

PAVILION

REAL ESTATE INVESTMENT TRUST

2019 ANNUAL REPORT





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

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	
<i>Chairman and Non-Independent Executive Director</i> Tan Sri Lim Siew Choon	
<i>Non-Independent Executive Director</i> Puan Sri Tan Kewi Yong Dato' Lee Tuck Fook	
<i>Non-Independent Non-Executive Director</i> Ahmed Ali H A Al-Hammadi Ahmad Mohammed F Q Al-Khanji Mohd Abdulrazzaq A A Al-Hashmi Navid Chamdia Ooi Ah Heong	
<i>Independent Non-Executive Director</i> 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: 201101011359 (939490-H)]
 Level 10, Pavilion Kuala Lumpur
 168, Jalan Bukit Bintang
 55100 Kuala Lumpur, Malaysia

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

MANAGER'S REGISTERED OFFICE

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

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

AUDIT COMMITTEE

Dato' Mohzani bin Abdul Wahab (Chairman)
 Dato' Maznah binti Abdul Jalil
 Dato' Choo Chuo Siong
 Navid Chamdia



Corporate Information (cont'd)

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: LS0002201)
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: 198701004362 (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: 198701001968 (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
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

PRINCIPAL BANKERS

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

REGISTRAR

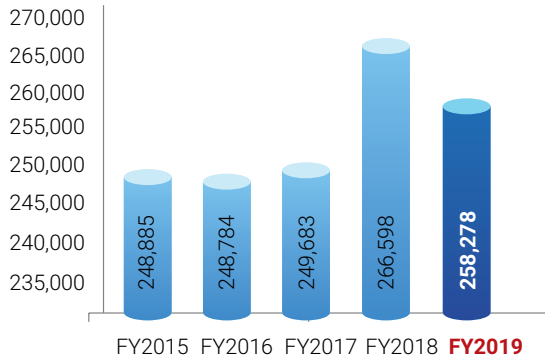
Tricor Investor & Issuing House
Services Sdn Bhd
[Company Number: 197101000970
(11324-H)]
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South
No 8 Jalan Kerinchi
59200 Kuala Lumpur, Malaysia

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

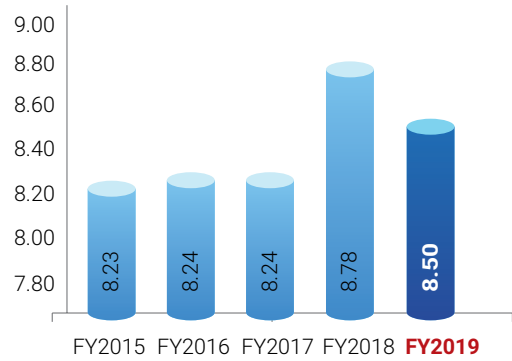


HIGHLIGHTS

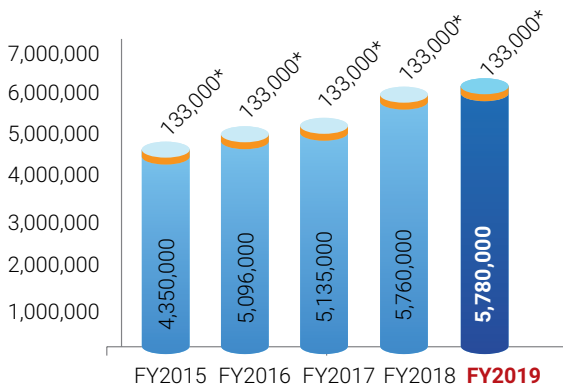
**Distributable Income
(RM'000)**



**Distribution per Unit
(sen)**

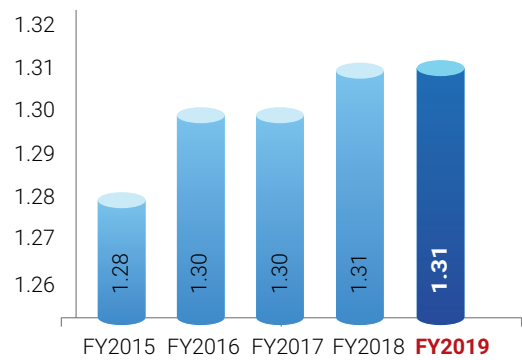


**Investment Properties
(RM'000)**

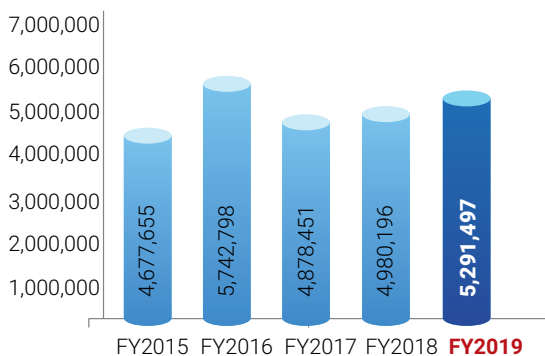


* office sector

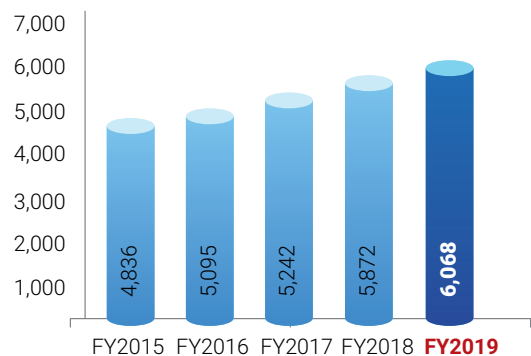
**Net Asset Value per Unit
(RM)**



**Market Capitalisation
(RM'000)**



No of Unitholders





MESSAGE FROM THE CHAIRMAN



Dear Unitholders,

Investment and Asset Performance

Pavilion REIT's gross revenue improved by 5.5% to RM585 million despite a challenging retail market and sluggish economy. The successful integration of Elite Pavilion Mall with Pavilion Kuala Lumpur Mall ("Pavilion Malls") created a seamless shopping experience and enlarged premium shopping space in the heart of Kuala Lumpur. This has added significant value to the Fund's portfolio. The Pavilion Malls are undoubtedly Pavilion REIT's crown jewels as they continued to perform commendably.

The Manager will continuously strive to distinguish Pavilion Malls as the premier shopping destinations and concurrently develop other malls managed by us as exciting shopping destinations. This is done via careful planning of tenancy mix and upgrading selected common areas as well as facilities to enhance the shopping experience.

It is our honour to be continually bestowed with awards by various esteemed organisations and to consecutively receive the Malaysia Shopping Malls Association (PPKM) awards. In conjunction with the Council of Asian Shopping Centre Conference (CASC) in Kuala Lumpur for 2019, PPKM's annual award was elevated to include CASC countries. Despite the stiff competition, Pavilion Kuala Lumpur Mall received two (2) more awards with a third award by Going Places, bringing the total award accolade cumulated to forty-seven (47), namely:-

- Gold Award, Best Experiential Marketing by CASC – PPKM;
- Silver Award, Best Experiential Marketing by CASC – PPKM;
- Best Shopping Mall by Going Places Readers' Choice Awards 2018.

The awards are testament to our efforts in seeking excellence. We will endeavour to keep our momentum in pursuing excellence as we strive to attain new and higher honours for our malls.

Economic Review

In 2019, the global economy experienced a broad-based slowdown and higher risk resulting from unresolved trade tensions, policy uncertainties and weakening business confidence. The continued escalation of trade disputes between the US and China caused uncertainties and dragged down the global growth. Prolonged uncertainties of Brexit and unfavourable financial conditions softened growth resulting in a negative global economic sentiment. As a result, the global economy expanded at a more moderate pace, estimated to be 3.2% in 2019 (2018: 3.7%). The regional economies continue to be confronted by headwinds from the global trade slowdown, which further weighed on external demand.

Set against the background of a challenging global environment and moderating economic growth, Malaysia's GDP expanded at a slower pace of 4.7% in 2018. For 2019, Bank Negara Malaysia projected the Malaysian economy to grow between 4.3% and 4.8%. The retail industry performance continues to be affected by both internal and external market environment. The Retail Group Malaysia noted that internal economic policies that can stimulate consumers' spending are limited in the near term. Underpinned by low consumers' confidence level, uncertain future job prospects and unwillingness to spend more, the Retail Group Malaysia maintained a retail growth rate of 3.7% for 2019.

Message from The Chairman (cont'd)

Market Review

The global uncertainties bore down on the KLCI Index, which experienced fluctuations from 1,668.1 to 1,588.8, backtracking around 4.8% in 2019. The number of REITs listed on Bursa Malaysia remains unchanged at 18. The Malaysian REITS (M-REIT) Index began the year at 924.9 and amidst the vagaries of the global economy, was viewed to be a safe haven with steady dividend returns for investors. The M-REIT index moved positively reaching a high of 1,022.7 and closed at 962.8 for 2019, outperforming KLCI Index with a steady uptrend of 4.1%. PAVREIT, with a market capitalisation of RM5.3 billion, is the fourth largest REIT in the country. In 2019, PAVREIT similarly received investor support with its stable of quality assets and surpassed the M-REIT index performance. Its unit price moved from RM1.64 at the beginning of the year to RM1.74 at the end of December 2019, scoring a solid 6.1% growth in its unit price resulting in market capitalisation of RM5.3 billion.

The property market however, remained subdued amidst our slow economy conditions. The oversupply situation faced by the retail and office sectors weighed down on the performance of the REITs as most of the larger REITs own office buildings and malls.

Sustainability Efforts

The Sustainability Committee continued to champion existing and new efforts in enhancing sustainability measures. Emphasis are placed on maintaining best practises in various areas including reducing environmental impact, good governance practises, health and safety, corporate social responsibility and employee wellness.

An important milestone in 2019 for our country in the governance segment is the launch of the National Anti-Corruption Plan 2019-2023 by our Prime Minister which aims to fully address governance, integrity and anti-corruption issues. Amongst others, the MACC (Amendment) Act 2018, addresses corporate liability within commercial organisations. In line with this, our Audit Committee has instructed the review and update of existing internal anti-corruption policies in line with the Malaysian Anti-Corruption Act 2018 to provide detailed guidance on eliminating corrupt practices within the business. Employees are also given refresher training to facilitate the process. Our commitment to corporate governance will continue to foster a culture of integrity and ethics towards long term sustainable performance and value creation.

Going Forward

The global economy is expected to grow at a slower pace of 3.2% in 2019 before improving to 3.5% in 2020 (IMF, 2019). The growth will mainly be supported by stronger performance in emerging market and developing economies which is expected to increase from 4.1% in 2019 to 4.7% in 2020. Meanwhile, growth in advance economies is forecast to rise at a slower pace from 1.9% in 2019 to 1.7% in 2020.

Despite the slower global economy growth, the prospect of the Malaysian economy remains robust amid increasing uncertainties in the external environment. Real GDP is expected to grow by 4.7% in 2019 and 4.8% in 2020, underpinned by resilient domestic demand.

The outlook for both the retail and office property sectors in 2020 continues to be challenging in the light of the slower economic growth projected for the country. The issues of oversupply and declining occupancy rates in the retail and office property sectors remains a major problem faced by building owners. Nevertheless, we will cautiously manage our position during this challenging retail environment, be attuned to the changing market environment and our shoppers' preferences and react promptly to changes in market conditions. We believe our strategies will aid us in riding out the current tough market conditions.

Going forward, with the introduction of digital tax by our Government, more e-commerce purchases will be subject to service tax. This augurs well for us as it is a step towards levelling the playing field vis-à-vis online shopping.

We applaud the Budget 2020 proposal that the existing tax treatment of 10% withholding tax for non-corporate investors (including resident and non-resident individuals) and foreign institutional investors is to be extended from 2020 to 2025.

For 2020, the Retail Group Malaysia anticipates a challenging year for the retail industry and projects local retail sales to rise by 4.6%. Nonetheless, looking ahead, we anticipate a year of excitement and growth as we step into Visit Malaysia 2020. Malaysia targets to attract 30 million foreign tourists in 2020 with expected tourist receipts of RM100 billion. Meanwhile, it is expected that domestic tourists of 92.8 million will spend RM76.9 billion. A RM5 million fund called GAMELAN Malaysia has been made available to provide financial support to Malaysian tourism industry players who organise marketing and promotional activities to promote Malaysia as a business and leisure destination. Tourism Malaysia has in 2019 promoted

Message from The Chairman (cont'd)

Visit Malaysia 2020 in various cities, including Berlin, London, Paris, Perth, Sydney, Melbourne, Dubai, Guangzhou, Manila and Osaka. In December 2019, Tourism Malaysia (in collaboration with Prasarana Malaysia Bhd and MRT Corporation) launched the KL Heritage Food Trails and MyCity Pass to boost tourist arrivals in 2020. KL Heritage Food Trails offer walking tours for foreign tourists to explore heritage sites and local foods while MyCity Pass allows tourists to enjoy unlimited train rides within Klang Valley.

In support of our Ministry of Tourism's objectives, Pavilion Malls hosted a flashmob of multi-cultural dances to promote the official launch. More events to attract tourists will be held in conjunction with the Visit Malaysia 2020 as the Pavilion Malls are well positioned as a favourite tourist destination for premium shopping.

Annual General Meeting (AGM)

At our Seventh AGM held on 28 March 2019 to present the Pavilion REIT's Audited Financial Statements for the year ended 31 December 2018, we had obtained a general mandate for the allotment and issuance of up to 20% of the existing approved fund size. The Board will seek a renewal of the mandate at the forthcoming AGM.

Acknowledgement

I would like to express my sincere gratitude to my fellow Board members, management team and staff for their vigilance, commitment and diligence in consistent delivery of sustainable long-term value to the Fund and ultimately, to our unitholders. With their continued support, we hope to continue to achieve higher potentials and soar to greater heights. My appreciation is also to our various stakeholders, including our authorities, financial institutions, vendors, tenants and shoppers for their support.

TAN SRI LIM SIEW CHOON
Chairman
23 January 2020



BOARD OF DIRECTORS

Tan Sri Lim Siew Choon

Chairman and Non-Independent Executive Director

Tan Sri Lim Siew Choon, age 59, 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 37 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 an 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 63, a Malaysian female, pursued her tertiary education in the United Kingdom majoring in Business and Marketing Studies.

She was instrumental in setting up various successful business ventures since her initial foray into trading and distribution businesses. Having acquired knowledge in diverse range of business and industry sectors she possesses experience ranging from retail, marketing, finance and strategic management. She continues to extend her scope of experience, having been involved actively in the property development and real estate investment sectors.

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 65, 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 as 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 the 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.

Board of Directors (cont'd)

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 and 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 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.

Ahmed Ali H A Al-Hammadi

Non-Independent Non-Executive Director

Ahmed Ali H A Al-Hammadi, age 38, 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. 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 35, 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.

*Board of Directors (cont'd)***Mohd Abdulrazzaq A A Al-Hashmi***Non-Independent Non-Executive Director*

Mohd Abdulrazzaq A A Al-Hashmi, age 31, 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 an Associate Director 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 46, 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 67, a Malaysian male, graduated from the University of Singapore in 1976.

He has over 43 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 66, 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 the Chairman of Hong Leong Investment Bank Berhad and Merchantrade Asia Sdn Bhd. He also 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 66, 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 Boustead Heavy Industries Corporation Bhd and Malayan Flour Mills Bhd and other non-listed companies such as Felcra Berhad, Lembaga Tabung Angkatan Tentera, InNature Berhad and Opus Asset Management Sdn Bhd and the Chairman of SCS Global Advisory Sdn Bhd. She was formerly the Chairman of Prestariang Berhad and was 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 was voluntarily dissolved 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.

Board of Directors (cont'd)

Dato' Choo Chuo Siong

Independent Non-Executive Director

Dato' Choo Chuo Siong, age 54, a Malaysian male, graduated from the London School of Economics, United Kingdom 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 65, 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 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 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

Dato' Philip Ho Yew Hong

Chief Executive Officer

Philip Ho, age 53, 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 31 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 62, 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 38 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 was also the past Chairman of Malaysia Tourism Committee and 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 51, 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 26 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 aged 48, 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 the General Manager of Marketing before being appointed as the Director of Marketing in 2010. Her previous work experience included the integrated Mid Valley City from 2001 to 2008 and Sunway Pyramid from 1996 to 2001.

In leading the Marketing Department of Pavilion REIT retail malls, she is responsible for the company's marketing and communications strategies, as well as overall branding and image.

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 51, 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 26 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 50, 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 29 years of experience, mainly in finance of service, manufacturing, construction, development and retail industries. She was attached to 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 44, 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 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.

Management Team (cont'd)

Chong Kok Wai

Senior Manager (Legal and Compliance), Compliance Officer

A Malaysian male, age 45, 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 33, 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.

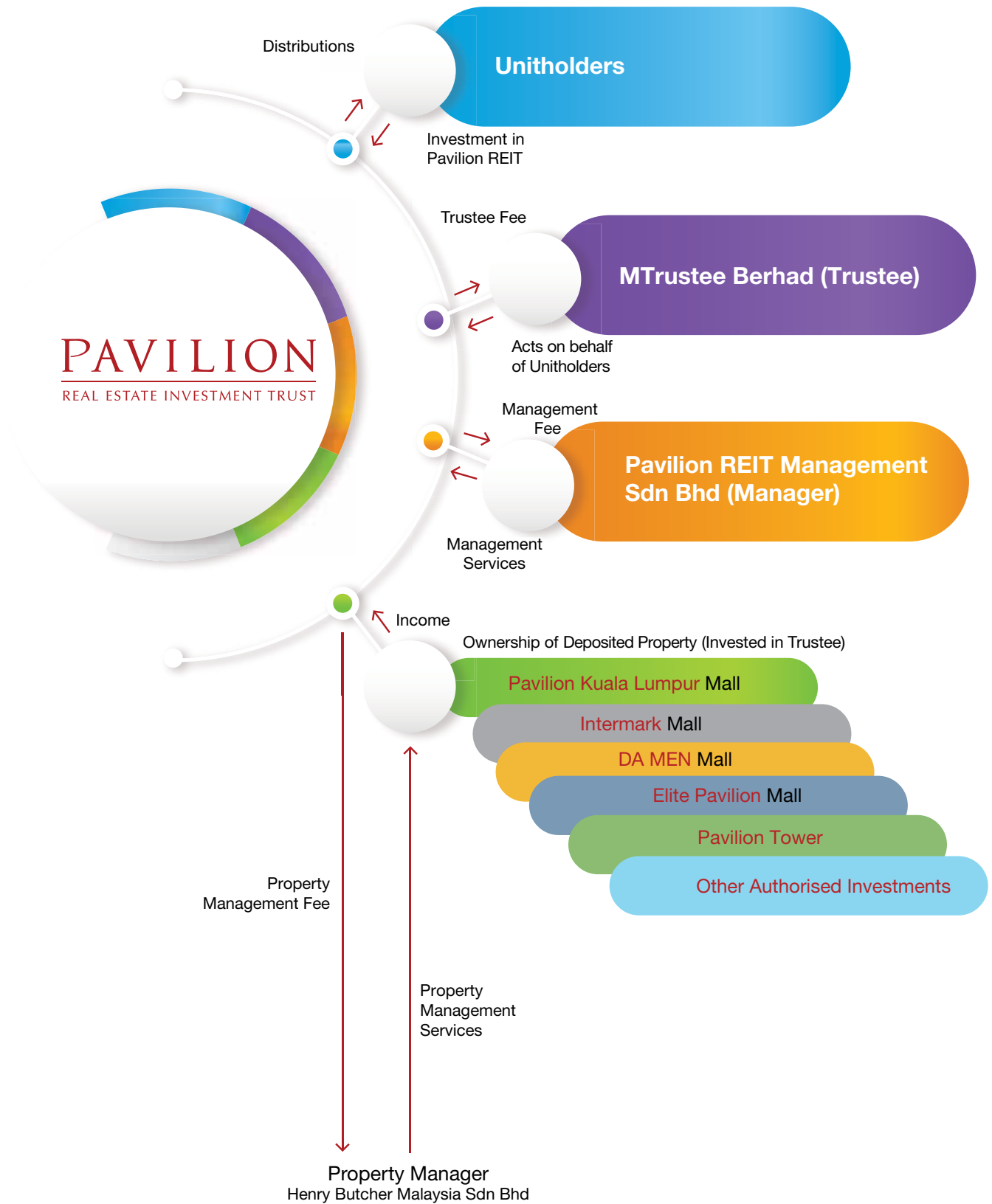
Prior to joining Pavilion REIT Management Sdn Bhd, she was Investment Manager in the Private Equity department of AmInvestment Bank Berhad. She started her career with the Valuation and Business Modelling team of Ernst & Young Kuala Lumpur.

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 : <ul style="list-style-type: none"> • The occurrence of any events listed under Clause 27.2 of the Deed • 999 years falling on 17 October 3010 • the date on which Pavilion REIT is terminated by the Manager under Clause 27.1(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 2019 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
Initial Public Offering Price per Unit	<ul style="list-style-type: none"> • Retail – RM0.88 • Institution – RM0.90
Stock Name	PAVREIT
Stock Code	5212

PAVILION REIT STRUCTURE



BUSINESS REVIEW



As the Manager of Pavilion REIT, we are pleased to share with you the performance of the Fund for the financial year ended 31 December 2019

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Review of the Year 2019

The first quarter (1Q2019) Malaysia Institute of Economic Research (“MIER”) Consumer Sentiment Index continued to dip further to 85.6 points from the already below optimism threshold level of 100 points in 4Q2018 (96.8 points). The downward trend continued and declined to 84 point in 3Q2019. With the index for current household incomes looking stagnant, expected decrease in income and weak job prospects in 2019, domestic demand is expected to grow at a slower pace of 4.4%.

Amidst the brittle retail environment, the year 2019 was a year of focus on value preservation and unlocking of our existing assets. With both the consumer confidence and business conditions indices published by the MIER indicated a steep reducing trend, challenges faced include to maintain a quality tenant mix and sustaining the competitive edge of Pavilion REIT’s malls and office tower.

The Pavilion Malls performed commendably in 2019 as its tenancies that were due for renewal were substantially renewed with positive rental reversion averaging 4-5%. Christian Louboutin and Roberto Cavalli opened their first store in Malaysia in Pavilion KL and some other new tenants that were introduced in Pavilion Malls include Lululemon, Baia Baia, OVV and Ray-Ban. During the year, several of our tenants, such as Celine, Hugo Boss, Van Cleef & Arpels, MCM, Swarovski, Fossil, Loewe and MontBlanc relocated within the Pavilion Malls to better enhance the shopping experience. The Manager is now focusing on enhancing pedestrian traffic to the higher floors of Elite Pavilion Mall. Early 2019, Haidilao Hotpot opened its flagship outlet at Level 10, where Marvel Studio : 10 Years of Heroes Exhibition was exclusively showcased.

Occupancy in Intermark Mall has improved from 94.4% to 97.1% with the securing of new tenants such as KFC, Nando’s, Oriental Landmark, The Hive, A-Day and Skechers. However, its gross revenue fell by RM2.3 million mainly due to expiration of income guarantee by the previous vendor in March 2019.

On the other hand, DA MEN Mall experienced strong competition from neighbourhood malls located in its vicinity. The team works to attract more visitors to the mall by improving the traffic flow surrounding the Mall, conducting several promotional and social activities to serve the community as well as tailor-make the shopping experience to customer preferences. During the year, health awareness and wellness events, art exhibitions and several social events suitable for the neighbourhood community experience were conducted to increase the visitor stay hours. In 2019, several tenancies expired and the Manager took the opportunity to re-align and update the tenant mix. New tenants

such as KFC, Pizza Hut, Lameeya Xiao Lao Wang, Yamaha Music, Music Box Karaoke, Global Art and Get Crafty & Booku, were secured.

Pavilion Tower experienced a flux of tenancy movements, with occupancy rate settling at 86% by the end of 2019, which is deemed well-occupied in the current office oversupply sentiment.

Asset and Financial Performance

Positive rental reversion for Pavilion KL Mall and the Intermark Mall moved their fair value up by RM110.0 million. However, due to lower rental revenue and repositioning exercise at DA MEN Mall, the property value of that mall decreased by RM90.0 million, substantially eroding the gain garnered by the other malls. Netting off capital expenditure of almost RM5 million, the net change in fair value of investment properties increased RM15.0 million in 2019.

Arising predominantly from the lower fair value gain as compared to 2018 of RM33.6 million, the Fund’s profit after taxation contracted by RM26.1 million to RM262.6 million. In 2019, Pavilion REIT’s gross revenue reached a new high record of RM585.4 million, representing an increase of RM30.4 million or 5.5% compared to RM555.0 million in 2018, mainly due to a full year’s revenue from Elite Pavilion Mall which was acquired in 2018.

Pavilion REIT’s borrowing cost increased from RM97.7 million to RM107.3 million which is mainly due to the recognition of 12 months borrowing cost for Elite Pavilion Mall’s acquisition against 8 months in 2018. Net property income (“NPI”) grew marginally from RM374.8 million in 2018 to RM375.2 million in 2019. Within the Fund’s portfolio, the Pavilion Malls recorded an increase of RM13.5 million in NPI, contributing a total of RM354.4 million representing 94.4% of Pavilion REIT’s NPI for 2019. Lower NPI from DA MEN Mall and Pavilion Tower weighed down the overall NPI as occupancy reduced and operating costs escalated. The Fund achieved a total comprehensive income of RM262.6 million in 2019, of which RM247.6 million is realised and excludes the fair value gain on investment properties.

The Manager remained resilient despite the challenging operating environment and net property income was maintained. Higher operating expenses were incurred due to higher utilities costs, higher repairs costs and tenancy lot enhancements as well as higher marketing and promotional expenses. Unavoidably, arising with the challenging retail market environment, the Fund’s net investment income was lower from a relatively smaller increase in fair value of investment properties. Focus



Message from the Chief Executive Officer (cont'd)

will continue to be placed on fine-tuning the positioning of DA MEN Mall as the go-to neighbourhood mall for the community it serves. Keeping the malls experiential and evolving with times is the current focus to build shopping experience to attract and retain our shoppers' loyalty.

On 25 April 2019, the Manager proposed to declare 100% of Pavilion REIT's distributable income for 2019, reinforcing the commitment to deliver value to the Fund's unitholders. Based on its distributable income, the distribution per unit for 2019 is 8.50 sen which has dropped from 8.78 sen in 2018. Nonetheless, this represents our second highest pay-out thus far. After the first distribution on 30 August 2019 of 4.40 sen, the final distribution of 4.10 sen will be paid on 28 February 2020. Based on Pavilion REIT's market price of RM1.74 as at 31 December 2019, the distribution represents a yield of 4.9%.

Sustainability Endeavours

Pavilion REIT had enhanced its reporting on sustainability with reference to GRI Standards – Core Option. The sustainability reporting scope had been extended to include all properties under Pavilion REIT with emphasis placed on environmental initiatives and community engagement of the Elite Pavilion Mall, Intermark Mall and DA MEN Mall. In cognisance of the importance of ethical values, we dedicated a subsection in the Sustainability Statement of this Annual Report disclosing the adoption of ethics guidelines and practices.

Pavilion REIT is committed to managing its material environmental impact which is in line with the Fund's strategies. We went above and beyond to encourage and nurture the tenants of Pavilion REIT towards sustainability efforts. The Manager has been continuously assessing the cost and benefit of existing sustainability initiatives and exploring new cost-efficient solutions to manage the environmental impact by Pavilion REIT. Definite measures have been implemented during the year to address among others, water consumption and waste management. We believe our sustainability commitment and efforts would enhance our brand value and recognition within the REIT industry.

Expectation for the Year 2020

The global economy is expected to grow at a slower pace of 3.2% in 2019 before improving to 3.5% in 2020. (IMF, 2019). The growth will mainly be supported by stronger performance in emerging market and developing economies which is expected to increase from 4.1% in 2019 to 4.7% in 2020. Meanwhile, growth in advance economies is forecast to rise at a slower pace from 1.9% in 2019 to 1.7% in 2020.

Despite the slower global economy growth, the prospect of the Malaysian economy remains robust amid increasing uncertainties in the external environment. Real GDP is expected to grow by 4.7% in 2019 and 4.8% in 2020. The growth is underpinned by resilient domestic demand, particularly household spending following stable labour market and low inflation.

The Manager anticipate the economy to progress with caution with the retail industry facing erratic consumer demand in 2020 due to on-going global trade disputes and softer global outlook, evolving retail landscape, challenging business and consumer sentiments locally. The Government is working on boosting local consumer spending via various measures including the Budget 2020 initiatives and the allocation of RM1 billion for the Tourism Infrastructure Fund to promote Visit Malaysia 2020. This augurs well for malls as our retail markets target both tourists and the general community in the mall's vicinity. We also hope for spill-over effects from the Summer Olympics which will be hosted in Tokyo in 2020 as tourists may visit neighbouring Asian countries as part of their extended holiday itinerary and select Malaysia in conjunction with the festivals and events organised by Tourism Malaysia. The tourism boost for our country is also expected to propel the market sentiment and contribute to the retail industry.

Whilst leasing conditions are expected to be competitive, we are confident that our strong fundamentals with strategically located malls will attract and retain quality retailers. Albeit expectations of yet another challenging year ahead, we remain positive that the repositioning of the tenant and customer mix for DA MEN Mall supported by a pick-up in the retail segment will contribute towards the value creation for our stakeholders. We have successfully secured a new cinema with China's premier cinema chain, Dadi Cinema to operate an 8 screen cinema in DA MEN Mall. Targeted to commence operations in late third quarter of 2020, we expect the cinema to give new impetus to the mall, attracting other complementary occupants and drawing more family crowd. For Pavilion Tower, we remain confident that the balance 14% rental space will be successfully tenanted in the coming year.

As we proactively work on maximising our portfolio value and meet the challenges that may surface, we hope to continually enhance our potential value and deliver quality returns to our unitholders.

DATO' PHILIP HO YEW HONG

Chief Executive Officer
23 January 2020



MANAGEMENT DISCUSSION & ANALYSIS

Financial Highlights

Financial Results and Key Performance Indicators	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Change
						(%)
						FY 2019 vs FY 2018
Gross Revenue (RM'000)	413,932	459,701	490,001	554,977	585,353	5.47%
Net Property Income ("NPI") (RM'000)	291,535	314,774	322,913	374,787	375,184	0.11%
Distributable Income (RM'000)	248,885	248,784	249,683	266,598	258,278	(3.12)%
Earnings per Unit (sen)	9.36	10.33	8.24	9.51	8.64	(9.15)%
Distribution per Unit (DPU) (sen)	8.23	8.24	8.24	8.78	8.50	(3.19)%
Distribution Yield (%) :-						
– based on market price as at 31 December	5.31	4.34	5.12	5.35	4.88	(8.79)%
Management Expense Ratio ("MER") (%)	0.64	0.69	0.72	0.83	0.79	4.82%
Investment Properties (RM'000)	4,483,000	5,229,000	5,268,000	5,893,000	5,913,000	0.34%
Total Asset Value ("TAV") (RM'000)	4,750,753	5,592,418	5,653,164	6,357,724	6,357,015	(0.01)%
Net Asset Value ("NAV") (RM'000)	3,851,607	3,920,849	3,940,277	3,977,956	3,979,738	0.04%
NAV per Unit (RM)	1.28	1.30	1.30	1.31	1.31	-
Gearing Ratio (%)	15.88	25.25	25.87	33.78	33.93	0.44%
Portfolio Turnover Ratio (times)	0.00	0.08	0.00	0.15	0.00	-

Financial Review

By Segment	Gross Revenue				Net Property Income			
	FY 2018		FY 2019		FY 2018		FY 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Pavilion Kuala Lumpur Mall	440,591	79.39	461,730	78.88	313,375	83.61	315,614	84.12
Intermark Mall	29,184	5.26	26,891	4.59	17,300	4.62	14,405	3.84
DA MEN Mall	29,761	5.36	23,540	4.02	8,611	2.30	581	0.16
Elite Pavilion Mall	42,552	7.67	61,139	10.45	27,467	7.33	38,755	10.33
Retail	542,088	97.68	573,300	97.94	366,753	97.86	369,355	98.45
Pavilion Tower – Office	12,889	2.32	12,053	2.06	8,034	2.14	5,829	1.55
Total	554,977	100.00	585,353	100.00	374,787	100.00	375,184	100.00

Management Discussion & Analysis (cont'd)

Gross revenue achieved in 2019 was RM585.4 million or 5.5% higher when compared to the immediate preceding year. This change was mainly contributed by income from the new property, Elite Pavilion Mall that was acquired on 27 April 2018, higher revenue rent and electricity income from Pavilion Kuala Lumpur Mall for supplying electricity to Pavilion Hotel and Pavilion Suites. This was offset by lower rental income from DA MEN Mall due to lower occupancy and rental rate.

Increase in operating cost for current year was mainly due to cost incurred by Elite Pavilion Mall, corresponding electricity cost for providing electricity supply to Pavilion Hotel and Pavilion Suites as well as the increase in electricity adjusted rate for imbalance cost pass-through approved by the government that took effect from 1 July 2018 and 1 March 2019. Pavilion Kuala Lumpur Mall also incurred additional cost for repairing air conditioning system, upgraded some advertising media besides incurring higher marketing and promotional expenses for branding and to attract more shoppers. Tenancy lots enhancements were also incurred for Pavilion Kuala Lumpur and DA MEN Malls while Pavilion Tower undertook preventive maintenance as well as upgrading of some common areas.

This resulted in marginal increase in Pavilion REIT's net operating income to RM375.2 million. Pavilion Kuala Lumpur Mall and its seamlessly connected Elite Pavilion Mall collectively contributes to 94.4% of net property income of Pavilion REIT with office sector contribution of 1.6%.

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 64.1% with retail and office achieving a NPI margin of 64.4% and 48.4% respectively.

Change in fair value of investment properties is a gain of RM15.0 million against the immediate preceding year fair value gain of RM33.6 million due to lower valuation for DA MEN Mall. Lower other trust expenses is due to reversal of overprovision of consultancy fees incurred for evaluating the participation in ownership of Pavilion Bukit Jalil (in 2018) which did not proceed. Borrowing cost was higher by RM9.5 million due to drawdown of additional borrowing for acquisition of Elite Pavilion Mall and for working capital purposes. All these resulted in decrease of 9.0% in income before taxation for the year to RM262.6 million.

Distribution per Unit ("DPU")

Total DPU for 2019 decreased by 0.28 sen to 8.50 sen from 2018 DPU of 8.78 sen, with additional 4,385,374 Units being issued during the year resulting in 3,041,090,299 Units as at 31 December 2019.

4.40 sen earned for first half of 2019 was paid on 30 August 2019 with the final distribution of 4.10 sen earned in the second half of 2019 to be paid on 28 February 2020 resulting in the same NAV per unit of RM1.31 for both 2018 and 2019.

Statement of Financial Position – Assets and Liabilities

Pavilion REIT's total asset value decreased by RM0.7 million to RM6,357.0 million for the current year as DA MEN Mall's valuation dropped lower. With the acquisition of Elite Pavilion Mall being financed by debt and to meet working capital requirements, Pavilion REIT's borrowings increased from RM2,147.8 million to RM2,157.1 million, resulting in 0.4 % increase in current year to gearing ratio of 33.9%.

Investment Properties and Valuation

During the year, there were no changes to the investment objectives set forth during the listing in December 2011 nor any acquisition or disposal of assets.

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

The Fund's investment properties had been re-valued as at the end of the financial year to ensure that its investment properties reflect the current market value and in compliance to Malaysian Financial Reporting Standards 140. This re-valuation resulted in a gain of RM15.0 million.

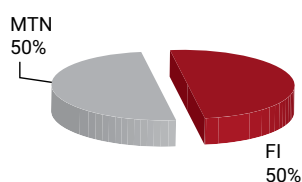
Management Discussion & Analysis (cont'd)

Property	Market Value @ 31 Dec 2019	Market Value @ 31 Dec 2018	Change in Value	Property Yield 2019	Property Yield 2018
	RM'000	RM'000	RM'000	%	%
RETAIL					
Pavilion Kuala Lumpur Mall	4,800,000	4,700,000	100,000	7%	7%
Intermark Mall	180,000	170,000	10,000	8%	10%
DA MEN Mall	220,000	310,000	(90,000)	0%	3%
Elite Pavilion Mall	580,000	580,000	-	7%	7%*
	<u>5,780,000</u>	<u>5,760,000</u>	<u>20,000</u>		
OFFICE					
Pavilion Tower	133,000	133,000	-	4%	6%
Total Portfolio	<u>5,913,000</u>	<u>5,893,000</u>	<u>20,000</u>		
Less Capital Expenditure			<u>(4,995)</u>		
Fair Value Gain			<u>15,005</u>		

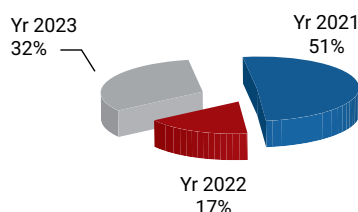
* annualized

Capital Management

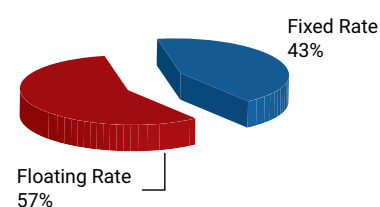
Sources of Funding



Debt Expiry Profile



Coupon / Interest Rate Profile



With average interest cost of 4.8%, Pavilion REIT's gearing of 33.9% is below the market norm of approximately 30% to 40% or REIT Guidelines of up to the permitted 50% of Total Asset Value.

In view of the potential increasing funding cost, the Manager will continue to explore the best available financing options to enable it to have additional options ready in preparation 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 RM349.4 million, RM3.9 million was used for investing activities with RM366.6 million being net cash used in financing activities. This caused the decrease in net cash of RM13.3 million in the current year resulting in cash and cash equivalents of RM306.5 million against preceding year end cash of RM319.7 million.

Net proceeds from borrowings of RM9.0 million was used for acquisition of Elite Pavilion Mall and as working capital for tenancy lots enhancement at Pavilion Kuala Lumpur and DA MEN Malls as well as toilet upgrading at Pavilion Kuala Lumpur Mall and Pavilion Tower.

Utilisation of Proceeds

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

Management Discussion & Analysis (cont'd)

Operations Review

Pavilion Kuala Lumpur Mall saw its gross revenue increase from RM440.6 million to RM461.7 million, mainly due to higher revenue rent and supply of electricity to Pavilion Hotel and Pavilion Suites. 1st store in Malaysia that commenced business in the mall are Christian Louboutin and Roberto Cavalli. Other notable tenants that commenced trading are Aishitoto, Baia Baia, OVV, Ray-ban, Reta, Sang Pisang and The Koi. 6.1% positive rental reversion was achieved for current year renewals with replacement and relocated tenants achieving an average of double digit growth against the previous tenancy.

Haidilao Hotpot opened its flagship outlet in Elite Pavilion Mall during the year under review. The mall achieved occupancy of 95.0% as at the end of the year. With tenant retention of above 90%, new tenants that opened for business are Fuel Shack, Lululemon and Tiger Sugar. Pedestrian traffic to the higher floors are still challenging despite Haidilao Hotpot operating from level 10 with Marvel Studio : 10 Years of Heroes Exhibition being showcased from late third quarter of the year under review. Higher property operating expenses for Elite Pavilion Mall was due to recognition of full year expenses since its acquisition was on 27 April 2018.

Intermark Mall's occupancy has further improved to 97.1% as at 31 December 2019 from 94.4% as at last year end with new tenants secured such as KFC, Nando's, Oriental Landmark and Skechers. This property's operating expenses has been stable at around RM12.0 million.

With more events and promotions being held in DA MEN Mall, the ease of vehicles to exit directly into the main road from late 2018 and Prudential office which has opened for business, the mall is now attracting more visitors. The mall has also attracted some new food and beverage tenants such as Chan Meng Kee, KFC, Jom Laksa, Lammeeya, Mr Fishhead Noodle, Pizza Hut and Samy & Min Bak Kut Teh. DA MEN Mall is also targeting the enrichment and learning segment, STEM, Yamaha Music (with a recital hall), Global Art (offering art enrichment programme) and Get Crafty Booku have all opened for business. Music Box karaoke has also commenced its operation during the year. Dadi Cinema has just signed up to commence an eight theatre screen from third quarter of 2020. Although there are demand for spaces within the mall, potential tenants are asking for very low rental rate. Hence, the management has to be mindful in selecting new tenants to ensure their business models are sustainable in DA MEN Mall. Being a neighbourhood community mall, more niche and communal activities will continue to be held to attract visitors to stay longer at DA MEN Mall.

Total property operating expenses incurred for the retail properties was higher by RM28.6 million or 16.3% compared to preceding year ended 31 December 2018. This was mainly due to corresponding operating cost incurred for the Elite Pavilion Mall that was acquired at the end of April 2018, higher electricity cost incurred for providing electricity supply to Pavilion Hotel and Pavilion Suites as well as the increase in electricity adjusted rate for imbalance cost pass-through (ICPT) approved by the government that took effect from 1 July 2018 and 1 March 2019 onwards, cost incurred for repairing air conditioning system, tenancy lots enhancement at Pavilion Kuala Lumpur Mall and DA MEN Mall, higher marketing and promotional expenses incurred for branding and to attract more shoppers, upgrading of advertising medias as well as writing off of non-recoverable debts.

Pavilion Tower's occupancy dropped to 85.8% for current year as some tenants did not renew their tenancy. The 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 continue to be the strategy for the coming years with continuous upkeep of the building to retain good tenants. Pavilion Tower's property operating cost is higher for the year under review due to preventive maintenance of obsolete parts as well as upgrading of some common areas.

As the properties aged with wear and tear, continuous and regular upkeep will be required to refresh and maintain the standard of the respective malls. However, Pavilion REIT will strive to ensure its cost management process is refined to optimise return to unitholders as well as to ensure sustainable practises are adopted where applicable.

Pavilion Kuala Lumpur ushers the new year and Visit Malaysia 2020 with the World Dragon & Lion Dance Extravaganza – Malaysia Edition 2020 which featured 4 majestic dragons and 130 lions from dance troupes from all over Malaysia. The malls strategize for major festivals to focus on Malaysia's diverse cultural heritage while consistently rewarding shoppers with great experiences. A number of strategic regional partnerships have been entered into to deliver extra value to our visitors besides targeting quality consumerism, innovation with continuous efforts to create awareness of new tenants in the malls.

Management Discussion & Analysis (cont'd)

Awards

Pavilion Kuala Lumpur Mall has achieved 47 accolades to date with the current year additions being the followings :-

- **“Gold Award, Best Experiential Marketing – Disney Celebrate the Magic – Dream Christmas”**
: CASC - PPKM Awards 2019
- **“Silver Award, Best Experiential Marketing – Dream Goals”**
: CASC - PPKM Awards 2019
- **“Best Shopping Mall”**
: Going Places Readers Choice Awards 2018

Asset Enhancement Exercises

Asset enhancement exercises incurred during the year under review were mainly related to enhancement of tenant lots at Pavilion Kuala Lumpur and DA MEN Malls with toilet upgrading exercise at Pavilion Kuala Lumpur Mall and Pavilion Tower.

For 2020, besides setting up of landlord provision to cater for tenant requirements, capital expenditures are being planned to cater for improvements to the mall facilities and its related infrastructure.

*Management Discussion & Analysis (cont'd)***Portfolio Summary**

Type	Retail	Office	Total
Appraised Value as at 31 December 2019 (RM million)	5,780	133	5,913
Net Lettable Area (square feet)	2,214,405	163,844	2,378,249

Top 10 Tenants

Pavilion REIT has a total combined tenancies list from the retail and office of 873 leases. Its ten largest tenants contributed to 11.3% of gross rental income for the reporting year.

Tenant's Name	Trade Sector	Expiry Year
Apex Excellent Sdn Bhd	Food and Beverage	2022
Gagan (Malaysia) Sdn Bhd	Fashion	2020
Golden Screen Cinemas Sdn Bhd	Urban Leisure	2020
H & M Retail Sdn Bhd	Fashion	2022
JD Sports Fashion Sdn Bhd	Fashion	2020
Legendary Fashion Trading Sdn Bhd	Fashion	2022
Padini Dot Com Sdn Bhd	Fashion	2022
Parkson Corporation Sdn Bhd	Fashion	2022
Richmont Luxury (Malaysia) Sdn Bhd	Jewellery, Timepiece & Writing Instrument	2023
Royal Selangor Marketing Sdn Bhd	Gift and Souvenir	2022

Tenancy Profiles

In Pavilion Kuala Lumpur Mall, positive rental reversion of 6.1% was achieved for 607,368 square feet while relocated tenants and replacement tenants contributed to double digit growth for another 59,372 square feet of the net lettable area. Intermark Mall's positive rental reversion in excess of 10.0% was achieved for its renewals. Elite Pavilion Mall achieved a marginal increase for its renewals. Neighbourhood DA MEN mall is slowly attracting more tenants but at lower rental rates.

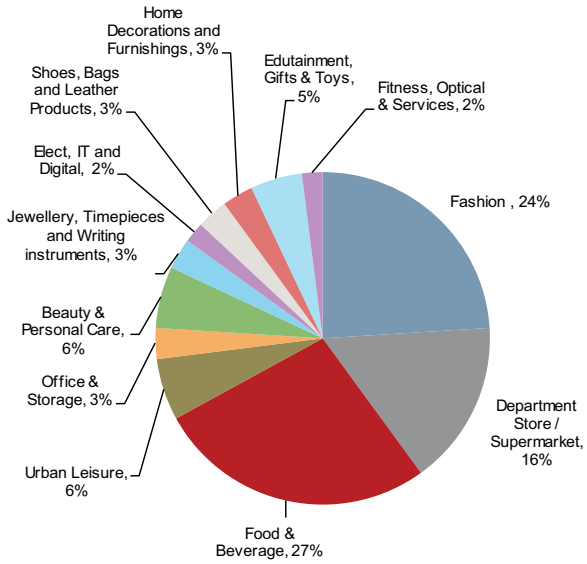
Majority of Pavilion REIT's tenancies are for a term of three years each with an option to extend for another term of three years each. Anchor and speciality anchor tenants generally have option for renewal of up to five terms of three years each.

The weighted average lease expiry ("WALE") as at year end has been increased to 1.62 years against 2018 of 1.15 years, with WALE for retail and office being 1.63 and 1.57 years respectively.

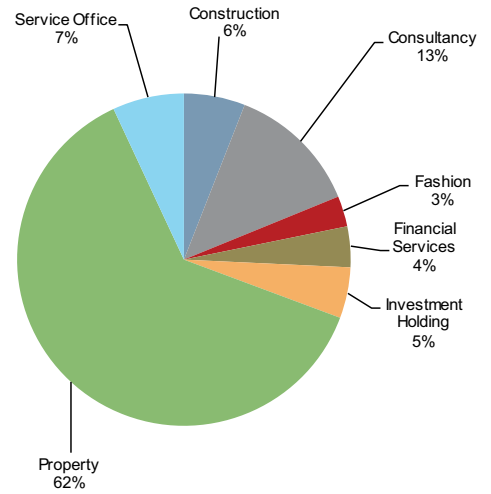
Fashion and food & beverages remains largest trade category by net lettable area for its retail sector with property and consultancy services occupying the most spaces in the office sector.

Management Discussion & Analysis (cont'd)

Trade Category by Net Lettable Area - Retail



Trade Category by Net Lettable Area - Office



Management Discussion & Analysis (cont'd)

Market Review

According to the Ministry of Economic Affairs, Malaysia's economy is expected to achieve a stronger and more sustainable GDP growth of 4.8% in 2020 on the back of strong macroeconomic fundamentals and government's plan to boost development expenditures to above RM50 billion per annum. Malaysia's highly diversified economic and export structure, supportive labour market, low and stable inflation, a strong and well-capitalised financial sector and a healthy current account surplus on the balance of payments would continue to drive the economy. However, the World Bank lowered Malaysia's 2020 GDP forecast to 4.5% due to weak export expansion partly offset by strong domestic demand. Malaysian Rating Corporation Berhad (MARC) forecasted even lower GDP at 4.3% mainly due to weaker external trade performance and softer domestic demand growth with inflation averaging between 1.2% and 1.7%. MARC also cautioned that Malaysia remains largely dependent on its consumer support which is not sustainable.

With about 1.5 million square feet of retail mall opened in Klang Valley in 2019 and another 2.6 million square feet targeted to be ready for trading in 2020, retailers would have more options to be selective on which mall would provide them with better opportunities. New shopping centres without high pre-committed take-up will continue to face increased rivalry in the competitive retail market whilst those that fail to adapt to the changing retail trends may face gloomy future. Mall operators are also beginning to spend higher percentage of their leasable area for interactive cum experiential engagements with more retailers embracing omni-channel options to improve visitations and boost sales.

As published by the Malaysian Institute of Economic Research, consumer confidence index decreased from 93 points to 84 points between June and September 2019 with business conditions index also dropped from 94 points to 69 points for the same period.

Retail Group Malaysia had estimated retail sales growth rate of 3.7% and 4.6% for 2019 and 2020 respectively. Their views are due to on-going external trade disputes that are unlikely to end soon with internal economic policies that can stimulate consumers' spending being limited in the near term. Despite the low consumer sentiment, economist expects healthy consumer spending to be sustained on the back of a steady labour market and steady inflation despite projecting private consumption growth in the range of 6.7% – 6.9%, which is lower than the average of 7.0% over the past five years.

Nevertheless, the government is trying to boost 2020 local consumer spending via Budget 2020 initiatives, allocation of RM1.0 billion for the Tourism Infrastructure Fund to promote Visit Malaysia 2020, 15 days visa free entry for China and India tourists via electronic travel registration and by holding more major sporting events. The target is to achieve 30 million tourist arrival with tourism revenue of RM100 billion. In 2018, the tourism sector contributed 15.2% to Malaysia's GDP worth RM220.6 billion, employing 3.5 million workers representing of 23.5% of the total labour usage. The 1st nine months of 2019 recorded an increase in spending by international tourists of RM4.3 billion or 6.9% to RM66.1 billion as compared to the same period of the preceding year.

Retail malls in good location and good management that stays adjusts to changing market situation and shopping preferences are expected to be resilient despite retail market remain challenging. Brick and mortar stores will still remain relevant as retailers' wants physical presence as a platform for its customers to interact, discover and experience to build their brand name. Niche market or differentiation has to be considered for malls that are not performing up to standard by embracing visitors' latest spending favourites, adoption of digital revolution and use of big data.

However, as consumers are being cautious and selective in their spending, Pavilion REIT malls intend to be prudent in its spending to create experiential and differentiation to attract and retain shoppers' loyalty. Operating cost will continue to be spend as required to ensure needs, comfort and safety of its stakeholders are balanced and not compromise as the buildings aged (especially for the mechanical and electrical parts), with stringent cost monitoring and tender processes being adopted. With only 468,805 square feet or 22.0% of the total area of Pavilion REIT properties being due for renewal in 2020, the Manager expects a modest increase in rental reversion as impact of these renewed area are small and tenants now have the bargaining power to be selective on where and when to have their outlets due to the available selections of retail malls or offices in the market.

Management Discussion & Analysis (cont'd)

The completion of three office buildings in KL City, ie The Exchange 106, Menara Prudential and BB Tower at Jalan Bukit Bintang (as headquarters to YTL conglomerate), with total net lettable area of about 3.32 million square feet in the third quarter of 2019 brought the cumulative supply of purpose-built office in Kuala Lumpur to about 85.2 million square feet with about 65.4% being located in KL City and the balance 34.6% being located in the fringe of Kuala Lumpur. There is a high impending supply currently under construction with about 5.4 million square feet and 8.9 million square feet being located in KL City targeted for completion in 2020 and 2021 respectively with about 3.6 million square feet due for completion in 2021 in the KL fringe of Bangsar and KL Metropolis. The overall occupancy level of office buildings in KL City continue to decline from 78.8% in 2018 to 74.7% in third quarter 2019 following the completion of the three buildings in 2019. With no new completion, decentralized office locations in KL fringe and Selangor remained resilient with both rental and occupancy holding firm during the 2nd half of 2019. Co-working spaces continued their fast expansion with more operators joining the market.

Dated office buildings are expected to undergo repositioning / upgrading works to cater to the needs of occupiers with some owners exploring plans to repurpose for new / alternative uses. As per Knight Frank Malaysia's 2nd half 2019 Real Estate Highlights, InvestKL is on track to realise its target of welcoming 100 multinational corporations into the country by 2020 with achievement of 85.0% of its target with the creation of about 12,000 job opportunities. Therefore, the strategy for 2020 is to continue to retain good tenants with continuous upkeep of property to maintain and enhance the standard of its facilities.

Distribution policy for 2020 is expected to be maintained as per 2019 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 activity. Hencewith, the Board is committed to establishing risk management processes which 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 11.3% of the Fund's gross revenue with the main tenant contributing only 4.5% of the Fund's gross revenue as at 31 December 2019.

Management Discussion & Analysis (cont'd)

- 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, 50%, 17% and 33% of the Funds borrowings are each due in 2021, 2022 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 57.3% 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.

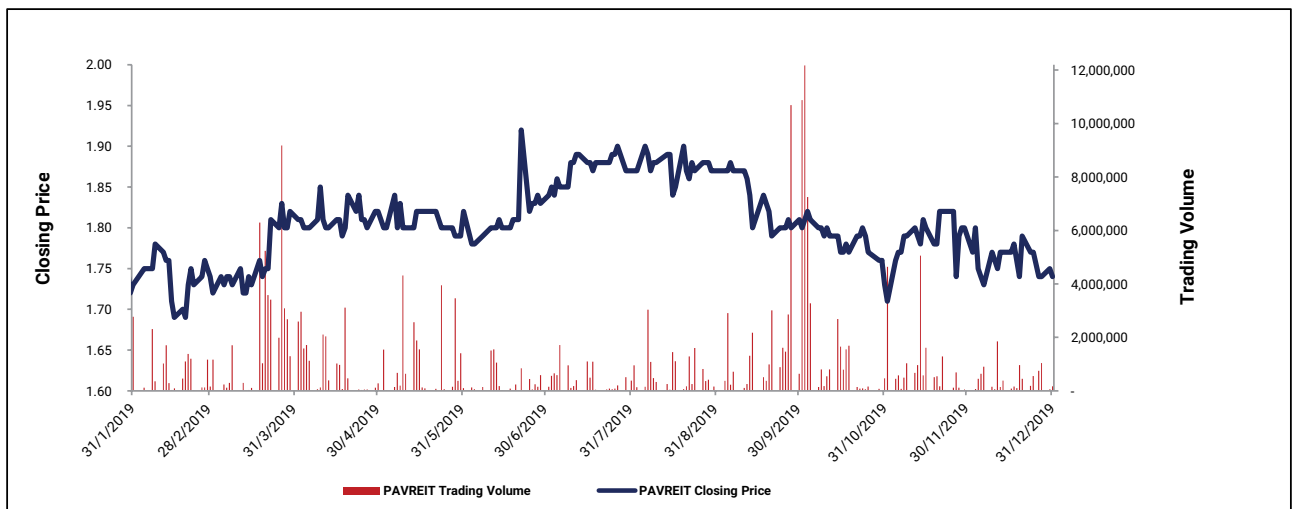
INVESTORS RELATION AND FUND MANAGEMENT

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.

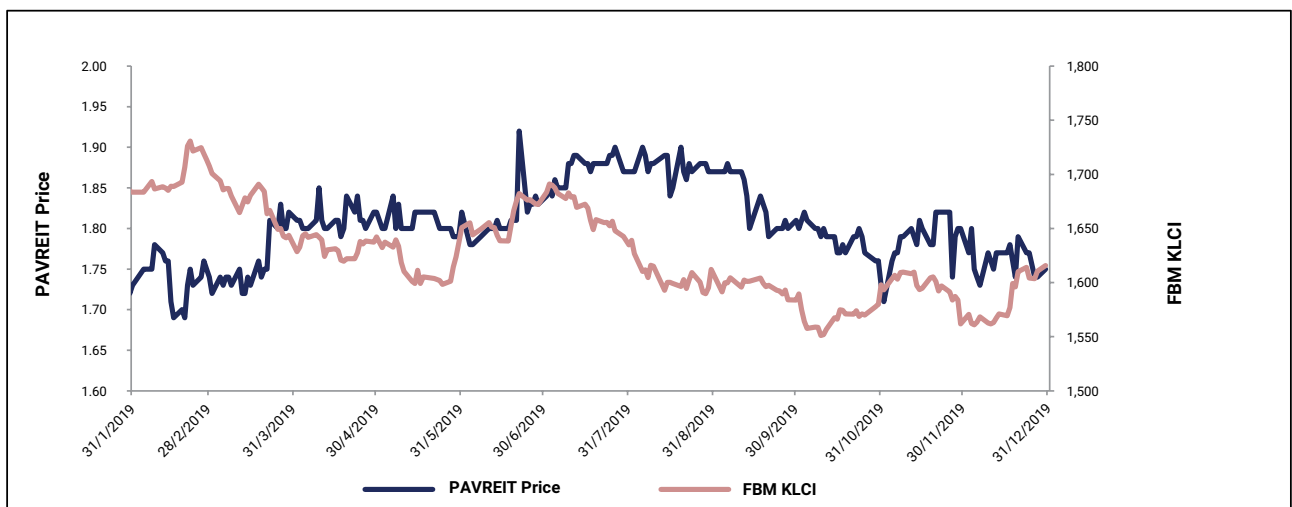
- Half yearly analyst briefing
- Citi ASEAN C-Suite Investor Conference 2019, Singapore
- Citi Malaysia Investors Symposium, Kuala Lumpur

Pavilion REIT’s annual general meeting was held on 28 March 2019 whereby its unitholders were updated on the performance of Pavilion REIT for the financial year ended 31 December 2018.

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 2015	FY 2016	FY 2017	FY 2018	FY 2019
Net Asset Value per Unit (RM)					
-As at 31 December	1.28	1.30	1.30	1.31	1.31
-Lowest during the year	1.24	1.25	1.27	1.28	1.29
-Highest during the year	1.28	1.30	1.30	1.31	1.31
Closing unit price (RM) as at 31 December					
	1.55	1.90	1.61	1.64	1.74
Highest traded price during the year (RM)					
	1.63	1.90	1.93	1.78	1.92
Lowest traded price during the year (RM)					
	1.39	1.52	1.61	1.32	1.61
Capital appreciation / (depreciation) (%) ¹					
	6.16	22.58	(15.26)	1.86	6.10
Annual total return (%) ²					
	11.47	26.92	(10.14)	7.21	10.98
Average total return over 3 years (%)					
	9.61	19.30	9.42	8.00	2.68
Average total return over 5 years (%)					
	-	17.64	9.12	10.99	9.29
Units in circulation ('000)					
	3,017,842	3,022,525	3,030,094	3,036,705	3,041,090
Market capitalisation (RM'000)					
	4,677,655	5,742,798	4,878,451	4,980,196	5,291,497

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.

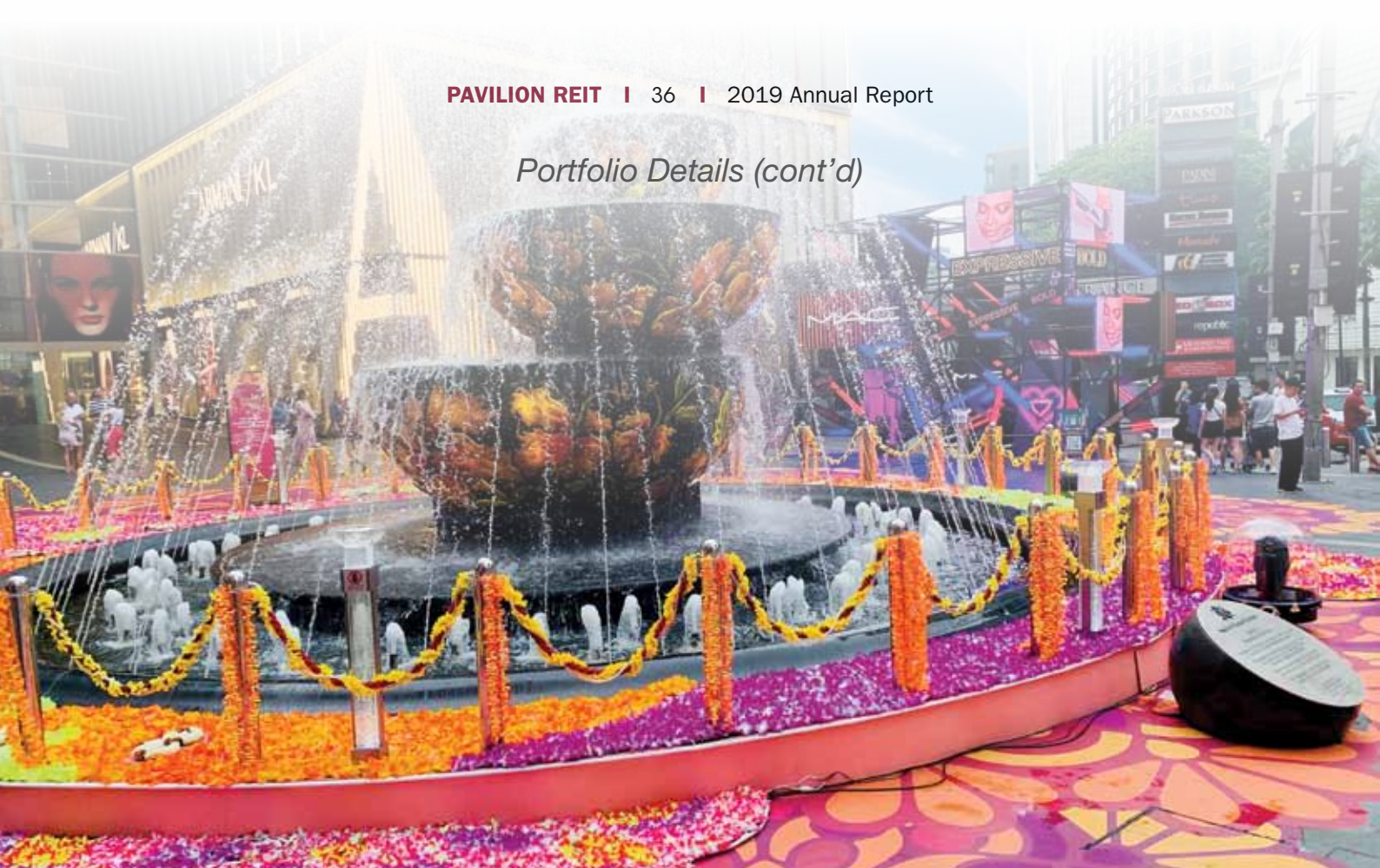


PORTFOLIO DETAILS

(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	12 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	1,331,534 square feet
Number of Car Park Bays	2,391
Occupancy Rate as at 31 December 2019	98.0%
Date of Acquisition	7 December 2011
Acquisition Price	RM3,190 million
Appraised Value	RM4,800 million
Date of Latest Valuation	31 December 2019
Independent Valuer	Knight Frank Malaysia Sdn Bhd
Capitalisation Rate – Reversionary	6.50%
Gross Revenue	RM462 million
Net Property Income	RM316 million
Ten Largest Tenants	Cartier, Food Republic, Forever 21, Golden Screen Cinema, Hermes, Mercato, Padini Concept Store, Parkson Elite, Polo Ralph Lauren, Zara

Portfolio Details (cont'd)

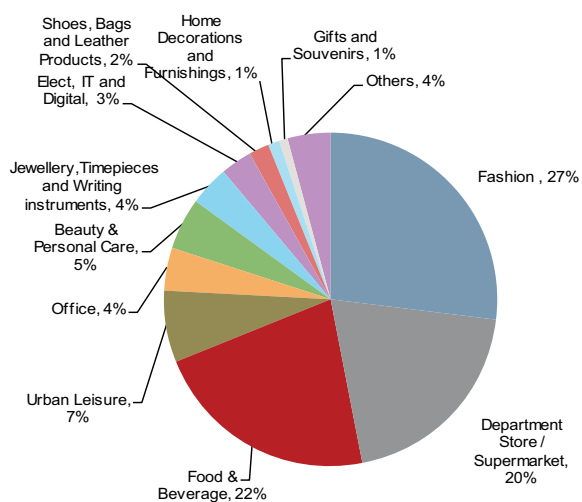


Tenancy Expiry Profile

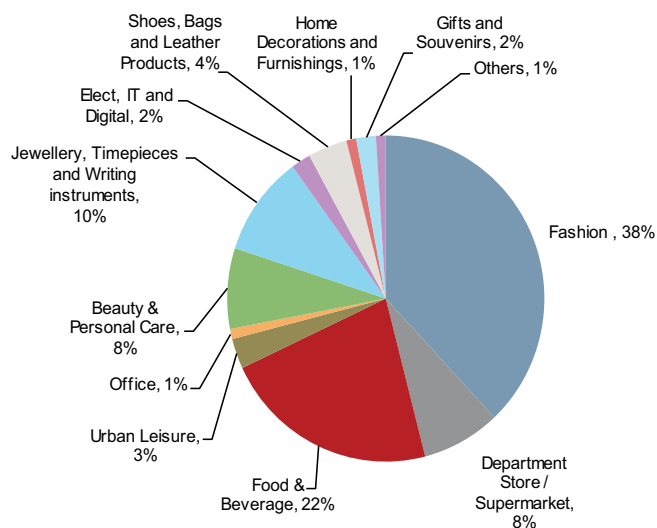
Period	% of Occupied NLA	% of Gross Rental
Monthly	12	10
FY2020	20	23
FY2021	14	17
FY2022 and thereafter	54	50
Total	100	100

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



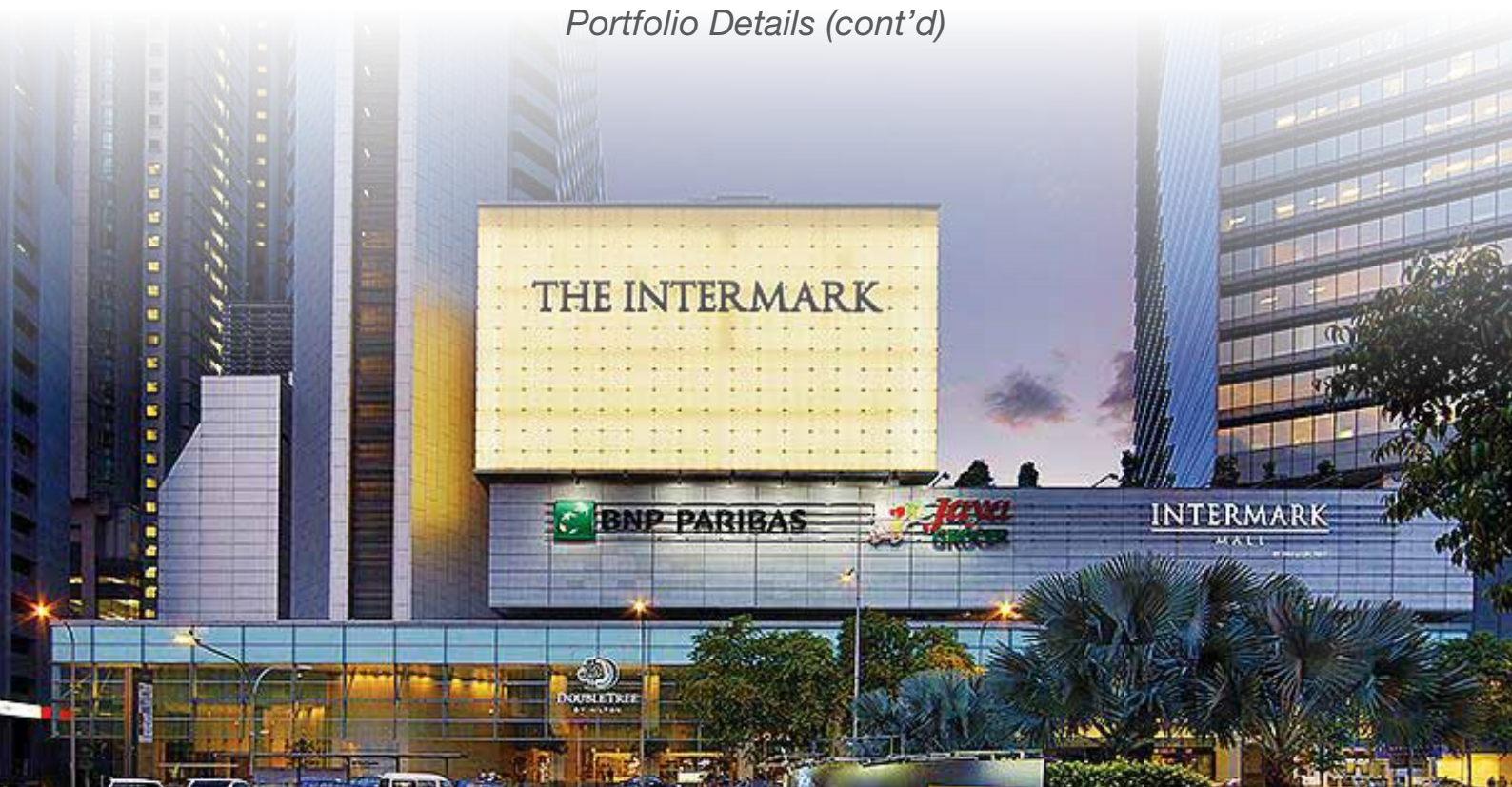
Trade Sector Analysis based on Gross Rental



Portfolio Details (cont'd)

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	7 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	Charged to Public Bank Berhad
Tenure	Interest in perpetuity
Gross Floor Area	337,427 square feet
Net Lettable Area	221,831 square feet
Number of Car Park Bays	367
Occupancy Rate as at 31 December 2019	97.1%
Date of Acquisition	25 March 2016
Acquisition Price	RM160 million
Appraised Value	RM180 million
Date of Latest Valuation	31 December 2019
Independent Valuer	C H Williams Talhar & Wong Sdn Bhd
Capitalisation Rate – Reversionary	6.50 %
Gross Revenue	RM27 million
Net Property Income	RM14 million
Top Ten Tenants	Hanare, Hua Wei, Jaya Grocer, McDonald's, MST Golf, Primrose Hill Active Learning, Oriental Landmark, Savini, Space Furniture, SportsDirect.com

Portfolio Details (cont'd)

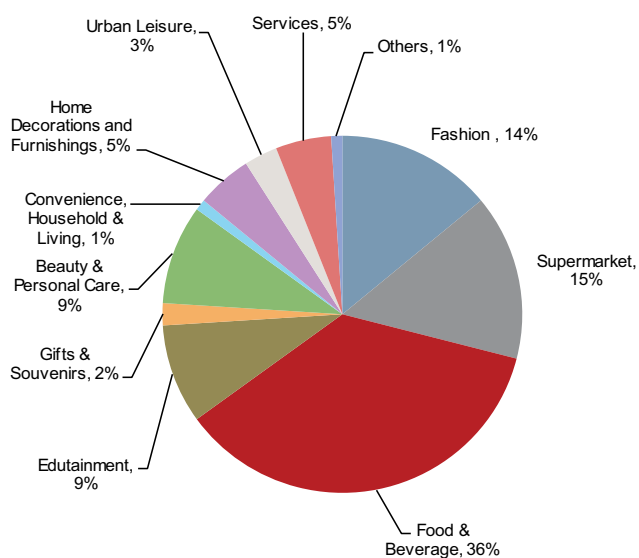


Tenancy Expiry Profile

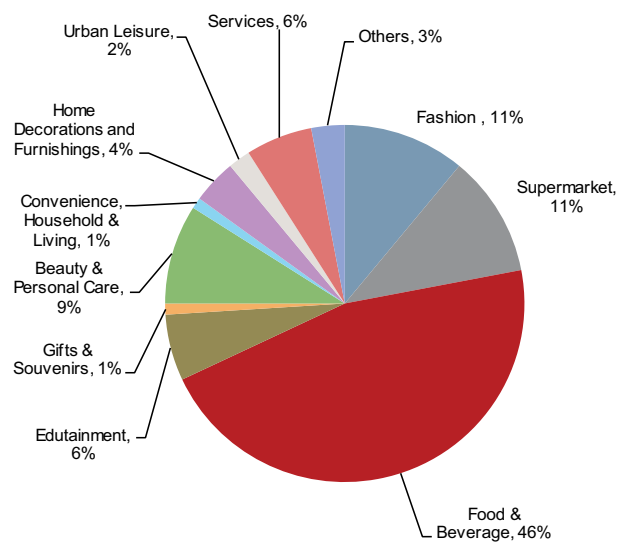
Period	% of Occupied NLA	% of Gross Rental
Monthly	4	4
FY2020	30	31
FY2021	28	30
FY2022 and thereafter	38	35
Total	100	100

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



Portfolio Details (cont'd)

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	4 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	Charged to Public Bank Berhad
Tenure	Interest in perpetuity
Gross Floor Area	705,128 square feet
Net Lettable Area	429,612 square feet
Number of Car Park Bays	1,638
Occupancy Rate as at 31 December 2019	71.7%
Date of Acquisition	25 March 2016
Acquisition Price	RM487 million
Appraised Value	RM220 million
Date of Latest Valuation	31 December 2019
Independent Valuer	C H Williams Talhar & Wong Sdn Bhd
Capitalisation Rate – Reversionary	6.50 %
Gross Revenue	RM24 million
Net Property Income	RM1 million
Top Ten Tenants	Aunty Manju's Restaurant, Chi-X Fitness, Food Arcade, Grand Harbour Restaurant, Jaya Grocer, Mr DIY, Music Box, New Nanyang Food Street, Nam Heong Ipoh, Swensen's

Portfolio Details (cont'd)

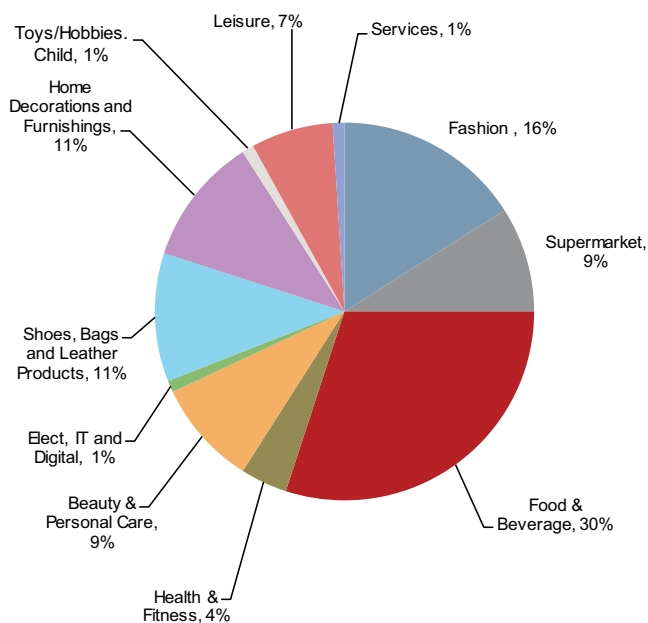


Tenancy Expiry Profile

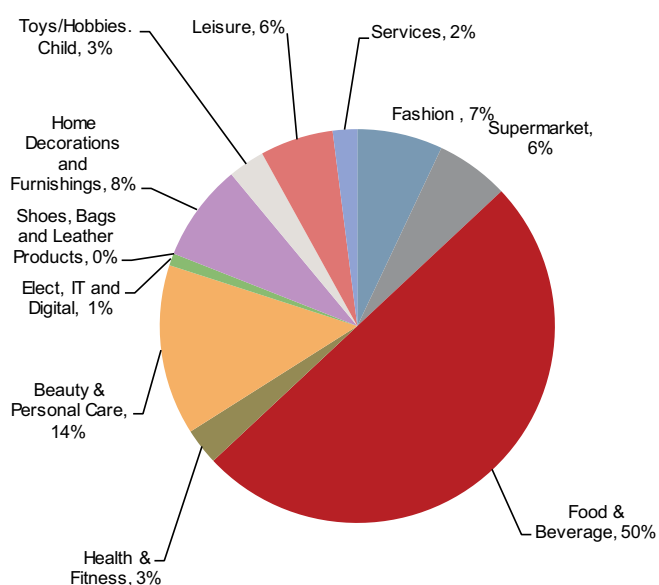
Period	% of Occupied NLA	% of Gross Rental
Monthly	15	13
FY2020	18	15
FY2021	36	51
FY2022 and thereafter	31	21
Total	100	100

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



Portfolio Details (cont'd)

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	3 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	231,428 square feet
Number of Car Park Bays	50
Occupancy Rate as at 31 December 2019	95.0%
Date of Acquisition	27 April 2018
Acquisition Price	RM580 million
Appraised Value	RM580 million
Date of Latest Valuation	31 December 2019
Independent Valuer	Knight Frank Malaysia Sdn Bhd
Capitalisation Rate – Reversionary	6.25% for Elite Pavilion
Gross Revenue	RM61 million
Net Property Income	RM39 million
Top Ten Tenants	Coach, COS, JD Sports, Haidilao Hotpot, Lukfook Jewellery, Lululemon, Mango and Mango Man, Muji & Café, Rimowa, Toys 'R' Us

Portfolio Details (cont'd)

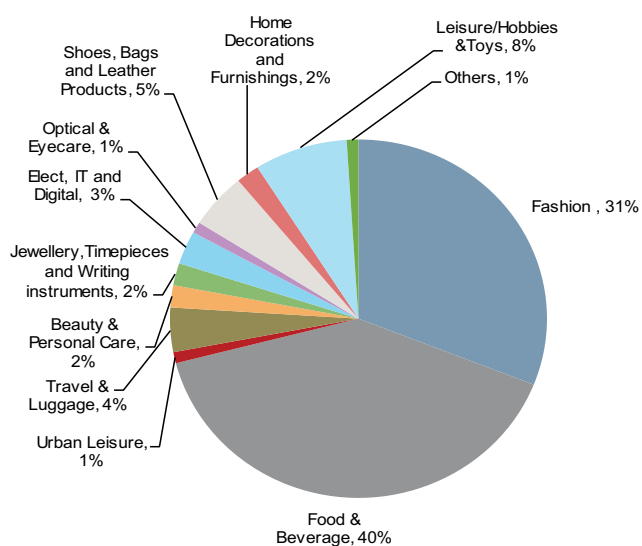


Tenancy Expiry Profile

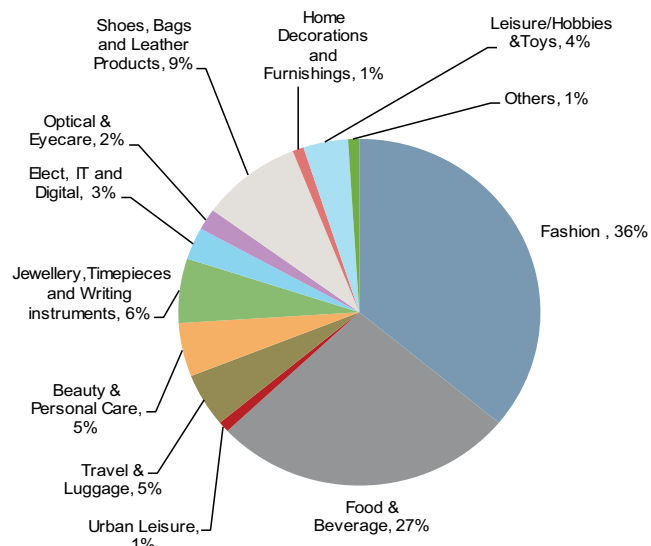
Period	% of Occupied NLA	% of Gross Rental
Monthly	13	12
FY2020	21	16
FY2021	13	9
FY2022 and thereafter	53	63
Total	100	100

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	12 years
Title	HS(D) 120091, PT 80 Sekyzen 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 2019	85.8%
Date of Acquisition	7 December 2011
Acquisition Price	RM123 million
Appraised Value	RM133 million
Date of Latest Valuation	31 December 2019
Independent Valuer	Knight Frank Malaysia Sdn Bhd
Capitalisation Rate – Reversionary	6.50%
Gross Revenue	RM12 million
Net Property Income	RM6 million
Top Ten Tenants	Clever Eagle Sdn Bhd, Gapadu Development Sdn Bhd, Impian Ekspresi Sdn Bhd, Khuan Choo Development Sdn Bhd, KL Pavilion Design Studio Sdn Bhd, KL Metro Sdn Bhd, MRails Tram (Melaka) Sdn Bhd, Pan-Asia Property Management Sdn Bhd, Pioneer Haven Sdn Bhd, Urusharta Cemerlang (KL) Sdn Bhd

Portfolio Details (cont'd)

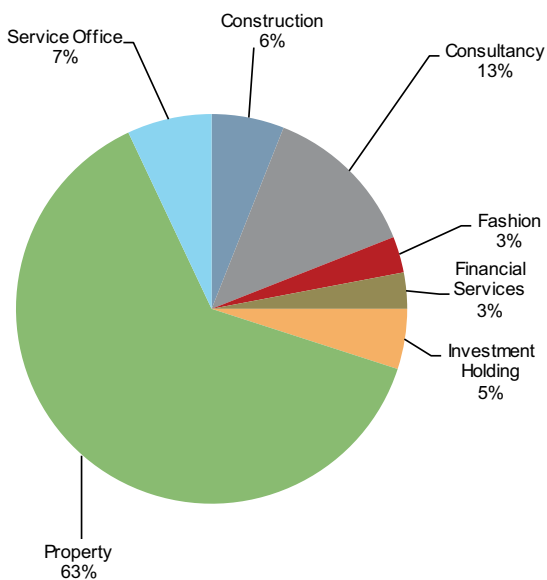


Tenancy Expiry Profile

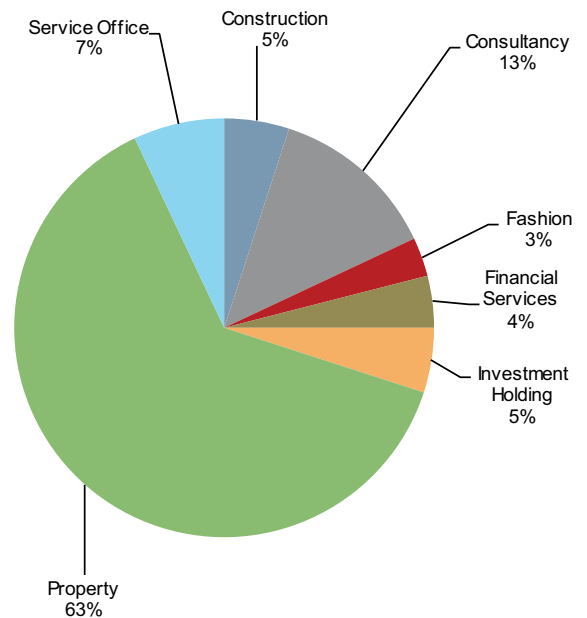
Period	% of Occupied NLA	% of Gross Rental
Monthly	14	14
FY2020	33	34
FY2021	15	15
FY2022 and thereafter	38	37
Total	100	100

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental





SUSTAINABILITY STATEMENT

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Sustainability Statement (cont'd)

1. INTRODUCTION

We are pleased to present Pavilion REIT's Sustainability Statement for the financial year ended 31 December 2019. This report covers the progress in adopting sustainable management practices to Pavilion REIT properties and tracks the impact from an EES perspective of our stakeholders.

About the Business

Pavilion REIT is a real estate investment trust listed on the Main Market of Bursa Malaysia since 7 December 2011 and is managed by the Manager. The core activity of Pavilion REIT is investment in commercial properties with the objective of providing its unitholders with regular and stable distributions while achieving long-term growth in net asset value based on an appropriate capital structure. Pavilion REIT currently has five properties in its portfolio consisting of four malls and an office tower. Three of the malls and the office tower are located in the commercial centre of Kuala Lumpur while the remaining mall is located in the vibrant Subang Jaya neighbourhood. There were no significant changes in the business as compared to last financial year. The properties have an aggregate value of RM5,913.0 million as at 31 December 2019.

Approach and Commitment to Sustainability

The Manager has been applying appropriate strategies and practices centred around good corporate social responsibility and governance in order to enhance long-term values with sustainability objectives as follows:-

- Delivering profitable and sustainable business growth to achieve a long-term growth in net asset value per unit;
- Provide unitholders with regular and stable distributions;
- Be a valued partner to our tenants and suppliers;
- Customer health and safety;
- Employee well-being; and
- Responsible environmental stewardship.

Sustainability remains an important part of Pavilion REIT's long-term strategy in guiding decision-making and engagement with stakeholders.

2. ABOUT THE SUSTAINABILITY STATEMENT

In the preparation of this report, the Manager has been guided by the Global Reporting Initiative (GRI) Standards: Core Option. The reporting period is on an annual basis from 1 January 2019 to 31 December 2019. As Pavilion REIT does not have any employees, the information reported in relation to employees are made in reference to the employees of the Manager. The Manager does not have collective bargaining agreement with its employees. Current year sustainability reporting has been enhanced from last report to include all Pavilion REIT properties with environmental reporting being focused on Pavilion Kuala Lumpur Mall which contributes to about 84% net property income of Pavilion REIT with waste management covering Pavilion Malls (which contributes to about 95% of net property income) with no material restatements from the previous reporting year. Exclusions took into consideration monitoring cost effectiveness and the materiality to Pavilion REIT as a whole.

Properties under Sustainability Reporting Scope	Segment	Location
Pavilion Kuala Lumpur Mall and Elite Pavilion Mall ("Pavilion Malls")	Retail	Kuala Lumpur
Intermark Mall	Retail	Kuala Lumpur
DA MEN Mall	Retail	Subang Jaya
Pavilion Tower	Office	Kuala Lumpur

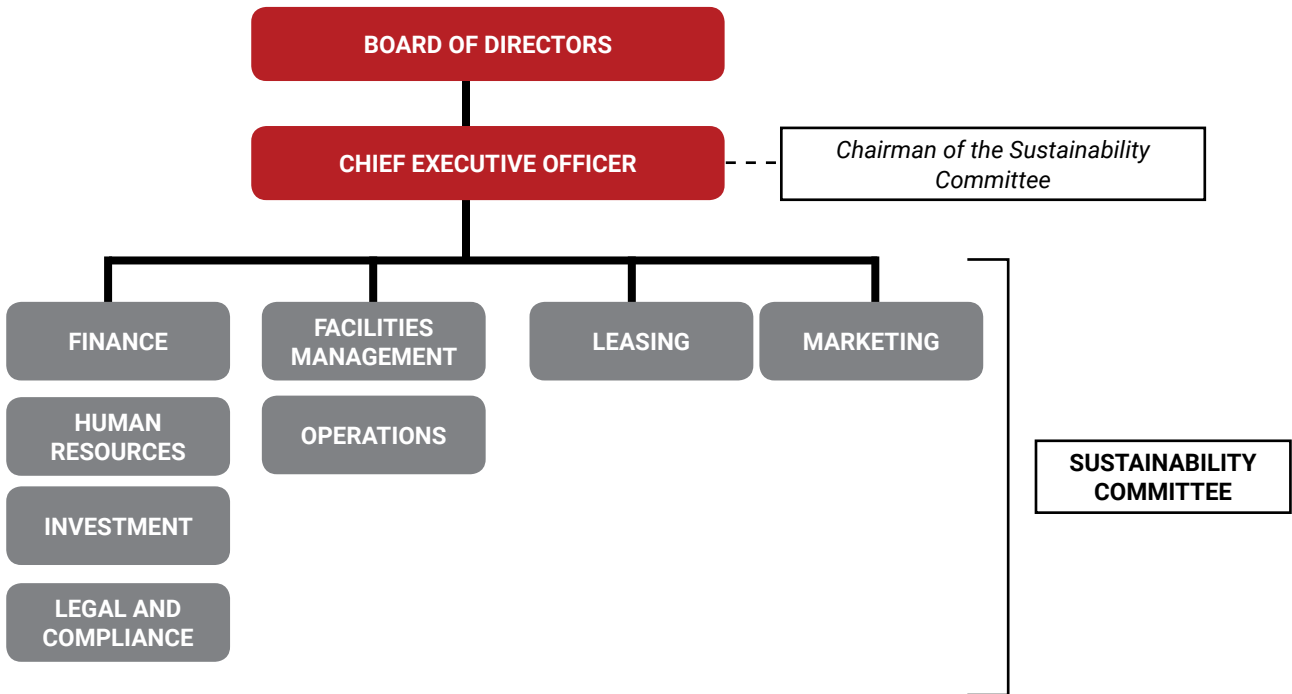
As part of ongoing efforts to improve the ESS reporting, stakeholders could submit any query or comment to info@pavilion-reit.com

Sustainability Statement (cont'd)

3. GOVERNANCE

Governance Structure

As the Manager of Pavilion REIT, we are cognisant of the responsibility entrusted on us to act in the interests of our unitholders, with integrity, due care and diligence. We believe in the importance of adopting an effective corporate governance culture and have therefore established a sustainability committee with representation and participation from the various divisions of the operations. The members of the sustainability committee meet regularly to discuss, initiate, implement, track sustainability projects and ensure that alignment with the overall strategy of the organisation. The Sustainability Committee comprising the Head of Departments (as detailed in the diagram below) is led by the Chief Executive Officer, acting as the committee chairman, who reports to and updates the Board of Directors on matters in relation to the initiatives and progress of Pavilion REIT's sustainability endeavours.



Sustainability Statement (cont'd)

Risk Management

The key risks identified for Pavilion REIT during the financial year under review are as follows:-

No.	Key Risk Type	Risk Description	Sources of Opportunities	Existing Control / Mitigation Plan
1.	Acquisition & investment risk	Risk of non-accretive yield of assets / investments affecting the overall performance of the Fund	Distribution to unitholders will increase as a result of successful acquisition and investment in properties with higher yield	<ul style="list-style-type: none"> • Cautiously evaluate proposed investment from financial, legal and technical aspects • Related party acquisition has to be evaluated by Audit Committee
2.	Valuation risk	Risk that valuation of property may not be sustainable, hence affecting the Fund's asset value, profitability and gearing	Pavilion Malls form a part of the Bukit Bintang and KLCC ("BB-KLCC") retail hub, representing a vibrant retail and tourism belt with Intermark Mall located about 2 km from Kuala Lumpur City Centre. DA MEN Mall is a neighbourhood mall in a matured integrated township development of UEP Subang Jaya. The malls are well positioned to attract diverse customers and tenants	<ul style="list-style-type: none"> • Closely monitor investment parameters such as rental rate, occupancy rate as well as operational cost • Maintain appropriate tenant mix / concept • Continuous engagement with tenants • Cost management and prudent spending on operational and promotional activities
3.	Credit risk	Liquidity risk of non-payment by tenants	Tenants with strong credibility can support the confidence of unitholders in us	<ul style="list-style-type: none"> • Conduct credit evaluation on counterparties prior to entering into letter of offer or agreement • Have a stringent collection policy in place
4.	Tenant concentration risk	Risk of relying on only a handful of tenants	A diversified tenant base can cater for requirements and needs of customers with different purchasing power and increase the sales of malls	<ul style="list-style-type: none"> • Our top 10 tenants only contributed to 11.3% of the Fund's gross revenue for FY2019 • The Manager has established a leasing team which is responsible for monitoring the performance of its tenants
5.	Financing risk	Risk of not being able to obtain fresh facilities or renew its facilities when due, either from financial institution or debt capital market	Strong credit service capability and credit rating will attract confidence from financiers for funding support	<ul style="list-style-type: none"> • Continuous engagement with various financial institutions, potential bond holders and other financiers to determine the appropriate financing options

Sustainability Statement (cont'd)

No.	Key Risk Type	Risk Description	Sources of Opportunities	Existing Control / Mitigation Plan
6.	Interest rate risk	Risk refers to the potential unfavourable movement in floating interest rate that will affect income before taxation	Careful management of the debt portfolio between fixed and floating rates	<ul style="list-style-type: none"> Closely monitor interest rates and consider funding options Swap lines have been extended by certain financial institutions
7.	Operational risk	Risk of incurring loss resulting from inadequate procedures or existing system failure	Managing operational risk provides a channel to reinforce discipline within the organisation	<ul style="list-style-type: none"> Regularly review standard operating procedures ("SOPs") which comprises operational guide, control and monitoring procedures Ensure employees are well trained to act according to the SOPs
8.	Legal and regulatory compliance risk	Risk that a non-compliance in required laws, rules and regulation will materially impact the operation of Fund and its stakeholders	Compliance to required laws, rules and regulation will boost confidence of unitholders and other stakeholders in us	<ul style="list-style-type: none"> A compliance officer is responsible for providing regulatory guidance and ensuring regulatory compliance
9.	Disaster risk	Risk of loss and damage due to incidents arising from natural disaster	Leveraging on technology for assistance and reinforce discipline within the organisation	<ul style="list-style-type: none"> Disaster recovery planning includes daily back-up of information All properties under Pavilion REIT have their own emergency response and crisis management plans
10.	Staff resources risk	Risk of not being able to attract and retain capable staff	Ensuring a skilled and committed workforce can create sustainable value to business	<ul style="list-style-type: none"> Remuneration package that is in line with industry practice Periodic staff engagement and staff dialogues Annual review and training for staffs

Business Ethics / Core Values

The core values serve as a guiding light to how business is conducted. The Manager adheres to the principles of ethical and responsible business practices and have in place measures against unacceptable behaviour such as fraud and corruption. There was no known incidents of corruption that happened during the financial year.

The Manager has developed its whistle-blowing policy to provide a safe channel for employees and other stakeholders to report potential or actual improprieties within the organisation. In addition, the Manager is in the process of reviewing and updating existing internal anti-corruption policies in line with the Malaysian Anti-Corruption Act 2018 to provide

Sustainability Statement (cont'd)

detailed guidance on eliminating corrupt practices within the business. The anti-corruption trainings attended by our senior management during the year are detailed in the table below:-

Training/ Course	Hours
Corporate Criminal Liability for Corruption (Section 17A MACC Act)	4 hours
MCCG – Adoption of Practices for Meaningful Corporate Governance	7 hours

Employee's handbook provides guidance on generally accepted procedures and practices for business conduct.

4. STAKEHOLDER ENGAGEMENT

Of paramount importance to our strategies on sustainability is the engagement with our stakeholders. They offer us the means in which we can have insights into what matters and measure the effectiveness of our approaches to sustainability. We identify our key stakeholder groups by the relevance to actual and potential impact that they may have on our operations as well as how our actions would affect them.

Stakeholder Engagement Table

The Sustainability Committee undertook a materiality assessment taking into consideration the stakeholder groups the Fund engages with and identified the key stakeholders as well as the methods by which they are engaged on their expectations. The table below presents the method and frequency of engagement with our key stakeholders to discuss pertinent issues and the constructive solutions offered to address their concerns:-

Stakeholder	Method of Engagement	Frequency	Stakeholder Expectations	Addressing Expectations
EMPLOYEES	<ul style="list-style-type: none"> Performance appraisals Training programmes Dialogue with senior management 	<p>Annual</p> <p>Ad hoc</p> <p>As required</p>	<ul style="list-style-type: none"> Employee welfare Fair compensation and benefits Safe and conducive working environment Training and career development opportunities Work-life integration 	<ul style="list-style-type: none"> Fair and transparent appraisals Equal opportunity for all with no discrimination Ensure a conducive and safe working environment Facilitate training programmes and seminars Respect personal values and ambitions

Sustainability Statement (cont'd)

Stakeholder	Method of Engagement	Frequency	Stakeholder Expectations	Addressing Expectations
INVESTMENT COMMUNITY	<ul style="list-style-type: none"> • Announcements • General meetings • Individual meetings • Investor roadshows • Electronic communication 	<ul style="list-style-type: none"> As required Annual As required As required Ad hoc 	<ul style="list-style-type: none"> • Performance of assets • Business strategy • Stable and sustainable returns • Corporate governance • Timely and transparent reporting • Prudent risk management 	<ul style="list-style-type: none"> • Agile in responding to changes in the business environment in order to enhance the value of assets and maintain stable profitability • Focus on providing unitholders with a secure and regular income stream as well as sustainable long-term growth • Ensure timely release of announcements and financial results • Adherence to all applicable regulations and laws
CUSTOMERS / SHOPPERS	<ul style="list-style-type: none"> • Festive performances and activities • Promotional events • Customer satisfaction surveys • Information concierge 	<ul style="list-style-type: none"> Seasonal Ad hoc Ad hoc Ad hoc 	<ul style="list-style-type: none"> • Safe, conducive mall environment with good accessibility • Good and diverse retail mix • Promotional campaigns to enhance attraction • Good connectivity to public transport and convenience in transportation 	<ul style="list-style-type: none"> • Respond to feedback from customers • Identifying avenues for improving the shopping experience • Improve access to neighbouring amenities and transportation.
TENANTS	<ul style="list-style-type: none"> • Update of mall activities • Tenant meeting 	<ul style="list-style-type: none"> Annual As required 	<ul style="list-style-type: none"> • Good property maintenance • High shopper traffic • Competitive rental rates • Promotional events to drive traffic • Tenant engagement and support • Conducive operating environment 	<ul style="list-style-type: none"> • Ensure any property maintenance issues or repairs are dealt with expeditiously • Provide a comfortable and safe environment with exciting retail mix to maintain high shopper traffic • Collaborate with tenants on promotional campaigns

Sustainability Statement (cont'd)

Stakeholder	Method of Engagement	Frequency	Stakeholder Expectations	Addressing Expectations
VENDORS, CONTRACTORS AND SERVICE PROVIDERS	<ul style="list-style-type: none"> • Meetings • Safety briefings and workshops 	<p>As required</p> <p>Ad hoc</p>	<ul style="list-style-type: none"> • Fair and transparent • Procurement processes and vendor selection • Compliance with rules and regulations 	<ul style="list-style-type: none"> • Build strong relationships with our vendors, contractors and service providers through fair treatment in all dealings • Ensure compliance through routine assessments with internally prescribed standards and applicable laws and regulations.
REGULATORY AUTHORITIES	<ul style="list-style-type: none"> • Direct dialogue • Policy briefings • Consultation sessions and conferences 	<p>As required</p> <p>Ad hoc</p> <p>Ad hoc</p>	<ul style="list-style-type: none"> • Compliance with regulatory requirements • Keeping abreast of policy and regulatory changes 	<ul style="list-style-type: none"> • Constant monitoring of our economic, environmental, social and governance policies and procedures to ensure alignment with regulatory requirements through regular attestations, compliance monitoring programmes and reporting • Work with professional subject experts
LOCAL COMMUNITIES	<ul style="list-style-type: none"> • Corporate social responsibility programmes • Relevant authorities to improve mobility and traffic congestion 	<p>Ad hoc</p> <p>Ad hoc</p>	<ul style="list-style-type: none"> • Corporate responsibility to give back to the community and create a positive impact • Strengthen community ties 	<ul style="list-style-type: none"> • Continuously seek to contribute to the communities where the properties are located
MEDIA	<ul style="list-style-type: none"> • Media launches • Media interviews • Media releases 	<p>As required</p> <p>As required</p> <p>As required</p>	<ul style="list-style-type: none"> • Timely and transparent communication • Market and business performance outlook 	<ul style="list-style-type: none"> • Communicate consistently on developments of interest and business performance in order to propagate our brand value and ensure transparency in the eyes of the public.

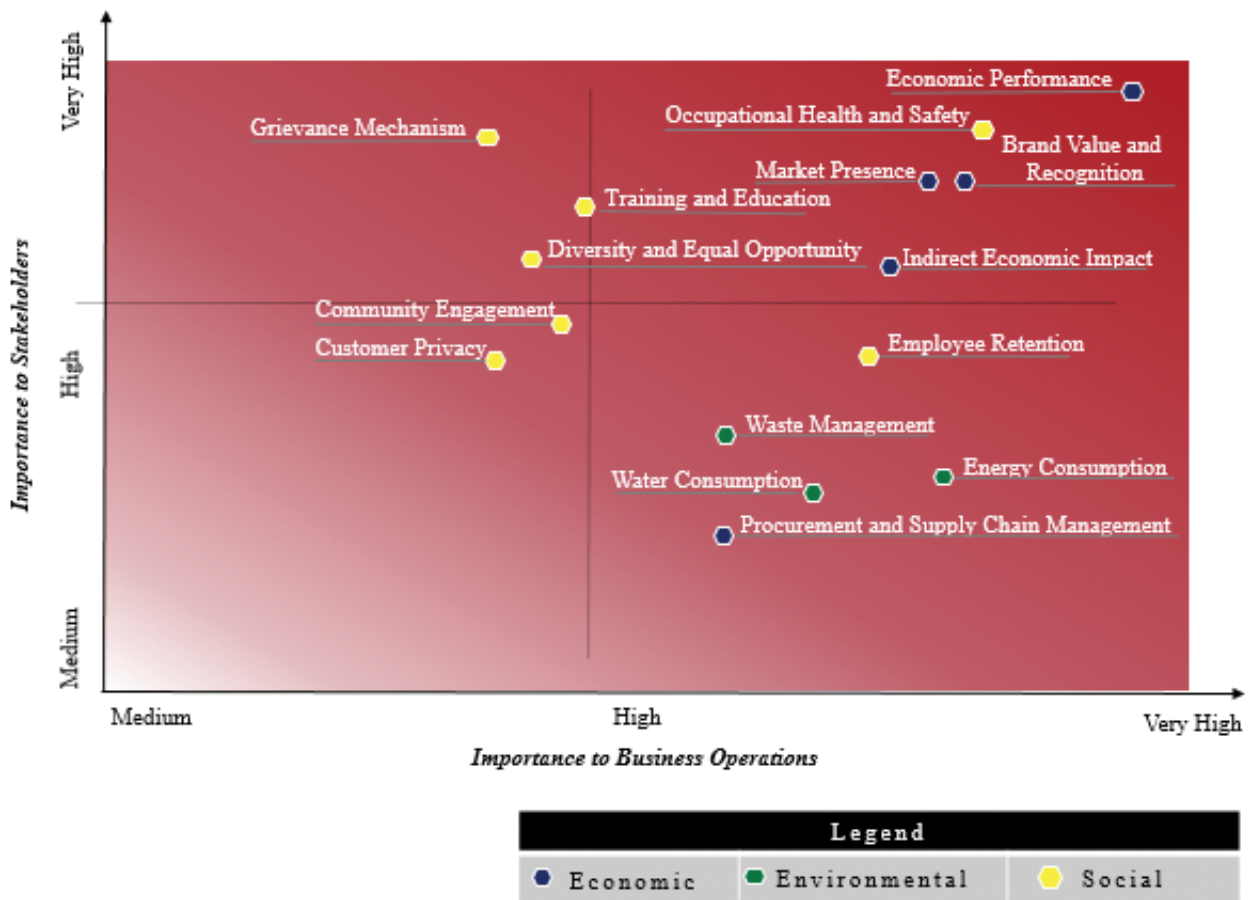
Sustainability Statement (cont'd)

5. MATERIALITY

The Sustainability Committee conducted the following to derive the materiality matrix:

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

In our review, we revisited the material matters identified in the previous year in order to understand how they have impacted our operating environment and our stakeholders, taking into consideration any pertinent external influences. Based on our assessment, we have deemed the following material matters to be relevant in the current year:-



Sustainability Statement (cont'd)

Material Matter	Description
Economic Performance	The financial value generated for stakeholders
Occupational Health & Safety	Processes and policies for the prevention, detection, risk assessment and reporting of work related hazards
Grievance Mechanism	Establishment of process for complainants who may be adversely impacted
Market Presence	Contribution to the economic development in the local areas and communities where properties are located
Brand Value and Recognition	Strategies to maintain reputation and top-of-mind status among shoppers
Training and Education	Constant development and improvement of employees' skills and competencies
Indirect Economic Impact	Benefits derived from investments that is indirectly converted into public conveniences including infrastructure or complimentary services
Employee Retention	Efforts to reduce employee turnover through providing a rewarding working environment
Diversity and Equal Opportunity	Merit based employment policies that promote diversity and equality at work
Community Engagement	Interaction with those who are within the sphere of property from an economic, social, cultural or environmental perspective
Customer Privacy	Management and care of sensitive and private information of our customers
Waste Management	Management of effluents and waste covering the treatment and disposal of waste and toxic substances that can result in adverse health and having environmental impacts
Water Consumption	Management of water usage such as water recycling and reuse to be eco-friendly
Energy Consumption	Management of energy usage such as having energy-efficient installations and equipment to minimise environmental influence
Procurement and Supply Chain	Policies and practices that govern the selection of and transactions with vendors

6. ECONOMIC

Pavilion REIT is committed to playing its part in contributing to the economy in a sustainable and responsible way. It strive to deliver value to all its stakeholders based on an established culture of care and accountability.

Economic Performance

The property industry has remained as one of the largest contributors to Malaysia's growing economy. Despite the evolving economic and political conditions in the recent years, the real estate industry has maintained its stability. The Manager oversees Pavilion REIT's business operations, including operating cash flows, financing arrangements as well as investment and debt maturity profile to ensure that the expectations of its stakeholders are met and the business operations continue to generate economic value through its performance.

Sustainability Statement (cont'd)

In managing cost effectiveness and financing risks, the Manager maintains investor confidence amidst fluctuating interest rates. It overcome these challenges through prudent business practices, pro-active business strategies and optimal capital management.

In addition, Pavilion REIT proposes to distribute 100% of its distributable income to eligible unitholders for the financial year ended 31 December 2019 which exceeds the requirement of distributing at least 90% of distributable income on a half-yearly basis as stated in the Deed.

Indirect Economic Impact

The acquisition of Elite Pavilion Mall in 2018 has had an indirect economic impact on the local community through the strategic subway linkage to Fahrenheit88 mall. The underground pedestrian tunnel provides a safe and comfortable access for pedestrians and commuters of public transportation to cross a major congested road.

As a committee member of the Malaysian REIT Managers Association and a member of PPKM and BBLCC Tourism Association Kuala Lumpur, Pavilion REIT works with the associations to initiate efforts towards economic growth, environmental conservation, good corporate governance and community development. Further to Pavilion Malls collaboration with Media Prima Bhd to promote unity with social experiment in 2018, another notable Pavilion Mall's support was hosting a flash mob of multi-cultural dances to promote the official launch of Visit Malaysia 2020.

Brand Value and Recognition

Pavilion REIT are committed to sustainable development through value creation by managing ESS risks which subsequently enhances brand value and recognition within the REIT industry. Pavilion REIT's 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 below. The Manager believes that rigorous targeted promotions can boost the malls' positioning with Pavilion Kuala Lumpur Mall's aim being the defining authority in shopping, dining and urban leisure. The Manager uses both physical and digital avenues to create customer awareness on the location and tenants' demographic in the building.



Sustainability Statement (cont'd)

Pavilion Kuala Lumpur Mall has fetched several notable achievements which include the CASC-PPKM Awards 2019, namely 'Gold Award, Best Experiential Marketing – Disney Celebrate the Magic – Dream Christmas' and 'Silver Award, Best Experiential Marketing – Dream Goals'. These awards were granted by the Malaysia Shopping Malls Association in recognition of outstanding shopping centres in Malaysia with innovative marketing efforts and initiatives.

 <p>Gold Award, Best Experiential Marketing – Disney Celebrate The Magic – Dream Christmas</p>	 <p>Silver Award, Best Experiential Marketing – Dream Goals</p>
<p>2018 was a milestone year as Pavilion Kuala Lumpur Mall celebrated its 10 year anniversary. Visit Pavilion 2018 'Celebration of Dreams' was launched promising a year of priceless experiences, personalised indulgences, amazing rewards and fulfilment of dreams. Visit Pavilion 2018 was concluded with a bang that capitalised on a global celebration that presented Disney's Celebrate The Magic : Dream Christmas</p>	<p>2018 was the FIFA World Cup year, held once in every four years. Pavilion Kuala Lumpur mall capitalised on this highly anticipated football event with an experiential 'Dream Goals' in partnership with FIFA World Cup and The Star newspaper</p>

Market Presence

The Manager manages market presence from business and human resource perspective. In addition to expanding Pavilion REIT's portfolio through acquisition of new investments, the Manager endeavours to extend the brand visibility to grow the national economy by ensuring fair and equal remuneration and local hiring. A majority of the Manager's senior managers are Malaysians and practices equal gender wage ratio, thereby emphasising on integrating local culture into the business practices as well as affirming stance on maintaining equal opportunity regardless of gender, race or religion.

Standard Wage	Local Hiring
 <p>Complies to Malaysia's Minimum Wages Order 2016</p>	<p>Most of our senior managers are Malaysians</p>
<p>Equal gender ratio (1:1) of standard entry level wage for degree holders</p>	<p><i>Employees holding the designation of Assistant General Managers and above are considered senior managers</i></p>



Sustainability Statement (cont'd)

Procurement and Supply Chain

Our supply chain comprises all the business partners that contribute to the efficiency of our business and the maintenance of our assets. These include suppliers who offer services such as property management, building maintenance, landscaping, security, marketing and promotions. There are no significant changes in our supply chain as compared to the last financial year. We prioritise ethical and transparent behaviour in our procurement based on the following policies:-

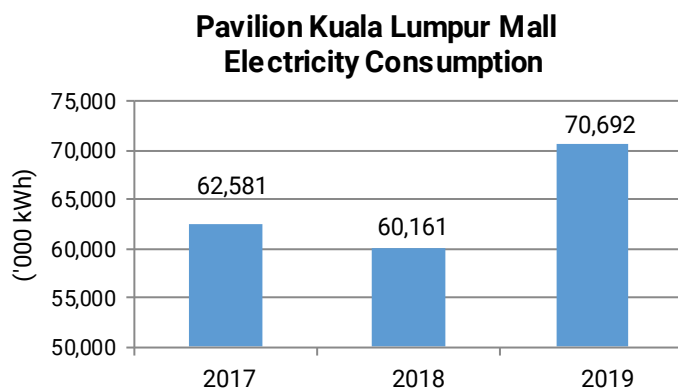
Quality & Compliance	We assess the quality level of service and product including its technical expertise and specifications to ensure that it is in full compliance with requirements and product certification where applicable.
Price	Evaluation is based on the competitiveness of the pricing taking into consideration the quality of the product or service and potential cost variations.
Prompt Delivery	To maintain efficiency, the Manager requires prompt and reliable delivery from vendors who are evaluated based on their reaction and deliveries timeliness.
Service	Services offered by each vendor are evaluated based on requirements and suitability as well as the past experience and track record of the vendor.
Support	The Manager consider vendors as business partners and therefore require them to be able to provide advice and assistance beyond just product or service delivery. Hence the need to evaluate their capability in providing the necessary support.

For this financial year, the Manager is proud to disclose that approximately more than 99% of its vendor services are procured locally and with less than 1% of supplies coming from international service providers mainly for marketing and promotional purposes. The Manager is in the process of implementing the supplier's code of conduct to enhance the value of deliverable in the supply chain.

7. ENVIRONMENTAL

Environmentally sustainable operation requires the management of resources and operations efficiently. The Manager will continue to minimise any adverse impact on the environment by adopting environmentally friendly practices as well as explore new avenues to improve energy, water and waste management.

Energy Consumption

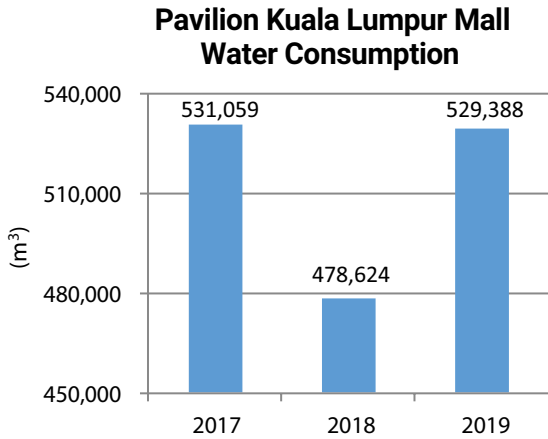


2018 had seen results from our initiatives to reduce electricity consumption in Pavilion Kuala Lumpur Mall via the usage of energy saving installations and devices. Due to the continuing heat wave experienced over several months of 2019, the mall's electricity consumption for air-conditioning inevitably increased compounded with a higher number of visitors. The Manager is keenly exploring alternative suitable solutions to mitigate the impact of chiller operations on electricity consumption quantity and costs incurred.

Sustainability Statement (cont'd)

Water Consumption

Water usage at public restrooms including sanitary facilities generally constituted the largest portion of water consumption in daily operation of shopping malls followed by water consumed by air conditioning systems, cooling towers and chilled water expansion tanks.



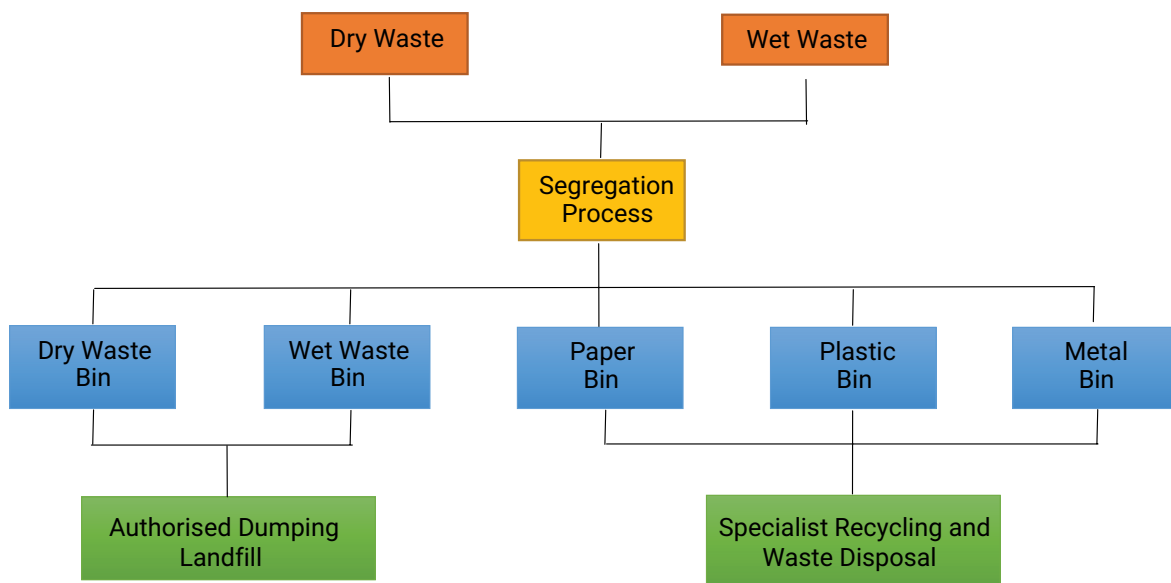
For Pavilion Kuala Lumpur Mall, its water consumption had increased due to higher usage from more visitation to the malls as well as usage incurred for cleaning of the mall's façade in 2019. Nevertheless, water management such as installation of automated sanitary fittings and regular maintenance checks with prompt reporting for corrective action has been implemented which served as mitigation measures to increasing water consumption.

The Manager had assessed the water quality of a groundwater source identified at Pavilion Kuala Lumpur Mall late 2019 which was found to be suitable for non-potable purposes such as irrigation and cleaning of lifting stations. Installation of groundwater harvesting system is currently on-going with its commission anticipated by the first quarter of 2020. It is expected that with the harvesting system in place, 3%-5% savings in monthly water consumption may materialise, instead of utilising water from Syarikat Bekalan Air Selangor Sdn Bhd. Continuous efforts will be made to increase savings in water consumption as part of our environmental efforts.

Waste Management

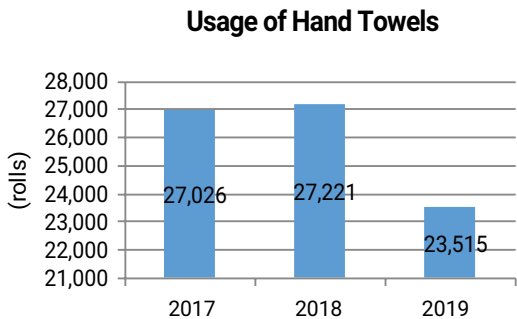
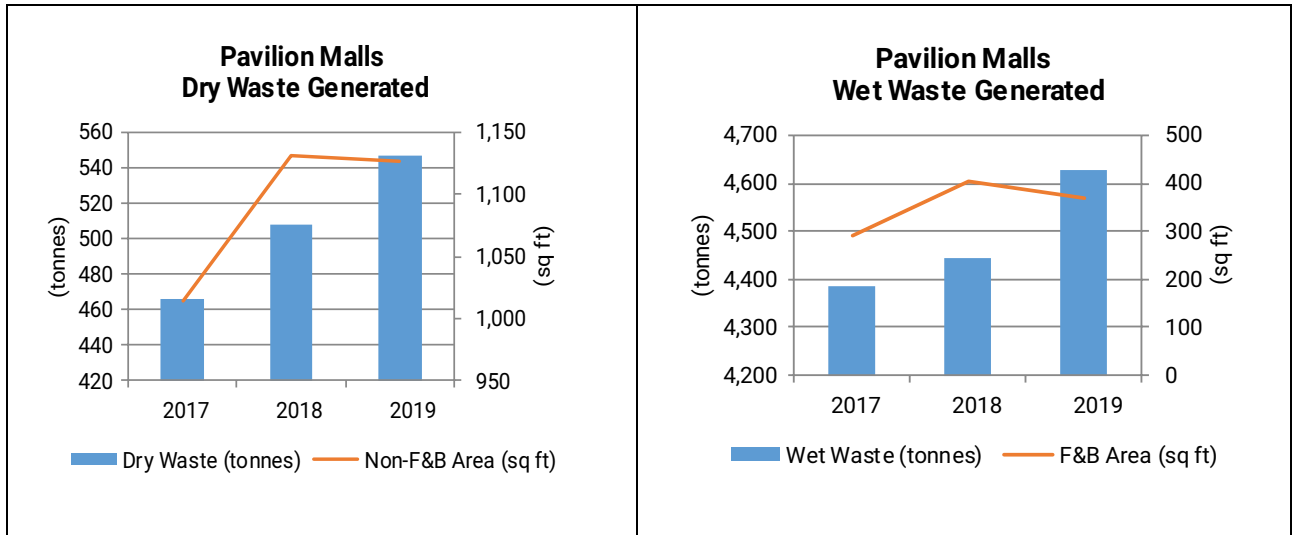
With the increasing volume of waste produced by rising population levels, it has become imperative for everyone to practise proper waste management to mitigate the threat posed to our fragile ecosystems. The Manager has therefore implemented a waste management work flow to address the waste generated from our retail malls.

The main categories of waste generated are wet waste or food waste and dry waste, which are managed by the respective retail malls (as detailed in the diagram below) except for Intermark Mall. Intermark Mall's waste management is undertaken by Intermark Management Corporation, as part of an integrated mixed commercial development that comprises the Intermark Mall, two corporate office towers as well as a hotel. Waste separation are undertaken to ensure they are disposed off legally with recyclable waste being sent to recycling companies by the appointed waste disposal vendors. Generally, the increase in waste is due to increase in tenants / occupiers of the property.



Sustainability Statement (cont'd)

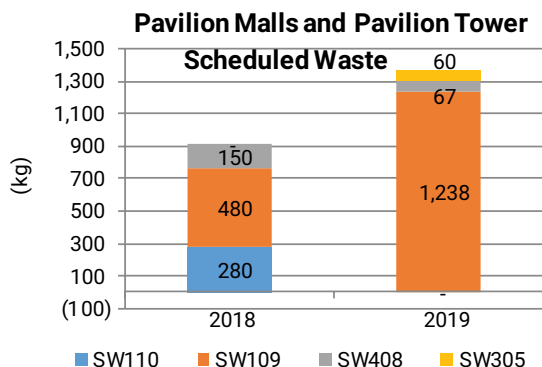
The increase in waste generated between 2017 and 2019 is mainly attributable to the inclusion of Elite Pavilion Mall waste from 27 April 2018. Currently, the Manager is assessing the possibility of adopting a less costly waste composting system for converting the food waste into inputs for biogas and biofuel production as an alternative to handle wet waste sent to authorised landfill.



In addressing the issues of deforestation and paper pollution, tissue dispenser has been automated to discourage users from taking more than a piece at one go. As shown in the diagram, our efforts have reduced the usage of hand towels by 13.6% as compare to the previous year.

To encourage shoppers and visitors to participate in responsible dry waste segregation, recycle bins are placed on every floor of the malls. To facilitate the waste management work flow, general workers are engaged at Pavilion Kuala Lumpur Mall refuse chamber room for manual segregation of recyclable wastes from Pavilion Kuala Lumpur and Elite Pavilion Malls.

Recycled Waste (kg)	2017	2018	2019
Paper	132,300	135,800	191,850
Plastic	4,650	7,700	1,700
Metal	6,330	7,400	1,700



Scheduled waste is referred to as 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, the Manager engages DOE-licensed contractors occasionally for the disposal of scheduled waste to authorised recycling and/or disposal facilities. The quantity of scheduled waste consisting of computer waste (SW110), spent fluorescent tubes (SW109), saw dust contaminated with oil (SW408) and spent lubricating oil (SW305) that were recycled is illustrated in the chart with no disposal made in 2017.

Sustainability Statement (cont'd)

8. SOCIAL

As an operator of public space, the Manager is aware of its social role and the impact that it can make to the community. The Manager places great importance on what can be done to enhance the experience and well-being of its employees, shoppers, tenants and vendors as well as the general public.

Community Engagement

The Manager believes in cultivating a responsible, caring and supportive environment in the communities that it operate in and to understand that they have the ability to make a difference. By organising events that are geared towards promoting the well-being and social advancement of the communities, the Manager hopes to engage with its retail tenants and customers for a mutually beneficial experience.

Below are some of the community engagement highlights primarily performed by Pavilion Malls, Intermark Mall and DA MEN Mall during the year:-

Creativity Boost

Eight art exhibitions organised by Art Market Malaysia including OKU Art Exhibition held for artists with disabilities were held at DA MEN Mall in 2019 and served as a platform for all artists, budding and professional alike, to showcase their creativity and enabled those with a passion for the arts to gather together, communicate about and enjoy a diverse range of visual arts. Intermark Mall also played host to Malaysian Artisan Fair in conjunction with Merdeka celebration and other similar events to enhance the communities' appreciation for local art as well as provide much needed exposure for the local artists.

During the year, DA MEN Mall and Intermark Mall held several fashion and design showcases for INTI College's Centre of Art & Design, SEGI College Subang Jaya's Faculty of Creative, Art & Design and Raffles College of Higher Education featuring the works of their students. The exhibitions provided an opportunity for students to share their creativity with the public and raise the profile of future design talents.

Raising Health Awareness

Intermark Mall was engaged in a month partnership with KPJ Healthcare Bhd ("KPJ") and its tenant to raise awareness of wholesome wellness through providing free eye-care consultation in 2019. In addition, KPJ provided free health screening services over the course of six days in March 2019 at DA MEN Mall, benefiting participants with information of their state of wellness. The screening services included tests on blood pressure and glucose level as well as body mass index measurements.

DA MEN Mall collaborated with Pejabat Kesihatan Petaling Jaya Negeri Selangor and held a health awareness event featuring free health talks and screenings in conjunction with World Health Day in April 2019 whereas the National Kidney Foundation Association provided complimentary health screenings to public in October 2019. Besides that, Pavilion Kuala Lumpur mall contributed to promote breast cancer awareness by being a venue sponsor of Harpers' Bazaar's Pink Project Pop-Up for one month in October 2019.

Supporting Our Tenants

Our shopping malls have been supportive of fairs, roadshows, pop-up stores and other marketing activities organised by tenants. Amongst others, DA MEN Mall facilitated zumba, body combat and yoga sessions organised by its tenant, Chi-X Fitness to promote awareness of its products within the community during the year. The Manager also supports its tenants by including selected relevant tenants in the mall's in-house events and festivals.

Sustainability Statement (cont'd)

Promoting Small Local Businesses

In addition to supporting its tenants, the Manager also host events which aims to promote local small businesses. During the year, Farmers Market and Pasar Tani FAMA organised by Federal Agricultural Marketing Authority Selangor at DA MEN Mall provided the opportunity for the community to sample and buy a variety of locally-farmed fruits and vegetables as well as certified organic products. DA MEN Mall was also the venue for the Primer Warehouse Sale featuring well-known branded products in footwear and travel gear.

For owners of local food and beverage business, DA MEN Mall hosted the Digital Wholesale Market: F&B Edition 2019 tradeshow showcasing an online business-to-business marketplace in a physical setting where bulk-buy food and beverage products were available at wholesale prices and business owners could build dependable business relationships with trustworthy suppliers.

Celebrating World Autism Month in April 2019, Intermark Mall was in partnership with Dome Café and EAP Learning Centre to hold Embrace Autism campaign. The campaign provided a platform for autistic families to sharpen their entrepreneurship skills by selling their handmade arts and crafts. Talks by experts had raised the awareness of autism and meetings with the autistic community proved to be a positive and inspiring experience for all.

Going Green

Intermark Mall had in March 2019 organised a plant-themed Decorative Plant Fair with the objective of transforming personal space into a haven of greenery through the use of potted plants.

In conjunction with Earth Day, Pavilion Kuala Lumpur Mall helped to raise the green environment awareness by being the venue sponsor for Earth Day - Plant Giveaway event held by its tenant, The Body Shop in April 2019, where shoppers and visitors were given the chance to pick up a total of 1,000 free plants from The Body Shop.

Pavilion Kuala Lumpur Mall also had a Go Green event in July to promote environmental-friendliness. Shoppers who spent at least RM100 at Dining Loft were rewarded with an exclusive stainless-steel straw and cleaning brush set in order to reduce the use of plastic straws. During the month, Pavilion Kuala Lumpur Mall also sponsored a space in Tokyo Street for a Midorie Go Green Pop-Up to entice shoppers to purchase green plants for their home.

Lending a Hand

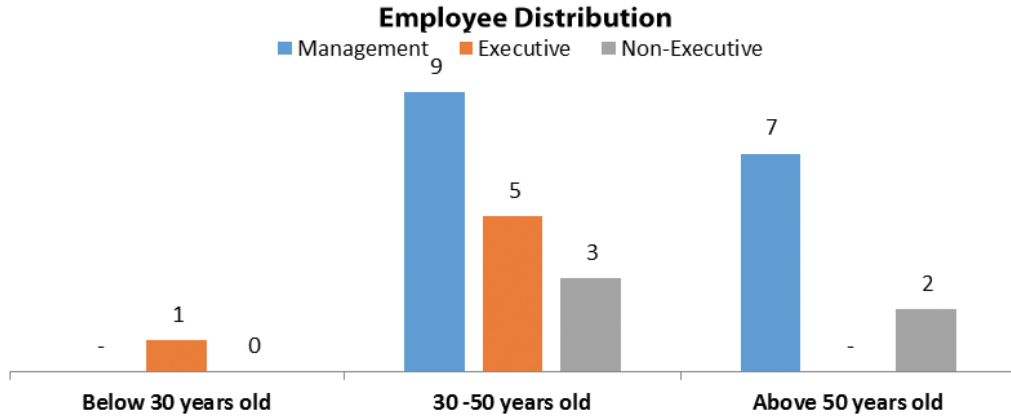
Pavilion Kuala Lumpur Mall was at the heart of our initiatives to give to those in need, beginning with Charity At Heart 2019 which was launched on 31 January 2019, raising a total of RM500,000 for charities nationwide through the sale of 13,911 Bags of Love created by a community of single mothers, single parents and underprivileged women. Pavilion Kuala Lumpur Mall is honoured to be subsequently recognised as an entity which achieved the 'Most Number of Tote Bags Sold At A Charity Drive Event' by the Malaysia Book of Records.

The charity drive continued in the month of Ramadan until Hari Raya with various events. Duit Raya and Ramadhan packs containing goodies for breaking fast were distributed to 75 children from charity homes and representatives of the community. Besides that, Ramadhan Packs were also distributed to Grab drivers during Ramadan to show appreciation. In conjunction with the Hari Raya celebrations, Pavilion Kuala Lumpur Mall had successfully raised RM20,000 for 100 children from four charity homes by selling 20,000 ketupats woven by the Pavilion Kuala Lumpur Mall community. This initiative was then recognised by the Malaysia Book of Records as Pavilion Kuala Lumpur Mall had sold the 'Most Number of Ketupats Woven for Charity'.

Diversity and Equal Opportunity

The Manager hires a total of 27 employees, of which 9 are male and 18 are female, representing a percentage breakdown of 1:2. The recruitment practices and hiring decision are not biased as they are based on meritorious grounds of potential candidates, regardless of their gender, race and religion. The employee distribution graph below illustrates the age distribution of the Manager's employees within each employment category. While management category comprises assistant managers and above, the executive category comprises all the executives and senior executives.

Sustainability Statement (cont'd)



Employee Retention

A low employee turnover of 3.7% was observed in FY2019. The Manager attributes this to continuous efforts in maintaining a fair and productive work environment for its employees. The Manager also encourage a work-life balance lifestyle in the office by offering various benefit plans to employees.

The benefits offered to all employees include, but not limited to health insurance and medical check-up, subsidies for meals, travelling and mobile phone allowances, different types of leave allowance as well as financial support for education. As part of the emphasis on health and wellbeing of its employees, the Manager sponsors a variety of fitness classes which provide an avenue for its employees to socialise and reduce work-related stress.

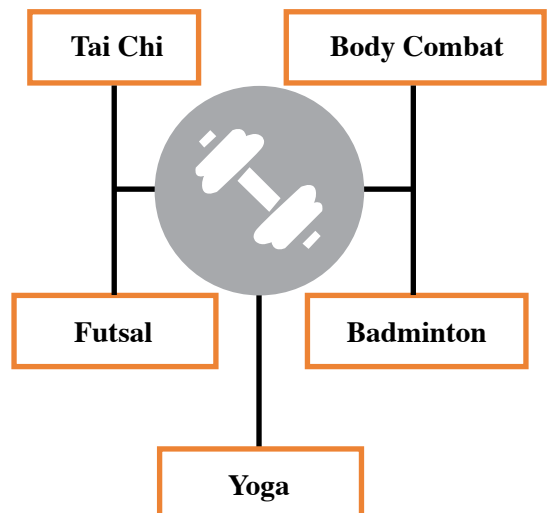


- | | | | |
|--|--|--|--|
| <ul style="list-style-type: none"> • Medical <ul style="list-style-type: none"> ➢ Outpatient ➢ Inpatient • Health Insurance • Annual Medical Check-Up | <ul style="list-style-type: none"> • Allowance <ul style="list-style-type: none"> ➢ Travel ➢ Handphone ➢ Car Park ➢ Meal ➢ Mileage Claim | <ul style="list-style-type: none"> • Leave <ul style="list-style-type: none"> ➢ Maternity ➢ Paternity ➢ Marriage ➢ Compassionate ➢ Examination | <ul style="list-style-type: none"> • Others <ul style="list-style-type: none"> ➢ Subscription of Professional Membership ➢ Sponsorship of Development Programme |
|--|--|--|--|

Training and Education

The Manager believes that its workforce attractiveness can be enhanced by the ability to nurture and develop human capital as continuous learning is essential for any workforce in this rapidly evolving economy. The Manager endeavours to support its employees' educational development and skill improvement, which serve as a means to accommodate current investing trends and management approach in the real estate industry.

Fitness Classes



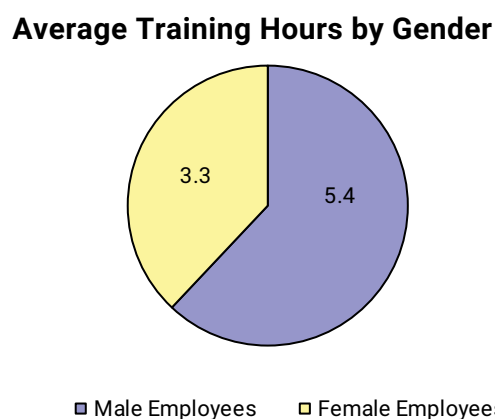
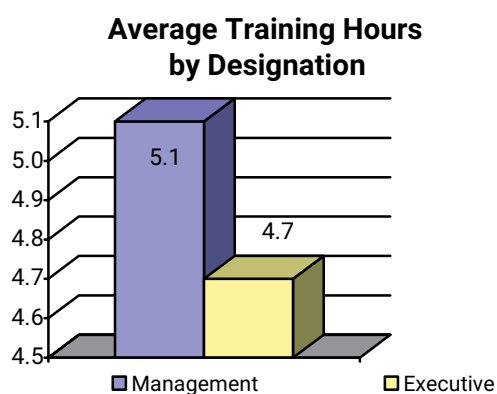
Sustainability Statement (cont'd)

Key Programmes and Training Hours

The Manager is cognisant of extensive knowledge required in managing Pavilion REIT, especially the investment trends within the real estate industry in order to attract new unitholders and propose investment opportunities. The training programmes attended by its employees cover topical and current issues related to investment decision and financial matters. Several key training programmes attended by its employees include:

Training Programme	Hours
Corporate Criminal Liability for Corruption (Section 17A MACC Act)	4
Designing Interactive Financial Dashboard using MS Excel 2010	14
Detecting Creative Accounting Resulting in Fraud	7
Income Tax on Property Development Activities	7
MCCG – Adoption of Practices for Meaningful Corporate Governance	7

With business objectives to remain industry-relevant and achieve sustainable growth, the Manager continuously monitor the learning curve of its talent and different types of training are offered to its diverse workforce in order to optimise and further develop their professional skills. As of December 2019, the average training hours for its male and female employees are 5.4 hours and 3.3 hours respectively.



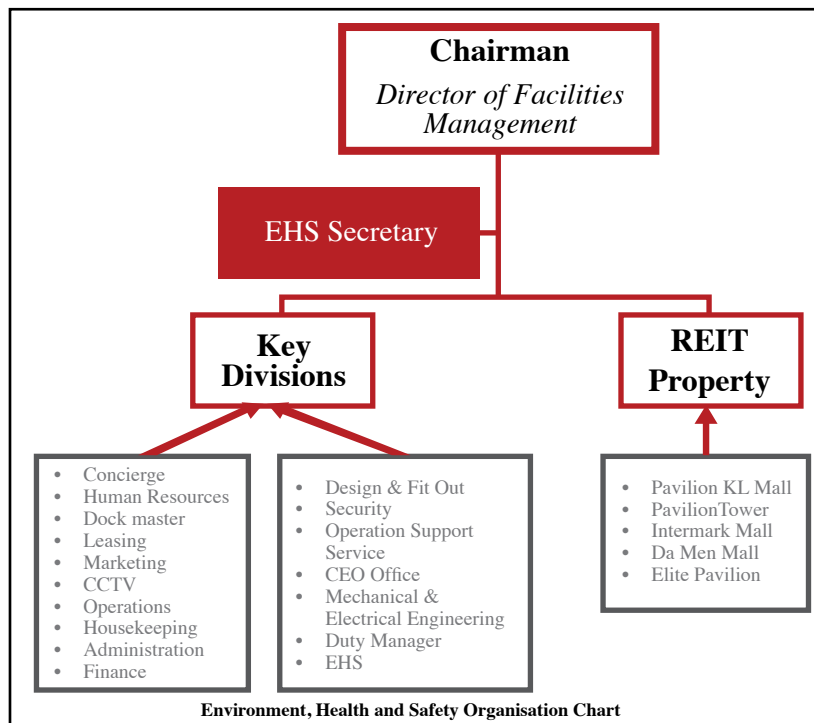
Sustainability Statement (cont'd)

Occupational Health and Safety (“OHS”)

Creating a Safe and Healthy Environment

Every effort is made to facilitate the health, safety and well-being of its employees and other stakeholders. The Manager understand the importance of having a culture of safe work practices and have in place an Environment, Health and Safety (“EHS”) committee working together with an Emergency Response Team (“ERT”) to ensure full compliance with all applicable OHS regulations.

To effectively govern OHS performance, EHS committee and ERT which comprise members of workforce from various divisions have been established as illustrated below:-



Quarterly meetings are held to discuss, share and track all reported safety and health matters. Annual fire drills are conducted to familiarise tenants and employees with safety principles, evacuation routes and procedures. One of the precaution measures undertaken by Pavilion REIT to cater for health and safety of its stakeholders are to specially prepare rest areas and canteens for workers at properties covered by Pavilion REIT portfolio so that they are able to obtain sufficient and uninterrupted recharge during working breaks, thereby reducing the occurrence of health and safety issues.

EHS policy endorsed by the Manager’s CEO has been applied across all Pavilion REIT properties since the inception of Pavilion REIT to govern the safe conduct when carrying out business activities and preserve safety of our stakeholders. The EHS policy encompasses prevention and continuous improvement measures as well as outlines the duty of employees to adhere OHS requirement at work.

Sustainability Statement (cont'd)

Safety Training



Prevention & Continuous Improvement

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

Duty of Employees

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

To ensure that Pavilion REIT properties are constantly kept abreast with the best practices in OHS management, training for emergency preparedness is organised regularly throughout the year for the relevant personnel involved as well as its tenants and contractors. The trainings are classified in the categories of 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, as presented in the table below:

Sustainability Statement (cont'd)

First Aid	Understanding and Managing Safety	Specialist	Fire Safety/Emergency Response
<ul style="list-style-type: none"> • CPR / AED Refresher • Pavilion Paramedic • Epilepsy 	<ul style="list-style-type: none"> • Safety Committee Inspection Training • Chemical Handling (Hazardous Material) & Personal Protective Equipment • Hazard Identification Risk Assessment and Risk Control & Determination • Trauma Tent (Emergency First Responder) • Working at Height • Food Safety & Hygiene Inspection Training • First Aid Training for Tenant • Communication Protocol • Workplace Threat & Violence • Elevator & Escalator Emergencies • Power Failure • Severe Weather • Water Pipe or Sprinkler Break • Flood Gate Simulation Exercise • Managing Child Birth • Contractor Safety Induction 	<ul style="list-style-type: none"> • GAS Authorise Inspector/ OB • Introduction, Safety, Legal, Handling of Weapons (Pistol), Bullets and Shooting Course • Building Lock Down – Tower • Standard Operating Procedure (SOP) – Handling Bomb Threat Call and Search Procedure • Bomb Threat • T'Batton Training • Civil Disturbance • Kidnapping • Earthquake • Handling Riot/Hostage 	<ul style="list-style-type: none"> • Fireman, Search & Rescue Training • Fireman Breathing Apparatus Training • Fire Safety Conference • Fire Drill Briefing for Tenant • Fire Training for Fire Marshall/ Warden floor/Office Security Controller • Mall Fire Drill • Fire Extinguisher Practice • ERT & BOMBA Training • Introduction to Wet Riser & Hose Reel • Introduction to Fireman PPE • Fire Drill Table Talk (Simulation) • Historian, Operator / Control Room Training • Natural Gas Leak • Medic Training for First Responder

There were no injuries and no work-related fatalities among the employees of the Manager during the year. The Manager believes that the zero work-related injury and fatal incident rates among its employees is attributable to stringent OHS governance, compliance with safety procedures as well as regular OHS training provided within the organisation.

Customer Health and Safety

The Manager embraces technological advances and encourage its tenants to adopt cashless payment system and online payment platform to reduce customer / shoppers' reliance on physical cash. In addition, CCTV surveillance systems are installed in all the malls for strategic monitoring with panic buttons installed in the car park and in the mall areas where less crowd has been observed. Besides that, wheelchairs, walking aids and disabled facilities are readily available to increase shoppers comfort.

The Manager views customers' health and safety as a top priority and maintains preventive measures to minimise accidents. Furthermore, prompt root cause investigation will be initiated followed by corrective action in the event of any threats on customer health and safety issues. We are pleased to report that no material accident and injury has happened during the year.

Sustainability Statement (cont'd)

Customer Privacy

The Manager is aware of the potential data privacy and security risks associated with using technology to streamline services and to enhance operational efficiency. The necessary checks and measures performed to prevent such risks are in place and these include:

- Implementing in-house standards and policies to deal with confidential data
- Educating employees to refrain from visiting suspicious websites
- Educating employees to report the receipt of suspicious emails
- Educating employees the knowledge of major security flaw and its implications
- Avoiding the sub-contracting of IT services to a non-credible third party
- Disallowing vendors to access our servers and databases
- Allowing only selected employees to gain access to servers and databases

The Manager have been adopting a transparent shopper data-gathering process which is performed directly by every shopper or assisted by the concierge or customer service personnel. A shopper is required to acknowledge their authorisation for the collection of pertinent personal data through a privacy statement formulated in accordance with Personal Data Protection Act 2010. The privacy statement will be updated as and when required to incorporate any necessary change to ensure compliance with regulation.

In 2019, there was no security breach or suspected breach identified as servers and IT systems are diligently monitored to ensure they meet the operational and business requirements of performance, capacity and utilisation.

9. CONCLUSION

In recognising the impact of material ESS risks and opportunities on portfolio and stakeholders of Pavilion REIT, the Manager is committed to embedding related ESS consideration into Pavilion REIT properties daily business management to deliver long-term sustainable value to Pavilion REIT's stakeholders. The Manager is confident that the decision making process which factors in ESS risks and opportunities could establish the resilience and credibility of Pavilion REIT in the long term.

Sustainability Statement (cont'd)

GRI Standard		Reporting Section / Reference
GRI 100 - UNIVERSAL STANDARDS		
GRI 101: Foundation 2016		
101-1	Reporting Principles	Sustainability Statement
101-2	Using the GRI Standards for sustainability reporting	Sustainability Statement
101-3	Making claims related to the use of the GRI Standards	About the Sustainability Statement
GRI 102: General Disclosures 2016		
Organisational Profile		
102-1	Name of the organisation	Introduction
102-2	Activities, brands, products and services	About the Business, Portfolio Details*
102-3	Location of the headquarters	Corporate Information*
102-4	Location of operations	About the Sustainability Statement, Portfolio Details*
102-5	Nature of ownership and legal form	Salient Features of Pavilion REIT*, Pavilion REIT Structure*
102-6	Markets served	Portfolios Details*
102-7	Scale of the organisation	Highlight*, Portfolio Details*, Diversity and Equal Opportunity
102-8	Information on employees and other workers	Market Presence, Diversity and Equal Opportunity, Employee Retention
102-9	Supply chain	Procurement and Supply Chain
102-10	Significant changes to the organisation and its supply chain	Introduction, Procurement and Supply Chain
102-11	Precautionary Principle or approach	Risk Management, Statement of Risk Management and Internal Control*
102-12	External Initiatives	Business Ethics / Core Values
102-13	Membership of associations	Indirect Economic Impact
Strategy		
102-14	Statement from senior decision-maker	Message from the CEO*
Ethics and integrity		
102-16	Values, principles, standards, and norms of behaviour	Business Ethics / Core Values
Governance		
102-18	Governance structure	Governance Structure, Corporate Governance Overview Statement*

Sustainability Statement (cont'd)

GRI Standard		Reporting Section / Reference
Stakeholder Engagement		
102-40	List of stakeholder groups	Stakeholder Engagement Table
102-41	Collective bargaining agreements	About the Sustainability Statement
102-42	Identifying and selecting stakeholders	Stakeholder Engagement
102-43	Approach to stakeholder engagement	Stakeholder Engagement
102-44	Key topics and concerns raised	Stakeholder Engagement
Reporting Practice		
102-45	Entities included in the consolidated financial statements	Note 5 to the Financial Statements*, About the Sustainability Statement
102-46	Defining report content and topic Boundaries	Introduction, Stakeholder Engagement Materiality
102-47	List of material topics	
102-48	Restatements of information	About the Sustainability Statement
102-49	Changes in reporting	About the Sustainability Statement
102-50	Reporting period	About the Sustainability Statement
102-51	Date of most recent report	About the Sustainability Statement
102-52	Reporting cycle	About the Sustainability Statement
102-53	Contact point for questions regarding the report	About the Sustainability Statement
102-54	Claims of reporting in accordance with the GRI Standards	About the Sustainability Statement
102-55	GRI content index	GRI Standards – Core Option Index
102-56	External assurance	No external assurance has been provided on this Sustainability Statement.
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	Economic – Conclusion
103-2	The management approach and its components	Economic – Conclusion
103-3	Evaluation of the management approach	Economic – Conclusion
GRI 200 - ECONOMIC		
GRI 201: Economic Performance 2016		
201-1	Direct economic value generated and distributed	Statement of Profits or Loss and Other Comprehensive Income*
201-2	Financial implications and other risks and opportunities due to climate change	Risk Management
201-3	Defined benefit plan obligations and other retirement plans	-
201-4	Financial assistance received from government	-
GRI 202: Market Presence 2016		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Market Presence
202-2	Proportion of senior management hired from the local community	Market Presence, Diversity and Equal Opportunity
GRI 203: Indirect Economic Impacts 2016		
203-1	Infrastructure investments and services supported	Economic Performance, Indirect Economic Impact
203-2	Significant indirect economic impacts	Indirect Economic Impact
GRI 204: Procurement Practices 2016		
204-1	Proportion of spending on local suppliers	Procurement and Supply Chain

Sustainability Statement (cont'd)

GRI Standard		Reporting Section / Reference
GRI 205: Anti-Corruption 2016		
205-1	Operations assessed for risks related to corruption	Business Ethics / Core Values
205-2	Communication and training about anti-corruption policies and procedures	Business Ethics / Core Values
205-3	Confirmed incidents of corruption and actions taken	Business Ethics / Core Values
GRI 300 - ENVIRONMENTAL		
GRI 302: Energy 2016		
302-1	Energy consumption within the organisation	Energy Consumption
302-2	Energy consumption outside of the organisation	-
302-3	Energy intensity	-
302-4	Reduction of energy consumption	Energy Consumption
302-5	Reductions in energy requirements of products and services	Not Applicable
GRI 303: Water 2016		
303-1	Water withdrawal by source	Water Consumption
303-2	Water sources significantly affected by withdrawal of water	Water Consumption
303-3	Water recycled and reused	Water Consumption
GRI 306: Effluents and Waste 2016		
306-1	Water discharge by quality and destination	-
306-2	Waste by type and disposal method	Waste Management
306-3	Significant spills	-
306-4	Transport of hazardous waste	Waste Management
306-5	Water bodies affected by water discharges and/or runoff	-
GRI 400 - SOCIAL		
GRI 401: Employment 2016		
401-1	New employee hires and employee turnover	Employee Retention
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employee	Employee Retention
401-3	Parental leave	Employee Retention
GRI 403: Occupational Health and Safety 2016		
403-1	Workers representation in formal joint management- worker health and safety committees	Creating a Safe and Healthy Environment
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Safety Training
403-3	Workers with high incidence or high risk of diseases related to their occupation	-
403-4	Health and safety topics covered in formal agreements with trade unions	-
GRI 404: Training and Education 2016		
404-1	Average hours of training per year per employee	Training and Education
404-2	Programmes for upgrading employee skills and transition assistance programmes	Training and Education
404-3	Percentage of employees receiving regular performance and career development reviews	-

Sustainability Statement (cont'd)

GRI Standard		Reporting Section / Reference
GRI 405: Diversity and Equal Opportunity 2016		
405-1	Diversity of governance bodies and employees	Diversity and Equal Opportunity
405-2	Ratio of basic salary and remuneration of women to men	Market Presence
GRI 413: Local Communities 2016		
413-1	Operations with local community engagement, impact assessments, and development programmes	Community Engagement
413-2	Operations with significant actual and potential negative impacts on local communities	Community Engagement
GRI 416: Customer Health and Safety 2016		
416-1	Assessment of the health and safety impacts of product and service categories	Customer Health and Safety
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Customer Health and Safety
GRI 418: Customer Privacy 2016		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Customer Privacy

Note:-

* *From other sections of annual report which is not part of this Sustainability Statement*

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

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

Principal A : Board Leadership and Effectiveness

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

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

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

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

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

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

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

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

Corporate Governance Overview Statement (cont'd)

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

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

The Board met six times during the financial year ended 31 December 2019 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	6/6
Ahmed Ali H A Al-Hammadi	Non-Independent Non-Executive Director	5/6
Ahmad Mohammed F Q Al-Khanji	Non-Independent Non-Executive Director	6/6
Mohd Abdulrazzaq A A Al-Hashmi	Non-Independent Non-Executive Director	5/6
Navid Chamdia	Non-Independent Non-Executive Director	6/6
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	6/6

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 :

- ACI Breakfast Roundtable 2019 on Corporate Liability, Governance Revelations from Inquest Reports and Business Continuity Management (BCM) - Counting the costs and benefits : Critical Perspective
- Bursa 2019 Cyber Security Workshop : Shifting Towards Cyber Hygiene
- Bursa Malaysia Thought Leadership : The Convergence of Digitisation and Sustainability
- Corporate Governance Briefing on National Anti-Corruption Plan & the Role of Private Sector, Section 17A & Its Implication, Budget 2020 & The Economy
- Digital Economy and Capital Market Series: Financial Technology (Fintech), Artificial Intelligence (AI), Big Data and Internet of Things (IOTs)
- Invest Malaysia Conference 2019
- Malaysia Post GE 14's Trade and Foreign Policies: Impact on Malaysia Capital Market
- MIA's Engagement Session with Audit Committee Members on Integrated Reporting
- Risk, Challenges, Governance & Transparency in Managing Business & Compliance
- Workshop on Corporate Liability Provision (Section 17A) of the MACC Act 2009

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.

Corporate Governance Overview Statement (cont'd)

Principal B : Effective Audit and Risk Management

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

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

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

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

The CEO, as the official spokesperson for the Fund, regularly meets with analyst and fund managers to provide them with updates or upon request, besides attending investors' roadshows and seminars. Besides timely announcements and disclosures to Bursa Malaysia, its website, www.pavilion-reit.com 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 comprising five Non-Executive Directors with a majority of whom are independent directors.

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

The Nominating Committee is responsible to conduct the annual performance evaluation process to assess the performance and effectiveness of the Board and Board Committees, as well as the performance of each Director and each of the Audit Committee member based on the required mix of skills, competence, expertise, knowledge, experience, integrity and other qualities of the Directors to ensure that the Board and Board Committees are functioning effectively and efficiently and 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 and orientating and recommending candidature for new directors based on the following criteria:

- (a) character, experience, competence, integrity and time;
- (b) skills, knowledge, expertise and experience;
- (c) professionalism;
- (d) integrity; and
- (e) for position of independent directors, the candidates' abilities to discharge their responsibilities and functions independently as expected from the independent director.

There were no new appointment of director considered during the financial year ended 31 December 2019.

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 2019, 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	2/4

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 25 July 2019, 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 23 January 2020, 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 expenses and property enhancements, 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) to identify potential areas for improvement in the effectiveness and efficiency of the processes, if any
- (e) 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 RM195,000 and RM12,000 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; and
- iv) Fund management activities

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 have been rectified and adhered to and the Board will continue to monitor the recommendations on an on-going basis.

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 2019.

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 31.12.2019
	At 1.1.2019	Bought	Sold	
Direct unitholdings in Pavilion REIT:				
Tan Sri Lim Siew Choon	845,425,000	-	-	845,425,000
Puan Sri Tan Kewi Yong	281,875,000	-	-	281,875,000
Dato' Lee Tuck Fook	100,000	-	-	100,000
Navid Chamdia	100,000	-	-	100,000
Ooi Ah Heong	100,000	-	-	100,000
Dato' Mohzani bin Abdul Wahab	100,000	-	-	100,000
Dato' Maznah binti Abdul Jalil	100,000	-	-	100,000

Manager's Report (cont'd)

	At	Number of ordinary shares		At
	1.1.2019	Bought	Sold	31.12.2019
Direct interest in the ultimate holding corporation, Pavilion Pacific Ltd:				
Tan Sri Lim Siew Choon	75	-	-	75
Puan Sri Tan Kewi Yong	25	-	-	25
Indirect interest in a related company, 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, 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 holding office at 31 December 2019 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 2019, 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.

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.

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)

Manager's Report (cont'd)

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, monthly to be based on the monthly management amounts and will be reconciled by reference to the quarterly and annual audited financial statement of Pavilion REIT;
- 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 2019 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.

Manager's Report (cont'd)

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 2019.

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

Kuala Lumpur
23 January 2020

DATO' LEE TUCK FOOK

Non-Independent Executive Director



Financial Statements

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STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Note	2019 RM'000	2018 RM'000
Assets			
Plant and equipment	4	1,105	1,570
Investment properties	5	5,913,000	5,893,000
Total non-current assets		5,914,105	5,894,570
Inventories		2,912	2,084
Trade and other receivables	6	71,076	81,302
Cash and bank balances	7	368,922	379,768
Total current assets		442,910	463,154
Total assets		6,357,015	6,357,724
Liabilities			
Borrowings	8	2,157,069	1,431,874
Payables and accruals	9	73,676	46,987
Total non-current liabilities		2,230,745	1,478,861
Borrowings	8	–	715,959
Payables and accruals	9	146,532	184,948
Total current liability		146,532	900,907
Total liabilities		2,377,277	2,379,768
Net asset value		3,979,738	3,977,956
Financed by:			
Unitholders' fund			
Unitholders' capital	10	2,931,927	2,924,229
Accumulated income		1,047,811	1,053,727
Total unitholders' fund		3,979,738	3,977,956
Net asset value ("NAV")			
Before income distribution		3,979,738	3,977,956
After income distribution*		3,855,053	3,843,126
Number of units in circulation ('000 units)	10	3,041,090	3,036,705
NAV per unit (RM)			
Before income distribution		1.3087	1.3100
After income distribution*		1.2677	1.2656

* after proposed final income distribution of 4.10 sen per unit (2018: 4.44 sen per unit)

The notes on pages 88 to 126 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Rental income		502,653	486,239
Revenue from contract customers	11	56,172	44,677
Other income		26,528	24,061
Gross revenue		585,353	554,977
Utilities		(73,272)	(64,748)
Maintenance		(61,950)	(49,888)
Property taxes		(16,354)	(15,277)
Other operating expenses		(58,593)	(50,277)
Net property income		375,184	374,787
Fair value gain on investment properties		15,005	33,618
Interest income		11,289	10,864
Net investment income		401,478	419,269
Manager's management fees	12	(30,327)	(29,722)
Trustee's fees	1(c)	(485)	(470)
Valuation fee		(686)	(708)
Other trust expenses	1(c)	(90)	(1,938)
Borrowing costs	13	(107,260)	(97,747)
Income before taxation		262,630	288,684
Tax expense	14	-	-
Income after taxation/Total comprehensive income attributable to unitholders		262,630	288,684
Income after taxation is made up as follows:			
Realised		247,625	255,066
Unrealised		15,005	33,618
		262,630	288,684
Basic/Diluted earnings per unit (sen)	15	8.64	9.51
Total comprehensive income		262,630	288,684
Distribution adjustments	A	(4,352)	(22,086)
Distributable income		258,278	266,598
Distribution per unit (sen) - interim		4.40	4.34
Distribution per unit (sen) - final		4.10	4.44
Note A			
Distribution adjustments comprise:			
Amortisation of transaction costs		2,613	3,543
Depreciation	4	458	559
Fair value gain of investment properties		(15,005)	(33,618)
Manager's management fees payable in units	12	7,582	7,430
		(4,352)	(22,086)

The notes on pages 88 to 126 are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSET VALUE

for the year ended 31 December 2019

	Note	Unitholders' capital RM'000	Accumulated income RM'000	Total funds RM'000
At 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				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		10,380	-	10,380
Distribution to unitholders	16	-	(261,385)	(261,385)
Increase/(Decrease) in net assets resulting from unitholders' transactions		10,380	(261,385)	(251,005)
Net assets at 31 December 2018/1 January 2019		2,924,229	1,053,727	3,977,956
Income after taxation/Total comprehensive income for the year attributable to unitholders		-	262,630	262,630
Unitholders' transactions				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		7,698	-	7,698
Distribution to unitholders	16	-	(268,546)	(268,546)
Increase/(Decrease) in net assets resulting from unitholders' transactions		7,698	(268,546)	(260,848)
Net assets at 31 December 2019		2,931,927	1,047,811	3,979,738

Note 10

STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Cash flows from operating activities			
Income before taxation		262,630	288,684
<i>Adjustments for:</i>			
Borrowing costs	13	107,260	97,747
Depreciation	4	458	559
Fair value gain on investment properties		(15,005)	(33,618)
Gain on disposal of plant and equipment		-	(24)
Impairment loss on trade receivables		1,937	407
Interest income		(11,289)	(10,864)
Plant and equipment written off		7	-
Operating income before changes in working capital		345,998	342,891
Changes in inventories		(828)	(530)
Changes in receivables		8,289	(33,611)
Changes in payables		(1,384)	(43,824)
Changes in tenants' deposits		(2,645)	11,433
Net cash from operating activities		349,430	276,359
Cash flows from investing activities			
Acquisition of investment properties		-	(505,362)
Interest received		11,289	10,864
Payment for enhancement of investment properties		(4,995)	(3,520)
Pledged deposit		(2,424)	(19,032)
Proceeds from disposal of plant and equipment		-	24
Net cash from/(used in) investing activities		3,870	(517,026)
Cash flows from financing activities			
Distribution to unitholders		(268,546)	(261,385)
Interest paid		(104,647)	(94,204)
Payment of financing expenses		(2,418)	(1,191)
Proceed from borrowings		386,841	800,000
Repayment of borrowings		(377,800)	(117,200)
Net cash (used in)/from financing activities		(366,570)	326,020
Net (decrease)/increase in cash and cash equivalents		(13,270)	85,353
Cash and cash equivalents at 1 January		319,748	234,395
Cash and cash equivalents at 31 December	(i)	306,478	319,748

*Statement of cash flows
for the year ended 31 December 2019 (cont'd)*

Note to Statement of cash flows

(i) Cash and cash equivalents

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

	Note	2019 RM'000	2018 RM'000
Cash and bank balances	7	12,204	36,116
Deposits placed with licensed banks	7	356,718	343,652
<hr/>			
Less: Pledged deposits	7	368,922 (62,444)	379,768 (60,020)
<hr/>			
		306,478	319,748
<hr/>			

(ii) Cash outflows for leases as a lessee

	2019 RM'000
Included in net cash from operating activities	
Payment relating to short-term leases	366
Payment relating to leases of low-value assets	1,298
<hr/>	
Total cash outflows for leases	1,664
<hr/>	

NOTES TO THE FINANCIAL STATEMENTS

1. General

Pavilion Real Estate Investment Trust ("Pavilion REIT") is a Malaysia-domiciled real estate investment trust constituted pursuant to the first Amended and Restated Trust Deed dated 18 February 2019 ("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 27 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 of Pavilion REIT as at and for the financial year ended 31 December 2019 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 their principal activities 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 23 January 2020.

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 (2018: RM380,000) per annum (excluding goods and services tax). In addition, the Property Manager is also entitled to full reimbursement of costs and expenses incurred in the operation, maintenance, management and marketing of the properties held by Pavilion REIT (including but not limited to the cost relating to the employment and remuneration of on-site staff provided) ("Permitted Expenses") as well as fees and reimbursements for Permitted Expenses payable to its service providers.

(b) Manager's management fees

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

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

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

1. General (cont'd)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements (cont'd)

1. General (cont'd)

(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 the Trustee.

For the financial year, Pavilion REIT has incurred reimbursed expenses to the Trustee of RM1,748 (2018: RM525) 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, interpretations and amendments 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 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*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

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, interpretation and amendments from the annual period beginning on 1 January 2020 for those accounting standards, interpretation and 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 or after 1 January 2021 as it is not applicable to Pavilion REIT.

The initial application of the abovementioned accounting standards, interpretation and amendments is not expected to have any material impact to the current period and prior period financial statements of Pavilion REIT.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

Notes to the Financial Statements (cont'd)

2. Basis of preparation (cont'd)

(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 14.2 – unrecognised deferred tax assets.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Pavilion REIT, unless otherwise stated:

Arising from the adoption of MFRS 16, *Leases*, there are changes to the accounting policies applied to lease contracts entered into by Pavilion REIT as compared to those applied in the previous financial statements. There was no material impact arising from the adoption of MFRS 16 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.

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

3. Significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

(ii) Business combinations (cont'd)

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

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

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

(iii) Loss of control

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

(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.

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.

(ii) Financial instrument categories and subsequent measurement

Pavilion REIT categorises financial instruments as follows:

Financial assets

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

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

3. Significant accounting policies (cont'd)

(b) Financial instruments (cont'd)

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

Pavilion REIT categorises financial instruments as follows (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.

Financial liabilities

Financial liabilities at initial recognition are categorised as amortised cost and 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.

(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.

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

3. Significant accounting policies (cont'd)

(c) Plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

(d) Investment property

Investment property carried at fair value

Investment properties are properties which are owned or right-of-use held under a lease contract 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.

Notes to the Financial Statements (cont'd)

3. Significant accounting policies (cont'd)

(d) Investment property (cont'd)

Investment properties which are owned are measured initially at cost. 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. Right-of-use asset held under a lease contract that meets the definition of investment property is initially measured similarly as other right-of-use assets.

Subsequently, investment properties are measured at fair value with any changes therein recognised in profit or loss for the period in which they arise. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

The fair value of investment properties held by Pavilion REIT as a right-of-use asset reflects the expected cash flows. Accordingly, where valuation obtained for a property is net of all payments expected to be made, Pavilion REIT added back any recognised lease liability to arrive at the carrying amount of the investment property using the fair value model.

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

Pavilion REIT has applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

Current financial year

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Pavilion REIT assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

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

3. Significant accounting policies (cont'd)

(e) Leases (cont'd)

Current financial year (cont'd)

(i) Definition of a lease (cont'd)

At inception or on reassessment of a contract that contains a lease component, Pavilion REIT allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which Pavilion REIT is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement

(a) As a lessee

Pavilion REIT recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Pavilion REIT's incremental borrowing rate. Generally, Pavilion REIT use their incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that Pavilion REIT is reasonably certain to exercise; and
- penalties for early termination of a lease unless Pavilion REIT is reasonably certain not to terminate early.

Pavilion REIT excludes variable lease payments that are linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

Pavilion REIT has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Pavilion REIT recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

3. Significant accounting policies (cont'd)

(e) Leases (cont'd)

Current financial year (cont'd)

(ii) Recognition and initial measurement (cont'd)

(b) As a lessor

When Pavilion REIT acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, Pavilion REIT makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, Pavilion REIT applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

Pavilion REIT recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. Pavilion REIT uses the interest rate implicit in the lease to measure the net investment in the lease.

When Pavilion REIT is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which Pavilion REIT applies the exemption described above, then it classifies the sublease as an operating lease.

(iii) Subsequent measurement

(a) As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in Pavilion REIT's estimate of the amount expected to be payable under a residual value guarantee, or if Pavilion REIT changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the Financial Statements (cont'd)

3. Significant accounting policies (cont'd)

(e) Leases (cont'd)

Current financial year (cont'd)

(iii) Subsequent measurement (cont'd)

(b) As a lessor

Pavilion REIT recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "revenue".

Pavilion REIT recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on Pavilion REIT's net investment in the lease. Pavilion REIT aims to allocate finance income over the lease term on a systematic and rational basis. Pavilion REIT applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income. The net investment in the lease is subject to impairment requirements in MFRS 9, *Financial Instruments* (see Note 3(b)).

Previous financial year

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

(f) Inventories

Inventories represent general supplies used in the daily operations of Pavilion REIT. Inventories are measured at the lower of cost and net realisable value.

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

(g) Cash and cash equivalents

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

(h) Impairment

(i) Financial assets

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 measures 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.

Notes to the Financial Statements (cont'd)

3. Significant accounting policies (cont'd)

(h) Impairment (cont'd)

(i) Financial assets (cont'd)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, Pavilion REIT considers 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.

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 assesses 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 of amount due.

(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.

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

3. Significant accounting policies (cont'd)

(i) Borrowing costs (cont'd)

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.

(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).

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

3. Significant accounting policies (cont'd)

(m) Income tax

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

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

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

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

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

(n) Earnings per unit

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

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

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

(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 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.

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

3. Significant accounting policies (cont'd)

(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 is 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 2018	1,470	982	100	415	2,863	5,830
Disposal	-	-	-	-	(74)	(74)
Write off	(1)	-	-	-	(3)	(4)
At 31 December 2018/1 January 2019	1,469	982	100	415	2,786	5,752
Write off	(2)	-	-	-	(61)	(63)
At 31 December 2019	1,467	982	100	415	2,725	5,689
Accumulated depreciation						
At 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 2018/1 January 2019	936	902	37	87	2,220	4,182
Depreciation for the year	146	75	16	43	178	458
Write off	(2)	-	-	-	(54)	(56)
At 31 December 2019	1,080	977	53	130	2,344	4,584

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

4. Plant and equipment (cont'd)

	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
Carrying amounts						
At 1 January 2018	681	238	81	369	760	2,129
At 31 December 2018/1 January 2019	533	80	63	328	566	1,570
At 31 December 2019	387	5	47	285	381	1,105

5. Investment properties

	2019 RM'000	2018 RM'000
At 1 January	5,893,000	5,268,000
Enhancements/Capital expenditure	4,995	3,520
Addition to investment properties	–	587,862
Change in fair values recognised in profit or loss	15,005	33,618
At 31 December	5,913,000	5,893,000

Investment properties are charged as securities for bank borrowings as disclosed in Note 8.

Addition to investment properties in 2018 included acquisition fee paid to the Manager based on 1.0% of purchase consideration of Elite Pavilion Mall.

During the year, the variable lease income that does not depend on an index or a rate amount to RM34,696,000.

Notes to the
Financial Statements (cont'd)

5. Investment properties (cont'd)

Details of the investment properties are as follows:

	Date of acquisition	Date of valuation	Location	Tenure	Occupancy rates as at 31.12.2019 %	Fair value as at 31.12.2019 RM'000	Cost as at 31.12.2019 RM'000	Percentage of fair value to NAV as at 31.12.2019 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2019	Kuala Lumpur	Leasehold*	98	4,800,000	3,519,748	121
Pavilion Tower	7.12.2011	31.12.2019	Kuala Lumpur	Leasehold*	86	133,000	128,000	3
DA MEN Mall	25.3.2016	31.12.2019	Subang Jaya	Interest in perpetuity	72	220,000	502,846	6
Intermark Mall	25.3.2016	31.12.2019	Kuala Lumpur	Interest in perpetuity	97	180,000	164,191	5
Elite Pavilion Mall	27.4.2018	31.12.2019	Kuala Lumpur	Interest in perpetuity#	95	580,000	587,862	15
Investment properties						5,913,000	4,902,647	

	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	

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

The Extension-Connection has a period of 99 years expiring in 2109.
NAV Net asset value

Notes to the Financial Statements (cont'd)

5. Investment properties (cont'd)

5.1 Fair value information

All investment properties are categorised as Level 3 fair value.

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

Description of valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
<p>The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.</p>	<ul style="list-style-type: none"> • Risk-adjusted term capitalisation rates ranging from 6.00% to 7.00% (2018: 6.00% to 6.75%) for Pavilion Kuala Lumpur Mall, 6.25% to 6.75% (2018: 6.25 to 6.75%) for Pavilion Tower, 6.00% to 6.50% (2018: 6.00% to 6.50%) for Elite Pavilion Mall and 6.00% to 6.50% (2018: 6.00%) for Intermark Mall and DA MEN Mall. • Risk-adjusted reversion capitalisation rate of 6.50% (2018: 6.50%) for Pavilion Kuala Lumpur Mall and Pavilion Tower, 6.25% (2018: 6.25%) for Elite Pavilion Mall and 6.50% (2018: 6.50%) for Intermark Mall and DA MEN Mall. 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • 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 transfers of the land titles 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.

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

5. Investment properties (cont'd)

5.1 Fair value information (cont'd)

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 annexed to a retail mall in the city centre 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. Trade and other receivables

	2019 RM'000	2018 RM'000
Current Trade		
Trade receivables	30,852	39,922
Less: Impairment losses	(2,094)	(1,825)
	<hr/> 28,758	<hr/> 38,097
Non-trade		
Other receivables	35,952	34,391
Deposits	1,953	2,071
Prepayments	4,413	6,743
	<hr/> 42,318	<hr/> 43,205
	<hr/> 71,076	<hr/> 81,302

Included in other receivables is GST receivable amounting RM33,211,000 (2018: RM34,170,000).

7. Cash and bank balances

	2019 RM'000	2018 RM'000
Cash and bank balances	12,204	36,116
Deposits placed with licensed banks	356,718	343,652
	<hr/> 368,922	<hr/> 379,768

Included in the deposits placed with licensed banks is an amount of RM62,444,000 (2018: RM60,020,000) 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 8).

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

8. Borrowings

	Note	2019 RM'000	2018 RM'000
Non-current			
Secured syndicated term loan	8.1	660,900	735,900
Secured term loan	8.2	425,000	–
Unrated medium term notes	8.3	1,075,000	700,000
Less: Unamortised transaction costs		(3,831)	(4,026)
		2,157,069	1,431,874
Current			
Secured term loan	8.2	–	415,959
Unrated medium term notes	8.3	–	300,000
		–	715,959
		2,157,069	2,147,833
Average interest rate of borrowings		4.8%	4.8%
Gearing/Borrowings ratio		33.9%	33.8%

8.1 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 RM4,933,000,000 (2018: RM4,833,000,000) and an amount of RM21,846,000 (2018: RM21,180,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 7.

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

8. Borrowings (cont'd)

8.2 Secured term loan facilities of RM450.0 million

Pavilion REIT entered into a facility agreement and its supplementary letter of offer dated 22 March 2016, 23 March 2016 and 11 February 2019 respectively through its Trustee ("Borrower") for credit facilities of up to RM450.0 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 RM425.0 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 and Intermark Mall (2018: DA MEN Mall) as disclosed in Note 5 with a fair value of RM400,000,000 (2018: RM310,000,000) and an amount of RM13,585,000 (2018: RM13,138,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 7.

8.3 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 RM4,933,000,000 (2018: RM4,833,000,000) and an amount of RM27,013,000 (2018: RM25,702,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 7.

8.4 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
2019				
Secured syndicated term loan	735,900	(75,000)	-	660,900
Secured term loan	415,959	9,041	-	425,000
Unrated medium term notes	1,000,000	75,000	-	1,075,000
Less: Unamortised transaction costs	(4,026)	(2,418)	2,613	(3,831)
	2,147,833	6,623	2,613	2,157,069

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

8. Borrowings (cont'd)**8.4 Reconciliations of movement of liabilities to cash flows arising from financing activities (cont'd)**

	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

9. Payables and accruals

	Note	2019 RM'000	2018 RM'000
Non-current			
Trade			
Tenants' deposits	9.1	73,676	46,987
Current			
Trade			
Trade payables		16,041	17,660
Tenants' deposits	9.1	51,692	81,026
		67,733	98,686
Non-trade			
Other payables and accrued expenses	9.2	78,799	86,262
		146,532	184,948
		220,208	231,935

9.1 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.

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

	2019 RM'000	2018 RM'000
The Manager	5,688	9,987
Trustee	41	40
Urusharta Cemerlang (KL) Sdn. Bhd.	24,500	24,500
	30,229	34,527

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

9. Payables and accruals (cont'd)

9.2 Included in other payables and accrued expenses are the following amounts due to (cont'd):

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.

10. Total unitholders' funds

10.1 Unitholders' capital

	2019 Number of units '000	2018 Number of units '000
Issued and fully paid with no par value		
At 1 January	3,036,705	3,030,094
Manager's management fees paid in units	4,385	6,611
At 31 December	3,041,090	3,036,705

	2019 RM'000	2018 RM'000
Issued and fully paid with no par value		
At 1 January	2,924,229	2,913,849
Manager's management fees paid in units	7,698	10,380
At 31 December	2,931,927	2,924,229

10.2 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
2019		
Issued at:		
i) RM1.6802 per unit for entitlement for the 6 months ended 31 December 2018	2,315	3,891
ii) RM1.8396 per unit for entitlement for the 6 months ended 30 June 2019	2,070	3,807
Total Manager's fees paid in units and RM	4,385	7,698

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

10. Total unitholders' funds (cont'd)**10.2 Unitholdings of substantial unitholders, the Manager and the Manager's Directors (cont'd)**

	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 and RM	6,611	10,380

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

	2019		2018	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
<i>Pavilion REIT's substantial unitholders' direct unitholdings in Pavilion REIT:</i>				
Qatar Holding LLC	1,008,900	1,755,486	1,082,900	1,775,956
Tan Sri Lim Siew Choon	845,425	1,471,040	845,425	1,386,497
Puan Sri Tan Kewi Yong	281,875	490,463	281,875	462,275
Employees Provident Fund Board	262,393	456,564	155,600	255,184
Kumpulan Wang Pesaraan (Diperbadankan)	185,875	323,422	-	-
<i>The Manager's direct unitholdings in Pavilion REIT</i>				
	2,072	3,605	12,728	20,874
<i>The Manager's Directors' direct unitholdings in Pavilion REIT:</i>				
Tan Sri Lim Siew Choon	845,425	1,471,040	845,425	1,386,497
Puan Sri Tan Kewi Yong	281,875	490,463	281,875	462,275
Dato' Lee Tuck Fook	100	174	100	164
Navid Chamdia	100	174	100	164
Ooi Ah Heong	100	174	100	164
Dato' Mohzani Bin Abdul Wahab	100	174	100	164
Dato' Maznah Binti Abdul Jalil	100	174	100	164

Notes:

The market value of the units was computed based on the closing market price as at 31 December 2019 of RM1.74 (2018: RM1.64).

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

11. 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.

12. Manager's management fees

	2019 RM'000	2018 RM'000
Base fee	19,071	18,478
Performance fee	11,256	11,244
	30,327	29,722
Acquisition fee	–	5,800

During the financial year, the Manager received a base fee of 0.3% (2018: 0.3%) per annum of the Total Asset Value of Pavilion REIT, a performance fee of 3.0% (2018: 3.0%) per annum of Net Property Income. No divestment fee incurred during the year (2018: Nil) in relation to disposal of real estate related assets.

No acquisition fee incurred during the year (2018: 1.0% 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 RM7,582,000 (2018: RM7,430,000) which represents 25% (2018: 25%) of the total manager's management fees payable.

13. Borrowing costs

	2019 RM'000	2018 RM'000
Interest expense	104,647	94,204
Amortisation of transaction costs	2,613	3,543
	107,260	97,747

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

14. Tax expense**14.1 Reconciliation of tax expense**

	2019 RM'000	2018 RM'000
Income before taxation	262,630	288,684
Income tax using Malaysian tax rate of 24% (2018: 24%)	63,031	69,284
Non-deductible expenses	3,244	3,564
Non-taxable income	23,394	35,608
Unrealised fair value losses on investment properties for which deferred tax assets was not recognised	(19,795)	(27,541)
Effect of income exempted from tax	(69,874)	(80,915)
	-	-

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 2019, no provision for taxation has been made for the current year.

14.2 Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the unrealised fair value loss on investment properties of RM274,899,000(2018: RM192,430,000).

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

15. Earnings per unit – basic and diluted

The calculation of earnings per unit is based on income after taxation attributable to unitholders for the year of RM262,630,000 (2018: RM288,684,000) divided by the weighted average number of units in circulation during the year of 3,039,497,163 (2018: 3,034,816,261).

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

16. Distribution to unitholders

Distribution to unitholders is from the following sources:

	2019	2018
	RM'000	RM'000
Rental income	502,653	486,239
Revenue from contract customers	56,172	44,677
Other income	26,528	24,061
Fair value gain on investment properties	15,005	33,618
Interest income	11,289	10,864
	<hr/>	<hr/>
Less: Total expenses	611,647 (349,017)	599,459 (310,775)
	<hr/>	<hr/>
Distribution adjustments	262,630 (4,352)	288,684 (22,086)
	<hr/>	<hr/>
Distributable income	258,278	266,598
	<hr/>	<hr/>
Distribution to unitholders	268,546	261,385
	<hr/>	<hr/>
	2019	2018
Interim distribution per unit (sen)	4.40	4.34
Final distribution per unit (sen)	4.10 *	4.44
	<hr/>	<hr/>
Net distribution per unit** (sen)	8.50	8.78
	<hr/>	<hr/>

* The final distributable income for the 6 months ended 31 December 2019 is proposed to be 4.10 sen per unit or RM124.7 million to be payable on 28 February 2020.

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

	Withholding tax rate	
	2019	2018
Resident corporate	N/A [^]	N/A [^]
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	24%	24%
Non-resident institutional	10%	10%

[^] to tax at prevailing rate

17. Portfolio turnover ratio

	2019	2018
Portfolio Turnover Ratio ("PTR") (times)	–	–*
	<hr/>	<hr/>

* Included in the amount is 0.1479 times.

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

17. Portfolio turnover ratio (cont'd)

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.

In 2018, Pavilion REIT had completed its acquisitions for Elite Pavilion Mall on the 27 April 2018 for purchase consideration of RM580,000,000. 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.

18. Management expense ratio

	2019	2018
Management expense ratio ("MER") (%)	0.79	0.83

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

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

19. Operating segments

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

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

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

	Retail RM'000	Office RM'000	Total RM'000
For the year ended 31 December 2019			
Segment profit	369,355	5,829	375,184
<i>Included in the measure of segment profit are:</i>			
Gross revenue	573,300	12,053	585,353
Property expenses	203,945	6,224	210,169
At 31 December 2019			
Segment assets and liabilities			
Segment assets	6,174,250	133,906	6,308,156
Segment liabilities	2,345,836	31,230	2,377,066

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

19. Operating segments (cont'd)

	Retail RM'000	Office RM'000	Total RM'000
For the year ended 31 December 2019			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	4,995	–	4,995
Fair value gain to non-current assets	15,005	–	15,005
For the year ended 31 December 2018			
Segment profit	366,753	8,034	374,787
<i>Included in the measure of segment profit are:</i>			
Gross revenue	542,088	12,889	554,977
Property expenses	175,335	4,855	180,190
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			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	533,382	–	533,382
Fair value gain to non-current assets	33,618	–	33,618
Reconciliation of reportable segment profit			
		2019 RM'000	2018 RM'000
Total profit for reportable segments		375,184	374,787
Fair value gain on investment properties		15,005	33,618
Interest income		9,662	9,430
Other non-allocated income		1,627	1,434
Trust expenses		(31,588)	(32,838)
Borrowing costs		(107,260)	(97,747)
Income before taxation		262,630	288,684
Taxation		–	–
Income after taxation		262,630	288,684

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

19. Operating segments (cont'd)**Reconciliation of reportable segment assets and liabilities**

	Segment assets RM'000	Segment liabilities RM'000
2019		
Total reportable segments	6,308,156	(2,377,066)
Other non-allocated assets/(liabilities)	48,859	(211)
Total assets/(liabilities)	6,357,015	(2,377,277)
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)

Geographical information

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

20. Financial instruments**20.1 Categories of financial instruments**

	Carrying amounts RM'000	Amortised costs RM'000
2019		
Financial assets		
Receivables and deposits	66,663	66,663
Cash and bank balances	368,922	368,922
	435,585	435,585
Financial liabilities		
Payables and accruals	220,208	220,208
Borrowings	2,157,069	2,157,069
	2,377,277	2,377,277

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

20. Financial instruments (cont'd)

20.1 Categories of financial instruments (cont'd)

	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

20.2 Net gains and losses arising from financial instruments

	2019 RM'000	2018 RM'000
Financial assets at amortised cost	9,352	10,457
Financial liabilities at amortised cost	(107,260)	(97,747)
	(97,908)	(87,290)

20.3 Financial risks management

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

- Credit risk
- Liquidity risk
- Market risk

20.4 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.

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

20. Financial instruments (cont'd)

20.4 Credit risk (cont'd)

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 2019.

	Gross – carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2019			
Not past due	2,719	–	2,719
Past due 0 - 30 days	9,742	–	9,742
Past due 31 - 90 days	7,872	–	7,872
Past due more than 90 days	10,519	(2,094)	8,425
	30,852	(2,094)	28,758
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

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

20. Financial instruments (cont'd)**20.4 Credit risk (cont'd)****Receivables (cont'd)***Impairment losses (cont'd)*

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

	2019	2018
	RM'000	RM'000
Balance at 1 January	1,825	1,702
Amount written off	(1,668)	(284)
Net remeasurement of loss allowance	1,937	407
Balance as at 31 December	2,094	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.

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, hence, no allowance is necessary.

20.5 Liquidity risk

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

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

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	Contractual interest rate%	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years
	RM'000		RM'000	RM'000	RM'000	RM'000
2019						
Financial liabilities						
Borrowings	2,157,069	4.77 - 5.22	2,352,981	104,397	1,439,679	808,905
Payable and accruals	220,208	-	220,208	146,532	22,879	50,797
	2,377,277		2,573,189	250,929	1,462,558	859,702

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

20. Financial instruments (cont'd)

20.5 Liquidity risk (cont'd)

Maturity analysis (cont'd)

	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

20.6 Market risk

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

20.6.1 Interest rate risk

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

Risk management objectives, policies and processes for managing the risk

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

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

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:

	2019 RM'000	2018 RM'000
Fixed rate instrument		
Financial asset - Deposits placed with licensed banks	356,718	343,652
Financial liabilities - Borrowings	(925,000)	(1,000,000)
	(568,282)	(656,348)
Floating rate instruments		
Financial liabilities - Borrowings	(1,232,069)	(1,147,833)

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

20. Financial instruments (cont'd)**20.6 Market risk (cont'd)****20.6.1 Interest rate risk (cont'd)***Interest rate risk sensitivity analysis**(a) Fair value sensitivity analysis for fixed rate instruments*

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

(b) Cash flow sensitivity analysis for variable rate instruments

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

20.7 Fair value information

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

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

	Fair value of financial instruments not carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
2019					
Financial liabilities					
Tenants' deposits	-	-	(111,005)	(111,005)	(125,366)
Borrowings	-	-	(2,074,865)	(2,074,865)	(2,157,069)
	-	-	(2,185,870)	(2,185,870)	(2,282,435)
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)

Level 3 fair value

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

Financial instruments not carried at fair value

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

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

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

21. Capital management

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

Pavilion REIT's capital is represented by its unitholders' fund in the statement of financial position. The capital requirements imposed on Pavilion REIT is to ensure it maintains a healthy gearing/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 2019, Pavilion REIT recorded a gearing/borrowings ratio of 33.9% (2018: 33.8%) and interest coverage ratio in excess of the minimum requirement (2018: 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).

22. Leases

22.1 Operating leases as lessor

Pavilion REIT leases out its investment properties (Note 5) under operating leases. The operating lease payments to be received are as follows:

	2019 RM'000
Up to one year	376,610
More than one year up to two years	289,240
More than two years up to three years	184,083
More than three years up to four years	6,134
	856,067
	856,067
	2018 RM'000
Up to one year	386,976
More than one year up to five years	161,829
	548,805
	548,805

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

22. Leases (cont'd)**22.2 Leases as lessee**

Pavilion REIT leases office equipments, space and storage. These leases are short-term and leases of low-value items. Pavilion REIT has elected not to recognise right-of-use assets and lease liabilities for these leases.

	2019 RM'000
Expenses relating to short-term leases	366
Expenses relating to leases of low-value assets	1,298
	1,664

23. Capital commitments

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

	2019 RM'000	2018 RM'000
Capital expenditure commitments		
Investment properties		
<i>Authorised and contracted for:</i>		
- Within one year	2,168	-

24. Significant related party transactions

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

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

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

Companies related to the Manager	Nature of transactions	Transaction value		Balance outstanding	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Pavilion REIT Management Sdn. Bhd.	Rental income and its related charges	468	467	-	-

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

24. Significant related party transactions (cont'd)

Companies related to the Manager	Nature of transactions	Transaction value		Balance outstanding	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Malton Berhad Group *	Rental income and its related charges	3,411	3,251	9	9
Lumayan Indah Sdn. Bhd. ∞	Rental income and its related charges	(7)	143	–	12
	Procurement of hotel related services	(58)	–	(2)	–
Impian Ekspresi Sdn. Bhd. ◇	Rental income and its related charges	817	1,429	67	312
Kuala Lumpur Pavilion Sdn. Bhd. ^	Expenses of MRT station naming rights fee and its related charges	(1,250)	(1,316)	–	–
Urusharta Cemerlang (KL) Sdn. Bhd. Δ	Rental income and its related charges	752	775	2	3
	Reimbursement of electricity supply to Elite Pavilion Mall	–	2,881	–	–
	Reimbursement of electricity supply to Pavilion Suites	1,281	353	84	353
Harmoni Perkasa Sdn. Bhd. α	Reimbursement of electricity supply to Pavilion Hotel	4,739	–	–	–
	Procurement of hotel related services	(426)	–	(22)	–

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

The above parties are deemed related as follows:

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

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

24. Significant related party transactions (cont'd)

◊ 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 Puan Sri Tan Kewi Yong, Dato' Lee Tuck Fook, Ahmad Mohammed F Q Al-Khanji and Navid Chamdia are directors of the Manager and Harmoni Perkasa Sdn. Bhd. ("HPSB"). Tan Sri Lim Siew Choon is the spouse of Puan Sri Tan Kewi Yong. Lim Shoo Wenn, the daughter of Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong is also a director of HPSB.

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

Ahmad Mohammed F Q Al-Khanji is also a director of a substantial shareholder of the holding company of HPSB.

STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 83 to 126 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 2019 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: 23 January 2020

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 83 to 126 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), MIA CA 3434, at Kuala Lumpur on 23 January 2020.

Dato' Lee Tuck Fook

Before me:

Commissioner of Oaths

TRUSTEE'S REPORT

to the Unitholders of Pavilion Real Estate Investment Trust

We have acted as Trustee of Pavilion Real Estate Investment Trust ("Pavilion REIT") for the financial year ended 31 December 2019. 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 first Amended and Restated Trust Deed dated 18 February 2019, 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 2019 are in line with and are reflective of the objectives of Pavilion REIT. Final income distribution of 4.10 sen per unit has been declared for the financial year ended 31 December 2019 and is payable on 28 February 2020.

For and on behalf of the Trustee,
MTrustee Berhad

Nurizan Binti Jalil
Chief Executive Officer

Selangor,

Date: 23 January 2020

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 statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in net asset value and statement 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 83 to 126.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Pavilion REIT as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matter

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

Valuation of investment properties

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

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

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

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

Independent Auditors' Report (cont'd)

Key Audit Matter (cont'd)

How the matter was addressed in our audit

We performed the following audit procedures, among others:

- We assessed Pavilion REIT Management Sdn. Bhd.'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 Pavilion REIT Management Sdn. Bhd. ("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

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

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

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

Responsibilities of the Manager for the Financial Statements of Pavilion REIT

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

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

Independent Auditors' Report (cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- i) Identify and assess the risks of material misstatement of the financial statements of Pavilion REIT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ii) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Pavilion REIT.
- iii) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- iv) Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Pavilion REIT to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of Pavilion REIT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Pavilion REIT to cease to continue as a going concern.
- v) Evaluate the overall presentation, structure and content of the financial statements of Pavilion REIT, including the disclosures, and whether the financial statements of Pavilion REIT represent the underlying transactions and events in a manner that gives a true and fair view.
- vi) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Pavilion REIT to express an opinion on the financial statements of Pavilion REIT. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

*Independent Auditors'
Report (cont'd)*

Other Matter

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

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

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

Petaling Jaya

Date: 23 January 2020

ANALYSIS OF UNITHOLDINGS

Distribution of Unitholdings as at 31 January 2020

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units	% of Unitholdings
Less than 100	72	1.16	949	0.00
100 - 1,000	1,636	26.47	1,048,083	0.03
1,001 - 10,000	3,218	52.06	14,895,302	0.49
10,001 - 100,000	1,024	16.57	33,859,526	1.12
100,001 to less than 5% of issued units	225	3.64	488,814,936	16.07
5% and above of issued units	6	0.10	2,502,471,503	82.29
Total	6,181	100.00	3,041,090,299	100.00

Thirty largest unitholders as per record of depositors as at 31 January 2020

No	Name of Unitholders	No. of Units	%
1.	HSBC Nominees (Asing) Sdn Bhd CS (Switz) for Qatar Holding LLC	1,008,900,000	33.18
2.	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account – CIMB Investment Bank Berhad for Lim Siew Choon (UCDSB-SSCA)	690,325,000	22.70
3.	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account – CIMB Investment Bank Berhad for Tan Kewi Yong (UCDSB-SSCA)	281,775,000	9.27
4.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	196,058,003	6.45
5.	Kumpulan Wang Persaraan (Diperbadankan)	170,413,500	5.60
6.	UOBM Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Siew Choon	155,000,000	5.10
7.	Amanahraya Trustees Berhad Amanah Saham Bumiputera	53,921,800	1.77
8.	Citigroup Nominees (Tempatan) Sdn Bhd Exempt an for AIA Bhd	43,816,700	1.44
9.	Permodalan Nasional Berhad	34,571,800	1.14
10.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Nomura)	26,251,600	0.86
11.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	24,131,900	0.79
12.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Affin-HWG)	18,000,000	0.59
13.	Cartaban Nominees (Asing) Sdn Bhd Exempt an for State Street Bank & Trust Company (West CLT OD67)	15,162,900	0.50
14.	Amanahraya Trustees Berhad Amanah Saham Malaysia 2 - Wawasan	14,000,000	0.46
15.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Zurich Life Insurance Malaysia Berhad (Life Par)	13,375,500	0.44

Analysis of Unitholdings (cont'd)

Thirty largest unitholders as per record of depositors as at 31 January 2020 (cont'd)

No	Name of Unitholders	No. of Units	%
16.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LSF)	13,169,700	0.43
17.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Total International Stock Index Fund	11,381,425	0.37
18.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Principal Eqits)	10,356,700	0.34
19.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Allianz Life Insurance Malaysia Berhad (P)	9,351,000	0.31
20.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Emerging Markets Stock Index Fund	8,482,900	0.28
21.	Citigroup Nominees (Tempatan) Sdn Bhd Valuecap Sdn Bhd	7,859,900	0.26
22.	Amanahraya Trustees Berhad Amanah Saham Malaysia 3	7,001,500	0.23
23.	Amanahraya Trustees Berhad Amanah Saham Bumiputera 2	6,020,400	0.20
24.	Amanahraya Trustees Berhad Amanah Saham Malaysia	5,250,000	0.17
25.	Maybank Nominees (Tempatan) Sdn Bhd National Trust Fund (IFM Maybank)	5,000,000	0.16
26.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad for Amasia Pacific REITS	4,923,650	0.16
27.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Nomura)	4,864,300	0.16
28.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund ZYEF for Vanguard Global Ex-U.S. Real Estate Indexfund	4,807,900	0.16
29.	HSBC Nominees (Asing) Sdn Bhd TNTC for General Organization for Social Insurance	4,600,100	0.15
30.	DB (Malaysia) Nominee (Asing) Sdn Bhd The Bank of New York Mellon for BNY Mellon Emerging Income Fund	4,324,100	0.14

Major Unitholders (5% and above) as at 31 January 2020

No	Name of Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Qatar Holding LLC	1,008,900,000	33.18	–	–
2.	Tan Sri Lim Siew Choon	845,425,000	27.80	–	–
3.	Puan Sri Tan Kewi Yong	281,875,000	9.27	–	–
4.	Employees Provident Fund Board	268,704,403	8.84	–	–
5.	Kumpulan Wang Persaraan (Diperbadankan)	185,874,500	6.11	–	–

*Analysis of
Unitholdings (cont'd)*

Unitholdings of Directors and Chief Executive Officer as at 31 January 2020

No	Name of Unitholder	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Tan Sri Lim Siew Choon	845,425,000	27.80	–	–
2.	Puan Sri Tan Kewi Yong	281,875,000	9.27	–	–
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

Set against the background of a challenging global environment and moderating economic growth caused in part by the trade war between China and the United States, the uncertainty in Europe caused by the prolonged and yet unresolved Brexit as well as the violent street protests in Hongkong which unnerved investors, Malaysia's GDP expanded at a slower pace of 4.7% in 2018 compared to 5.9% in 2017. The pace of growth was maintained in 2019 with GDP growth estimated at 4.5% in Q1, 4.9% in Q2 and 4.4% in Q3, driven mainly by domestic demand. Overall, the Malaysian economy is projected by Bank Negara Malaysia to grow by between 4.3% and 4.8% in 2019 which is still a commendable growth rate. There is hope that the first phase trade agreement between the United States and China that was concluded in December may lead to further tariff cuts and improved relations between the world's two biggest economies and help avert a more drastic slowdown in global economic growth. The improvement in prices of crude oil as well as CPO which went up by 53.0% in 2019 bodes well for the Malaysian economy.

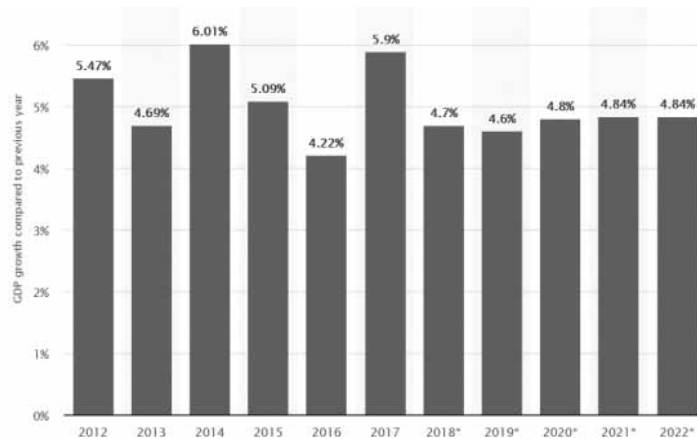


Chart 1 Malaysia – Annual GDP Growth Rate (%) Source: Statista

Crude oil prices which plunged in 2018 to end the year at a low of US\$45.33 (Nymex) recovered in 2019 and ended up higher at US\$61.78 as at 30 December 2019. Prices have been on the rise since October and Brent crude ended the year 24.0% higher and this is positive news for a net oil exporter like Malaysia

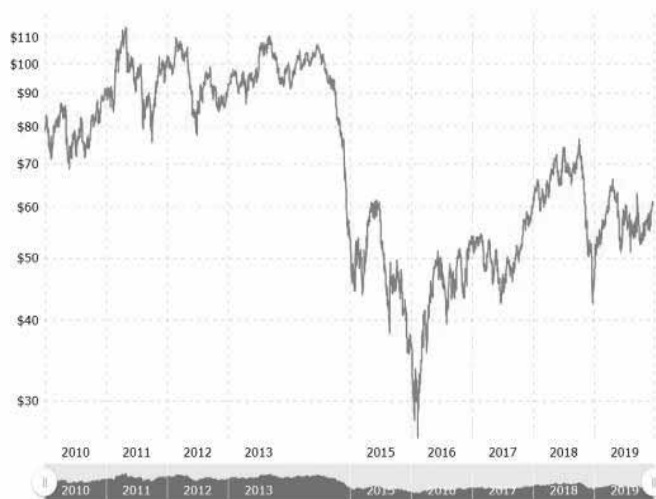


Chart 2: WT! (Nymex) Crude Oil Prices 2010 – 2019 Source: Macrotrends

Market Overview (cont'd)

Growth in Malaysia's manufacturing sector moderated in the third quarter of 2019 with a modest 3.6% increase against 4.3% in the second quarter due mainly to the slower growth in the electrical & electronic and consumer-related industries. Similarly, the services sector grew by a lower 5.9% in the third quarter of 2019 (2Q 2019: 6.1%) as growth in most key subsectors moderated. Based on the latest statistics from Matrade, total trade in the first 10 months of 2019 declined by 2.8% to RM1.52 trillion with exports registering a decline of 1.8% to RM819.13 billion. With imports recording an even higher decline, trade surplus expanded by 13.3% to RM118.2 billion and this marked the highest trade surplus for the January to October period since 2009.

Private consumption grew by 7.0% in the third quarter of 2019 as against 7.8% in the previous quarter. Private investments which saw lower capital spending across the board registered a slower growth rate in Q3, inching up slightly by 0.3% compared to 1.8% in Q2. Public investments contracted by 14.1% in Q3 after the 9.0% contraction in Q2 reflecting lower capital spending by the government and government related bodies. Headline inflation rose moderately by 1.3% in Q3 whilst core inflation went up by 1.5%

The Ringgit was relatively stable during the year starting off at RM 4.1375:US\$1 on 2 January 2019 and touching a high of RM 4.0610:US\$1 on 20 March and a low of RM 4.2216:US\$1 on 2 September before closing off the year at RM 4.1125:US\$1 on 30 December 2019. Economists expect the Ringgit to perform better in 2020



Chart 3: Movement of Ringgit in 2019 (Source: Market Watch)

Malaysia was amongst the worst performing major stock markets in Asia in 2019, with the KLCI recording a decline from 1,690 points on 2 January to 1,606 points as at 31 December whilst other markets in the region rose. Global funds were reported to have withdrawn more than US\$8 billion from the local equities market, marking the biggest outflow of foreign funds amongst Asia's emerging markets. Nevertheless, tech stocks have done well and plantation stocks, small caps and ACE market has started to pick up. For 2020, there is a consensus amongst analysts that corporate earnings will rise and big caps and the KLCI will eventually catch up in performance.

Market Overview (cont'd)



Chart 4: KLCI 2019 (Source: Trading Economics)

Country	Gains / Losses (%)
Japan	18.2
Hong Kong	9.07
Shanghai	22.30
Shenzhen	35.89
Taiwan	23.33
Korea	7.67
India	14.84
Singapore	5.02
Malaysia	-6.02
Thailand	1.02
Jakarta	1.7

Table 1: Performance of Major Asian Stock Markets in 2019

Source: Bloomberg / Straits Times

The Government has announced plans to restructure the economy over the next decade by developing new economic areas to create more business opportunities and higher-paying jobs, in line with the objectives of the Shared Prosperity Vision 2030 (*Wawasan Kemakmuran Bersama 2030*). The focus will be on sectors with high growth potential such as aerospace, medical devices, electrical and electronics (E&E), machinery and equipment as well as chemicals and chemical products.

SECTORAL REVIEW

THE RETAIL SECTOR

Klang Valley - Supply & Demand of Retail Space In 2019

As at December 2019, the Klang Valley (covering Kuala Lumpur, Selangor and Putrajaya) had a total of 276 shopping centres with a total supply of more than 7.24 million square metre (78 million square feet) as detailed in the table below:

Table 2: Retail Supply in Klang Valley, 2019

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	12.90	82.9
2.	Selangor	154	40,759,806	10.83	74.4
3.	Putrajaya	4	2,318,000	5.74	84.0
	TOTAL	276	78,398,271	10.50	78.5

- include hypermarket malls and arcades

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

Source : Henry Butcher Retail

Market Overview (cont'd)

The overall average occupancy rate of shopping centres in the Klang Valley was maintained at 78.5%. The average occupancy rate of shopping centres in Kuala Lumpur improved from 79.4% in 2018 to 82.9% in 2019. This improvement was due mainly to retail lots leased on a short-term basis as well as retail lots rented to non-traditional mall tenants. The average occupancy rate of shopping centres in Selangor on the other hand declined from 76.5% in 2018 to 74.4% in 2019.

After 3 years of declines, the average rental rate for Klang Valley climbed from RM8.85 per square feet per month in 2018 to RM10.50 per square feet per month in 2019 (this average does not include rental rates of anchor tenants such as supermarkets, department stores, cineplexes, bowling alleys, etc). One of the main contributing factors was the higher service charges due to rising cost of operation of shopping centres.

Klang Valley shopping centres were still facing the same challenges over the last few years. It needed greater effort and longer time to secure new tenants to fill vacant lots. Just as in previous years, many existing shopping centre owners needed to introduce rental rebates or reduce rental rates in order to retain existing tenants.

New shopping centres opened in 2019 faced difficulty to achieve at least 80% occupancy rate upon opening. On the other hand, mega regional shopping malls in Klang Valley continued to enjoy high occupancy rates as well as high traffic flow on both weekdays and weekends.

New Shopping Centre Openings in 2019

Only 3 shopping centres were opened in 2019 with a total nett floor area of about 119,600 square metre (almost 1.3 million square feet). These malls are:

Table 3 : New Shopping Centres in Klang Valley for the 2019

No.	Name	Location	Nett Floor Area (sf)
1.	Central I-City Mall	Shah Alam	940,000
2.	Shaftsbury Putrajaya	Putrajaya	268,000
3.	Pinnacle Mall	Petaling Jaya	80,000
	TOTAL		1,288,000

Source: Henry Butcher Retail

After a few months of delay, Central i-City Mall opened in March 2019 with Sogo, Village Grocer and TGV cineplex being its main anchor tenants. Shaftsbury Putrajaya, located opposite Alamanda Shopping Centre, opened in May 2019 and has two drive-through restaurants - Starbucks and McDonalds. Pinnacle Mall is part of a mixed-use development named Pinnacle PJ located in Jalan Utara, Section 52 of Petaling Jaya. Shops at the 3-level shopping centre remained vacant as at November 2019.

Performance of Klang Valley Shopping Centres in 2019

Shopping Centre Market

Despite the growing popularity of online shopping, Klang Valley consumers were still visiting shopping malls, especially large shopping malls and particularly during weekends.

Major Closures and Replacements

- After Sam Groceria closed down in Strand Mall, the anchor space was taken up by Alpha IVF & Women's Specialists Centre, a non-traditional mall tenant.
- AEON MaxValu in Gamuda Walk, Kota Kemuning has been replaced by Redtick Supermarket in July 2019.
- After Giant closed down in SACC Mall (Shah Alam), it was replaced by SACC Grocer by SKM.
- Tesco replaced Cold Storage in Wangsa Walk Mall (Wangsa Maju) with its new supermarket format.
- In Petaling Jaya, Jaya One and Jaya Shopping Centre lost its anchor tenant, Cold Storage, during the year. Cold Storage also closed down in Subang Parade and Sunway Pyramid.

Market Overview (cont'd)

- f) Giant closed down in The Summit (USJ Subang Jaya) and the space remained vacant as at November 2019.
- g) Giant hypermarket malls in Bandar Puteri Puchong and Selayang also closed down during the year.
- h) Sam's Groceria closed down in Utropolis Marketplace (Shah Alam). A new operator named Glenn's Grocer will be opening at this space.

Sale and Refurbishment of Malls

- a) Great Eastern Life Assurance Malaysia announced that it is putting up for sale via a tender exercise, its' Menara Weld office building and The Weld shopping centre in Kuala Lumpur's Golden Triangle with a reserve price of RM270 million.
- b) AEON Taman Maluri in Cheras has completed its new extension and opened to the public in November 2019. It is the first 'AEON Style' in Malaysia and South-East Asia. It now has 120 retail shops.
- c) After the closure of Parkson, the owner of Plaza Sungei Wang has re-branded the space as JUMPA. This new retail zone has a family entertainment park, large-format specialty stores, edgy fashion brands, cafes and restaurants as well as Giant supermarket. JUMPA opened at the end of 2019 with the lower 3 levels. The upper 3 levels are still closed for renovation works by new tenants.
- d) Suria KLCC's former Parkson space over 3 levels has been converted into 50 specialty stores. The new zones over 3 levels have yet to be opened as at end December.
- e) Starhill Gallery in Bukit Bintang has been partially closed for major refurbishment. As at December 2019, only a few shops remained open. Phase 1 is scheduled for completion in the second quarter of 2020 in tandem with the re-launch of Shook!, Lu Yu Tea House and Jogoya. Phase 2 should be ready for opening in early 2021.
- f) Isetan in Lot 10 Bukit Bintang undertook renovations in 2019 whilst remain in operation. The internal refurbishment was completed at the end of the year with new displays, new food outlets and new fashion brands.
- g) Pearl Point in Old Klang Road is currently undergoing refurbishment and it should be completed by early 2020.
- h) Paradigm Mall in Kelana Jaya completed the first phase of its asset enhancement initiative in May 2019 with a better shopping environment and new tenants.
- i) The second floor of Parkson 1 Utama has been renovated and renamed as Parkson Elite.
- j) The Waterfront at Desa Park City was refurbished. The anchor space has been re-configured and more F&B outlets were added at the upper floor. MaxValu has been re-branded as MaxValu Prime and reopened in November 2019.
- k) Centrus Mall in Cyberjaya has been suffering from poor occupancy for several years. Recently, it has been renovated and renamed as Malakat Mall. This new shopping centre caters mainly to Bumiputra retailers and is anchored by Raudhah Grocer and Raudhah College.

Occupancy Rate

Established anchor tenants are crowd pullers but at times they failed to create a spillover effect onto specialty stores. Numerous shopping centres in Klang Valley with good quality anchor tenants (such as supermarkets, department stores and cineplexes) still failed to fill up the majority of their retail space after many years in operation. When some shopping centres lost their grocery anchor tenants, the tenancy of their shopping centres worsened. Examples include HP Mall (Port Klang) and Strand Mall (Kota Damansara). After Parkson moved out of Maju Junction (Jalan TAR) and M Square (Puchong), both buildings remained vacant as at December 2019.

After minor refurbishments in 2017, Subang Avenue in Subang Jaya has yet to re-open to the public whilst Pandan Safari in Pandan Perdana has remained closed after 4 years. One Kesas Mall was completed at the end of 2018 but it has yet to open.

Changing Trade and Tenant Mix

- a) More retail businesses which are more commonly found in shop offices have now become tenants of shopping centres in the Klang Valley. Furniture stores, barber shops, dollar shops and art galleries are now found in good quality shopping centres.
- b) After operating many years in a shop office lot in Bangsar, Lululemon has expanded with two major stores in Suria KLCC and Pavilion KL.
- c) Shopping centre managers continue to use entertainment facilities to attract shoppers to visit their malls more often. GSC has re-branded its cineplex at The Gardens Mall into a luxury cinematic experience with high quality seats and services.

Market Overview (cont'd)

- d) Paradigm Mall in Kelana Jaya will have a new outdoor theme park called Escape Challenge. It will occupy 35,000 square feet and it will be an indoor version of Escape in Penang.
- e) Shopping centres are now allocating more space for recreational facilities. After operating as the only outlet in Malaysia, Camp5 has now expanded to Utropolis Marketplace (Shah Alam), KLEC Mall (Mid Valley City) and Plaza Sungei Wang (Bukit Bintang).
- f) Happy Fish swimming school is now found in Sunway Pyramid. It will also open in KSL Esplanade Mall in Klang by the end of 2020.
- g) Another new trend in tenant mix of shopping centres in Malaysia is the 'experience' retail store. Dyson and Nespresso in The Gardens Mall are examples of such stores in Malaysia.
- h) Maxis has revamped its store in The Gardens Mall early this year with cutting-edge and very cool designs. The store focuses on users' experience while inside the store.
- i) Recently, Adidas opened its Adidas Brand Center in Sunway Pyramid. It is the largest store in the country with personalised services.
- j) Drive-through restaurants are now a feature in some shopping centres. Drive-through McDonalds is found in The Waterfront (Desa Park City), Pearl Point (Old Klang Road) and Shaftsbury Putrajaya (Putrajaya). Drive-through Starbucks is also available at Shaftsbury Putrajaya.
- k) Pop-up stores in permanent lots are now a common sight in many shopping centres in the Klang Valley. Pop-up stores allow high-quality international retailers to test the Malaysian market for 1-3 months before making a decision to open permanently. Independent retailers also set up pop-up stores without long-term financial commitment.
- l) More community space has been set up in permanent lots within shopping centres. Examples include People's Corner at Gamuda Walk (Shah Alam), Open Box in SACC Mall (Shah Alam), The Atria Community Corner in Atria Shopping Gallery (Damansara Jaya) and Life Space in Sanctuary Mall (Shah Alam).
- m) Online retailers have opened more physical stores during the year. Local online retailers DUCK and Christy Ng have both opened more stores in shopping malls.
- n) China-based Taobao has opened a larger showroom in MyTown (Cheras). Another China-based online retailer, JD.com, has opened a 50,000 square feet showroom in Quill City Mall (Jalan Sultan Ismail).
- o) Singapore-based We The People Store offers a physical store presence for start-up companies. It opened its first Malaysian store in Intermark Mall along Jalan Tun Razak.
- p) Co-working space is now a new trade mix in Klang Valley shopping centres. This includes Common Ground in Citta Mall and Jaya One, Co-Labs in Utropolis Market Place and The Starling Mall, Lepak at M3 Mall as well as Rever in Life Centre.
- q) Offices have now become tenants in malls that face challenges in filling up retail space. Many retail lots in GEM-In Mall (Cyberjaya), Endah Parade (Bandar Baru Seri Petaling) and Space U8 (Shah Alam) are now filled up by offices. After the owner of Jaya One renovated its 2-storey F&B enclave, it leased the upper level to offices.

Klang Valley Retail Market

More than a year after the change of government in the country, the Malaysian retail industry is still facing many challenges. Consumers' buying power remains weak due mainly to uncertain economic future, rising cost of living and stagnant wage growth.

Quarterly Retail Sales Performances

- a) For the first quarter of 2019, the Malaysian retail industry achieved a better-than-expected growth rate of 3.8% in retail sales, as compared to the same period in 2018 (refer to table below). Despite a lacklustre performance during the Chinese New Year period, the Malaysian retail market managed to generate a higher turnover above market expectations for the entire first quarter of this year.
- b) During Q1, the Consumer Sentiment Index (by MIER) dropped to 85.6 points. It remained below the 100-point threshold level of confidence for the second consecutive quarter. Malaysian consumers were still wary of their job prospects and rising cost of living.

*Market Overview (cont'd)***Table 4: Malaysian Retail Sales And Other Economic Performance, 2019**

Economic Indicator (%)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Whole Year
Retail sales	3.8	4.5	1.8	3.8 (e)	3.7 (e)
GDP	4.5	4.9	4.4	NA	4.7 (e)
Private consumption	7.6	7.8	7.0	NA	NA
Inflation rate	-0.3	0.6	1.3	NA	NA

NA- not available

(e)- estimate

Source: Retail Group Malaysia/ Bank Negara Malaysia

- c) For the second quarter of 2019, the Malaysian retail industry reported a growth rate of 4.5% in retail sales, compared to 2.1% recorded for the same period in 2018. During the month of June 2018, the Goods & Services Tax (GST) was reduced from 6.0% to 0.0%. Hari Raya was also celebrated during the same month a year ago. 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.
- d) Hari Raya, the largest festival celebrated in Malaysia, took place earlier this year compared to 2018. As a result, spending by Malaysians on this festival started earlier. This has boosted retail spending to a certain extent. However, the uncertain economic prospects due mainly to external factors has discouraged Malaysian consumers from buying more during this period.
- e) For the third quarter of 2019, the Malaysian retail industry recorded a disappointing growth rate of 1.8%, as compared to the same period in 2018. This latest quarterly result was below market expectations.
- f) A year ago, during the same period, the Malaysian retail industry expanded by 6.7%. The high growth rate was fuelled by the remaining 2 months of tax break, before the Sales and Services Tax (SST) was re-introduced from September 2018. Malaysian consumers rushed to retail stores to buy more in order to save more. For the month of September 2018, many retailers maintained their prices in order to attract shoppers to buy. The strong results achieved a year ago contributed to the lower growth rate during the latest quarter.
- g) Lower consumer confidence levels also led to poor sales during this period. During the third quarter of this year, the Consumer Sentiment Index (by MIER) declined to 84.0 points. This was the lowest reading since the fourth quarter of 2017. Rising cost of living, stagnant purchasing power and weak job prospects contributed to the latest indicator.
- h) For the last quarter of this year, the retail growth rate is estimated at 3.8% as compared to the same period a year ago. Retail sale festivals, year-end holidays and festival celebrations should help boost retail sales in the country.
- i) For the entire year of 2019, Retail Group Malaysia (RGM) estimates an annual growth rate of 3.7% for the Malaysian retail industry.

Retailing Trends in Klang Valley

- a) The hottest trend in 2019 is bubble tea. By the end of 2019, there are more than 100 bubble tea brands in Malaysia. This includes 28 brands from foreign countries. A large majority of these brands were set up in Malaysia only during the last 15 months. The largest enclave of bubble tea shops in the Klang Valley is situated within SS15, Subang Jaya. Other bubble tea enclaves in the Klang Valley are found in Cheras Trader Square, Bandar Baru Seri Petaling and The Landmark Klang.
- b) During 2019, there were at least 135 foreign retailers which started their first outlets in Malaysia. This is the highest number of foreign entries in a year ever recorded in Malaysia. Klang Valley was the most attractive market for foreign retailers. During the year, 86 of them opened their first outlets (in both shopping centres and shops) in this largest retail market in the country.

*Market Overview (cont'd)***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 Wendy's, Pho Hoa, Pie Face, Who.A.U, Old Navy and Dean & DeLuca. These retailers closed down mainly due to intense competition and problems in their home countries.

Despite a few closures, many overseas retailers continue to choose Klang Valley shopping centres to open their first outlets in Malaysia. They included at least 63 brands (in Klang Valley shopping centres only) from 20 countries:

Table 5: Opening of Foreign Retailers

No.	Country of Origin	Brand Name	Trade
1.	Netherland	United Nudes	Fashion & accessories
2.	United States	Le Labo	Health & beauty
3.		Jacob & Co.	Fashion & accessories
4.		Steve Madden	Fashion & accessories
5.		Armani Beauty	Health & beauty
6.		Ben & Jerry's	Foods & beverages
7.		Italy	Gucci Beauty
8.	Panerai		Fashion & accessories
9.	MSGM		Fashion & accessories
10.	Wycon Cosmetics		Health & beauty
11.	Vietnam	Cong Caphe	Foods & beverages
12.	Taiwan	Machi Machi	Foods & beverages
13.		Full Want	Foods & beverages
14.	South Korea	Kurasi	Fashion & accessories
15.		RedSun	Foods & beverages
16.		Dookki	Foods & beverages
17.		Keikeu	Foods & beverages
18.	Switzerland	SevenFriday	Fashion & accessories
19.	Taiwan	Wuming Hotpot	Foods & beverages
20.		1011 Siptea	Foods & beverages
21.		Yi Fang	Foods & beverages
22.		CACO	Fashion & accessories
23.		Chun Yang Tea	Foods & beverages
24.		Thailand	Say Chlizu
25.	Fire Tiger		Foods & beverages
26.	Cafe Amazon		Foods & beverages
27.	China	JDX Presto	Online
28.		Element Fresh	Foods & beverages
29.		OVV	Fashion & accessories
30.		Xiaolongkan	Foods & beverages
31.		Chuanxi Bazi	Foods & beverages
32.		Zododo	Foods & beverages
33.		ERKE	Sports
34.		Mu Tong Yu	Foods & beverages
35.		Eninge Lemon Tea	Foods & beverages
36.		BREO	Electrical electronics
37.		Anta Sports	Sports
38.		Meivic	Lifestyle

Market Overview (cont'd)

No.	Country of Origin	Brand Name	Trade
39.	Spain	Bimba Y Lola	Fashion & accessories
40.	Singapore	We The People Store	Startup
41.		Big Fish Small Fish	Foods & beverages
42.		Joybean	Foods & beverages
43.	France	Baia Baia Paris	Fashion & accessories
44.		Henry Jacques	Health & beauty
45.		Christian Louboutin	Fashion & accessories
46.	Hong Kong	Qeelin*	Fashion & accessories
47.		Emperor Watch*	Fashion & accessories
48.		Kam Kee Cafe	Foods & beverages
49.	United Kingdom	Halcyon Days	Home furnishing
50.		AllSaints	Fashion & accessories
51.		Wing Wing*	Foods & beverages
52.		Dune*	Fashion & accessories
53.		Whittard of Chelsea	Foods & beverages
54.		Cath Kidston	Fashion & accessories
55.		Dyson	Electrical electronics
56.	Australia	Gami Chicken	Foods & beverages
57.	Japan	Torisho Chicken	Foods & beverages
58.		Kimukatsu	Foods & beverages
59.		Matsuri Ramen	Foods & beverages
60.		Baked Magic	Foods & beverages
61.	India	Saravana Bhavan	Foods & beverages
62.	Denmark	Hooga	Home furnishing
63.	Germany	Adidas Kids	Fashion & accessories

*- opened in November/ December 2018, not recorded in 2018 report.

Tourist Arrivals

- Malaysia targets to attract 28.1 million in tourist arrivals for 2019 whilst the expected tourism receipts is RM92.2 billion. For the first 9 months of this year, Malaysia has recorded 20.1 million in tourist arrivals which represents an increase of 3.7% as compared to the same period a year ago. The tourist income during this 9-month period was RM66.14 billion, an increase of 6.9% as compared to the same period a year ago.
- The main visitors were from Asia, including Singapore, Indonesia, China, Thailand, Brunei and India. The main contributors of tourist receipts were from Singapore, China, Indonesia, Thailand and India. On the other hand, the highest spenders (per capita expenditure) were from Saudi Arabia, China, United Kingdom, Canada and Taiwan. The average length of stay went up 0.1 nights from 7.3 nights to 7.4 nights.
- Chinese tourists have returned to Malaysia. For the first 5 months of this year, Chinese tourist arrivals rose by 7.6%. In terms of spending, it increased by 10.9%. China has become the third largest tourism market for Malaysia. Tourists from China are currently granted a 15-day visa exemption. Visa-on-arrival facilities have also been expanded to 13 entry points in Malaysia, ensuring a hassle-free entry for Chinese visitors.
- In 2019, Malaysia was yet again named the top Muslim Travel Destination 2019 by Mastercard & Crescent Ratings 2019 Global Muslim Travel Index. In addition, Kuala Lumpur was ranked 6th in the list of most visited cities in 2018 based on the Mastercard Global Destination Cities Index 2019.
- In September 2019, Tourism Malaysia and Wedding Affairs travelled to New Dehli to promote Malaysia as a wedding destination to leading wedding planners from North India. In recent years, India has become an important tourist market for the country.

Market Overview (cont'd)

- f) After a successful partnership with Condor Airlines last year, Tourism Malaysia, Malaysia Airports and Condor Airlines agreed early this year on a new partnership with more flights between Germany and Malaysia. Condor Airlines has commenced twice-weekly services between Frankfurt and Kuala Lumpur during the summer period.
- g) Air Arabia, the largest low-cost carrier in Middle East and North Africa, started daily flights between Sharjah and Kuala Lumpur on 1 July 2019. This is the 9th airline from the Middle East operating at Kuala Lumpur International Airport (KLIA).
- h) In October 2019, Pakistan Airlines re-established the twice-a-week Islamabad-Kuala Lumpur route with Boeing 777 flights.
- i) After a record number of branded hotels started operations in 2018, Four Points by Sheraton in Petaling Street is the only international hotel that opened in 2019.
- j) Starting 1 September 2019, a departure levy was introduced for anyone leaving from Malaysian international airports. Anyone leaving Malaysia for ASEAN countries will be charged RM8.00 for flights in economy class and RM50.00 for other classes. Anyone leaving the country to other countries (non-ASEAN) will be charged RM20.00 for economy class and RM150.00 for other classes.
- k) In November 2019, the United States Federal Aviation Administration downgraded Malaysia to a Category 2 nation, banning the country's airlines from setting up new flights to anywhere between New York and San Francisco. Malaysia can no longer open new routes to the United States or code-share with American airlines. The latest downgrade could have an impact on Malaysian airlines' ability to bring more tourists from United States and its neighbouring North American countries. It may also affect business travel as foreign companies may restrict staff from flying Malaysian carriers.

Rental Rates Of Selected Shopping Centres In Klang Valley

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

Table 6: Rental Rates of Selected Shopping Centres in Klang Valley, 2019

Name	Rental Rate (RM per square feet per month)					
	Lower Ground	Ground Floor	First Floor	Second Floor	Third Floor	Fourth Floor
Suria KLCC	34.00 – 148.00	40.00 – 144.00	30.00 – 90.00	37.00 – 90.00	32.00 – 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	17.00 – 32.00	13.00 – 25.00	10.00 – 28.00	8.00 – 23.00	NA	NA
Mid Valley Megamall	25.00 – 60.00	39.00 – 61.00	19.00 – 48.00	11.00 – 31.00	12.00 – 28.00	NA
3 Damansara	15.00 – 25.00	7.00 – 22.00	11.00 – 12.00	8.00 – 12.00	6.00 – 12.00	NA
The Mines	NA	9.00 – 26.00	10.00 – 26.00	5.00 – 35.00	5.00 – 9.00	5.00 – 7.00
SACC Mall	6.00 – 11.00	7.00 – 19.00	5.00 – 13.00	3.00 – 4.00	3.00 – 6.00	NA

Source : Property Market Report, NAPIC / Henry Butcher Retail

NA – not applicable

*Market Overview (cont'd)***Supply of Retail Space in the Klang Valley In 2020**

At least 8 shopping centres are expected to open in 2020 with a total nett floor area of almost 3.8 million square feet. They are located in all parts of the Klang Valley. The list of new shopping centres in the Klang Valley include:

Table 7: New Shopping Centres in Klang Valley Opening in 2020

No.	Name	Location	Nett Floor Area (square feet)
1.	Tropicana Garden Mall	Kota Damansara	1,100,000
2.	Setia City Mall Phase 2	Setia Alam	450,000
3.	Skypark Mall	Cyberjaya	150,000
4.	KL East Mall	Taman Melati	384,000
5.	Pacific Star	Petaling Jaya	350,000
6.	Quayside Mall	twentyfive.7	328,000
7.	Datum Mall	Jalan Jelatek	319,000
8.	KSL Esplanade Mall	Bandar Bestari	700,000
	TOTAL		3,781,000

Source: Henry Butcher Retail

Two of the new shopping centres are located in Kuala Lumpur whilst the rest of them are located in Selangor. Five of them were supposed to open in 2019 but were delayed to 2020. Tropicana Garden Mall located in Kota Damansara should be ready for opening in early 2020. Anchor tenants include Village Grocer, MBO and a convention centre. Setia City Mall added a new wing to its existing shopping mall and will be ready for opening in June 2020. Lulu hypermarket has been confirmed as its anchor tenant. Once completed, Setia City Mall will be the largest shopping mall in Shah Alam. Skypark shopping centre in Cyberjaya was completed a year ago but it has not opened to the public in 2019. KL East Mall will be ready for opening in March 2020. Confirmed anchor tenants include Jaya Grocer, MBO, Camp5, an ice skating ring, Toys R Us, Harvey Norman and Jungle Gym. After much delay, Pacific Star retail mall was completed at the end of 2019. It should be ready for opening in early 2020. Quayside Mall is located in twentyfive.7, a 257-acre township in the southern part of Shah Alam. It targets for an opening in June 2020. Anchor tenants include Jaya Grocer, MBO and Mr. DIY. Datum Mall, part of Datum Jelatek mixed-use development, is at the final stage of construction. Confirmed anchor tenants include Pacific Marketplace, Pacific Concept Store and Pak Tam wedding hall. KSL Esplanade Mall is located at the southern part of Klang. It will be opened by end 2020. Confirmed anchor tenants include AEON MaxValu Prime, TGV, EnergieXPark, Mr. DIY and Ashley Furniture.

Outlook Of The Klang Valley Shopping Centre Market In 2020

The volatile world economy due mainly to trade disputes and public protests continues to dampen the prospects of the Malaysian economy in 2020. This will affect the shopping centre market in Klang Valley.

The Klang Valley Consumer Market

Retail Group Malaysia has projected a 4.6% growth rate in retail sales for 2020.

2020 will remain challenging for the Malaysian retail industry. Externally, the trade dispute between the US and China is not expected to end soon. Internally, economic policies that can stimulate consumers' spending are limited in the near term.

Market Overview (cont'd)

Bank Negara Malaysia has projected the country GDP to grow by between 4.3% and 4.8% in 2020. Private consumption is expected to maintain its momentum in the new year. On the other hand, private investment is expected to grow at a faster pace next year with the commencement of several major infrastructure projects as well as higher investment from services and manufacturing sectors. During the same period, the government is expected to increase its expenditure as compared to 2019.

Announced in Budget 2020, the minimum wage will be increased from RM1,100 per month to RM1,200 per month for workers in 57 cities and towns of Malaysia from 1 January 2020. Once implemented, it will raise the purchasing power of the low-income urban population in Malaysia.

To promote e-wallet usage in Malaysia, a one-time incentive of RM30.00 per person will be given to Malaysians who are 18 years and above and earning less than RM100,000 a year. 15 million Malaysians are expected to benefit from this monetary incentive. This will boost sales in the overall retail industry in early 2020.

Starting from 1 January 2020, an imported digital tax will be introduced on all services provided by foreign technology companies such as Facebook, Google, Apple, Netflix, Microsoft, Adobe and Spotify. Technology companies are not absorbing this additional cost and some have announced that this additional cost will be passed on to its existing customers.

Beginning January 2020, the subsidy for RON95 petrol will be abolished. Malaysians who are under the B40 (below 40%) will receive a monetary incentive to compensate for the rise in petrol prices. 2.9 million Malaysians are likely to qualify for this incentive. The Malaysian government will provide a subsidy of RM30.00 per month for private cars and RM12.00 per month for motorcycles. This incentive will be disbursed to qualified Malaysians once every four months. Middle-income Malaysians (Middle 40%) will be issued a petrol subsidy card from March 2020. About 5 million Malaysians are likely to benefit from this subsidy.

From January 2020, the petrol price of RON95 will increase one sen per litre to two sen per litre per week until it reaches the actual market price. The removal of the petrol subsidy next year is however expected to improve consumers' purchasing power significantly. On the other hand, it may increase retail prices due to the higher cost of transportation for businesses.

Klang Valley Shopping Centre Market

Similar to previous years, shopping centres targeted for opening in 2020 will face challenges to fill up most of their retail lots upon their opening. To attract tenants to open in their shopping centres, they will need to lower their rental rates and/or offer longer rent-free periods. At the same time, they need to seek temporary tenants to fill up empty lots, especially at prime locations.

While online shopping in Klang Valley continues to grow, consumers are still visiting shopping centres, especially large shopping malls and particularly during weekends. To fight head on with online retailers, shopping centre retailers joined them during major sale festivals originally created by e-commerce operators (such as 10.10, 11.11, Cyber Monday and 12.12). During these promotional periods, brick-and-mortar stores will offer attractive discounts to draw consumers to the physical stores.

The cost of living is expected to rise further in 2020, while wage growth should remain stagnant. Klang Valley consumers will continue to shop at retail stores (either online or offline) that offer the best value-for-money goods and services. At the same time, young consumers in the cities will continue to patronise shops (either online or offline) that offer the hottest concepts, trendiest products and most interesting merchandises. They will remain as loyal followers of latest trends happening around the world.

Market Overview (cont'd)

Target Tourist Arrivals

- a) The new year is Visit Malaysia 2020. Malaysia targets to attract 30.0 million tourist arrivals in 2020 with expected tourist receipts of RM100.0 billion. The focus of this national campaign is on ecotourism, arts and culture. More than 100 events have been lined up throughout the year in conjunction with this largest tourism event. Among them are Chinese New Year Celebration in Melaka, Iftar at Kuala Lumpur, Royal Floria Putrajaya, Light and Motion Putrajaya, Selangor International Indigenous Arts Festival, Georgetown Festival, Melaka River International Festival, Terengganu Beach Festival, Tadau Ka'amatan Harvest Festival in Sabah, Rainforest World Music Festival, Borneo Arts Festival and many Open House celebrations of different races in Malaysia.
- b) Major business events to be held during the year include Asia Golf Tourism Conference, PATA Adventure Travel Conference and Mart as well as Asia-Pacific Economic Cooperation (APEC) Leaders' Summit. Tourism Malaysia has partnered with Sharp Malaysia, Malaysia Airlines, Air Asia, Firefly, Malindo Air and Malaysia Airports Holdings Berhad to implement marketing and promotional activities utilising their local and international media platforms.
- c) In addition, a RM5 million fund called GEMELAN Malaysia has been made available to provide financial support to Malaysian tourism industry players who organise marketing and promotional activities to promote Malaysia as a business and leisure destination.
- d) The new year is also Malaysia Year of Healthcare Travel 2020. The Malaysia Healthcare Tourism Council has been actively promoting its healthcare facilities in many foreign countries. In 2017, more than 1 million healthcare travellers sought treatments in Malaysia.
- e) To ensure it is able to achieve 30 million tourists, Tourism Malaysia has begun its overseas promotions since early this year. Tourism Malaysia used these events to promote various attractions in the country.
- f) In March 2019, Tourism Malaysia promoted Visit Malaysia 2020 in ITB Berlin to the Germans whilst in April 2019, Tourism Malaysia conducted roadshows in Perth, Sydney, Melbourne and Auckland to promote the 2020 campaign to Australians and New Zealanders.
- g) In addition, Tourism Malaysia participated in the Arabian Travel Market (ATM) held in Dubai during the end of April. An Arabic version of the Tourism Selangor Facebook was launched. A Dubai-based online travel platform was introduced as well as a Malaysian handbook in Arabic language was published to promote this campaign.
- h) In August 2019, Tourism Malaysia and Malaysia Inbound Chinese Association organised roadshows in two major cities in China to promote the largest tourism event in 2020. During the same period, the Ministry of Tourism, Arts & Culture (MoTAC) participated in the China International Tourism Industry Expo 2019 in Guangzhou to sell our country to the travel and tourism industry players in China. Malaysia targets to attract 3.48 million Chinese tourists in 2020.
- i) In September 2019, Tourism Malaysia brought 30 international media from 11 countries to Kuala Lumpur, Putrajaya, Melaka, Perak, Penang, Terengganu and Sabah to introduce the many attractions in different cities and states.
- j) During the same month, Tourism Malaysia organised a successful MARVEL Run with participants from Singapore, Australia, Germany, United Kingdom and Ecuador. This sports event was held to promote the Visit Malaysia 2020 campaign.
- k) Tourism Malaysia also participated in the PATA Travel Mart 2019 held in Nur-Sultan in Kazakhstan during the month of September to promote the national tourism event to potential tourists from Central Asia. At the end of September 2019, Tourism Malaysia and MATTA jointly organised roadshows in 4 major cities in India to promote the biggest tourism event in the country.
- l) In October, Tourism Malaysia brought several Malaysian tourism industry players to the International French Travel Market (IFTM) Top Resa in Paris to promote the country's exciting attractions to potential European visitors.
- m) During the same month, Tourism Malaysia launched the Visit Malaysia 2020 campaign in Manila to the Philippines tourism industry players.
- n) To entice more Pakistani tourists to Malaysia, Tourism Malaysia set up a booth at the 3rd Pakistan Travel Mart held in Karachi, Pakistan during the month of October.
- o) Tourism Malaysia led a team of 35 Malaysian officials and private companies and participated in the Tourism Expo Japan in Osaka during the month of October to promote Visit Malaysia 2020.
- p) In November 2019, Malaysia returned to World Travel Market in London with a strong message to promote Visit Malaysia 2020 to the large number of international participants.
- q) During the same month, Tourism Malaysia brought another 31 international media from 14 countries to Selangor, Perak, Negeri Sembilan and Melaka to introduce the many attractions in the different cities and states.
- r) In November, Tourism Malaysia set up exhibits at the Tashkent International Tourism Fair in Tashkent, Uzbekistan to promote Malaysia to bring more tourists from Central Asia.

Market Overview (cont'd)

- s) More than 100 participants from travel agents, associations and members of the media from southern Thailand attended the Malaysia Tourism Seminar and B2B Session launched by Tourism Malaysia in Hatyai during the month of November. The main purpose of this event was to showcase Malaysian latest attractions throughout the country.
- t) Locally, Tourism Malaysia collaborated with the French Chamber of Commerce and Industry Malaysia (CCIFM) to organise a social media video contest in November to create greater awareness of Visit Malaysia 2020 among the 4,500 French expatriates living in the country.
- u) In December, Tourism Malaysia (in collaboration with Prasarana Malaysia Bhd and MRT Corporation) launched the KL Heritage Food Trails and MyCity Pass to boost tourist arrivals in 2020. KL Heritage Food Trails offer walking tours for foreign tourists to explore heritage sites and local foods. MyCity Pass allows tourists to enjoy unlimited train rides within Klang Valley for RM10.00 for one day and RM25.00 for three days.
- v) Tourism Malaysia has also played a more active role in social media to promote this national tourism campaign. During the year, it engaged regularly with media players and social influencers from many foreign countries to generate more awareness of this event.

PURPOSE BUILT OFFICE SECTOR

Existing & Incoming supply

The supply of purpose-built office space (PBO) in the Klang Valley (both government and privately owned buildings) increased to 161.9 million square feet (15.0 million square metre) in the first half of 2019. Kuala Lumpur's stock of PBOs increased to approximately 96.1 million square feet (8.9 million square metre) whilst there is another 12.0 million square feet (1.1 million square metre) in incoming supply which will add substantially onto the space available when completed. Putrajaya which has 24.5 million square feet (2.3 million square metre) will add on another 3.5 million square feet (0.3 square metre) whilst Selangor will be contributing another approximately 3.2 million square feet (0.3 square metre) to the current stock of 41.3 million square feet (3.8 million square metre).

Table 8: Existing Supply of Office Space (Government & Privately Owned Buildings) in Kuala Lumpur & Selangor as at Q2 2019

State	Existing supply (square metre)	Incoming supply (square metre)	Planned supply (square metre)	New planned supply (square metre)
Kuala Lumpur	8,936,298	1,112,815	645,914	340,861
W.P. Putrajaya	2,274,451	324,616	31,545	0
Selangor	3,834,440	296,888	10,276	0
Total	15,045,189	1,734,319	687,735	340,861

Source: NAPIC

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

Market Overview (cont'd)

Table 9: Existing Supply & Occupancy Rates of Privately-Owned Purpose-Built Office Buildings as at Q2 2019

Area	No. of buildings	Existing supply (square metre)	% of supply	Occupancy rate (%)
Kuala Lumpur				
City Centre (Seksyen 1-100, Bandar KL)	291	6,528,840	78	81.5
Outside City Centre (Luar Seksyen 1-100, Bandar KL)	104	1,857,370	22	71.0
Total	395	8,386,210	100	79.2
WP Putrajaya	11	393,600	n.a.	38.1
Selangor	220	3,617,590	n.a.	73.1

Source: NAPIC

A number of new office buildings were completed during the year whilst a number of other buildings are due for completion after that:

Table 10: New Office Buildings Completed in 2019

Building	Location	NLA (square feet)	Estimated completion
The Exchange 106 (Mulia)	TRX Jalan Tun Razak	2,650,000	2019
Prudential Tower TRX	TRX Jalan Tun Razak	549,000	2019
Menara Hap Seng 3	Jalan P. Ramlee	240,000	2019
Menara Khuan Choo	Jalan Raja Chulan	60,000	2019
KYM Tower	Mutiara Damansara	150,000	2019
1 PowerHouse	Bandar Utama	600,000	2019
Block J @ Empire City	Damansara PJU 8	464,000	2019
MBSB Tower	PJ Sentral	280,000	2019
Tropicana Gardens	Kota Damansara	150,000	2019
		5,143,000	

Table 11: New Office Buildings Due for Completion After 2019

Building	Location	NLA (square feet)	Estimated completion
Kuala Lumpur			
Affin Bank New HQ	TRX Jalan Tun Razak	823,000	End 2020
HSBC New HQ	TRX Jalan Tun Razak	568,000	2020
Merdeka PNB 118	Stadium Merdeka	1,650,000	2021
Permata Sapura	Jalan Pinang, KLCC	1,184,000	2020
TS Law Tower	Jalan Tun Razak	500,000	2020
The MET Corporate Tower Tower A & B	Kompleks Kerajaan Jalan Duta	600,000	2021
Menara TCM	Jalan Tun Razak	370,000	2020
Oxley Tower (Office Tower)	Jalan Ampang KLCC	346,000	2022
Pavilion Office Towers	Damansara Heights	1,200,000	2021
Total		7,241,000	

Market Overview (cont'd)

Building	Location	NLA (square feet)	Estimated completion
Petaling Jaya			
PJ Sentral	Section 52, Petaling Jaya	294,000	After 2020
MyIPO		862,000	
PKNS			
Paramount Tower 1 & 2	Jalan Universiti PJ	572,000	End 2021
One City Phase 3	USJ	1,500,000	2026
UPtown 8	Damansara Uptown	450,000	2020
PJCC	PJ	290,000	TBA
Petaling Tin redevelopment	PJ	300,000	TBA
Sumurwang Tower @ i-City	Shah Alam	280,000	2020
Fraser Square	Section 13 PJ	240,000	TBA
Total		4,788,000	
Grand Total		12,029,000	

Source: Henry Butcher Research

In addition, there have been a number of proposed office developments that have been announced which if launched and completed, will add significantly to the future supply of office space in Kuala Lumpur. Some of these are redevelopment projects on sites where the existing buildings have been or will be torn down. Nevertheless, in view of the slower economy, lackluster market conditions and the current oversupply situation, some of these projects will very likely not be launched and will be deferred till later when market conditions become more benign.

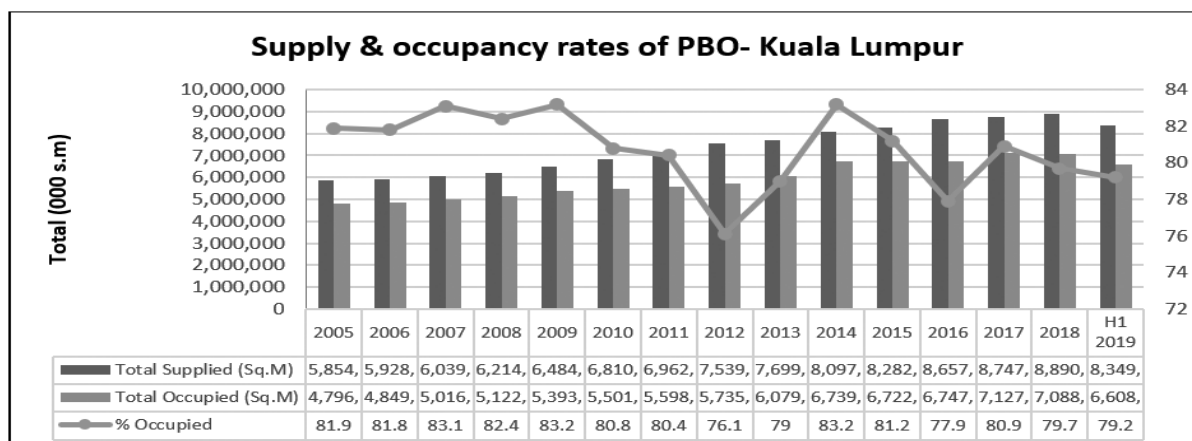
- Lot 185 KLCC – 500,000 sq ft of retail & office space & a hotel
- Bukit Bintang City Centre (BICC) Signature Tower by Eco World Group
- Former Brickfields District HQ – Seni Nadi
- Tradewinds Square, Jalan Sultan Ismail (redevelopment of Kompleks Antarabangsa & Crowne Plaza Hotel) – proposed 110-storey 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

Privately owned PBOs within KL city centre recorded an occupancy rate of 81.5% as at Q2 2019 whilst those located outside the city centre have a lower occupancy rate of 71.0%. Putrajaya registered a low occupancy rate of only 38.1% for privately owned PBOs (the majority of the office buildings in Putrajaya are owned and occupied by government departments whilst Selangor managed to retain an occupancy rate of 73.1%.

Chart 5: Supply and Occupancy Rates of Privately Owned Office Buildings in Kuala Lumpur (2005 to 1H 2019)

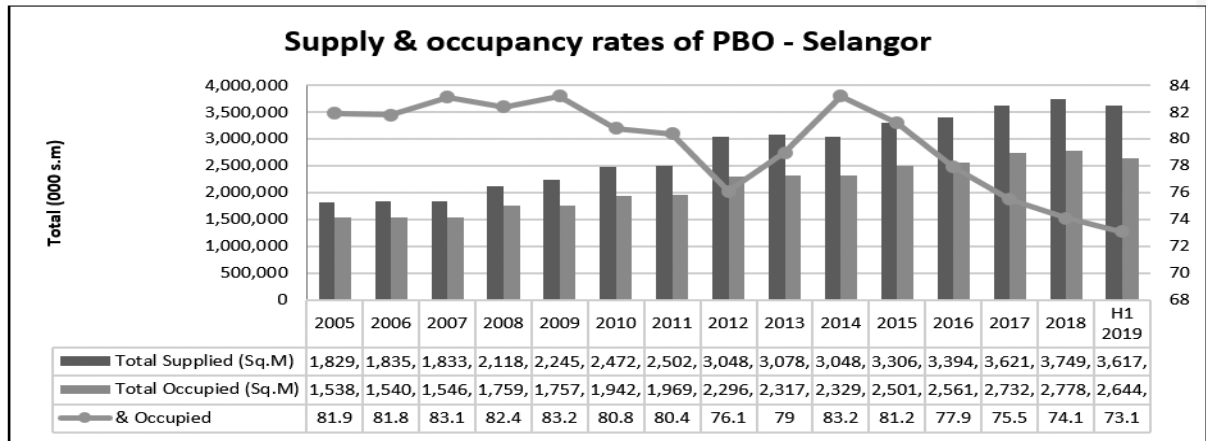
Source: NAPIC



Market Overview (cont'd)

Chart 6: Supply and Occupancy Rates of Privately Owned Office Buildings in Selangor (2005 to 1H 2019)

Source: NAPIC



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 in the coming years unless demand is increased substantially. 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 not start or defer their projects and this may offer some relief to the sector.

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 National Property Information Centre Malaysia (NAPIC), the rental index for Klang Valley in 2019 went up slightly by 0.4% in Q2 compared to the quarter before and by 2.8% on a year on year basis. Kuala Lumpur recorded a higher increase of 3.2% year-on-year.

Table 12: Purpose Built Office Rental Index Q1 & Q2 2019

STATE / SUB-REGION	Q1 2019			Q2 2019 ^P		
	Index Points	Change (%)		Index Points	Change (%)	
		Q-t-Q	Y-o-Y		Q-t-Q	Y-o-Y
KLANG VALLEY	130.1	1.4	2.7	130.6	0.4	2.8
WPKL	137.8	1.2	2.6	139.0	0.9	3.2
○ City Centre (CC)	137.8	0.9	2.4	139.3	1.1	3.2
○ Outside City Centre (OCC)	137.9	2.5	3.3	138.0	0.1	3.2
SELANGOR	124.9	1.3	2.6	125.2	0.2	2.7
○ Petaling Jaya / Subang Jaya	129.1	0.2	1.7	129.0	-0.1	1.5
○ Shah Alam	121.3	2.1	3.6	121.5	0.2	3.3
○ Seri Kembangan	124.1	1.6	2.6	125.0	0.7	3.2

Source: NAPIC

*Market Overview (cont'd)***Table 13: Range of Office Rentals (2019)**

Location	Rental Range (RM per square feet per month)
KLCC / GT	
Grade A+	9.00 – 14.00
Grade A	7.00 – 9.50
Grade B	4.00 – 6.50
CBD	
Grade A	5.50 – 7.00
Grade B	3.50 – 4.50
WCC	3.50 – 9.00
Suburbs	4.00 – 7.00

Source: HBM Research

Table 14: Rentals of Selected Purpose Built Office Buildings, Kuala Lumpur

Building	Location	Rental (RM per square feet)
Public Bank Tower 2	Bukit Bintang	6.00 - 7.00
Pavilion Office Tower	Bukit Bintang	6.50 - 8.00
Standard Chartered Tower	Bukit Bintang	6.50 - 8.00
Petronas Twin Tower (Tower 2)	KLCC	12.00 - 14.00
Citibank Tower	KLCC	7.00 - 8.00
Petronas Tower 3	KLCC	12.00 - 13.00
Binjai Tower	KLCC	8.00 - 10.00
Darussalam Tower	KLCC	9.00 - 11.00
Naza Tower @ Platinum Park	KLCC	7.00 - 8.00
Hap Seng Tower 2	KLCC	7.00 - 8.00
Ilham Tower	KLCC	6.50 - 11.00
G Tower	KLCC	7.50 - 8.50
Vista Tower @ Intermark	KLCC	7.50 - 9.00

Market Overview (cont'd)

Major Office Openings / Relocations

The table below summarises the major office relocations which took place during the year

Table 15: Major Tenant Movements

Building	Tenant	Estimated Space (square feet)
KYM Tower (Colony)	Mamee Double Decker (M) Sdn Bhd	19,000
JKG Tower	Sime Darby Lockton Insurance	14,000
Ilham Tower	Coway Malaysia	40,800
Menara Mercu 2, KL Eco City	RAM Holding Berhad	22,500
Menara Mercu 2, KL Eco City	Samsung Malaysia Electronics (SME)	78,000
Menara Mercu 3, KL Eco City	Klook	15,000
Menara Mercu 3, KL Eco City	Veolia Water Solutions & Technologies	NA
Equatorial Plaza	McDermott International	48,000
Equatorial Plaza	WeWork	150,000
Menara Perak	Securitoer Limited	11,000
Menara Binjai	Inscale Asia Sdn Bhd	11,000
Menara Etiqa	Volkswagen Group	14,000
UOA Corporate Tower	iPrice Group	19,000
UOA Business Park	Phillips Malaysia	14,000
Nucleus Tower	AirAsia SEA Sdn Bhd	10,000
Nucleus Tower	AstraZeneca Sdn Bhd	50,000

Major Office Sales Transactions

There were not many transactions of office buildings recorded in Kuala Lumpur in 2019. The following were the major transactions that were noted.

Table 16: Major Office Transactions in 2019

Building	NLA (square feet)	Consideration (RM)	Price (RM per square feet)
Wisma KFC	342,145	130 m	380
Balai Berita Bangsar	327,310	119 m	363
The Horizon Phase 2 Tower 11, Avenue 5	54,946	47 m	851
The Horizon Phase 1 Tower 7, Avenue 3	79,347	67 m	844
Wisma MPL	293,204	188 m	644

Source: Henry Butcher Research

Market Overview (cont'd)

Outlook for the Office Sector

Investor confidence appears to be constrained by the continued global uncertainties arising from the China-US trade dispute, fear of a messy Brexit and continued civil unrest in Hong Kong as well as other countries such as Iraq, Iran and Chile. The lower GDP growth projected for 2019 and 2020 means that prospects of increased business expansion remain kept in abeyance. The substantial supply of office space especially from government link companies initiated projects which is expected to come onstream without any corresponding increase in demand presents a challenging environment for the office sector in Klang Valley. New buildings will take a longer time to fill up and this is seen in some newly completed buildings such as the Exchange 106 tower in the Tun Razak Exchange development. This will result in an increase in the overall office vacancy rates which will then put pressure on building owners to reduce their rentals or offer longer rent-free periods in order to boost their occupancy rates. Rentals which have remained relatively stable so far may come down when occupancy rates decline.

As newer, more sophisticated buildings with better quality infrastructure and facilities are completed, tenants may be attracted to relocate and thus owners of older buildings will be forced to upgrade or lower their rentals in order to retain existing tenants. 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 2019

The number of REITs listed on Bursa Malaysia remains unchanged at 18. The largest REIT by market capitalization as at end 2019 is still KLCCP which maintained its top position at RM14.3 billion followed by IGB REIT at RM 6.7 billion, Sunway REIT at RM 5.4 billion and Pavilion REIT at RM 5.3 billion. There are only four other REITs which have market capitalizations of above RM1.0 billion, ie, Capitaland Malaysia Mall Trust, YTL Hospitality, Axis Real Estate and MRCB-Quill. Distribution yields appeared to have shown a slight improvement in 2019 with eleven out of the eighteen REITS which declared distribution, yields of above 6% with the highest very slightly down at 9.10% (9.11% in 2018). There were four REITS which generated dividend yields of 8.0% and more (Amfirst, Amanaraya, Hektar and MRCB-Quill). The performance of the 18 REITS for 2019 are summarized in the table below.

The oversupply situation faced by the retail and office sectors weighed down on the REITs market as most of the REITs own office buildings and malls. Those which own industrial properties appear to be doing better as the industrial sector is the best performing of all the property sub-sectors.

*Market Overview (cont'd)***Table 17 : Malaysian REITS Performance**

Source: Bursa Malaysia (Data as at 31.12.19)

No	Company	Property Portfolio	Market Capital (RM)	EPS (cent)	P/E Ratio	ROE (%)	Dividend Yield (%)	NTA (RM)	Share Price (RM)
1.	AHP	Office Shops	168.30mil	6.63	11.54	5.19	7.36	1.278	0.765
2.	Al Aqar	Health Care	971.50mil	12.41	10.64	9.60	5.83	1.293	1.320
3.	Al-Salam	Islamic diversified	469.80mil	n.a	n.a	n.a	6.60	1.068	0.810
4.	AmFirst	Office / Retail	339.77mil	3.08	16.07	2.51	8.08	1.228	0.500
5.	Amanah Raya	Diversified	424.18mil	n.a	n.a	n.a	8.22	1.340	0.740
6.	Atrium	Industrial	212.81mil	5.24	19.85	4.02	7.79	1.304	1.060
7.	Axis	Offices / Industrial / Retail	2.540bil	10.37	17.07	7.74	4.61	1.339	1.780
8.	Capitaland	Retail	2.05bil	4.16	24.04	3.35	7.90	1.242	1.000
9.	Hektar	Retail	457.34mil	7.15	13.85	5.18	9.10	1.379	0.990
10.	IGB	Retail	6.71 bil	9.75	19.38	9.15	4.86	1.066	1.890
11.	KIP	Retail	434.56 mil	8.97	9.59	8.27	7.01	1.029	0.860
12.	KLCCP	Office / Retail	14.26bil	40.40	19.55	5.56	4.68	7.270	7.900
13.	MRCB-Quill	Office / Retail	1.08bil	5.74	17.42	4.63	8.08	1.241	1.000
14.	Pavilion	Office / Retail	5.29bil	9.48	18.35	7.50	5.02	1.264	1.740
15.	Sunway	Diversified	5.36bil	13.32	13.66	8.94	5.27	1.490	1.820
16.	Tower	Office	230.01mil	n.a	n.a	n.a	7.23	1.893	0.820
17.	UOA	Office	520.1mil	9.26	13.28	5.39	7.42	1.717	1.230
18.	YTL Hospitality	Hotels	2.32bil	7.78	17.48	4.91	5.79	1.584	1.370

Market Overview (cont'd)

CONCLUSION

The outlook for both the retail and office property sectors in 2020 continues to be challenging in the light of the slower economic growth projected for the country for 2019 and 2020 resultant from the continued global uncertainties created by the China-US trade war, unresolved Brexit, social unrest in Hong Kong, Chile, Iraq and Iran as well as our own political uncertainties, chief amongst which, is the unclear date for handover of the country's top leadership position. The issues of oversupply and declining occupancy rates in the retail and office property sectors remains a major problem faced by building owners.

Nevertheless, it can be safely concluded that despite the challenging retail environment, established shopping centres which are well-located, professionally-managed and which are attuned to the changing market environment and shopping preferences of their customers and which can speedily react to changes in market conditions will be able to comfortably ride out the current tough market conditions.

With an oversupply situation, the office market will face increasing pressure on both occupancy rates and rentals. Designs of new office buildings will have to address changing business conditions and trends such as work from home, co-working space, increasing use of artificial intelligence which could lead to lower staffing requirements and therefore less workspace and adoption of 5G telecommunications technologies. Older buildings will have no choice but to upgrade or reduce rentals to hold onto to existing tenants.

The REITs sector which has not seen much growth with no addition of any new REITs continues to face issues of oversupply in both the office and retail sectors and these are issues which office and retail based REITs will have to contend with over the next few years. Against a weaker economic environment, this has put pressure on both occupancy and rental rates. REITs which focus on industrial assets fare better. 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. REITs with their stable and attractive yields, in any case offer a safe haven to investors.

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 First Amended and Restated Deed dated 18 February 2019 entered into between the Trustee and the Manager constituting Pavilion REIT
DPU	:	Distribution per Unit
EES	:	Economic, Environmental and Social
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 first Amended and Restated Deed dated 18 February 2019 entered into between MTrustee Berhad [198701004362 (163032-V)] and Pavilion REIT Management Sdn Bhd [201101011359 (939490-H)])

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of Pavilion Real Estate Investment Trust ("Pavilion REIT") will be held at Pavilion Ballroom, Level 7, Pavilion Hotel Kuala Lumpur, 170 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia on Thursday, 26 March 2020 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 2019 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 OF UP TO 20% OF THE TOTAL NUMBER OF ISSUED UNITS (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 3,043,332,805 Units;

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

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

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

whichever occurs first ("Validity Period");

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

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

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

BY ORDER OF THE BOARD
Pavilion REIT Management Sdn Bhd [201101011359 (939490-H)]
(as the Manager of Pavilion Real Estate Investment Trust)

Lim Mei Yoong (SSM PC No. 201908003397) (LS0002201)
Company Secretary

Kuala Lumpur
28 February 2020

Notice Of Annual General Meeting (cont'd)

Notes :

1. A unitholder who is entitled to attend at the meeting is entitled to appoint not more than 2 proxies to attend instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.
2. Where a unitholder is a corporation, its duly authorised representative shall be entitled to attend at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to attend.
3. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
5. The instrument appointing proxy shall be deposited at the Registered Office of the Manager at 6-2, Level 6, East Wing, Menara Goldstone (Holiday Inn Express), No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 24 March 2020 at 10.00 a.m. being 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
6. Only unitholders registered in the Record of Depositors as at 19 March 2020 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.

Explanatory Notes on:

(I) Ordinary Business

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

(II) Special Business

The Proposed Ordinary Resolution, if passed, would enable the Directors of the Manager to allot and issue New Units from time to time provided that the aggregate number of the New Units to be issued during the Validity Period, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the total number of units issued of Pavilion REIT for the time being comprising of 3,043,332,805 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.

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PAVILION

REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the first Amended and Restated Deed dated 18 February 2019 entered into between MTrustee Berhad [198701004362 (163032-V)] and Pavilion REIT Management Sdn Bhd [201101011359 (939490-H)])

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 Eighth Annual General Meeting of Pavilion REIT to be held at Pavilion Ballroom, Level 7, Pavilion Hotel Kuala Lumpur, 170 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia on Thursday, 26 March 2020 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 _____ 2020

Signature of Unitholder/Common Seal

Notes :

- 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.
- 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.
- 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.
- 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.
- 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 24 March 2020 at 10.00 a.m. being 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
- Only unitholders registered in the Record of Depositors as at 19 March 2020 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.
- Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Proposed Ordinary Resolution set out in the Notice of Annual General Meeting will be put to vote by way of poll.



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AFFIX
STAMP

The Manager of Pavilion Real Estate Investment Trust
PAVILION REIT MANAGEMENT SDN BHD
[201101011359 (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
REAL ESTATE INVESTMENT TRUST

Pavilion REIT Management Sdn. Bhd.
[201101011359 (939490-H)]

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