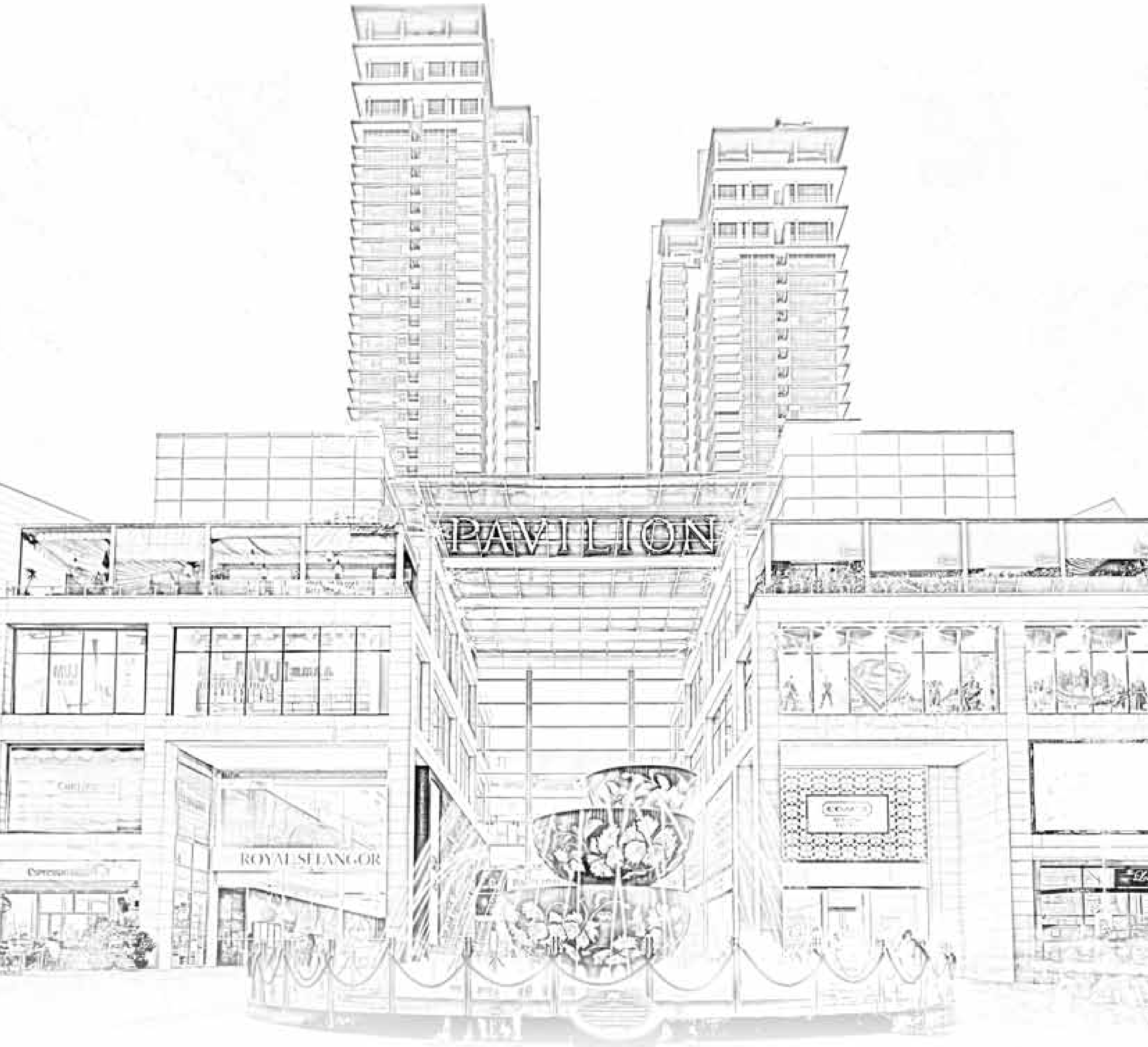
PAVILION

REAL ESTATE INVESTMENT TRUST



Annual Report 2012

VISION, MISSION AND INVESTMENT STRATEGIES

Pavilion REIT was established on 13 October 2011 and listed on Main Market of 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.

VISION

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

MISSION

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

STRATEGIES

The Manager intends to achieve the vision and mission of Pavilion REIT through the following strategies:

(a) Actively pursuing acquisition opportunities in accordance with the authorised investments of Pavilion REIT
   - acquire yield accretive income-producing properties
   - explore repositioning opportunities

(b) Pursuing an efficient capital management strategy
   - diversify sources of debt funding
   - maintaining a reasonable level of debt service capability
   - securing favourable terms of funding
   - managing financial obligations
   - managing the exposures arising from adverse market interest rates through appropriate hedging strategies
   - actively managing the range of maturities to reduce refinancing risk and optimise the cost of capital

(c) Proactively managing the properties and implementing asset enhancement strategies
   - maximise quality shopper traffic at Pavilion Kuala Lumpur Mall
   - active management of tenant base in order to increase rental rates and maintain high occupancy rates
   - continued asset enhancement initiatives to increase net lettable area and rental potential
   - improving cost efficiency

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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

BOARD OF DIRECTOR 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

Omer Abdulaziz H A Al-Marwani
Mohd Nasser A M Al-Humaidi
Saif Mohd A M Al-Madfaa
Navid Chamdia
Ooi Ah Heong

Independent Non-Executive Director

Dato' Mohzani bin Abdul Wahab
Dato' Maznah binti Abdul Jalil
Dato' Choo Chuo Siong
Syed Mohd Fareed bin Shaikh Alhabshi

MANAGER

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
E-mail: info@pavilion-reit.com
Website: www.pavilion-reit.com

MANAGER'S REGISTERED OFFICE

6-2 Level 6 East Wing
Menara ING
No. 84 Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia

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

AUDIT COMMITTEE

Dato' Mohzani bin Abdul Wahab (Chairman)
Dato' Maznah binti Abdul Jalil
Dato' Choo Chuo Siong
Omer Abdulaziz H A Al-Marwani

COMPANY SECRETARY OF THE MANAGER

Lim Mei Yoong
(Licensed Secretary No: LS 02201)
6-2 Level 6 East Wing
Menara ING
No. 84 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

PROPERTY MANAGER

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

AUDITOR

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

PRINCIPAL BANKERS

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

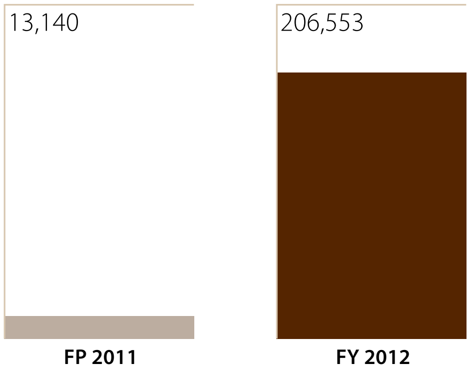
REGISTRAR

Tricor Investor Services Sdn Bhd
(Company Number: 118401-V)
Level 17, The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia

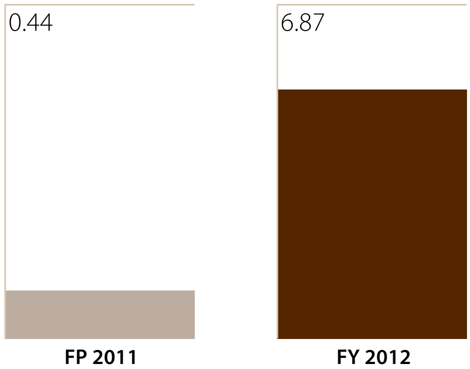
Telephone No.: +603 2264 3883
Facsimile No.: +603 2282 1886

Highlights

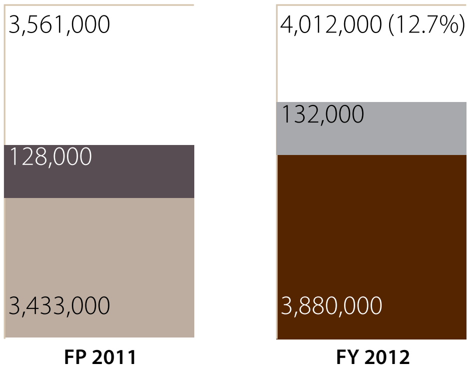
Distributable Income (RM'000)



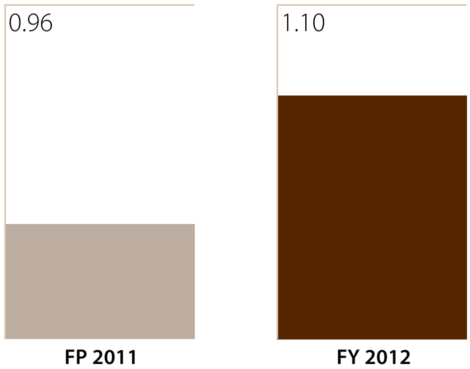
Distribution Per Unit (sen)



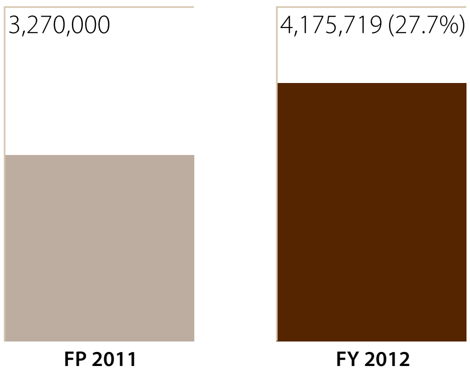
Investment Properties (RM'000)



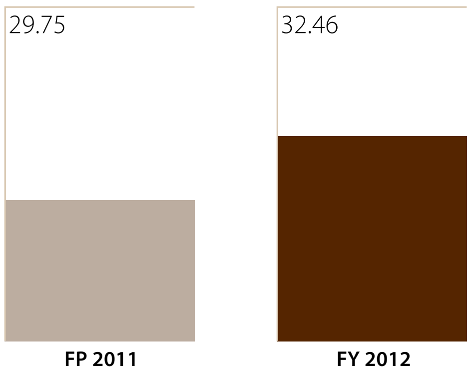
Net Asset Value per Unit (RM)



Market Capitalisation (RM'000)



Annual Total Return (%)



Message from the Chairman

Economic Overview

Compared to the other countries in the world, 2012 had been a fairly successful year for Malaysia. Our gross domestic product is estimated to grow by 5% with low inflation and unemployment level. The retail industry is targeted to grow at approximately 6% as projected by the Malaysia Retail Association and Retail Group Malaysia. These are the result of strengths of the private sector from the continued expansion of mega projects such as the MRT and second Penang Bridge, strong foreign direct investments and stable labour market. the fourth best shopping destination by CNN Travel, after New York, London & Tokyo.

Market Review

For the year ended 2012, the Fund has outperformed the FBM KLCI and posted a total return of 32.5% with the closing price of RM1.39. The highest traded price for the year was RM1.47. Average total return since our listing in 2011 is 31.2%, with 2011 annual total return of 29.8%.

Dear Unitholders,

On behalf of the Board, I am pleased to present Pavilion REIT Annual Report and its Financial Statements for the financial year ended 31 December 2012.

With the continuous effort of the government to promote tourism, Malaysia's tourist arrivals and receipts have had a CAGR of 7.2% and 9.9% respectively, from 2006 – 2011. Additionally, shopping has also become an increasingly significant portion of tourist expenditure, increasing from 21% in 2005 to 32% in 2011. All these efforts have also resulted in a number of tourism accolades for Kuala Lumpur and Malaysia. Kuala Lumpur was rated as the second most competitive global city in South East Asia by Asia Pacific Globe Shopper's Index and Malaysia as the ninth most visited country in the world by the United Nations World Trade Organisation Tourism Highlights 2012. Kuala Lumpur was also voted as

The M-REIT market grew substantially via local and international investors who looked for stable income investments. This resulted in the yield for M-REIT softening from 6.7% (2011) to 6.0% (2012). For the top retail M-REIT, the yield have even compressed further to the 5% mark.

The successful listing of IGB Real Estate Investment Trust onto Bursa Malaysia Securities Berhad together with the growth within M-REIT have increased the M-REIT market capitalization from RM16.5 billion (2011) to RM24.5 billion (2012), a staggering growth of 48%, which makes 2012 the best year on record for M-REITs.

Investment and Asset Performance Review

During the year, a new precinct known as "Fashion Avenue" was introduced to Pavilion Kuala Lumpur, which saw the entry of 30 new tenants into the mall. The Pavilion Kuala Lumpur Mall now houses approximately 500 tenants.

In the middle of 2012 construction works for the MRT at Jalan Bukit Bintang commenced. We are confident that the introduction of the MRT station at the junction of Jalan Sultan Ismail and Jalan Bukit Bintang will in the future bring more foot traffic to Pavilion Kuala Lumpur Mall and its surrounding areas. This will also help in easing traffic congestion in the Golden Triangle and make shopping in Bukit Bintang a more pleasant experience.

Pavilion Kuala Lumpur Mall will continue to strive to be the 'talk of town' renowned for its decorations and events. The 2012 Chinese New Year Festival, which featured a 600-foot long Dragon was endorsed as the Longest Dragon by the Malaysian Book of Record. Tokyo Street Grand Opening, Expansion and Renovation also won the Gold Award from ICSC Asia Pacific Shopping Centre Awards 2012.

We have been reviewing and seeking for assets for acquisition. For the past year, we have not found a suitable asset for acquisition. This will not deter us from continuing our search and evaluation and we will continue to look into potential real estate investments for the Fund during 2013.

Market Outlook

Globally, the economic outlook remains challenging. However, the Malaysian economy is expected to remain resilient in 2013 backed by robust domestic demand with the on-going implementation of the Economic Transformation Programme ("ETP") and the 10th Malaysia Plan projects, which will sustain private-investment growth. Malaysia's economic growth is expected to hold steady at around 5% despite weak exports. Inflation is expected to pick up slightly on higher commodity and energy prices, but will remain below 3%. Growth forecast of retail industry for 2013 is estimated to be 6%.

We foresee that M-REIT would have another exciting year ahead due to its stable income and the potential

listing of KLCC Stapled REIT, which will increase the market capitalization of M-REITs to RM30 billion. This will further boost the appeal for both local and international investors for M-REITs.

Acknowledgements

On behalf of the Board members, I would like to extend our appreciation to the retiring directors, Ahmad Mohd A Y Al-Sayed, Mohamed Badr S K Al-Sadah and the late Datuk Roger Tan Kim Hock for their contribution to Pavilion REIT during their tenure as directors. We welcome Mohd Nasser A M A-Humaidi, Saif Mohd A M Al-Madfaa and Dato' Choo Chuo Siong to the Board.

We would also like to thank all unitholders, tenants, financiers, business associates and other stakeholders for their continuing support, trust and confidence in us. We also thank the management team for their commitment and dedication.

DATUK LIM SIEW CHOON
Chairman

17 January 2013

Message from the CEO

The unit price has steadily strengthened to a high of RM1.47 before closing at RM1.39 as at year end. This represented a capital appreciation of 27.5% for the year.

As the Manager of Pavilion REIT, we are pleased to share with you that Pavilion REIT had outperformed the forecast as stated in the Prospectus for the financial year ended 31 December 2012.

Financial Performance

This is Pavilion REIT's first full year for financial reporting and the assets have achieved gross revenue of RM346.5 million. These amounts exceed the Forecast by RM32.2 million or 10.2%. The net property income of these assets have also improved to RM245.3 million, an increase of RM25.3 million or 11.5% over the Forecast, despite the closure of a speciality anchor space for approximately 4.5 months for reconfiguration during the year.

Due to the outstanding first year performance, the Manager is pleased to announce a final distribution payment of 3.51 sen per unit for the performance of 2nd half year of 2012, totalling 6.87 sen per annum or 1.14 sen or 19.9% above the forecasted distribution per unit of 5.73 sen as stated in the Prospectus. The final distribution would be payable on 28 February 2013.

As part of our capital management strategy, we had converted the long term borrowings from a floating rate into a fixed rate of 4.20% per annum for the next three years and at a rate of 4.35% per annum thereafter. The current borrowings and gearing of Pavilion REIT is RM705.4 million and 16.71% respectively.

From the revaluation exercise undertaken, Pavilion REIT's properties hit RM4.0 billion resulting in gain on revaluation of RM435.6 million, thereby increasing the net asset value by 14.6% to RM1.10 per Unit.

Asset Enhancement Initiative

During the year, we have transformed one of our speciality anchor space, measuring approximately 68,000 square feet into a new precinct known as Fashion Avenue. Tenants' renovation of their retail space commenced progressively from May 2012 and were completed on scheduled for the official opening in September 2012. Fashion Avenue now has over 30 new retail lots which include new fashion retail stores such as Sacoor Brothers, La Martina, Hackett, Denim & Supply Ralph Lauren and Jo Malone, which are making their debut in Malaysia.

This has also given the Manager an opportunity to introduce a new entrance for drop off and another valet service facility from Jalan Raja Chulan, which we hope will introduce more traffic through Fashion Avenue and also ease the occasional traffic congestion going into the current Porte Cochere valet service at Jalan Raja Chulan.

Going Forward

Notwithstanding the above, the team and I will continue to do our best to provide all the unitholders the best return possible for the coming year.

PHILIP HO YEW HONG
Chief Executive Officer

17 January 2013

Board of Directors

Chairman and Non-Independent Executive Director
Datuk Lim Siew Choon

Datuk Lim Siew Choon, age 52, 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 30 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, age 56, a Malaysian, pursued her tertiary education in the United Kingdom specialising in Business and Marketing Studies.

She has over 29 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, age 58, 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 and an Independent Non-Executive Chairman of Pesona Metro Holdings Berhad.

Non-Independent Non-Executive Director

Omer Abdulaziz H A Al-Marwani

Omer Abdulaziz H A Al-Marwani, age 38, a Qatari, graduated with a Bachelor of Accounting degree from 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 and is a member of the Manager's Audit Committee from 1 November 2012. He has no other directorship in other Malaysian public companies.

Non-Independent Non-Executive Director

Mohd Nasser A M Al-Humaidi

Mohd Nasser A M Al-Humaidi, age 41, a Qatari, graduated from the University-Egypt in Cairo with a LLB followed by a LLM (Commercial & Maritime Law) from the University of Wales, United Kingdom.

He is currently the Acting Director of the Human Resources Department at Qatar Investment Authority. He worked as a lawyer in the Ministry of Justice of the State from 1996 until 2003. Subsequently, in February 2003, he worked as the Public Prosecutor, Attorney-General of the State of Qatar until April 2005.

In May 2000 to January 2002, he was seconded as Legal Adviser of the Supreme Council for Economic Affairs & Investment. From January 2002 to January 2009, he was seconded as Legal Adviser of Qatar Investment Authority.

He was appointed to the Board of the Manager on 2 August 2012 with no other directorship in Malaysian public companies.

Non-Independent Non-Executive Director

Saif Mohd A M Al-Madfaa

Saif Mohd A M Al-Madfaa, age 39, a Qatari, graduated with Bachelors of Commerce from Cairo University.

He is currently the Acting Director, Internal Audit of Qatar Investment Authority. He has professional experience of 14 years within government and semi-government organisation at various leading positions including internal audit, regulatory audits, finance and employee affairs.

He was appointed to the Board of the Manager on 1 November 2012 with no other directorship in Malaysian public companies.

Non-Independent Non-Executive Director

Navid Chamdia

Navid Chamdia, age 40, 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 Holdings LLC, focusing primarily on direct acquisitions, joint ventures and co-investments in Europe, the United States and emerging markets. Navid is also responsible for real estate fund investments made by the Qatar Investment Authority.

Prior to joining Qatar Holdings LLC and 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 also a director of Chelsfield plc, a United Kingdom based property company.

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

Non-Independent Non-Executive Director

Ooi Ah Heong

Ooi Ah Heong, aged 61, a Malaysian, graduated from the University of Singapore in 1976.

He has over 36 years of experience in the property development business and has years of experience ranging from low-cost housing to high-end condominium development and institutional buildings to shopping and entertainment centres. He is currently the Director of Business Development of Malton Berhad.

He began his career with Yong Dan Mohd Faiz, a quantity surveying firm in Kuala Lumpur in 1976. He joined Tan & Tan Developments as a Project Manager in 1979. He then joined IOI Group as its General Manager. In 1989, he helped to form Pentadel Sdn Bhd, 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 with no directorship in other Malaysian public companies.

Independent Non-Executive Director
Dato' Mohzani bin Abdul Wahab

Dato' Mohzani bin Abdul Wahab, age 59, 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 TH Heavy Engineering Berhad (formerly known as 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. He resigned from the board of TH Heavy Engineering Berhad on18 October 2012.

Previously, he sat as a director of the Petroleum Industry of Malaysia Mutual Aid Group. He is currently a member of the Investment Panel of Lembaga Tabung Haji. He is also a director of Celcom Axiata Berhad and TerraGali Resources Sdn Bhd.

He was appointed to the Board of the Manager on 29 July 2011. He was appointed a member of the Manager's Audit Committee on 24 October 2012 and the Chairman of the Audit Committee from 1 November 2012.

Independent Non-Executive Director
Dato' Maznah binti Abdul Jalil

Dato' Maznah binti Abdul Jalil, age 59, 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 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 and is also a member of the Manager's Audit Committee from 24 October 2012. She is also a Non-Executive Director of Prestariang Berhad.

Independent Non-Executive Director

Dato' Choo Chuo Siong

Dato' Choo Chuo Siong, age 48, a Malaysian, graduated with a Bachelor of Science in Economics (Honours) from London School of Economics, United Kingdom.

He is currently the Managing Director of Xiao En Group where he supervises, moderates and is the chief decision maker in the daily operations including corporate master planning. Xiao En Group which is a family business is involved in memorial parks, memorial centre and bereavement care services in Malaysia.

Besides being an advisor at the Centre of History & Contemporary Research on China – ASEAN, he has also completed several housing developments in the east coast of Peninsula Malaysia which include office buildings, housing development and apartment projects in the Klang Valley and the Nilai Memorial Park in Negeri Sembilan under the Xiao En Group.

He was appointed to the Board of the Manager on 19 June 2012 and is a member of the Manager's Audit Committee from 24 October 2012. He also holds directorship in Xiao En Memorial Park Bhd (formerly known as Nilai Memorial Park (NS) Bhd).

Independent Non-Executive Director

Syed Mohd Fareed bin Shaikh Alhabshi

Syed Mohd Fareed bin Shaikh Alhabshi, age 57, is a Singaporean.

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

He started his career in 1978 by exporting electronic goods from Singapore to Middle East countries, namely Saudi Arabia, Kuwait and the United Arab Emirates. Thereafter, in 1994, he started an investment holding company for a Saudi Arabian family which owns 80% of National Commercial Bank. In 2002, he started his own interior contracting company 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 is also a director with National Gas Berhad.

Management Team

Chief Executive Officer
Philip Ho Yew Hong

Philip Ho, aged 46, 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 24 years of experience in corporate planning, mergers & acquisitions, finance, audit, operations management, property development and construction.

Prior to joining Pavilion REIT Management Sdn Bhd, he was the Chief Financial Officer of Urusharta Cemerlang Sdn Bhd, where he was involved in the establishment of Pavilion REIT. During this period, he was also involved in the finance, operations and property investment functions for Urusharta Cemerlang Sdn Bhd's group of companies. Prior to this, he was Chief Operations Officer and Finance Director of Kuala Lumpur Pavilion Sdn Bhd (KLP) during the development and construction stage of the Pavilion Kuala Lumpur Project in 2002.

He was appointed as Chief Executive Officer on 1 December 2011 and has no directorship in other public companies, nor does he have any 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 also 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.

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 over 19 years experiences in shopping mall management particularly in the areas of leasing and marketing. In the retail industry, he possesses a wide network of both local and international retailers from renowned local brands to international luxury brands and has successfully secured the required tenant mix.

He joined KLP in 2002 as Senior Leasing Manager, was promoted to General Manager in 2005 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 16 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.

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 19 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.

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, budgeting and planning.

Investment Manager
Tan Su Yi

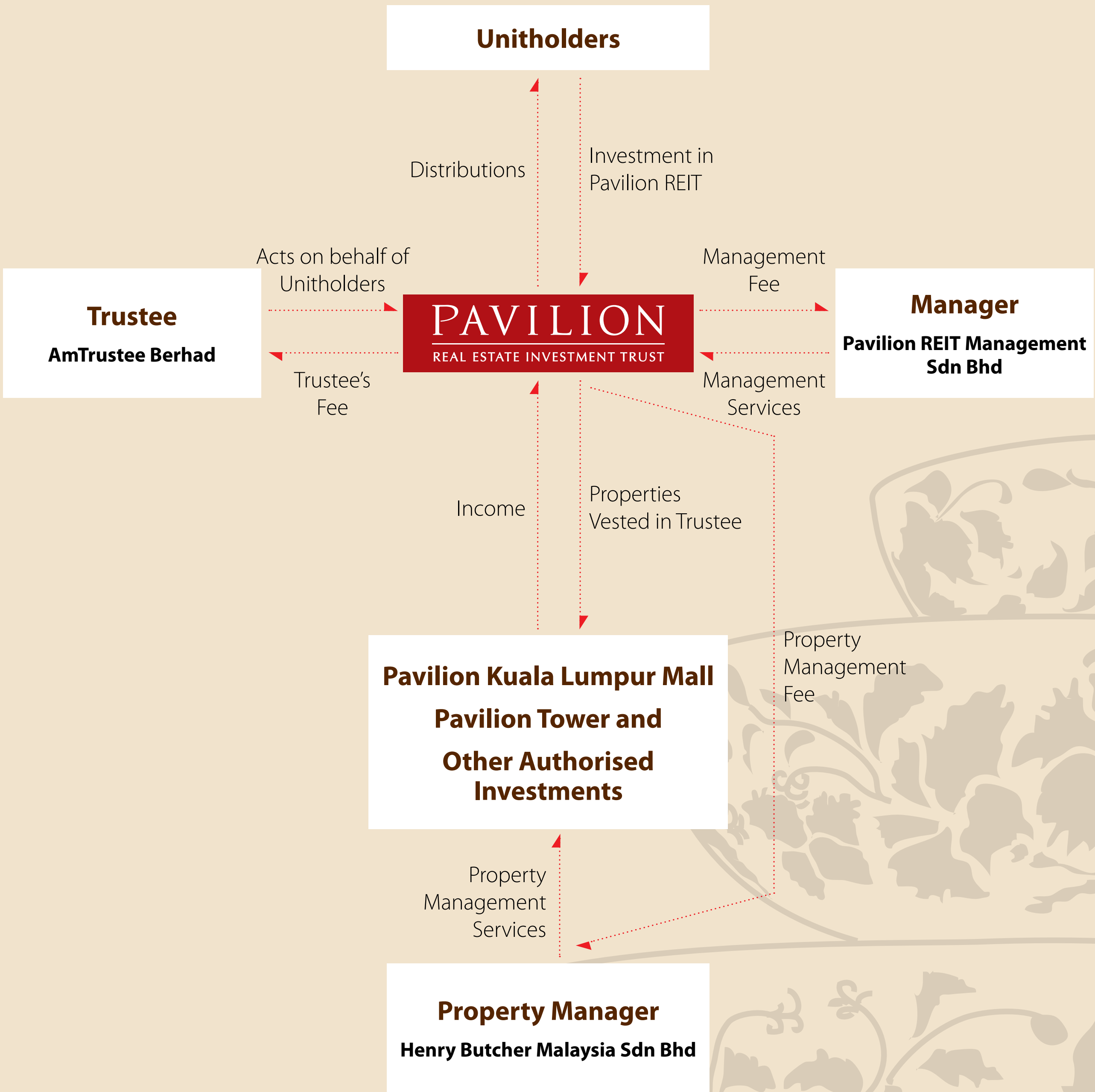
She holds a Bachelor of Science in Applied Accounting from Oxford Brookes University.

Prior to joining Pavilion REIT Management Sdn Bhd, she was with the Corporate Finance Department of AmInvestment Bank Berhad. She has extensive experience in investments and corporate finance and has advised on corporate transactions relating to mergers and acquisitions, divestments and initial public offerings. She started her career as an associate with Ernst & Young where her scope of work involved financial due diligence, feasibility studies, valuations and audit.

Salient Features of Pavilion REIT

Category of Fund	Real Estate Investment Trust
Type of Fund	Income and growth
Duration of Fund/ Termination Date	The earlier of : • The occurrence of any events listed under Clause 26.2 of the Deed • 999 years falling on 17 October 3010 • the date on which Pavilion REIT is terminated by the Manager under Clause 26.1(b) of the Deed
Approved Fund Size	3,100,000,000 Units
Investment Objective	To provide unitholders with regular and stable distributions as well as to achieve long-term growth in net asset value per Unit, while maintaining an appropriate capital structure
Distribution Policy	Half yearly distribution of 100% of distributable income for the financial year ended 31 December 2012 with at least 90% of distributable income for each subsequent financial year
Gearing Policy	Up to 50% of the total asset value of the Fund
Revaluation Policy	At least once every three years by an independent registered valuer
Financial Year Ending	31 December
Listing Market	Main Market of Bursa Malaysia Securities Berhad
Listing Date	7 December 2011
Board Lot	100 Units per board lot
Initial Public Offering Price per Unit	• Retail – RM0.88 • Institution – RM0.90
Stock Name	PAVREIT
Stock Code	5212

Pavilion REIT Structure



Business Review

Manager's Report

The Manager is pleased to submit their report and audited financial statements to unitholders of Pavilion REIT for the year ended 31 December 2012.

Financial Highlights

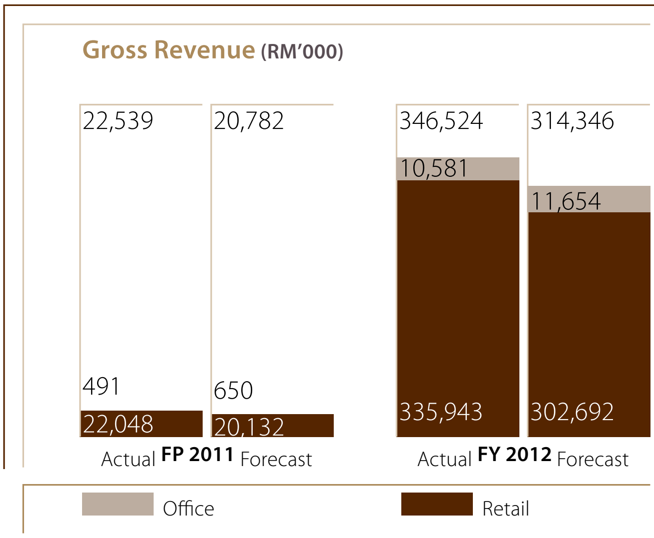
Financial Results and Key Performance Indicators	FY 2012	Forecast 2012	FP 2011	Forecast 2011
Gross Revenue (RM'000)	346,524	314,346	22,539	20,782
Net Property Income ("NPI") (RM'000)	245,289	219,956	16,259	14,494
Distributable Income (RM'000)	206,553	172,106	13,140	11,292
Earnings per Unit (sen)	20.99	5.56	0.41	0.36
Distribution per Unit (DPU) (sen)	6.87	5.73	0.44	0.38
Distribution Yield (%) :-				
- based on retail IPO price of RM0.88	7.81	–	7.30 ^	–
- based on market price as at 31 December	4.94	–	5.89 ^	–
Management Expense Ratio ("MER") (%)	0.68	–	0.06	–
Investment Properties (RM'000)	4,012,000	–	3,561,000	–
Total Asset Value ("TAV") (RM'000)	4,221,355	–	3,681,088	–
Net Asset Value ("NAV") (RM'000)	3,297,110	–	2,867,978	–
NAV per Unit (RM)	1.10	–	0.96	–
Gearing Ratio (%)	16.71	–	19.14	–
Portfolio Turnover Ratio (times)	0.00	–	0.00	–

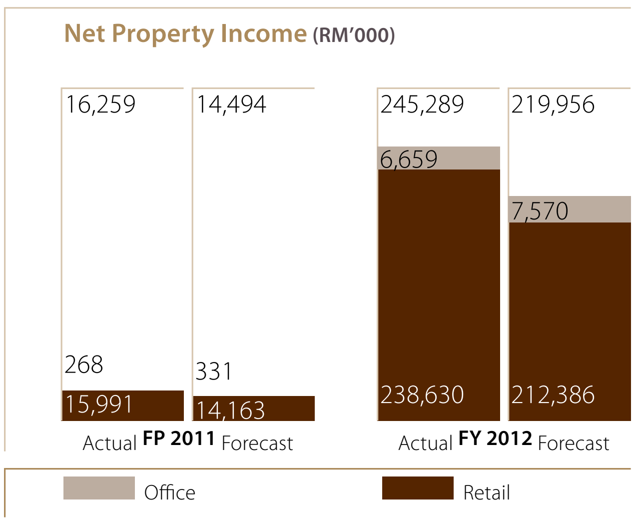
^ *annualised based on distribution per unit of 6.42 sen*

Gross Revenue and Net Property Income

By Segment	Gross Revenue (FY 2012)				
	FY 2012		Forecast		Variance
	RM'000	%	RM'000	%	%
Retail	335,943	96.95	302,692	96.29	10.99
Office	10,581	3.05	11,654	3.71	(9.21)

By Segment	Net Property Income (FY 2012)				
	Actual		Forecast		Variance
	RM'000	%	RM'000	%	%
Retail	238,630	97.29	212,386	96.56	12.36
Office	6,659	2.71	7,570	3.44	(12.03)





Gross revenue achieved is RM346.5 million, which is 10.24% higher compared to the Forecast. Besides achieving 15% rental reversion, the higher revenue was mainly contributed by Pavilion Kuala Lumpur retail mall's advertising income, car park income, income from turnover rent as well as rental income from Fashion Avenue, which tenants officially opened for business in September 2012. Pavilion Tower office was only fully leased and occupied from 3rd quarter 2012 resulting in slightly adverse results against Forecast.

This resulted in NPI of RM245.3 million or 11.52% higher compared to Forecast despite incurring additional property operating expenses due to corresponding operating cost incurred for higher advertising income generated, increase in security cost as well as fast forward of some progressive future major replacements, repair maintenance and upgrading works.

Retail sector continues to contribute approximately 97% of Pavilion REIT's total portfolio in terms of gross revenue and net property income. Overall, Pavilion REIT portfolio achieved NPI margin of 71% with retail and office achieving a NPI margin of 71% and 63% respectively.

Distribution per Unit ("DPU")

Total DPU for 2012 increased to 6.87 sen from 2011 annualized DPU of 6.42 sen. This represents 1.14 sen or 19.9% higher than Forecast of 5.73 sen or 7% higher than 2011 DPU, despite the addition in Units in circulation increasing from 3,000,000,000 Units to 3,004,114,665 Units as at 31 December 2012.

3.36 sen, earned for 1st and 2nd quarter of 2012 was paid on 7 September 2012 with the final distribution of 3.51 sen earned in 3rd and 4th quarter 2012, to be paid on 28 February 2013.

Capital Management

Pavilion REIT's gearing is 16.71%, which is much below the market norm of approximately 35% to 40% or REIT Guidelines of up to the permitted 50% of Total Asset Value. Effective Pavilion REIT's 1st anniversary, its syndication of lenders had approved for part of revolving term loan facility amounting to RM705.9 million to be at a fixed interest rate of 4.20% per annum for the next 3 years. Currently, this portion represents 99.5% of total outstanding term loan.

In the meantime, the Manager will also explore other financing options to have additional facility ready for future acquisitions or to re-finance the revolving term loan facility when due in the future.

Investment Properties and Valuation

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

The Manager has been actively pursuing acquisition opportunities. However, no suitable asset has been identified as yet.

During the period under review, the Manager had been pro-actively improving Pavilion Kuala Lumpur mall (via an asset enhancement initiative) resulting in introduction of a new shopping precinct known as "Fashion Avenue" besides improving the safety features and surrounding comfort for good shopping experiences.

The Manager will continue to put their best effort forward to identify future potential investment, negotiate the most efficient capital strategy and continue to implement improvements to the Pavilion Kuala Lumpur mall.

The Fund's investment properties had been re-valued as at the end of the financial year to ensure that its investment properties reflect the current market value and in compliance to Malaysian Financial Reporting Standards 140. This re-valuation resulted in gain of RM435.6 million.

Property	Acquisition Price RM'000	Market Value @ 31 Dec 2011 RM'000	Enhancement RM'000	Market Value @ 31 Dec 2012 RM'000	Fair Value Adjustments RM'000
Pavilion Kuala Lumpur Mall	3,190,300	3,433,000	15,430	3,880,000	431,570
Pavilion Tower	123,500	128,000	–	132,000	4,000
	3,313,800	3,561,000	15,430	4,012,000	435,570

Status of utilisation of proceeds

Purpose	Proposed utilisation RM'000	Actual utilisation RM'000	Intended timeframe of utilisation	Deviation (Savings) RM'000	Deviation (Savings) %
Part payment for the acquisitions of properties	648,000	648,000	–	–	–
Listing expenses	42,000	33,549	–	8,451	20
Working capital	5,200	13,651	–	(8,451)	(163)
Total	**695,200**	**695,200**	**–**	**–**	**–**

The actual listing expenses incurred of RM33.5 million was lower compared to proceeds raised from IPO of RM42.0 million mainly due to lower professional and advisory fees as well as other offering related expenses and contingencies.

The working capital raised and excess fund from issuing expenses have been used to finance the asset enhancement initiative announced early 2012.

Market Review

The retail industry in Malaysia is expected to have grown by 6% in 2012. It is anticipated that the industry will also grow at 6% in 2013 due to initiatives the government had commenced, the aggressive promotion by the government's effort to boost the tourism industry and establish Malaysia as a retail haven, besides targeting Greater Kuala Lumpur / Klang Valley to be in the top 20 most livable cities list and the top 20 in the world for economic growth.

The Manager is confident that the successful retail malls especially within Klang Valley will continue to attract high shopping traffic with the continuous government initiatives to spur domestic spending and the growing urban population who demands for lifestyle products, food, beverage and entertainment remains high. Coupled with the limited good quality supply in the city centre development pipeline, prime retail centres in the city centre are expected to continue to perform well with high occupancy rates.

The Manager acknowledges the potential softening in the office space in the coming years due to new supply of office space being projected to come on stream exceeding demand. With the newer office spaces being available, this might increase the pressure to other older office towers/buildings to reduce rental rates to retain its tenants.

Top 10 Tenants

Pavilion REIT has a total combined tenancies list from the mall and office of 580 tenancies. Its ten largest tenants accounts for 19.2% of gross rental income as at 31 December 2012.

Tenancy Expiry Profile

Tenant's Name	Trade Sector	Expiry Period
Parkson Corporation Sdn Bhd	Fashion	2013 Q3
Golden Screen Cinemas Sdn Bhd	Urban Leisure	2013 Q4
Apex Excellent Sdn Bhd	Food and Beverage	2013 Q3
Aker Engineering Sdn Bhd	Oil and Gas	2013 Q2 to 2014 Q2^
Esprit de Corp (Malaysia) Sdn Bhd	Fashion	2013 Q3
Sharaf Fashion Retail Sdn Bhd	Fashion	2013 Q3
Royal Selangor Marketing Sdn Bhd	Gift and Souvenir	2013 Q3
Padini Dot Com Sdn Bhd	Fashion	2013 Q3
DNP Clothing Sdn Bhd	Fashion	2013 Q3
Gagan (Malaysia) Sdn Bhd	Fashion	2013 Q3

^ *range of expiry period is provided as tenant has more than one lease*

Lease Expiry Profile

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

The weighted average lease expiry ("WALE") as at year end was 1.09 years, with WALE for retail and office being 1.06 and 1.32 years respectively.

Portfolio Details

Portfolio Summary

Appraised Value as at 31 December 2012	RM 4,012 million
Net Lettable Area	1,481,802 square feet

(A) Retail

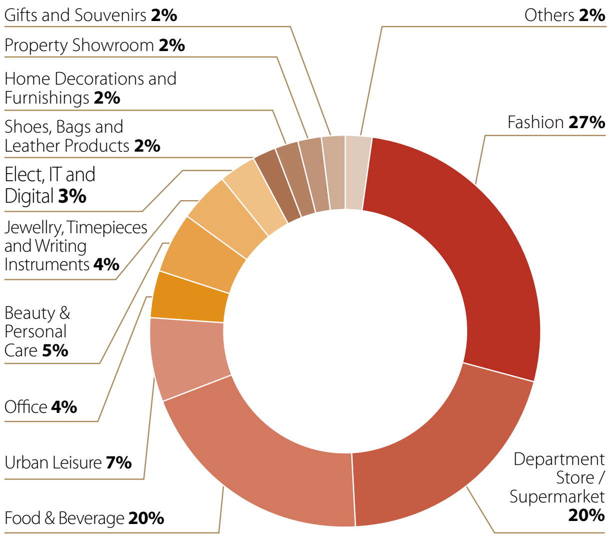
	Pavilion Kuala Lumpur Mall
Address	168 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia
Description	7-storey shopping mall (including 4 split-levels of car parking bays together with a 3-storey retail office block sited atop and annexed with a 4-storey retail/entertainment connection block) and 3 levels of basement car parks
Year of Completion	2007
Age of Building	5 years
Title	Master Title No. Pajakan Negeri 50125, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan
Encumbrances	Private caveats have been lodged in favour of AmTrustee Berhad, Alliance Investment Bank Berhad, Greifen Marketing (M) Sdn Bhd and Eastern Global Moneylending Sdn Bhd
Tenure	99-year lease expiring on 26 October 2109
Gross Floor Area	2,208,972 square feet
Net Lettable Area	1,315,362 square feet
Number of Car Park Bays	2,427
Occupancy Rate as at 31 December 2012	99.1%
Date of Acquisition	7 December 2011
Acquisition Price	RM3,190 million
Appraised Value	RM3,880 million
Date of Latest Valuation	31 December 2012
Independent Valuer	Knight Frank (Proprietor: Ooi & Zaharin Sdn Bhd)

Tenancy Expiry Profile

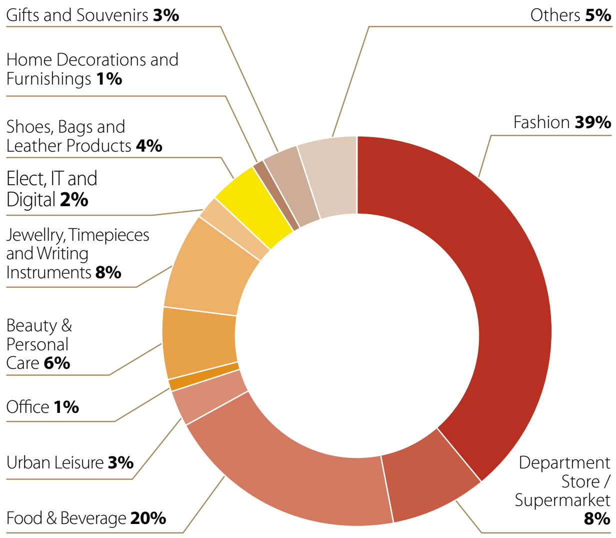
Period	% of Occupied NLA	% of Gross Rental
Monthly	1	1
FY2013	71	70
FY2014	17	15
FY2015 and thereafter	11	14
Total	**100**	**100**

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



(B) Office

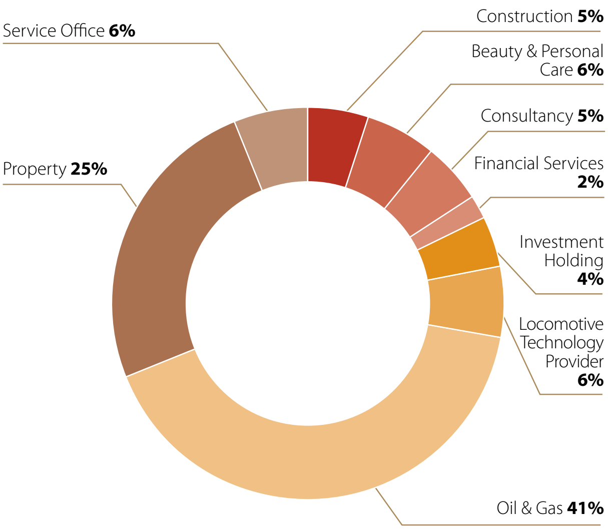
	Pavilion Tower
Address	75 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia
Description	20-storey office building together with 6 mechanical / electrical levels
Year of Completion	2007
Age of Building	5 years
Title	Master Title No. Pajakan Negeri 50125, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan
Encumbrances	Private caveats have been lodged in favour of AmTrustee Berhad, Alliance Investment Bank Berhad, Greifen Marketing (M) Sdn Bhd and Eastern Global Moneylending Sdn Bhd
Tenure	99-year lease expiring on 26 October 2109
Gross Floor Area	243,288 square feet
Net Lettable Area	166,440 square feet
Occupancy Rate as at 31 December 2012	100.0%
Date of Acquisition	7 December 2011
Acquisition Price	RM123 million
Appraised Value	RM132 million
Date of Latest Valuation	31 December 2012
Independent Valuer	Knight Frank (Proprietor: Ooi & Zaharin Sdn Bhd)

Tenancy Expiry Profile

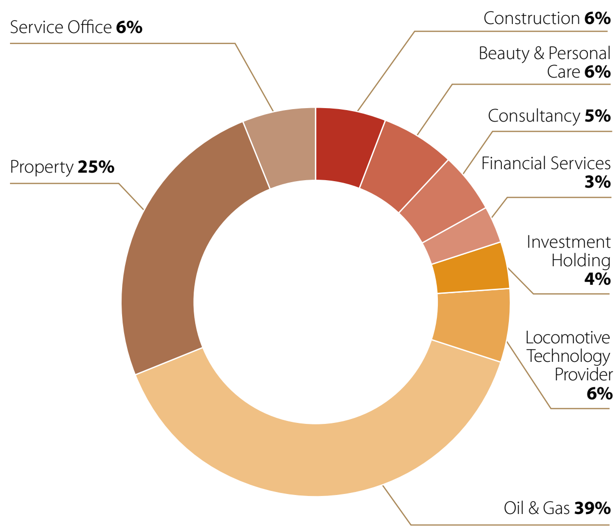
Period	% of Occupied NLA	% of Gross Rental
FY2013	34	35
FY2014	53	52
FY2015 and thereafter	13	13
Total	**100**	**100**

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



Asset Enhancement Initiative

During the year under review, Pavilion Kuala Lumpur undertook an asset enhancement exercise and created Fashion Avenue. Fashion Avenue, taking over the space previously occupied by Tangs Departmental Store on part of Level 2 and Level 3 features a mix of high fashion, timepieces, beauty and personal care, besides offering accessibility with a dedicated entrance from Jalan Raja Chulan.

Fashion Avenue is an epicentre of vogue and trend, where the hottest fashion, beauty and trendy bistros converge with five international designer brands premiering for the first time in Malaysia with nine international brands opening their first store in Malaysia.

For 2013, the Management is planning to upgrade some toilets and its common areas in the mall as well as evaluating purchasing of power savings equipments.

Highlights of the Year

Events

- **Chinese New Year Festival** featuring a 600-foot long Dragon, endorsed as the Longest Dragon by the Malaysian Book of Records and a Dragon Festival of arts and crafts
- **Duty Free Campaign** with Tourism Malaysia to reward tourist that spends
- A '**Blooming Raya**" with 'giant wau's, lush orchid garden, traditional shows and live demonstrations by artists and craftsmen to promote the beauty of Malaysia's batik, crafts, flora and fauna
- **Light up in Style**, a Deepavali celebration featuring majestic kolam decoration, the first peacock-inspired dress and an open house to engage the tourists in an experiential local festivity
- "**BeDazzling Christmas**" featuring magical train rides, a carriage embellished with 5,000 crystals, luxurious court, Christmas balls and parties to bring to live the magic of the season





Awards

- "**Best Shopping Experience**" – best of Malaysia Awards 2012 by Expatriate Lifestyle
- **Gold Award** – Tokyo Street Grand Opening, Expansion & Renovation : ICSC Asia Pacific Shopping Centre Awards 2012

Corporate Social Responsibility

Besides the promotion of local traditions, heritage, arts and culture through its annual festivals, Pavilion REIT is also pro-actively involved in cause-related campaigns to instil awareness on global issues related to humanity, environment, education and wildlife protection. Pavilion Kuala Lumpur Mall partnered and hosted the followings events this year :-

- **United Buddy Bear World Tour**, with 147 bears representing different nations to promote world harmony and unity. Each week, children from various homes visited the bears to learn about the cause and the mall provided lunch and freebies for the children.
- **International Women's Day** was on 8 March with a launch event to address issues on equality, empowerment and women's right in today's world.
- **Earth Hour** on 31 March where non-essential lights were switched off from 8.30 to 9.30pm. Pavilion Junior members were roped in for recycling workshops.
- **Earth Month** with Estee Lauder and Parkson Group. 3,000 bottles of tumblers were sold for RM30 each and all proceeds were donated to Malaysian Nature Society.
- Pavilion Kuala Lumpur Mall is the only mall with a **1Malaysia Dance Group** to promote our Malaysia multi ethnic society. Comprising the mall's concierge and other department staff, the group invites tourist to learn and dance along during peak travel season.
- Besides raising over RM500,000 in aid of the **Japan Tsunami Fund** via the mall fund-raising efforts in 2011 and continuous programme at Tokyo Street in 2012, through collaboration with Japan Embassy, the mall also hosts regular exhibitions at Tokyo Street to highlight the recovery of the tsunami affected areas.
- Through regular events at Tokyo Street, funds are raised for the **Japan Disaster Fund**, collected through interactive events and at the same time, cross promoting ideas, skills and culture between Malaysia and Japan.

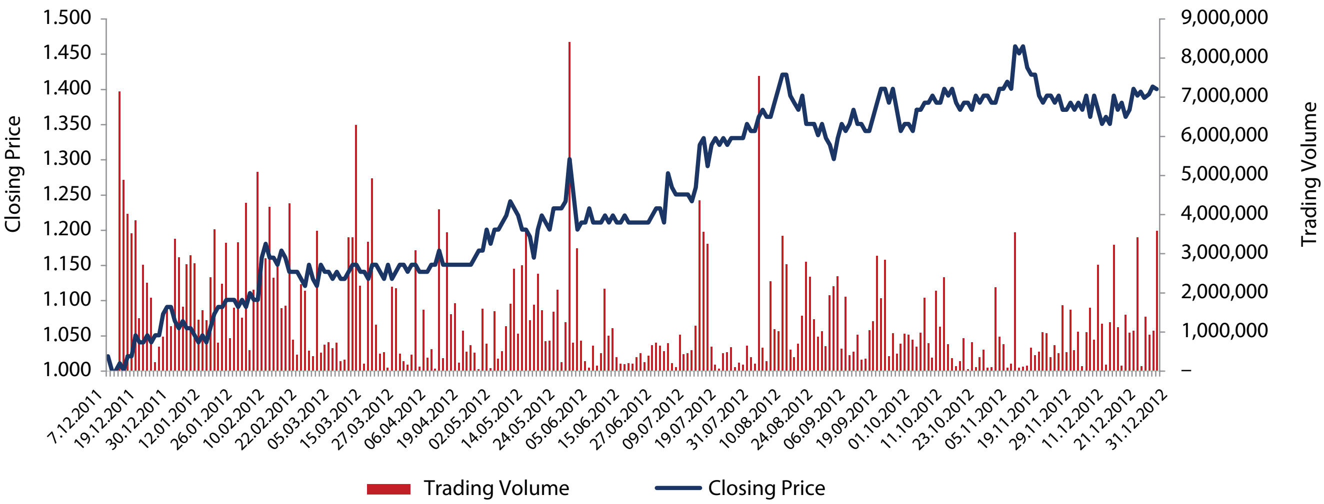
Investors Relation and Fund Performance

During the year, the Manager's management team have been actively meeting analysts, fund managers, investors and media, besides attending investors' roadshows and seminars as listed below.

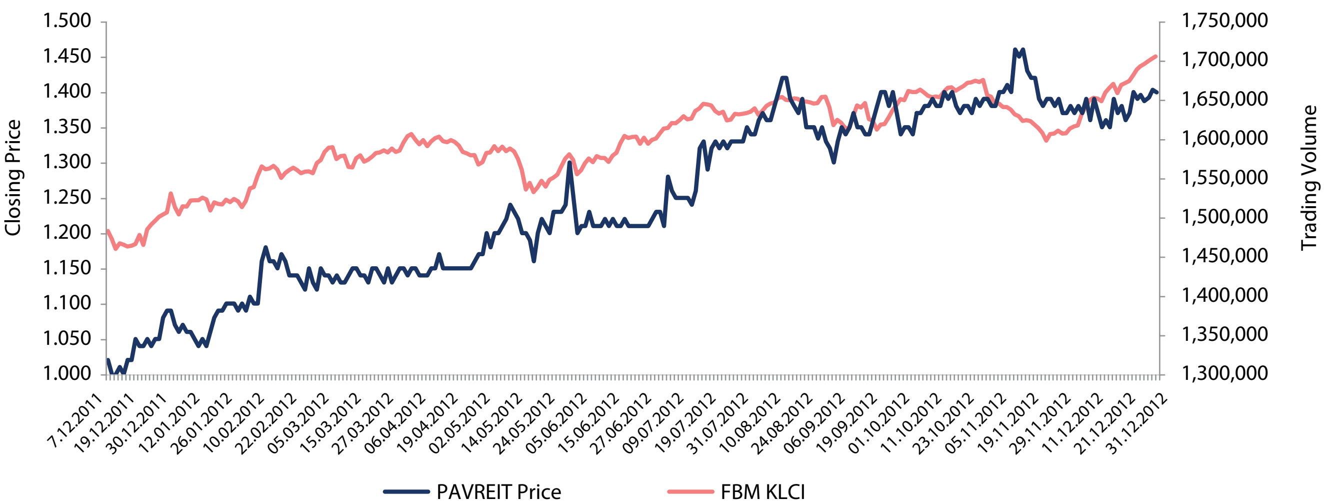
- Quarterly analyst briefings
- Analyst briefing on Fashion Avenue
- 15th Credit Suisse Asian Investment Conference, Hong Kong
- Asia Pacific Property Conference 2012, Singapore
- Invest Malaysia 2012, Kuala Lumpur
- The Pulse of Asia 2012, Singapore
- 2012 VIP Asia – Investors Roundtable IREI & APREA, Singapore

Amongst others, these investors' relation meetings had led to Pavilion REIT Units being traded actively and its unit price appreciated 27.5% during the year.

Pavilion REIT's Monthly Trading Performance



Pavilion REIT's Unit Price Performance against FBM KLCI



(Note : to reflect month end dates / month on chart)

Trading Summary	FY 2012	FP 2011
Net Asset Value per Unit (RM)		
- As at 31 December	1.10	0.96
- Lowest during the year	0.95	0.00
- Highest during the year	1.10	0.96
Closing unit price (RM) as at 31 December	RM1.39	RM1.09
Highest traded price during the year / period (RM)	RM1.47	RM1.10
Lowest traded price during the year / period (RM)	RM1.04	RM0.98
Capital appreciation (%)[1]	27.52	23.86
Annual total return (%)	32.46[2]	29.75
Units in circulation ('000)	3,004,115	3,000,000
Market capitalisation (RM'000)	4,175,719	3,270,000

1 *Capital appreciation is calculated on the difference between opening and closing price for FY 2012 and difference between retail IPO price and closing price for FP 2011*

2 *Annual total return refers to total of capital appreciation and distribution yield.*

Corporate Governance Statement

The Board fully supports the Malaysian Code on Corporate Governance 2012 ("the Code"), to which the Manager will endeavour to adopt in making good corporate governance an integral part of its business dealings and culture. The Board is committed to ensure that a high standard of corporate governance, as embodied in the Code, are practised.

Pavilion REIT Management Sdn Bhd, the Manager of Pavilion Real Estate Investment Trust, was set-up to manage and administer Pavilion REIT. The Manager shall, subject to the provisions of the Deed, carry out all activities, as it may deem necessary for the management of Pavilion REIT and its business.

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

The Board

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

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

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

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

Although the Board has put in place a process and its criteria for selection, assessment, recommending candidature for directorship, succession planning, induction and training besides annual assessment of the independence of its independent directors, it plans to form a Nominating Committee later this year, comprising mainly of independent directors.

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

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

The CEO, whose position is held separately by a different person, is responsible to ensure the effective implementation of strategic plan and policies established by the Board to manage the daily conduct of its business to ensure the smooth operations, supervision and management of Pavilion REIT.

Any director that has any interest, whether directly or indirectly, in a contract or proposed contract would have to declare his / her interest and not participate in deliberations and shall abstain from casting his / her votes in any matter arising therefrom. Should there be an actual, potential or perceived conflict of interest or a related corporate and a director, or an associate of a director as a spouse or other family members, the director involved shall make full disclosure and act honestly in the best interest of Pavilion REIT. Directors shall devote sufficient time to carry out their responsibilities. The Board will obtain this commitment from its members at the time of appointment. Directors shall notify the Chairman before accepting any new directorships and the notification shall provide for an indication of time that will be spent on the new appointment.

An Audit Committee has been formed on 24 October 2012. Please refer to the Audit Committee Report for more details.

Policies and standard operating procedures for level of authority for transactions, maintenance and operations of Pavilion REIT's properties as well as acquisitions and divestments of investments procedures are available and will be continuously reviewed, enhanced and updated in line with changes in the operating environment.

The CEO, as the official spokesperson for the Fund has been actively meeting analysts, fund managers, investors and media besides attending investors' roadshows and seminars. Besides timely announcements and disclosures to Bursa Malaysia, its website, www.pavilion-reit.com is also regularly being updated. Please refer to Investors Relation and Fund Performance section for details of roadshow or seminars attended.

Pavilion REIT would be holding its first annual general meeting in 2013 whereby its financial statements would be presented. Its annual general meeting would be held no later than four months after year end closing with at least 21 days written notice.

Its Board Charter would be periodically reviewed with next review later this year and thereafter to be made available on its website. The official documented governance monitoring and reporting framework, which includes whistle blowing policy is currently being developed and will be implemented later this year.

Board Meetings

The Board met four times during the financial year ended 31 December 2012 with details of attendance as stated below :

Name of Directors	Designation	Number of meetings attended	Remark
Datuk Lim Siew Choon	Chairman and Non-Independent Executive Director	4/4	
Datin Tan Kewi Yong	Non-Independent Executive Director	4/4	
Dato' Lee Tuck Fook	Non-Independent Executive Director	4/4	
Ahmad Mohd A Y Al-Sayed	Non-Independent Non-Executive Director	1/3	Resigned on 1 November 2012
Omer Abdulaziz H A Al-Marwani	Non-Independent Non-Executive Director	4/4	
Mohamed Badr S K Al-Sadah	Non-Independent Non-Executive Director	1/2	Resigned on 2 August 2012
Mohd Nasser A M Al-Humaidi	Non-Independent Non-Executive Director	2/2	Appointed on 2 August 2012
Saif Mohd A M Al-Madfaa	Non-Independent Non-Executive Director	1/1	Appointed on 1 November 2012

Name of Directors	Designation	Number of meetings attended	Remark
Navid Chamdia	Non-Independent Non-Executive Director	4/4	
Ooi Ah Heong	Non-Independent Non-Executive Director	4/4	
Datuk Roger Tan Kim Hock	Independent Non-Executive Director	1/1	Demised on 20 March 2012
Dato' Choo Chuo Siong	Independent Non-Executive Director	2/2	Appointed on 19 June 2012
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	4/4	
Dato' Mohzani bin Abdul Wahab	Independent Non-Executive Director	4/4	
Syed Mohd Fareed bin Shaikh Alhabshi	Independent Non-Executive Director	3/4	

Directors' training

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

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

- Bursa Malaysia's Half Day Governance Programme Series – "The key components of establishing and maintaining world class audit committee reporting capabilities" and "What keeps an audit committee up at night"
- Bursa Malaysia's Half Day Governance Programme Series – "Corporate Integrity System Malaysia : CEO Dialogue Session"
- Financial Institutions Directors' Education Programme on IT Automation and Disaster Recovery Programme – Organised by The Iclif Leadership and Governance Centre
- Financial Institutions Directors' Education Programme on The Nomination / Remuneration Committee Program – Organised by The Iclif Leadership and Governance Centre
- Mandatory Accreditation Programme

Directors Remuneration

The remuneration or fees due to its Directors are paid by the Manager and not Pavilion REIT.

Dealings with Conflict of Interest / Related Party Transactions

Should there be any actual, potential or perceived conflict of interest or related party transaction, the relevant party / director involved shall make full disclosure and act honestly and shall not participate in deliberations and shall abstain from casting his or her vote.

The audit committee is responsible to review any related party transactions or conflict of interest situations and the Manager will ensure compliance with the Deed and any other regulatory guidelines.

Communication with Unitholders and Investors

Information for unitholders and investors are readily available via the various disclosures and announcements on Bursa Securities, its annual report and the corporate website, www.pavilion-reit.com.

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

Conflict of Interest

None of the Directors have any conflict of interest with Pavilion REIT, save for the interest as disclosed in the notes to the financial statements.

Conviction of Offences

None of the Directors have any conviction for offences within the past ten (10) years other than traffic offences, if any.

Family Relationship with any Directors and / or Major Unitholder

Save as disclosed in the Board of Directors, none of the other Directors have any family relationship with any Director of the Manager and/or major unitholder of Pavilion REIT.

Audit Committee Report

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

Name of Directors	Designation	Number of meetings attended	Remark
Dato' Mohzani bin Abdul Wahab	Chairman of the Audit Committee & Independent Non-Executive Director	1/1	Appointed on 24 October 2012
Dato' Choo Chuo Siong	Independent Non-Executive Director	1/1	
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	1/1	
Omer Abdulaziz H A Al-Marwani	Non-Independent Non-Executive Director	Not applicable	Appointed on 1 November 2012

Terms of Reference

Composition and Size

The Audit Committee shall be appointed from amongst the Board and shall comprise at least three members, a majority of whom are independent directors. All members of the Audit Committee shall be Non-Executive Directors.

Its members must have the required skills to engage with Management and auditors and be prepared to ask key and probing questions about Pavilion REIT's financial and operational risks, compliance with approved financial reporting standards and other relevant regulatory requirements.
At least one (1) member of the Audit Committee must be:
- a member of the Malaysian Institute of Accountants ("MIA"); or
- if he is not a member of the MIA, he must have at least three (3) years' working experience and
  - i. he must have passed the examination specified in Part 1 of the First Schedule of the Accountants Act 1967; or
  - ii. he must be a member of one of the associations of accounts specified in Par II of the First Schedule of the Accountants Act 1967; or
- fulfils such other requirements as prescribed or approved by Bursa.

No alternate Director of the Board shall be appointed a member of Audit Committee.

In the event of any vacancy with the result that the number of members is reduced to below three, the vacancy must be filled within 3 months.

Meetings

The Audit Committee shall meet at least four (4) times a year, with due notice of issues to be discussed, and shall record its conclusion in discharging its duties and responsibilities. Additional meetings may be called at any time if so requested by any Audit Committee member, management, internal auditor or external auditor. The quorum for a meeting shall be two (2) members, provided that the majority of members present at the meeting shall be independent.

All or any members of the Committee may participate in a meeting of the Audit Committee by means of a teleconference or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

Any decision made at meetings shall be by a simple majority. In the event issues requiring the Audit Committee's decision arise between meetings, such issues shall be resolved through circular resolution (limited to non-significant transactions) subsequent to discussions being held amongst the Audit Committee members, either via teleconference, videoconference, email, etc. in order for the Audit Committee as a whole to be apprised on such matters and obtain their view points before arriving at a decision. Such circular resolution in writing shall be valid and effectual if it is signed or approved by letter, telex, facsimile or telegram by all members of the Audit Committee and such discussions, including any concerns raised and the rationale for the decisions so made in the resolution shall be tabled at the immediate Audit Committee meeting for formal record keeping. Any significant transactions should be decided at a physical meeting attended by Audit Committee members.

The external auditors have the right to appear at any meeting of the Audit Committee and shall appear before the Audit Committee when required to do so by the Audit Committee. The external and internal auditors may also request a meeting if they consider it necessary. Other Directors and employees shall attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

Considering the complexity of the issues to be discussed, it is imperative that Audit Committee members be provided with the meeting agenda and relevant papers at least a week in advance of each meeting. This will allow the Audit Committee members to give full consideration to the issues and, where necessary, obtain supplementary facts before the meeting.

Rights

In carrying out its duties and responsibilities, the Audit Committee shall:

(a) have explicit authority to investigate any matter within its terms of reference;
(b) have the resources which it needs to perform its duties;
(c) have full and unrestricted access to any information which it requires in the course of performing its duties;
(d) have unrestricted access to the CEO and the Finance Director;
(e) have direct communication channels with the external auditors and internal auditors;
(f) be able to obtain independent professional or other advice in the performance of its duties at the cost of Pavilion REIT;
(g) be able to invite outsiders with relevant experience to attend its meetings if necessary; and
(h) be able to convene meetings with external auditors, the internal auditors or both, excluding the attendance of other Directors and employee of the Manager, whenever deemed necessary.

Duties and Responsibilities

The duties and responsibilities of Audit Committee shall be as follows :-

(a) to review the quarterly and annual financial statements, prior to submission to the Board, focusing particularly on:
  - changes in or implementation of accounting policies and practices;
  - major judgmental areas;
  - significant and unusual events;
  - the going concern assumption;
  - compliance with approved financial reporting standards and other legal requirements;
  - compliance with Bursa's Listing Requirements; and
  - compliance with the Securities Commission's Guidelines on Real Estate Investment Trusts

(b) to assess whether financial statements present a true and fair view of Pavilion REIT's financial position and performance and comply with regulatory requirements;
(c) to ensure timely submission of financial statements by the Manager;
(d) to review with the external auditors:
  - their audit plan;
  - evaluation of the system of internal controls and management information systems;
  - problems and reservation arising from their audits; and
  - audit report;

(e) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
(f) to review any management letter sent by the external auditors on Pavilion REIT and the Manager's responses to such letter;
(g) to assess the adequacy and effectiveness of the systems of internal control and accounting control procedures of Pavilion REIT and the Manager;
(h) to perform the following in relation to the internal audit function:
- review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
- review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
- review any appraisal or assessment of the performance of members of the internal audit function;
- approve any appointment or termination of senior staff members of the internal audit function; and
- take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;

(i) to consider the nomination/ appointment of external auditors, internal auditors, the audit fee and any questions of resignation or dismissal;
(j) to review all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels;
(k) to review any related party transaction and conflict of interests situations that may arise within the Pavilion REIT and the Manager;
(l) to verify that the allocation of options pursuant to Employees' Share Option Scheme complies with the criteria of allocation;
(m) to report to the Board its activities, significant results and findings;
(n) to seek continuing professional education to keep abreast of developments not only in the area of financial reporting but also in regulatory compliance, technology, business risk and the implications of significant changes that may affect Pavilion REIT

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

(a) reviewed the quarterly financial results (which includes related party transactions stated under its notes in Part B) to recommend to the Board for approval and release to Bursa Malaysia
(b) reviewed the internal control review report prepared by the internal auditor
(c) reviewed audit plan with external auditor

Internal Control Statement

The Manager recognises the importance of embedding an adequate and effective risk management and internal control system and has addressed this under the Pavilion REIT Operation Manual approved by the Board.

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

An Audit Committee has been set up on 24 October 2012. The Audit Committee and Board meet at least once every quarter to review the financial performance of Pavilion REIT against the approved budget. The Board also reviews the business risk of Pavilion REIT, where identified by the CEO, internal auditors and external auditors and acts accordingly, where deemed appropriate. Board's approval is required for any proposed acquisition or disposal of investment property, which would be evaluated from the aspect of economic, environment, financial and risks relevant to the property industry / sector. The CEO meets the management regularly to review, monitor and manage risks identified by the management and thereafter, update the Audit Committee as required.

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

BDO Governance Advisory Sdn Bhd ("BDO") has been appointed as internal auditor whereby they will perform internal control review of the following areas:-
i) Procurement to Payment of Property Operating Expenses and Property Enhancements;
ii) Tenancy Management to Collection of Rentals;
iii) Acquisition and Divestment of Investment Properties; and
iv) Fund Management Activities.

The activities of the internal audit function performed by BDO for the year under review covered the followings areas:-

- Developing annual internal audit plan;
- Review of key business processes, including, but not limited to, procurement and payment of property operating expenses and property enhancement services, tenancy management, collection of rentals, acquisition and divestment of investment properties and fund management activities; and
- Presenting the findings on internal control reviews to the Audit Committee

Improvements required to operating procedures for property enhancement and on-going evaluation of vendors have been updated and implemented.

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

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

Pavilion REIT's official documented governance monitoring and reporting framework, which includes whistle blowing policy, is currently being developed and will be implemented later this year.

Due to the inherent limitations, the controls implemented which are intended to manage and not expected to eliminate all risks of failure to achieve business objectives, can only provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

Additional Information

Sanctions and/or penalties

There is no public sanction and/or penalty imposed on Pavilion REIT, the Manager or Directors of the Manager by the relevant regulatory bodies during the financial year ended 31 December 2012.

Non-audit fees

The non-audit fees payable to the external auditors of Pavilion REIT for the financial year ended 31 December 2012 amounted to RM36,000.

Soft commission

There was no soft commission received by the Manager during the financial year ended 31 December 2012.

Material litigation

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

Directors Benefit

For the year ended 31 December 2012, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Fund or a related corporation with the Director or with a firm which the Director is a member, or with a company in which the Director has substantial financial interest except as disclosed in the Financial Statements.

There were no arrangements during and at the end of the twelve months period which had the object of enabling Directors of the Manager to acquire benefits by means of acquisition of Units or debentures of the Fund or any other body corporate.

Manager's Fee

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

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

ii) a performance fee ("Performance Fee") of up to 5.0% per annum of net property income of Pavilion REIT.

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

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

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

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

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

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

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

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

Other Statutory Information

Before the statement of profit or loss and other comprehensive income and statement of financial position of Pavilion REIT were made out, the Manager took reasonable steps to ascertain that:
i)all known bad debts have been written off and adequate provision made for doubtful debts, and
ii)any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in Pavilion REIT inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of Pavilion REIT misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of Pavilion REIT misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of Pavilion REIT misleading.

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

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

ii) any contingent liability in respect of Pavilion REIT that has arisen since the end of the financial year.

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

In the opinion of the Manager, the financial performance of Pavilion REIT for the financial year ended 31 December 2012 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

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

For and on behalf of Pavilion REIT Management Sdn Bhd

DATUK LIM SIEW CHOON
Chairman

DATO' LEE TUCK FOOK
Non-Independent Executive Director

Kuala Lumpur
17 January 2013

42 Financial Statements

Statement by the Manager

In the opinion of the Directors of the Manager, the financial statements set out on pages 47 to 83 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, so as to give a true and fair view of the financial position of Pavilion Real Estate Investment Trust as at 31 December 2012 and of its financial performance and cash flows for the year ended on that date.

The information on the breakdown of realised and unrealised income included in Note 24 to the financial statements has 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 and the directive of Bursa Malaysia Securities Berhad.

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,
17 January 2013

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 47 to 84, 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 Kuala Lumpur
on 17 January 2013

Dato' Lee Tuck Fook

Before me:

Commissioner for Oath

Trustee's Report

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

We have acted as Trustee of Pavilion Real Estate Investment Trust ("Pavilion REIT") for the financial year ended 31 December 2012. In our opinion and to the best of our knowledge, Pavilion REIT Management Sdn. Bhd. ("the Manager") has managed Pavilion REIT in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Deed dated 13 October 2011, the Securities Commission's Guidelines on Real Estate Investment Trusts, applicable securities laws and other applicable laws during the financial year then ended.

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

We also confirm that the income distributions declared during the financial year ended 31 December 2012 are in line with and are reflective of the objectives of Pavilion REIT. Final distributions have been declared for the financial year ended 31 December 2012 as follows:-

1) Final income distribution of 3.51 sen per unit payable on 28 February 2013.

For and on behalf of the Trustee,
AmTrustee Berhad

Tan Kok Cheeng
Chief Executive Officer

Selangor,
17 January 2013

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 ("Pavilion REIT"), which comprise the statement of financial position as at 31 December 2012, and the statement of profit and loss and other comprehensive income, changes in net asset value and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 47 to 83.

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

Pavilion REIT Management Sdn. Bhd. ("the Manager") of Pavilion REIT is responsible for the preparation of the financial statements of Pavilion REIT so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines 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 of 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Pavilion REIT as of 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 24 on page 84 to the financial statements has been compiled by Pavilion REIT as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. 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 on 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

As stated in Note 2(a), to the financial statements, Pavilion REIT adopted Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS") on 1 January 2012. These standards were applied retrospectively by the Manager to the comparative information in its financial statements, including the statement of financial position as at 31 December 2011, and the statement of profit or loss and other comprehensive income, changes in net asset value and cash flows for the period ended 31 December 2011 and related disclosures. We were not engaged to report on the comparative information that is prepared in accordance with MFRS and IFRS, and hence it is unaudited. Our responsibilities as part of our audit of the financial statements of Pavilion REIT for the year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Thong Foo Vung
Approval Number: 2867/08/14(J)
Chartered Accountant

Petaling Jaya,

17 January 2013

Statement of Financial Position

as at 31 December 2012

	Note	2012 RM'000	2011 RM'000
Assets			
Plant and equipment	4	3,030	3,567
Investment properties	5	4,012,000	3,561,000
Total non-current assets		4,015,030	3,564,567
Inventories		1,104	851
Trade and other receivables	6	8,355	3,075
Cash and cash equivalents	7	196,866	112,595
Total current assets		206,325	116,521
Total assets		4,221,355	3,681,088
Liabilities			
Borrowings	8	705,442	704,397
Payables and accruals	9	23,395	68,053
Total non-current liabilities		728,837	772,450
Payables and accruals	9	195,408	40,660
Total current liabilities		195,408	40,660
Total liabilities		924,245	813,110
Net asset value		3,297,110	2,867,978
Financed by			
Unitholders' fund			
Unitholders' capital	10	2,873,992	2,868,742
Income / (Deficit)		423,118	(764)
Total unitholders' fund		3,297,110	2,867,978
Net asset value ("NAV")		3,297,110	2,867,978
Number of units in circulation ('000 units)	10	3,004,115	3,000,000
NAV per unit (RM)		1.0975	0.9560

The notes on pages 53 to 83 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2012

	Note	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Rental income		289,193	19,021
Other income		57,331	3,518
Gross revenue		346,524	22,539
Utilities		(40,135)	(2,806)
Maintenance		(28,054)	(1,148)
Quit rent and assessment		(8,742)	(578)
Other operating expenses		(24,304)	(1,748)
Net property income		245,289	16,259
Fair value gain on investment properties		435,570	–
Interest income		5,247	234
Net investment income		686,106	16,493
Manager's management fees	11	(20,022)	(1,238)
Trustee's fees	1(c)	(410)	(27)
Valuation fee		(371)	(371)
Other trust expenses		(1,765)	(159)
Borrowing costs	12	(33,333)	(2,322)
Income before taxation		630,205	12,376
Income tax expense	13	–	–
Income after taxation/ Total comprehensive income attributable to unitholders		630,205	12,376
Income after taxation is made up as follows:			
Realised		194,635	12,376
Unrealised		435,570	–
		630,205	12,376
Earnings per unit (sen)	14	20.99	0.41
Total comprehensive income		630,205	12,376
Distribution adjustments	A	(423,652)	764
Distributable income		206,553	13,140
Distribution per unit (sen) - interim		3.36	–
Distribution per unit (sen) - final		3.51	0.44

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2012 (continued)

	Note	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Note A			
Distribution adjustments comprise:			
Amortisation of transaction costs		1,245	104
Depreciation		662	41
Fair value gain of investment properties		(435,570)	–
Manager's management fees payable in units	11	10,011	619
		(423,652)	764

The notes on pages 53 to 83 are an integral part of these financial statements.

Statement of Changes In Net Asset Value

for the year ended 31 December 2012

	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				
Contributions by and distributions to unitholders				
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 to unitholders	15	–	(13,140)	(13,140)
Increase/(Decrease) 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
Income after taxation/ Total comprehensive income for the year attributable to unitholders		–	630,205	630,205
Unitholders' transactions				
Contributions by and distributions to unitholders				
Issue of new units		5,241	–	5,241
Overaccrual of listing expenses in prior year		9	–	9
Distribution to unitholders	15	–	(206,323)	(206,323)
Increase/(Decrease) in net assets resulting from unitholders' transactions		5,250	(206,323)	(201,073)
Net assets as at 31 December 2012		2,873,992	423,118	3,297,110
		Note 10		

The notes on pages 53 to 83 are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2012

	Note	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Cash flows from operating activities			
Income before taxation		630,205	12,376
Adjustments for:			
Borrowing costs		33,333	2,322
Depreciation		662	41
Fair value gain on investment properties		(435,570)	–
Gain on disposal of plant and equipment		(9)	–
Impairment loss on trade receivables		525	–
Interest income		(5,247)	(234)
Plant and equipment written off		5	–
Operating income before changes in working capital		223,904	14,505
Increase in inventories		(253)	(851)
Increase in receivables		(5,805)	(3,075)
Increase in payables		15,756	26,619
Increase in tenants' deposits		7,280	–
Net cash from operating activities		240,882	37,198
Cash flows from investing activities			
Acquisition of investment properties	(i)	–	(1,369,000)
Interest received		5,247	234
Payment for enhancement of investment properties		(15,430)	–
Pledged deposit		(522)	(17,029)
Proceeds from disposal of plant and equipment		77	–
Purchase of plant and equipment		(198)	(3,608)
Tenants' deposits assumed		–	68,053
Net cash used in investing activities		(10,826)	(1,321,350)
Cash flows from financing activities			
Distribution to unitholders		(114,018)	–
Interest paid		(32,088)	(2,218)
Proceeds from borrowings		–	715,501
Proceeds from issue of units		–	710,300
Repayment of borrowings		–	(5,800)
Payment of financing expenses		(201)	(5,408)
Payment of listing expenses		–	(32,657)
Net cash (used in)/from financing activities		(146,307)	1,379,718

Statement of Cash Flows

for the year ended 31 December 2012 (continued)

	Note	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Net increase in cash and cash equivalents		83,749	95,566
Cash and cash equivalents at beginning of the financial year/period		95,566	–
Cash and cash equivalents at 31 December	(ii)	179,315	95,566

(i) Acquisition of investment properties

In the previous 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.

(ii) Cash and cash equivalents

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

	Note	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Cash and bank balances	7	5,896	186
Deposits placed with licensed banks	7	190,970	112,409
		196,866	112,595
Pledged deposit		(17,551)	(17,029)
		179,315	95,566

The notes on pages 53 to 83 are an integral part of these financial statements.

Notes to the Financial Statements

1. General

Pavilion Real Estate Investment Trust ("Pavilion REIT") is a Malaysia-domiciled real estate investment trust constituted pursuant to a trust deed dated 13 October 2011 ("the Deed") between Pavilion REIT Management Sdn. Bhd. ("the Manager") and 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	Principal place of business
6-2, Level 6, East Wing	Lot 10.00.00, Level 10
Menara ING	Pavilion Kuala Lumpur
No.84, Jalan Raja Chulan	168, Jalan Bukit Bintang
50200 Kuala Lumpur	55100 Kuala Lumpur

The financial statements as at and for the year ended 31 December 2012 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 raise financing for and on behalf of Pavilion REIT.

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

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

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

(a) Property management fees

The Property Manager, Henry Butcher Malaysia Sdn. Bhd., is entitled to property management fee of RM30,000 (2011: 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 (continued)

(b) Manager's management fees (continued)

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

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

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

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

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

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

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

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

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

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

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

The Manager will make an immediate announcement to Bursa Securities disclosing the number of new units to be issued and the issue price of the new units when new units are issued as payment for Management Fee. Payment of the Management Fees in units shall also be subjected to Pavilion REIT complying with the public spread requirements stated in the Main Market Listing Requirements and there being no adverse implications under the Malaysian Code on Take-Overs and Mergers 2010.

1. General (continued)

(c) Trustee's fees

In accordance to the Deed, an annual trusteeship fee of up to 0.05% per annum of NAV, but limited to RM400,000 for the current financial year, is to be paid to Trustee.

The financial statements were approved by the Board of Directors of the Manager on 17January 2013.

2. Basis of preparation

(a) Statement of compliance

The financial statements of Pavilion REIT have been prepared in accordance with the provisions of the Deed, Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards. These are the first financial statements of Pavilion REIT prepared in accordance with MFRSs and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied.

The previous period financial statements of Pavilion REIT were prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia. There is no material adjustments on the comparative information arising from the transition to MFRSs.

Pavilion REIT has early adopted the amendments to MFRS 101, Presentation of Financial Statements which is originally effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements of Pavilion REIT.

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

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

- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interests in Other Entities
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits (2011)
- MFRS 127, Separate Financial Statements (2011)
- MFRS 128, Investments in Associates and Joint Ventures (2011)
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine
- Amendments to MFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards – Government Loans
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 132, Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 10, Consolidated Financial Statements: Transition Guidance
- Amendments to MFRS 11, Joint Arrangements: Transition Guidance
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Transition Guidance

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- Amendments to MFRS 7, Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures

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

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2013, except for MFRS 119, 128, IC Interpretation 20 and Amendments to MFRS 1, which are not applicable to Pavilion REIT.

- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014.

- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

The initial application of the standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of Pavilion REIT upon their first adoption.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the 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 other than those 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 periods presented in these financial statements by Pavilion REIT.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Business combinations

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

Pavilion REIT measures the cost of goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

(iii) Loss of control

Upon the loss of control of a subsidiary, Pavilion REIT derecognises the assets and liabilities of the 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.

(iv) Transactions eliminated on consolidation

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

3. Significant accounting policies (continued)

(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 assets are subject to review for impairment (see note 3(h)(i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or 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.

3. Significant accounting policies (continued)

(c) Plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

The estimated useful lives for the current year and comparative period 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 at the end of the reporting period, and adjusted as appropriate.

3. Significant accounting policies (continued)

(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 properties 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.

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

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

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

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.

(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 operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

(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.

3. Significant accounting policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in 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.

(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.

3. Significant accounting policies (continued)

(i) Borrowing costs

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

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

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

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

(j) Equity instruments

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

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

(k) Revenue and other income

(i) Rental income

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

(ii) Interest income

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

(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.

3. Significant accounting policies (continued)

(l) Expenses (continued)

(ii) Manager's management fees

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

(iii) Trustee's fees

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

(m) Income tax

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

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

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

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each 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 year/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.

3. Significant accounting policies (continued)

(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 discrete 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
Additions	43	67	–	2	86	198
Disposal	–	–	–	–	(78)	(78)
Write off	(2)	–	–	(1)	(3)	(6)
As at 31 December 2012	1,293	407	3	130	1,889	3,722
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
Depreciation charge for the year	128	122	–	26	386	662
Disposal	–	–	–	–	(10)	(10)
Write off	–	–	–	–	(1)	(1)
As at 31 December 2012	136	130	–	28	398	692
Carrying amounts						
As at 31 December 2012	1,157	277	3	102	1,491	3,030
As at 31 December 2011	1,244	332	3	127	1,861	3,567

5. Investment properties

	2012 RM'000	2011 RM'000
As at 1 January / date of establishment	3,561,000	–
Acquisition of investment properties	–	3,561,000
Enhancements / Capital expenditure	15,430	–
Change in fair value recognised in profit or loss	435,570	–
As at 31 December	4,012,000	3,561,000

In the previous 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 8.

Details of the investment properties are as follows:

	Date of acquisition	Date of valuation	Location	Tenure	Occupancy rates as at 31.12.2012 %	Fair value as at 31.12.2012 RM'000	Cost as at 31.12.2012 RM'000	Percentage of fair value to NAV as at 31.12.2012 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2012	Kuala Lumpur	Leasehold*	99	3,880,000	3,448,430	118
Pavilion Tower	7.12.2011	31.12.2012	Kuala Lumpur	Leasehold*	100	132,000	128,000	4
Investment properties						4,012,000	3,576,430	

* 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. In arriving at the fair value, the valuer adopted the 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 relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.

In arriving at the fair value using the investment method, capitalisation rates ranging from 6.00% to 6.50% (2011: 6.25% to 7.00%) and discount rate of 6.25% (2011: 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.

5. Investment properties (continued)

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 the issuance of strata title by the public authorities.

6. Trade and other receivables

	2012 RM'000	2011 RM'000
Trade		
Trade receivables	6,258	163
Less: Impairment losses	(525)	–
	5,733	163
Non-trade		
Other receivables	1,901	2,719
Deposits	530	5
Prepayments	191	188
	2,622	2,912
	8,355	3,075

7. Cash and cash equivalents

	2012 RM'000	2011 RM'000
Cash and bank balances	5,896	186
Deposits placed with licensed banks	190,970	112,409
	196,866	112,595

Included in the deposits placed with licensed banks is an amount of RM17,551,000 (2011: 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 facilitiy granted to Pavilion REIT (Note 8).

8. Borrowings

	2012 RM'000	2011 RM'000
Non-current		
Secured term loan	709,701	709,701
Less: Unamortised transaction costs	(4,259)	(5,304)
	705,442	704,397

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

i) RTL1 - a revolving term loan facility of up to RM705.9 million to part finance the acquisition of investment properties and future acquisitions by Pavilion REIT bearing interes rate of Lenders' cost of funds plus a margin of 0.8% to 1.0% per annum. In December 2012, the loan has been converted from floating rate to fixed rate loan of 4.2% per annum for the first 3 years after the conversion and thereafter at a fixed rate of 4.35% per annum for remaining tenure maturing on 7 December 2016;

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.

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 revolving term loan 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 with an amount of RM17,551,000 (2011: RM17,029,000) maintained in a Debt Service Reserve Account with a licensed bank as disclosed in Note 7.

9. Payables and accruals

	Note	2012 RM'000	2011 RM'000
Non-current			
Trade			
Tenants' deposits	a	23,395	68,053
Current			
Trade			
Trade payables		11,023	2,165
Tenants' deposits	a	54,413	2,475
		65,436	4,640
Non-trade			
Other payables and accrued expenses	b	24,528	22,880
Distribution payable to unitholders		105,444	13,140
		129,972	36,020
		195,408	40,660
		218,803	108,713

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

(b) Included in other payables and accrued expenses are the following amounts due to:

	2012 RM'000	2011 RM'000
The Manager	8,859	1,238
Trustee	67	27
Urusharta Cemerlang Sdn. Bhd. (sponsor of Pavilion REIT)	215	18,422
	9,141	19,687

Amounts due to the Manager and Trustee are unsecured, interest-free 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.

10. Total unitholders' funds

10.1 Unitholders' capital

	2012 Number of units '000	2011 Number of units '000
Approved fund size:		
As at 31 December	3,100,000	3,100,000
Issued and fully paid up:		
At 1 January / date of establishment	3,000,000	–
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
Manager's management fee paid in unit	4,115	–
As at 31 December	3,004,115	3,000,000

	2012 RM'000	2011 RM'000
As at 1 January / date of establishment	2,868,742	–
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)
Overaccrual of listing expenses	9	–
Manager's management fee paid in unit	5,241	–
As at 31 December	2,873,992	2,868,742

10.2 Unitholdings of substantial unitholders, Directors and their related parties

For the year ended 31 December 2012, the Manager was issued units in Pavilion REIT as part settlement of Manager's management fee, details of which are as follows:

	Number of units '000	Amount RM'000
Issued at RM1.0919 per unit for entitlement for the period ended 31 December 2011	567	619
Issued at RM1.3028 per unit for entitlement for the 6 months ended 30 June 2012	3,548	4,622
Total Manager's fee paid in Units	4,115	5,241

10. Total unitholders' funds (continued)

10.2 Unitholdings of substantial unitholders, Directors and their related parties (continued)

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

	2012 Number of units '000	2012 Market value RM'000	2011 Number of units '000	2011 Market value RM'000
Pavilion REIT's substantial unitholders' direct Unitholdings in Pavilion REIT:				
Qatar Holding LLC	1,082,900	1,505,231	1,082,900	1,180,361
Datuk Lim Siew Choon	845,425	1,175,141	845,425	921,513
Datin Tan Kewi Yong	281,875	391,806	281,875	307,244
The Manager's directors' direct unitholdings in Pavilion REIT:				
Datuk Lim Siew Choon	845,425	1,175,141	845,425	921,513
Datin Tan Kewi Yong	281,875	391,806	281,875	307,244
Dato' Lee Tuck Fook	100	139	100	109
Navid Chamdia	100	139	100	109
Ooi Ah Heong	100	139	100	109
Dato' Mohzani Bin Abdul Wahab	100	139	100	109
Dato' Maznah Binti Abdul Jalil	100	139	100	109
Syed Mohd Fareed Bin Shaikh Alhabshi	100	139	100	109

Notes:
The market value of the units was computed based on the closing market price as at 31 December 2012 of RM1.39 (30 December 2011: RM1.09).

11. Manager's management fees

	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Base fee	12,664	753
Performance fee	7,358	485
	20,022	1,238

During the financial year, the Manager received a base fee of 0.3% (2011: 0.3%) per annum of the Total Asset Value of Pavilion REIT and a performance fee of 3.0% (2011: 3.0%) per annum of Net Property Income. Manager's management fees payable in units amounts to RM10,011,000 (2011: RM619,000) which represents 50% of the total manager's management fees payable.

12. Borrowing costs

	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Interest expense	32,088	2,218
Amortisation of transaction costs	1,245	104
	33,333	2,322

13. Income tax expense

	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Reconciliation of tax expense		
Income before taxation	630,205	12,376
Income tax using Malaysian tax rate of 25%	157,551	3,094
Non-deductible expenses	3,861	289
Non-taxable income	(108,892)	–
Effect of income exempted from tax	(52,520)	(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 year ended 31 December 2012, no provision for taxation has been made for the current year.

14. Earnings per unit – basic and diluted

The calculation of earnings per unit is based on income after taxation attributable to unitholders for the year/period of RM630,205,000 (2011: RM12,376,000) divided by the weighted average number of units in circulation during the year/period of 3,001,694,000 (2011: 3,000,000,000).

15. Distribution to unitholders

Distribution to unitholders is from the following sources:

	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Rental income	289,193	19,021
Other income	57,331	3,518
Interest income	5,247	234
Fair value gain on investment properties	435,570	–
	787,341	22,773
Less: Total expenses	(157,136)	(10,397)
	630,205	12,376
Distribution adjustments	(423,652)	764
Distributable income	206,553	13,140
Distributions to unitholders	206,323	13,140
Interim distribution per unit (sen)	3.36	–
Final distribution per unit (sen)	3.51	0.44
Net distribution per unit * (sen)	6.87	0.44

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

	Withholding tax rate 2012	2011
Resident corporate	N/A^	N/A^
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	25%	25%
Non-resident institutional	10%	10%

^ to tax at prevailing rate

16. Portfolio turnover ratio

	2012	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 year/period to the average net asset value during the year/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 2012 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

	2012	2011
Management expense ratio ("MER") (%)	0.68	0.06

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

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

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 regularly.

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

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

	Retail RM'000	Office RM'000	Total RM'000
For the year ended 31 December 2012			
Segment profit	238,630	6,659	245,289
Included in the measure of segment profit are:			
Gross revenue	335,943	10,581	346,524
Property expenses	(97,313)	(3,922)	(101,235)

18. Operating segments (continued)

	Retail RM'000	Office RM'000	Total RM'000
As at 31 December 2012			
Segment assets and liabilities			
Segment assets	4,071,110	132,694	4,203,804
Segment liabilities	(890,902)	(33,250)	(924,152)
For the year ended 31 December 2012			
Included in the measurement of segment assets and liabilities are:			
Additions to non-current assets	15,600	28	15,628
Fair value gain to non-current assets	431,570	4,000	435,570
For the period ended 31 December 2011			
Segment profit	15,991	268	16,259
Included in the measure of segment profit are:			
Gross revenue	22,048	491	22,539
Property expenses	(6,057)	(223)	(6,280)
As at 31 December 2011			
Segment assets and liabilities			
Segment assets	3,657,009	7,078	3,664,087
Segment liabilities	(784,778)	(28,128)	(812,906)
For the period ended 31 December 2011			
Included in the measurement of segment assets and liabilities are:			
Additions to non-current assets	3,436,426	128,182	3,564,608

18. Operating segments (continued)

Reconciliation of reportable segment profit

	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Total profit for reportable segments	245,289	16,259
Fair value gain on investment properties	435,570	–
Interest income	4,696	234
Other non-allocated income	551	–
Trust expenses	(22,568)	(1,795)
Borrowing costs	(33,333)	(2,322)
Income before taxation	630,205	12,376
Taxation	–	–
Income after taxation	630,205	12,376

Reconciliation of reportable segment assets and liabilities

2012	Segment assets RM'000	Segment liabilities RM'000
Total reportable segments	4,203,804	(924,152)
Other non-allocated assets/(liabilities)	17,551	(93)
Total assets/(liabilities)	4,221,355	(924,245)
2011		
Total reportable segments	3,664,087	(812,906)
Other non-allocated assets/(liabilities)	17,001	(204)
Total assets/(liabilities)	3,681,088	(813,110)

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 2012 RM'000	Loans and receivables 2012 RM'000	Carrying amounts 2011 RM'000	Loans and receivables 2011 RM'000
Receivables and deposits	8,164	8,164	2,887	2,887
Cash and cash equivalents	196,866	196,866	112,595	112,595
	205,030	205,030	115,482	115,482

Financial liabilities	Carrying amounts 2012 RM'000	Financial liabilities measured at amortised cost 2012 RM'000	Carrying amounts 2011 RM'000	Financial liabilities measured at amortised cost 2011 RM'000
Payables and accruals	218,803	218,803	108,713	108,713
Borrowings	705,442	705,442	704,397	704,397
	924,245	924,245	813,110	813,110

19.2 Net gains and losses arising from financial instruments

	31.12.2012 RM'000	Period from 13.10.2011 to 31.12.2011 RM'000
Loans and receivables	4,722	234
Borrowings	(33,333)	(2,322)
	(28,611)	(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 (continued)

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 principally from trade and other receivables and cash and cash equivalents. Pavilion REIT performs ongoing credit evaluation of its tenants and generally does not require collateral other than tenants' deposits on account receivables.

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

Receivables

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk and credit quality

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

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

Impairment losses

Pavilion REIT maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Impairment loss RM'000	Net RM'000
31 December 2012			
Not past due	2,108	–	2,108
Past due 0 - 30 days	1,669	–	1,669
Past due 31 - 90 days	1,244	(52)	1,192
Past due more than 90 days	1,237	(473)	764
	6,258	(525)	5,733
31 December 2011			
Not past due	163	–	163

19. Financial instruments (continued)

19.4 Credit risk (continued)

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

	2012 RM'000	2011 RM'000
At 1 January	–	–
Impairment loss recognised	525	–
At 31 December	525	–

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

Cash and cash equivalents

Risk management objectives, policies and processes for managing the risk

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

Cash and cash equivalents are placed with licensed financial institutions.

Exposure to credit risk and credit quality

As at the end of the 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.

19.5 Liquidity risk

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

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

19. Financial instruments (continued)

19.5 Liquidity risk (continued)

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.

2012	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						
Borrowings	705,442	4.2 - 4.8	739,531	29,830	28,627	681,074
Payables and accruals	218,803	–	218,803	195,408	13,213	10,182
	924,245		958,334	225,238	41,840	691,256
2011						
Financial liabilities						
Borrowings	704,397	4.5 - 4.7	875,084	31,944	33,360	809,780
Payables and accruals	108,713	–	108,713	40,660	58,041	10,012
	813,110		983,797	72,604	91,401	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 principally to interest-earning financial assets and interest-bearing financial liabilities.

Risk management objectives, policies and processes for managing the risk

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

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

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

19. Financial instruments (continued)

19.6 Market risk (continued)

19.6.1 Interest rate risk (continued)

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:

	2012 RM'000	2011 RM'000
Fixed rate instrument		
Financial asset - Deposits placed with licensed banks	190,970	112,409
Financial liabilities - Borrowings	(701,641)	–
	(510,671)	112,409
Floating rate instruments		
Financial liabilities - Borrowings	(3,801)	(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		Profit or loss	
	100 bp increase 2012 RM'000	100 bp decrease 2012 RM'000	100 bp increase 2011 RM'000	100 bp decrease 2011 RM'000
Floating rate instruments	(38)	38	(486)	486

19. Financial instruments (continued)

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 fair values of tenants' deposits and borrowings, closely approximate their carrying values.

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.

Pavilion REIT's capital is represented by its unitholders' fund in the statement of financial position. The capital requirements imposed on Pavilion REIT is to ensure it maintains a healthy gearing ratio of maximum 50% and interest coverage ratio of minimum 2.0 which is an effective indicator of its financial strengths in addition to complying with the financial covenants prescribed by financial institutions as stated in the Facility Agreements. The Directors of the Manager will monitor and are determined to maintain an optimal gearing ratio that will provide an ideal debt equity ratio that also complies with regulatory requirements.

As at 31 December 2012, Pavilion REIT recorded a gearing ratio of 16.71% (2011: 19.14%) and interest coverage ratio of 11.17 (2011: 7.35). The calculation of the gearing ratio and interest coverage ratio is based on the definition stated in the Facility Agreements. Pavilion REIT has not breached the financial covenants.

Distribution Policy

The Deed provides that the Manager shall, with the approval of the Trustee, for each distribution period, distribute all (or such other percentage as determined by the Manager at its absolute discretion) of Pavilion REIT's distributable income. It is the intention of the Manager to distribute at least 90.0% of Pavilion REIT's distributable income on a half-yearly basis (or such other interval as determined by the Manager at its absolute discretion). For the period from the listing date, 7 December 2011 to 31 December 2012, Pavilion REIT will distribute 100% 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:

	2012 RM'000	2011 RM'000
Less than one year	243,211	251,788
Between one and five years	106,462	232,286
	349,673	484,074

22. Capital commitments

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

	2012 RM'000	2011 RM'000
Capital expenditure commitments		
Authorised but not contracted for:		
- Within one year	20,881	3,100

23. Significant related party transactions

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

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of Pavilion REIT either directly or indirectly. The key management personnel include all the Directors of Pavilion REIT Management Sdn. Bhd. and 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 2012 RM'000	Transaction value 2011 RM'000	Balance outstanding 2012 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	394	26	–	26
Malton Berhad Group *	Rental income and its related charges	2,224	144	–	–
Crabtree & Evelyn (M) Sdn. Bhd. #	Rental income and its related charges	562	–	13	–
	Purchase of product	68	–	60	–
Lumayan Indah Sdn. Bhd ∞	Rental income and its related charges	880	–	8	–
Kuala Lumpur Pavilion Sdn. Bhd. ^	Property management fees and charges payable	15,341	888	2,840	888

23. Significant related party transactions (continued)

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.

\# Crabtree & Evelyn (M) Sdn. Bhd. is deemed parties related to the Manager by virtue of Datuk Lim Siew Choon's effective interest in Crabtree & Evelyn (M) Sdn. Bhd.

∞ Omer Abdulaziz H A Al-Marwani, Mohd Nasser A M Al-Humaidi and Navid Chamdia as directors in the Manager also holds directorship in Lumayan Indah Sdn. Bhd., a company that is currently leasing a retail space at Pavilion Kuala Lumpur.

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

The breakdown of the income/(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:

	2012 RM'000	2011 RM'000
Total income/(deficit) of Pavilion REIT		
- realised	(12,452)	(764)
- unrealised	435,570	–
Total income/(deficit)	423,118	(764)

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 31 December 2012

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units	% of Unitholdings
Less than 100	11	0.27	380	0.00
100 - 1,000	523	13.08	439,905	0.01
1,001 - 10,000	2278	56.95	11,639,700	0.39
10,001 - 100,000	933	23.32	33,863,000	1.13
100,001 to less than 5% of issued units	252	6.30	748,171,680	24.91
5% and above of issued units	3	0.08	2,210,000,000	73.56
Total	**4,000**	**100.00**	**3,004,114,665**	**100.00**

Thirty largest unitholders as per record of depositors as at 31 December 2012

No	Name of Unitholders	No. of Units	%
1.	HSBC Nominees (Asing) Sdn Bhd Exempt an for Credit Suisse AG	1,082,900,000	36.05
2.	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account-CIMB Investment Bank Berhad for Lim Siew Choon (UCDSB-SSA)	845,325,000	28.14
3.	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account-CIMB Investment Bank Berhad for Tan Kewi Yong (UCDSB-SSA)	281,775,000	9.38
4.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	128,790,300	4.29
5.	HSBC Nominees (Asing) Sdn Bhd Exempt an for The Bank of New York Mellon (BNYM as E&A)	99,200,000	3.30
6.	Kumpulan Wang Persaraan (Diperbadankan)	51,066,100	1.70
7.	Citigroup Nominees (Tempatan) Sdn Bhd Exempt an for American International Assurance Berhad	39,280,000	1.31
8.	Amanahraya Trustees Berhad Skim Amanah Saham Bumiputera	35,000,000	1.17
9.	Kurnia Insurans (Malaysia) Berhad	27,000,000	0.90
10.	Cartaban Nominees (Tempatan) Sdn Bhd Exempt an for Eastspring Investments Berhad	22,699,300	0.76
11.	HSBC Nominees (Asing) Sdn Bhd Exempt an for JPMorgan Chase Bank, National Association (Saudi Arabia)	13,498,115	0.45
12.	Cartaban Nominees (Asing) Sdn Bhd Government of Singapore Investment Corporation Pte Ltd for Government of Singapore (C)	12,190,500	0.41
13.	Citigroup Nominees (Tempatan) Sdn Bhd Allianz Life Insurance Malaysia Berhad (P)	11,900,000	0.40
14.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LPF)	11,000,000	0.37

Thirty largest unitholders as per record of depositors as at 31 December 2012 (continued)

No	Name of Unitholders	No. of Units	%
15.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LSF)	10,740,000	0.36
16.	Amanahraya Trustees Berhad as 1Malaysia	10,000,000	0.33
17.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 3)	10,000,000	0.33
18.	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	9,631,300	0.32
19.	Mohammed Hussain A A Al-Abdulla	9,000,000	0.30
20.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LGF)	8,450,000	0.28
21.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB Prin)	7,864,500	0.26
22.	Pertubuhan Keselamatan Sosial	7,552,500	0.25
23.	Amanahraya Trustees Berhad PB Growth Fund	7,314,100	0.24
24.	HSBC Nominees (Asing) Sdn Bhd BNYM SA/NV for Liechtensteinische Landesbank Aktiengesellschaft	6,985,100	0.23
25.	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	6,305,000	0.21
26.	Citigroup Nominees (Tempatan) Sdn Bhd ING Insurance Berhad (INV-IL PAR)	5,201,000	0.17
27.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad for Amasia Pacific REITS	5,179,500	0.17
28.	HSBC Nominees (Asing) Sdn Bhd Exempt an for JPMorgan Chase Bank, National Association (U.S.A.)	4,864,300	0.16
29.	Citigroup Nominees (Asing) Sdn Bhd CBNY for Forward International Real Estate Fund	4,760,100	0.16
30.	HSBC Nominees (Asing) Sdn Bhd HSBC-FS I for JF Malaysia Fund	4,706,500	0.16

Major Unitholders (5% and above) as at 31 December 2012

No	Name of Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Qatar Holding LLC	1,082,900,000	36.05	–	–
2.	Datuk Lim Siew Choon	845,425,000	28.14	–	–
3.	Datin Tan Kewi Yong	281,875,000	9.38	–	–

Unitholdings of Directors and Chief Executive Officer as at 31 December 2012

No	Name of Unitholder	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Datuk Lim Siew Choon	845,425,000	28.14	–	–
2.	Datin Tan Kewi Yong	281,875,000	9.38	–	–
3.	Dato' Lee Tuck Fook	100,000	*	–	–
4.	Navid Chamdia	100,000	*	–	–
5.	Ooi Ah Heong	100,000	*	–	–
6.	Dato' Mohzani bin Abdul Wahab	100,000	*	–	–
7.	Dato' Maznah binti Abdul Jalil	100,000	*	–	–
8.	Syed Mohd Fareed bin Shaikh Alhabshi	100,000	*	–	–
9.	Philip Ho Yew Hong	95,000	*	–	–

**: Negligible*

Market Overview

1.0 GENERAL ECONOMIC REVIEW 2012

Malaysia GDP grew moderately at 5.1% for 2012 amid continuous weak global economy. Domestic demand was the major mechanism for the continued overall growth supported by both private and public sector economic activities. The growth is driven mainly by domestic demand and public sector spending in the face of weakening exports, helped by measures in the Budget 2013.

In 2011, the Malaysian Government announced the Economic Transformation Programme (ETP). The GNI per capita is projected to increase up to RM 48,000 whilst 3.3 million new jobs are expected to be created. Creations of job opportunities will have positive impact on income and personal consumption. In 2012, unemployment rate was standing low at 3.0% and the average income per capita is RM29,450 per annum, making Malaysia a modern, upper-middle income country.

Malaysia is ranked as 9th most visited country in the world. For the year to September 2012, the nation has attracted 18.2 million tourists. This has benefited especially the retail industry, particularly malls in the Kuala Lumpur Golden Triangle, where international tourists account for around 30% of total visitors.

Malaysia is expecting moderate economic growth in 2013. The Malaysian Institute of Economic Research forecast 2013 GDP growth is 5.6%. Minor stagnant performance is anticipated with investors adopting 'wait-and-see' attitude resulting from gloomy export industry and the general election. Some industries are still expecting robust growth, such as oil and gas, crude palm oil and construction.

2.0 RETAIL PROPERTY MARKET IN KLANG VALLEY

2.1 Overview of the Retail Market

Klang Valley accounts for the largest retail market in Malaysia. In 2011, the Klang Valley retail market was worth about RM 31 billion. The retail industry in Malaysia is expected to have growth at the rate of 6% for the year 2012. For the 1st and 2nd quarter 2012, the retail industry in Malaysia grew by 6.9% and 5.9%.

Retail property market in Klang Valley is currently facing an oversupply situation. However, the oversupply situation is more of project specific rather than location specific. Many of the established large retail malls in Klang Valley continue to attract both retailers as well as shoppers.

There is also a large disparity in rental rates among successful and failed retail malls, from RM1.00 per sq.ft. up to RM90.00 per sq.ft. Successful retail malls charge double digit rental per sq.ft but retailers are still queuing to secure retail spaces. On the other hand, struggling retail malls give deep discount in the rental rates but still fail to fill up empty retail lots. The issue is more persistent especially for the stratafied retail malls.

As for many of the neighbourhood retail malls which are usually small in size and located in residential areas, many of them are not enjoying good rental return due to limited market catchment size.

The Budget 2013 has seen the Government introduced several incentives that help increase retail spending by the public. Relevant incentives are including RM 500.00 cash handout to low-income families, RM 250.00 cash handout to low income individuals, RM 250.00 1Malaysia Book Voucher to tertiary students, RM 200.00 rebate on smartphones to young adults, tax reliefs and tax rebates remove 170,000 taxpayers from paying tax, etc. For Year 2013, the retail industry is expected to expand by 6.0%.

2.0 RETAIL PROPERTY MARKET IN KLANG VALLEY (continued)

2.2 Retail Malls in Klang Valley

Existing Retail Supply in Klang Valley (as at H1 2012)

No.	Location	No. of Malls	Total Nett Floor Area (sq. ft.)	Average Rental Rate (RM per sq. ft.)*	Average Occupancy Rate (%)
1	Kuala Lumpur	99	25,407,125.32	10.48	82.50
2	Selangor	106	28,698,630.84	9.53	83.00
	TOTAL	**205**	**54,105,756.16**	**10.01**	**82.75**

Future Retail Supply in Klang Valley, 2013-2014

Year	Additional Nett Floor Area (sq. ft.)	Total Nett Floor Area (sq. ft.)	Annual Growth Rate (%)	Average Rental Rate (RM per sq. ft.)*	Occupancy Rate (%)
2012	---	54,842,848.44	---	10.40	80.93
2013 (estimate)	2,510,000	57,352,848.44	4.6	10.45	80.95
2014 (forecast)	5,693,000	63,047,148.44	9.9	10.45	80.90

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

(Source : Henry Butcher Retail)

3 PURPOSE BUILT OFFICE IN KLANG VALLEY

3.1 Overview of the Office Market

Kuala Lumpur accounts for 72.52% of offices in Klang Valley. The major supply of offices comes from the Golden Triangle (KLCC and Bukit Bintang area) and Within City Center (KL Sentral, Bangsar, Mid Valley). In the earlier years, the GT supplied the bulk of purpose-built office space in Kuala Lumpur. However, its market share has been eroded and the WCC area is vying for the top spot with significant supply of office space every year. This is attributable to the large coverage area WCC offers, in addition to availability of land, improved public transportation, good road connectivity, lower rents and high quality modern buildings.

In terms of demand, the GT is still considered the top address in Kuala Lumpur. Major companies both local and international are still considering the GT address as essential for their corporate image. Some key features tenants look for are accessibilty, locations along main thoroughfare, serviced by good public transport, perception and ambiance that promote a certain image and good views from the office space.

The current office market in Klang Valley is experiencing a downward trend in occupancy, especially in the GT and WCC areas. With large volume of office spaces ready in the next few years, occupancy rate is forecasted to weaken further, unless the government can attract more foreign companies to set up offices in Kuala Lumpur.

Generally, modern purpose-built office towers in the GT commands higher rental rates ranging from RM7.00 per sq. ft. to RM8.00 per sq. ft, with the top tier commanding RM10.00 per sq. ft. to RM15.00 per sq. ft. Older purpose-built office towers in the GT registered lowest rental rates, from RM4.50 per sq. ft. to RM5.50 per sq. ft. Some of the newer purpose-built office towers though are pegging at lower rental rates of RM5.50 per sq. ft, in the light of impending oversupply.

3 PURPOSE BUILT OFFICE IN KLANG VALLEY (continued)

3.2 Office Buildings in GT and CBD

Existing Supply of Purpose Built Office in GT and CBD

LOCATION	TOTAL			
	No. of bldgs	Lettable area (sq. m.)	Lettable area (sq. ft.)	Occupancy Rate
Golden Triangle (GT)	84	2,113,497	22.749 mil	81.2%
Central Business District (CBD)	88	1,251,550	13.471 mil	83.2%
Total	**172**	**3,365,047**	**36.22 mil**	**82.2%**

** The above office supply only covers privately owned offices/ non-government owned buildings.*

(Source: NAPIC, JPPH)

New Supply (Under Construction) in GT, CBD and WCC

Year	Golden Triangle (sq. ft.)	Central Business District (sq. ft.)
2013 e	23,991,409.90	13,471,571.56
2014 e	24,831,403.91	13,800,000.00
2015 e	25,131,403.91	13,800,000.00

**Tun Razak Exhange is offering a gross floor area of between 750,000 sq ft to 1.2 million sq ft in the first phase*

(Source: NAPIC, JPPH)

4 The Malaysian REITs Overview

Despite the volatility of Bursa Malaysia and most other overseas stock markets in unpredictable 2012, Malaysia Real Estate Investment Trusts (M-REITs) achieved higher returns, lower risk and superior risk-adjusted performance than the local stock markets. Investors sought refuge in real estate investment trusts sector as safe havens amid chaotic market conditions caused by the uncertain global economy and the upcoming general election.

Up to date (January 2013), there are 16 REITs with a combined market capitalisation of about RM24.1 billion. For period up to August 2012, the average capital appreciation rate for M-REITs was 12.8% against 7.5% at FBM KLCI. The top three M-REITs (in terms of market capitalization), recorded an average capital appreciation of 18.5% for the same period.

Retail-weighted REITs have outperformed others. Growth in retail sales will be further supported by higher levels of personal disposable income, stable employment, increasing tourist arrivals, etc. The retail market is to remain buoyant with major malls under REITs registering average occupancy rates of 95% and above. As many tenancies of these major malls are expiring in 2013, the malls are expected to increase their rental rate (major income source), thus improving income further.

Office REITs did not enjoy such commendable performance as retail REITs. Oversupply of office space in Klang Valley led to competitive rental rates and office owners are unlikely to increase rental rate significantly in order to secure tenancies. This may contribute to stagnant office rental returns, and thus, dividend yield.

4 The Malaysian REITs Overview (continued)

2013 is expected to be another optimistic year for M-REITs. Retail REITs will benefit from introduction of new policies by the government, such as launch of the minimum wage, RM500 give out cash, etc. The buoyant tourism business resulting from aggressive government promotional activities, will also be very helpful to the local retail industry.

KLCCP (KLCC Property Holdings Berhad), which owns and operates Petronas Twin Towers, Suria KLCC Shopping Centre and others, is contemplating placing its assets into a REIT. We expect it to be closely watched by investors with great interest. The successful stories of many existing M-REITs have resulted in quite a number of assets being spun off into REITs.

M-REITs have great potential to grow further. Such growth will be enhanced by more quality and diversified portfolio with iconic landmark assets, reputable developers as well as experienced management. Malaysia is unique where plantation and Islamic REITs are only found here thus far. Introduction of a diverse base of M-REITs is being anticipated, including injection of overseas assets to offer variety of REITs.

Glossary

AEI	:	Asset enhancement initiative
Board	:	Board of directors of the Manager
Bursa Malaysia	:	Bursa Malaysia Securities Berhad
Company	:	Pavilion REIT Management Sdn Bhd
CEO	:	Chief Executive Officer
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
Forecast 2011	:	Based on profit forecast for the period ended 31 December 2011 as stated in the Prospectus, prorated from 7 December 2011 to 31 December 2011
Forecast 2012 / Forecast	:	Based on profit forecast for the year ended 31 December 2012 as stated in the Prospectus
Fund	:	Pavilion Real Estate Investment Trust
FBM KLCI	:	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FP	:	Financial period from 7 December 2011 to 31 December 2011
FY	:	Financial year from 1 January 2012 to 31 December 2012
GFA	:	Gross floor area
KLP	:	Kuala Lumpur Pavilion Sdn Bhd
Manager	:	Pavilion REIT Management Sdn Bhd
M-REIT	:	Malaysian Real Estate Investment Trust
MER	:	Management expense ratio - ratio of trust expenses incurred in operating Pavilion REIT to its NAV
NAV	:	Net asset value
NLA	:	Net lettable area
NPI	:	Net property income
Pavilion REIT	:	Pavilion Real Estate Investment Trust
Prospectus	:	Pavilion REIT's prospectus dated 14 November 2011
PPKM	:	Persatuan Pengurusan Kompleks Malaysia / Malaysia Shopping Malls Association
REIT	:	Real Estate Investment Trust
Trustee	:	AmTrustee Berhad
TAV	:	Total asset value
Unit	:	An undivided interest in Pavilion REIT as provided for in the Deed
WALE	:	Weighted average lease expiry

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

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