

PAVILION

REAL ESTATE INVESTMENT TRUST



2013
annual
report



Business Review

Corporate Governance Report and Financial Statements

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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.

OVERVIEW



The principal investment policy of Pavilion REIT is 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
- (c) Proactively managing the properties and implementing asset enhancement strategies
 - 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
 - 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

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 & ITS PRINCIPAL PLACE OF BUSINESS

Pavilion REIT Management Sdn Bhd (Company Number: 939490-H)
Level 10, Pavilion Kuala Lumpur,
168, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia
Telephone No.: +603 2118 8888
Facsimile No.: +603 2118 8889
E-mail: info@pavilion-reit.com
Website: www.pavilion-reit.com

MANAGER'S REGISTERED OFFICE

6-2 Level 6 East Wing, Menara 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

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

NOMINATION COMMITTEE

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

AUDITOR

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



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

PRINCIPAL BANKERS

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

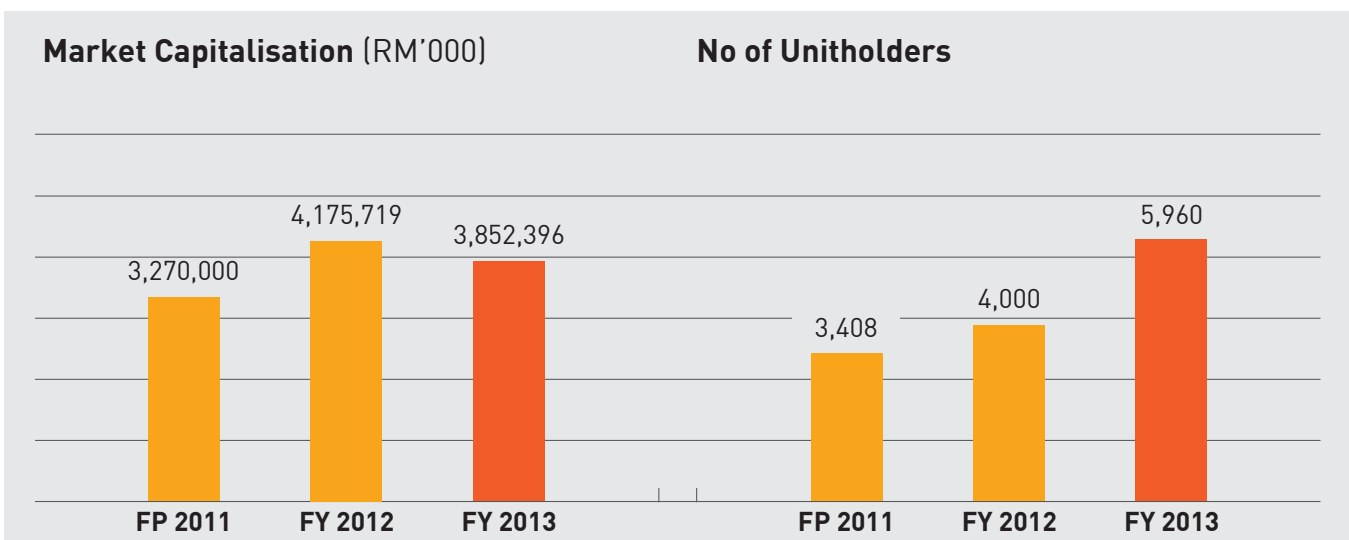
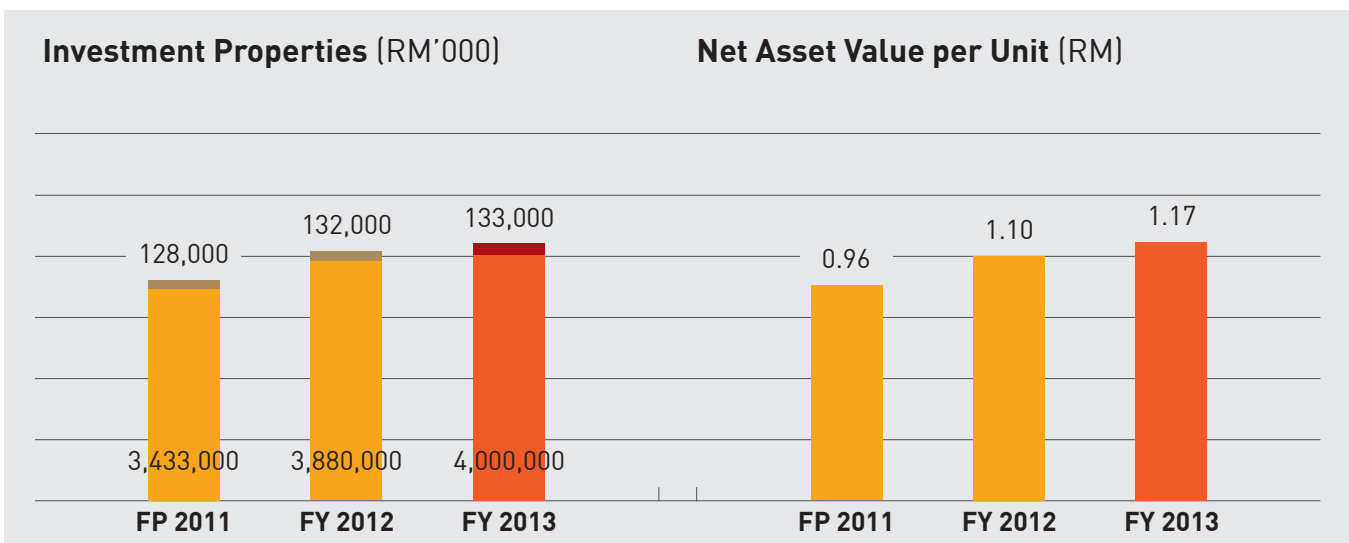
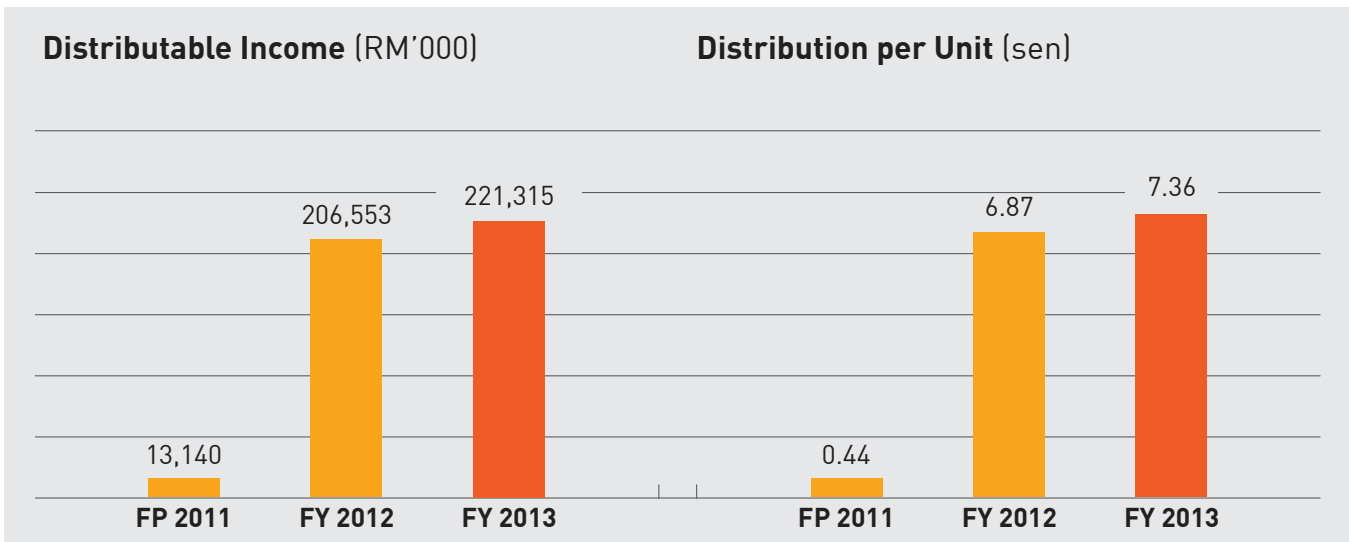
TRUSTEE

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

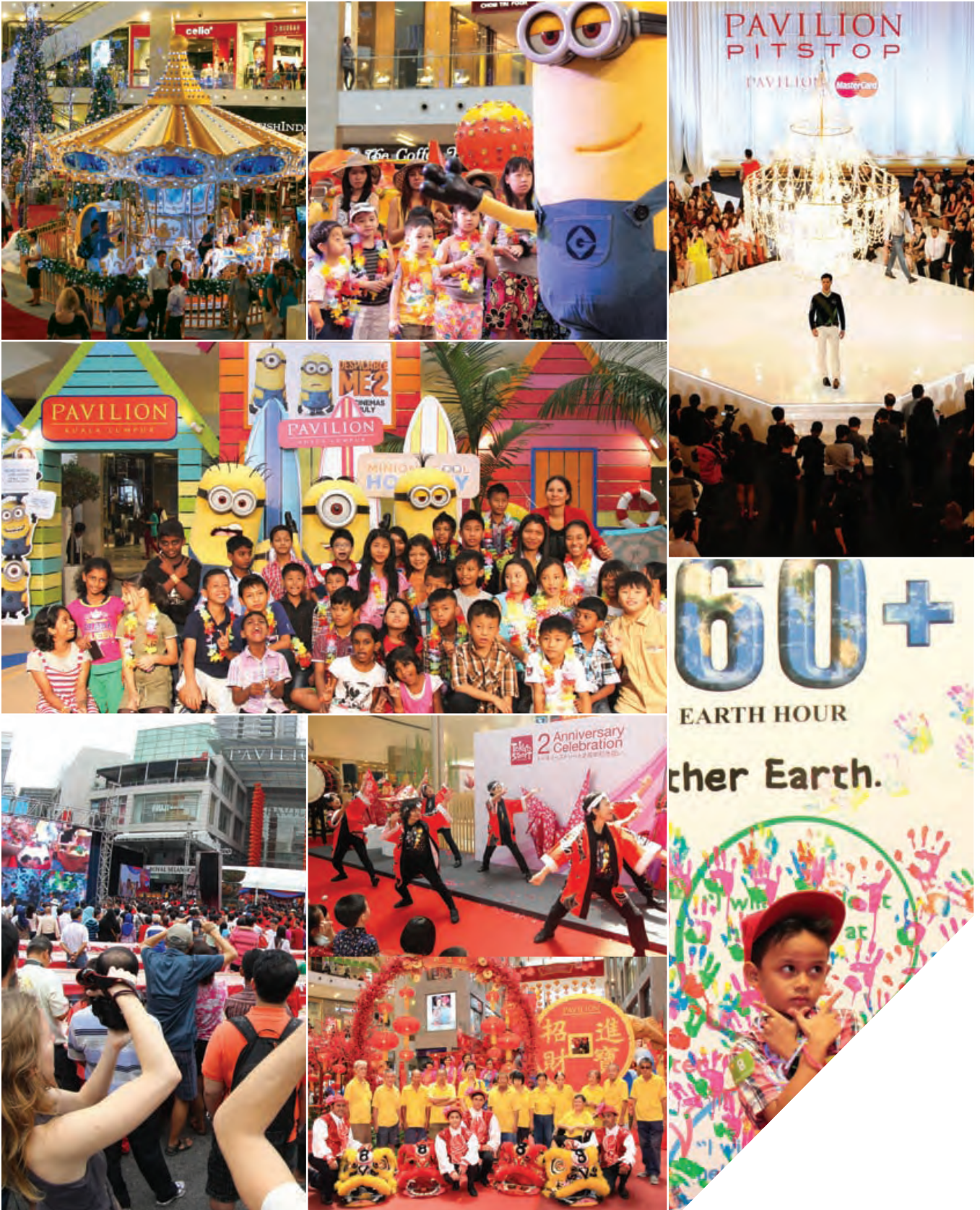
REGISTRAR

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



OVERVIEW



MESSAGE FROM THE CHAIRMAN



arrived in the country between January and September 2013. Tourist spending was approximately RM46.4 billion during the period, compared to RM42.4 billion for the same period in 2012. This coupled with the strong domestic consumer market will contribute to the sustained growth in the Malaysian retail industry, which is forecasted to grow by 6.0% in 2014.

MARKET REVIEW

The M-REIT market grew substantially during the year due to the listing of KLCC-Stamped REIT in May 2013. This resulted in the M-REIT market capitalization to increase from RM24.5 billion to RM31.8 billion, a growth of 29.8% in a year. This we hope will give the local and international investors a wider option to invest in quality M-REIT counters in Malaysia.

The M-REIT counters reached an all time high during the first half of 2013. In the middle of 2013, the US Federal Reserve signaled a possible tapering of the quantitative easing program. This caused markets to react and the Malaysian and Asian markets were subsequently affected by capital outflows. The yield for 10-year Malaysian Government Securities rose to 4.1% at the end of 2013 as compared to 3.5% as at the end of the previous year. Compared to the period prior to the 13th Malaysian General Election where investors preferred risk-averse securities with stable yields, yield investments such as M-REITS were no longer as attractive during the second half of the year due to the increasing interest rate environment.

For the year ended 31 December 2013, Pavilion REIT's asset under management increased from RM4.0 billion to RM4.1 billion. Pavilion REIT closed the year at RM1.28 per unit.

ECONOMIC OVERVIEW

The global economy improved during the year with economic growth picking up during the second half of the 2013. In 2013, the United States with its expansionary monetary policy showed signs of recovery while the eurozone emerged from recession. China's economy expanded 7.7% in 2013, surpassing the official target of 7.5%. The Malaysian GDP is estimated to register a growth of 4.5% to 5.0% while the FTSE KLCI recorded an increase of more than 10% with the index closing at 1,866.9 from 1,688.9 on 31 December 2012.

With the government's continuous effort to promote tourism, approximately 18.8 million tourists

Pavilion REIT's
asset under
management
is currently
RM4.1 billion
with average
total return
over 3 years of
20.0%



Since listing, we have achieved an average total return over 3 years of 20.0%.

INVESTMENT AND ASSET PERFORMANCE

Approximately 71% of Pavilion Kuala Lumpur's net lettable area was due for renewal in 2013. Our priorities for the year were therefore, the renewal and repositioning of these retail lots. We have successfully introduced new tenants to the mall such as Miu Miu, Mulberry, Superdry, TSL, Le Coq Sportif and Brietling. Most of our existing tenants have also refurbished the lots or being relocated within the retail mall to give shoppers a new shopping experience. We are delighted to announced that we have achieved a rental reversion of 15% in 2013.

During the year, Pavilion Kuala Lumpur was accorded the "Best Shopping Experience" – Best of Malaysia Awards 2013 by Expatriate Lifestyle. Pavilion Kuala Lumpur will continue to endeavor to be the 'talk of town', popular for its decorations and events.

The construction of the retail extension to Pavilion Kuala Lumpur (whereby the Fund has the right of first refusal) commenced last year and is expected to complete by

mid-2016. The construction of the mass rapid transit station at the junction of Jalan Bukit Bintang and Jalan Sultan Ismail is also underway and is expected to be completed in 2017. When both constructions are completed, we anticipate the entire Bukit Bintang area to be a "well-organised shopping destination", comparable to any major shopping city in the world.

We have been reviewing investment opportunities during the year but have not identified suitable assets for acquisition. We will continue to seek real estate investment opportunities for the Fund.

MARKET OUTLOOK

Globally, the economic outlook will remain challenging in 2014. The earlier than anticipated tapering of the quantitative easing program targeted to begin in the first quarter of 2014 will add pressure for MGS yields to increase. This will cause a further narrowing of yield spreads between MGS and M-REIT, affecting the appeal of the M-REIT sector as a "stable investment".

In Malaysia, inflationary pressures are expected to be felt throughout the year. The year 2014 began with the increase in electricity tariffs and with news of increase in assessment rates

as well as fuel prices. The M-REITs sector may pass these incremental costs to its tenants.

According to the Economic Report 2013 / 2014, the GDP for Malaysia is expected to grow between 5.0% to 5.5% in 2014. The government's continuous support of the tourism industry and the promotion of "Visit Malaysia Year 2014" campaign is expected to contribute positively to the hospitality and the retail sectors in Malaysia with target of 28 million tourists arrival with spending of RM76 billion in 2014.

ACKNOWLEDGEMENTS

On behalf of the Board members, I would like to extend our appreciation to all management staff and employees for their contribution to Pavilion REIT.

We would also like to express our gratitude to all the unitholders, tenants, financiers, business associates and other stakeholders for their continuous support, trust and confidence in us.

DATUK LIM SIEW CHOON
Chairman

16 January 2014

MESSAGE FROM THE CEO

Gross revenue represented an increase of RM29.0 million or 8.4% for the year. The Fund's net property income has also increased by RM17.8 million or 7.3% from RM245.3 million to RM263.1 million.

As the Manager of Pavilion REIT, we are pleased to share with you the performance of the Fund for the financial year ended 31 December 2013.

FINANCIAL PERFORMANCE

Pavilion REIT was listed on the Main Board of Bursa Malaysia Securities Berhad on 7 December 2011. The financial year ended 31 December 2012 was the Fund's first full year of financial reporting. For our second full year of financial reporting, we are pleased to report that gross revenue increased to RM375.5 million from RM346.5 million. This represented an increase of RM29.0 million or 8.4% for the year. The Fund's net property income has also increased by RM17.8 million or 7.3% from RM245.3 million to RM263.1 million.

The Fund's borrowings have remained relatively low at RM706.5 million. The debt-to-total asset ratio of 16.2% is significantly lower than the debt threshold set by the Securities Commission of Malaysia of 50.0%. The decision to convert majority of the Fund's floating rate borrowings to fixed rate of 4.2% per annum has paid off this year as the borrowing costs have stabilized despite the increasing interest rate environment.

The Fund's portfolio assets increased from RM4.0 billion a year earlier to RM4.1 billion as at 31 December 2013. The increase of RM113.1 million or 2.8% was attributed to the annual revaluation of Pavilion REIT's assets. As at 31 December 2013, the net asset value per unit rose to RM1.17 per unit compared to RM1.10 in the preceding year.

Due to the Fund's better performance and growth in 2013, the Manager is pleased to announce a final distribution of 3.71 sen per unit for the 2nd half of 2013. Total distribution for the financial year ended 31 December 2013 of 7.36 sen per unit is 7.1% higher than the preceding year distribution of 6.87 sen per unit. The final distribution would be payable on 26 February 2014.

ASSET ENHANCEMENT INITIATIVES

We continuously seek asset enhancement opportunities for our portfolio of assets.

In 2013, we have commenced the exercise of upgrading some of the retail mall's toilets which will be carried out progressively. This exercise will continue in 2014 besides the continuous exploration of energy savings programs.





For 2014, the Manager will be carrying out the following asset enhancement exercises:

- The existing beauty precinct will be relocated to Level 7 Centre Court, a space previously occupied by a single tenant;
- To cater for more food and beverage outlets with concept of new lifestyle, food and cuisine options at the current beauty precinct located at Connection; and
- Creation of additional space at Jalan Raja Chulan, Level 2 to accommodate for more luxury designer labels.

We anticipate majority of the above asset enhancements to be completed by mid-2014 and to contribute positively to the Fund's revenue, net property income and distributable income.

GOING FORWARD

Notwithstanding that 2014 will indeed be a challenging year, we will continue to work on improving the performance of the Fund's portfolio assets, manage its operation costs effectively and seek investment opportunities to ensure the best return possible for unitholders in the coming year.

PHILIP HO YEW HONG
Chief Executive Officer

16 January 2014

BOARD OF DIRECTORS

Chairman and Non-Independent Executive Director

Datuk Lim Siew Choon

Datuk Lim Siew Choon, age 53, 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 31 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 57, a Malaysian, pursued her tertiary education in the United Kingdom specialising in Business and Marketing Studies.

She has over 30 years of management experience in marketing, advertising, finance and human resource management and has been instrumental in setting up various successful business ventures. Her initial involvement was trading and distribution line and over the years, her scope of involvement has extended to cover many other industries.

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

Non-Independent Executive Director

Dato' Lee Tuck Fook

Dato' Lee Tuck Fook, age 59, a Malaysian, is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He also holds a Master degree in Business Administration from the International Management Centre, Buckingham.

He began his career with KPMG in 1974 under articleship, was subsequently admitted as a partner in 1985 until he left the practice in 1990. From 1990 to 1992, he was appointed the Vice President of Samling Group in Sarawak. He later joined the Renong Berhad group as the Managing Director of Renong Overseas Corporation. Between 1994 and 2000, he was the Chairman of the Executive Committee of the board of Peremba-Kentz Ltd. He was the Managing Director of Cement Industries of Malaysia Bhd from 2001 to 2002.

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

He was appointed to the Board of the Manager on 29 July 2011. He is also an Independent Non-Executive Director of SAM Engineering & Equipment (M) Berhad and the Independent Non-Executive Chairman of Pesona Metro Holdings Berhad.

**Non-Independent
Non-Executive Director**

Omer Abdulaziz H A Al-Marwani

Omer Abdulaziz H A Al-Marwani, age 39, 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 Chief Operating Officer and Director of Finance Department at Qatar Investment Authority.

He was also the Director of the Finance and Administration Affairs Department at the Qatari Supreme Council for Economic Affairs and Investment since 2003.

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

He was appointed to the Board of the Manager on 10 August 2011. He is a member of the Manager's Audit Committee and Nomination Committee. He has no other directorship in other Malaysia public companies.

**Non-Independent
Non-Executive Director**

Mohd Nasser A M Al-Humaidi

Mohd Nasser A M Al-Humaidi, age 42, a Qatari, graduated from the Cairo University in Egypt with a LLB followed by a LLM (Commercial & Maritime Law) from the University of Wales, United Kingdom.

He is currently the Director of the Human Resources Department at Qatar Investment Authority; Secretary to the Board of Qatar Holding and Assistant to the Secretary to the Board of 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. He has no other directorship in other Malaysian public companies.

**Non-Independent
Non-Executive Director**

Saif Mohd A M Al-Madfaa

Saif Mohd A M Al-Madfaa, age 40, a Qatari, graduated with Bachelors of Commerce from Cairo University.

He is currently the 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 41, 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 is also a director of Chelsfield plc, a United Kingdom based property company.

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

Ooi Ah Heong, aged 62, a Malaysian, graduated from the University of Singapore in 1976.

He has over 37 years of experience in the property development business and has years of experience ranging from low-cost housing to high-end condominium development and institutional buildings to shopping and entertainment centres. He is currently the Director of Business Development of Malton Berhad.

He began his career with Yong Dan Mohd Faiz, a quantity surveying firm in Kuala Lumpur in 1976. He joined Tan & Tan Developments as a Project Manager in 1979. He then joined IOI Group as its General Manager. In 1989, he helped to form Pentadel Sdn Bhd. In 1991, he joined Cheras Heights Development, a subsidiary of Perlis Plantation Bhd, as its General Manager. From 1995 to 2002, he acted as an adviser to various property developers on business development opportunities in the property market, including the Khuan Choo Group. He joined Malton Berhad in 2002.

He was appointed to the Board of the Manager on 29 July 2011. He is a member of the Manager's Nomination Committee. He has no directorship in other Malaysian public companies.

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

Dato' Mohzani bin Abdul Wahab, age 60, 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 as a Non-Independent and Non-Executive Director and assumed the role as Chairman of TH Alam Management Sdn Bhd and TH Marine Sdn Bhd. 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 on 18 October 2012.

Previously, he sat as 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 an Independent Non-Executive Director of Celcom Axiata Berhad and Boustead Plantations Berhad.

He was appointed to the Board of the Manager on 29 July 2011. He is the Chairman of the Manager's Audit Committee and a member of the Nomination Committee.

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

Dato' Maznah binti Abdul Jalil, age 60, a Malaysian, graduated with a Bachelor and Masters Degree in Business Administration (Finance) from Northern Illinois University and Central Michigan University, respectively.

Currently, she is the Executive Director and Chief Financial Officer of Sona Petroleum Berhad. She is also a Non-Executive Director of Prestariang Berhad, a Director of Universiti Teknologi Mara (Uitm) and the Chairman of SCS Global 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 formerly Chairman of Uni.Asia General Insurance Berhad and Uni. Asia Life Assurance Berhad. She has also previously served on the Board of Edaran Otomobil Nasional Berhad,

EON Capital Berhad, EON Bank Berhad, Gadek (Malaysia) Berhad, HICOM Holdings Berhad, Horsedale Development Berhad, Labuan Reinsurance (L) Ltd, Malaysian International Merchant Bankers Berhad and several private limited companies under DRB-HICOM as well as on the board of UOB Bank Berhad. Thereafter, she joined Hong Leong Financial Group Berhad as Executive Vice President, Corporate Finance & Principal Investment prior to her appointment as Executive Vice President, Investment Banking at Kenanga Investment Bank Berhad where she served until 2011.

She was appointed to the Board of the Manager on 29 July 2011. She is a member of the Manager's Audit Committee and the Chairman of the Nomination Committee.

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

Dato' Choo Chuo Siong, age 49, 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. He is a member of the Manager's Audit Committee and Nomination Committee. He also holds directorship in Nilai Memorial Park (NS) Bhd and Memorial Venture Berhad.

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

Syed Mohd Fareed bin Shaikh Alhabshi, age 59, is a Malaysian.

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 48, 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 25 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 and a Certificate in Centre Management from PPKM.

During her 31 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 20 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 17 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. Starting her career with Sunway Pyramid, she

joined Mid Valley Megamall as Advertising and Promotions Manager in 2001 before being promoted to Director of Advertising & Promotions in 2004.

**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 20 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 AmlInvestment 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.

**Legal and Compliance Manager
Khor Wah King @ John Khaw**

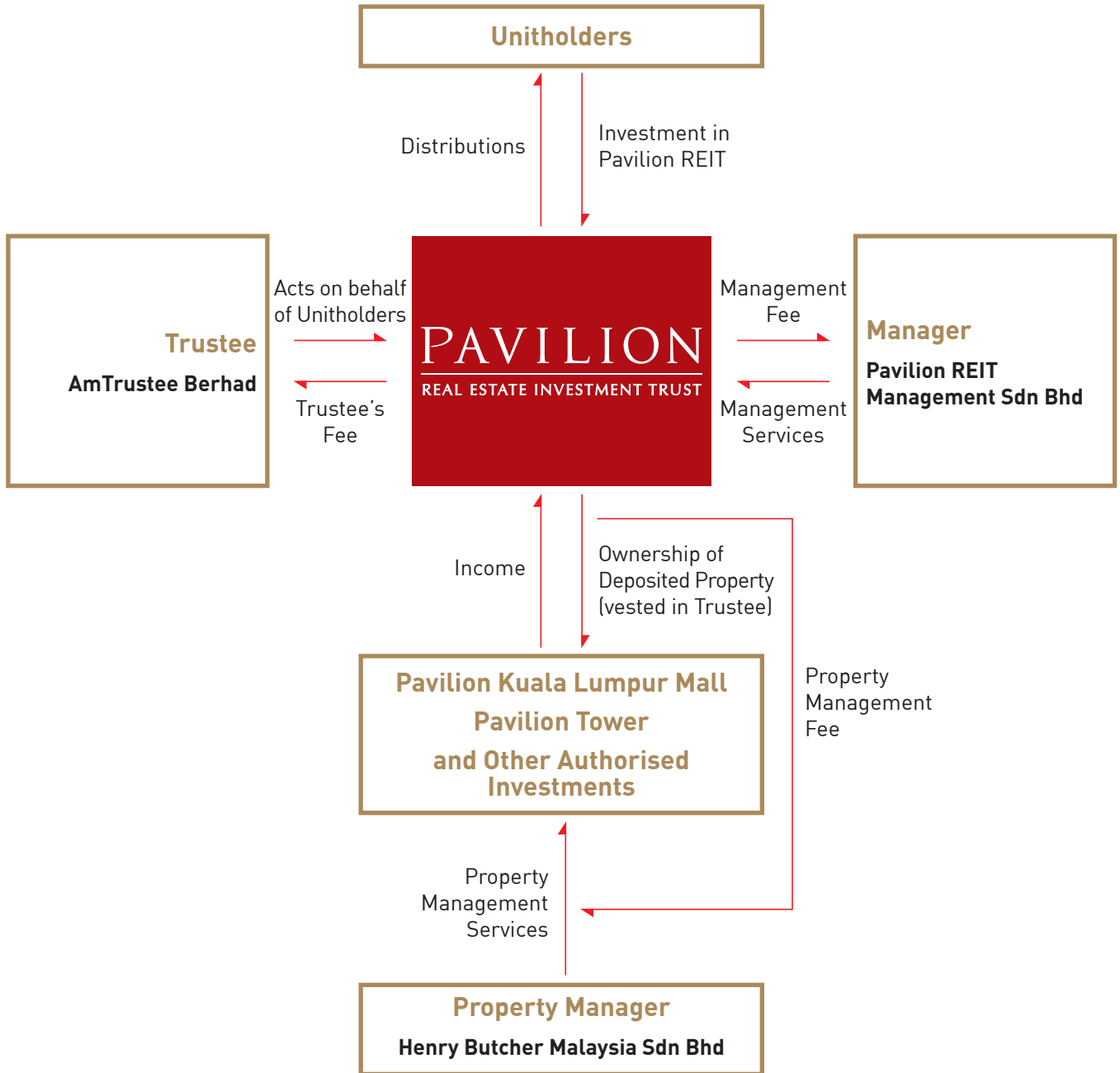
He holds a Masters in International Commercial & Maritime Law from the University of Swansea, United Kingdom and a Bachelor of Laws from Cardiff University, United Kingdom. He also holds a Diploma in Law from Bellerbys Cambridge.

Prior to joining Pavilion REIT Management Sdn. Bhd., he was the Assistant Manager of Commercial Contracts at SWM Environment Sdn Bhd, a waste concessionaire established in line with the Malaysian Government's decision on the National Privatisation of Solid Waste Management. He oversaw the legal fundamentals for the SWM Group of Companies by virtue of his advisory role as well as preparing, reviewing and negotiating on company contracts.

SALIENT FEATURES OF PAVILION REIT

Category of Fund	Real Estate Investment Trust
Type of Fund	Income and growth
Duration of Fund/ Termination Date	The earlier of : <ul style="list-style-type: none"> • The occurrence of any events listed under Clause 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 2013 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	<ul style="list-style-type: none"> • 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 2013.

FINANCIAL HIGHLIGHTS

Financial Results and Key Performance Indicators	FP 2011	FY 2012	FY 2013	Change (%) FY 2013 vs FY 2012
Gross Revenue (RM'000)	22,539	346,524	375,509	8.36%
Net Property Income ("NPI") (RM'000)	16,259	245,289	263,125	7.27%
Distributable Income (RM'000)	13,140	206,553	221,315	7.15%
Earnings per Unit (sen)	0.41	20.99	10.88	(48.17)%
Distribution per Unit (DPU) (sen)	0.44	6.87	7.36	7.13%
Distribution Yield (%) :-				
- based on retail IPO price of RM0.88	7.30 ^	7.81	8.36	7.04%
- based on market price as at 31 December	5.89 ^	4.94	5.75	16.40%
Management Expense Ratio ("MER") (%)	0.06	0.68	0.67	1.47%
Investment Properties (RM'000)	3,561,000	4,012,000	4,133,000	3.02%
Total Asset Value ("TAV") (RM'000)	3,681,088	4,221,355	4,355,353	3.17%
Net Asset Value ("NAV") (RM'000)	2,867,978	3,297,110	3,522,516	6.84%
NAV per Unit (RM)	0.96	1.10	1.17	6.36%
Gearing Ratio (%)	19.14	16.71	16.22	2.93%
Portfolio Turnover Ratio (times)	0.00	0.00	0.00	-

^ annualised based on distribution per unit of 6.42 sen as the Fund was listed on 7 December 2011

GROSS REVENUE AND NET PROPERTY INCOME

By Segment	Gross Revenue				Net Property Income			
	FY 2012		FY 2013		FY 2012		FY 2013	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Retail	335,943	96.95	363,320	96.75	238,630	97.29	254,982	96.91
Office	10,581	3.05	12,189	3.25	6,659	2.71	8,143	3.09
Total	346,524	100.00	375,509	100.00	245,289	100.00	263,125	100.00



Gross revenue achieved in 2013 is RM375.5 million or 8.4% higher when compared to the immediate preceding year. Besides achieving 15% rental reversion, the higher revenue was mainly contributed by Pavilion Kuala Lumpur retail mall's advertising income and turnover rent. Pavilion Tower office's revenue is 15.2% higher due to its increased occupancy as the office only achieved full occupation from 3rd quarter 2012.

This resulted in NPI increasing to RM263.1 million or 7.3% higher as compared the immediate preceding year despite incurring additional property operating expenses due to corresponding operating cost incurred for higher advertising income generated, increase in property operating cost such as utilities, security cost and incurrence of progressive major replacements, repair maintenance and upgrading works.

Retail property continues to contribute approximately 97% of Pavilion REIT's total portfolio in terms of gross revenue and NPI. Overall, Pavilion REIT portfolio achieved NPI margin of 70% with retail and office achieving a NPI margin of 70% and 67% respectively.

DISTRIBUTION PER UNIT ("DPU")

Total DPU for 2013 increased to 7.36 sen from 2012 DPU of 6.87 sen. This represents 0.49 sen or 7.1% higher than 2012 DPU, despite the addition of Units in circulation increasing from 3,004,114,665 Units (at the beginning of the year) to 3,009,684,199 Units as at 31 December 2013.

3.65 sen, earned for 1st and 2nd quarter of 2013 was paid on 9 September 2013 with the final distribution of 3.71 sen earned in 3rd and 4th quarter 2013, to be paid on 26 February 2014.

CAPITAL MANAGEMENT

Pavilion REIT's gearing is 16.2%, 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 4.2% per annum for the next 3 years. Currently, this portion represents 99.5% of total outstanding term loan. This has resulted in the Fund saving RM3.5 million of interest expense during the year.

In view of the increasing funding cost, the Manager will continue to source and evaluate viable 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 and evaluating 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's common area by upgrading some its toilets, changing parts of its mechanical and electrical equipment to enhance operational efficiency, progressively upgrading some of the lightings to energy savings LED lights, boosting its security features by engaging additional security guards besides installation of additional cameras 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 RM113.1 million.

Property	Acquisition Price	Market Value @ 31 Dec 2012	Enhancement	Market Value @ 31 Dec 2013	Fair Value Adjustments
	RM'000	RM'000		RM'000	RM'000
Pavilion Kuala Lumpur	3,190,300	3,880,000	7,888	4,000,000	112,112
Pavilion Tower	123,500	132,000	–	133,000	1,000
	3,313,800	4,012,000	7,888	4,133,000	113,112

MARKET REVIEW

As per Retail Group Malaysia, the retail industry in Malaysia is expected to have grown by 6.2% in 2013 due to the support of sustainable domestic demand. It is anticipated that the industry will also grow at 6.0% in 2014 as 2014 has been declared as Visit Malaysia Year. Despite more shopping malls targeted to be opened in 2014 and rising cost of living via increase in electricity tariff, assessment and gradual removal of government subsidies, the Manager is confident that the successful retail malls especially within the Klang Valley will continue to maintain high occupancy rate with the continuous government initiatives to spur domestic spending, low unemployment and the growing urban population who demands for lifestyle products, food and beverage as well as entertainment remains high. However, although preferred malls will still continue to attract high shopping traffic, retailers will have to put in additional efforts to encourage shoppers to spend rather than just browse or window shop.

With the anticipated softening in the office space in the coming years due to new supply of office space being projected to come on stream exceeding demand, older office space will either have to upgrade via refurbishment exercise or reduce rental rates to retain its tenants.

TOP 10 TENANTS

Pavilion REIT has total combined tenancies list from the retail and office of 578 tenancies. Its ten largest occupied tenants accounts for 18.6% of gross rental income as at 31 December 2013.

Tenant's Name	Trade Sector	Expiry Period
Aker Engineering Sdn Bhd	Oil and Gas	2014 Q1 & Q2 [^]
Apex Excellent Sdn Bhd	Food and Beverage	2016 Q3
Coach Malaysia Sdn Bhd	Fashion	2015 Q3
DNP Clothing Sdn Bhd	Fashion	2016 Q3
Gagan (Malaysia) Sdn Bhd	Fashion	2016 Q3
Golden Screen Cinemas Sdn Bhd	Urban Leisure	2016 Q4
Padini Dot Com Sdn Bhd	Fashion	2016 Q3
Parkson Corporation Sdn Bhd	Fashion	2016 Q3
Royal Selangor Marketing Sdn Bhd	Gift and Souvenir	2016 Q3
Sharaf Fashion Retail Sdn Bhd	Fashion	2016 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 has been increased to 1.93 years against 2012 of 1.09 years whereby a substantial portion of retail property tenants has been renewed or new tenancies procured, with WALE for retail and office being 2.02 and 1.27 years respectively.



PORTFOLIO DETAILS

PORTFOLIO SUMMARY

Appraised Value as at 31 December 2013	RM 4,133 million
Net Lettable Area	1,475,233 square feet

(A) RETAIL

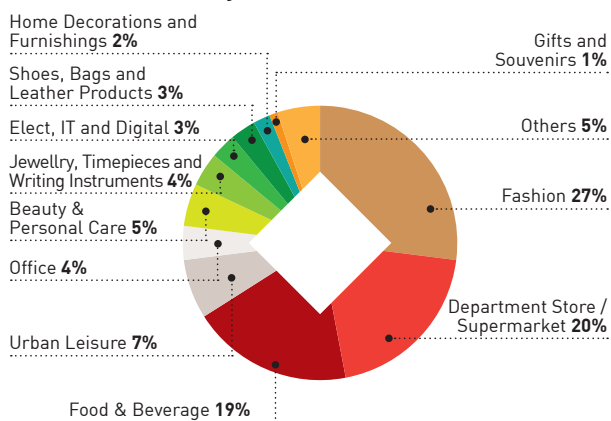
	Pavilion Kuala Lumpur Mall
Address	168 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia
Description	7-storey shopping mall (including 4 split-levels of car parking bays together with a 3-storey retail office block sited atop and annexed with a 4-storey retail/entertainment connection block) and 3 levels 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 and Alliance Investment Bank Berhad
Tenure	99-year lease expiring on 26 October 2109
Gross Floor Area	2,208,972 square feet
Net Lettable Area	1,308,793 square feet
Number of Car Park Bays	2,427
Occupancy Rate as at 31 December 2013	96.2%
Date of Acquisition	7 December 2011
Acquisition Price	RM3,190 million
Appraised Value	RM4,000 million
Date of Latest Valuation	31 December 2013
Independent Valuer	Knight Frank Malaysia Sdn Bhd

TENANCY EXPIRY PROFILE

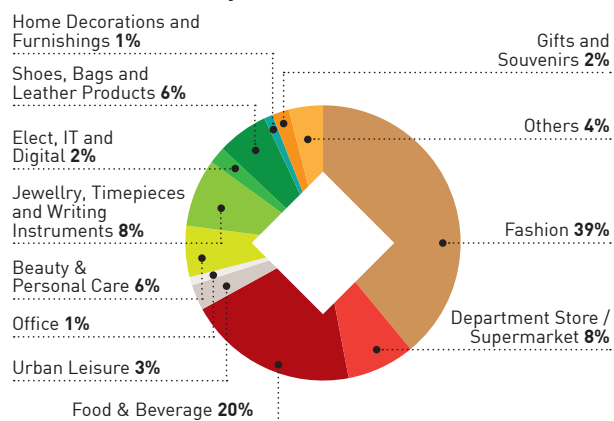
Period	% of Occupied NLA	% of Gross Rental
Monthly	3	4
FY2014	17	15
FY2015	14	18
FY2016 and thereafter	66	63
Total	100	100

TRADE SECTOR ANALYSIS

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



(B) OFFICE

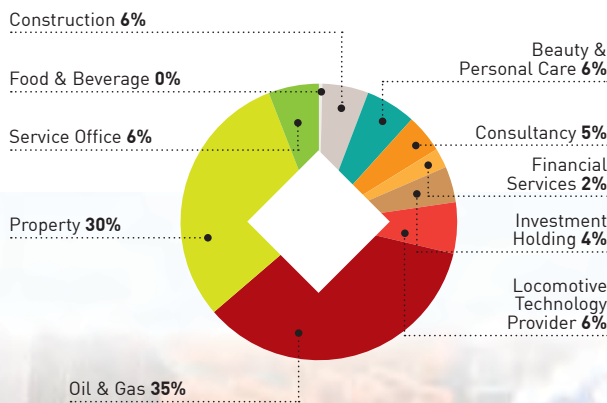
	Pavilion Tower
Address	75 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia
Description	20-storey office building together with 6 mechanical / electrical levels
Year of Completion	2007
Age of Building	5 years
Title	Master Title No. Pajakan Negeri 50125, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan
Encumbrances	Private caveats have been lodged in favour of AmTrustee Berhad and Alliance Investment Bank Berhad
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 2013	100.0%
Date of Acquisition	7 December 2011
Acquisition Price	RM123 million
Appraised Value	RM133 million
Date of Latest Valuation	31 December 2013
Independent Valuer	Knight Frank Malaysia Sdn Bhd

TENANCY EXPIRY PROFILE

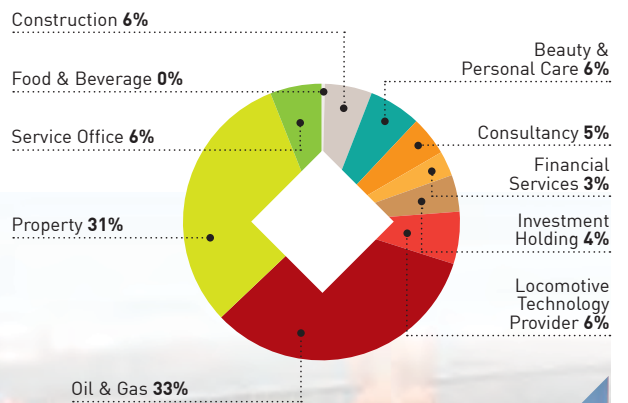
Period	% of Occupied NLA	% of Gross Rental
FY2014	55	54
FY2015	15	16
FY2016 and thereafter	30	30
Total	100	100

TRADE SECTOR ANALYSIS

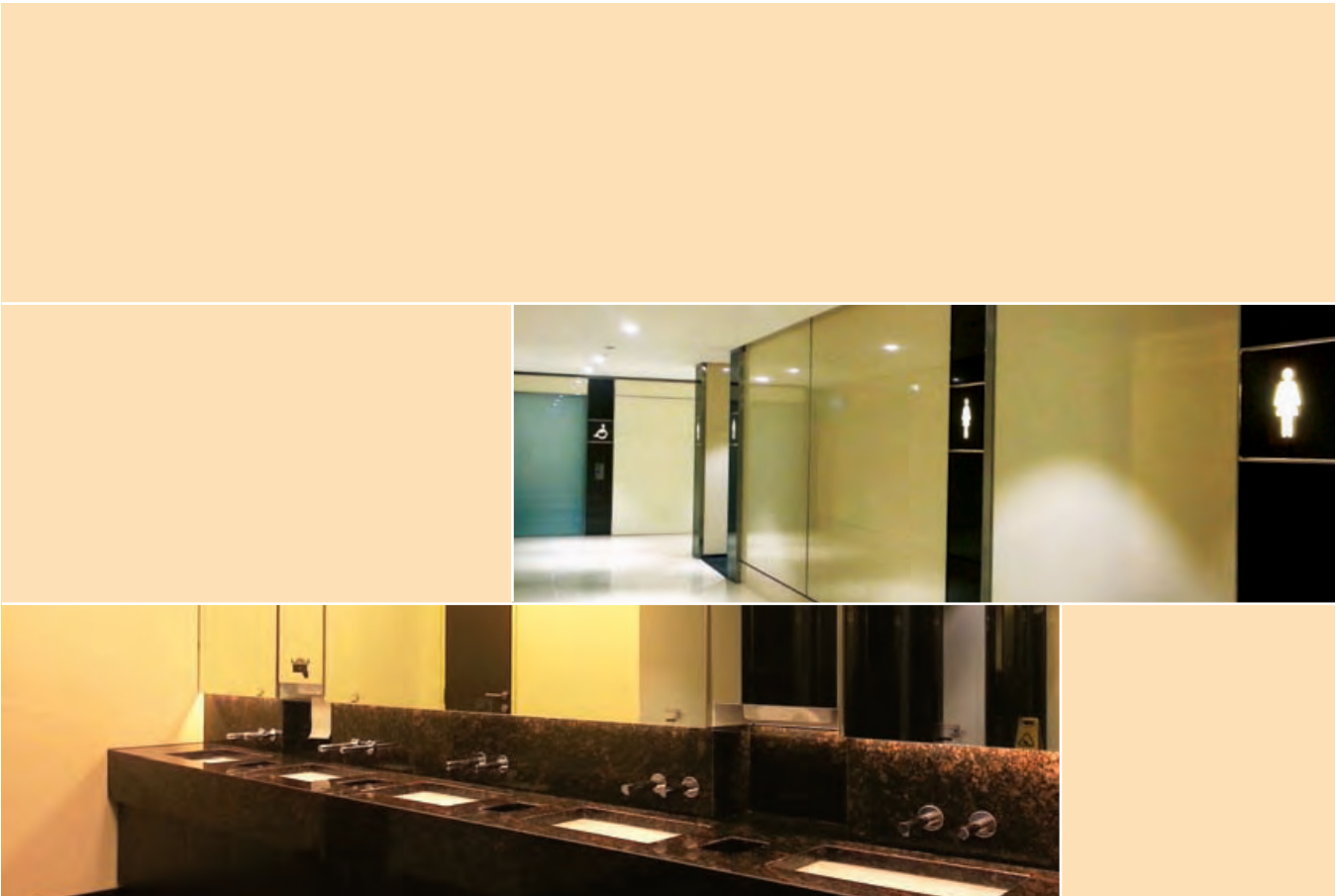
Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



ASSET ENHANCEMENT EXERCISE



During the year under review, with majority of its tenants enhancing their retail outlets, Pavilion Kuala Lumpur also took the opportunity to maintain its image by upgrading its common area such as some of its toilets, changing mechanical and electrical parts to enhance operational efficiency besides undertaking installation of energy saving devices such as upgrading its lighting to LED.

For 2014, besides continuous upgrading of toilets, the Management has confirmed the following asset enhancement initiatives:

- 1) Relocation of existing beauty precinct, currently located at Level 7 above Connection to Level 7 at Centre Court. The new space was previously occupied by a single tenant, Banyan Tree Property Gallery
- 2) Conversion of existing beauty precinct to food and beverage outlets with concept of new lifestyle, as an extension of food flavour in Connection
- 3) Extension and reconfiguration of part of Level 2 on Jalan Raja Chulan to cater for additional luxury designer labels

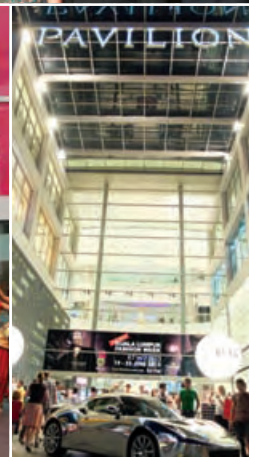
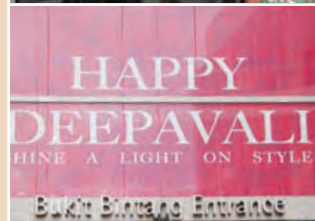
HIGHLIGHTS OF THE YEAR

EVENTS

- **Chinese New Year Festival** with theme of '9 Circles of Prosperity' featuring 9 unique experiences for shoppers enjoyment and blessing them with abundance of good fortune and wishes
- **5th Anniversary Celebration** with a Talk of the Town giveaways to reward shoppers for their loyalty and patronage
- **Duty Free Campaign**, a collaboration with Tourism Malaysia to reward tourist for shopping
- **Pavilion Pit Stop 2013**, a signature and much anticipated event for fashion and F1 enthusiasts during the Malaysian F1 Grand Prix season
- **KL Fashion Week 2013**, Malaysia's first Ready-to-Wear Fashion Week set Pavilion KL into a trendsetting mood that showcased the collections from Malaysian designers, seminars and exhibitions
- **"Balik Kampung, Balik Pavilion KL"**, a nostalgic festival to position Pavilion KL as Malaysia's favourite kampong to go home to, 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
- **Shine a Light on Style**, a Deepavali festival of light with innovative kolams and fabric lanterns
- **"Christmas Wonders"** relieved the traditions of a white Christmas with thousands of illuminating LED lights, a 40 feet LED tree, polar bear sculptures, carousel, Santa's sleigh topped with a magical snowfall experience daily. Tokyo's Street's Christmas featured LINE's first South-East Asia pop up store and largest Moon sculpture display.

AWARDS

- **"Best Shopping Experience"** – Best of Malaysia Awards 2013 by Expatriate Lifestyle



CORPORATE SOCIAL RESPONSIBILITY

Besides the continuous proactive promotion of the richness of Malaysia culture and heritage via its yearly festivals, Pavilion REIT also uses it as a platform for local talents and entrepreneurs to showcase their work, foster a good sense of togetherness and raise fund for the needy. Pavilion KL partnered and hosted the followings events this year:-



- **Chinese New Year fund raising for Old Folks Homes** via charity sale & donation
- **Lion-Parkson Foundation**, a calligraphy event to raise funds for high school students and education
- **International Women's Day** was on 8 March with a flash mob to heighten awareness on equality, empowerment and women's right
- **Earth Hour** on 23 March where the mall's non-essential lights were switched off for one hour to position the mall as a global partner on environment awareness. Education being the catalyst for change, Pavilion Junior members joined in the cause
- **"Keep Green & Recycle"**, an Earth Month campaign designed for Tokyo Street to emulate the Japanese way of recycling. Collected water bottles were turned into robot sculptures at workshops for Pavilion Juniors and displayed at the precinct
- **Kakiseni Festival** is the first performing arts festival held in the mall. International artists joined locals in showcasing the first street art parade, workshops, theatre shows in the BlackBox, all free to the public. An awards night was held to recognize those who excelled in performing arts.
- Participation in the **KL Rat Race 2013** for the 1st time, besides contribution to a good cause, Pavilion team of runners have emerged 2nd runner-up in the 'best-dressed' category.
- **UNICEF Philippines Haiyan Emergency Fund** was launched via "Come Meet Santa" campaign during the Christmas celebration

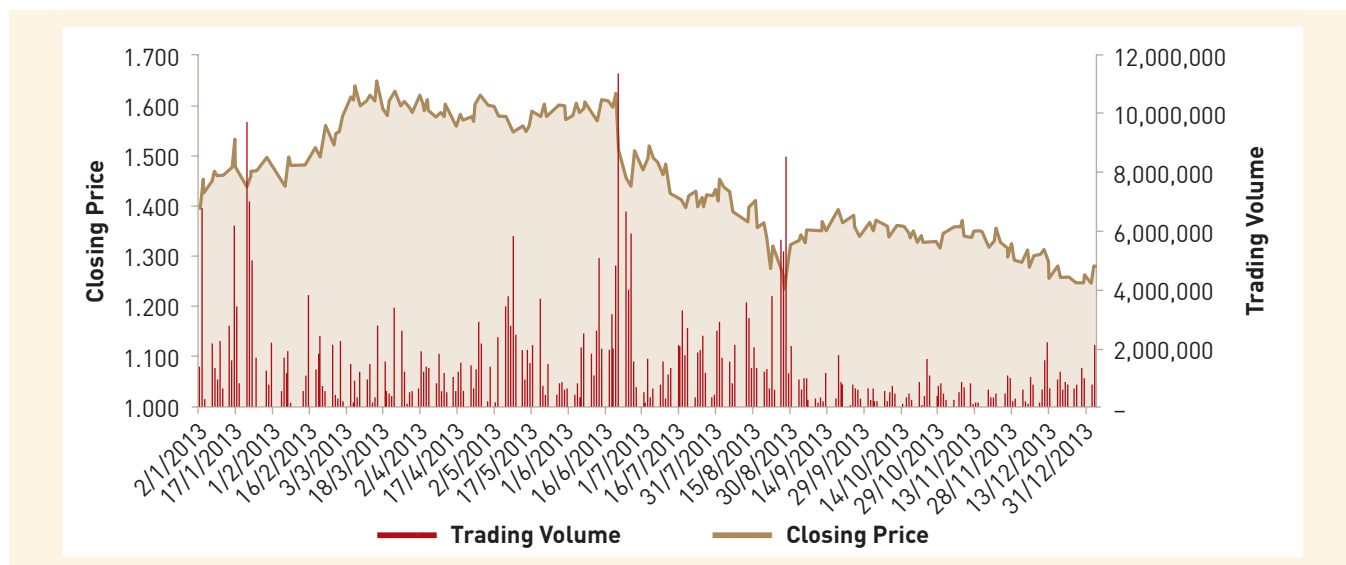
INVESTORS RELATION AND FUND PERFORMANCE

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

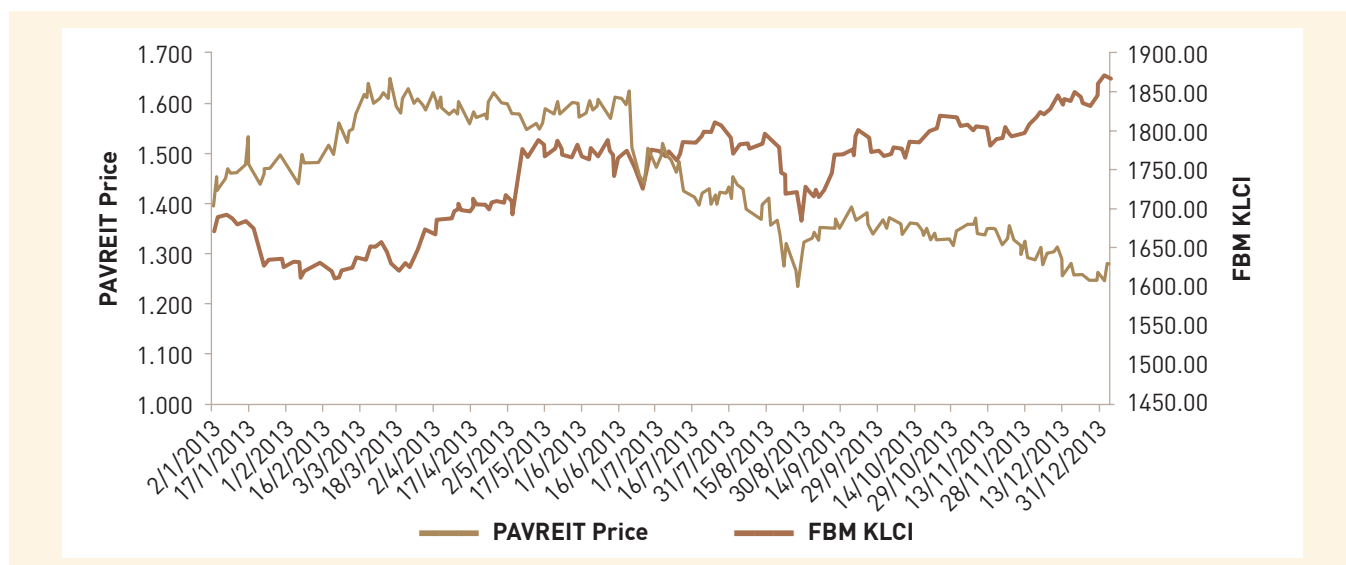
- Half yearly analyst briefing
- APREA’s investors day hosted by Macquire, Singapore
- BNP Paribas non deal roadshow to Europe
- DBS Pulse of Asia Conferences in Singapore and United States
- Citi Asia Pacific Conference in Hong Kong
- Hosting Money Channel, Stock Exchange of Thailand, Maybank Kim Eng and their clients

Pavilion REIT also held its first annual general meeting on 25 April 2013 whereby its unitholders were briefed on the performance of Pavilion REIT for the financial year ended 31 December 2012.

PAVILION REIT’S MONTHLY TRADING PERFORMANCE



PAVILION REIT’S UNIT PRICE PERFORMANCE AGAINST FBM KLCI



Investors Relation and Fund Performance_continued

Trading Summary	FP 2011	FY 2012	FY 2013
Net Asset Value per Unit (RM)			
- As at 31 December	0.96	1.10	1.17
- Lowest during the year	0.00	0.95	1.12
- Highest during the year	0.96	1.10	1.17
Closing unit price (RM) as at 31 December	1.09	1.39	1.28
Highest traded price during the period / year (RM)	1.10	1.47	1.67
Lowest traded price during the period / year (RM)	0.98	1.04	1.20
Capital appreciation / (depreciation) (%) ¹	23.86	27.52	(7.91)
Annual total return (%) ²	29.75	32.46	(2.16)
Average total return over 3 years (%)	-	-	20.02
Units in circulation ('000)	3,000,000	3,004,115	3,009,684
Market capitalisation (RM'000)	3,270,000	4,175,719	3,852,396

1 Capital appreciation is calculated based on the difference between opening and closing price for the relevant financial year. For FP 2011, it is the difference between retail IPO price and its closing price

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



CORPORATE GOVERNANCE STATEMENT

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 and advocating ethical standards through a code of conduct.

Notices, agenda and meeting papers are circulated to directors in a timely manner to ensure that the directors have sufficient time to review the matters under consideration. All members of the Board have access to the advice and services of Company Secretary and 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 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. All other recommended best practices proposed by Code of Corporate Governance 2012 have been adopted.

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

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

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.

The Manager has established internal control procedures to ensure that related party transactions are undertaken in compliance with Securities Commission REIT Guidelines, the Trust Deed and the Main Market Listing Requirements. Any related party transactions are to be established under normal commercial terms that are no less favourable than those arranged with independent parties.

In respect of non-real estate related party transactions, the Manager has adopted the following parameter.

- 1) Transactions below the threshold of 0.5% of percentage ratio as stated under Paragraph 10.08(1) of Bursa Malaysia Securities Berhad Listing Requirements, for presentation to the Audit Committee for ratification.
- 2) Transactions above the threshold of 0.5% of percentage ratio which are not related to contract subsisting from immediate preceding year is to be reviewed by the Audit Committee and recommended to the Board for announcement on Bursa Securities Malaysia Berhad with Trustee to be informed immediately with relevant details.

Further to the establishment of Audit Committee last year, a Nomination Committee was formed on 24 April 2013. Please refer to their respective reports enclosed for further 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 and investors besides attending investors' roadshows and seminars. Besides timely announcements and disclosures to Bursa Malaysia, its website, www.pavilion-reit.com is also regularly being updated. Please refer to Investors Relation and Fund Performance section for details of roadshows or seminars attended.

Board Meetings

The Board met four times during the financial year ended 31 December 2013 with details of attendance as stated below :

Name of Directors	Designation	Number of meetings attended
Datuk Lim Siew Choon	Chairman and Non-Independent Executive Director	3/4
Datin Tan Kewi Yong	Non-Independent Executive Director	4/4
Dato' Lee Tuck Fook	Non-Independent Executive Director	4/4
Omer Abdulaziz H A Al-Marwani	Non-Independent Non-Executive Director	4/4
Mohd Nasser A M Al-Humaidi	Non-Independent Non-Executive Director	3/4
Saif Mohd A M Al-Madfaa	Non-Independent Non-Executive Director	4/4
Navid Chamdia	Non-Independent Non-Executive Director	3/4
Ooi Ah Heong	Non-Independent Non-Executive Director	4/4
Dato' Mohzani bin Abdul Wahab	Independent Non-Executive Director	4/4
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	4/4
Dato' Choo Chuo Siong	Independent Non-Executive Director	4/4
Syed Mohd Fareed bin Shaikh Alhabshi	Independent Non-Executive Director	4/4

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 :

- An Insight into Business Trust Guidelines
- Enterprise Risk Management
- Financial Services Act & Islamic Financial Services Act
- Islamic Real Estate Investment Trusts
- Managing in Uncertainty : Surviving the Turbulence
- Risk Management

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.

NOMINATION COMMITTEE REPORT

The Board has established a Nomination Committee on 24 April 2013. The Nomination Committee members comprising exclusively of Non-Executive Directors, with a majority as independent directors, are as follows:-

Chairman:	Dato' Maznah Binti Abdul Jalil – Chairman (Independent Non-Executive Director)
Members:	Dato' Mohzani Bin Abdul Wahab (Independent Non-Executive Director)
	Dato' Choo Chuo Siong (Independent Non-Executive Director)
	Ooi Ah Heong (Non-Independent Non-Executive Director)
	Omer Abdulaziz H A Al-Marwani (Non-Independent Non-Executive Director)

The main objectives of the Nomination Committee are to identify, nominate and orientate new directors, assess the Board, Board committees and the existing directors on an on-going basis, review the required mix of skills, experience and other qualities of the directors to ensure that the Board and Board committees are functioning effectively and efficiently. In the case of independent directors, this refers to their abilities to discharge their responsibilities and functions.

During the financial year ended 31 December 2013, the Nomination Committee had met to review the performance of the Board and Board committees based on the following key aspects:-

- (i) size, composition, independence and mix of skills and experience with the Board and Board Committee
- (ii) functions of the Board and Board Committees
- (iii) roles and responsibilities of the Board and Board Committees

The Nomination Committee is satisfied that the Board and Board committees have been able to discharge their duties effectively.

Name of Directors	Designation	Number of meetings attended	Remark
Dato' Maznah binti Abdul Jalil	Chairman & Independent Non-Executive Director	1/1	Appointed on 24 April 2013
Dato' Mohzani bin Abdul Wahab	Chairman & Independent Non-Executive Director	1/1	
Dato' Choo Chuo Siong	Independent Non-Executive Director	1/1	
Omer Abdulaziz H A Al-Marwani	Non-Independent Non-Executive Director	0/1	
Ooi Ah Heong	Non-Independent Non-Executive Director	1/1	

AUDIT COMMITTEE REPORT

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

Name of Directors	Designation	Number of meetings attended
Dato' Mohzani bin Abdul Wahab	Chairman & Independent Non-Executive Director	4/4
Dato' Choo Chuo Siong	Independent Non-Executive Director	4/4
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	4/4
Omer Abdulaziz H A Al-Marwani	Non-Independent Non-Executive Director	3/4

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 appraised 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 to recommend to the Board for approval and release to Bursa Malaysia
- (b) reviewed list of related party transactions
- (c) reviewed the internal control plan and thereafter assessed the internal control review report prepared by the internal auditor
- (d) reviewed audit plan with external auditor and thereafter discussed audit issues that arose from the audit conducted
- (e) reviewed the audit committee report and internal control statement for inclusion into annual report
- (f) evaluated the outsourced internal auditor and recommended for their engagement
- (g) evaluated the external auditor and recommended for their engagement for the following year

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

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. Such process has been in place for the year under review and up to the date of approval of this statement for inclusion in the annual report.

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

The Audit Committee and Board meet at least once every quarter to review the financial performance of Pavilion REIT against the approved budget. The Board also reviews the business risk of Pavilion REIT, where identified by the CEO, internal 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 and updated, 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 objectives of the review by BDO for the year covered the followings areas:-

- To review the adequacy and test the integrity of the system of internal controls;
- To access the compliance with policies and procedures and recommend business practices;
- To review and identify any potential areas for improvement in the effectiveness and efficiency of the process (if any) and
- Presenting the findings on internal control reviews to the Audit Committee

Improvements required to the supervision and monitoring of tenancy complaints and insurance as well as annual vendor evaluation process have been attended to.

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 document on governance monitoring and reporting framework which includes whistle blowing policy is currently being developed for the Board.

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 2013.

Non-audit fees

The non-audit fees payable to the external auditors of Pavilion REIT for the financial year ended 31 December 2013 amounted to RM46,000.

Soft commission

There was no soft commission received by the Manager during the financial year ended 31 December 2013.

Material litigation

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

Directors Benefit

For the year ended 31 December 2013, 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.

Additional Information_continued

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 2013 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.

Auditor

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
16 January 2014

FINANCIAL STATEMENTS

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STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 47 to 88 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 2013 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,
Date: 16 January 2014

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 89, 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 above named at Kuala Lumpur
on 16 January 2014.

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 2013. 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 2013 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 2013 as follows:

- 1) Final income distribution of 3.71 sen per unit payable on 26 February 2014.

For and on behalf of the Trustee,
AmTrustee Berhad

Tan Kok Cheeng
Chief Executive Officer

Selangor,
Date: 16 January 2014

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 2013, and the statements 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 88.

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 2013 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 on the breakdown of realised and unrealised profit or losses included in statement of profit or loss and other comprehensive income and Note 24 on page 89 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 Matter

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

KPMG

Firm Number: AF 0758
Chartered Accountants

Thong Foo Vung

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

Petaling Jaya,
Date: 16 January 2014

STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Note	2013 RM'000	2012 RM'000
Assets			
Plant and equipment	4	2,586	3,030
Investment properties	5	4,133,000	4,012,000
Total non-current assets		4,135,586	4,015,030
Inventories		1,215	1,104
Trade and other receivables	6	10,983	8,355
Cash and cash equivalents	7	207,569	196,866
Total current assets		219,767	206,325
Total assets		4,355,353	4,221,355
Liabilities			
Borrowings	8	706,483	705,442
Payables and accruals	9	65,345	23,395
Total non-current liabilities		771,828	728,837
Payables and accruals	9	61,009	195,408
Total current liabilities		61,009	195,408
Total liabilities		832,837	924,245
Net asset value		3,522,516	3,297,110
Financed by Unitholders' fund			
Unitholders' capital	10	2,881,933	2,873,992
Accumulated income		640,583	423,118
Total unitholders' fund		3,522,516	3,297,110
Net asset value ("NAV")		3,522,516	3,297,110
Number of units in circulation ('000 units)	10	3,009,684	3,004,115
NAV per unit (RM)		1.1704	1.0975

The notes on pages 53 to 88 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Note	2013 RM'000	2012 RM'000
Rental income		313,124	289,193
Other income		62,385	57,331
Gross revenue		375,509	346,524
Utilities		(43,649)	(40,135)
Maintenance		(29,316)	(28,054)
Quit rent and assessment		(8,742)	(8,742)
Other operating expenses		(30,677)	(24,304)
Net property income		263,125	245,289
Fair value gain on investment properties		113,112	435,570
Interest income		5,896	5,247
Net investment income		382,133	686,106
Manager's management fees	11	(20,960)	(20,022)
Trustee's fees	1(c)	(400)	(410)
Valuation fee		(387)	(371)
Other trust expenses		(1,748)	(1,765)
Borrowing costs	12	(31,388)	(33,333)
Income before taxation		327,250	630,205
Tax expense	13	-	-
Income after taxation/Total comprehensive income attributable to unitholders		327,250	630,205
Income after taxation is made up as follows:			
Realised		214,138	194,635
Unrealised		113,112	435,570
		327,250	630,205
Earnings per unit (sen)	14	10.88	20.99

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013 (continued)

	Note	2013 RM'000	2012 RM'000
Total comprehensive income		327,250	630,205
Distribution adjustments	A	(105,935)	(423,652)
<hr/>			
Distributable income		221,315	206,553
<hr/>			
Distribution per unit (sen) - interim		3.65	3.36
Distribution per unit (sen) - final		3.71	3.51
<hr/>			
Note A			
Distribution adjustments comprise:			
Amortisation of transaction costs		1,241	1,245
Depreciation		696	662
Fair value gain of investment properties		(113,112)	(435,570)
Manager's management fees payable in units	11	5,240	10,011
<hr/>			
		(105,935)	(423,652)
<hr/>			

The notes on pages 53 to 88 are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSET VALUE

for the year ended 31 December 2013

	Note	Unitholders' capital RM'000	Accumulated income/ (deficit) RM'000	Total funds RM'000
At 1 January 2012		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				
<i>Contributions by and distributions to unitholders</i>				
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 at 31 December 2012/ 1 January 2013		2,873,992	423,118	3,297,110
Income after taxation/ Total comprehensive income for the year attributable to unitholders		-	327,250	327,250
Unitholders' transactions				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		7,941	-	7,941
Distribution to unitholders	15	-	(109,785)	(109,785)
Increase/(Decrease) in net assets resulting from unitholders' transactions		7,941	(109,785)	(101,844)
Net assets at 31 December 2013		2,881,933	640,583	3,522,516

Note 10

The notes on pages 53 to 88 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	Note	2013 RM'000	2012 RM'000
Cash flows from operating activities			
Income before taxation		327,250	630,205
<i>Adjustments for:</i>			
Bad debts written off		6	–
Borrowing costs		31,388	33,333
Depreciation		696	662
Fair value gain on investment properties		(113,112)	(435,570)
Gain on disposal of plant and equipment		(9)	(9)
Impairment loss on trade receivables		1,322	525
Interest income		(5,896)	(5,247)
Plant and equipment written off		5	5
Operating income before changes in working capital		241,650	223,904
Changes in inventories		(111)	(253)
Changes in receivables		(3,956)	(5,805)
Changes in payables		13,280	15,756
Changes in tenants' deposits		7,656	7,280
Net cash from operating activities		258,519	240,882
Cash flows from investing activities			
Interest received		5,896	5,247
Payment for enhancement of investment properties		(7,888)	(15,430)
Pledged deposit		(534)	(522)
Proceeds from disposal of plant and equipment		17	77
Purchase of plant and equipment		(265)	(198)
Net cash used in investing activities		(2,774)	(10,826)
Cash flows from financing activities			
Distribution to unitholders		(215,229)	(114,018)
Interest paid		(30,147)	(32,088)
Payment of financing expenses		(200)	(201)
Net cash used in financing activities		(245,576)	(146,307)
Net increase in cash and cash equivalents		10,169	83,749
Cash and cash equivalents at 1 January		179,315	95,566
Cash and cash equivalents at 31 December	(i)	189,484	179,315

Statement of Cash Flows_continued

STATEMENT OF CASH FLOWS

for the year ended 31 December 2013 (continued)

(i) Cash and cash equivalents

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

	Note	2013 RM'000	2012 RM'000
Cash and bank balances	7	3,536	5,896
Deposits placed with licensed banks	7	204,033	190,970
		207,569	196,866
Less: Pledged deposits		(18,085)	(17,551)
		189,484	179,315

The notes on pages 53 to 88 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

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

Principal place of business

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

The financial statements as at and for the financial year ended 31 December 2013 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 (2012: 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%	Exceeds 7.5% and up to 10.0%
Up to 0.15%	Exceeds 10.0% and up to 12.5%
Up to 0.20%	Exceeds 12.5%

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

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

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

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

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

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

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

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

The Manager will make an immediate announcement to Bursa Securities disclosing the number of new units to be issued and the issue price of the new units when new units are issued as payment for Management Fee. Payment of the Management Fees in units shall also be subjected to Pavilion REIT complying with the public spread requirements stated in the Main Market Listing Requirements and there being no adverse implications under the Malaysian Code on Take-Overs and Mergers 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 16 January 2014.

2. Basis of preparation

(a) Statement of compliance

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

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

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

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interest in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies*

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 accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2014 for those accounting 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 accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

The initial applications of the accounting standards, amendments or interpretations are not expected to have any material financial impact to the current year and prior year financial statements of Pavilion REIT.

(b) Basis of measurement

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

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

Pavilion REIT adopted MFRS 10, *Consolidated Financial Statements* in the current financial year. This resulted in changes to the following policies:

- Control exists when Pavilion REIT is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the previous financial years, control existed when Pavilion REIT had the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- Potential voting rights are considered when assessing control only when such rights are substantive. In the previous financial years, potential voting rights were considered when assessing control when such rights were presently exercisable.
- Pavilion REIT considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. In the previous financial years, Pavilion REIT did not consider de facto power in its assessment of control.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 10. The adoption of MFRS 10 has no significant impact to the financial statements of Pavilion REIT.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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 former subsidiary, any non-controlling interests and the other components of equity related to the former 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 former 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, and only 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 is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Pavilion REIT, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

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

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

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

Depreciation methods, useful lives and residual values are reviewed at the end of the financial year, 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 financial year in which they arise. For investment properties acquired under equity-settled share-based payment transactions, the investment properties are initially measured at fair value, with corresponding increase in equity.

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

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

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.

(e) Leases

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

(f) Inventories

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

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

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

(g) Cash and cash equivalents

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

3. Significant accounting policies (continued)

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

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

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

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

(i) Borrowing costs

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

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

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

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

3. Significant accounting policies (continued)

(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.

(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).

3. Significant accounting policies (continued)

(m) Income tax

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

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

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

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

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

(n) Earnings per unit

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

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

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

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.

(p) Fair value measurement

From 1 January 2013, Pavilion REIT adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In accordance with the transitional provision of MFRS 13, Pavilion REIT applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of Pavilion REIT's assets or liabilities other than the additional disclosures.

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						
At 1 January 2012	1,252	340	3	129	1,884	3,608
Additions	43	67	-	2	86	198
Disposal	-	-	-	-	(78)	(78)
Write off	(2)	-	-	(1)	(3)	(6)
At 31 December 2012/1 January 2013	1,293	407	3	130	1,889	3,722
Additions	-	101	19	-	145	265
Disposal	-	-	-	(1)	(9)	(10)
Write off	-	(5)	-	(2)	(2)	(9)
At 31 December 2013	1,293	503	22	127	2,023	3,968
Accumulated depreciation						
At 1 January 2012	8	8	-	2	23	41
Depreciation for the year	128	122	-	26	386	662
Disposal	-	-	-	-	(10)	(10)
Write off	-	-	-	-	(1)	(1)
At 31 December 2012/1 January 2013	136	130	-	28	398	692
Depreciation for the year	129	151	2	26	388	696
Disposal	-	-	-	-	(2)	(2)
Write off	-	(3)	-	(1)	-	(4)
At 31 December 2013	265	278	2	53	784	1,382
Carrying amounts						
At 31 December 2013	1,028	225	20	74	1,239	2,586
At 31 December 2012	1,157	277	3	102	1,491	3,030

Notes to the Financial Statements_continued

5. Investment properties

	2013 RM'000	2012 RM'000
At 1 January	4,012,000	3,561,000
Enhancements/Capital expenditure	7,888	15,430
Change in fair value recognised in profit or loss	113,112	435,570
At 31 December	4,133,000	4,012,000

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 31.12.2013 %	Fair value as at 31.12.2013 RM'000	Cost as at 31.12.2013 RM'000	Percentage of fair value to NAV as at 31.12.2013 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2013	Kuala Lumpur	Leasehold*	96	4,000,000	3,456,318	114
Pavilion Tower	7.12.2011	31.12.2013	Kuala Lumpur	Leasehold*	100	133,000	128,000	4
Investment properties						4,133,000	3,584,318	

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

5.1 Fair value information

Fair value of investment properties are categorised as follows:

	Level 1 RM'000	Level 2 RM'000	2013 Level 3 RM'000	Total RM'000
Pavilion Kuala Lumpur Mall	–	–	4,000,000	4,000,000
Pavilion Tower	–	–	133,000	133,000
	–	–	4,133,000	4,133,000

5. Investment properties (continued)

5.1 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

The following table shows a reconciliation of Level 3 fair values:

	2013 RM'000
At 1 January	4,012,000
Additions	7,888
Gains and losses recognised in profit or loss	
Fair value gain on investment properties - unrealised	113,112
At 31 December	4,133,000

5. Investment properties (continued)

5.1 Fair value information (continued)

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

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.	<ul style="list-style-type: none"> • Risk-adjusted capitalisation rates ranging from 6.00%-6.25% (2012: 6.00%- 6.25%). • Risk-adjusted discount rate of 6.25% (2012: 6.25%). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • risk-adjusted capitalisation rates were lower (higher). • risk-adjusted discount rates were lower (higher).

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.

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

5. Investment properties (continued)**5.1 Fair value information (continued)****Valuation processes applied by the Manager for Level 3 fair value**

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

Highest and best use

Pavilion REIT's investment properties are currently a retail mall and an office building. Both the properties on its own is the highest and best use, as the retail mall is on prime land in the city centre. The office building has been refurbished in recent years, thus it is not cost effective to convert it to a retail mall at the moment. The office building also complements the retail mall by bringing human traffic to the retail mall, especially during lunch hours.

6. Trade and other receivables

	2013 RM'000	2012 RM'000
Trade		
Trade receivables	9,945	6,258
Less: Impairment losses	(1,847)	(525)
	<hr/> 8,098	<hr/> 5,733
Non-trade		
Other receivables	2,081	1,901
Deposits	531	530
Prepayments	273	191
	<hr/> 2,885	<hr/> 2,622
	<hr/> <hr/> 10,983	<hr/> <hr/> 8,355

7. Cash and cash equivalents

	2013 RM'000	2012 RM'000
Cash and bank balances	3,536	5,896
Deposits placed with licensed banks	204,033	190,970
	<hr/> 207,569	<hr/> 196,866

Included in the deposits placed with licensed banks is an amount of RM18,085,000 (2012: RM17,551,000) which is maintained in a Debt Service Reserve Account with a licensed bank to cover a minimum of six months interest for a banking facility granted to Pavilion REIT (Note 8).

8. Borrowings

	2013 RM'000	2012 RM'000
Non-current		
Secured term loan	709,701	709,701
Less: Unamortised transaction costs	(3,218)	(4,259)
	706,483	705,442

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. The loan bearing fixed interest rate at 4.2% per annum for the first 3 years from December 2012 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 at 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 at 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.

The borrowings are secured over investment properties as disclosed in Note 5 with an amount of RM18,085,000 (2012: RM17,551,000) maintained in a Debt Service Reserve Account with a licensed bank as disclosed in Note 7.

9. Payables and accruals

	Note	2013 RM'000	2012 RM'000
Non-current			
Trade			
Tenants' deposits	a	65,345	23,395
Current			
Trade			
Trade payables		13,476	11,023
Tenants' deposits	a	20,119	54,413
		33,595	65,436
Non-trade			
Other payables and accrued expenses	b	27,414	24,528
Distribution payable to unitholders		-	105,444
		27,414	129,972
		61,009	195,408
		126,354	218,803

(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:

	2013 RM'000	2012 RM'000
The Manager	7,315	8,859
Trustee	67	67
Urusharta Cemerlang Sdn. Bhd. (sponsor of Pavilion REIT)	-	215
	7,382	9,141

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

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

Notes to the Financial Statements_continued

10. Total unitholders' funds**10.1 Unitholders' capital**

	2013 Number of units '000	2012 Number of units '000
Approved fund size: At 31 December	3,100,000	3,100,000
Issued and fully paid up: At 1 January	3,004,115	3,000,000
Manager's management fees paid in units	5,569	4,115
At 31 December	3,009,684	3,004,115
	2013 RM'000	2012 RM'000
At 1 January	2,873,992	2,868,742
Overaccrual of listing expenses	-	9
Manager's management fees paid in units	7,941	5,241
At 31 December	2,881,933	2,873,992

10.2 Unitholdings of substantial unitholders, Directors and their related parties

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

	Number of units '000	Amount RM'000
2013		
Issued at RM1.4534 per unit for entitlement for the 6 months ended 31 December 2012	3,708	5,389
Issued at RM1.3710 per unit for entitlement for the 6 months ended 30 June 2013	1,861	2,552
Total Manager's fees paid in units	5,569	7,941
2012		
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 fees 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:

	2013		2012	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
Pavilion REIT's substantial unitholders' direct unitholdings in Pavilion REIT:				
Qatar Holding LLC	1,082,900	1,386,112	1,082,900	1,505,231
Datuk Lim Siew Choon	845,425	1,082,144	845,425	1,175,141
Datin Tan Kewi Yong	281,875	360,800	281,875	391,806
The Manager's Directors' direct unitholdings in Pavilion REIT:				
Datuk Lim Siew Choon	845,425	1,082,144	845,425	1,175,141
Datin Tan Kewi Yong	281,875	360,800	281,875	391,806
Dato' Lee Tuck Fook	100	128	100	139
Navid Chamdia	100	128	100	139
Ooi Ah Heong	100	128	100	139
Dato' Mohzani Bin Abdul Wahab	100	128	100	139
Dato' Maznah Binti Abdul Jalil	100	128	100	139
Syed Mohd Fareed Bin Shaikh Alhabshi	100	128	100	139

Notes:

The market value of the units was computed based on the closing market price as at 31 December 2013 of RM1.28 (2012: RM1.39).

11. Manager's management fees

	2013 RM'000	2012 RM'000
Base fee	13,066	12,664
Performance fee	7,894	7,358
	20,960	20,022

During the financial year, the Manager received a base fee of 0.3% (2012: 0.3%) per annum of the Total Asset Value of Pavilion REIT and a performance fee of 3.0% (2012: 3.0%) per annum of Net Property Income. Manager's management fees payable in units amounts to RM5,240,000 (2012: RM10,011,000) which represents 25% (2012: 50%) of the total manager's management fees payable.

Notes to the Financial Statements_continued

12. Borrowing costs

	2013 RM'000	2012 RM'000
Interest expense	30,147	32,088
Amortisation of transaction costs	1,241	1,245
	31,388	33,333

13. Tax expense

	2013 RM'000	2012 RM'000
Reconciliation of tax expense		
Income before taxation	327,250	630,205
Income tax using Malaysian tax rate of 25%	81,813	157,551
Non-deductible expenses	4,157	3,861
Non-taxable income	(28,278)	(108,892)
Effect of income exempted from tax	(57,692)	(52,520)
	-	-

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

As Pavilion REIT proposed to distribute 100% of its distributable income to its unitholders for financial year ended 31 December 2013, 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 of RM327,250,000 (2012: RM630,205,000) divided by the weighted average number of units in circulation during the year of 3,008,119,960 (2012: 3,001,694,000).

15. Distribution to unitholders

Distribution to unitholders is from the following sources:

	2013	2012
	RM'000	RM'000
Rental income	313,124	289,193
Other income	62,385	57,331
Interest income	5,896	5,247
Fair value gain on investment properties	113,112	435,570
	<hr/>	<hr/>
Less: Total expenses	494,517 (167,267)	787,341 (157,136)
	<hr/>	<hr/>
Distribution adjustments	327,250 (105,935)	630,205 (423,652)
	<hr/>	<hr/>
Distributable income	221,315	206,553
	<hr/>	<hr/>
Distributions to unitholders	109,785	206,323
	<hr/>	<hr/>
Interim distribution per unit (sen)	3.65	3.36
Final distribution per unit (sen)	3.71*	3.51
	<hr/>	<hr/>
Net distribution per unit** (sen)	7.36	6.87
	<hr/>	<hr/>

* The final distributable income for the 6 months ended 31 December 2013 is proposed to be 3.71 sen per unit or RM111,659,000 payable on 26 February 2014.

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

	Withholding tax rate	
	2013	2012
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

	2013	2012
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 to the average net asset value during the year.

PTR is nil for Pavilion REIT as there were no new acquisitions or disposals of investments in Pavilion REIT since the listing date of 7 December 2011 to 31 December 2013 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

	2013	2012
Management expense ratio ("MER") (%)	0.67	0.68

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.

18. Operating segments (continued)

	Retail RM'000	Office RM'000	Total RM'000
For the year ended 31 December 2013			
Segment profit	254,982	8,143	263,125
<i>Included in the measure of segment profit are:</i>			
Gross revenue	363,320	12,189	375,509
Property expenses	(108,338)	(4,046)	(112,384)
At 31 December 2013			
Segment assets and liabilities			
Segment assets	4,203,603	133,665	4,337,268
Segment liabilities	(802,582)	(30,174)	(832,756)
For the year ended 31 December 2013			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	8,153	-	8,153
Fair value gain to non-current assets	112,112	1,000	113,112
For the year ended 31 December 2012			
Segment profit	238,630	6,659	245,289
<i>Included in the measure of segment profit are:</i>			
Gross revenue	335,943	10,581	346,524
Property expenses	(97,313)	(3,922)	(101,235)
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			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	15,600	28	15,628
Fair value gain to non-current assets	431,570	4,000	435,570

Notes to the Financial Statements_continued

18. Operating segments (continued)**Reconciliation of reportable segment profit**

	2013	2012
	RM'000	RM'000
Total profit for reportable segments	263,125	245,289
Fair value gain on investment properties	113,112	435,570
Interest income	5,362	4,696
Other non-allocated income	534	551
Trust expenses	(23,495)	(22,568)
Borrowing costs	(31,388)	(33,333)
Income before taxation	327,250	630,205
Taxation	-	-
Income after taxation	327,250	630,205

Reconciliation of reportable segment assets and liabilities

	Segment	Segment
	assets	liabilities
	RM'000	RM'000
2013		
Total reportable segments	4,337,268	(832,756)
Other non-allocated assets/(liabilities)	18,085	(81)
Total assets/(liabilities)	4,355,353	(832,837)
2012		
Total reportable segments	4,203,804	(924,152)
Other non-allocated assets/(liabilities)	17,551	(93)
Total assets/(liabilities)	4,221,355	(924,245)

Geographical information

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

	Carrying amounts 2013 RM'000	Loans and receivables 2013 RM'000	Carrying amounts 2012 RM'000	Loans and receivables 2012 RM'000
Financial assets				
Receivables and deposits	10,710	10,710	8,164	8,164
Cash and cash equivalents	207,569	207,569	196,866	196,866
	218,279	218,279	205,030	205,030
	Carrying amounts 2013 RM'000	Financial liabilities measured at amortised cost 2013 RM'000	Carrying amounts 2012 RM'000	Financial liabilities measured at amortised cost 2012 RM'000
Financial liabilities				
Payables and accruals	126,354	126,354	218,803	218,803
Borrowings	706,483	706,483	705,442	705,442
	832,837	832,837	924,245	924,245

19.2 Net gains and losses arising from financial instruments

	2013 RM'000	2012 RM'000
Loans and receivables	4,568	4,722
Borrowings	(31,388)	(33,333)
	(26,820)	(28,611)

19. Financial instruments (continued)

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

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

Receivables

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk and credit quality

As at the end of the financial year, 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.

19. Financial instruments (continued)**19.4 Credit risk (continued)***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 financial year was:

	Gross RM'000	Impairment loss RM'000	Net RM'000
31 December 2013			
Not past due	4,030	–	4,030
Past due 0 - 30 days	2,043	(524)	1,519
Past due 31 - 90 days	773	(171)	602
Past due more than 90 days	3,099	(1,152)	1,947
	9,945	(1,847)	8,098
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

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

	2013 RM'000	2012 RM'000
At 1 January	525	–
Impairment loss recognised	1,322	525
At 31 December	1,847	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.

19. Financial instruments (continued)**19.4 Credit risk (continued)****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 financial year, 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 financial year, 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.

Maturity analysis

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

	Carrying 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
2013						
Financial liabilities						
Borrowings	706,483	4.2 - 4.8	798,224	29,832	29,904	738,488
Payable and accruals	126,354	-	126,354	61,009	13,532	51,813
	<hr/>		<hr/>			
	832,837		924,578	90,841	43,436	790,301
	<hr/>		<hr/>			

19. Financial instruments (continued)

19.5 Liquidity risk (continued)

	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
2012						
Financial liabilities						
Borrowings	705,442	4.2 - 4.8	828,050	29,830	29,830	768,390
Payable and accruals	218,803	-	218,803	195,408	13,213	10,182
	<u>924,245</u>		<u>1,046,853</u>	<u>225,238</u>	<u>43,043</u>	<u>778,572</u>

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 borrowings.

Exposure to interest rate risk

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

	2013 RM'000	2012 RM'000
Fixed rate instrument		
Financial asset - Deposits placed with licensed banks	204,033	190,970
Financial liabilities - Borrowings	(702,682)	(701,641)
	<u>(498,649)</u>	<u>(510,671)</u>
Floating rate instruments		
Financial liabilities - Borrowings	(3,801)	(3,801)

19. Financial instruments (continued)**19.6 Market risk (continued)****19.6.1 Interest rate risk (continued)***Interest rate risk sensitivity analysis**(a) Fair value sensitivity analysis for fixed rate instruments*

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

(b) Cash flow sensitivity analysis for variable rate instruments

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

19.7 Fair value information

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

	Fair value of financial instruments not carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
2013					
Financial liabilities					
Tenants' deposits	-	-	(77,144)	(77,144)	(85,464)
Borrowings	-	-	(701,624)	(701,624)	(706,483)
	-	-	(778,768)	(778,768)	(791,947)
2012					
Financial liabilities					
Tenants' deposits	-*	-*	-*	(73,196)	(77,808)
Borrowings	-*	-*	-*	(703,855)	(705,442)
	-*	-*	-*	(777,051)	(783,250)

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

19. Financial instruments (continued)

19.7 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

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

Financial instruments not carried at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Tenants' deposits	Discounted cash flows	Discount rate (4.5%).	The estimated fair value would increase (decrease) if discount rate is lower (higher).
Borrowings	Discounted cash flows	Discount rate (4.41%)	The estimated fair value would increase (decrease) if discount rate is lower (higher).

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

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 2013, Pavilion REIT recorded a gearing ratio of 16.22% (2012: 16.71%) and interest coverage ratio of 15.28 (2012:11.17). 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).

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:

	2013 RM'000	2012 RM'000
Less than one year	270,672	243,211
Between one and five years	419,080	106,462
	689,752	349,673

22. Capital commitments

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

	2013 RM'000	2012 RM'000
Capital expenditure commitments		
<i>Authorised but not contracted for:</i>		
- Within one year	26,636	20,881

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 2013 RM'000	Transaction value 2012 RM'000	Balance outstanding 2013 RM'000	Balance outstanding 2012 RM'000
Pavilion REIT Management Sdn. Bhd.	Rental income and its related charges	394	394	-	-
Malton Berhad Group *	Rental income and its related charges	2,185	2,224	6	-
Crabtree & Evelyn (Malaysia) Sdn. Bhd. #	Rental income and its related charges	1,667	562	28	13
	Purchase of product	667	68	50	60
Lumayan Indah Sdn Bhd ∞	Rental income and its related charges	1,429	880	54	8
Kuala Lumpur Pavilion Sdn. Bhd. ^	Property management fees and charges payable	18,756	15,341	4,889	2,840

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

23. Significant related party transactions (continued)

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 (Malaysia) Sdn. Bhd. is deemed parties related to the Manager by virtue of Datuk Lim Siew Choon and Datin Tan Kewi Yong 's effective interest in Crabtree & Evelyn (Malaysia) 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 accumulated 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:

	2013	2012
	RM'000	RM'000
Total accumulated income/(deficit) of Pavilion REIT		
- realised	91,901	(12,452)
- unrealised	548,682	435,570
<hr/>		
Total accumulated income	640,583	423,118
<hr/>		

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

ANALYSIS OF UNITHOLDINGS

Distribution of Unitholdings as at 31 December 2013

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units	% of Unitholdings
Less than 100	23	0.39	522	0.00
100 - 1,000	755	12.67	610,580	0.02
1,001 - 10,000	3,479	58.37	18,097,900	0.60
10,001 - 100,000	1,402	23.52	47,812,650	1.59
100,001 to less than 5% of issued units	298	5.00	733,162,547	24.36
5% and above of issued units	3	0.05	2,210,000,000	73.43
Total	5,960	100.00	3,009,684,199	100.00

Thirty largest unitholders as per record of depositors as at 31 December 2013

No	Name of Unitholders	No. of Units	%
1.	HSBC Nominees (Asing) Sdn Bhd CS Zurich for Qatar Holding LLC	1,082,900,000	35.98
2.	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account-CIMB Investment Bank Berhad for Lim Siew Choon (UCDSB-SSA)	845,325,000	28.09
3.	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account-CIMB Investment Bank Berhad for Tan Kewi Yong (UCDSB-SSA)	281,775,000	9.36
4.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	146,925,103	4.88
5.	HSBC Nominees (Asing) Sdn Bhd Exempt an for The Bank of New York Mellon (BNYM as E&A)	101,700,000	3.38
6.	Kumpulan Wang Persaraan (Diperbadankan)	45,083,400	1.50
7.	Amanahraya Trustees Berhad Skim Amanah Saham Bumiputera	35,229,900	1.17
8.	Citigroup Nominees (Tempatan) Sdn Bhd Exempt an for AIA Bhd	32,198,400	1.07
9.	Amsec Nominess (Tempatan) Sdn Bhd AmTrustee Bhd for AmGeneral Insurance Berhad – Shareholders' Fund	26,541,400	0.88
10.	Cartaban Nominees (Tempatan) Sdn Bhd Exempt an for Eastspring Investments Berhad	19,794,900	0.66
11.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LPF)	12,840,000	0.43
12.	Mohammed Hussain A A Al-Abdulla	11,937,200	0.40
13.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad for AmAsia Pacific REITs	11,872,500	0.39
14.	Cartaban Nominees (Asing) Sdn Bhd GIC Private Limited for Government of Singapore (C)	11,842,300	0.39

Thirty largest unitholders as per record of depositors as at 31 December 2013 (continued)

No	Name of Unitholders	No. of Units	%
15.	Citigroup Nominees (Tempatan) Sdn Bhd Allianz Life Insurance Malaysia Berhad (P)	11,400,000	0.38
16.	Pertubuhan Keselamatan Sosial	11,154,400	0.37
17.	HSBC Nominees (Asing) Sdn Bhd BNYM SA/NV for Liechtensteinische Landesbank Aktiengesellschaft	10,062,200	0.33
18.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 3)	10,000,000	0.33
19.	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	9,631,300	0.32
20.	CIMB Commerce Trustee Berhad Public Focus Select Fund	7,829,700	0.26
21.	HSBC Nominees (Asing) Sdn Bhd SMTBUSA for Asia REIT Research Mother Fund	6,397,700	0.21
22.	Amanahraya Trustees Berhad Amanah Saham Malaysia	6,000,000	0.20
23.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Zurich Insurance Malaysia Berhad (Life Par)	5,696,400	0.19
24.	Pavilion REIT Management Sdn Bhd	5,684,199	0.19
25.	HSBC Nominees (Asing) Sdn Bhd Exempt an for JPMorgan Chase Bank, National Association (U.S.A.)	5,413,845	0.18
26.	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	5,285,000	0.18
27.	Amanahraya Trustees Berhad As 1Malaysia	5,178,200	0.17
28.	HSBC Nominees (Asing) Sdn Bhd BNY Brussels for Wisdomtree Emerging Markets Smallcap Dividend Fund	4,800,100	0.16
29.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	4,566,900	0.15
30.	Citigroup Nominees (Tempatan) Sdn Bhd MCIS Zurich Insurance Berhad (Life Par FD)	4,389,000	0.15

Major Unitholders (5% and above) as at 31 December 2013

No	Name of Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Qatar Holding LLC	1,082,900,000	35.98	-	-
2.	Datuk Lim Siew Choon	845,425,000	28.09	-	-
3.	Datin Tan Kewi Yong	281,875,000	9.36	-	-

Analysis of Unitholdings_continued

Unitholdings of Directors and Chief Executive Officer as at 31 December 2013

No	Name of Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Datuk Lim Siew Choon	845,425,000	28.09	-	-
2.	Datin Tan Kewi Yong	281,875,000	9.36	-	-
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 2013

The Malaysian economy remains resilient despite facing a more challenging external environment. The uncertainties over the strength of China's economic growth and the possible tapering of quantitative easing (QE) in the US have given rise to greater global economic and financial uncertainties.

While the impact of the Fed tapering its QE remains a lingering concern, the Malaysian real GDP improved to 5.0% in the third quarter of 2013 (2Q2013 : 4.4%, 1Q2013: 4.1%). The growth is supported mainly by domestic demand, especially private investment and consumption. The services sector strengthened to 5.9% and remained the largest contributor to the economy. The World Bank previously forecasted that the country would grow by 4.3% this year.

Inflation is trending upwards, rising significantly from a low of 1.3% in January 2013 to 2.9% in November 2013, reflecting an increase in food prices and petrol costs. The inflation rate is expected to rise further between 3.3% to 3.7% in 2014 due to an increase in the electricity tariff and implementation of a full scale minimum wage effective from January 1st 2014 and the implementation of the planned GST in April 2015.

The Overnight Policy Rate (OPR) has remained unchanged since May 2011 at 3.0%. The current monetary policy is consistent with the need to support economic growth as well as to support the tightening fiscal stance. The next Monetary Policy Committee Meeting is scheduled for 29 January 2014 with momentum shifting towards a contraction of monetary policy due to the inflationary pressures mentioned above.

In July 2013, Fitch Ratings downgraded its outlook for Malaysia's credit ratings, highlighting a concern over the Government's commitment for fiscal consolidation and budget reforms. The stock market fell the most in seven weeks, the ringgit dropped to the lowest in three years and the yield of Malaysian government's 10-year debt paper increased to the highest point since January 2011. Consequently, Budget 2014 (announced in October 2013) introduced several bold measures to strengthen the management of public finances, focusing largely on reducing the overall deficit to 3.5% in 2014 and 3.0% in 2015, from the current rate of 4.0% of GDP (2013).

The international reserves of Bank Negara Malaysia (BNM) amounted to USD 135.3 billion as at December 2013. Malaysia's reserve position is sufficient to finance 9.4 months of retained imports and 3.7 times the short-term external debt. External debt is estimated at 28.8% of GDP in 2013.

Meanwhile, employment rate in Malaysia remains stable at 3.3% as at November 2013.

The growth outlook for 2014 is projected to be between 5.0% and 5.5% on account of tight monetary conditions as well as enhanced downside risk. As for 2015, it is projected that the economy will grow between 5.5% to 6.0%, driven by efficiency and innovation factors. These forecasts assume no major international disruptions or major dislocations to the domestic economy.

2.0 RETAIL PROPERTY MARKET IN KLANG VALLEY

2.1 Klang Valley Retail Supply in 2013

Based on Property Market Report Q3 2013 published by National Property Information Centre (NAPIC), Klang Valley (includes Kuala Lumpur, Selangor and Putrajaya) has 226 shopping centres with total retail supply of about 58.6 million square feet. The current average occupancy rate for these shopping centres is around 81%.

In 2013, only a few new shopping centres were opened in Klang Valley. They were Intermark Phase 2, Bangi Gateway, 8trium, Skypark Mall @ One City, Cheras Sentral (formerly known as Plaza Phoenix) and The School by Jaya One. Several shopping malls that were scheduled to open in 2013 but delayed to 2014 include Nu Sentral, Jaya Shopping Centre, Market Hall @ Pudu, Encorp Strand Mall, KLIA2 and Gateway @ KLIA2.

The current total retail supply in Kuala Lumpur, Selangor and Putrajaya is set out in the table below :

Retail Supply in Klang Valley, 2013

No.	Location	No. of Malls	Total Nett Floor Area (sf)	Ave. Rental Rate (RM psf pm)*	Ave. Occupancy Rate (%)
1	Kuala Lumpur	101	25,941,197	10.50	83.5
2	Selangor	120	31,958,930	9.60	83.1
3	Putrajaya	5	737,092	5.28	77.3
TOTAL		226	58,637,219	10.45	81.3

(Source : 3rd Qtr 2013 Property Market Report, NAPIC/ Henry Butcher Retail)

- include hypermarket malls and arcades

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

The average rental rate for Klang Valley is RM 10.45psf per month. This average does not include rental rates of anchor tenants such as supermarkets, department stores, cineplexes, bowling allies, etc.

In terms of average rental rate and average occupancy rate, there were no significant improvements for Klang Valley shopping centres during 2013.

In 2013, many shopping centres in Klang Valley undertook refurbishment to stay competitive. They included Bukit Raja Shopping Centre, Klang Parade, Axis Atrium (re-named as Fiesta Mall), Life Centre, Avenue K, Tesco Extra Mutiara Damansara, Plaza Sungei Wang, Mydin Mall USJ, Summit USJ and Kompleks Kota Kajang (re-named as Ostia Kajang). In early 2013, the poorly occupied CapSquare was bought over to be converted into a textile department store.

After being damaged by flood and closed for several years, Dataran Underground (formerly known as Plaza Putra) located below Dataran Merdeka re-opened to the public in October 2013.

Giant USJ undertook a major refurbishment and re-opened in January 2013. Giant hypermarket also opened in Kuala Selangor in June 2013. Tesco opened a new hypermarket in Ara Damansara during the second half of 2013.

2.2 Current Shopping Centre Performance in Klang Valley

The shopping centre market in Klang Valley is currently facing an oversupply situation, especially in Kuala Lumpur city centre and certain areas in Selangor including, Kelana Jaya, Damansara, Kota Damansara and Subang Jaya. However, the oversupply situation is more project specific than location specific. Many of the major established shopping centres in Klang Valley continue to attract both retailers as well as shoppers. Suria KLCC, Mid Valley Megamall, Pavilion KL, Plaza Sungei Wang, Berjaya Times Square, One Utama, Sunway Pyramid and a few others will remain popular.

At the same time, shopping centres that have been suffering from low shopping traffic from the beginning will continue to face challenges attracting crowds. Examples include Pandan Safari, Galaxy Ampang, Mines 2, Harbour Place Mall, Space U8, Ostia Kajang, Citta Mall, Subang Avenue, Klang City Square, etc.

The large rental disparity between successful and poorly occupied shopping centres remained in 2013.

Landlords of strata-titled shopping centres continue to find it hard to fill up the majority of the retail lots upon opening. In order to attract retailers on opening, many landlords offer long-term rent-free periods as incentives to the retailers.

Some older shopping centres have been losing retailers and businesses to newer, bigger and more modern shopping centres. A number took steps to improve their positioning, trade and tenant mix in order to remain relevant and sustainable. Some such as Subang Parade, Citta Mall and One Utama added cineplex while others such as Pearl Point have re-positioned themselves.

Even the more successful shopping centres have taken steps to stay competitive. Pavilion KL has introduced two retail concepts – Tokyo Street and Fashion Avenue. Berjaya Times Square converted one of its atrium into a thematic retail enclave called Central Park. Cheras Leisure Mall converted its amusement centre into a 2-storey F&B enclave. Fahrenheit 88 converted its top floor into a thematic retail zone called Parkamaya. Mid Valley Megamall renovated its top floor into a contemporary retail zone named On3 with more retail shops over 2 levels. Suria KLCC also re-configured its Isetan anchor space with more retail shops. Wangsa Walk Mall added one row of 2-storey retail blocks in front of its main building filled with restaurants and shops.

2.3 Rental Rates of Selected Shopping Centres in Klang Valley

Shopping centres located in the city centre of Kuala Lumpur continued to achieve the highest rental rates in Klang Valley. At the same time, successful regional suburban malls in Selangor continued to enjoy strong growth in its rental rates.

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

Rental Rates of Selected Shopping Centres in Klang Valley, 2013

Name	Rental Rate (RM psf per month)					
	Lower Ground	Ground floor	First floor	Second floor	Third floor	Fourth floor
Suria KLCC	50.00 – 85.00	58.00 – 90.00	40.00 – 60.00	55.00 – 60.00	32.00 – 61.00	21.50 – 30.50
Low Yat Plaza	18.00 – 21.00	10.50 – 46.00	9.00 – 24.00	11.00 – 27.00	13.00 – 20.00	11.00 – 16.00
Cheras Leisure Mall	16.00 – 25.00	14.00 – 20.00	10.00 – 20.00	8.00 – 20.00	NA	NA
MidValley Megamall	20.00 – 53.50	33.00 – 50.00	18.00 – 28.00	13.00 – 18.00	13.00 – 24.00	NA
Subang Parade	11.00 – 31.00	3.00 – 13.00	4.50 – 15.50	NA	NA	NA
Sunway Pyramid	14.00 – 28.00	22.00 – 32.00	14.00 – 30.00	12.00 – 26.00	7.00 – 17.00	NA
The Mines	NA	6.00 – 15.00	5.00 – 12.00	6.00 – 10.00	5.60 – 7.00	2.50 – 5.00

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

2.4 Klang Valley Retail Supply in 2014

As mentioned, several shopping centres that were scheduled to open in 2013 were delayed to 2014. In 2014, there will be at least 20 new shopping centres in Klang Valley with more than 7.4 million square feet.

The list of new shopping centres in Klang Valley entering the market in 2014 is set out in the table below :

New Shopping Centres in Klang Valley for the Year 2014

No.	Name	Location	Nett Floor Area (sf)	Anchor/ Trade Mix
1	Nu Sentral	KL Sentral	650,000	Parkson, Sam's Groceria, GSC, etc.
2	Market Hall	Pudu	200,000	Strata shops, independent retailers
3	KLIA2	Sepang	350,000	Retail & F&B shops at arrival and departure halls
4	Gateway @ KLIA2	Sepang	350,000	Retail & F&B shops at main car park building
5	Encorp Strand Mall	Kota Damansara	260,000	Urban Fresh, TGV, Jatomi Fitness, etc.
6	D'Pulze	Cyberjaya	300,000	First shopping centre in Cyberjaya
7	Jaya Shopping Centre	Petaling Jaya	300,000	Neighbourhood shopping centre.
8	Quill City Mall	Jalan Sultan Ismail	1,000,000	Supermarket, department store, cinema, F&B, fashion, etc.
9	Sunway Pyramid Ph.3	Bandar Sunway	62,000	Fashions, specialty stores, etc.
10	M Square Shopping Centre	Puchong	186,000	Retail shops and F&B outlets
11	Atria Shopping Gallery	Damansara Jaya	660,000	Supermarket, F&B, retail, etc.
12	Glomac Damansara Mall	Damansara	300,000	Supermarket, F&B, fashion, convenience retail, etc.
13	IOI City Mall	Putrajaya	1,300,000	Supermarket, department store, cinema, F&B, fashion, specialty store, etc.
14	Bangsar Trade Centre	Bangsar	100,000	Strata shops.
15	Da:Men	USJ Subang Jaya	400,000	Strata shops.
16	Main Place	USJ Subang Jaya	250,000	Jaya Grocer, retail shops and F&B outlets
17	IDCC	Shah Alam	300,000	Home decoration mall
18	Glomac Damansara Mall	Damansara	270,000	Supermarket, F&B outlets and retail shops
19	IKON	Cheras	110,000	Chi Fitness, retail shops and F&B outlets
20	Gamuda Walk	Shah Alam	93,000	Fitness centre, retail shops and F&B outlets
	TOTAL		7,441,000	

[Source : Henry Butcher Retail]

Oversupply of retail space will continue to worsen in 2014. Therefore, a significant improvement in average occupancy rate and the average rental rate for shopping centres in Klang Valley is not expected in 2014.

2.5 Outlook of Klang Valley Shopping Centre Market in 2014

Klang Valley accounts for the largest retail market in Malaysia. The retail industry in Malaysia is expected to grow at a rate of 6% for the year 2014.

The greatest challenge in 2014 for the retail industry in Malaysia is consumer spending. Consumer spending during the first half of 2014 is expected to be negatively impacted by the multiple price hikes already scheduled to be introduced. As a result, it will affect the performance of the shopping centre market in Klang Valley.

2.5.1 Klang Valley Consumers

The main challenges currently facing Malaysian consumers are the rising cost of living and their reduced purchasing power. These are due to the increasing prices of goods and services as well as higher borrowing costs.

On 5 July 2013, Bank Negara implemented new policies on bank borrowing in order to control household debt. Personal loans can now only be extended up to 10 years instead of 25 years.

Since the increase in RON95 petrol price in September 2013, prices of retail goods and services have been increasing. These include daily necessities, foods and beverages consumed outside the homes and many retail services.

On 26 October 2013, the sugar subsidy of RM 0.34 per kg was abolished. This has resulted in price increases for many food items and beverages.

From 1 January 2014, the charge rate of electricity used at home will increase by about 15%. Although it was announced by the Energy, Green Technology and Water Ministry that 70% of consumers in Peninsular Malaysia will not be affected, urban Klang Valley residents use more electricity at home as compared to its counterparts in small towns and rural areas. In addition, the surcharge on electricity bills (contribution to Renewable Energy fund) will be revised from 1.0% to 1.6% from 1 January 2014.

From 1 January 2014, toll rates of major highways in Klang Valley are likely to increase by between RM 0.50 and RM 2.00. These highways include NPE (New Pantai Expressway), SPRINT (Western Dispersal Link Scheme), MEX (Maju Expressway), LDP (Damansara-Puchong Highway), AKLEH (Ampang-Kuala Lumpur Elevated Highway), SMART (Smart Tunnel), SILK (Kajang Dispersal Link Expressway), LEKAS (Kajang-Seremban Highway), SKVE (South Klang Valley Expressway), BESRAYA (Sungei Besi Highway), NNKSB (New North Klang Straits Bypass) and GCE (Guthrie Corridor Expressway). Most of these highways are used by Klang Valley residents on a daily basis for working, daily chores and shopping.

It is anticipated that Bank Negara may raise its OPR in 2014 to curb inflationary pressures. This is likely to result in an increase in the monthly repayment amounts for housing loans of many Klang Valley households. At the same time, borrowing costs will increase for the financing of big-ticket items such as furniture and electrical goods. All these factors will reduce the purchasing power of Klang Valley shoppers.

Other likely increases that will affect Klang Valley consumers in 2014 are gas prices, school bus charges, public transportation charges (bus, taxi, LRT, Monorail and ERL) and assessment fees for property owners in Kuala Lumpur.

BR1M (Bantuan Rakyat 1 Malaysia) will start distributing to qualified Malaysians from February 2014. This round of cash handouts will benefit close to 5.9 million households and 2 million unmarried individuals in the country.

Though these cash contributions will somewhat counter the effects of other price/cost increases, Malaysians will continue to be cautious in their spending in 2014.

2.5.2 Retailers

While consumers remain cautious in their spending, retailers are also being affected by rising operation costs and reduced profit margins.

The rising operation costs are the greatest concern for retailers in 2014. Costs incurred due to higher logistics costs, higher staff costs and higher rental rates. In addition, the average commercial tariff will be raised to 47.92 sen/kWh from 1 January 2014.

Another major concern is the higher cost of goods passed down by manufacturers, importers and distributors due to increased oil prices, sugar subsidy cuts (for F&B operators), minimum wage policy, minimum retirement age and higher electricity running cost.

All these will lead to diminishing profits for retailers in 2014.

Due to higher operation costs and lower returns, retailers have been very careful in selecting the shopping centres to move into. Some are downsizing in space to be more productive while others have decided to relocate to shop offices and commercial centres with lower rental rates.

2.5.3 Shopping Centre Operators

Electricity consumed in running air-conditioning is the largest operating cost of a shopping centre. The hike in average commercial tariff from 41.01 sen/kWh to 47.92 sen/kWh (increase of close to 17%) from 1 January 2014 will affect the retail property landlords significantly.

Shopping centre owners in Kuala Lumpur will need to pay more assessments from 2014. Assessment charges on commercial properties will increase to 10% on the revalued rental rate. Local authorities in Selangor are pleading to the state for consent to increase their assessments as well.

In a move to liberalise the retail sector to encourage more foreign retailers to invest and set-up stores in Malaysia, the Malaysian government has allowed 100% equity participation in local companies by foreign retailers operating in Malaysia (except for department stores, supermarkets and hypermarket retail trades). This has encouraged more foreigners to set up retail businesses in Malaysia in recent years.

Visit Malaysia Year 2014 will bring more sales to retailers and shopping centres located in major city centres and popular tourist attractions in Klang Valley. The target tourist arrival for 2014 is 28.0 million with RM 76 billion expected in tourist receipt. This is a 5% increase in tourist arrivals compared to 2013. Shopping will be the key focus area by Tourism and Cultural Ministry during this year long event.

3.0 PURPOSE BUILT OFFICE IN KLANG VALLEY

3.1 Overview of the Office Market

The supply of new office buildings has been relatively high, leading to concerns of price dampening. Among the new major developments in Klang Valley that will contribute to potential market overhang are – Tun Razak Exchange (TRX), KL Metropolis, Warisan Merdeka and KL Ecocity. Presently, supply appears to be increasing at a faster rate than demand.

2012/3 saw about 6 million square feet of space becoming available as a few large projects were completed – Tower 3 Petronas, Menara Prestij, Menara Binjai, The Crest, Menara Felda, and Integra Tower.

Existing Supply of Purpose Built Office in GT and CBD

LOCATION	No of buildings	Total Space (s.m.)	Total Space Occupied(s.m)	Occupancy Rate
Golden Triangle (GT)	90	2,410,527	1,844,792	76.50%
Central Business District (CBD)	95	1,317,528	1,132,653	86.00%
TOTAL	185	3,728,055	2,977,445	79.90%
Kuala Lumpur	396	7,582,308	5,915,726	78.00%
Selangor	195	3,011,685	2,225,688	73.90%
TOTAL	591	10,593,993	8,141,414	76.60%

(Source : NAPIC,JPPH)

According to NAPIC report, there is a total of 3.7 sq. meters of office spaces –including both prime and secondary stock in Golden Triangle and Central Business District. The overall vacancy rate stood at 79% for GT and CBD. Compared to other South East Asian countries, Kuala Lumpur recorded the second highest office stock for 2013 – 7.6 million square metre. Bangkok took the top spot with office stock of 8.16 million square metre.

Among the reasons contributing to Klang Valley's growth exceeding that of neighboring cities is our government's focus on achieving developed nation status within the Klang Valley as a key economic area where the services sector is growing significantly. The incentives offered by the government to attract 100 MNCs to set up their regional headquarters in KL itself is another reason developers have taken interest in developing purpose built offices in the Klang Valley. Another catalyst for development is the extension of the MRT line – a major improvement to public transportation in the city centre. It is also worth noting the growing trends in which companies are moving into office spaces in integrated developments that includes retail outlets, hotels and apartments. Kuala Lumpur's GT - CBD office market has been and will continue to be supported mainly by oil & gas companies as well as financial institutions.

New Supply (Under Construction) in GT and CBD

Year	GT	CBD
2014 e	24.83 million s.f	13.80 million s.f
2015 e	25.13 million s.f	13.80 million s.f

(Source : NAPIC,JPPH)

Although Klang Valley remains a tenant's market, slower take up rate in new buildings have yet to translate into softening of rental rates. Overall the average rent for existing Grade A buildings in KL in 2013 is between RM 6 –RM 7psf. While Menara Maxis and Petronas Towers (almost fully occupied) are able to command a rate of more than RM10psf.

We anticipate that growing supply will contribute to slower growth in the office market sector within the next few years, but with the government's determined efforts to make KL and Klang Valley a hub for MNCs' regional headquarters, the situation should improve in the medium term.

Competitive Features For Office Space:

In addition to rental rates and physical space attributes, savvy office tenants today are now looking at other must-have essentials to enhance staff welfare as well as to attract new talent. Such initiatives have included integrated security systems, accessibility to public transports and major highways, adequate parking spaces, access to affordable food and variety, supporting amenities, proper structure, after-work recreation facilities and other lifestyle factors.

4.0 THE MALAYSIAN REITS (M-REITS) MARKET OVERVIEW 2013

In 2012, M-REITS benefited from their status as high yield investments with a relatively low risk profile during volatile global market conditions. However, the average REITS yields for 2013 has now dropped to around 4.9% - 5.5 % and is forecast to average roughly 5.3% for 2014 while the current average yield for global listed property trusts stands at around slightly over 3%.

To date, there are 17 M-REITS listed on Bursa Malaysia, the majority of which are retail, followed by office and industrial. The sector's total market capitalization stands around RM33 billion.

In the second half of 2013, the sector was downgraded as there was minimal room for yield compression and property trusts in neighbouring Singapore experienced a sell down in June, with the FST REITS falling by 15%.

Bond yields have risen globally, and Malaysia is not spared from this trend. MGS went up from a multi-year low of 2.5% back in December 2012 to 4.1% at 30 December 2013, on expectations that the US Federal Reserve would taper its quantitative easing program. The tapering which is expected to take place in March 2014 would lead to interest rate rising on lower liquidity investment, such as MGS. Rising yields on risk-free government bonds will attract funds away from M-REITS and high yielding stocks.

The expectations of a hike in the OPR is expected to increase M-REITS' finance costs. BNM's current OPR stands at 3%, expected to increase by within 25 basis points in 2014.

Regardless of the several market downturns experienced by the M-REIT sector, the retail sector is still holding up well registering positive rental reversion – at least for the major popular malls in prime locations – but the hospitality and office sectors are showing signs of vulnerability. On average, the underlying assets are still performing and should continue to deliver sustainable moderate growth based on the current economic outlook of the country.

The listing of Malaysia's first stapled REIT by KLCCP Stapled Group with a RM 10 billion plus entity in mid 2013 created some excitement in the industry. Three prime properties, namely – Petronas Twin Tower, Menara 3 Petronas and Menara ExxonMobil – were injected into a REIT under the structure with KLCCP's shareholders settled for stapled securities in return.

GLOSSARY

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
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 to 31 December
GDP	:	Gross domestic product
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
MGS	:	Malaysian Government Securities
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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Second Annual General Meeting of Pavilion Real Estate Investment Trust ("Pavilion REIT") will be held at the Saujana Ballroom, The Saujana Hotel, Saujana Resort, Jalan Lapangan Terbang SAAS, 40150 Shah Alam, Selangor Darul Ehsan, Malaysia on Thursday, 20 March 2014 at 10.00 a.m. for the following purpose :-

ORDINARY BUSINESS

To lay the Audited Financial Statements of Pavilion REIT for the year ended 31 December 2013 together with the Trustee's Report to the Unitholders issued by AmTrustee Berhad, as trustee of Pavilion REIT and the Statement by the Manager issued by Pavilion REIT Management Sdn Bhd, as the manager of Pavilion REIT and the Auditors' Report thereon.

(Please refer Explanatory Note A)

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

Lim Mei Yoong (LS 02201)
Company Secretary

Kuala Lumpur
26 February 2014

Notes :

1. A unitholder who is entitled to attend at the meeting is entitled to appoint not more than 2 proxies to attend instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.
2. Where a unitholder is a corporation, its duly authorised representative shall be entitled to attend at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to attend.
3. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
5. The instrument appointing proxy shall be deposited at the Registered Office of Pavilion REIT Management Sdn Bhd at 6-2, Level 6, East Wing, Menara ING, No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 18 March 2014 at 10.00 a.m. being 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
6. Only unitholders registered in the Record of Depositors as at 13 March 2014 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.

Explanatory Note A

This Agenda is meant for discussion only as the provision under the Guidelines on Real Estate Investment Trusts, audited financial statements do not require formal approval of the unitholders. Hence, this matter will not be put forward for voting.

PAVILION

REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the Deed dated 13 October 2011)

PROXY FORM

No. of Units Held	CDS Account No.

I/We _____ (name of unitholder as per NRIC, in capital letters)
NRIC No./ID No./Company No. _____ (new) _____ (old)
of _____ (full address)
being a unitholder / unitholders of **PAVILION REAL ESTATE INVESTMENT TRUST** ("**Pavilion REIT**") hereby appoint
_____ (name of proxy as per NRIC, in capital letters)
NRIC No. _____ (new) _____ (old) or failing him/her
_____ (name of proxy per NRIC, in capital letters)
NRIC No. _____ (new) _____ (old) or failing him/her the Chairman
of the Meeting as my/our proxy for me/us on my/our behalf at the Second Annual General Meeting of the Company to be held at the Saujana Ballroom, The Saujana Hotel, Saujana Resort, Jalan Lapangan Terbang SAAS, 40150 Shah Alam, Selangor Darul Ehsan, Malaysia on Thursday, 20 March 2014 at 10.00 a.m. and any adjournment thereof.

ORDINARY BUSINESS

To lay the Audited Financial Statements of Pavilion REIT for the year ended 31 December 2013 together with the Trustee's Report to the Unitholders issued by AmTrustee Berhad, as trustee of Pavilion REIT and the Statement by the Manager issued by Pavilion REIT Management Sdn Bhd, as the manager of Pavilion REIT and the Auditors' Report thereon.

Signature of Unitholder/Common Seal

Unitholder's contact no.:

Dated this _____ day _____ 2014

For appointment of two proxies, percentage of unitholdings to be represented by the proxies:

	No. of units	Percentage
Proxy 1		%
Proxy 2		%
Total		100%

Notes :

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AFFIX
STAMP

The Manager of Pavilion Real Estate Investment Trust
PAVILION REIT MANAGEMENT SDN BHD
(939490-H)
6-2, Level 6, East Wing, Menara ING
No. 84, Jalan Raja Chulan
50200 Kuala Lumpur

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