ____

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

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 Seventh Annual General Meeting of Pavilion REIT to be held at Pavilion Hotel Kuala Lumpur, 170 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia on Thursday, 28 March 2019 at 10.00 a.m. and any adjournment thereof.

* Strike out whichever not applicable

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

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

Dated this day 2019

____

Signature of Unitholder/Common Seal

Notes :

1. A unitholder who is entitled to attend at the meeting is entitled to appoint not more than 2 proxies to attend instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.
2. Where a unitholder is a corporation, its duly authorised representative shall be entitled to attend at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to attend.
3. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.
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* The Deed dated 13 October 2011 entered into between the Trustee and the Manager constituting Pavilion REIT, and any other future amended and restated Deed that is registered with Securities Commission Malaysia.

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AFFIX
STAMP

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

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PAVILION KL
ELITE PAVILION
PAVILION TOWER
INTERMARK MALL
DAMEN MALL
THE INTERMARK
da men
Pavilion REIT Management Sdn. Bhd.
Company Number : 939490-H
Level 10, Pavilion Kuala Lumpur, 168 Jalan Bukit Bintang, 55100 Kuala Lumpur
T : +603 2118 8888 F : +603 2118 8889 Email : info@pavilion-reit.com www.pavilion-reit.com
COACH
ENTRANCE