

PAVILION

REAL ESTATE INVESTMENT TRUST

Managed by
Pavilion REIT Management Sdn Bhd

2011 Annual Report

A Class of its Own





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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.

Corporate Information

MANAGER

Pavilion REIT Management Sdn Bhd
(Company Number: 939490-H)

MANAGER'S PRINCIPAL PLACE OF BUSINESS

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

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

MANAGER'S REGISTERED OFFICE

Suite 802, 8th Floor
Wisma Lim Foo Yong
No. 86, Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia
Telephone No. : +603 2148 9098
Facsimile No. : +603 2148 3980

COMPANY SECRETARY OF THE MANAGER

Lim Mei Yoong
(Licensed Secretary No: LS 02201)
Suite 802, 8th Floor
Wisma Lim Foo Yong
No. 86, Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia

TRUSTEE

AmTrustee Berhad
(Company Number: 163032-V)
Level 22, Bangunan AmBank Group
55, Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia
Telephone No. : +603 2036 2633
Facsimile No. : +603 2032 1914

BOARD OF DIRECTORS OF THE MANAGER

Chairman and Non-Independent Executive Director

Datuk Lim Siew Choon

Non-Independent Executive Director

Datin Tan Kewi Yong
Dato' Lee Tuck Fook

Non-Independent Non-Executive Director

Ahmad Mohd A Y Al-Sayed
Omer Abdulaziz H A Al-Marwani
Mohamed Badr S K Al-Sadah
Navid Chamdia
Ooi Ah Heong

Independent Non-Executive Director

Datuk Roger Tan Kim Hock
Dato' Maznah binti Abdul Jalil
Dato' Mohzani bin Abdul Wahab
Syed Mohd Fareed bin Shaikh Alhabshi



PROPERTY MANAGER

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

AUDITOR (EXTERNAL)

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

AUDITOR (INTERNAL)

BDO Governance Advisory Sdn Bhd
(434278-K)
12th Floor, Menara Uni. Asia
1008 Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia

PRINCIPAL BANKERS

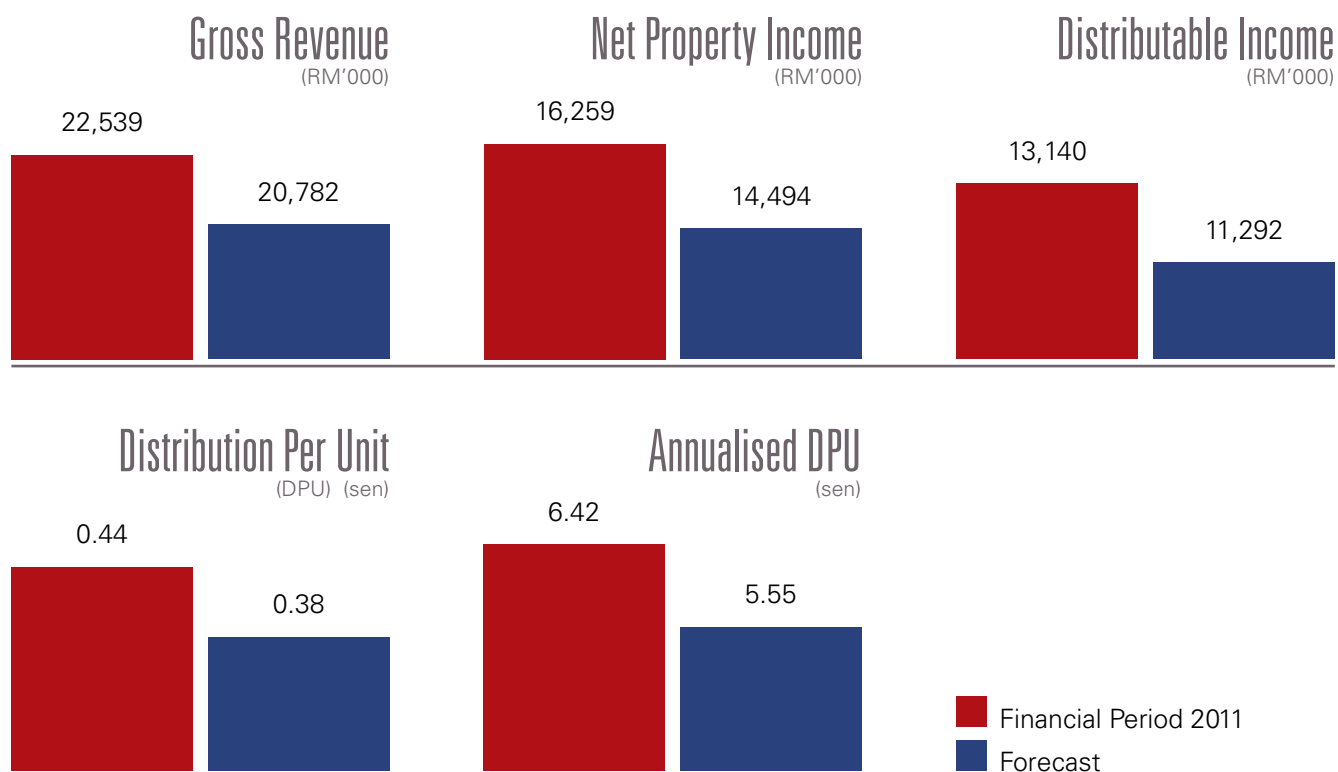
Affin Bank Berhad
Alliance Bank Malaysia Berhad
AmBank (M) Berhad
CIMB Bank Berhad
Hong Leong Bank Berhad
Malayan Banking Berhad

REGISTRAR

Tricor Investor Services Sdn Bhd
(Company Number: 118401-V)
Level 17, The Gardens North Tower
Mid Valley City
Lingkar Syed Putra
59200 Kuala Lumpur, Malaysia
Telephone No.: +603 2264 3883
Facsimile No. : +603 2282 1886



Financial Highlights



| Statements of Comprehensive Income – Key Data and Financial Ratios | Financial Period 2011* | Forecast* | Variance % |
|--|------------------------|-----------|------------|
| Gross revenue (RM'000) | 22,539 | 20,782 | 8.5 |
| Net property income (RM'000) | 16,259 | 14,494 | 12.2 |
| Distributable income (RM'000) | 13,140 | 11,292 | 16.4 |
| Distribution per unit (DPU) (sen) | 0.44 | 0.38 | 15.8 |
| Annualised DPU (sen) | 6.42 | 5.55 | 15.7 |
| Annualised distribution yield (%) | 5.9 ¹ | – | – |
| Management expense ratio (%) | 0.06 | – | – |

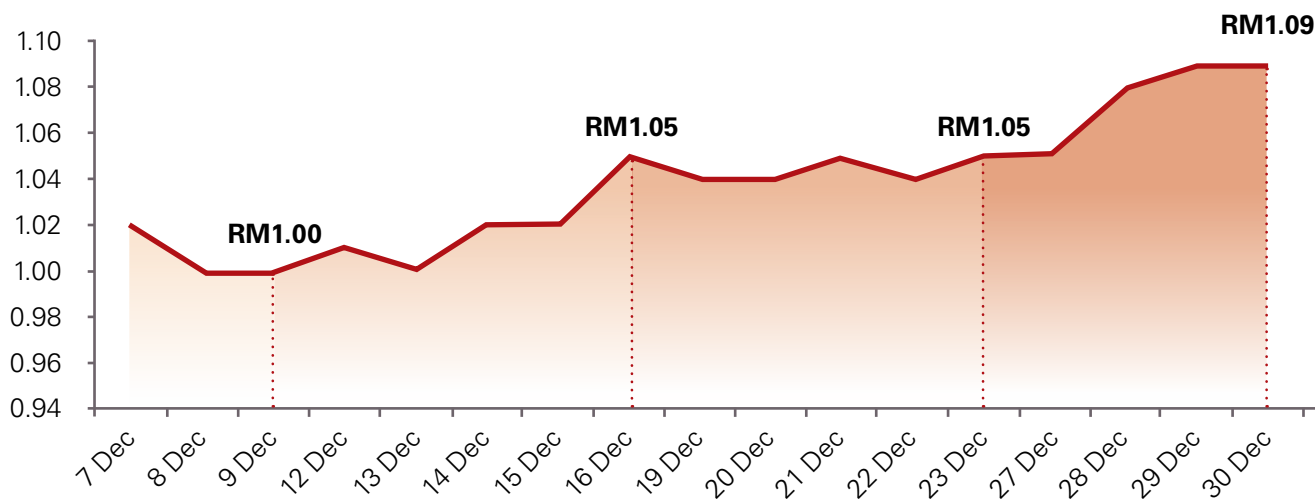
* From 7 December 2011 to 31 December 2011.

¹ Based on annualised DPU of 6.42 sen for the financial period ended 31 December 2011 and the closing unit price as at 30 December 2011 of RM1.09.

| Statements of Financial Position | As At 31 December 2011 |
|---|------------------------|
| Total asset value (RM'000) | 3,681,088 |
| Net asset value (NAV) (RM'000) | 2,867,978 |
| NAV per unit (before distribution) (RM) | 0.96 |
| NAV per unit (after distribution) (RM) | 0.96 |

Fund Performance

Unit price performance since listing



Trading performance

| | |
|--|--------------------|
| Closing unit price as at 30 December 2011 | RM1.09 |
| Highest traded price during the period | RM1.10 |
| Lowest traded price during the period | RM0.98 |
| Capital appreciation | 23.9% ¹ |
| Annual total return/Average total return since inception | 29.8% ² |
| Units in circulation ('000) | 3,000,000 |
| Market capitalisation (RM'000) as at 30 December 2011 | 3,270,000 |

¹ Capital appreciation calculated was based on closing unit price as at 30 December 2011 divided by retail IPO subscription price of RM0.88.

² Capital appreciation of 23.9% and distribution yield of 5.9%.

Letter From The Chairman

“ On the day of listing, the unit price of Pavilion REIT achieved a high of **RM1.04** against IPO price of **RM0.88** for retail unitholders and **RM0.90** for institutional unitholders and subsequently closed at RM1.02. This represented a gain of approximately **15.9%** for retail unitholders or **13.3%** for institutional unitholders. ”



Board members and management at listing of Pavilion REIT on 7 December 2011.

“ The Board of Directors and I would like to express our appreciation to all unitholders, tenants, business partners and the authorities, namely Securities Commission and Bursa Malaysia Securities Berhad for their support during the listing of Pavilion REIT. ”



Dear Unitholders,

Pavilion Real Estate Investment Trust (Pavilion REIT) was successfully listed on the Main Market of Bursa Malaysia Securities Berhad on 7 December 2011 with strong demand from both global institutional and retail investors.

The institutional portion, which was offered at RM0.90 per unit, was oversubscribed by 27 times and similarly the retail portion offered at RM0.88 per unit was oversubscribed by 6.5 times, thus making it one of the most successful REIT listing in Malaysia.

For this initial public offering (IPO) exercise, we had secured six cornerstone investors namely American International Assurance Berhad, Employees Provident Fund Board, Great Eastern Life Assurance (Malaysia) Berhad, HwangDBS Investment Management Berhad, Kumpulan Wang Persaraan and Permodalan Nasional Berhad. In addition, Pavilion REIT is also favoured by foreign investors with approximately 42% of units being held by foreign individuals or institutions.

This IPO had raised a total gross proceeds of approximately RM710 million for Pavilion REIT, which was partially utilised to purchase the Pavilion Kuala Lumpur Mall and Pavilion Tower.

On the day of listing, the unit price of Pavilion REIT achieved a high of RM1.04 against IPO price of RM0.88 for retail unitholders and RM0.90 for institutional unitholders and subsequently closed at RM1.02. This represented a gain of approximately 15.9% for retail unitholders or 13.3% for institutional unitholders. The stellar unit price performance on its listing day had cemented Pavilion REIT's position as one of the largest REIT in Malaysia with a market capitalisation of RM3.06 billion.

The unit price of Pavilion REIT had subsequently achieved a high of RM1.09 per unit as at 30 December 2011, representing an increase of 23.9% for retail unitholders and 21.1% for institutional unitholders.

We are confident that 2012 would be another great year for Pavilion REIT with asset enhancement initiatives and tenancy renewal coming up. This would certainly assist us in achieving our goal of realising a distributable income of RM172 million in 2012 for our unitholders.

The Board of Directors and I would like to express our appreciation to all unitholders, tenants, business partners and the authorities, namely Securities Commission and Bursa Malaysia Securities Berhad for their support during the listing of Pavilion REIT. We hope that the unitholders will continue to support us for the foreseeable future.

Thank you.

Yours sincerely,

Datuk Lim Siew Choon

Chairman

Pavilion REIT Management Sdn Bhd

Letter From The CEO



“ The unit price has steadily strengthened to **RM1.09** as at year end. This represented a price appreciation of approximately **23.9%** for retail investors and **21.1%** for institutional investors. ”

Dear Unitholders,

As the manager of Pavilion REIT, we are pleased to share with you that Pavilion REIT had outperform the forecasted financial performance for the period ended 31 December 2011 despite having only 25 days post IPO to deliver the results.

Financial Performance

During this short span of time, we were able to deliver commendable results in terms of gross revenue of RM22.54 million and net property income of RM16.26 million, which were respectively 8.5% and 12.2% improvement over the forecasted figures¹.

The distributable income of RM13.14 million will translate into a distribution per unit (DPU) of 0.44 sen or 6.42 sen annualised² for the financial period ended 31 December 2011 versus the forecasted DPU of 0.38 sen or 5.55 sen annualised based on 25 days (7 December 2011 to 31 December 2011) period, based on the prospectus issued on 14 November 2011. This represents an increase of 16.4% of distributable income and 15.8% of DPU respectively.



In summary, we have achieved a total return of 29.8% for the financial period ended 31 December 2011 since listing and all of the distributable income of RM13.14 million, or 0.44 sen per unit, will be paid to eligible unitholders on 29 February 2012.

Pavilion REIT overall financial position is still very healthy at a loan-to-value ratio of approximately 19.1%. This provides Pavilion REIT with opportunity to acquire assets which are yield accretive when the opportunity arises without the need of additional unitholders' funds.

Unit Price Performance

In spite of the overall weaker global economy coupled with the Europe sovereign debts crisis, Pavilion REIT unit price is resilient in facing the challenging market condition.

The unit price has steadily strengthened to RM1.09 as at year end. This represented a price appreciation of approximately 23.9% for retail investors and 21.1% for institutional investors. The market capitalisation of approximately RM3.3 billion as at year end makes Pavilion REIT the largest retail concentration REIT in Malaysia by market capitalisation.

With this astounding performance Pavilion REIT is by far one of the most successful retail REIT in Malaysia in the year of 2011.

Asset Enhancement Initiative

Notwithstanding the above, the team and I have many plans in the pipeline to boost the performance of Pavilion REIT in the coming year.

One such initiative is the asset enhancement initiative that we had announced in January 2012. We will transform the existing area occupied by TANGS Fashion Lifestyle Store at Level 2 and 3 of the Pavilion Kuala Lumpur Mall with an area of approximately 68,000 square feet into a new high street fashion precinct comprising multiple specialty tenants. This new precinct will be known as "Fashion Avenue".

The project is scheduled to commence in the first quarter of year 2012 and complete within 4½ months, with an estimated cost of approximately RM13.5 million. We believe such initiative will enable us to increase rental rates for the space and attracts greater quality shopper traffic at that precinct.

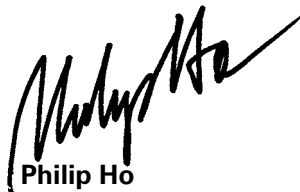
Others

We are currently a member of the Malaysia REIT Managers Association (MRMA) and Asia Pacific Real Estate Association (APREA). We have also taken a view to actively promote Pavilion REIT to the local and foreign investors and continue to strengthen the already strong investors' relationship.

Going Forward

We will continue to do our best to achieve better performance in coming year in order to provide all unitholders with regular and stable distributions and achieve long-term growth in net asset value per unit.

Yours sincerely,



Philip Ho
Chief Executive Officer
Pavilion REIT Management Sdn Bhd

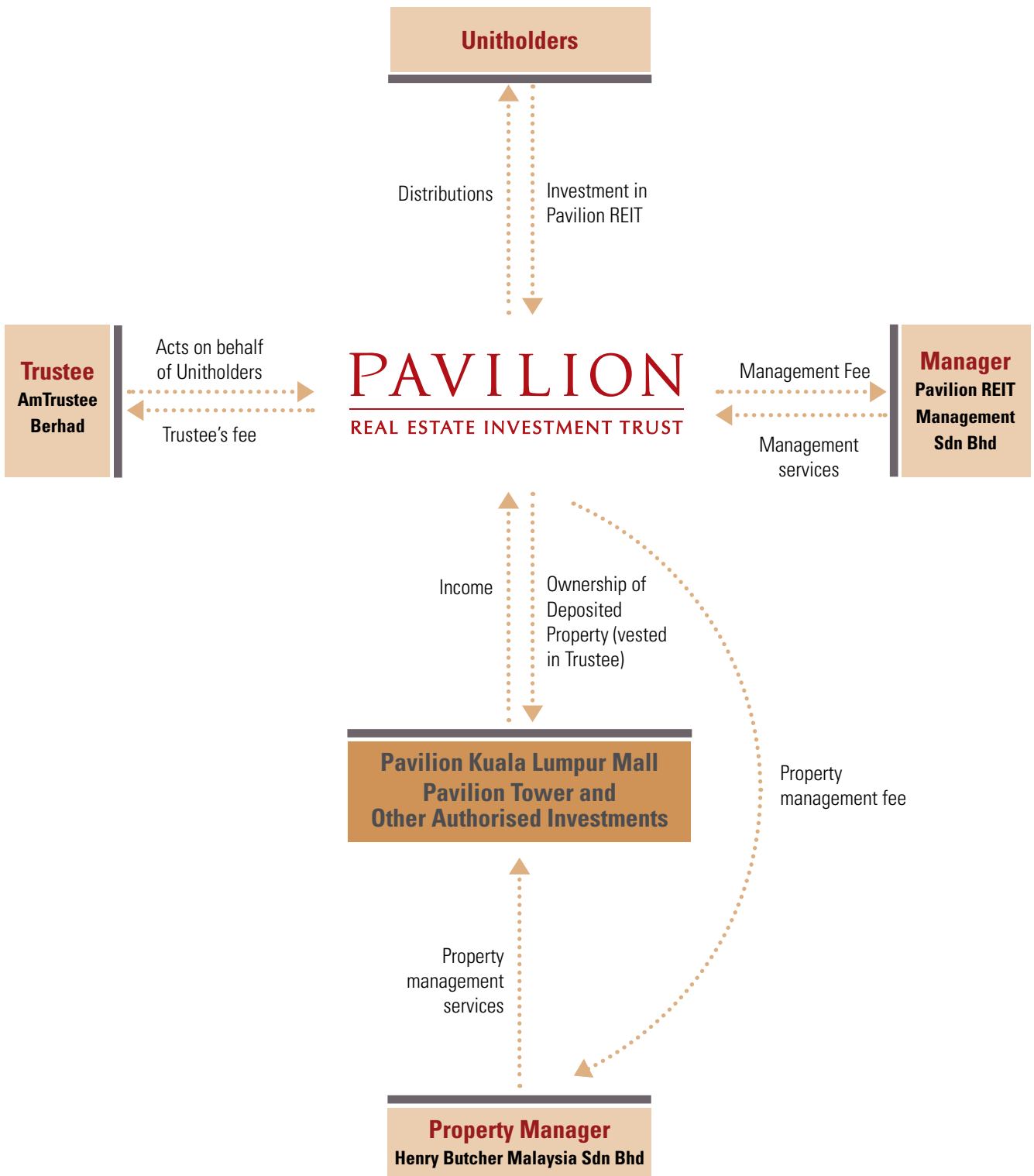
¹ Forecasted figures based on prorated 25 days (7 December 2011 to 31 December 2011) from the Pavilion REIT prospectus dated 14 November 2011 of 1 month.

² Based on computation of DPU of 0.44 sen divided by 25 days and annualised to 365 days.

Salient Features of Pavilion REIT

| | |
|---|--|
| Name of Fund | Pavilion REIT |
| Type of Fund | Income and growth |
| Category of Fund | Real Estate Investment Trust |
| Duration of Fund/ Termination Date | <p>The earlier of :</p> <ul style="list-style-type: none"> • The occurrence of any events listed under Clause 26.2 of the Deed. • 999 years falling on 17 October 3010. • the date on which Pavilion REIT is terminated by the Manager under Clause 26.1(b) of the Deed. |
| Approved Fund Size | <ul style="list-style-type: none"> • 3,100,000,000 Units. • In addition to the above, the Securities Commission also granted its approval for the issuance of up to 620,000,000 new Units subject to Unitholders' approval to be obtained under a general mandate by 31 December 2012. |
| Investment Objective | <ul style="list-style-type: none"> • To provide unitholders with regular and stable distributions and achieve long-term growth in net asset value per unit, while maintaining an appropriate capital structure. |
| Distribution Policy | <ul style="list-style-type: none"> • 100% of distributable income for the financial period ended 31 December 2011 and financial year ending 31 December 2012 with at least 90% of distributable income for each subsequent financial year. • Half-yearly distribution. |
| Performance Benchmark | <ul style="list-style-type: none"> • Distribution yield. • Net asset value. • Total return. • Management expense ratio. |
| Listing | Main Market of Bursa Malaysia Securities Berhad. |
| IPO Price | <ul style="list-style-type: none"> • Retail – RM0.88 • Institution – RM0.90 |
| Stock Name | PAVREIT |
| Stock Code | 5212 |

Trust Structure



Board of Directors

Chairman and Non-Independent Executive Director

Datuk Lim Siew Choon

Datuk Lim Siew Choon, aged 51, a Malaysian, holds a Bachelor of Business Administration degree (majoring in Finance) from the University of Central Oklahoma in the United States.

He has more than 29 years of management experience in property development, construction, retail design, retail development as well as corporate management.

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

Non-Independent Executive Director

Datin Tan Kewi Yong

Datin Tan Kewi Yong, aged 55, a Malaysian, pursued her tertiary education in the United Kingdom specialising in Business and Marketing Studies.

She has over 28 years of management experience in marketing, advertising, finance and human resource management and has been instrumental in setting up various business ventures.

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

Non-Independent Executive Director

Dato' Lee Tuck Fook

Dato' Lee Tuck Fook, aged 57, a Malaysian, is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He also holds a Masters 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 and was responsible for KPMG's Malaysian management consultancy practice until he left the practice in 1990. From 1990 to 1992, he was appointed the Vice President of Samling Group in Sarawak. He later joined the Renong Berhad group as the Managing Director of Renong Overseas Corporation. Between 1994 and 2000, he was the Chairman of the Executive Committee of the board of Peremba-Kentz Ltd, an engineering company with operations located in South Africa, the Middle East, Thailand, Ireland and Malaysia. He was the Managing Director of Cement Industries of Malaysia Bhd from 2001 to 2002.

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

He was appointed to the Board of the Manager on 29 July 2011. He is also an Independent Non-Executive Director of SAM Engineering & Equipment (M) Berhad (formerly known as LKT Industrial Berhad).

Non-Independent Non-Executive Director

Ahmad Mohd A Y Al-Sayed

Ahmad Mohd A Y Al-Sayed, aged 35, a Qatari, graduated with a Bachelor of Law from Qatar University in Doha, Qatar, and a Master of Law (Banking and Finance Law) from Boston University in the United States. He also holds an Executive Master of Business Administration from Trium Global (New York University Stern New York, London School of Economics London and HEC Paris).

He is currently the Managing Director and Chief Executive Officer of Qatar Holding LLC, the strategic and direct investment arm of the Qatar Investment Authority. He is also the Secretary to the board of the Qatar Investment Authority, Vice Chairman of Qatar Exchange, Vice Chairman of Harrods Group and also a member of the boards of Canary Wharf Group and Qatar National Bank, which are listed in the United Kingdom and Qatar, respectively.

Prior to being appointed Secretary to the board of the Qatar Investment Authority in 2006, he held key roles in various Qatari institutions, including the Supreme Council for Economic Affairs and Investment.

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

Non-Independent Non-Executive Director

Omer Abdulaziz H A Al-Marwani

Omer Abdulaziz H A Al-Marwani, aged 37, a Qatari, graduated with a Bachelor degree from the Management and Economic faculty, Qatar University and he passed the public accountant certification (CPA) in 2002, United States.

He is currently the Director of the Finance Affairs Department at the Qatar Investment Authority and has held that appointment since 2006. He has also been the Director of the Finance and Administration Affairs Department at the Qatari Supreme Council for Economic Affairs and Investment since 2003.

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

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

Non-Independent Non-Executive Director

Mohamed Badr S K Al-Sadah

Mohamed Badr S K Al-Sadah, aged 31, a Qatari, graduated with a Bachelor degree in Material Science and Engineering from the University of Arizona, in the United States.

He is currently the Human Resource Director of the Qatar Investment Authority, where he oversees the management of the Human Resource department, providing strategic support and services to the Qatar Investment Authority and its various subsidiaries.

He started his professional career in 2003 as a Project Engineer with Dolphin Energy Limited. He has also worked on projects with JGC Corporation, an engineering and construction company in Japan. Subsequently, he was appointed as the Human Resource Manager of Dolphin Energy Limited in 2009.

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

Non-Independent Non-Executive Director

Navid Chamdia

Navid Chamdia, aged 39, a British National, graduated from University College London with a first class honours degree in Economics. He is a qualified Chartered Accountant and a member of the Institute of Chartered Accountants from England and Wales. He is also a Chartered Financial Analyst charter holder.

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

Prior to joining QH and the Qatar Investment Authority in 2005, he spent 12 years at Ernst & Young's Project Finance division in London advising on the financing and delivery of global real estate and infrastructure projects. He is also a director of Chelsfield plc, a UK based property company.

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

Non-Independent Non-Executive Director

Ooi Ah Heong

Ooi Ah Heong, aged 60, a Malaysian, graduated from the University of Singapore in 1976.

He has over 35 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 Division 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, which was involved in salvaging projects that were stalled. In 1991, he joined Cheras Heights Development, a subsidiary of Perlis Plantation Bhd, as its General Manager. During his tenure there he developed the Cheras Leisure Mall, a large shopping complex at Cheras and oversaw the retrofitting of Shaw Parade in Kuala Lumpur. 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 has no directorship in other public companies.

Independent Non-Executive Director

Datuk Roger Tan Kim Hock

Datuk Roger Tan Kim Hock, aged 64, a Malaysian, graduated from the London School of Economics and Political Science with a Bachelor of Laws and practiced law for seven years prior to joining Hong Leong Group, Malaysia.

He has been a Director of Bank of Nova Scotia Berhad since December 2004.

Prior to joining Bank of Nova Scotia Berhad, he was Deputy Chairman at ECM Libra Berhad from 2004 to 2006. Before this, he was President and Chief Executive Officer of Hong Leong Credit Berhad from 2001 to 2004 and of Hume Industries (M) Bhd from 1993 to 2001.

He has held directorships at, among others, Croesus IT Solutions Sdn Bhd, Masmeyer Holdings Sdn Bhd and Treasure Resort Pte Ltd. He was a Non-Executive Director, Chairman of the audit committee and a member of the remuneration committee of Midwest Corporation Limited, a public company listed on the Australian Stock Exchange from 2004 to 2008.

He was appointed to the Board of the Manager on 29 July 2011.

Independent Non-Executive Director

Dato' Maznah binti Abdul Jalil

Dato' Maznah binti Abdul Jalil, aged 58, a Malaysian, graduated with a Bachelor and Masters Degree in Business Administration (Finance) from Northern Illinois University and Central Michigan University, respectively.

Currently, she is the Executive Chairman of Moore Stephens AC Advisory Sdn Bhd.

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

She was appointed to the Board of the Manager on 29 July 2011. She has no directorship in other public companies.

Independent Non-Executive Director

Dato' Mohzani bin Abdul Wahab

Dato' Mohzani bin Abdul Wahab, aged 58, a Malaysian, graduated with a Bachelor degree in Economics from the University of Malaya, Kuala Lumpur.

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

Since his retirement at the end of 2009, he has been appointed to the board of Ramunia Holdings Bhd as a Non-Independent and Non-Executive Director and assumed the role as Chairman of TH-Alam Holdings. He served as an Independent Director of EON Bank Bhd including EONCAP Islamic Bank until its merger with Hong Leong Bank Bhd. In November 2011 he was appointed as Independent Director of Hong Leong Investment Bank Bhd.

Previously, he sat as director of the Petroleum Industry of Malaysia Mutual Aid Group and is currently a member of the Investment Panel of Lembaga Tabung Haji.

He was appointed to the Board of the Manager on 29 July 2011.

Independent Non-Executive Director

Syed Mohd Fareed bin Shaikh Alhabshi

Syed Mohd Fareed bin Shaikh Alhabshi, aged 57, a Singaporean.

He is currently the Director in Business Development in Dragoni International LLC, an interior contracting company, where he holds a 20% equity interest.

He started his career in 1978 to 1993 by exporting electronic goods from Singapore to Middle East countries, namely Saudi Arabia, Kuwait and the United Arab Emirates. Thereafter, in 1994, he started an investment holding company for a Saudi Arabian family which owns 80% of National Commercial Bank. In 2002, he started his own interior contracting company in Dubai. He later sold majority of his interest to Depa Ltd, a public listed company in Dubai.

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

He was appointed to the Board of the Manager on 29 July 2011. He has no directorship in other public companies.

Notes:

- ¹ *None of the directors has any conflict of interest with Pavilion REIT, save for the interest in Pavilion REIT as disclosed in note 23 of the financial statements.*
- ² *All of the Directors have no conviction for any offences within the past ten (10) years other than traffic offences, if any.*
- ³ *Save as disclosed above, none of the other Directors has any family relationship with any director of the Manager and/or major unitholder of Pavilion REIT.*

Management Team

Chief Executive Officer

Philip Ho

Philip Ho, aged 45, a Malaysian, holds a Master of Business Administration from University of Strathclyde, United Kingdom and a Bachelor of Business in Accounting from Chisholm Institute of Technology, Australia. He is currently a member of the Malaysian Institute of Accountants.

He has over 23 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. He has no directorship in other public companies.

He has no conviction for offences within the past 10 years other than traffic offences, if any.

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

Asset Manager (Retail)

Joyce Yap Soh Ching

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

During her 30 years working experience, she has held key positions and handled a variety of responsibilities in the areas of development, sales and marketing, leasing of various types of property development and asset management.

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

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

She is the Advisor and immediate past President of the Malaysian Association for Shopping and Highrise Complex Management (PPKM). In 2010, she received the Outstanding Entrepreneurship Awards awarded by the Asia Pacific Entrepreneurship Awards Malaysia and was awarded the Distinction for Distinguished Lifetime Dedication to Management of Shopping Centre by PPKM in 2008.

Asset Manager (Leasing)

Lovell Ho Wai Hoong

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

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

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

Asset Manager (Marketing)

Kung Suan Ai

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

She has 15 years of experience in retail and corporate marketing for shopping centres and integrated developments.

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

Prior to joining KLP, she was the Director of Marketing for the integrated Mid Valley City development in 2008. She joined Mid Valley Megamall as Advertising and Promotions Manager in 2001 before being promoted to Director of Advertising & Promotions in 2004. She started her career with Sunway Pyramid in 1996.

She is presently the Vice President of PPKM and is actively involved in shopping tourism events for Bukit Bintang – KLCC.

Asset Manager (Operations cum Mechanical and Engineering)

Daniel Hee Teck Ming

He holds a Higher National Diploma in Mechanical Engineering from Humberside College of Higher Education, United Kingdom.

He joined Urusharta Cemerlang Sdn Bhd in 2007 as General Manager, Mechanical & Electrical before being appointed as Director of Operations at the end of 2008.

From 2000 to 2006, he was Chief Operating Officer of Paracorp Technology Sdn Bhd. From 1996 to 2007, he served on the Board of Directors of Artwright Holdings Berhad as an Independent Non-Executive Director. He was also a member of the Audit Committee and a member of the Nomination & Remuneration Committee of Artwright Holdings Berhad.

On his return to Malaysia in 1988, he worked with United Technologies Carrier from 1988 to 2000 where he last held the position of General Manager, Services. After his graduation in 1982, he worked for several years in aluminium fabrication in the United Kingdom.

Asset Manager (Facilities Management)

Francis Ong Heng Khai

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 18 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.

Head of Legal and Compliance

Lo Khien Ngoh

She is a senior lawyer with more than 20 years professional experience. She was called as a barrister and admitted into the Honourable Society of Lincoln's Inn, London after receiving her degree from the University of London.

Prior to joining Pavilion REIT Management Sdn Bhd, she was an investment lawyer with the Qatar Investment Authority specialising in the area of corporate, mergers and acquisitions and regulatory compliance work.

She had also served as a regional counsel of Hess Corporation (a United States oil & gas corporation) in South East Asia, the Head of Legal for the industrial and energy division of the Genting group of companies, and a legal manager with Berjaya Group Berhad. She started her career as an Advocate and Solicitor of the High Court of Malaya.

Investment Manager

Tan Bee Yoke

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

Prior to joining Pavilion REIT Management Sdn Bhd, she was the Assistant Vice President at Sime Darby Berhad under the Group Strategy and Business Development Department. She has extensive experience in corporate exercises relating to mergers and acquisitions as well as business expansion and development. The scope of her work involved financial modelling and valuation, debt financing analysis, project/investment feasibility analysis and planning as well as other financial and strategic reviews. Prior to joining Sime Darby Berhad, she was with a couple of audit firms, namely Ernst & Young in China and PricewaterhouseCoopers in Malaysia.

Finance Manager

Lim Mian Nyee

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

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

Manager's Report

The Manager is pleased to submit their report and audited financial statements to Unitholders of Pavilion Real Estate Investment Trust (Pavilion REIT) for the period ended 31 December 2011.

- **Principal activity and investment objectives**

Pavilion REIT was established on 13 October 2011 and listed on Bursa Malaysia Securities Berhad on 7 December 2011 with the principal investment policy of investing, directly and indirectly, in a diversified portfolio of income producing real estate used solely or predominantly for retail purposes (including mixed-use developments with a retail component) in Malaysia and other countries within the Asia-Pacific region as well as real estate related assets.

The primary objective of Pavilion REIT is to provide unitholders with regular and stable distributions and achieve long-term growth in net asset value per unit, while maintaining an appropriate capital structure.

- **Investment strategies**

The Manager intends to achieve the investment objective of Pavilion REIT through the following strategies:

- (i) Actively pursuing acquisition opportunities in accordance with the authorised investments of Pavilion REIT
 - acquire yield accretive income-producing properties
 - explore repositioning opportunities
- (ii) 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
- (iii) Proactively managing the properties and implementing asset enhancement strategies
 - maximise quality shopper traffic at Pavilion Kuala Lumpur Mall
 - active management of tenant base in order to increase rental rates and maintain high occupancy rates
 - continued asset enhancement initiatives to increase net lettable area and rental potential
 - attracting new office tenants and exploring expansion needs of existing office tenants
 - improving cost efficiency

- **Review for financial period 2011**

The Manager believes that Pavilion REIT has achieved its investment objective for the period ended 31 December 2011 and there were no changes in the strategies as disclosed in Pavilion REIT's initial public offering prospectus and above.

- **Malaysia retail and office sector outlook**

Although the current global economic conditions particularly in Europe and United States are uncertain, the Manager is of the opinion that the retail sector in Malaysia will remain resilient and will continue to deliver positive results in the year 2012.

The Manager acknowledge the potential softening demand in the office space in the coming years due to new office space projected to come on stream. Nonetheless, the manager believes the impact to Pavilion REIT is minimal as the exposure to office sector is less than 3% in terms of both gross revenue and net property income.

- **Others**

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the fund during the financial period ended 31 December 2011 and up to the date of this report other than those disclosed in the financial statements.

Circumstances which materially affect the interests of unitholders

There are no circumstances which materially affect the interests of unitholders.

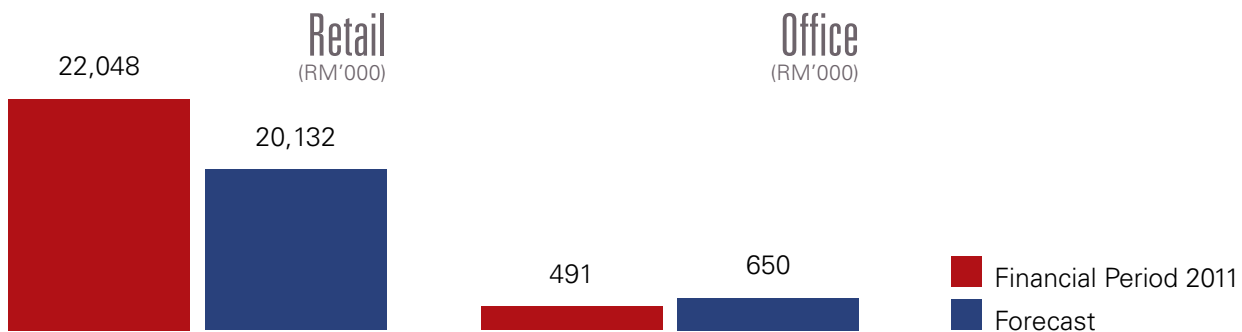
Changes in material litigation

The Manager is not aware of any pending material litigation since 31 December 2011 up to the date of this report.

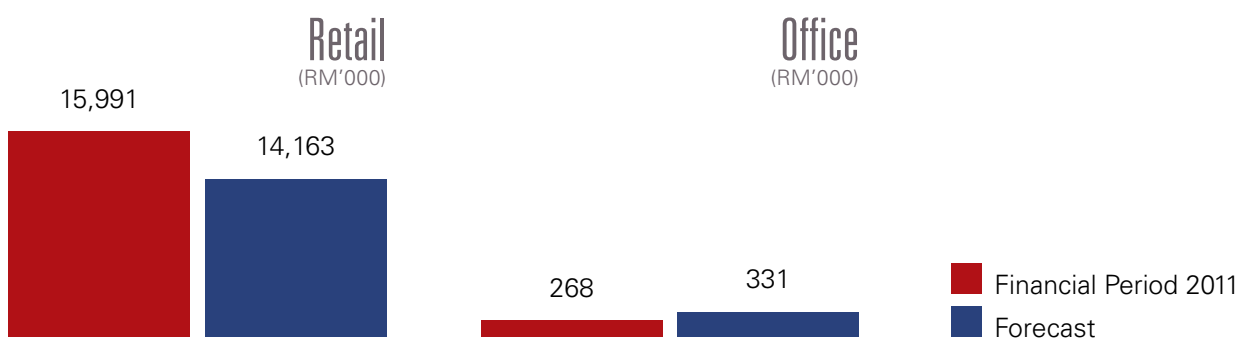
Financial Review

Summary financial results

| | Financial Period 2011* RM'000 | Forecast * RM'000 | Variance % |
|-----------------------------------|----------------------------------|----------------------|---------------|
| Gross revenue | 22,539 | 20,782 | 8.5 |
| Net property income | 16,259 | 14,494 | 12.2 |
| Distributable income | 13,140 | 11,292 | 16.4 |
| Distribution per unit (DPU) (sen) | 0.44 | 0.38 | 15.8 |
| Annualised DPU (sen) | 6.42 | 5.55 | 15.7 |



| By Segment | Gross Revenue | | |
|------------|----------------------------------|---------------------|---------------|
| | Financial Period 2011* RM'000 | Forecast* RM'000 | Variance % |
| Retail | 22,048 | 20,132 | 9.5 |
| Office | 491 | 650 | -24.5 |



| By Segment | Net Property Income | | |
|------------|----------------------------------|---------------------|---------------|
| | Financial Period 2011* RM'000 | Forecast* RM'000 | Variance % |
| Retail | 15,991 | 14,163 | 12.9 |
| Office | 268 | 331 | -19.0 |

* From 7 December 2011 to 31 December 2011.

Status of utilisation of proceeds

| Purpose | Proposed utilisation RM'000 | Actual utilisation RM'000 | Intended timeframe of utilisation | Deviation (Savings) | |
|---|--------------------------------|------------------------------|------------------------------------|---------------------|------|
| | | | | RM'000 | % |
| Part payment for the acquisitions of properties | 648,000 | 648,000 | Immediate | – | – |
| Listing expenses | 42,000 | 33,558 | Immediate | 8,442 | 20.1 |
| Working capital | 5,200 | 683 | Within 12 months from listing date | 4,517 | 86.9 |
| Total | 695,200 | 682,241 | | 12,959 | |

The actual listing expenses of RM33.6 million incurred was lower compared to proceeds raised from the IPO of RM42.0 million mainly due to lower professional and advisory fee as well as other offering related expenses and contingencies. The balance of unutilised proceeds of RM8.4 million will be used by Pavilion REIT for working capital.



Portfolio Details

Portfolio summary

| | |
|--|------------------|
| Appraised value as at 31 December 2011 | RM 3,561 million |
| Net lettable area | 1,502,526 sq ft |

Portfolio details

a) Retail

| Pavilion Kuala Lumpur Mall | |
|--|--|
| Address | 168 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia |
| Description | 7-storey retail podium |
| Age | 4 years |
| Title | H.S.(D) 118129 PT 71, Seksyen 63, Kuala Lumpur, Negeri Wilayah Persekutuan |
| Encumbrances | Private caveat by AmTrustee Berhad |
| Tenure | 99-year lease expiring on 26 October 2109 |
| Gross floor area | 2,202,557 sq ft |
| Net lettable area | 1,335,119 sq ft |
| Number of car park bays | 2,427 |
| Occupancy rate as at 31 December 2011(%) | 99.1 |
| Date of acquisition | 7 December 2011 |
| Acquisition price | RM 3,190 million |
| Appraised value as at 31 December 2011 | RM3,433 million |
| Date of latest valuation | 30 January 2012 |
| Independent valuer | Knight Frank (Proprietor: Ooi & Zaharin Sdn Bhd) |

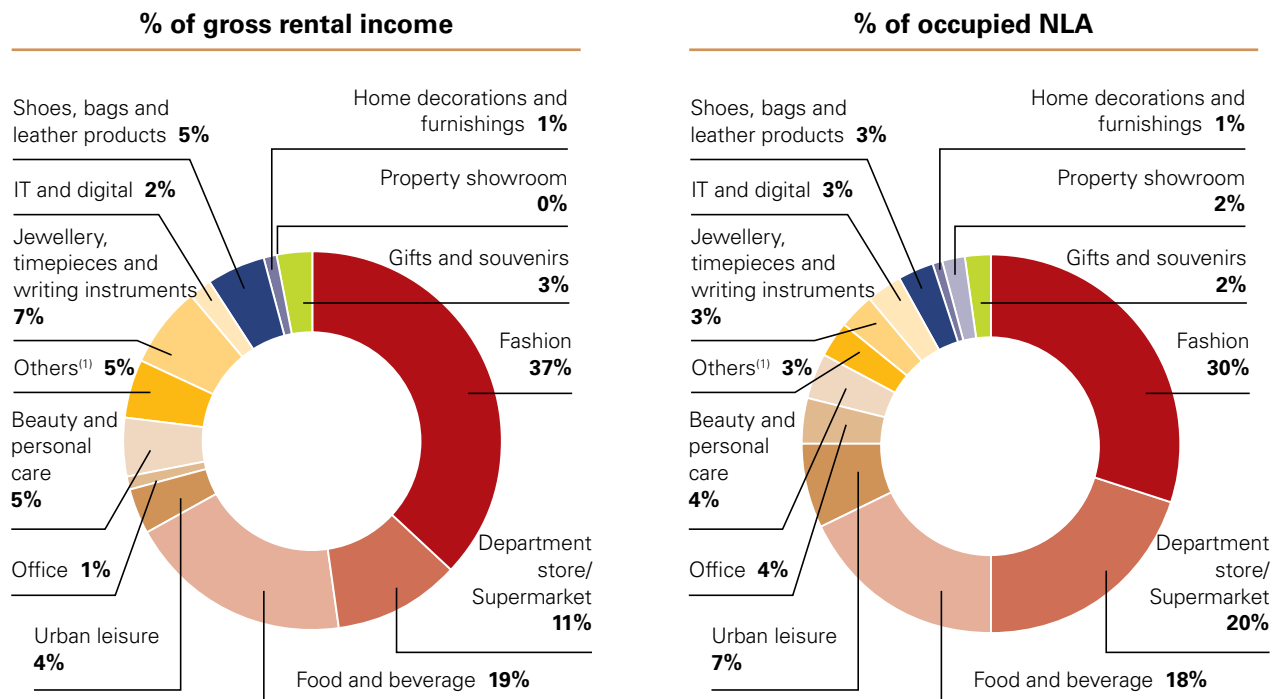
Retail

Tenancy expiry profile

| Period | % of gross rental income | % of occupied NLA expiring |
|-----------------------|--------------------------|----------------------------|
| FY2012 | 14 | 17 |
| FY2013 | 74 | 70 |
| FY2014 and thereafter | 12 | 13 |
| Total | 100 | 100 |

Retail

Trade sector analysis



¹ Including trade sectors such as services, storage, auto gallery, health & fitness, optical and eye care.

b) Office

| Pavilion Tower | |
|---|--|
| Address | 75 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia |
| Description | 20-storey office building |
| Age | 4 years |
| Title | H.S.(D) 118129 PT 71, Seksyen 63, Kuala Lumpur, Negeri Wilayah Persekutuan |
| Encumbrances | Private caveat by AmTrustee Berhad |
| Tenure | 99-year lease expiring on 26 October 2109 |
| Gross floor area | 243,288 sq ft |
| Net lettable area | 167,407 sq ft |
| Occupancy rate as at 31 December 2011(%) | 69.3 |
| Date of acquisition | 7 December 2011 |
| Acquisition price | RM123 million |
| Appraised value as at 31 December 2011 | RM128 million |
| Date of latest valuation | 30 January 2012 |
| Independent valuer | Knight Frank (Proprietor: Ooi & Zaharin Sdn Bhd) |

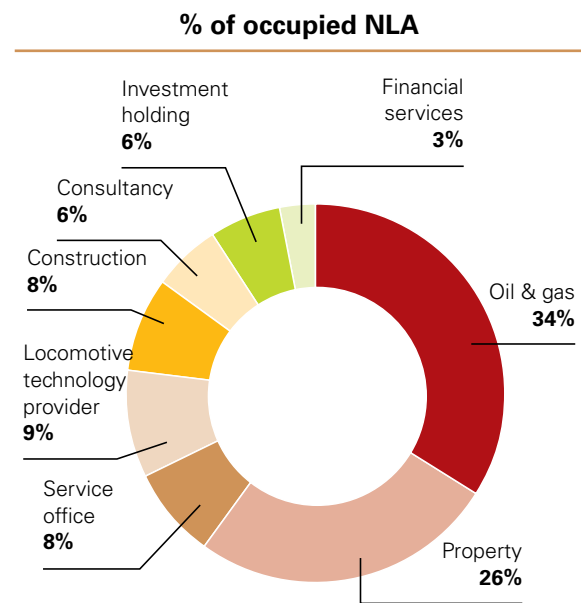
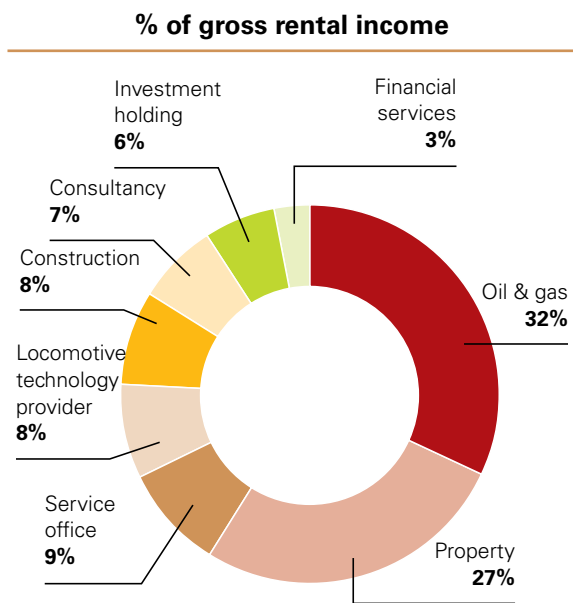
Office

Tenancy expiry profile

| Period | % of gross rental income | % of occupied NLA expiring |
|-----------------------|--------------------------|----------------------------|
| FY2012 | 3 | 3 |
| FY2013 | 39 | 38 |
| FY2014 and thereafter | 58 | 59 |
| Total | 100 | 100 |

Office

Trade sector analysis



Corporate Governance

- **Board of Directors' Meetings**

The Board met four times during the financial period ended 31 December 2011 and the details of attendance of the Directors are as follows:

| Name of Directors | Number of board meetings attended |
|---|-----------------------------------|
| Datuk Lim Siew Choon | 4/4 |
| Datin Tan Kewi Yong | 4/4 |
| Dato' Lee Tuck Fook ¹ | 2/3 |
| Ahmad Mohd A Y Al-Sayed ² | 0/3 |
| Omer Abdulaziz H A Al-Marwani ² | 3/3 |
| Mohamed Badr S K Al-Sadah ² | 2/3 |
| Navid Chamdia ² | 3/3 |
| Ooi Ah Heong ¹ | 3/3 |
| Datuk Roger Tan Kim Hock ¹ | 2/3 |
| Dato' Maznah binti Abdul Jalil ¹ | 3/3 |
| Dato' Mohzani bin Abdul Wahab ¹ | 3/3 |
| Syed Mohd Fareed bin Shaikh Alhabshi ¹ | 2/3 |

¹ Appointed on 29 July 2011

² Appointed on 10 August 2011

- **Directors' training**

Due to the short period of 25 days post IPO listing, none of the Directors have attended any training. However, they are scheduled to attend Mandatory Accreditation Programme in 2012.

- **Others**

The information set out below is disclosed in compliance with the Securities Commission's Guidelines on Real Estate Investment Trusts:

- 1. Sanctions and/or penalties**

There was 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 period ended 31 December 2011.

- 2. Non-audit fees**

The non-audit fees payable to the external auditors of Pavilion REIT for the financial period ended 31 December 2011 amounted to RM20,000.

3. Soft commission

There was no soft commission received by the Manager during the financial period ended 31 December 2011.

4. Variation in results

There was no variance of 10% or more between the audited results for the financial period ended 31 December 2011 and the unaudited results previously announced by Pavilion REIT.

5. Material contracts involving the interests of the directors and major unitholders

Other than disclosed under Note 23 of the financial statements, there was no material contract (not being contract entered into in the ordinary course of business) entered into by the Trustee involving the interests of the Directors and major unitholders during the financial period ended 31 December 2011.

Financial Statements

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33 Trustee's Report

34 Independent Auditors' Report

36 Statement of Financial Position

37 Statement of Comprehensive Income

39 Statement of Changes in Net Asset Value

40 Statement of Cash Flows

42 Notes to the Financial Statements

Statement by the Manager

In the opinion of the Directors of the Manager, the financial statements set out on pages 36 to 69 are drawn up in accordance with the provisions of the Deed dated 13 October 2011, the Securities Commission's Guidelines on Real Estate Investment Trusts, applicable securities laws and Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of Pavilion Real Estate Investment Trust as at 31 December 2011 and of its financial performance and cash flows for the period ended on that date.

The information on the breakdown of realised and unrealised income included in Note 25 to the financial statement have been compiled in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants.

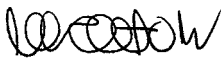
For and on behalf of the Manager,

Pavilion REIT Management Sdn Bhd,

Signed in accordance with a resolution of the Directors of the Manager:



Datuk Lim Siew Choon



Dato' Lee Tuck Fook

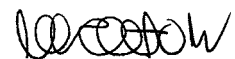
Kuala Lumpur,

Date: 21 February 2012

Statutory Declaration

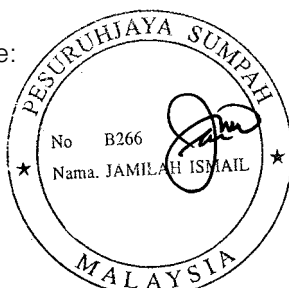
I, **Dato' Lee Tuck Fook**, the Director of **Pavilion REIT Management Sdn Bhd** primarily responsible for the financial management of Pavilion Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 36 to 69, are, to the best of my knowledge and 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 at Ampang Selangor
on 21 February 2012



Dato' Lee Tuck Fook

Before me:



Unit No. C 07/3
Tingkat 4, Block C
Garden City Business Center
Taman Dagang
68000 Ampang, Selangor

Trustee's Report

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

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

- 1) Final income distribution of 0.44 sen per unit payable on 29 February 2012.

For and on behalf of the Trustee,
AmTrustee Berhad



Tan Kok Cheeng
Chief Executive Officer

Kuala Lumpur,
Date: 21 February 2012

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the financial statements of Pavilion Real Estate Investment Trust and its subsidiary ("Pavilion REIT"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in net asset value and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 36 to 69.

Directors of Pavilion REIT Management Sdn Bhd's Responsibility for the Financial Statements

The Directors of Pavilion REIT Management Sdn Bhd (the "Manager") of Pavilion REIT are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards in Malaysia and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Manager's preparation and fair presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Manager's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of Pavilion REIT as of 31 December 2011 and of its financial performance and cash flows for the period then ended.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information on the breakdown of realised and unrealised income included in Note 25 to the financial statements has been compiled by Pavilion REIT as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not a required part of the financial statements. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matters

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

The logo for KPMG, consisting of the letters 'KPMG' in a stylized, bold, sans-serif font.

KPMG

Firm Number: AF 0758
Chartered Accountants

Petaling Jaya,
Date: 21 February 2012

A handwritten signature in black ink, appearing to read 'Thong Foo Vung'.

Thong Foo Vung

Approval Number: 2867/08/12(J)
Chartered Accountant

Statement of Financial Position

as at 31 December 2011

| | Note | 2011 RM'000 |
|--|------|----------------|
| Assets | | |
| Plant and equipment | 4 | 3,567 |
| Investment properties | 5 | 3,561,000 |
| Total non-current assets | | 3,564,567 |
| Inventories | | 851 |
| Trade and other receivables | 6 | 3,075 |
| Cash and cash equivalents | 7 | 112,595 |
| Total current assets | | 116,521 |
| Total assets | | 3,681,088 |
| Financed by | | |
| Unitholders' fund | | |
| Unitholders' capital | 8 | 2,868,742 |
| Deficit | | (764) |
| Total unitholders' fund | | 2,867,978 |
| Liabilities | | |
| Borrowings | 9 | 704,397 |
| Payables and accruals | 10 | 68,053 |
| Total non-current liabilities | | 772,450 |
| Payables and accruals | 10 | 40,660 |
| Total current liabilities | | 40,660 |
| Total liabilities | | 813,110 |
| Total unitholders' fund and liabilities | | 3,681,088 |
| Net asset value ("NAV") | | 2,867,978 |
| Number of units in circulation ('000 units) | | 3,000,000 |
| NAV per unit (RM) | | 0.96 |

The accompanying notes form an integral part of the financial statements.

Statement of Comprehensive Income

for the period from date of establishment on 13 October 2011 to 31 December 2011

| | Note | 13.10.2011 to 31.12.2011 RM'000 |
|---|------|---------------------------------------|
| Rental income | | 19,021 |
| Other income | | 3,518 |
| <hr/> | | |
| Gross revenue | | 22,539 |
| Utilities | | (2,806) |
| Maintenance | | (1,148) |
| Quit rent and assessment | | (578) |
| Other operating expenses | | (1,748) |
| <hr/> | | |
| Net property income | | 16,259 |
| Interest income | | 234 |
| <hr/> | | |
| Net investment income | | 16,493 |
| Manager's management fees | 11 | (1,238) |
| Trustee's fees | 1(c) | (27) |
| Valuation fee | | (371) |
| Other trust expenses | | (159) |
| Borrowing costs | 12 | (2,322) |
| <hr/> | | |
| Income before taxation | | 12,376 |
| Taxation | 13 | - |
| <hr/> | | |
| Income after taxation / Total comprehensive income attributable to unitholders | | 12,376 |
| <hr/> | | |
| Income after taxation is made up as follows: | | |
| Realised | | 12,376 |
| Unrealised | | - |
| <hr/> | | |
| | | 12,376 |
| <hr/> | | |
| Earnings per unit (sen) | 14 | 0.41 |
| <hr/> | | |
| Total comprehensive income | | 12,376 |
| Distribution adjustments | A | 764 |
| <hr/> | | |
| Distributable income | | 13,140 |
| <hr/> | | |
| Distribution per unit (sen) - final | | 0.44 |
| <hr/> | | |

| | Note | 13.10.2011 to 31.12.2011 RM'000 |
|--|-------------|--|
| Note A | | |
| Distribution adjustments comprise: | | |
| Amortisation of transaction costs | | 104 |
| Depreciation | | 41 |
| Manager's management fees payable in units | 11 | 619 |
| | | |
| | | 764 |
| | | |

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Net Asset Value

for the period from date of establishment on 13 October 2011 to 31 December 2011

| | Note | Unitholders' capital RM'000 | Income/ (Deficit) RM'000 | Total funds RM'000 |
|--|------|-----------------------------------|--------------------------------|--------------------------|
| As at 13 October 2011 | | – | – | – |
| Income after taxation/ Total comprehensive income for the period attributable to unitholders | | – | 12,376 | 12,376 |
| Unitholders' transactions | | | | |
| Issue of new units | | 2,655,100 | – | 2,655,100 |
| Effect of fair value adjustment (due to units issued) for acquisition of investment properties | | 247,200 | – | 247,200 |
| Listing expenses | | (33,558) | – | (33,558) |
| Distribution payable to unitholders | 15 | – | (13,140) | (13,140) |
| Increase in net assets resulting from unitholders' transactions | | 2,868,742 | (13,140) | 2,855,602 |
| Net assets as at 31 December 2011 | | 2,868,742 | (764) | 2,867,978 |

Note 8

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

for the period from date of establishment on 13 October 2011 to 31 December 2011

| | Note | 13.10.2011 to 31.12.2011 RM'000 |
|--|------|---------------------------------------|
| Cash flows from operating activities | | |
| Income before taxation | | 12,376 |
| <i>Adjustments for:</i> | | |
| Borrowing costs | | 2,322 |
| Interest income | | (234) |
| Depreciation | | 41 |
| Operating income before changes in working capital | | 14,505 |
| Increase in inventories | | (851) |
| Increase in receivables | | (3,075) |
| Increase in payables | | 26,619 |
| Net cash from operating activities | | 37,198 |
| Cash flows from investing activities | | |
| Acquisition of investment properties | (i) | (1,369,000) |
| Purchase of plant and equipment | | (3,608) |
| Tenants' deposits assumed | | 68,053 |
| Pledged deposit | | (17,029) |
| Interest received | | 234 |
| Net cash used in investing activities | | (1,321,350) |
| Cash flows from financing activities | | |
| Proceeds from issue of units | | 710,300 |
| Proceeds from borrowings | | 715,501 |
| Repayment of borrowings | | (5,800) |
| Payment of financing expenses | | (5,408) |
| Payment of listing expenses | | (32,657) |
| Interest paid | | (2,218) |
| Net cash from financing activities | | 1,379,718 |
| Net increase in cash and cash equivalents | | 95,566 |
| Cash and cash equivalents at date of establishment | | - |
| Cash and cash equivalents at 31 December | (ii) | 95,566 |

(i) Acquisition of investment properties

During the period, Pavilion REIT acquired investment properties of which the consideration was settled in cash for RM1,369,000,000 and issuance of 2,210,000,000 units in Pavilion REIT.

Statement of Cash Flows [cont'd]

(ii) Cash and cash equivalents

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

| | Note | 2011 RM'000 |
|-------------------------------------|-------------|------------------------|
| Cash and bank balances | 7 | 186 |
| Deposits placed with licensed banks | 7 | 112,409 |
| | | |
| Pledged deposit | | 112,595 (17,029) |
| | | |
| | | 95,566 |
| | | |

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

1. General

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

Registered office

Suite 802, 8th Floor
Wisma Lim Foo Yong
No.86, Jalan Raja Chulan
50200 Kuala Lumpur

Principal place of business

Lot 10.00.00, Level 10
Pavilion Kuala Lumpur
168, Jalan Bukit Bintang
55100 Kuala Lumpur

The financial statements as at and for the period ended 31 December 2011 comprise the Pavilion REIT and its wholly-owned special purpose company, Pavilion REIT Venture Capital Sdn Bhd, a company incorporated in Malaysia of which the principal activity is to undertake debt facilities for the acquisition of Pavilion REIT properties.

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 NAV (being the total unitholders' fund) per unit, while maintaining an appropriate capital structure.

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

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

(a) Property management fees

The Property Manager, Henry Butcher Malaysia Sdn Bhd, is entitled to property management fee of RM30,000 per month (excluding service tax). In addition, the Property Manager is also entitled to full reimbursement of costs and expenses incurred in the operation, maintenance, management and marketing of the properties held by Pavilion REIT (including but not limited to the cost relating to the employment and remuneration of on-site staff provided) ("Permitted Expenses") as well as fees and reimbursements for Permitted Expenses payable to its service providers.

(b) Manager's management fees

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

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

1. General [cont'd]

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

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

| Fee Payable (% per annum of the Total Asset Value of Pavilion REIT) | Criteria – Provided that annual growth in the Distributable Income in a Financial Year (calculated before accounting for Incentive Fee in that Financial Year): |
|---|---|
| Up to 0.10% | 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:-

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

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.

1. General [cont'd]

(b) Manager's fee [cont'd]

The Manager will make an immediate announcements 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 Malaysian Code on Take-Overs and Mergers 2010.

(c) Trustee's fees

In accordance to the Deed, an annual trusteeship fee of up to 0.05% per annum of NAV is to be paid to Trustee.

The financial statements were approved by the Board of Directors of the Manager on 21 February 2012.

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, Financial Reporting Standards ("FRSs") and generally accepted accounting principles in Malaysia.

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

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, *Related Party Disclosures* (revised)
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
- Amendments to FRS 112, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to FRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- FRS 9, *Financial Instruments* (2009)
- FRS 9, *Financial Instruments* (2010)
- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits* (2011)
- FRS 127, *Separate Financial Statements* (2011)
- FRS 128, *Investment in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*

2. Basis of preparation [cont'd]

(a) Statement of compliance [cont'd]

Pavilion REIT's financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (MFRSs) issued by the MASB and International Financial Reporting Standards (IFRSs). As a result, from 1 January 2012, Pavilion REIT will not be adopting the above FRSs, Interpretations and amendments but will adopt MFRSs.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements in conformity with FRSs 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 period in which the estimates are revised and in any future periods 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 except as disclosed in note 5 – fair value of investment properties.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the period presented in these financial statements by Pavilion REIT.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Pavilion REIT. Control exists when Pavilion REIT has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by Pavilion REIT.

3. Significant accounting policies [cont'd]

(a) Basis of consolidation [cont'd]

(ii) Loss of control

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

(iii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) Initial recognition and measurement

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

A financial instrument is recognised initially, at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

Pavilion REIT categorises financial instruments as follows:

Financial assets

Loans and receivables

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

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

3. Significant accounting policies [cont'd]

(b) Financial instruments [cont'd]

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

(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.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

The estimated useful lives are as follows:

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

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

3. Significant accounting policies [cont'd]

(d) Investment properties

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

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

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 period in which the item is derecognised.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values Pavilion REIT's investment property portfolio at least once every three years.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, where appropriate:

- the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness;
- the allocation of maintenance and insurance responsibilities between Pavilion REIT and the lessee; and
- the remaining economic life of the property.

When rent reviews or renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices, have been served validly and within the appropriate time.

3. Significant accounting policies [cont'd]

(e) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in terms of which Pavilion REIT assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition of 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.

Leases, where Pavilion REIT does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under an operating lease, are not recognised on Pavilion REIT's statement of financial position. Property interest held under an operation lease to earn rental income or for capital appreciation or both, is classified as investment properties.

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

(h) Impairment

(i) Financial assets

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

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

3. Significant accounting policies [cont'd]

(h) Impairment [cont'd]

(ii) Other assets

The carrying amounts of other assets (except for investment property that is measured at fair value) are reviewed at the end of each reporting period 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 groups of assets (the "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 to sell. 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 generated unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable estimated 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 those assets.

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

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

(j) Equity instruments

Instruments classified as equity are stated 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.

3. Significant accounting policies [cont'd]

(k) Revenue

(i) Rental income

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

(ii) Interest income

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

(iii) Other income

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

(l) Expenses

(i) Property expenses

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

Property management fees are recognised on an accrual basis.

(ii) Manager's management fees

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

(iii) Trustee's fees

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

(iv) Interest expense

All interest incurred in connection with borrowings are expensed using the effective profit method, in the period in which they are incurred.

3. Significant accounting policies [cont'd]

(m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is 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 on the taxable income for the period, using tax rates enacted or substantively enacted by the end of the reporting period.

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 reporting period.

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 reporting period 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 period.

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, which comprise management fees payable to the Manager.

(o) Operating segments

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

4. Plant and equipment

| | Furniture and fittings RM'000 | IT equipment and software RM'000 | Motor vehicles RM'000 | Office equipment RM'000 | Tools and equipment RM'000 | Total RM'000 |
|------------------------------------|--|---|--------------------------------------|--|---|-------------------------|
| Cost | | | | | | |
| As at date of establishment | – | – | – | – | – | – |
| Additions | 1,252 | 340 | 3 | 129 | 1,884 | 3,608 |
| As at 31 December 2011 | 1,252 | 340 | 3 | 129 | 1,884 | 3,608 |
| Accumulated depreciation | | | | | | |
| As at date of establishment | – | – | – | – | – | – |
| Depreciation charge for the period | 8 | 8 | – | 2 | 23 | 41 |
| As at 31 December 2011 | 8 | 8 | – | 2 | 23 | 41 |
| Carrying amounts | | | | | | |
| As at 31 December 2011 | 1,244 | 332 | 3 | 127 | 1,861 | 3,567 |

5. Investment properties

| | 2011 RM'000 |
|--------------------------------------|------------------------|
| As at date of establishment | – |
| Acquisition of investment properties | 3,561,000 |
| As at 31 December | 3,561,000 |

During the period, Pavilion REIT acquired investment properties of which the consideration was settled in cash for RM1,369,000,000 and issuance of 2,210,000,000 units in Pavilion REIT.

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

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 31.12.2011 % | Fair value as at 31.12.2011 RM'000 | Initial acquisition cost as at establishment RM'000 | Percentage of fair value to NAV as at 31.12.2011 % |
|-----------------------|---------------------|-------------------|--------------|------------|------------------------------------|------------------------------------|---|--|
| Pavilion | | | | | | | | |
| Kuala Lumpur Mall | 7.12.2011 | 31.12.2011 | Kuala Lumpur | Leasehold* | 99 | 3,433,000 | 3,433,000 | 120 |
| Pavilion Tower | 7.12.2011 | 31.12.2011 | Kuala Lumpur | Leasehold* | 69 | 128,000 | 128,000 | 4 |
| Investment properties | | | | | | 3,561,000 | 3,561,000 | |

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

Investment properties are stated at fair value based on valuations performed by independent professional valuer. The basis of valuation adopted is the Market Value which is defined as "the estimated amount for which a property should be exchanged on the date of valuation between a willing seller and a willing buyer in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." In arriving at the Market Value, the valuer uses investment method.

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 net income figure) and a defined value type by converting an income amount into value estimate. This process may consider direct relationship (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 highest return commensurate with a given level of risk leads to the most probable value figure.

In arriving at the fair value using the investment method, capitalisation rates ranging from 6.25% to 7.00% and discount rate of 6.75% were applied.

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

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.

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

6. Trade and other receivables

| | 2011 RM'000 |
|-------------------|------------------------|
| Trade | |
| Trade receivables | 163 |
| Non-trade | |
| Other receivables | 2,719 |
| Deposits | 5 |
| Prepayments | 188 |
| | 2,912 |
| | 3,075 |

7. Cash and cash equivalents

| | 2011 RM'000 |
|-------------------------------------|------------------------|
| Cash and bank balances | 186 |
| Deposits placed with licensed banks | 112,409 |
| | 112,595 |

Included in the deposits placed with licensed banks is an amount of RM17,029,000 which is maintained in a Debt Service Reserve Account with a licensed bank to cover a minimum of six months interest for a banking facility granted to Pavilion REIT (Note 9).

8. Total unitholders' funds**8.1 Unitholders' capital**

| | 2011 Number of units '000 |
|--|--|
| Approved fund size: | |
| As at listing date on 7 December 2011/31 December 2011 | 3,100,000 |
| Issued and fully paid up: | |
| At date of establishment | — |
| Issued as purchase consideration for investment properties | 2,210,000 |
| Public issue at RM0.88 per unit | 35,000 |
| Public issue at RM0.90 per unit | 755,000 |
| As at 31 December 2011 | 3,000,000 |

8. Total unitholders' funds [cont'd]**8.1 Unitholders' capital [cont'd]**

| | 2011 |
|---|---------------|
| | RM'000 |
| As at listing date on 7 December 2011 | |
| Issue of new units: | |
| - 2,245,000,000 units @ RM0.88 per unit | 1,975,600 |
| - 755,000,000 units @ RM0.90 per unit | 679,500 |
| Effect of fair value adjustment (due to units issued) for acquisition of investment properties | 247,200 |
| Listing expenses | (33,558) |
| <hr/> | |
| As at 31 December 2011 | 2,868,742 |
| <hr/> | |

8.2 Unitholdings of substantial unitholders, Directors and their related parties

As at 31 December 2011, the Manager did not hold any Units in Pavilion REIT. However, the directors of the Manager held Units in Pavilion REIT, details of which are as follows:

| | 2011 | |
|---|-------------------------------------|------------------------------------|
| | Number of Units '000 | Market value RM'000 |
| Pavilion REIT's substantial unitholders' direct Unitholdings in Pavilion REIT: | | |
| Qatar Holding LLC | 1,082,900 | 1,180,361 |
| Datuk Lim Siew Choon | 845,425 | 921,513 |
| Datin Tan Kewi Yong | 281,875 | 307,244 |
| <hr/> | | |
| The Manager's directors' direct unitholdings in Pavilion REIT: | | |
| Datuk Lim Siew Choon | 845,425 | 921,513 |
| Datin Tan Kewi Yong | 281,875 | 307,244 |
| Ahmad Mohd A Y Al-Sayed | 100 | 109 |
| Mohamed Badr S K Al-Sadah | 10 | 11 |
| Navid Chamdia | 100 | 109 |
| Dato' Lee Tuck Fook | 100 | 109 |
| Ooi Ah Heong | 100 | 109 |
| Datuk Roger Tan Kim Hock | 100 | 109 |
| Dato' Maznah binti Abdul Jalil | 100 | 109 |
| Dato' Mohzani bin Abdul Wahab | 100 | 109 |
| Syed Mohd Fareed bin Shaikh Alhabshi | 100 | 109 |
| <hr/> | | |

Notes:

The market value of the Units was computed based on closing market price of RM1.09 as at 30 December 2011.

9. Borrowings

| | 2011 RM'000 |
|-------------------------------------|------------------------|
| Non-current | |
| Secured term loan | 709,701 |
| Less: Unamortised transaction costs | (5,304) |
| | |
| | 704,397 |
| | |

Pavilion REIT has 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 a 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 facility of up to RM705.9 million to part finance the acquisition of investment properties and future acquisitions by Pavilion REIT bearing a floating interest rate of the Lenders' cost of funds plus a margin of 0.8% to 1.0% per annum;
- 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) bearing a floating interest rate of the Lenders' cost of funds plus a margin of 1.0% to 1.1% per annum; and
- iii) BG/RTL3 – a bank guarantee of up to RM10.0 million for the issuance of performance bonds, bank guarantees, indemnities or undertakings and a revolving term loan facility for the conversion of any amounts paid out under the performance bonds, bank guarantees, indemnities or undertakings issued under bank guarantee bearing a floating interest rate of the Lender's cost of funds plus a margin of 1.0% to 1.1% per annum.

RTL1 and RTL2 will each have a maturity of five years from first drawdown of RTL1 and BG/RTL3 will be repayable on demand and subject to annual renewal at Lender's consent. Pavilion REIT has not utilised RTL3 as at 31 December 2011.

The Manager also has the option to establish a Commercial Paper/Medium Term Notes programme within four years from first drawdown of RTL1. Upon the establishment of the Commercial Paper/Medium Term Notes programme, the new debt facilities (save for the BG/RTL3 facility) will have a maturity of up to seven years from first drawdown of RTL1.

On 7 December 2011, Pavilion REIT had drawn down the RTL1 and RTL2 of RM705.9 million and RM9.6 million respectively to part finance the acquisition of investment properties and related assets. A partial repayment of RM5.8 million for RTL2 was done on 30 December 2011 due to lower value of related assets acquired.

The borrowings are secured over investment properties as disclosed in Note 5 and an amount of RM17,029,000 maintained in a Debt Service Reserve Account with a licensed bank as disclosed in Note 7.

10. Payables and accruals

| | Note | 2011 RM'000 |
|-------------------------------------|-------------|------------------------|
| Non-current | | |
| Trade | | |
| Tenants' deposits | a | 68,053 |
| <hr/> | | |
| Current | | |
| Trade | | |
| Trade payables | | 2,165 |
| Tenants' deposits | a | 2,475 |
| <hr/> | | |
| | | 4,640 |
| <hr/> | | |
| Non-trade | | |
| Other payables and accrued expenses | b | 22,880 |
| Distribution payable to unitholders | | 13,140 |
| <hr/> | | |
| | | 36,020 |
| <hr/> | | |
| | | 40,660 |
| <hr/> | | |
| | | 108,713 |
| <hr/> | | |

- (a) Tenants' deposits are in respect of refundable deposits received from tenants for tenancy or marketing agreements. Tenancy agreements tenure are for period of one to three years. The amount is unsecured and interest free.
- (b) Included in other payables and accrued expenses are the following amounts due to:

| | 2011 RM'000 |
|--|------------------------|
| The Manager | 1,238 |
| Trustee | 27 |
| Urusharta Cemerlang Sdn Bhd (sponsor of Pavilion REIT) | 18,422 |
| <hr/> | |
| 19,687 | |
| <hr/> | |

Amount due to the Manager and Trustee are unsecured and payable monthly in arrears.

Amount due to Urusharta Cemerlang Sdn Bhd relates to payments made on behalf of Pavilion REIT and is unsecured, interest-free and repayable on demand.

11. Manager's management fees

| | 13.10.2011 to 31.12.2011 RM'000 |
|-----------------|--|
| Base fee | 753 |
| Performance fee | 485 |
| | |
| | 1,238 |
| | |

Manager's management fees payable in units amounted to RM619,000, which represents 50% of the total manager's management fees.

12. Borrowing costs

| | 13.10.2011 to 31.12.2011 RM'000 |
|-----------------------------------|--|
| Interest expense | 2,218 |
| Amortisation of transaction costs | 104 |
| | |
| | 2,322 |
| | |

13. Income tax expense

| | 13.10.2011 to 31.12.2011 RM'000 |
|--|--|
| Reconciliation of tax expense | |
| Income before taxation | 12,376 |
| | |
| Income tax using Malaysian tax rate of 25% | 3,094 |
| Non-deductible expenses | 289 |
| Effect of income exempted from tax | (3,383) |
| | |
| | - |
| | |

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 declared 100% of its distributable income to its unitholders for financial period ended 31 December 2011, no provision for taxation has been made for the current period.

14. Earnings per unit – basic and diluted

The calculation of earnings per unit is based on income after taxation attributable to unitholders for the period of RM12,376,000 divided by the weighted average number of units in circulation during the period of 3,000,000,000.

15. Distribution to unitholders

Distribution to unitholders is from the following sources:

| | 13.10.2011 to 31.12.2011 RM'000 |
|-----------------------------------|--|
| Rental income | 19,021 |
| Other income | 3,518 |
| Interest income | 234 |
| | 22,773 |
| Less: Total expenses | (10,397) |
| | 12,376 |
| Add: Distribution adjustments | 764 |
| Distributable income | 13,140 |
| Distributions to unitholders | 13,140 |
| Final distribution per Unit (sen) | 0.44 |
| Net distribution per Unit * (sen) | 0.44 |

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

| | Withholding tax rate 2011 |
|----------------------------|--|
| Resident corporate | N/A [^] |
| Resident non-corporate | 10% |
| Non-resident individual | 10% |
| Non-resident corporate | 25% |
| Non-resident institutional | 10% |

[^] to tax at prevailing rate

16. Portfolio turnover ratio

2011

| | |
|--|---|
| Portfolio Turnover Ratio ("PTR") (times) | – |
| | |

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

PTR is nil for Pavilion REIT as there were no new acquisitions and disposals of investments in Pavilion REIT since the listing date of 7 December 2011 to 31 December 2011 except for the initial acquisition of the investment properties during initial public offering that was completed on the listing day.

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.

17. Management expense ratio

2011

| | |
|--------------------------------------|------|
| Management expense ratio ("MER") (%) | 0.06 |
| | |

The calculation of the MER is based on the total fees of Pavilion REIT incurred, including manager's management fees, trustee's fees, valuation fee, audit fees, tax agent's fees and administrative expenses, to the net asset value during the period.

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.

18. 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 at least on a quarterly basis.

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.

18. Operating segments [cont'd]

| Segment profit | 13.10.2011 to 31.12.2011 | | |
|--|---------------------------------|--------------------------|-------------------------|
| | Retail RM'000 | Office RM'000 | Total RM'000 |
| Included in the measure of segment profit are: | | | |
| Gross revenue | 22,048 | 491 | 22,539 |
| Less: Property expenses | (6,057) | (223) | (6,280) |
| Net property income | 15,991 | 268 | 16,259 |

Segment assets and liabilities

| | | | |
|---------------------|-----------|----------|-----------|
| Segment assets | 3,657,009 | 7,078 | 3,664,087 |
| Segment liabilities | (784,778) | (28,128) | (812,906) |

Included in the measurement of segment assets and liabilities are:

| | | | |
|---------------------------------|-----------|---------|-----------|
| Additions to non-current assets | 3,436,426 | 128,182 | 3,564,608 |
|---------------------------------|-----------|---------|-----------|

Reconciliation of reportable segment profit

| | 13.10.2011 to 31.12.2011 RM'000 |
|------------------------|--|
| Net property income | 16,259 |
| Interest income | 234 |
| Net investment income | 16,493 |
| Trust expenses | (1,795) |
| Borrowings costs | (2,322) |
| Income before taxation | 12,376 |
| Taxation | – |
| Income after taxation | 12,376 |

Reconciliation of reportable segment assets and liabilities

| 2011 | Segment assets RM'000 | Segment liabilities RM'000 |
|--|--------------------------------------|---|
| Total reportable segments | 3,664,087 | (812,906) |
| Other non-allocated assets/(liabilities) | 17,001 | (204) |
| Total assets/(liabilities) | 3,681,088 | (813,110) |

18. Operating segments [cont'd]**Geographical information**

Pavilion REIT's assets are located in Malaysia and hence, revenue is generated in Malaysia.

19. Financial instruments**19.1 Categories of financial instruments**

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

| Financial assets | Carrying amounts RM'000 | Loans and receivables RM'000 |
|------------------------------|------------------------------------|--|
| 2011 | | |
| Receivables and deposits | 2,887 | 2,887 |
| Cash and cash equivalents | 112,595 | 112,595 |
| | 115,482 | 115,482 |
| | | |
| Financial liabilities | Carrying amounts RM'000 | Financial liabilities measured at amortised cost RM'000 |
| 2011 | | |
| Payables and accruals | 108,713 | 108,713 |
| Borrowings | 704,397 | 704,397 |
| | 813,110 | 813,110 |

19.2 Net gains and losses arising from financial instruments

| | 13.10.2011 to 31.12.2011 RM'000 |
|---------------------|--|
| Short term deposits | 234 |
| Borrowings | (2,322) |
| | (2,088) |

19.3 Financial risks management

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

- Credit risk
- Liquidity risk
- Market risk

19. Financial instruments [cont'd]

19.4 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 primarily 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 on account receivables.

At the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amount of receivables in the statement of financial position.

Receivables

Risk management objectives, policies and processes for managing the risk

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

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. Pavilion REIT manages credit risk by 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 exposure.

There were no past due trade receivables as at the end of the reporting period.

Cash and cash equivalents

Risk management objectives, policies and processes for managing the risk

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

Cash and cash equivalents are placed with licensed financial institutions.

Exposure to credit risk and credit quality

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

Impairment losses

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

19. Financial instruments [cont'd]

19.5 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 exposure to liquidity risk arises principally from its borrowings.

The Manager monitors and 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 reporting period based on undiscounted contractual payments.

| 2011 | Carrying amounts RM'000 | Contractual interest rate % | Contractual cash flows RM'000 | Less than 1 year RM'000 | 1 - 2 years RM'000 | 2 - 5 years RM'000 |
|------------------------------|----------------------------|--------------------------------|----------------------------------|----------------------------|-----------------------|-----------------------|
| Financial liabilities | | | | | | |
| Term loan | 704,397 | 4.5-4.7 | 875,084 | 31,944 | 33,360 | 809,780 |
| Payables and accruals | 109,332 | – | 108,713 | 50,140 | 48,561 | 10,012 |
| | 813,729 | | 983,797 | 82,084 | 81,921 | 819,792 |

19.6 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.

19.6.1 Interest rate risk

Pavilion REIT's exposure to changes in interest rates relates primarily 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 revolving credit facilities.

Interest rate is a general economic indicator that will have an impact on the management of Pavilion REIT.

19. Financial instruments [cont'd]**19.6.1 Interest rate risk [cont'd]***Exposure to interest rate risk*

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

| | 2011 RM'000 |
|------------------------------------|------------------------------|
| Financial asset | |
| Fixed rate instrument | |
| Deposits placed with license banks | 112,595 |
| | |
| Financial liabilities | |
| Floating rate instruments | |
| Term loan | 704,397 |
| | |

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

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

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) unitholders' funds and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

| | Profit or loss | |
|---------------------------|---------------------------------------|---------------------------------------|
| | 100 bp increase RM'000 | 100 bp decrease RM'000 |
| 2011 | | |
| Floating rate instruments | (486) | 486 |
| | | |

19.7 Fair values of financial instruments

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

The carrying amounts of tenants' deposits and borrowings closely approximate the fair values as these financial instruments were newly acquired during the period.

20. 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. The Directors of the Manager will monitor and are determined to maintain an optimal gearing ratio that will provide an ideal debt equity ratio that also complies with regulatory requirements.

The gearing as at 31 December 2011 were as follows:

| | 2011 RM'000 |
|------------------|------------------------------|
| Total borrowings | 704,397 |
| | |
| Total assets | 3,681,088 |
| | |
| Gearing (%) | 19.14 |
| | |

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). For the period from the listing date, 7 December 2011 to 31 December 2012, Pavilion REIT will distribute 100.0% of its distributable income. The actual proportion of distributable income distributed to unitholders beyond 31 December 2012, which shall be at the absolute discretion of the Manager, may be greater than 90.0% of Pavilion REIT's Distributable Income to the extent that the Manager believes it is appropriate, having regard to Pavilion REIT's funding requirements, other capital management considerations and the availability of funds. Distribution when made, will be in Ringgit Malaysia.

21. Operating leases

Leases as lessor

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

| | 2011 RM'000 |
|----------------------------|------------------------------|
| Less than one year | 251,788 |
| Between one and five years | 232,286 |
| | |
| | 484,074 |
| | |

22. Capital commitments

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

| | 2011 RM'000 |
|---|------------------------|
| Capital expenditure commitments | |
| <i>Authorised but not provided for and payable:</i> | |
| - Within one year | 3,100 |

23. Significant related party transactions

For the purposes of these financial statements, these parties are considered to be related to Pavilion REIT if Pavilion REIT has the ability, directly or indirectly, to 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 or common significant influence. Related parties may be individuals or other entities.

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

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

| Companies related to the Manager | Nature of transactions | Transaction value 2011 RM'000 | Balance outstanding 2011 RM'000 |
|---|---|--|--|
| Urusharta Cemerlang Sdn Bhd Group | Acquisition cost of investment properties | 3,561,000 | - |
| Pavilion REIT Management Sdn Bhd | Rental income and its related charges | 26 | 26 |
| Malton Berhad Group * | Rental income and its related charges | 144 | - |
| Kuala Lumpur Pavilion Sdn Bhd ^ | Property management fees and charges payable | 888 | 888 |

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 Datuk Lim Siew Choon and Datin Tan Kewi Yong, his spouse, in Malton Berhad.
- ^ Datuk Lim Siew Choon, Datin Tan Kewi Yong and Dato' Lee Tuck Fook are directors of Kuala Lumpur Pavilion Sdn Bhd. Datuk Lim Siew Choon and Datin Tan Kewi Yong hold the entire issued and paid up share capital of Kuala Lumpur Pavilion Sdn Bhd.

24. Comparative figures

No comparative figures are presented as this is the set of first financial statements of Pavilion REIT prepared by the Manager since Pavilion REIT was established on 13 October 2011.

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

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

| | 2011 RM'000 |
|--------------------------------|------------------------|
| Total deficit of Pavilion REIT | |
| - realised | (764) |
| - unrealised | - |
| <hr/> | |
| Total deficit | (764) |
| <hr/> | |

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

Analysis of Unitholdings

Distribution of unitholdings as at 30 December 2011

| Size of Unitholdings | No. of Unitholders | % of Unitholders | No. of Units | % of Unitholdings |
|---|--------------------|------------------|----------------------|-------------------|
| Less than 100 | 0 | 0 | 0 | 0 |
| 100 - 1,000 | 349 | 10.24 | 307,700 | 0.01 |
| 1,001 - 10,000 | 1,806 | 52.99 | 9,623,900 | 0.32 |
| 10,001 - 100,000 | 960 | 28.17 | 36,564,968 | 1.22 |
| 100,001 to less than 5% of issued units | 290 | 8.51 | 743,503,432 | 24.78 |
| 5% and above of issued units | 3 | 0.09 | 2,210,000,000 | 73.67 |
| Total | 3,408 | 100 | 3,000,000,000 | 100 |

Thirty largest unitholders as per record of depositors as at 30 December 2011

| No | Name of Unitholders | No. of Units | % |
|-----|--|---------------|-------|
| 1. | HSBC NOMINEES (ASING) SDN BHD CS ZURICH FOR QATAR HOLDING LLC | 1,082,900,000 | 36.10 |
| 2. | CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT-CIMB INVESTMENT BANK BERHAD FOR LIM SIEW CHOON (UCDSB-SSA) | 845,325,000 | 28.18 |
| 3. | CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT-CIMB INVESTMENT BANK BERHAD FOR TAN KEWI YONG (UCDSB-SSA) | 281,775,000 | 9.39 |
| 4. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD | 92,920,500 | 3.10 |
| 5. | HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR THE BANK OF NEW YORK MELLON (BNYM AS E&A) | 80,950,000 | 2.70 |
| 6. | KUMPULAN WANG PERSARAAN (DIPERBADANKAN) | 66,500,000 | 2.22 |
| 7. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AMERICAN INTERNATIONAL ASSURANCE BERHAD | 39,296,000 | 1.31 |
| 8. | AMANAHRAYA TRUSTEES BERHAD SKIM AMANAH SAHAM BUMIPUTERA | 38,525,200 | 1.28 |
| 9. | KURNIA INSURANS (MALAYSIA) BERHAD | 27,000,000 | 0.90 |
| 10. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR PRUDENTIAL FUND MANAGEMENT BERHAD | 19,111,600 | 0.64 |
| 11. | HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (SAUDI ARABIA) | 18,011,815 | 0.60 |
| 12. | AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA | 15,410,100 | 0.51 |

Thirty largest unitholders as per record of depositors as at 30 December 2011 [cont'd]

| No | Name of Unitholders | No. of Units | % |
|-----|--|--------------|------|
| 13. | CARTABAN NOMINEES (ASING) SDN BHD GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD FOR GOVERNMENT OF SINGAPORE (C) | 12,190,500 | 0.41 |
| 14. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD ALLIANZ LIFE INSURANCE MALAYSIA BERHAD (P) | 11,900,000 | 0.40 |
| 15. | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LGF) | 11,800,000 | 0.39 |
| 16. | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LPF) | 11,000,000 | 0.37 |
| 17. | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LSF) | 10,740,000 | 0.36 |
| 18. | MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3) | 10,000,000 | 0.33 |
| 19. | MOHAMMED HUSSAIN A A ALABDULLA | 10,000,000 | 0.33 |
| 20. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (HDBS) | 9,647,000 | 0.32 |
| 21. | AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020 | 9,631,300 | 0.32 |
| 22. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (MAYBAN INV) | 8,200,000 | 0.27 |
| 23. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA) | 8,064,100 | 0.27 |
| 24. | MAYBAN NOMINEES (TEMPATAN) SDN BHD MAYBAN TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100) | 6,305,000 | 0.21 |
| 25. | HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED (HBFS-I CLT ACCT) | 5,915,800 | 0.20 |
| 26. | AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA | 5,778,800 | 0.19 |
| 27. | PERTUBUHAN KESELAMATAN SOSIAL | 5,500,000 | 0.18 |
| 28. | CITIGROUP NOMINEES (TEMPATAN) SDN BHD ING INSURANCE BERHAD (INV-IL PAR) | 5,201,000 | 0.17 |
| 29. | CITIGROUP NOMINEES (ASING) SDN BHD CBHK FOR PREMIUM SAM ASIA PROPERTY FUND | 4,815,600 | 0.16 |
| 30. | HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR HWANGDBS SELECT INCOME FUND (4850) | 4,546,000 | 0.15 |

Major unitholders (5% and above) as at 30 December 2011

| No | Name of Unitholder | Direct Interest No. of Units | % | Deemed Interest No. of Units | % |
|----|----------------------|------------------------------|-------|------------------------------|---|
| 1. | Qatar Holding LLC | 1,082,900,000 | 36.10 | – | – |
| 2. | Datuk Lim Siew Choon | 845,425,000 | 28.18 | – | – |
| 3. | Datin Tan Kewi Yong | 281,875,000 | 9.40 | – | – |

Unitholdings of Directors and Chief Executive Officer as at 30 December 2011

| No | Name of Unitholder | Direct Interest No. of Units | % | Deemed Interest No. of Units | % |
|-----|--------------------------------------|------------------------------|-------|------------------------------|---|
| 1. | Datuk Lim Siew Choon | 845,425,000 | 28.18 | – | – |
| 2. | Datin Tan Kewi Yong | 281,875,000 | 9.40 | – | – |
| 3. | Ahmad Mohd A Y Al-Sayed | 100,000 | * | – | – |
| 4. | Mohamed Badr S K Al-Sadah | 10,000 | * | – | – |
| 5. | Navid Chamdia | 100,000 | * | – | – |
| 6. | Dato' Lee Tuck Fook | 100,000 | * | – | – |
| 7. | Ooi Ah Heong | 100,000 | * | – | – |
| 8. | Datuk Roger Tan Kim Hock | 100,000 | * | – | – |
| 9. | Dato' Maznah binti Abdul Jalil | 100,000 | * | – | – |
| 10. | Dato' Mohzani bin Abdul Wahab | 100,000 | * | – | – |
| 11. | Syed Mohd Fareed bin Shaikh Alhabshi | 100,000 | * | – | – |
| 12. | Ho Yew Hong | 95,000 | * | – | – |

*: Negligible

Glossary

| | | |
|---------------|---|--|
| Pavilion REIT | : | Pavilion Real Estate Investment Trust |
| AEI | : | Asset enhancement initiatives |
| Deed | : | The deed dated 13 October 2011 entered into between the Trustee and the Manager constituting Pavilion REIT |
| DPU | : | Distribution per unit |
| EPU | : | Earnings per unit |
| GFA | : | Gross floor area |
| IPO | : | Initial public offering |
| Manager | : | Pavilion REIT Management Sdn Bhd |
| MER | : | Management expense ratio - ratio of expenses incurred in operating Pavilion REIT to its NAV |
| NAV | : | Net asset value |
| NLA | : | Net lettable area |
| REIT | : | Real estate investment trust |
| Sq.ft. | : | Square feet |
| TAV | : | Total asset value |
| Trustee | : | AmTrustee Berhad |

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www.pavilion-reit.com



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