

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 integrated 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 acquisition and divestment 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, environmental, financial and risks relevant to the property industry or sector. The Risk Management Committee also meets quarterly to review the risk map and risk register of Pavilion REIT based on policy and procedure adopted.

Anti-bribery and corruption assessments were conducted prior to engaging new tenants or renewing expired tenants. Measures to mitigate money laundering / combating the financing of terrorism have also been formalized with training provided. As we continue to leverage on information technology for business operation as well as continuous concern on breach of data security and privacy protection, training was provided to remind and update staff on latest trends of cyber-attack, fundamental principles of information security, information security breaches and threats as well as general security breaches/guidelines.

BDO Governance Advisory Sdn Bhd ("BDO GA") had been appointed as internal auditor whereby they had performed internal control review on health and safety. The review scope was as below:-

- compliance with internal health and safety policy and procedures
- compliance with relevant health safety standards and government regulations/directives
- effectiveness of oversight controls on activities outsourced to third party service providers
- effectiveness of risk management activities in relation to health and safety processes
- tracking, progress and closure of actions resulting from third party and regulatory reviews

The execution strategies that BDO GA adopts are one that is risk-based and process life cycle focused. Risk-based approach allows for prioritisation of 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 for :

- i) understanding and evaluation of business processes and related business controls from a risk perspective along the entire life cycle;
- ii) identification of control inadequacies within the processes and recommend feasible or best practices; and
- iii) consider the effectiveness and efficiency of processes and controls, ie not just in terms of integrity but also in terms of process improvement opportunities

In addition to appointing an internal auditor to conduct internal and external vulnerability assessments and penetration tests, BDO Consulting Sdn Bhd ("BDO Consulting") was also engaged for cyber security review in line with selected areas of COBIT 2019 standards.

The Audit Committee has reviewed the findings presented by BDO GA and BDO Consulting during the year. Recommendations made have been and will be rectified and adhered to and the Audit Committee and 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 reviewed and improved in line with changes in the operating environment.

Due to inherent restrictions as well as the ever-changing risk landscape, 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.