



PAVILION
REAL ESTATE INVESTMENT TRUST
2016 ANNUAL REPORT

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

Vision, Mission and Investment Strategies

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.

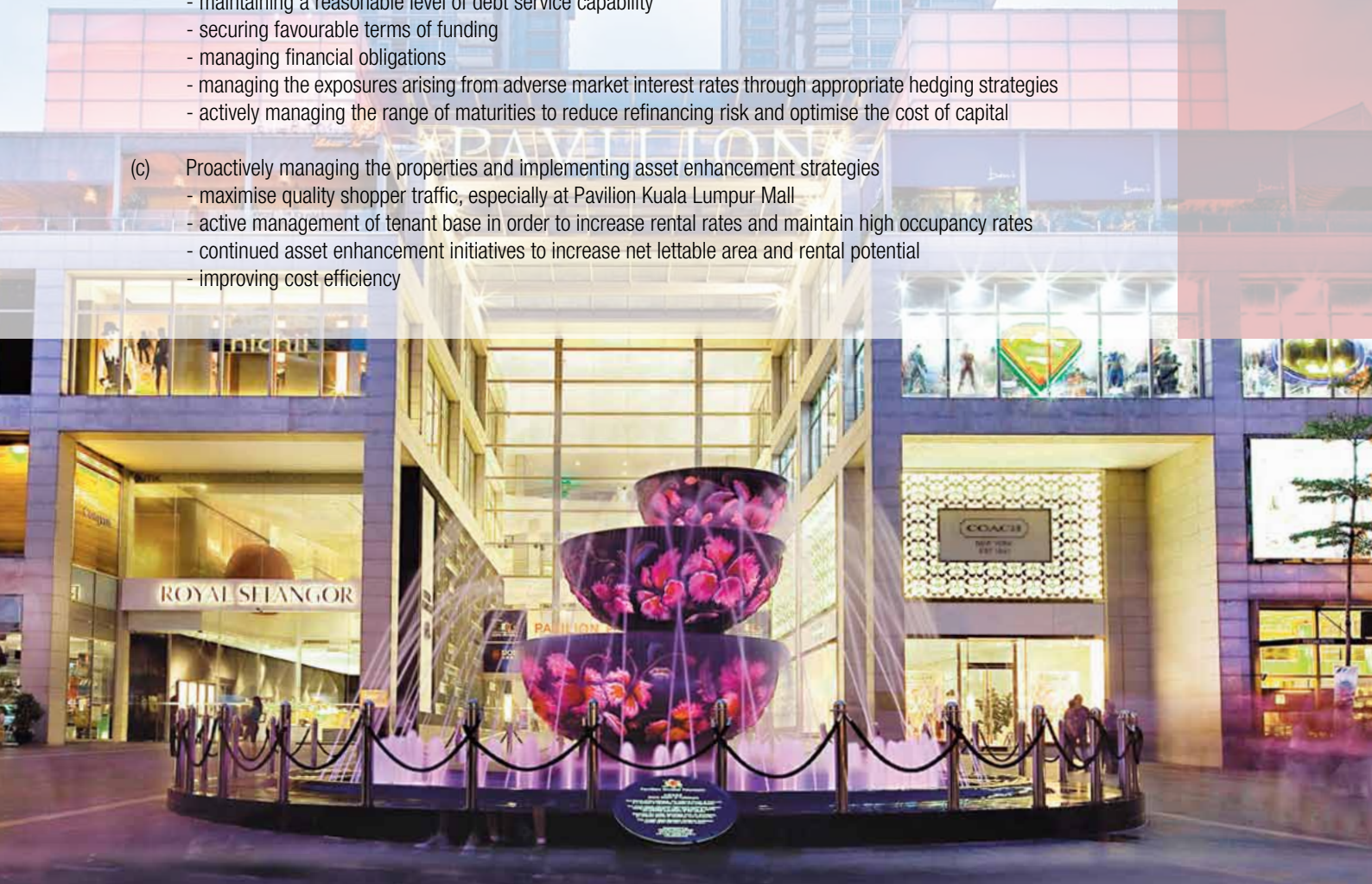
Mission

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
 - managing the exposures arising from adverse market interest rates through appropriate hedging strategies
 - actively managing the range of maturities to reduce refinancing risk and optimise the cost of capital
- (c) Proactively managing the properties and implementing asset enhancement strategies
 - maximise quality shopper traffic, especially at Pavilion Kuala Lumpur 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 DIRECTORS OF THE MANAGER

*Chairman and
Non-Independent Executive Director*

Tan Sri Lim Siew Choon

Non-Independent Executive Director

Puan Sri Tan Kewi Yong
Dato' Lee Tuck Fook

Non-Independent Non-Executive Director

Ahmed Ali H A Al-Hammadi
Ahmad Mohammed F Q Al-Khanji
Mohd Abdulrazzaq A A Al-Hashmi
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 Goldstone (Holiday Inn Express)
No. 84 Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia

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

AUDIT COMMITTEE

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

Corporate Information (cont'd)

NOMINATING COMMITTEE

Dato' Maznah binti Abdul Jalil (Chairperson)
Dato' Mohzani bin Abdul Wahab
Dato' Choo Chuo Siong
Mohd Abdulrazzaq A A Al-Hashmi
Ooi Ah Heong

COMPANY SECRETARY OF THE MANAGER

Lim Mei Yoong (Licensed Secretary No: LS 02201)
6-2 Level 6 East Wing
Menara Goldstone (Holiday Inn Express)
No. 84 Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia

TRUSTEE

MTrustee Berhad (formerly known as AmTrustee Berhad)
(Company Number: 163032-V)
B-2-9 (2nd Floor)
Pusat Perdagangan Kuchai
No 2 Jalan 1/127
Off Jalan Kuchai Lama
58200 Kuala Lumpur

Telephone No.: +603 7983 1088
Facsimile No.: +603 7984 9612

PROPERTY MANAGER

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

AUDITOR

KPMG PLT
(LLP0010081-LCA & AF-0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

PRINCIPAL BANKERS

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

REGISTRAR

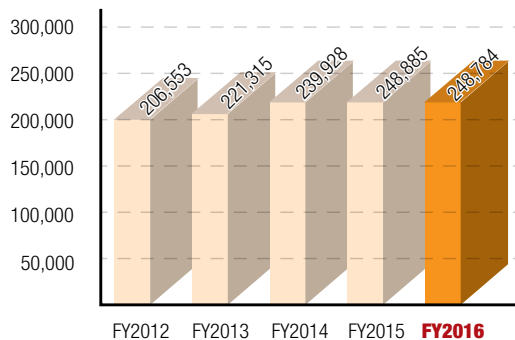
Tricor Investor & Issuing House Services Sdn Bhd
(Company Number: 11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3, Bangsar South
No 8 Jalan Kerinchi
59200 Kuala Lumpur, Malaysia

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

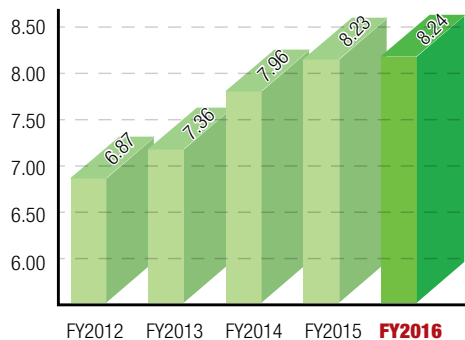


Highlights

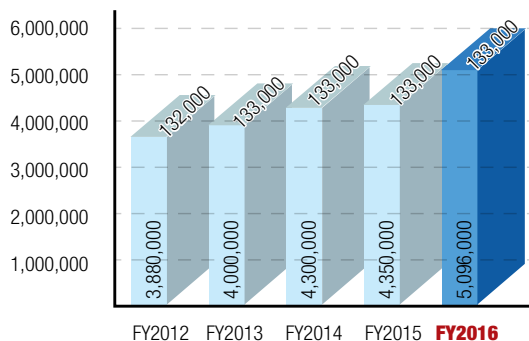
Distributable Income (RM'000)



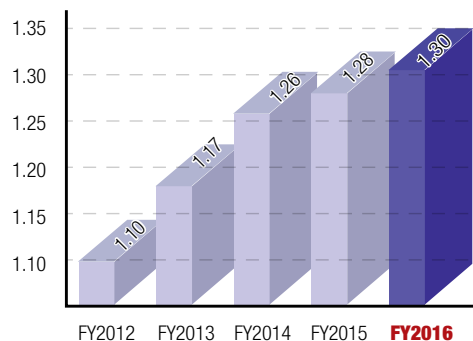
Distribution per Unit (sen)



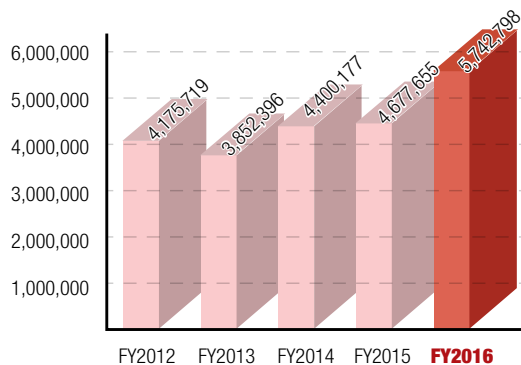
Investment Properties (RM'000)



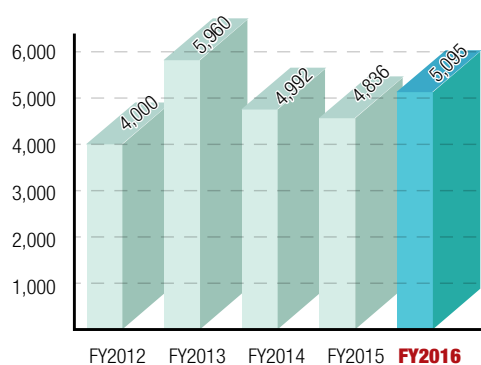
Net Asset Value per Unit (RM)



Market Capitalisation (RM'000)



No of Unitholders





Message from the Chairman

Pavilion REIT, celebrating its 5th year of listing has grown its market capitalisation from **RM2.64 billion (based on initial public offering price) to over RM5.74 billion** in 2016.

This represents a growth of **117%** over 5 years or an average of **23%** per annum based on only capital appreciation.

Economic Overview

With headwinds persisting throughout 2016, the global economy remains unclear on its directions. The International Monetary Fund (IMF) is projecting a flat global economy growth of 3.1% in 2016, which is the same as 2015.

During the year, the global economy was clouded with uncertainty when the British voted to exit the European Union (EU), commonly known as Brexit. This will potentially result in a reduction of trade and financial flows between Britain and EU. Thus, EU is likely to face a negative economic growth in the short to medium term.

In the region, we saw a lower than normal GDP growth for China, with IMF forecasting around 6.6% for 2016. The other powerhouse, Japan introduced a -0.1% interest rates policy and has a projected GDP growth rate of 0.5% by IMF.

In spite of all these, the United States economy has been the most resilient and has shown signs of recovery. With potential economy boom post-election under the new president-elect Donald Trump, the Federal Reserve has finally increased their interest rates by 0.25% in December 2016, to a range of 0.50% and 0.75%.

This coupled with very volatile crude oil prices throughout the year; of which started at USD27 in January 2016 and ended at USD50 per barrel in December 2016 after Organisation of the Petroleum Exporting Countries (Opec) agreed to limit the production of crude oil.

On the local front, Malaysian real GDP growth is projected to close at a decent 4.2% in 2016 as compared to 5.0% in 2015. The drop in crude oil prices earlier in the year has also taken its toll on the Malaysian economy, so much that the government had to re-calibrate the Budget during the 1st half of the year.

During this period, Bank Negara Malaysia (BNM) also reduced the overnight policy rates by 25 basis point to 3.0%. All these and the volatility of the foreign currency exchange rates against the Ringgit have resulted in increase in price

of imported goods and services which has led to an overall increase in cost of living and inflationary pressures of the economy.

Nevertheless, our government has improved the 2017 budget deficit from -3.1% to -3.0% of GDP. Whilst consumer spending will be supported by BR1M for the lower income households, with the announcement and continuation of the major infrastructure projects like MRT line 2, LRT3 Bandar Utama-Klang, Kuala Lumpur-Singapore High Speed Rail, New East Coast railway and construction of a RM43 billion port known as Melaka Gateway, which will provide a boost to the general economy for the upcoming years.

Market Review

The M-REIT market has been a major market mover during the year due to uncertainties in the regional marketplace. This has resulted in the overall M-REIT's shares reaching an all-time high during the year.

M-REIT market capitalisation value grew from RM37.5 billion from previous year end to RM43.2 billion in 2016. A growth of 15% reflected investors' confidence in M-REIT market which had nine acquisitions and two disposals of properties during the year, totalling up to RM1.27 billion in transaction value. Pavilion REIT's contribution was via completing 2 acquisitions: DA MEN Mall and the Intermark Mall valued at RM646 million.

A consolidation of the M-REIT market in 2017 is anticipated as the US Federal Reserve is forecasted to increase interest rates during the year. This has resulted in the Malaysian Government Securities (MGS) yield increasing to 4.2%-4.4% due to outflow of foreign funds. Nevertheless, the Malaysian government bond rates are expected to moderate to 3.5% to 4.0% by mid-2017. This spike in MGS 10 year yield has made REITs relatively less attractive. However, we believe that fundamentals of REITs as an investment and yield investment is still intact.

Pavilion REIT closed 2016 with an all-time high price of RM1.90 per unit as compared to RM1.55 per unit in 2015.

Message from the Chairman (Cont'd)

This resulted in the market capitalisation of the Pavilion REIT at RM5.74 billion. This year, we saw Securities Commission (SC) issuing public consultation paper on proposed changes to the REIT guidelines and streamlining of the post listing requirements. We are supportive of these proposed changes which are intended to promote sustainable growth and strengthen corporate governance practises.

Investment and Asset Performance

During the year, we have completed the acquisition of two properties namely DA MEN Mall and Intermark Mall on 25 March 2016.

Both malls are strategic to the long term goals of diversifying the risk away from a single mall. The newly acquired malls are currently being repositioned to enhance the tenancy mix with improvements to operational management as well as to ensure there are no large gaps in standards of its malls.

Some notable enhancements to Pavilion Kuala Lumpur Mall in 2016 include creation of a new drop off entrance at Jalan Bukit Bintang and direct accessibility from entrance at Jalan Raja Chulan to the gourmet supermarket area in Level 1. With 69% lettable area of Pavilion Kuala Lumpur Mall due for renewal, opportunity was taken to reposition some tenant mix within the mall resulting in entrance of some new tenants such as Cartier, Laduree and Paul with achievement of 7.4% rental reversion.

In recognition of its achievement, Pavilion Kuala Lumpur Mall received 3 additional awards, namely "Best Shopping Mall" : Going Places Readers' Choice Awards, "Best Shopping Experience" : Expatriate Lifestyle Best of Malaysia Awards 2016 and VIVA Best-of-the-Best Award Honoree – Marketing, 60 Years of Made in Italy by ICSC VIVA Best-of-the-Best Award 2016. To date, this resulted in 35 international and local awards.

For the newly acquired assets, the team have been working on bringing in new tenants to enhance the mall offerings, of which include Shoes Gallery and Home by Parkson in DA MEN Mall whilst Intermark Mall has seen new services and household goods providers such as International Design Centre, MST Golf and Oriental Signature. Going forward, the team intends to continue to improve and enhance the pull factor for new customers to patronise our malls by increasing the variety of tenant mix as well as organising relevant / talk of the town events such as the Gundam and Gunpla Expo held in DA MEN Mall during late November last year and Miss Universe Malaysia Press Conference in Intermark Mall.

Market Outlook

We believe that the Malaysian economic fundamentals would continue to remain sound, driven by private sectors growth and infrastructure developments. Barring unforeseen circumstances, the real GDP growth should improve to 4.4% for 2017.

The global economy is forecasted to improve to 3.4% in 2017 on the back of US political scene, development of the Brexit negotiations and the sustainability of the China market.

The recent Malaysia Institute of Economic Research (MIER) survey indicated the business confidence index (BCI) and the consumer sentiment index (CSI) moderated in the 3rd quarter 2016. The BCI improved to 94.4 in 3rd quarter 2016 as compared to 92.5 in the same quarter last year whilst the CSI rose to an average 75.0 compared to 69.5 over the same 3rd quarter 2016 and 2015. Both indexes seems to indicate that business and individual sentiments have remain relatively more positive this year as compared to 2015.



Message from the Chairman (Cont'd)



In addition to the above, the government will be allocating RM400 million via Tourism Malaysia to directly promote the country. The ASEAN national tourism organisation have jointly developed a tourism programme under the theme 'VISIT ASEAN @ 50 : Golden Celebration' with the objective of commemorating the 50th Anniversary of ASEAN and embracing as a single and united tourism destination. The celebrations will highlight ASEAN best 50 festivals and 50 most unforgettable travelling experiences which will contribute to the continuous improvement in number of tourist arrivals and spending in the country.

Annual General Meeting (AGM)

Pavilion REIT's fourth AGM, which was held on 5 April 2016 to lay Pavilion REIT's audited financial statements for the year ended 31 December 2015 went on smoothly.

For the forthcoming AGM this year, other than tabling the 31 December 2016 financial statements, the Manager will also be proposing to seek unitholders' approval for authority to allot and issue new units of up to 20% of the approved fund size of Pavilion REIT for potential investments, acquisitions and /or capital expenditures to enhance the value of Pavilion REIT.

Acknowledgement

On behalf on the Board, I would like to express our gratitude to the Manager's former Deputy Chairman, Mr Omer Abdulaziz H A Al-Marwani and former director, Mr Saif Mohd A M Al-Madfaa, who retired from the board on 14 June 2016. Their contributions towards Pavilion REIT are greatly appreciated.

With that, we would also like to welcome Mr Ahmed Ali H A Al-Hammadi, Mr Ahmed Mohammed F Q Al-Khanji and Mr Mohd Abdulrazzaq A A Al-Hashmi as Non-Independent Non-Executive Directors on 14 June 2016.

On an ending note, we would like to express our gratitude to all management staff and employees for their contribution during the year. Last but not least, we would like to thank all the unitholders, tenants, financiers, business partners and other stakeholders for their continuous support, trust and confidence in Pavilion REIT.

TAN SRI LIM SIEW CHOON

Chairman

19 January 2017

Board of Directors

Tan Sri Lim Siew Choon

Chairman and Non-Independent Executive Director

Tan Sri Lim Siew Choon, age 56, a Malaysian male, holds a Bachelor of Business Administration degree (majoring in Finance) from the University of Central Oklahoma in the United States.

He has more than 34 years of management experience in property development, construction, retail design, retail development as well as corporate management.

He was appointed to the Board of the Manager on 7 April 2011 and subsequently appointed the Chairman of the Manager on 11 August 2011. He is also an Executive Chairman of WCT Holdings Berhad and also the Non-Independent Non-Executive Chairman of Malton Berhad. His spouse, Puan Sri Tan Kewi Yong is a Non-Independent Executive Director and a major unitholder of Pavilion REIT.

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Puan Sri Tan Kewi Yong

Non-Independent Executive Director

Puan Sri Tan Kewi Yong, age 60, a Malaysian female, pursued her tertiary education in the United Kingdom specialising in Business and Marketing Studies.

She has over 33 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 the spouse of Tan Sri Lim Siew Choon.

She has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. She has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Dato' Lee Tuck Fook

Non-Independent Executive Director

Dato' Lee Tuck Fook, age 62, a Malaysian male, is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He also holds a Master degree in Business Administration from the International Management Centre, Buckingham.

He began his career with KPMG in 1974 under articleship, was subsequently admitted as a partner in 1985 until he left the practice in 1990. From 1990 to 1992, he was appointed 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 and a director of Pavilion REIT Bond Capital Berhad. He is also an Independent Non-Executive Director of SAM Engineering & Equipment (M) Berhad, the Independent Non-Executive Chairman of Pesona Metro Holdings Berhad and the Non-Independent Non-Executive Director of WCT Holdings Berhad.

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Ahmed Ali H A Al-Hammadi

Non-Independent Non-Executive Director

Ahmed Ali H A Al-Hammadi, age 35, a Qatari male, graduated with a Bachelor of Science in Economics (Finance and Accounting) from University of Pennsylvania – The Wharton School in Philadelphia, United States of America and Master in Business Administration from Harvard Business School in Boston, United States of America.

He is currently the Acting Head of Active Investments of Qatar Investment Authority (QIA). He is also the Head of Fund Investments Department of QIA.

He oversees the active investment portfolios including sector portfolios, managed portfolios and fund investments which represent the majority of the QIA's international investments

Board of Directors (Cont'd)

and is responsible for fund investments in private equity, equity, hedge funds and real estate.

He was previously an Associate in the Asset Management Department from 2010 to 2014 and was responsible to review and recommend investments for QIA Hedge Fund portfolio, the venture capital program and to initiate the attraction of asset managers to Qatar. From 2008 to 2010, he was the Vice President – Asset Management of EFG-Hermes Qatar where he was in charge of the asset management business in Qatar. Prior to that, he was an associate with Booz Allen Hamilton and worked on the restructuring and strategy recommendation for several financial service firms in the Middle East and was a financial reporting analyst from 2003 to 2005.

He was appointed to the Board of the Manager on 14 June 2016. He does not hold any directorship in any Malaysian public or public listed company.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Ahmad Mohammed F Q Al-Khanji

Non-Independent Non-Executive Director

Ahmad Mohammed F Q Al-Khanji, age 32, a Qatari male, graduated with a Bachelor of Law (LLB) with honors from Oxford Brookes University, Oxford United Kingdom and is a candidate of Masters in Business Administration (MBA), London Business School, London United Kingdom.

He is currently the Head of Acquisitions (Legal) – Qatar Investment Authority (QIA) / Qatar Holding LLC (QH). He coordinates with the business units to execute new acquisitions by QIA / QH. He leads and monitors the execution of new acquisitions and ensure adequate protections for QIA / QH, and relationship management with external parties.

He was an assistant legal counsel of QatarGas Operating Company Limited from 2006 to 2010 and was seconded to the project finance team of Allen & Overy LLP in London from September 2008 to March 2009.

He was appointed to the Board of the Manager on 14 June 2016. He does not hold any directorship in any Malaysian public or public listed company.

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Mohd Abdulrazzaq A A Al-Hashmi

Non-Independent Non-Executive Director

Mohd Abdulrazzaq A A Al-Hashmi, age 28, a Qatari male, graduated from Qatar University with a major degree in Finance and minor degree in Marketing. He is a Chartered Financial Analyst level 3 candidate.

He is currently an Associate at Qatar Investment Authority focusing primarily on direct and co-investments in the real estate sector in Europe and America. He is responsible for the appraisal, evaluation on acquisition of key real estate transactions including property valuation, financial feasibility study, and technical and financial due diligence on the target asset/company.

He was appointed to the Board of the Manager on 14 June 2016. He was appointed as a member of the Manager's Nominating Committee on 28 June 2016. He does not hold any directorship in any Malaysian public or public listed company.

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Navid Chamdia

Non-Independent Non-Executive Director

Navid Chamdia, age 43, a male British national, graduated from University College London with a first class honours degree in Economics. He is a qualified Chartered Accountant and a member of the Institute of Chartered Accountants from England and Wales. He is also a Chartered Financial Analyst charter holder.

He is currently head of real estate investments at 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 was appointed to the Board of the Manager on 10 August 2011. He was appointed as a member of the Audit Committee of the Manager on 28 June 2016. He does not hold any directorship in any Malaysian public or public listed company.

Board of Directors (Cont'd)

He has no conflict of interest with Pavilion REIT save for the related party transactions as disclosed in the Financial Statements. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Ooi Ah Heong

Non-Independent Non-Executive Director

Ooi Ah Heong, age 64, a Malaysian male, graduated from the University of Singapore in 1976.

He has over 40 years of experience in the property development business and has years of experience ranging from low-cost housing to high-end condominium development and institutional buildings to shopping and entertainment centres. He is currently the Director of Business Development of Malton Berhad.

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

He was appointed to the Board of the Manager on 29 July 2011. He is a member of the Manager's Nominating Committee. He is currently a director of Pavilion REIT Bond Capital Berhad.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Dato' Mohzani bin Abdul Wahab

Independent Non-Executive Director

Dato' Mohzani bin Abdul Wahab, age 63, a Malaysian male, graduated with a Bachelor degree in Economics from the University of Malaya, Kuala Lumpur.

He served as the Managing Director of Shell Malaysia Trading Sdn Bhd and Shell Timur Sdn Bhd from 2001 and 2005 respectively until his retirement at the end of 2009. He has years of experience in various senior management positions in Shell's Downstream Oil Products sector. Prior to that, he was a Non-Independent Non-Executive Director of Shell Refining Company (FOM) Berhad for eight years and

was a board member of Brunei Shell Marketing. His board experience includes serving on Shell Oman Marketing Plc and the joint venture companies between Petronas and Exxon/Mobil, PS Pipeline and PS Terminal, and other Shell downstream subsidiaries. He also served as a director of a multiparty loyalty program company, Bonuskad Loyalty Sdn Bhd.

Currently he is Chairman of the Investment Panel of Lembaga Tabung Haji, Merchante Asia Sdn Bhd, TH Alam Management Sdn Bhd and TH Marine Holding (L) Inc and he sits on the board of Boustead Plantations Berhad, Celcom Axiata Berhad, Hong Leong Investment Bank Berhad as an Independent Non-Executive Director.

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

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Dato' Maznah binti Abdul Jalil

Independent Non-Executive Director

Dato' Maznah binti Abdul Jalil, age 63, a Malaysian female, graduated with a Bachelor and Master Degree in Business Administration (Finance) from Northern Illinois University and Central Michigan University, respectively.

Currently, she is the Independent Director of Prestariang Berhad 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 DRB-HICOM Berhad Group of Companies. She was formerly Chairman of Uni.Asia General Insurance Berhad and Uni.Asia Life Assurance Berhad. She has also previously served on the Board of 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 the Executive Director and Chief Financial Officer of Sona Petroleum Berhad, a company in the process of liquidation by court order.

Board of Directors (Cont'd)

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

She has no conflict of interest with Pavilion REIT. She has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Dato' Choo Chuo Siong

Independent Non-Executive Director

Dato' Choo Chuo Siong, age 51, a male citizen of Malaysia, graduated from the London School of Economics, UK with a Bachelor of Science in Economics (Honours).

He is currently the managing director of the Xiao En Group, a family business specialises as a service provider in memorial parks, memorial centre and bereavement care services in Malaysia. He supervises, moderates the Group's daily management and operations personally, and as the chief decision maker in the daily operations of the Group, including corporate master planning.

Apart from the above, he serves as one of the advisors at the Centre of History & Contemporary Research on China – ASEAN, one of the council members of the Best Wishes Foundation and the INXO Arts & Culture (L) Foundation, and as the non-executive director and Chairman of the Board of United Pacific Industries Limited, a company listed on the Primary Board of Hong Kong Exchange (stock code: 176) since September 2014.

Apart from actively involving in the bereavement care services, he has also ventured himself into the field of aged care and has vast experience in the field of property development projects ranging from both commercial and residential properties.

He was appointed to the Board of the Manager on 19 June 2012. He is a member of the Manager's Audit Committee and Nominating Committee. He also holds directorship in Xiao En Memorial Park Bhd and Memorial Venture Berhad.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Syed Mohd Fareed bin Shaikh Alhabshi

Independent Non-Executive Director

Syed Mohd Fareed bin Shaikh Alhabshi, age 62, is a Malaysian male.

He is currently the Chairman of Oilfield Supply Centre (M) Sdn Bhd, a company providing logistics support for oil and gas and power generation industries, manufacturing of pressure vessel, heat exchange, fin tube and general fabrication.

He started his career in 1978 by exporting electronic goods from Singapore to Middle East countries, namely Saudi Arabia, Kuwait and the United Arab Emirates. Thereafter, in 1994, he started an investment holding company for a Saudi Arabian family which owns 80% of National Commercial Bank. In 2002, he started his own interior contracting company, Dragoni International LLC 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 from 2000 to 2013. He was also a Representative of the Middle East to the East Coast Economic Region Development Council since August 2010 until 2012.

He was appointed to the Board of the Manager on 29 July 2011. He is also a director and shareholder of National Gas Berhad and Jalur Lebar Nasional Sdn Bhd.

He has no conflict of interest with Pavilion REIT. He has not been convicted of any offences and is not aware of any public sanction or penalty imposed by relevant regulatory bodies during the past 10 years, other than traffic offences, if any.

Management Team

Philip Ho Yew Hong

Chief Executive Officer

Philip Ho, age 50, a Malaysian male, holds a Master of Business Administration from University of Strathclyde, United Kingdom and a Bachelor of Business in Accounting from Chisholm Institute of Technology, Australia. He is currently a member of the Malaysian Institute of Accountants.

He has over 28 years of experience in corporate planning, mergers & acquisitions, finance, audit, operations management, property development and construction.

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

He was appointed as Chief Executive Officer on 1 December 2011 and has no directorship in other public companies and listed issuers, nor does he have any conviction for offences within the past 10 years, public sanction or penalty imposed by relevant regulatory bodies during the financial year, other than traffic offences, if any.

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

Dato' Joyce Yap Soh Ching

Asset Manager (Retail)

A Malaysian female, age 59, she was appointed to the position of Asset Manager (Retail) of the Manager on 1 December 2011. She holds a Bachelor of Arts (Hons) in Business Studies from North East London Polytechnic, London and a Certificate in Centre Management from PPKM.

During her 35 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. She is also currently the Chairman of Malaysia Tourism Committee, a member of the Associated Chinese Chambers of Commerce and Industry of Malaysia as well as a member of International Council of Shopping Centre Asia Pacific Advisory Board.

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

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Lovell Ho Wai Hoong

Asset Manager (Leasing)

A Malaysian male, age 48, he was appointed to the position of Asset Manager (Leasing) of the Manager on 1 December 2011. He holds a Bachelor of Business in Marketing from the Royal Melbourne Institute of Technology, Melbourne, Australia. He is also a Certified Marketing Manager by PPKM and a member of PPKM.

He has over 23 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.

Management Team (Cont'd)

He does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), he also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Kung Suan Ai

Asset Manager (Marketing)

A Malaysian female, age 45, she was appointed to the position of Asset Manager (Marketing) of the Manager on 1 December 2011. She holds a Bachelor of Arts (Hons) in Communications from Universiti Kebangsaan Malaysia.

She has over 20 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 REIT retail malls.

She started her career at Sunway Pyramid in 1996 before joining Mid Valley Megamall as the Advertising and Promotions Manager in 2011. Her portfolio broadened to include integrated brand development, marketing communications and consumer experience and she was subsequently appointed as the Director of Marketing of Mid Valley City.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Francis Ong Heng Khai

Asset Manager (Facilities Management)

A Singaporean male, age 48, he was appointed to the position of Asset Manager (Facilities Management) of the Manager on 1 December 2011. He holds a Bachelor of Business (Property) from the University of South Australia, Australia and a Diploma in Building Management from Ngee Ann Polytechnic, Singapore.

He has over 23 years of experience in property management covering residential, commercial and industrial properties.

Prior to joining KLP, he was with CapitaMall Asia Ltd for close to seven years and managed one of their shopping malls, Plaza Singapura which is situated in Singapore's shopping belt along Orchard Road. He was seconded to a new development, ION Orchard in 2008 as Head of Facilities. While with ION Orchard, he was involved in the operations planning and recruitment of the facilities team for the new mall, pre-opening preparations and post-opening operations. He was responsible for the daily operations of the mall, preparation of the operations and maintenance budget, implementation of standard operating procedures and was also involved in asset enhancement initiatives of the respective malls that he had managed.

He does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), he also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Ong Hui Ling

Head of Corporate Planning

A Malaysian female, age 47, she was appointed to the position of Head of Corporate Planning of the Manager on 1 January 2012. She holds a Master of Business Administration from Victoria University, Melbourne, Australia.

Involved in treasury and investor relation functions, she has over 26 years of experience, mainly in finance of service, manufacturing, construction, development and retail industries. She was attached to Urusharta Cemerlang Sdn Bhd, the developer of Pavilion Kuala Lumpur, as its Head of Finance overseeing finance, credit control and treasury function prior to being part of the team that was involved in setting up Pavilion REIT.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Management Team (Cont'd)

Lim Mian Nyee

Senior Manager (Finance)

A Malaysian female, age 41, she was appointed to the position of Senior Manager (Finance) of the Manager on 1 January 2014. She is a member of the Association of Chartered Certified Accountants and the Malaysian Institute of Accountants.

Prior to joining Pavilion REIT Management Sdn Bhd on 1 December 2011 as its Finance Manager, 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.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Chong Kok Wai

Senior Manager (Legal and Compliance)

A Malaysian male, age 42, he holds a Bachelor of Laws (Hons) from University of London and was admitted to the Malaysian Bar in 2001.

Prior to joining Pavilion REIT Management Sdn Bhd on 15 December 2016 to oversee the area of legal and compliance, he was a practising lawyer and partner for 16 years with M/s. J.P. Chong & Co specializing mainly in the area of litigation and conveyancing.

He started his career in Standard Chartered Bank Malaysia Berhad in the Legal, Credit Risk & Loss Prevention – Cards Department and was in charge of monitoring legal action against delinquent and charged off accounts including but not limited to implementation of credit policy and budget planning and was awarded the Best Customer Assistance Officer for the year 1998 during the Consumer Banking Conference.

He does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), he also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Eng Hui Yi

Manager (Investment)

A Malaysian female, age 30, she was appointed to the position of Manager (Investment) of the Manager on 1 July 2015. She holds a Bachelor of Arts (Hons) in Accounting and Finance from University of the West of England, Bristol.

She has a mixture of experience in valuation, financial modelling, investment analysis, portfolio management, corporate stakeholder management as well as liquidation and disposal work.

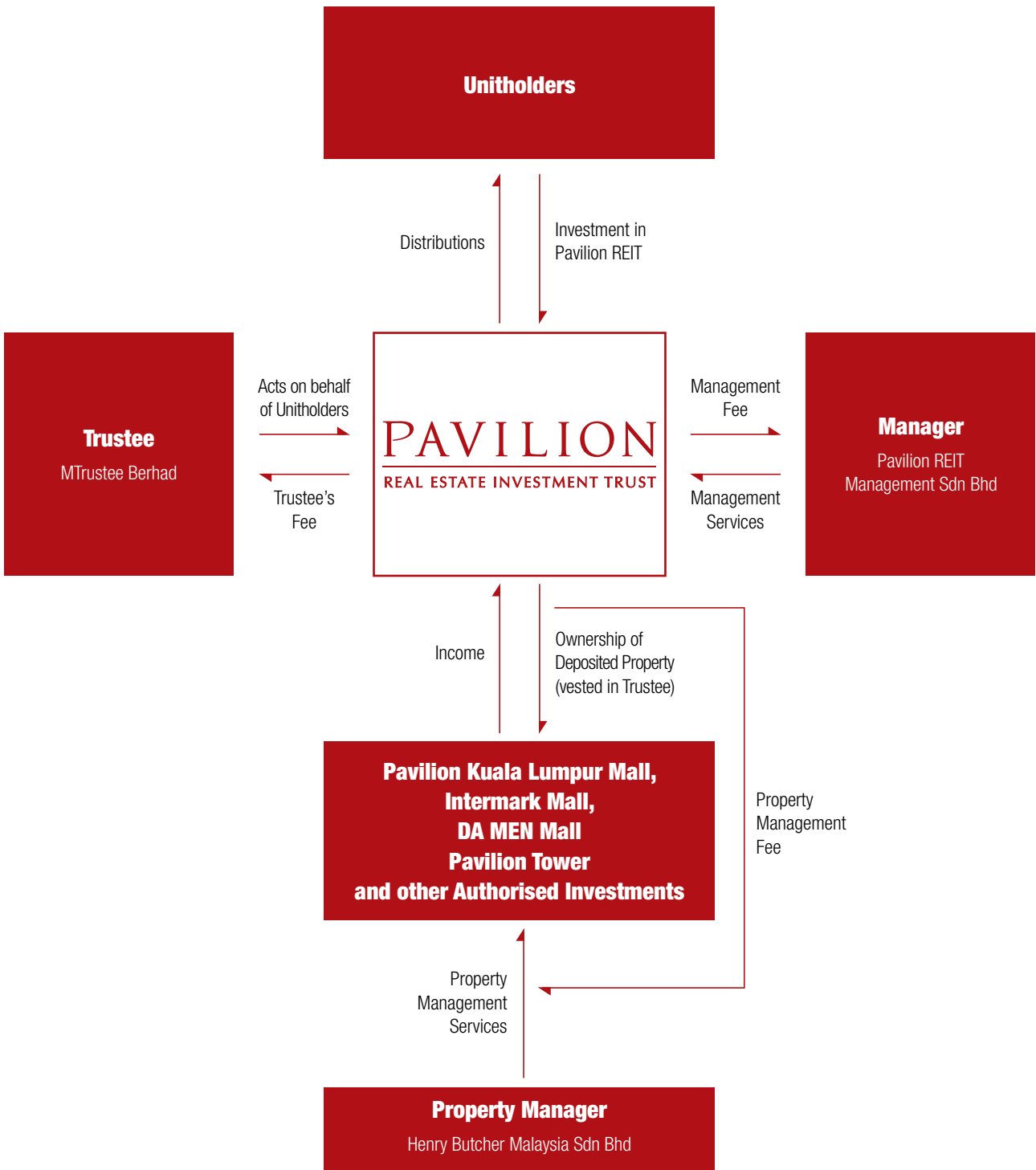
Prior to joining Pavilion REIT Management Sdn Bhd, she was Investment Manager in the Private Equity department of AmlInvestment Bank Berhad. She started her career with the Valuation and Business Modelling team of Ernst & Young Kuala Lumpur.

She does not hold any directorship in any public companies and listed issuers nor have any family relationship with any director and / or major unitholder of Pavilion REIT. There is no conflict of interest with Pavilion REIT. Other than traffic offence (if any), she also does not have any convictions for offences within the past 10 years or any public sanctions or penalty imposed by relevant regulatory bodies during the financial year.

Salient Features of Pavilion REIT

Category of Fund	Real Estate Investment Trust
Type of Fund	Income and growth
Duration of Fund/ Termination Date	The earlier of : <ul style="list-style-type: none"> • The occurrence of any events listed under Clause 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 with 100% of distributable income for the financial year ended 31 December 2016 and 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





MANAGER'S REPORT

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 2016.



Message from the CEO



Overview

Business Review

Corporate Governance Report And Financial Statements

Others

2016 was full of surprises from Brexit to the US election results which have greatly impacted the world economy. The Malaysian economy was not spared from these events hence resulting in another year of volatile foreign exchange for the Ringgit and a surprise reduction in the overnight policy rate by Bank Negara Malaysia

Financial Performance

Pavilion REIT gross revenue increased to RM459.7 million compared to RM413.9 million a year earlier, an increase of 11.1%. The main contribution of the gross revenue increases came from the acquisition of the DA MEN and Intermark Malls.

Pavilion Kuala Lumpur Mall contributed 86.8% of the gross revenue or RM399.0 million. It recorded a slight drop in turnover of RM3.7 million or 0.9% mainly due to loss of rental from relocation of tenants to enhance tenant mix within the mall. This relocation exercise is expected to continue until mid-2017.

DA MEN Mall contributed 7.0% of the group gross turnover or RM32.0 million. The Intermark Mall contributed 3.5% of the group gross turnover or RM16.1 million with Pavilion Tower contributing 2.7% to gross rental or RM12.6 million. For the office sector, this represents an increase of 11.3% over 2015 due to increase in occupancy.

Due to 100% borrowing incurred on both the acquisitions during the year, the REIT's debts has increased from RM754 million to RM1.412 billion. The loan to asset ratio (LTV) is still at a very respectable level of 25.3% as compared to the 50% restriction on the LTV ratio set by the Securities Commission. This has resulted in our full year distribution to be similar with the previous year at RM0.0824 per unit compared to RM0.0823 per unit in 2015.

Our assets under management has increased from RM4,751 million to RM5,592 million, which is an increase of RM841 million or 17.7%.

Message from the CEO (Cont'd)

Asset Enhancement

During the year, the Manager continues with its asset enhancement exercises with improvement works to provide more conveniences to its patrons and shoppers, as well as to manage operating expenses in all its properties.

Some of the enhancement works done in Pavilion Kuala Lumpur Mall during the year are: -

1. Upgrading of some toilets at level 2 to level 4 of the mall
2. Upgrading the main entrance at Jalan Raja Chulan
3. Creation of new drop off entrance at Jalan Bukit Bintang
4. Implementing free WiFi within the mall

New Acquisitions

During the year, the acquisition of DA MEN and the Intermark Malls were completed on 25 March 2016.

Besides incorporating Pavilion REIT's branding / signages in both malls, they are also currently undergoing some revamp in the tenants mix and also repositioning of the concepts within the malls respectively.

Some of the enhancement work done in DA MEN Mall during the year were: -

1. Repositioning and changing the tenants mix within the mall
2. Upgrading the branding at entrances
3. Monitoring and improving the air-conditioning system to lower the power consumption
4. Marketing and promotion campaigns

At the Intermark Mall, some of the enhancement work done during the year were: -

1. Repair and upgrade the toilets and its common corridors
2. Replace the lighting system throughout mall
3. Introduction of information counter

The Manager will continuously monitor all its properties, especially the two newly acquired malls to ensure that the repositioning and improvements will yield better positive returns.

Outlook for 2017

We anticipate 2017 environment to be even more challenging than the previous year given the level of uncertainty in the world environment, interest rates movements, foreign exchange movements and also local consumer sentiments.

Hencewith, besides stabilizing occupancy rate of the newly acquired malls and cost monitoring to ensure operational efficiency, equity and debt capital market will also be closely monitored to optimize better yield for unitholders.

Whilst the environment will remain challenging, we will continuously explore and evaluate new investment opportunities in the coming year.

PHILIP HO YEW HONG
Chief Executive Officer

19 January 2017



Management Discussion & Analysis

Financial Highlights

Financial Results and Key Performance Indicators	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Change (%)
						FY 2016 vs FY 2015
Gross Revenue (RM'000)	346,524	375,509	402,092	413,932	459,701	11.06%
Net Property Income ("NPI") (RM'000)	245,289	263,125	282,739	291,535	314,774	7.97%
Distributable Income (RM'000)	206,553	221,315	239,928	248,885	248,784	(0.04)%
Earnings per Unit (sen)	20.99	10.88	16.94	9.36	10.33	10.36%
Distribution per Unit (DPU) (sen)	6.87	7.36	7.96	8.23	8.24	0.12%
Distribution Yield (%) :-						
– based on retail IPO price of RM0.88	7.81	8.36	9.05	9.35	9.36	0.11%
– based on market price as at 31 December	4.94	5.75	5.45	5.31	4.34	(18.27)%
Management Expense Ratio ("MER") (%)	0.68	0.67	0.66	0.64	0.69	7.81%
Investment Properties (RM'000)	4,012,000	4,133,000	4,433,000	4,483,000	5,229,000	16.64%
Total Asset Value ("TAV") (RM'000)	4,221,355	4,355,353	4,649,931	4,750,753	5,592,418	17.72%
Net Asset Value ("NAV") (RM'000)	3,297,110	3,522,516	3,811,016	3,851,607	3,920,849	1.80%
NAV per Unit (RM)	1.10	1.17	1.26	1.28	1.30	1.56%
Gearing Ratio (%)	16.71	16.22	15.22	15.88	25.25	59.00%
Portfolio Turnover Ratio (times)	-	-	-	-	0.08	-

Financial Review

By Segment	Gross Revenue				Net Property Income			
	FY 2015		FY 2016		FY 2015		FY 2016	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Pavilion Kuala Lumpur Mall	402,646	97.27	398,952	86.79	284,864	97.71	283,598	90.09
Intermark Mall [^]	-	-	16,161	3.51	-	-	6,486	2.06
DA MEN Mall [^]	-	-	32,026	6.97	-	-	15,827	5.03
Retail	402,646	97.27	447,139	97.27	284,864	97.71	305,911	97.18
Pavilion Tower – Office	11,286	2.73	12,562	2.73	6,671	2.29	8,863	2.82
Total	413,932	100.00	459,701	100.00	291,535	100.00	314,774	100.00

[^] Acquisition completed on 25 March 2016

Management Discussion & Analysis (Cont'd)

Gross revenue achieved in 2016 was RM459.7 million or 11.1% higher when compared to the immediate preceding year mainly due to acquisition of Intermark Mall and DA MEN Mall from 25 March 2016. A slightly lower contribution from Pavilion Kuala Lumpur Mall was due to repositioning of its tenant to enhance the mall's tenant mix. This has resulted in spaces available for new stores opening in Malaysia such as Blanc Eyelash, Laduree, Manolo Blahnik, Paul and Pazzion.

The two newly acquired malls contributed 7.1% of the overall NPI against 10.5% of total gross revenue. This resulted in NPI increasing to RM314.8 million or 8.0% higher as compared to the immediate preceding year of RM291.5 million.

Income before taxation for the year increased by 10.6% to RM312.1 million due to recognition in change in fair value of investment properties of RM76.9 million against the immediate preceding year fair value gain of RM41.0 million. Higher borrowing cost was incurred as the current year acquisitions were all financed via debt.

Retail property continues to contribute to approximately 97% of Pavilion REIT's total portfolio in terms of gross revenue and net property income. Overall, Pavilion REIT portfolio achieved NPI margin of 68% with retail and office achieving a NPI margin of 68% and 71% respectively.

However, as consumer confidence remains low with more vigilant spending due to higher cost of living, Pavilion REIT malls intends to continue to be selective in its spending to create differentiation and key attractions to build shopping experience to attract and retain shoppers' loyalty with operating cost being monitored to optimise efficiency. Hencewith, the Manager expects a modest increase in rental reversion for 2017 with tenants having more options / selections with bargaining power given that there are more retail malls to choose from and shoppers remain cautious in their spending.

Distribution per Unit ("DPU")

Total DPU for 2016 increased to 8.24 sen from 2015 DPU of 8.23 sen. This represents 0.01 sen or 0.1% higher than 2015 DPU, despite the addition of Units in circulation increasing by 4,683,032 Units to 3,022,525,269 Units as at 31 December 2016.

4.16 sen, earned for 1st and 2nd quarter of 2016 was paid on 6 September 2016 with the final distribution of 4.08 sen earned in 3rd and 4th quarter 2016, to be paid on 28 February 2017 resulting in NAV per unit of RM1.28 and RM1.30 respectively.

Statement of Financial Position – Assets and Liabilities

With regards to its financial position, total assets increased to RM5,592.4 million or 17.7% from RM4,750.8 million due to acquisitions of Intermark and DA MEN Malls. As these acquisitions were wholly funded by debt, this increased Pavilion REIT's borrowings from RM754.3 million to RM1,412.4 million, resulting in gearing ratio of 25.3% against previous year end of 15.9%. High payables is primarily due to amount owing to vendor of DA MEN Mall for balance purchase consideration, which are due when defects liability period is over or issuance of strata titles for the property.

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. During the year, two retail malls have been acquired on 25 March 2016, ie DA MEN Mall in USJ, Subang Jaya and Intermark Mall in Kuala Lumpur.

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

The Fund's investment properties had been re-valued as at the end of the financial year to ensure that its investment properties reflect the current market value and in compliance to Malaysian Financial Reporting Standards 140. This re-valuation resulted in gain of RM76.9 million.



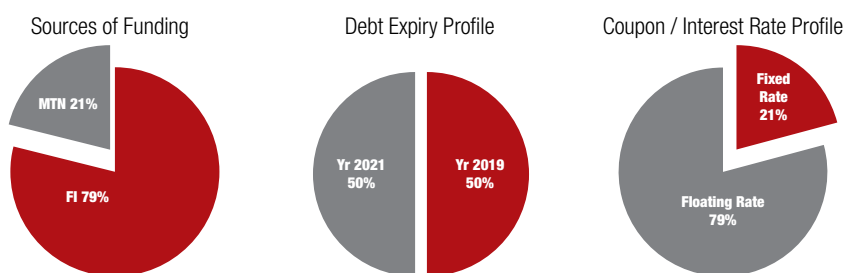
Management Discussion & Analysis (Cont'd)

Property	Market Value @ 31 Dec 2016 RM'000	Market Value @ 31 Dec 2015 RM'000	Change in Value RM'000	Property Yield 2016 %	Property Yield 2015 %
Retail					
Pavilion Kuala Lumpur Mall	4,450,000	4,350,000	100,000	6%	7%
Intermark Mall	163,000	-	163,000	5% ^	-
DA MEN Mall	483,000	-	483,000	4% ^	-
	<u>5,096,000</u>	<u>4,350,000</u>	<u>746,000</u>		
Office					
Pavilion Tower	133,000	133,000	-	7%	5%
Total Portfolio	<u>5,229,000</u>	<u>4,483,000</u>	<u>746,000</u>		
Less Capital Expenditure			(14,421)		
Less Acquisitions			<u>(654,707)</u>		
Fair Value Gain			<u>76,872</u>		

^ Annualised property yield computed based on NPI from completion of acquisition to financial year end

Capital Management

Pavilion REIT's gearing is 25.3%, which is below the market norm of approximately 30% to 40% or REIT Guidelines of up to the permitted 50% of Total Asset Value. Its revolving term loan facility amounting to RM815.9 million has been renewed for another 5 years with RM300 million of its MTN of RM8 billion programme drawn to date.



In view of the potential increasing funding cost, the Manager will continue to explore the best available financing options to enable it to have additional options ready for future acquisitions or to re-finance any existing credit facilities when due in the future.

Statement of Cash Flows

Net cash from operating activities increased from RM268.4 million to RM288.1 million with acquisition of the two new malls on 25 March 2016. Of the RM556.5 million used for investing activities in the current year, RM529.1 million was utilized for acquisition of DA MEN and Intermark malls with RM14.4 million used for enhancement activities, primarily in Pavilion Kuala Lumpur Mall for toilets & common corridor upgrading, creation of new drop off entrance at Jalan Bukit Bintang and upgrading of entrance at Jalan Raja Chulan. Acquisitions for the two new malls were financed by debt. Hencewith, net proceeds from borrowings of RM666.6 million was utilized with RM250.6 million used for distribution to unitholders.

This resulted in net increase of RM112.6 million with cash and cash equivalent of RM277.4 million as at the end of the year.

Management Discussion & Analysis (Cont'd)

Operations Review

As 69% of net lettable area was due for renewal in 2016, Pavilion Kuala Lumpur Mall took the opportunity to reposition some of its tenant mix to better enhance the mall. This resulted in suitable areas available to accommodate 1st store in Malaysia such as Blanc Eyelash, Laduree, Manolo Blahnik, Paul and Pazzion. Other notable tenants secured are Banila Co, Blackbarrett, Cartier, Calvin Klein Performance, Daniel Wellington, Dior, Establishment, Grand Southern by Eu Yan Sang, Fitflop, Getha, Go Noodle, Nature Republic and Three with rental reversion achieved for current year renewals as 7.4%. The repositioning exercise is expected to continue into the 1st quarter of 2017, which has affected rental income.

Since Intermark Mall was acquired by Pavilion REIT on 25 March 2016, the Manager intends to improve its offering of services and food and beverages tenant mix to accommodate the existing two office tower tenants conveniences as well as Double Tree hotel guests, such as nail parlour, foot reflexology, tailoring and a mega golf store known as MST Golf. Primrose Hill Active Learning, to be located on level 3, will be operating an international pre-school which is popular in United Kingdom and Scandinavia. Rental reversion achieved during the current year for this mall was 3.1%.

DA MEN Mall, also acquired on 25 March 2016 was opened to the public in January 2016. Hencewith, besides focusing to ensure smooth running of the mall's operation and with active marketing activities, visitation to the mall is still low. Hencewith, opportunity was taken to revamp some of its tenant mix by bringing in Shoes Gallery & Home by Parkson as its speciality anchor tenant and The Container Artbox, a concept that will feature more than 200 varieties of retail offerings.

All newly acquired malls have incurred some initial setup / once off costs such as lighting upgrading, painting of common corridors, sanitary fittings upkeep to ensure they are in working order, setting up of first aid room (for emergency medical treatment, as holding area pending arrival of ambulance) and ensuring availability of tools and equipments to meet with safety requirements that are similar to those available in Pavilion Kuala Lumpur Mall. This is to ensure that there are no large gaps in standards of its malls. Hencewith, the higher operating cost was incurred for Intermark Mall and DA MEN Mall.

Pavilion Kuala Lumpur Mall and Intermark Mall occupancy is likely to stabilize once the tenants complete their renovation and commence business. However for DA MEN Mall, being in the suburb of Subang Jaya and USJ would be facing competition from more established malls in the area such as Sunway Pyramid, Subang Parade and Empire Subang. Hence more niche and community activities are targeted to be held to raise awareness of DA MEN Mall being opened. If opportunity arises, its tenant mix may be revamped to cater for children enrichment centres. As the apartment within the development has just been completed, it is hoped that more owners will move in as soon as possible to provide natural traffic to the mall.

Pavilion Tower's occupancy remains above 90% for current year although office market remains soft and challenging with more new office spaces targeted for completion in the next few years and older office buildings trying to retain or capture new tenants by providing more incentives or lowering rent to compete. Good tenant retention with no negative rental reversion will be the strategy for the coming years with continuous upkeep of the building.

Asset Enhancement Exercises

During the period under review, Pavilion Kuala Lumpur Mall enhanced its mall with continuous toilet upgrading works and enhancement to its common corridor as well as the creation of a new drop off entrance at Jalan Bukit Bintang and upgrading of entrance at Jalan Raja Chulan for better accessibility, with direct access to the supermarket. For the newly acquired malls, Pavilion REIT branding is being incorporated to increase its occupancy and enhance its tenant mix.

Intermark Mall enhanced the mall via repainting of corridor ceilings and walls, reconditioning of toilets and upgrading of high level ceiling lights from metal halide to LED. For DA MEN Mall, certain landlord provision was carried out to accommodate requirements of some new tenants.

For 2017, besides setting up of landlord provision to cater for tenant requirements, capital expenditures are being planned to cater for improvements to mall facilities or architectural related, including retrofitting of Pavilion Kuala Lumpur Mall's chiller plant automation to provide more accurate monitoring, attain better building occupants' comfort, efficient operation of air-conditioning system and to reduce energy consumption and operating costs.

Management Discussion & Analysis (Cont'd)

Portfolio Summary

Type	Retail	Office	Total
Appraised Value as at 31 December 2016 (RM million)	5,096	133	5,229
Net Lettable Area (square feet)	1,996,927	165,071	2,161,998

Top 10 Tenants

Pavilion REIT has a total combined tenancies list from the retail and office of 819 tenancies. Its ten largest tenants contributed to 15.5% of gross rental income as at 31 December 2016.

Tenant's Name	Trade Sector	Expiry Period
Apex Excellent Sdn Bhd	Food and Beverage	2019 Q3
Coach Malaysia Sdn Bhd	Fashion	2017 Q1
Gagan (Malaysia) Sdn Bhd	Fashion	2017 Q1
GCH Retail (Malaysia) Sdn Bhd	Supermarket	2019 Q3
Golden Screen Cinemas Sdn Bhd	Urban Leisure	2017 Q4
Hermes Retail (Malaysia) Sdn Bhd	Fashion	2019 Q4
Padini Dot Com Sdn Bhd	Fashion	2019 Q3
Parkson Corporation Sdn Bhd	Fashion	2019 Q3
Royal Selangor Marketing Sdn Bhd	Gift and Souvenir	2019 Q3
Sharaf Fashion Retail Sdn Bhd	Fashion	2019 Q3

Tenancy Profiles

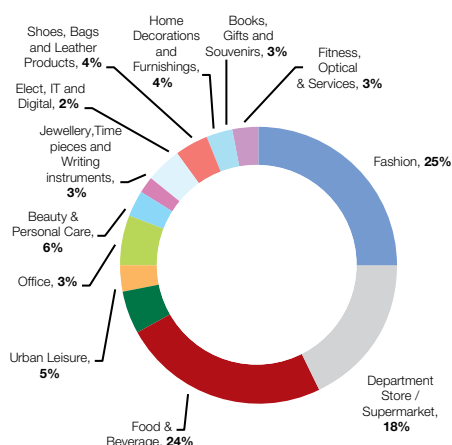
As Pavilion Kuala Lumpur Mall took the opportunity to reposition and enhance its tenant mix, rental reversion of 7.4% was achieved for 752,857 square feet while relocated tenants and replacement tenants took up another 112,130 square feet of the net lettable area. Intermark Mall's 5,278 square feet was renewed at rental reversion of 3.1%.

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.

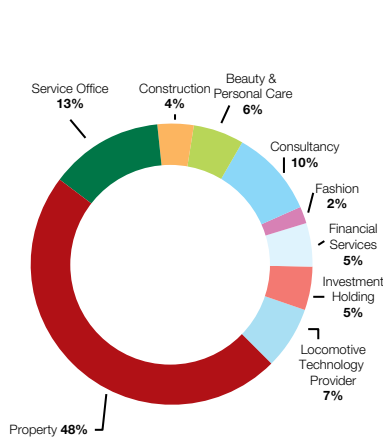
The weighted average lease expiry ("WALE") as at year end has been increased to 1.78 years against 2015 of 1.10 years whereby a substantial portion of retail property tenants in Pavilion Kuala Lumpur mall has been renewed in 2016, with WALE for retail and office being 1.83 and 1.14 years respectively.

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

Trade Category by Net Lettable Area - Retail



Trade Category by Net Lettable Area - Office



Management Discussion & Analysis (Cont'd)

Highlights of Malls Marketing Activities

Pavilion Kuala Lumpur Mall, Malaysia's premier shopping destination, continues to keep up with consumer trends for 2016 which sees consumers seeking value and discounts but on quality goods and conveniences in a rapid and fast changing world. Besides high impact traditional campaigns, smart technology and connectivity was adopted to create value propositions within the mall with aggressive line-up of campaigns and cross marketing precincts to capitalize on events, festivals and promotions.

▲ Grand Celebrations

This is a yearly festival event which features latest decorations and ideas similar to some of the global shopping centres. For the **Chinese New Year 'Feast of Longevity'**, the mall featured a 30-foot high Golden Monkey bestowing shoppers with wisdom and long life. The mall's 8th Anniversary on 31 January showcased another Malaysia Book of Records feat, the **'Biggest Longevity Bun Replica'** at 8-feet height. **Hari Raya 'Laman Idaman'** was a radiant celebration inspired by the joy of the festival, amidst an illuminating garden of traditions and high profile celebrity appearances in partnership with Media Prima Berhad. **'Beauty of Unity'** was Deepavali's theme which reflects on beauty and unity of different races in Malaysia with intricate kolam design featured in collaboration with Raffles College. **'Christmas Ever After'** turned the mall into a magical kingdom of dazzling brilliance, showcasing the very first Pavilion Fairy Tale Castle and the world's first Swarovski Crystallised Merry-Go-Round in the centre court of the mall, alongside the Spritzer Sparkling Tree at the Pavilion Crystal Fountain, the tallest outdoor Christmas Tree in Bukit Bintang.

▲ Fashion Events

The signature **'Pavilion Pit Stop'**, hosted for the 8th year running with features of fashion highlights from international brands, took place at the end of September 2016 with large gathering of local and international celebrities, key fashion influencers and socialites in town. **'KL Fashion Week Ready to Wear'** in August 2016 showcased local designers, students and enthusiasts wanting to enter the fashion realm. Fashion blogs, video streaming, celebrity endorsement news went regional and viral, in line with the mall's strategy to adopt social media as a platform to inspire and influence.

▲ Experiential Events and Collaborations

For March school holidays, the mall tied up with Warner Brothers and DC Comics that brought **'Batman vs Superman : Battle of Dawn'** to life with the latest Batmobile, life-sized Batman, Superman and Wonder Woman figurines and interactive games. Thereafter **'Teenage Mutant Ninja Turtles Exhibition'** displayed life-sized ninja turtles and ninja challenge zones as one of the biggest showcase of the movie in the region. **'Waku Waku Festival'** was celebrated with three first in Malaysia pop up stores from Japan were presented – Atrre Shopping Centre, mt Masking Tape and Disney Tsum Tsum whereby the centre court was transformed using specially designed Tokyo Street masking tape and a limited edition Malaysian collection of tapes were unveiled, designed and fully sponsored by mt Masking Tape. **'A Mid-Autumn Feast'** was organised in August 2016 to present over 20 brands of mooncakes and food delights from popular hotels, renowned local bakers, speciality restaurants and confectionaries to position as an experiential destination.

Intermark Mall, with immediate catchment of corporate customers and tourists during weekdays is being promoted to capture the nearby residential market. Since Pavilion REIT took over on 25 March 2016, besides enhancing ambiance via celebrating cultural diversity of festivals, exhibitions, promotions and CSR, **Miss Universe Malaysia Press Conference** was held in Intermark Mall on 13 October 2016 to reveal finalists of Miss Universe 2017.

DA MEN Mall, a new neighbourhood mall, is being positioned to create awareness of its opening, the tenant mix and provide service experience for shoppers via press and radio advertisements as well as social media platforms. Activities such as **'Food Trail'** to promote food and beverages offerings, Mooncake Fair, **Gunpla Expo 2016** with the largest Gundam Model Kit Exhibition etc are continuously being held to engage customers with value creations, activities and promotions besides community events such as **'Handmade Market'** for the Single Mothers Association to showcase and sell their handmade products, with **'Pink March of Hope'** held to raise awareness of breast cancer. DA MEN Mall also provides platform to showcase and nurture talent for children and students such as Astro XTY Grand Audition, 'The Longest Doodle Art in Subang USJ' and Super Education Prize Giving Ceremony.

Management Discussion & Analysis (Cont'd)

Awards

Pavilion Kuala Lumpur Mall has achieved 35 accolades to date with the current year additions being the followings :-

- ▲ **“VIVA Best-of-the-Best Award Honoree – Marketing, 60 Years of Made in Italy”** : ICSC VIVA Best-of-the-Best Award 2016
- ▲ **“Best Shopping Mall”** : Going Places Readers' Choice Awards
- ▲ **“Best Shopping Experience”** : Expatriate Lifestyle Best of Malaysia Awards 2016

Market Review

For 2016, Malaysia's real GDP growth was expected to range between 4.0% and 4.5%. GDP growth for 2017 is forecasted to be similar as 2016 due to amongst others, growing consumer spending, stronger growth in investments of infrastructure and investment projects with rebound in government consumption expenditure. However, these positive factors are negatively impacted by concern of possibility of further streamlining in subsidy rationalization programme, subdued global trade performance due to slower economic growth in China, Japan and Europe as well as United States trade policies that may impact Malaysia's export prospects.

Inflation which grew by 2.1% for 2016, similar to 2015 is mainly due to higher food prices. Although private sector is expected to drive growth, inflation is likely to increase further in 2017 due to increasing commodity prices, concern of weaker job market and rising cost.

With about 4.6 million square feet of retail mall opened in Klang Valley in 2016 and another 6.3 million square feet targeted to be ready for trading in 2017, retailers would have more options to be selective on which mall would provide them with better opportunities. In general, the newer malls would be more affected as competition would be more intense to lure tenants and it will be tough for any new malls to reach or secure the same level as of those established malls. Well-established malls will continue to perform well but may face the challenge of lower pace in rental growth and occupancies. Besides higher operational cost, other challenges for landlord include lower consumer traffic, reducing retail sales and pre-termination by tenants. Retail Group Malaysia had estimated retail sales growth rate of 3% and 5% for 2016 and 2017 respectively.

As retail malls in good location and with good management are expected to be resilient despite possibility of slower growth, niche market or differentiation has to be considered for malls that are not performing up to standard. With e-visa availability for China and possibility extending it to tourist from India and 2017 being Visit ASEAN@50 Year

with Malaysia playing host to the 2017 SEA and Para ASEAN Games, more regional and international tourists are expected to arrive due to the ease of processing and weaker Ringgit for shopping and holiday.

Oversupply of office spaces will continue in 2017 that will stress on occupancy and rental rates as about 4.7 million square feet of new office spaces will be made available in Kuala Lumpur in 2017 and more so in the future with the completion of mega projects such as Tun Razak Exchange and Menara Warisan. Therefore, the strategy for 2017 is to try to retain good tenants with continuous upkeep of property to maintain and enhance the standard of its facilities.

Distribution policy for 2017 is expected to be maintained as per 2016 with continuous look-out for yield accretive assets. Differentiation and key attractions are the intention to build shopping experience to attract and retain shoppers' loyalty to retail malls with operating cost being monitored to optimise efficiency.

Risk Management

Risk forms part and parcel of a business environment. Hencewith, the Board, is committed to establishing risk management processes that are embedded into each and every key activities and business processes in all its properties as well as the Fund to ensure that risks are identified and mitigated in achieving Pavilion REIT's objective.

Main risk factors are as follows :-

- a) Acquisition and investment risk refers to risk of assets / investments not being yield accretive, affecting the overall performance of the Fund. The Manager is very cautious in its proposed investments and evaluate them (from financial, legal and technical aspects) prior to recommending to the Board for approval. For related party transactions, the relevant Board members of the Manager will declare their interest and abstain from voting, with such related party acquisition being driven by the Audit Committee.
- b) Valuation risk refers to risk that valuation of property may not be sustainable, hence affecting the Fund's asset value, profitability and gearing. Main parameters for valuation are rental rate, occupancy rate as well as operational cost. The Manager will closely monitor these factors in each of the Fund's property to ensure they are not compromised/ mitigated with appropriate strategies such as tenant mix / concept, continuous engagement with tenant to build relationship for further improvement, cost management and prudent spending with relevant marketing activities. However, as a general guide, newly acquired properties will need time to stabilize

Management Discussion & Analysis (Cont'd)

- as the Manager makes improvement to tenant mix, enhancements and streamlining some of this operational practises such as ensuring priority to safety standards e.g. provision of first aid room and concierges or customer service representatives are all first aiders.
- c) Credit risk and liquidity risk of non-payment by its tenants or counterparties are mitigated by credit evaluation prior to entering into letter of offer or agreement with constant monitoring of outstanding balances to ensure minimum credit exposure is monitored via stringent collection policy. This is to ensure that there are adequate resources to fulfil the requirements of Pavilion REIT's operations and distribution of income to unitholders.
- d) Tenant concentration risk of relying on only a handful of tenants are mitigated as the top ten tenants contribution is 16% of the Fund's gross revenue with the main tenant contributing only 6% of the Fund's gross revenue as at 31 December 2016.
- e) Financing risk refers to risk of not being able to obtain fresh facilities or renew its facilities when due, either from financial institution or debt capital market. The Manager has established a RM8.0 billion medium term note programme of 20 years from 25 March 2016, which can either be rated or unrated and to be on either fixed or floating rate. At the same time, the Manager will also continue to engage with various financial institution as well as potential bond holders to determine the best options in the future. Currently, about half of the Funds borrowings are each due in 2019 and 2021 respectively.
- f) Interest rate risk refers to the potential unfavourable movement in floating interest rate that will affect income before taxation. At the time of drawdown of facility or refinancing this year, with the volatile market then, the Manager felt that the rates offered for fixed interest rate was rather high with potential favourable movement for floating rate. Hence, a decision was made to take up the funding based on floating rate. Besides closely monitoring interest rate to possibly convert to them to fixed rate when timing is deemed appropriate, swap line has also being extended by certain financial institutions to be exercised when appropriate. Borrowing on floating rate is RM1,1 billion or 79% of total borrowings.
- g) Operational risk at property is mitigated by having standard operating procedures that are adopted and being continuously reviewed for all the properties under the Fund which comprises operational guide, control and monitoring procedures. Some examples of reports are :-
- i) management of call centre, preventive maintenance, management of incidents
 - ii) inventory control and purchasing procedure
 - iii) rental of promotional space, visual merchandising
 - iv) sourcing, negotiating with potential / existing tenants, tenancy administration
 - v) billing, payment, collection and refund
 - vi) staff training and recruitment
- h) Legal and regulatory compliance. The Manager has compliance officer, reporting directly to the CEO, who is responsible to provide guidance to ensure that all regulatory and compliance matters are adhered to.
- i) Disaster recovery planning. As management information technology plays an important role, the Manager has arranged for daily back-up of information to be housed externally to facilitate recovery in the event of a disaster. With Pavilion Kuala Lumpur Mall having its own emergency response and crisis management plans, these plans are also being adopted for the newly acquired properties with variations where required. Annual fire drills involving all occupants in each property were also held to ensure occupants are kept updated on routes to use and procedures to adhere to in the event of occurrence of disaster.
- j) Currency risk is currently not applicable to the Fund as Pavilion REIT does not have any properties located outside Malaysia, with all collections, payments and borrowings denominated in Ringgit Malaysia.
- k) Staff resources risk of not being able to attract and retain capable staff are mitigated via staff engagement, annual review and training with a planned remuneration package that is in line with industry practice.

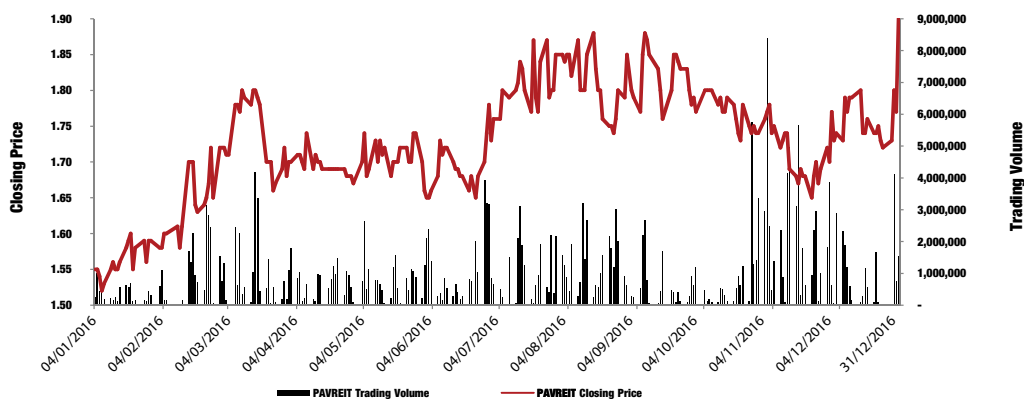
Investors Relation and Fund Management

During the year, the Manager's management team have continuously met analysts, fund managers and investors, besides attending investors' roadshows and seminars as listed below.

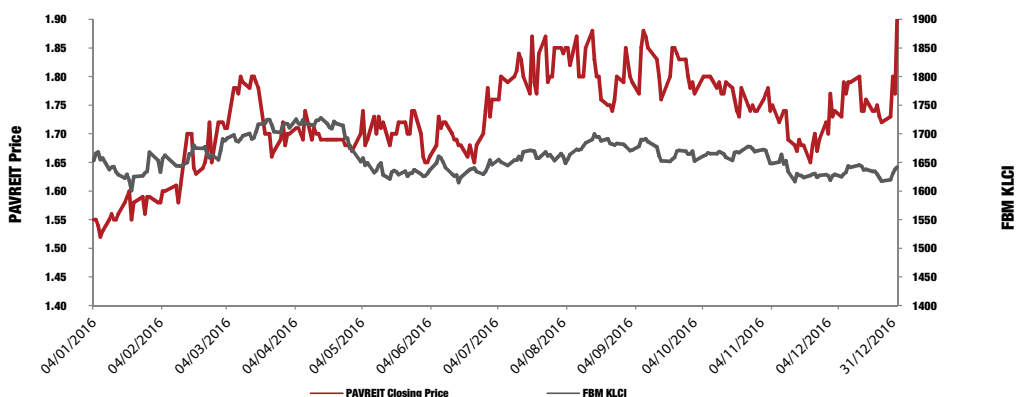
- Half yearly analyst briefing
- DBS Vickers Pulse of Asia Conference, Singapore
- Kenanga Research Retail Day
- Daiwa REIT Day, Singapore
- Citi ASEAN Investor Conference, Singapore
- Bursa "In the Spotlight"
- Citi Asia Pacific Conference, Hong Kong
- CIMB REITS Corporate Day
- JP Morgan Asia Yield 1 x 1 Forum, Tokyo
- Daiwa Annual Investment Conference, Hong Kong

Pavilion REIT's annual general meeting was held on 5 April 2016 whereby its unitholders were updated on the performance of Pavilion REIT for the financial year ended 31 December 2015.

Pavilion REIT's Monthly Trading Performance



Pavilion REIT's Unit Price Performance against FBM KLCI



Investors Relation and Fund Management (Cont'd)

Trading Summary	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Net Asset Value per Unit (RM)					
-As at 31 December	1.10	1.17	1.26	1.28	1.30
-Lowest during the year	0.95	1.12	1.15	1.24	1.25
-Highest during the year	1.10	1.17	1.26	1.28	1.30
Closing unit price (RM) as at 31 December	1.39	1.28	1.46	1.55	1.90
Highest traded price during the year (RM)	1.47	1.67	1.53	1.63	1.90
Lowest traded price during the year (RM)	1.04	1.20	1.23	1.39	1.52
Capital appreciation / (depreciation) (%) ¹	27.52	(7.91)	14.06	6.16	22.58
Annual total return (%) ²	32.46	(2.16)	19.51	11.47	26.92
Average total return over 3 years (%)	-	20.02	16.60	9.61	19.30
Average total return over 5 years (%)	-	-	-	-	17.64
Units in circulation ('000)	3,004,115	3,009,684	3,013,819	3,017,842	3,022,525
Market capitalisation (RM'000)	4,175,719	3,852,396	4,400,177	4,677,655	5,742,798

¹ Capital appreciation is calculated based on the difference between opening and closing price for the relevant financial year.

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

Portfolio Details

Overview

Business Review

Corporate Governance Report And Financial Statements

Others

(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	9 years
Title	HS(D) 120091, PT 80 Sekysen 63, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan KL
Encumbrances	Private caveats have been lodged in favour of MTrustee Berhad and Alliance Investment Bank Berhad
Tenure	99-year lease expiring on 26 October 2109
Gross Floor Area	2,250,684 square feet
Net Lettable Area	1,341,247 square feet
Number of Car Park Bays	2,401
Occupancy Rate as at 31 December 2016	95.8%
Date of Acquisition	7 December 2011
Acquisition Price	RM3,190 million
Appraised Value	RM4,450 million
Date of Latest Valuation	31 December 2016
Independent Valuer	C H Williams Talhar & Wong Sdn Bhd
Capitalisation Rate – Reversionary	6.50%
Gross Revenue	RM399 million
Net Property Income	RM284 million
Ten Largest Tenants	Coach, Food Republic, Forever 21, GSC, Hermes, Mercato, Padini, Parkson, Royal Selangor, Zara

Tenancy Expiry Profile

Period	% of Occupied NLA	% of Gross Rental
Monthly	6	2
FY2017	23	26
FY2018	13	16
FY2019	58	56
Total	100	100

Portfolio Details (Cont'd)

Overview

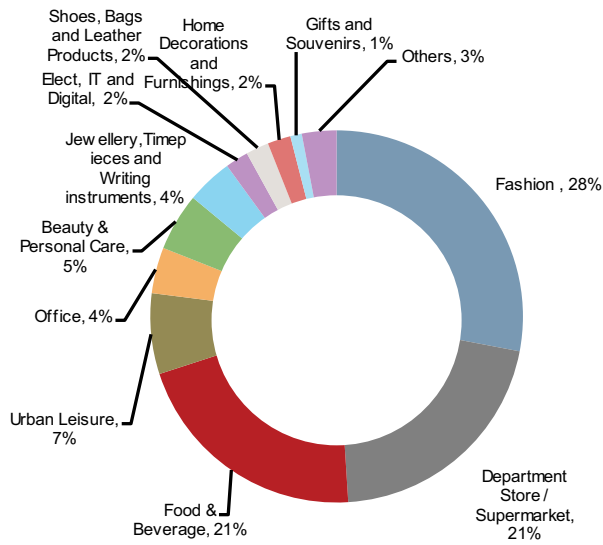
Business Review

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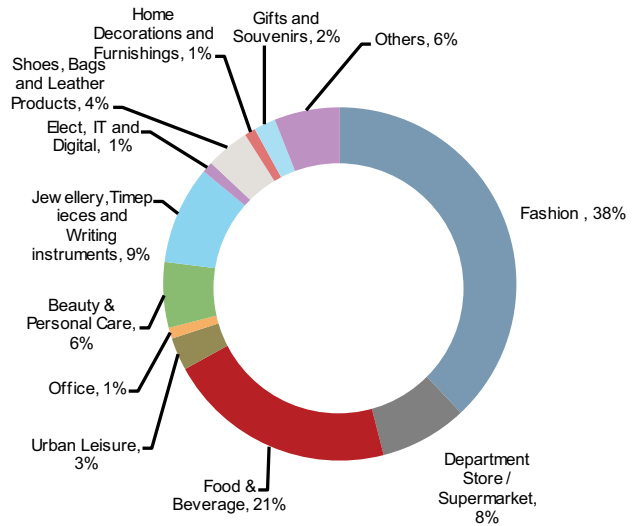
Others

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



Portfolio Details (Cont'd)

Intermark Mall	
Address	348 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Description	6-storey retail podium with a roof pavilion together with 367 designated car parking bays
Year of Completion	Refurbished in 2012
Age of Building	4 years
Title	Geran 75638/M1/B3/2, Parcel No 2, Storey No B3, Building No M1 on part of parent Lot 20000 Seksyen 43, Bandar Kuala Lumpur, Negeri Wilayah Persekutuan
Encumbrances	Nil
Tenure	Interest in perpetuity
Gross Floor Area	337,427 square feet
Net Lettable Area	224,482 square feet
Number of Car Park Bays	367
Occupancy Rate as at 31 December 2016	76.5%
Date of Acquisition	25 March 2016
Acquisition Price	RM160 million
Appraised Value	RM163 million
Date of Latest Valuation	31 December 2016
Independent Valuer	Knight Frank Malaysia Sdn Bhd
Capitalisation Rate – Reversionary	6.50%
Gross Revenue	RM16 million
Net Property Income	RM6 million
Ten Largest Tenants	Beast Plan B Roaster, Hanare, In Colonial, Jaya Grocer, Juan Valdez Café, Red Lobster, Onsemiro, Savini, Space Furniture, SportsDirect.com

Tenancy Expiry Profile

Period	% of Occupied NLA	% of Gross Rental
Monthly	0	1
FY2017	33	38
FY2018	22	27
FY2019	45	34
Total	100	100

Portfolio Details (Cont'd)

Overview

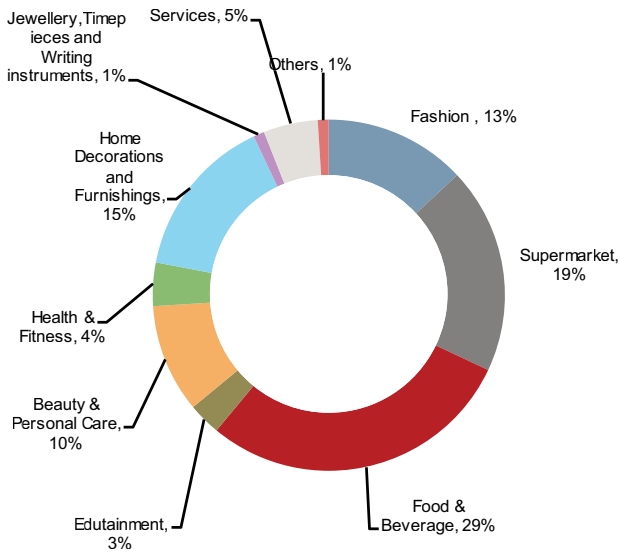
Business Review

Corporate Governance Report And Financial Statements

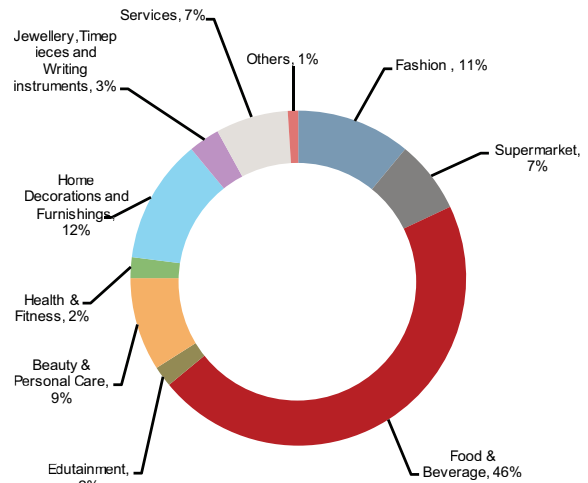
Others

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



Portfolio Details (Cont'd)

DA MEN Mall

Address	Da:men USJ 1, Persiaran Kewajipan, USJ 1, 47600 Subang Jaya, Selangor Darul Ehsan
Description	Five storey retail mall together with a lower ground floor and two levels of basement car parks
Year of Completion	2015
Age of Building	1 year
Title	Master Title No. Geran 320023, Pekan Subang Jaya, District of Petaling, Selangor Darul Ehsan
Encumbrances	Charged to United Overseas Bank (Malaysia) Bhd Private caveats have been lodged in favour of MTrustee Berhad and Public Bank Berhad
Tenure	Interest in perpetuity
Gross Floor Area	705,128 square feet
Net Lettable Area	431,198 square feet
Number of Car Park Bays	1,638
Occupancy Rate as at 31 December 2016	87.0%
Date of Acquisition	25 March 2016
Acquisition Price	RM487 million
Appraised Value	RM483 million
Date of Latest Valuation	31 December 2016
Independent Valuer	Knight Frank Malaysia Sdn Bhd
Capitalisation Rate – Reversionary	6.50 %
Gross Revenue	RM32 million
Net Property Income	RM16 million
Top Ten Tenants	Grand Harbour Restaurant, House of Teak, Jaya Grocer, Kutsu Kutsu, OFO, Pasar Bella, SHP Gallery, The Blues, The Canteen, YFS Concept Store

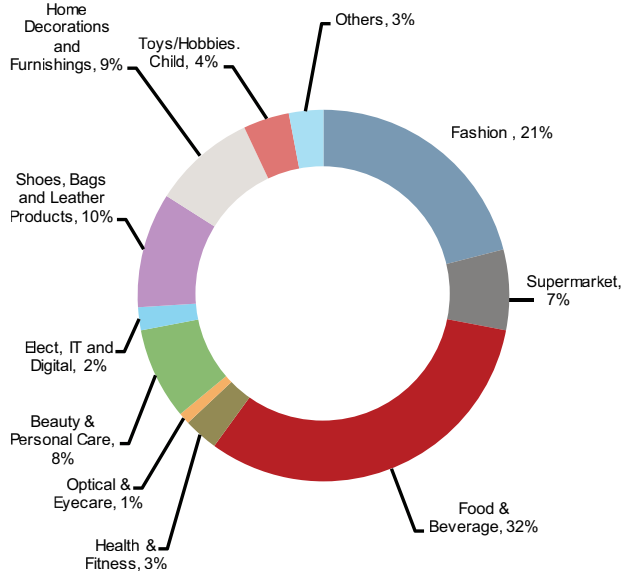
Tenancy Expiry Profile

Period	% of Occupied NLA	% of Gross Rental
Monthly	0	0
FY2017	24	40
FY2018	52	46
FY2019	24	14
Total	100	100

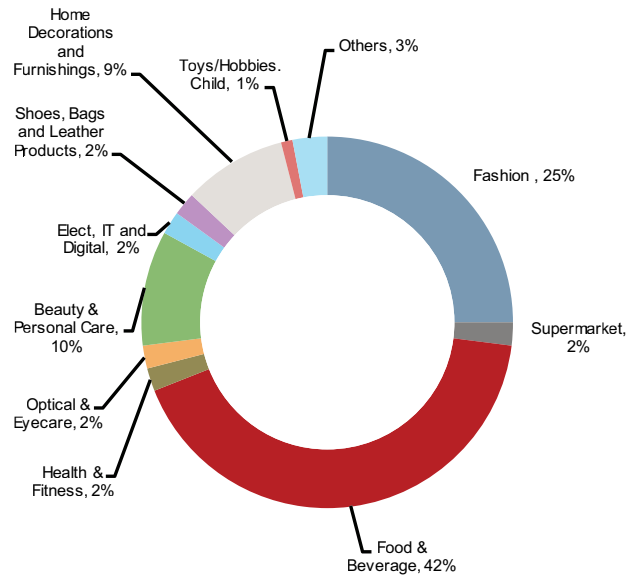
Portfolio Details (Cont'd)

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental



Portfolio Details (Cont'd)

(B) Office

Pavilion Tower

Address	75 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia
Description	20-storey office building together with 6 mechanical / electrical levels
Year of Completion	2007
Age of Building	9 years
Title	HS(D) 120091, PT 80 Sekysen 63, Town and District of Kuala Lumpur, Negeri Wilayah Persekutuan KL
Encumbrances	Private caveats have been lodged in favour of MTrustee Berhad and Alliance Investment Bank Berhad
Tenure	99-year lease expiring on 26 October 2109
Gross Floor Area	243,288 square feet
Net Lettable Area	165,071 square feet
Occupancy Rate as at 31 December 2016	94.0%
Date of Acquisition	7 December 2011
Acquisition Price	RM123 million
Appraised Value	RM133 million
Date of Latest Valuation	31 December 2016
Independent Valuer	C H Williams Talhar & Wong Sdn Bhd
Capitalisation Rate – Reversionary	6.50%
Gross Revenue	RM13 million
Net Property Income	RM9 million
Top Ten Tenants	Clever Eagle Sdn Bhd, Crabtree & Evelyn (Malaysia) Sdn Bhd, Impian Ekspresi Sdn Bhd, Khuan Choo Development Sdn Bhd, KL Pavilion Design Studio Sdn Bhd, KL Metro Sdn Bhd, MRails Tram (Melaka) Sdn Bhd, Pan-Asia Property Management Sdn Bhd, Pioneer Haven Sdn Bhd, Urusharta Cemerlang (KL) Sdn Bhd

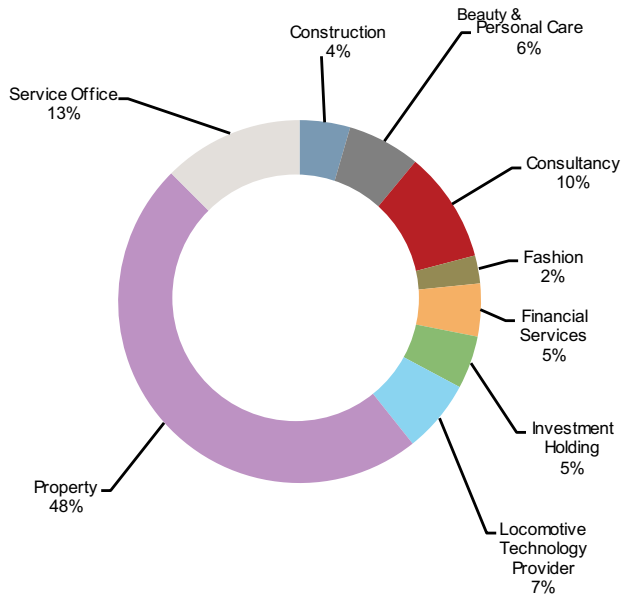
Tenancy Expiry Profile

Period	% of Occupied NLA	% of Gross Rental
Monthly	6	6
FY2017	52	52
FY2018	30	30
FY2019	12	12
Total	100	100

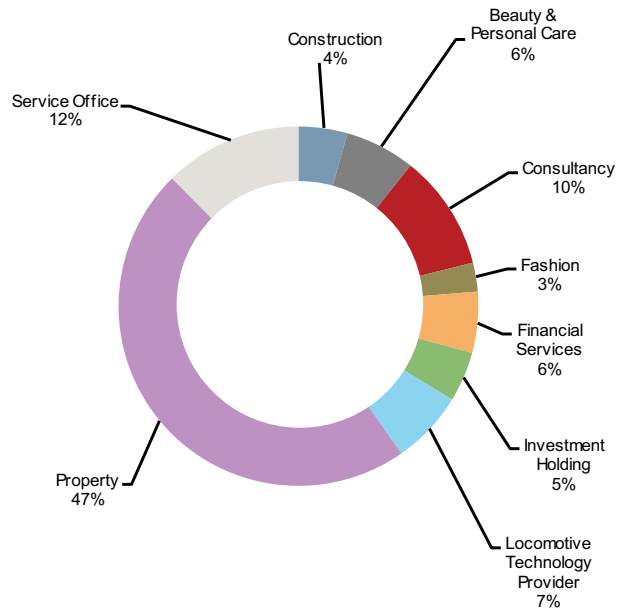
Portfolio Details (Cont'd)

Trade Sector Analysis

Trade Sector Analysis based on Net Lettable Area



Trade Sector Analysis based on Gross Rental





Corporate & Sustainability Report

Pavilion REIT has always recognised the importance of sustainability actions to ensure the future generation needs will be met without compromising current needs. Pending formalization of detailed sustainability matrix such as governance structure, work scope, materiality matrix, quantitative measurements etc, sustainability initiatives are currently led by the CEO, who reports directly to the Board. With priority to energy and waste management, prior years' green initiatives implemented included installation of car parking guidance system, automation of toilet facilities, audit of air conditioning to reduce energy cost and progressive upgrade of lighting to LED.

Economic

Pavilion REIT encourages fair play and does not approve of monopoly among vendors. Vendors should give fair wages according to industry practice and conditions with compliance of relevant laws and practises in Malaysia, adherence to safety requirements at all times, priority to local employment as well as usage of local products without use of child labour in the services they render.

With community campaigns becoming a big part of the mall culture, Pavilion REIT malls will continue in its effort to collaborate with non-governmental and charity organisations as well as colleges / universities to promote various causes and create awareness besides celebrating annual cultural diversity such as Chinese New Year, Hari Raya, Deepavali, Christmas and Breast Cancer Awareness month. Some notable campaigns held were as follows :-

Pavilion Kuala Lumpur Mall

- ▲ Chinese New Year **'Charity at Heart'** was a partnership with A Piece of Hope to raise funds for 9 children's homes and 8 old folks homes via sale of 'Three Wise Monkeys' collection sets which were painted by volunteers from the charity homes, Pavilion KL staff and Pavilion Junior members.
- ▲ This year's Earth Day theme of **'Play Green'** of reducing, reusing and recycling were made more fun by activities such as cycling on a bike to blend own fruit juice, recycling unwanted bottles for free gift and ways to use handkerchiefs as fashion accessories.
- ▲ Hari Raya **#SyukurSelalu** was a partnership with Media Prima to raise funds and create awareness for Rumah Anak Yatim Baitul Fitrah and Rumah Bakti Nur Syaheera via purchasing items or donation via 'Tabung Bersamamu'.
- ▲ **2016 Bursa Bull Charge** participation on 8 September 2016 aims to create an economic sustainability among disadvantaged communities, support for entrepreneurs and improvement of financial literacy.
- ▲ **Fit Fund & Fabulous** theme of National Sports Day in October 2016 was lined up with action packed activities and interactive challenges to create awareness of healthy living.
- ▲ Besides the annual **Christmas** contribution to the mall's **Charity at Heart** pledges to charity homes, this year's contribution was mainly from the World's First Swarovski Crystallized Merry Go Round which were decorated with 3 million Swarovski crystals and the Fantasy Train. At the same time, Pavilion KL also hosted graduates of Limkokwing University of Creative Technology to showcase their fashion collections and designs to enable the students interact in a natural environment to prepare them for the working world.

Corporate & Sustainability Report (Cont'd)

Intermark Mall

- ▲ **Raffles Students Graduate Exhibition** was held as a platform to create exposure for young graduates and generate support to local fashions, arts and designs industry.
- ▲ **'Pneumococcal Awareness'** was held in November 2016 in partnership with Pfizer, to raise awareness of the disease and its charitable organization, Yayasan Chow Kit via sale of exclusive collections of soft toys and baby clothing.

DA MEN Mall

- ▲ Besides hosting orphanages Pusat Jagaan Baitul Hidayah and Persatuan Rumah KIDS for dinner, DA MEN Mall also supported the **'Ketuk-Ketuk Singgah Sahur'** event together with Majlis Perbandaran Subang Jaya, to bring joy to the less fortunate during the Hari Raya season.
- ▲ In July 2016, Single Mothers Association showcased and sold their handmade products which were customized for different occasions with chance to supplement their income in the **'Handmade Market'** with the mall supporting Ramsey Sime Darby Healthcare College via **'Pink March of Hope'** walk in October to raise awareness of breast cancer.
- ▲ Children had displayed their singing talent in the mall via Astro XTY Grand Audition held in June, with INTI College Art & Design faculty students displaying their record breaking 'The Longest Doodle Art in Subang USJ' in November and Super Education held their prize giving ceremony in the mall in July to reward students that had completed their education with flying colours.

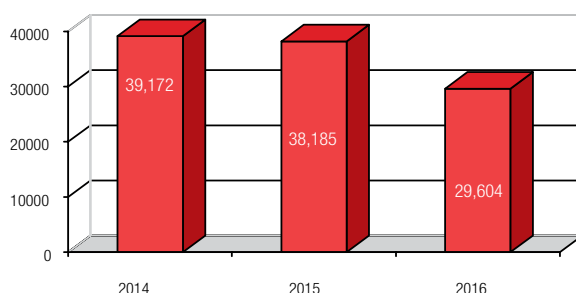
Environment

Some of the green initiatives implemented may not be easily quantifiable or seen to be beneficial due to changes in tenant mix, tenant occupancy level, number of patrons using facilities and weather climate. Space constraint to existing assets owned may also limit some proposed initiatives such as rain water harvesting that requires space to house storage facility. However, these green initiatives to reduce environmental waste has and will continue to be implemented by creative recycling of annual festival ornaments, reduction in paper usage by e-mailing information instead of sending by mail, installation of car park guidance system to reduce carbon monoxide emission from vehicle as well as to reduce fuel wastages in looking for car parking usage, replacement of water basin taps, WC flushing, soap and paper dispenser from manual to sensor in toilets to reduce wastages and continuous evaluation of potential automation system in order to identify areas of improvement to reduce energy cost.

Besides pest controls being regularly carried out in all of Pavilion REIT common properties to ensure hygiene standard is maintained at all times, proper hygiene & pest control inspections are also being carried out in tenants' lot.

As part of the effort to reduce deforestation and paper pollution, hand dryers have progressively been introduced into Pavilion Kuala Lumpur Mall toilets.

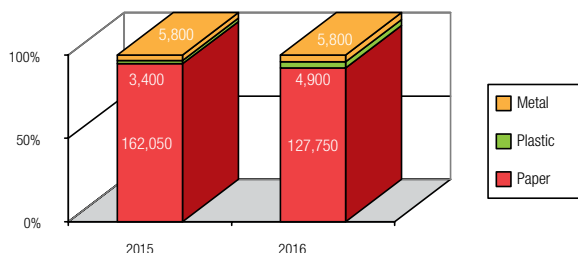
Pavilion Kuala Lumpur Mall : Usage of Recycle Hand Towels (Rolls)



Corporate & Sustainability Report (Cont'd)

Besides placement of recycling bins (per set of 3 for paper, plastic and can & bottles) at selected locations in Pavilion Kuala Lumpur Mall, the mall has been collaborating with its waste disposal vendor to sort recycle materials.

Pavilion Kuala Lumpur Mall : Recycle Materials (Kg)



For its newly acquired Intermark Mall, its high level ceiling lights have been changed from metal halide to LED in the common area of the retail mall (except for lower concourse level) to save on electricity consumption. This resulted in savings of 898 kWh per day or 327,700 kWh annually, which is currently equivalent to about RM115,000. Besides consuming less energy, LED are more durable, has longer life span, produces less heat with zero UV radiations and is eco-friendly, thus reducing maintenance cost.

Pavilion Tower's change of its common area lighting from fluorescent tube or metal halide to LED has resulted in savings of 93,000 kWh or RM33,000 per annum.

For 2017, energy conservation remains Pavilion REIT's priority. Pavilion Kuala Lumpur Mall's chiller plant will be automated to provide more accurate monitoring leading to better building occupants' comfort and efficient operation of air-conditioning system to reduce energy consumption and operating costs. Recycle air handling unit condensate water (which is created when circulated to create cool air) will also be treated and recycled to be re-used in the cooling tower. Besides intensifying recycling initiatives, Pavilion Kuala Lumpur and DA MEN Malls will also be studying food waste recycling.

Corporate & Sustainability Report (Cont'd)

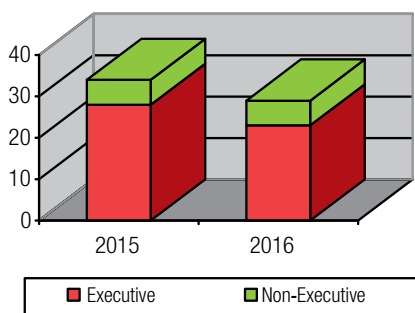
Social

As landlord of properties, Pavilion REIT has always placed safety of its guests, tenants and occupiers of its property a priority. Hencewith, besides encouraging feedback and participation in safety courses such as first aid courses, use of fire extinguishers etc, annually, all tenants are encouraged to participate in fire drills in the respective buildings to ensure its occupiers are familiar with escape routes in the event of any emergency. Besides having first aid rooms available in all its retail malls, all concierges and customer service representatives in the properties are also trained as first aider to render assistance if needed. Quarterly environmental, health and safety committee meetings are also held to look into all aspects of safety relating to workplace & the properties.

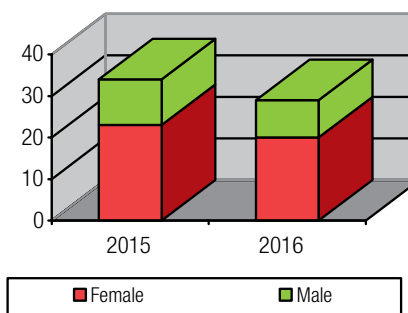
Besides providing training and having regular interaction with staff, annual appraisals are also being held to facilitate feedback. Employee development career plan is also available to enable staff to chart their job growth and development.

The Manager believes in diversity as this will allow it to tap on to the different expertise and views of staff as well as nurture potential staff for career growth and succession planning.

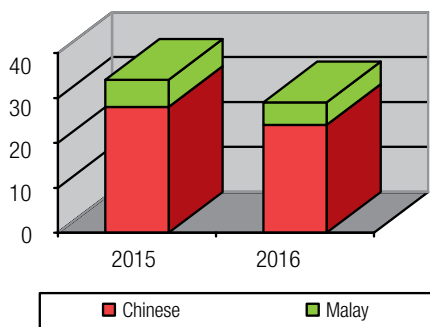
Employee Category



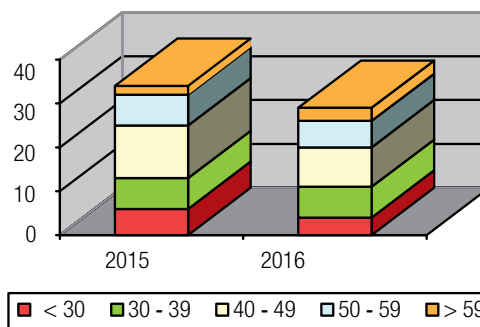
Employee Gender



Employee Ethnicity



Employee by Age Group



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.

Objective

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.

Board Guidelines and Responsibilities

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.

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

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

Guidelines for Related Party Transaction and Conflict of Interest

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.

Corporate Governance Statement (Cont'd)

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, a Nominating 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 2016 with details of attendance as stated below:

Name of Directors	Designation	Number of meetings attended
Tan Sri Lim Siew Choon	Chairman and Non-Independent Executive Director	4/4
Puan Sri Tan Kewi Yong	Non-Independent Executive Director	4/4
Dato' Lee Tuck Fook	Non-Independent Executive Director	4/4
Ahmed Ali H A Al-Hammadi *	Non-Independent Non-Executive Director	1/2
Ahmad Mohammed F Q Al-Khanji *	Non-Independent Non-Executive Director	1/2
Mohd Abdulrazzaq A A Al-Hashmi *	Non-Independent Non-Executive Director	2/2
Navid Chamdia	Non-Independent Non-Executive Director	4/4
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
Omer Abdulaziz H A Al-Marwani +	Non-Independent Non-Executive Director	1/2
Saif Mohd A M Al-Madfaa +	Non-Independent Non-Executive Director	1/2

* appointed as directors on 14 June 2016

+ resigned as directors on 14 June 2016

Corporate Governance Statement (Cont'd)

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:

- Invest Malaysia Conference 2016
- Malaysian Corporate Law & Case Law on Directors Power & Shareholder's Rights : Get the Balance Right
- Module 1 : Directors as Gatekeepers of Market Participants
- Module 2A : Business Challenges and Regulatory Expectations – What Directors Need to Know (Equities and Futures Broking)
- Module 2B : Business Challenges and Regulatory Expectations – What Directors Need to Know (Fund Management)
- Module 3 : Risk Oversight and Compliance – Action Plan for Board of Directors
- Module 4 : Emerging and Current Regulatory Issues in the Capital Market
- The New Auditor's Report – Sharing the UK Experience
- Top 18 Lessons We Learn – Playing Detective with Financial Statements
- 2016 National Conference – Navigate Waves on the Digital Revolution

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.

Nominating Committee Report

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

Chairperson	Dato' Maznah Binti Abdul Jalil (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)
	Mohd Abdulrazzaq A A Al-Hashmi (Non-Independent Non-Executive Director)

The main objectives of the Nominating 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, they are assessed on their independence and abilities to discharge their responsibilities and functions.

The Board has not specified any gender policies in its evaluation of candidacy as the focus is on skills, experience, competence and integrity. However, the evaluation will be reviewed and revised from time to time to meet the needs of the Manager.

During the financial year ended 31 December 2016, the Nominating Committee have carried out the following activities:-

- (i) Reviewed the terms of reference of the Nominating Committee;
- (ii) Assessed the performance of the Board and Board Committees;
- (iii) Reviewed the contribution of each of the Directors;
- (iv) Reviewed the independence of the Independent Non-Executive Directors;
- (v) Reviewed the term of office, performance of Audit Committee and each of its members;
- (vi) Assessed and recommended those Directors retiring be nominated for re-election/re-appointment having regard to the individual's experience, contributions and performance.

The Nominating Committee is satisfied with the performance of the Board, Board Committees and contribution of each of the Directors. The Independent Non-Executive Directors have maintained their independence.

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

Audit Committee Report

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

Name of Directors	Designation	Number of meetings attended
Dato' Mohzani bin Abdul Wahab (Chairman)	Independent Non-Executive Director	4/4
Dato' Maznah binti Abdul Jalil	Independent Non-Executive Director	4/4
Dato' Choo Chuo Siong	Independent Non-Executive Director	4/4
Navid Chamdia *	Non-Independent Non-Executive Director	1/2
Omer Abdulaziz H A Al-Marwani +	Non-Independent Non-Executive Director	1/2

* appointed as audit committee member on 28 June 2016

+ ceased as audit committee member on 14 June 2016 due to resignation as director

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

- (a) reviewed and deliberated with the Manager's management the quarterly financial results to recommend to the Board for approval and release to Bursa Malaysia. Consideration was given by Audit Committee to understand financial results of each properties with close attention given to update under "Prospects"
- (b) reviewed list of related party transactions every quarter to determine whether there has been any material change as compared to the previous quarter and whether the transactions have been established under normal commercial terms that are no less favourable than those arranged with independent parties
- (c) reviewed the internal control plan prepared by BDO Governance Advisory Sdn Bhd ("BDO") and its availability of staff
- (d) On 28 July 2016, a meeting was held by Audit Committee with BDO to assess the internal control review report prepared by them. BDO gave explanation on findings of review, proposed recommendations and corresponding Manager's responses, which were noted by the Audit Committee
- (e) reviewed audit plan with external auditor, KPMG PLT by understanding its audit methodology, significant risk areas and accounting policies / disclosures and timing. KPMG PLT were also asked of its succession planning of its key personnel leading the audit and sufficiency of resources
- (f) On 19 January 2017, the Audit Committee were briefed privately by KPMG PLT (without presence of the Manager's management) on status of its audit
- (g) reviewed and commented on the audit committee report and statement of risk management and internal control for inclusion into the annual report
- (h) evaluated the work scope, approach and fees to outsourced internal auditor and recommended for their engagement
- (i) evaluated the approach and fees of external auditor and recommended for their engagement for the following year

For the current year, BDO has been engaged to perform internal audit review for Pavilion REIT. Summary of its work undertaken during the year under review is as listed below:-

- (a) presented its work scope and timeframe covering key business processes of procurement to payment, tenancy management, acquisition and divestment of investment properties as well as fund management activities
- (b) reviewed the adequacy and test the integrity of the system of internal controls
- (c) assessed compliance with policies and procedures and recommend business practices
- (d) reviewed and identified potential areas for improvement in the effectiveness and efficiency of the process
- (e) conducted a GST review of policies and procedures and the adherence to them
- (f) performed overall compliance of GST returns with sampling check on transactions, reconciliation and accuracy / logical checks of GST entries
- (g) conducted follow up review on status of implementation of management plan pertaining to previous year internal control review
- (h) presented findings of internal audit review to Audit Committee members

Statement of Risk Management and Internal Control

The Manager realises the significance of establishing a sufficient and effective risk management and internal control system, and has attended to this under the Pavilion REIT Operation Manual approved by the Board. Such process has been in place for the past years under review, including up to the date of approval of this statement for inclusion in the annual report.

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

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

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

BDO Governance Advisory Sdn Bhd ("BDO") has been appointed as internal auditor whereby they had performed internal control review of the following areas:-

- i) Procurement to Payment of Property Operating Expenses and Property Enhancements;
- ii) Tenancy Management to Collection of Rentals;
- iii) Acquisition and Divestment of Investment Properties;
- iv) Fund Management Activities; and
- v) GST Review

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 assess 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 and
- Presenting the findings on internal control reviews to the Audit Committee

The Audit Committee has reviewed the findings presented by the internal auditor during the year. Recommendations made by the internal auditor to document procedures in accordance to good practices will be addressed and these improvement points will continuously be monitored, enhanced and reviewed.

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

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

Due to inherent restrictions, the controls which are employed are intended to cope with and are not expected to eliminate all risks of failure to achieve business objectives. Established controls can only provide realistic and not total assurance against material misstatement of management and financial information or against financial losses and fraud.

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 2016.

Audit and Non-audit fees

Audit and non-audit fees payable to the external auditor of Pavilion REIT for the financial year ended 31 December 2016 amounted to RM185,000 and RM12,000 respectively.

Soft commission

There was no soft commission received by the Manager during the financial year ended 31 December 2016.

Material litigation

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

Directors' Benefit

For the year ended 31 December 2016, 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 (Cont'd)

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 Information

Before the statement of profit or loss and other comprehensive income and statement of financial position of Pavilion REIT were made out, the Manager took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in Pavilion REIT inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of Pavilion REIT misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of Pavilion REIT misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of Pavilion REIT misleading.

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

- i) any charge on the assets of Pavilion REIT that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of Pavilion REIT that has arisen since the end of the financial year.

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

In the opinion of the Manager, the financial performance of Pavilion REIT for the financial year ended 31 December 2016 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.

Additional Information (Cont'd)

Auditor

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

For and on behalf of Pavilion REIT Management Sdn Bhd

TAN SRI LIM SIEW CHOON

Chairman

Kuala Lumpur
19 January 2017

DATO' LEE TUCK FOOK

Non-Independent Executive Director

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Statement of Financial Position

as at 31 December 2016

	Note	2016 RM'000	2015 RM'000
Assets			
Plant and equipment	4	1,958	1,360
Investment properties	5	5,229,000	4,483,000
Other non-current assets	6	–	64,800
Total non-current assets		5,230,958	4,549,160
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Inventories		1,315	1,237
Trade and other receivables	7	43,074	16,350
Cash and bank balances	8	317,071	184,006
Total current assets		361,460	201,593
Total assets		5,592,418	4,750,753
<hr/>			
Liabilities			
Borrowings	9	1,412,351	754,333
Payables and accruals	10	65,398	29,143
Total non-current liabilities		1,477,749	783,476
<hr/>			
Payables and accruals	10	193,820	115,670
Total current liability		193,820	115,670
Total liabilities		1,671,569	899,146
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Net asset value		3,920,849	3,851,607
<hr/>			
Financed by			
Unitholders' fund			
Unitholders' capital	11	2,900,708	2,893,046
Accumulated income		1,020,141	958,561
Total unitholders' fund		3,920,849	3,851,607
<hr/>			
Net asset value ("NAV")		3,920,849	3,851,607
<hr/>			
Number of units in circulation ('000 units)	11	3,022,525	3,017,842
<hr/>			
NAV per unit (RM)		1.2972	1.2763
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The notes on pages 60 to 92 are an integral part of these financial statements.

Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Rental income		388,481	352,824
Other income		71,220	61,108
Gross revenue		459,701	413,932
Utilities		(56,037)	(46,852)
Maintenance		(39,444)	(32,121)
Property taxes		(12,010)	(10,904)
Other operating expenses		(37,436)	(32,520)
Net property income		314,774	291,535
Fair value gain on investment properties		76,872	41,035
Gain on disposal of investment property		–	593
Interest income		8,715	6,211
Net investment income		400,361	339,374
Manager's management fees	12	(25,735)	(23,022)
Trustee's fees	1(c)	(460)	(400)
Valuation fee		(484)	(401)
Other trust expenses		(492)	(917)
Borrowing costs	13	(61,047)	(32,297)
Income before taxation		312,143	282,337
Tax expense	14	–	–
Income after taxation/Total comprehensive income attributable to unitholders		312,143	282,337
Income after taxation is made up as follows:			
Realised		235,271	241,302
Unrealised		76,872	41,035
		312,143	282,337
Basic/Diluted earnings per unit (sen)	15	10.33	9.36

Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2016 (Cont'd)

	Note	2016 RM'000	2015 RM'000
Total comprehensive income		312,143	282,337
Distribution adjustments	A	(63,359)	(33,452)
<hr/>			
Distributable income		248,784	248,885
<hr/>			
Distribution per unit (sen) - interim		4.16	4.09
Distribution per unit (sen) - final		4.08	4.14
<hr/>			
Note A			
Distribution adjustments comprise:			
Amortisation of transaction costs		3,096	1,216
Depreciation		656	611
Fair value gain of investment properties		(76,872)	(41,035)
Manager's management fees payable in units	12	9,761	5,756
<hr/>			
		(63,359)	(33,452)
<hr/>			

The notes on pages 60 to 92 are an integral part of these financial statements.

Statement of Changes in Net Asset Value

for the year ended 31 December 2016

	Note	Unitholders' capital RM'000	Accumulated income/ (deficit) RM'000	Total funds RM'000
At 1 January 2015		2,887,271	923,745	3,811,016
Income after taxation/Total comprehensive income for the year attributable to unitholders		–	282,337	282,337
Unitholders' transactions				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		5,775	–	5,775
Distribution to unitholders	16	–	(247,521)	(247,521)
Increase/(Decrease) in net assets resulting from unitholders' transactions		5,775	(247,521)	(241,746)
Net assets at 31 December 2015/ 1 January 2016		2,893,046	958,561	3,851,607
Income after taxation/Total comprehensive income for the year attributable to unitholders		–	312,143	312,143
Unitholders' transactions				
<i>Contributions by and distributions to unitholders</i>				
Issue of new units		7,662	–	7,662
Distribution to unitholders	16	–	(250,563)	(250,563)
Increase/(Decrease) in net assets resulting from unitholders' transactions		7,662	(250,563)	(242,901)
Net assets at 31 December 2016		2,900,708	1,020,141	3,920,849

Note 11

The notes on pages 60 to 92 are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Cash flows from operating activities			
Income before taxation		312,143	282,337
<i>Adjustments for:</i>			
Borrowing costs	13	61,047	32,297
Depreciation	4	656	611
Fair value gain on investment properties		(76,872)	(41,035)
Gain on disposal of investment property		–	(593)
(Reversal of)/Impairment loss on trade receivables		(184)	982
Interest income		(8,715)	(6,211)
Loss on disposal of plant and equipment		18	–
Plant and equipment written off		3	16
Operating income before changes in working capital		288,096	268,404
Changes in inventories		(78)	(9)
Changes in receivables		(26,540)	(9,004)
Changes in payables		40,747	14,538
Changes in tenants' deposits		20,464	4,443
Net cash from operating activities		322,689	278,372
Cash flows from investing activities			
Acquisition of investment properties		(529,051)	–
Deposit for acquisition of investment properties		–	(64,800)
Interest received		8,715	6,211
Payment for enhancement of investment properties		(14,421)	(13,051)
Pledged deposit		(20,442)	(615)
Proceeds from disposal of investment property		–	4,896
Proceeds from disposal of plant and equipment		1	–
Purchase of plant and equipment		(1,276)	(152)
Net cash used in investing activities		(556,474)	(67,511)
Cash flows from financing activities			
Distribution to unitholders		(250,563)	(247,521)
Interest paid		(57,951)	(31,081)
Payment of financing expenses		(11,665)	(8)
Proceed from borrowings		766,587	45,600
Repayment of borrowings		(100,000)	–
Net cash from/(used in) financing activities		346,408	(233,010)
Net increase/(decrease) in cash and cash equivalents		112,623	(22,149)
Cash and cash equivalents at 1 January		164,730	186,879
Cash and cash equivalents at 31 December	(i)	277,353	164,730

Statement of Cash Flows

for the year ended 31 December 2016 (Cont'd)

(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	2016 RM'000	2015 RM'000
Cash and bank balances	8	18,938	4,738
Deposits placed with licensed banks	8	298,133	179,268
<hr/>			
Less: Pledged deposits	8	317,071 (39,718)	184,006 (19,276)
<hr/>			
		277,353	164,730
<hr/>			

The notes on pages 60 to 92 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 MTrustee Berhad (formerly known as 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 Goldstone
(Holiday Inn Express)
No.84, Jalan Raja Chulan
50200 Kuala Lumpur

Principal place of business

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

The financial statements as at and for the financial year ended 31 December 2016 comprise the Pavilion REIT and its wholly-owned special purpose companies, Pavilion REIT Venture Capital Sdn. Bhd. and Pavilion REIT Bond Capital Berhad, companies incorporated in Malaysia, of which the principal activity are to raise financing for and on behalf of Pavilion REIT.

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

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

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

(a) Property management fees

The Property Manager, Henry Butcher Malaysia Sdn. Bhd., is entitled to property management fee of RM380,000 (2015: RM360,000) per annum (excluding goods and services tax). In addition, the Property Manager is also entitled to full reimbursement of costs and expenses incurred in the operation, maintenance, management and marketing of the properties held by Pavilion REIT (including but not limited to the cost relating to the employment and remuneration of on-site staff provided) ("Permitted Expenses") as well as fees and reimbursements for Permitted Expenses payable to its service providers.

(b) Manager's management fees

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

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

Notes to the Financial Statements (Cont'd)

1. General (continued)

(b) Manager's management fees (continued)

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

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

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

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

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

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

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

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.

(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 RM460,000 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 19 January 2017.

Notes to the Financial Statements (Cont'd)

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 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment properties – Transfers of Investment Property*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 1, 2, 4, 128 and IC Interpretation 22 which are not applicable to Pavilion REIT.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

Notes to the Financial Statements (Cont'd)

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of Pavilion REIT except as mentioned below:

(i) MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

Pavilion REIT is currently assessing the financial impact that may arise from the adoption of MFRS 15.

(ii) MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

Pavilion REIT is currently assessing the financial impact that may arise from the adoption of MFRS 9.

(iii) MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Pavilion REIT is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 5 – investment properties and Note 9 – borrowings.

Notes to the Financial Statements (Cont'd)

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 controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive.

Pavilion REIT also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Pavilion REIT's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(ii) Business combinations

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

For new acquisitions, Pavilion REIT measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

(iii) Loss of control

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

Notes to the Financial Statements (Cont'd)

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 control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount 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, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Plant and equipment

(i) Recognition and measurement

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

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

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.

Notes to the Financial Statements (Cont'd)

3. Significant accounting policies (continued)

(c) Plant and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

(d) Investment property

Investment property carried at fair value

Investment properties are properties which are owned or 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.

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

Notes to the Financial Statements (Cont'd)

3. Significant accounting policies (continued)

(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.

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

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

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

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

Notes to the Financial Statements (Cont'd)

3. Significant accounting policies (continued)

(i) Borrowing costs

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

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

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

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

(j) Equity instruments

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

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

(k) Revenue and other income

(i) Rental income

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

(ii) Interest income

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

(iii) Other income

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

(l) Expenses

(i) Property expenses

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

Property management fees are recognised on an accrual basis.

(ii) Manager's management fees

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

(iii) Trustee's fees

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

Notes to the Financial Statements (Cont'd)

3. Significant accounting policies (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.

(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. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Manager of Pavilion REIT, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete segmental financial information is available.

(p) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

Notes to the Financial Statements (Cont'd)

3. Significant accounting policies (continued)

(p) Fair value measurement (continued)

When measuring the fair value of an asset or a liability, Pavilion REIT uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that Pavilion REIT can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

Pavilion REIT recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

4. Plant and equipment

	Furniture and fittings RM'000	IT equipment and software RM'000	Motor vehicles RM'000	Renovation RM'000	Tools and office equipment RM'000	Total RM'000
Cost						
At 1 January 2015	1,279	503	22	–	2,103	3,907
Disposal	–	85	–	–	67	152
Write off	(10)	–	–	–	(24)	(34)
At 31 December 2015/ 1 January 2016	1,269	588	22	–	2,146	4,025
Addition	214	369	–	415	278	1,276
Disposal	(12)	–	–	–	(87)	(99)
Write off	(2)	(7)	–	–	(9)	(18)
At 31 December 2016	1,469	950	22	415	2,328	5,184
Accumulated depreciation						
At 1 January 2015	390	437	6	–	1,239	2,072
Depreciation for the year	128	53	4	–	426	611
Write off	(4)	–	–	–	(14)	(18)
At 31 December 2015/ 1 January 2016	514	490	10	–	1,651	2,665
Depreciation for the year	136	106	4	4	406	656
Disposal	(5)	–	–	–	(75)	(80)
Write off	(1)	(7)	–	–	(7)	(15)
At 31 December 2016	644	589	14	4	1,975	3,226
Carrying amounts						
At 1 January 2015	889	66	16	–	864	1,835
At 31 December 2015/ 1 January 2016	755	98	12	–	495	1,360
At 31 December 2016	825	361	8	411	353	1,958

Notes to the Financial Statements (Cont'd)

5. Investment properties

	2016 RM'000	2015 RM'000
At 1 January	4,483,000	4,433,000
Enhancements/Capital expenditure	14,421	13,051
Addition to investment properties	654,707	–
Disposal of investment property	–	(4,086)
Change in fair values recognised in profit or loss	76,872	41,035
At 31 December	5,229,000	4,483,000

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

Addition to investment properties included acquisition fee paid to the Manager based on 1.0% (2015: nil) of purchase consideration for DA MEN Mall and Intermark Mall.

There was no divestment fee paid to the Manager relating to disposal of investment property in 2016 (2015: 0.5% of transaction value).

Details of the investment properties are as follows:

	Date of acquisition	Date of valuation	Location	Tenure	Occupancy rates as at 31.12.2016 %	Fair value as at 31.12.2016 RM'000	Cost as at 31.12.2016 RM'000	Percentage of fair value to NAV as at 31.12.2016 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2016	Kuala Lumpur	Leasehold*	96	4,450,000	3,498,583 #	113
Pavilion Tower	7.12.2011	31.12.2016	Kuala Lumpur	Leasehold*	94	133,000	128,000	3
DA MEN Mall	25.3.2016	31.12.2016	Subang Jaya	Interest in perpetuity	87	483,000	495,160 #	12
Intermark Mall	25.3.2016	31.12.2016	Kuala Lumpur	Interest in perpetuity	76	163,000	162,555 #	4
Investment properties						5,229,000	4,284,298	

	Date of acquisition	Date of valuation	Location	Tenure	Occupancy rates as at 31.12.2015 %	Fair value as at 31.12.2015 RM'000	Cost as at 31.12.2015 RM'000	Percentage of fair value to NAV as at 31.12.2015 %
Pavilion Kuala Lumpur Mall	7.12.2011	31.12.2015	Kuala Lumpur	Leasehold*	99	4,350,000	3,487,171	113
Pavilion Tower	7.12.2011	31.12.2015	Kuala Lumpur	Leasehold*	98	133,000	128,000	3
Investment properties						4,483,000	3,615,171	

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

Included enhancements made during the year.

Notes to the Financial Statements (Cont'd)

5. Investment properties (continued)

5.1 Fair value information

Fair value of investment properties are categorised as follows:

	2016 Level 3 RM'000	2015 Level 3 RM'000
Pavilion Kuala Lumpur Mall	4,450,000	4,350,000
Pavilion Tower	133,000	133,000
DA MEN Mall	483,000	–
Intermark Mall	163,000	–
	5,229,000	4,483,000

Level 3 fair value

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

	2016 RM'000	2015 RM'000
At 1 January	4,483,000	4,433,000
Acquisition of investment properties	654,707	–
Additions	14,421	13,051
Disposal	–	(4,086)
Gains and losses recognised in profit or loss		
Fair value gain on investment properties		
- unrealised	76,872	41,035
At 31 December	5,229,000	4,483,000

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

Description of valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
<p>The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.</p>	<ul style="list-style-type: none"> • Risk-adjusted capitalisation rates ranging from 5.50% to 6.70% (2015: 6.25% to 6.75%) for Pavilion Kuala Lumpur Mall and Pavilion Tower and 6.25% to 6.75% for Intermark Mall and DA MEN Mall. • Risk-adjusted discount rate of 6.00% (2015: 6.50%) for Pavilion Kuala Lumpur Mall and Pavilion Tower and 6.50% for Intermark Mall and DA MEN Mall. 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • risk-adjusted capitalisation rates were lower (higher). • risk-adjusted discount rates were lower (higher).

Notes to the Financial Statements (Cont'd)

5. Investment properties (continued)

5.1 Fair value information (continued)

Level 3 fair value (continued)

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

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

The land title in respect of the Intermark Mall had been transferred in favour of the Trustee on 25 April 2016.

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 three retail malls and an office building. The properties on their own is the highest and best use, as two of the retail malls are on prime land in the city centre. The other retail mall is within a mix development which consist of residential and shop office. The office building 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. Other non-current assets

In prior year, included in other non-current assets were deposits placed for the proposed acquisition of DA MEN Mall and Intermark Mall. The acquisition of these malls were completed during the year.

7. Trade and other receivables

	2016 RM'000	2015 RM'000
Current Trade		
Trade receivables	32,501	12,133
Less: Impairment losses	(2,864)	(3,048)
	29,637	9,085
Non-trade		
Other receivables	8,909	6,191
Deposits	1,140	744
Prepayments	3,388	330
	13,437	7,265
	43,074	16,350
	43,074	16,350

Notes to the Financial Statements (Cont'd)

8. Cash and bank balances

	2016 RM'000	2015 RM'000
Cash and bank balances	18,938	4,738
Deposits placed with licensed banks	298,133	179,268
	317,071	184,006

Included in the deposits placed with licensed banks is an amount of RM39,718,000 (2015: RM19,276,000) which is maintained in Debt Service Reserve Accounts with licensed banks to cover a minimum of six months interest for banking facilities granted to Pavilion REIT (Note 9).

9. Borrowings

	Note	2016 RM'000	2015 RM'000
Non-current			
Secured syndicated term loan	9.1	705,900	755,301
Secured term loan	9.2	415,988	–
Unrated medium term notes	9.3	300,000	–
Less: Unamortised transaction costs		(9,537)	(968)
		1,412,351	754,333

9.1 Secured syndicated credit facilities of RM815.9 million

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

- (i) RTL1 - a revolving term loan ("RTL") facility of up to RM705.9 million to part finance the acquisition of investment properties and future acquisitions by Pavilion REIT. The loan bears 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 till 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 ("BG") of up to RM10.0 million for the issuance of performance bonds, bank guarantees, indemnities or undertakings and a revolving term loan facility for the conversion of any amounts paid out under the performance bonds, bank guarantees, indemnities or undertakings issued under bank guarantee bearing a floating interest rate at the Lender's cost of funds plus a margin of 1.0% to 1.1% per annum.

The tenure of the syndicated credit facilities had been extended to another five years from 7 December 2016 up to a maturity date of 7 December 2021 with the revision in interest rate of RTL1 from 4.35% per annum to the rate of 0.9% per annum above the Lenders' cost of funds. The Lenders have the option to convert RTL1 to a fixed interest rate at their sole discretion and subject to the consent of all Lenders.

The revolving credit borrowings are secured over Pavilion Kuala Lumpur Mall and Pavilion Tower as disclosed in Note 5 with a fair value of RM4,583,000,000 (2015: RM4,483,000,000) and an amount of RM19,893,000 (2015: RM19,276,000) maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.

Notes to the Financial Statements (Cont'd)

9. Borrowings (continued)

9.2 Secured term loan facilities of RM486.8 million

Pavilion REIT entered into a facility agreement and its supplementary letter of offer dated 22 March 2016 and 23 March 2016 respectively through its Trustee ("Borrower") for credit facilities of up to RM486.8 million with licensed bank (the "Bank") comprising term loan, revolving credit facilities and bank guarantee as follows:

- (i) TL - a term loan ("TL") facility of RM461.8 million to part finance the purchase consideration for the acquisition of the DA MEN Mall with an interest rate per annum which is the aggregate of 0.83% plus the Bank's cost of funds;
- (ii) RC - a revolving credit ("RC") facility of up to RM25.0 million to part finance its working capital requirements with an interest rate per annum which is the aggregate of 1.0% plus the Bank's cost of funds; and
- (iii) BG - a bank guarantee facility of up to the maximum aggregate principal amount of RM3.0 million subject always to the RC/BG combined limit for the issuance of performance and financial guarantee in respect of the DA MEN Mall.

The secured term loan facilities are secured over DA MEN Mall as disclosed in Note 5 with a fair value of RM483,000,000 and an amount of RM12,284,000 maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.

9.3 Medium term notes of RM8.0 billion

On 24 June 2015, the Securities Commission Malaysia had approved and authorised the establishment of a proposed medium term notes ("MTNs") programme of RM8.0 billion in nominal value ("MTN Programme") to be undertaken by Pavilion REIT Bond Capital Berhad ("Issuer"), a company wholly owned by Pavilion REIT. The MTN Programme shall have a tenure of twenty years from the date of the first issuance of MTNs under the MTN Programme. An issuance of MTNs under the MTN Programme may either be rated or unrated, as the Issuer may decide.

As at the date of the financial statements, RM300.0 million of MTNs have been issued with a fixed coupon rate of 4.85% per annum.

The medium term notes are secured over Pavilion Kuala Lumpur Mall and Pavilion Tower as disclosed in Note 5 with a fair value of RM4,583,000,000 (2015: RM4,483,000,000) and an amount of RM7,541,000 maintained in Debt Service Reserve Accounts with licensed banks as disclosed in Note 8.

10. Payables and accruals

	Note	2016 RM'000	2015 RM'000
Non-current Trade			
Tenants' deposits	10.1	65,398	29,143
Current Trade			
Trade payables		22,272	17,512
Tenants' deposits	10.1	48,996	64,787
		71,268	82,299
Non-trade			
Other payables and accrued expenses	10.2	122,552	33,371
		193,820	115,670
		259,218	144,813

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

Notes to the Financial Statements (Cont'd)

10. Payables and accruals (continued)

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

	2016 RM'000	2015 RM'000
The Manager	8,880	7,862
Trustee	83	34
Equine Park Country Resort Sdn. Bhd.	60,856	–
	<hr/> 69,819	<hr/> 7,896

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

Amount due to Equine Park Country Resort Sdn. Bhd. ("Vendor") is the balance of purchase price for the acquisition of DA MEN Mall and it is interest free. It is payable by instalments upon the expiry of the Defects Liability Period and the delivery of the strata titles by the Vendor of the aforesaid property.

11. Total unitholders' funds

11.1 Unitholders' capital

	2016 Number of units '000	2015 Number of units '000
Approved fund size:		
At 31 December	3,100,000	3,100,000
Issued and fully paid up:		
At 1 January	3,017,842	3,013,819
Manager's management fees paid in units	4,683	4,023
At 31 December	<hr/> 3,022,525	<hr/> 3,017,842
	2016 RM'000	2015 RM'000
At 1 January	2,893,046	2,887,271
Manager's management fees paid in units	7,662	5,775
At 31 December	<hr/> 2,900,708	<hr/> 2,893,046

Notes to the Financial Statements (Cont'd)

11. Total unitholders' funds (continued)

11.2 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
2016		
Issued at RM1.4970 per unit for entitlement for the 6 months ended 31 December 2015	1,963	2,939
Issued at RM1.7503 per unit for entitlement for the 6 months ended 30 June 2016	1,774	3,106
Issued at RM1.7102 and RM1.5446 per unit for entitlement to acquisition and disposal fee	946	1,617
Total Manager's fees paid in units	4,683	7,662
2015		
Issued at RM1.4007 per unit for entitlement for the 6 months ended 31 December 2014	2,112	2,958
Issued at RM1.4739 per unit for entitlement for the 6 months ended 30 June 2015	1,911	2,817
Total Manager's fees paid in units	4,023	5,775

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

	2016		2015	
	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	2,057,510	1,082,900	1,678,495
Tan Sri Lim Siew Choon	845,425	1,606,308	845,425	1,310,409
Puan Sri Tan Kewi Yong	281,875	535,562	281,875	436,906
Employees Provident Fund Board	199,119	378,327	180,952	280,475
The Manager's Directors' direct unitholdings in Pavilion REIT:				
Tan Sri Lim Siew Choon	845,425	1,606,308	845,425	1,310,409
Puan Sri Tan Kewi Yong	281,875	535,562	281,875	436,906
Dato' Lee Tuck Fook	100	190	100	155
Navid Chamdia	100	190	100	155
Ooi Ah Heong	100	190	100	155
Dato' Mohzani Bin Abdul Wahab	100	190	100	155
Dato' Maznah Binti Abdul Jalil	100	190	100	155

Notes:

The market value of the units was computed based on the closing market price as at 31 December 2016 of RM1.90 (2015: RM1.55).

Notes to the Financial Statements (Cont'd)

12. Manager's management fees

	2016 RM'000	2015 RM'000
Base fee	16,292	14,252
Performance fee	9,443	8,746
Divestment fee	–	24
	<hr/> 25,735	<hr/> 23,022
Acquisition fee	<hr/> 6,468	<hr/> –

During the financial year, the Manager received a base fee of 0.3% (2015: 0.3%) per annum of the Total Asset Value of Pavilion REIT, a performance fee of 3.0% (2015: 3.0%) per annum of Net Property Income and no divestment fee incurred (2015: 0.5% of transaction value) in relation to disposal of real estate related assets.

Acquisition fee of 1.0% (2015: nil) of transaction value in relation to acquisition of DA MEN Mall and Intermark Mall was capitalized as part of the acquisition cost of investment properties as disclosed in Note 5.

Manager's management fees payable in units amounts to RM11,378,000 (2015: RM5,756,000). 25% of total Manager's management fees had been paid in units for the first half of 2016 and 50% (2015: 25%) of the total Manager's management fees would be payable in units for the second half of 2016. The balance of Manager's management fees will be paid in the following year.

13. Borrowing costs

	2016 RM'000	2015 RM'000
Interest expense	57,951	31,081
Amortisation of transaction costs	3,096	1,216
	<hr/> 61,047	<hr/> 32,297

14. Tax expense

	2016 RM'000	2015 RM'000
Reconciliation of tax expense		
Income before taxation	312,143	282,337
Income tax using Malaysian tax rate of 24% (2015: 25%)	74,914	70,584
Non-deductible expenses	2,602	2,315
Non-taxable income	(18,449)	(10,259)
Effect of income exempted from tax	(59,067)	(62,640)
	<hr/> –	<hr/> –

Notes to the Financial Statements (Cont'd)

14. Tax expense (continued)

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 2016, no provision for taxation has been made for the current year.

15. Earnings per unit – basic and diluted

The calculation of earnings per unit is based on income after taxation attributable to unitholders for the year of RM312,143,000 (2015: RM282,337,000) divided by the weighted average number of units in circulation during the year of 3,020,648,551 (2015: 3,016,434,956).

16. Distribution to unitholders

Distribution to unitholders is from the following sources:

	2016 RM'000	2015 RM'000
Rental income	388,481	352,824
Other income	71,220	61,108
Interest income	8,715	6,211
Gain on disposal of investment property	–	593
Fair value gain on investment properties	76,872	41,035
	545,288	461,771
Less: Total expenses	(233,145)	(179,434)
	312,143	282,337
Distribution adjustments	(63,359)	(33,452)
Distributable income	248,784	248,885
Distribution to unitholders	250,563	247,521
	2016	2015
Interim distribution per unit (sen)	4.16	4.09
Final distribution per unit (sen)	4.08 *	4.14
Net distribution per unit** (sen)	8.24	8.23

* The final distributable income for the 6 months ended 31 December 2016 is proposed to be 4.08 sen per unit or RM123,319,000 payable on 28 February 2017.

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

Notes to the Financial Statements (Cont'd)

16. Distribution to unitholders (continued)

	Withholding tax rate	
	2016	2015
Resident corporate	N/A [^]	N/A [^]
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	24%	25%
Non-resident institutional	10%	10%

[^] to tax at prevailing rate

17. Portfolio turnover ratio

	2016	2015
Portfolio Turnover Ratio ("PTR") (times)	0.08	– *

* Included in the amount is 0.001 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.

During the year, Pavilion REIT had completed its acquisitions for DA MEN Mall and Intermark Mall on the 25 March 2016 for purchase consideration of RM486,844,000 and RM160,000,000 respectively. There was no completed disposal of investment during the year. (2015: Pavilion REIT had disposed an area measuring 1,050 square metres to Urusharta Cemerlang Sdn. Bhd. for a purchase consideration of RM4,896,000. There was no new completed acquisitions during the year.)

Since the basis of calculating PTR can vary among real estate investment trusts, there is no sound basis for providing an accurate comparison of Pavilion REIT's PTR against other real estate investment trusts.

18. Management expense ratio

	2016	2015
Management expense ratio ("MER") (%)	0.69	0.64

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.

Notes to the Financial Statements (Cont'd)

19. Operating segments

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

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

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

	Retail RM'000	Office RM'000	Total RM'000
For the year ended 31 December 2016			
Segment profit	305,911	8,863	314,774
<i>Included in the measure of segment profit are:</i>			
Gross revenue	447,139	12,562	459,701
Property expenses	141,228	3,699	144,927
At 31 December 2016			
Segment assets and liabilities			
Segment assets	5,430,936	134,019	5,564,955
Segment liabilities	(1,641,094)	(30,210)	(1,671,304)
For the year ended 31 December 2016			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	604,328	–	604,328
Fair value gain to non-current assets	76,872	–	76,872
For the year ended 31 December 2015			
Segment profit	284,864	6,671	291,535
<i>Included in the measure of segment profit are:</i>			
Gross revenue	402,646	11,286	413,932
Property expenses	117,782	4,615	122,397
At 31 December 2015			
Segment assets and liabilities			
Segment assets	4,597,265	133,914	4,731,179
Segment liabilities	(867,614)	(31,397)	(899,011)

Notes to the Financial Statements (Cont'd)

19. Operating segments (continued)

	Retail RM'000	Office RM'000	Total RM'000
For the year ended 31 December 2015			
<i>Included in the measure of segment assets and liabilities are:</i>			
Additions to non-current assets	77,851	–	77,851
Fair value gain to non-current assets	41,035	–	41,035

Reconciliation of reportable segment profit

	2016 RM'000	2015 RM'000
Total profit for reportable segments	314,774	291,535
Fair value gain on investment properties	76,872	41,035
Gain on disposal of investment property	–	593
Interest income	7,925	5,596
Other non-allocated income	790	615
Trust expenses	(27,171)	(24,740)
Borrowing costs	(61,047)	(32,297)
Income before taxation	312,143	282,337
Taxation	–	–
Income after taxation	312,143	282,337

Reconciliation of reportable segment assets and liabilities

	Segment assets RM'000	Segment liabilities RM'000
2016		
Total reportable segments	5,564,955	(1,671,304)
Other non-allocated assets/(liabilities)	27,463	(265)
Total assets/(liabilities)	5,592,418	(1,671,569)
2015		
Total reportable segments	4,731,179	(899,011)
Other non-allocated assets/(liabilities)	19,574	(135)
Total assets/(liabilities)	4,750,753	(899,146)

Geographical information

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

Notes to the Financial Statements (Cont'd)

20. Financial instruments

20.1 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 2016 RM'000	Loans and receivables 2016 RM'000	Carrying amounts 2015 RM'000	Loans and receivables 2015 RM'000
Financial assets				
Receivables and deposits	39,686	39,686	80,820	80,820
Cash and bank balances	317,071	317,071	184,006	184,006
	356,757	356,757	264,826	264,826
	Carrying amounts 2016 RM'000	Financial liabilities measured at amortised cost 2016 RM'000	Carrying amounts 2015 RM'000	Financial liabilities measured at amortised cost 2015 RM'000
Financial liabilities				
Payables and accruals	259,218	259,218	144,813	144,813
Borrowings	1,412,351	1,412,351	754,333	754,333
	1,671,569	1,671,569	899,146	899,146

20.2 Net gains and losses arising from financial instruments

	2016 RM'000	2015 RM'000
Loans and receivables	8,899	5,229
Borrowings	(61,047)	(32,297)
	(52,148)	(27,068)

20.3 Financial risks management

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

- Credit risk
- Liquidity risk
- Market risk

Notes to the Financial Statements (Cont'd)

20. Financial instruments (continued)

20.4 Credit risk

Credit risk is the risk of a financial loss to Pavilion REIT if the tenants or counterparty to a financial instrument fails to meet its contractual obligations. Pavilion REIT's exposure to credit risk arises principally from trade and other receivables and cash and cash equivalents. Pavilion REIT performs ongoing credit evaluation of its tenants and generally does not require collateral other than tenants' deposits.

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

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

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

Impairment losses

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

	Gross RM'000	Impairment loss RM'000	Net RM'000
2016			
Not past due	13,076	–	13,076
Past due 0 - 30 days	5,883	–	5,883
Past due 31 - 90 days	478	(1)	477
Past due more than 90 days	13,064	(2,863)	10,201
	32,501	(2,864)	29,637
2015			
Not past due	6,101	(26)	6,075
Past due 0 - 30 days	1,493	(12)	1,481
Past due 31 - 90 days	362	–	362
Past due more than 90 days	4,177	(3,010)	1,167
	12,133	(3,048)	9,085

Notes to the Financial Statements (Cont'd)

20. Financial instruments (continued)

20.4 Credit risk (continued)

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

	2016 RM'000	2015 RM'000
At 1 January	3,048	2,066
Impairment loss (reversed)/recognised	(184)	982
<hr/>		
At 31 December	2,864	3,048

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

Cash and cash equivalents

Risk management objectives, policies and processes for managing the risk

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

Cash and cash equivalents are placed with licensed financial institutions.

Exposure to credit risk and credit quality

As at the end of the 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.

20.5 Liquidity risk

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

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

Notes to the Financial Statements (Cont'd)

20. Financial instruments (continued)

20.5 Liquidity risk (continued)

Maturity analysis

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

	Carrying amount RM'000	Contractual interest rate%	Contractual cash flow RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2016						
Financial liabilities						
Borrowings	1,412,351	4.85 - 5.02	1,668,746	68,987	68,987	1,530,772
Payable and accruals	259,218	–	259,218	193,820	20,034	45,364
	1,671,569		1,927,964	262,807	89,021	1,576,136
2015						
Financial liabilities						
Borrowings	754,333	4.35 - 5.10	862,929	33,226	38,520	791,183
Payable and accruals	144,813	–	144,813	115,670	15,446	13,697
	899,146		1,007,742	148,896	53,966	804,880

20.6 Market risk

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

20.6.1 Interest rate risk

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

Risk management objectives, policies and processes for managing the risk

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

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

Notes to the Financial Statements (Cont'd)

20. Financial instruments (continued)

20.6 Market risk (continued)

20.6.1 Interest rate risk (continued)

Exposure to interest rate risk

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

	2016 RM'000	2015 RM'000
Fixed rate instrument		
Financial asset - Deposits placed with licensed banks	298,133	179,268
Financial liabilities - Borrowings	(300,000)	(704,932)
	(1,867)	(525,664)
Floating rate instruments		
Financial liabilities - Borrowings	(1,112,351)	(49,401)

Interest rate risk sensitivity analysis

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

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

(b) *Cash flow sensitivity analysis for variable rate instruments*

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

20.7 Fair value information

The carrying amounts of cash and 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.

Notes to the Financial Statements (Cont'd)

20. Financial instruments (continued)

20.7 Fair value information (continued)

	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		
2016					
Financial liabilities					
Tenants' deposits	–	–	(120,205)	(120,205)	(114,394)
Borrowings	–	–	(1,430,330)	(1,430,330)	(1,412,351)
	–	–	(1,550,535)	(1,550,535)	(1,526,745)
2015					
Financial liabilities					
Tenants' deposits	–	–	(87,355)	(87,355)	(93,930)
Borrowings	–	–	(763,117)	(763,117)	(754,333)
	–	–	(850,472)	(850,472)	(848,263)

Level 3 fair value

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

Financial instruments not carried at fair value

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

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

21. Capital management

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

Pavilion REIT's capital is represented by its unitholders' fund in the statement of financial position. The capital requirements imposed on Pavilion REIT is to ensure it maintains a healthy gearing 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 2016, Pavilion REIT recorded a gearing ratio of 25.25% (2015: 15.88%) and interest coverage ratio in excess of 2.0 (2015: in excess of 2.0). 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.

Notes to the Financial Statements (Cont'd)

21. Capital management (continued)

Distribution Policy

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

22. 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:

	2016 RM'000	2015 RM'000
Less than one year	316,870	279,858
Between one and five years	432,302	130,832
	<hr/> 749,172	<hr/> 410,690

23. Capital commitments

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

	2016 RM'000	2015 RM'000
Capital expenditure commitments		
Investment properties		
<i>Authorised and contracted for:</i>		
- Within one year	–	583,200
<i>Authorised but not contracted for:</i>		
- Within one year	28,021	13,359

24. Significant related party transactions

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

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

Notes to the Financial Statements (Cont'd)

24. Significant related party transactions (continued)

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 2016 RM'000	Transaction value 2015 RM'000	Balance outstanding 2016 RM'000	Balance outstanding 2015 RM'000
Pavilion REIT Management Sdn. Bhd.	Rental income and its related charges	463	472	4	–
Malton Berhad Group *	Rental income and its related charges	3,062	2,749	12	6
Crabtree & Evelyn (Malaysia) Sdn. Bhd. #	Rental income and its related charges	1,218	1,175	191	3
	Purchase of product	70	564	6	32
Lumayan Indah Sdn. Bhd. ∞	Rental income and its related charges	3	771	–	3
Impian Ekspresi Sdn. Bhd. ◇	Rental income and its related charges	654	760	196	178
Kuala Lumpur Pavilion Sdn. Bhd. ^	Property management fees and charges payable	–	4,078	–	869
Urusharta Cemerlang (KL) Sdn Bhd. Δ	Rental income and its related charges	774	–	3	–
Urusharta Cemerlang Sdn. Bhd. α	Disposal of part area in Pavilion Kuala Lumpur Mall	–	4,896	–	–

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

The above parties are deemed related as follows:

- * Malton Berhad Group are deemed parties related to the Manager by virtue of the directorship and interest of Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong, his spouse, in Malton Berhad.
- # Crabtree & Evelyn (Malaysia) Sdn. Bhd. is deemed party related to the Manager by virtue of Tan Sri Lim Siew Choon's interest in Crabtree & Evelyn (Malaysia) Sdn. Bhd. and his spouse, Puan Sri Tan Kewi Yong.
- ∞ Ahmad Mohammed F Q Al-Khanji, Mohd Abdulrazzaq A A Al-Hashmi and Navid Chamdia are directors of the Manager and Lumayan Indah Sdn. Bhd.
- ◇ Impian Ekspresi Sdn. Bhd. is deemed party related to the Manager by virtue of Tan Sri Lim Siew Choon's directorship and deemed interest in Impian Ekspresi Sdn Bhd and his spouse, Puan Sri Tan Kewi Yong.
- ^ Tan Sri Lim Siew Choon, Puan Sri Tan Kewi Yong and Dato' Lee Tuck Fook are directors of Kuala Lumpur Pavilion Sdn. Bhd. Tan Sri Lim Siew Choon and Puan Sri Tan Kewi Yong hold the entire issued and paid up share capital of Kuala Lumpur Pavilion Sdn. Bhd.

Notes to the Financial Statements (Cont'd)

24. Significant related party transactions (continued)

- △ Tan Sri Lim Siew Choon, Ahmad Mohammed F Q Al-Khanji, Mohd Abdulrazzaq A A Al-Hashmi and Navid Chamdia are directors of the Manager and Urusharta Cemerlang (KL) Sdn Bhd ("UCKL").

Tan Sri Lim Siew Choon is deemed interested in UCKL through his interest in the ultimate holding company and Puan Sri Tan Kewi Yong is his spouse.

Ahmad Mohammed F Q Al-Khanji and Mohd Abdulrazzaq A A Al-Hashmi are also directors of a substantial shareholder of the holding company of UCKL.

- α Tan Sri Lim Siew Choon, Puan Sri Tan Kewi Yong, Dato' Lee Tuck Fook, Ahmed Ali H A Al-Hammadi, Ahmad Mohammed F Q Al-Khanji, Mohd Abdulrazzaq A A Al-Hashmi and Navid Chamdia are directors of the Manager and Urusharta Cemerlang Sdn Bhd ("UCSB").

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

Ahmad Mohammed F Q Al-Khanji and Mohd Abdulrazzaq A A Al-Hashmi are also directors of a company which is a substantial shareholder of UCSB.

25. Significant events during the financial year

- 25.1 On 17 September 2015, the Board of Directors of the Manager announced that AmTrustee Berhad, had entered into a conditional sale and purchase agreement with Equine Park Country Resort Sdn. Bhd. and Revenue Concept Sdn. Bhd. for acquisition of the Property (as defined below), comprising the followings, for a total purchase consideration of RM488,000,000:

- (i) A five (5) storey shopping mall with a lower ground floor of approximately 420,920 square feet of net lettable area known as DA MEN Mall; and
- (ii) Two (2) levels of basement car park with 1,672 car parking bays

all of which are erected on a piece of freehold land currently held under Grant 320023 for Lot 91576, Pekan Subang Jaya, District of Petaling, State of Selangor measuring approximately 3.499 hectares.

The acquisition was completed on 25 March 2016.

- 25.2 On 29 December 2015, the Board of Directors of the Manager announced that AmTrustee Berhad, had entered into a sale and purchase agreement with The Intermark Sdn. Bhd. for the acquisition of a six (6)-storey retail building having a main parcel of strata floor area of 31,348 square metres (approximately 337,427 square feet) for a total cash consideration of RM160,000,000.

The acquisition was completed on 25 March 2016.

Notes to the Financial Statements (Cont'd)

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

The breakdown of the accumulated income 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:

	2016 RM'000	2015 RM'000
Total accumulated income of Pavilion REIT		
- realised	75,440	90,732
- unrealised	944,701	867,829
<hr/>		
Total accumulated income	1,020,141	958,561
<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.

Statement by the Manager

In the opinion of the Directors of the Manager, the financial statements set out on pages 54 to 91 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 2016 and of their 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 26 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:

Tan Sri Lim Siew Choon

Director

Dato' Lee Tuck Fook

Director

Kuala Lumpur,

19 January 2017

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 54 to 92 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Dato' Lee Tuck Fook, I/C No 540601-04-5333, at Kuala Lumpur on 19 January 2017.

Dato' Lee Tuck Fook

Before me:

Commissioner for Oaths

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 2016. 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 2016 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 2016 as follows:

- 1) Final income distribution of 4.08 sen per unit payable on 28 February 2017.

For and on behalf of the Trustee,
MTrustee Berhad (formerly known as AmTrustee Berhad)

Tan Kok Cheeng
Chief Executive Officer

Selangor,

Date: 19 January 2017

Independent Auditors' Report

to the Unitholders of Pavilion Real Estate Investment Trust

(Established in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pavilion Real Estate Investment Trust ("Pavilion REIT"), which comprise the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 54 to 91.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Pavilion REIT as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of Pavilion REIT of the current year. These matters were addressed in the context of our audit of the financial statements of Pavilion REIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties

Pavilion REIT owns a portfolio of investment properties comprising 3 shopping malls and an office block located in Malaysia. Investment properties represent the single largest category of assets on the statement of financial position.

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

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

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

How the matter was addressed in our audit

We performed the following audit procedures, among others:

- We assessed the Manager's processes for the selection of the external valuers, the determination of the scope of work of the valuers, and assessed the valuations reported by the external valuers.
- We considered the qualifications and competence of the external valuers vis-à-vis the expert's qualifications, membership of a professional body or industry association, and license to practice.
- We assessed the valuation methodologies used by the Manager against those applied by external valuers for similar property types. We also considered the other alternative valuation methods commonly used by external valuers.
- We tested the integrity of rental income data applied in the projected cash flows used in the valuation by comparing them with lease agreements.
- We challenged the capitalisation rates used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, held further discussions with the valuers.
- We also considered the adequacy of the disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Independent Auditors' Report

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

Information Other than the Financial Statements and Auditors' Report Thereon

Pavilion REIT Management Sdn. Bhd. ("The Manager") of Pavilion REIT is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of Pavilion REIT and our auditors' report thereon.

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

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

Responsibilities of the Manager for the Financial Statements of Pavilion REIT

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditors' Report

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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

Other Reporting Responsibilities

The supplementary information set out in Note 26 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Manager is responsible for the preparation of the supplementary information in accordance with Guidance on 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, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of 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 PLT

(LLP0010081-LCA & AF 0758)
Chartered Accountants

19 January 2017

Petaling Jaya

Chan Kam Chiew

Approval Number: 2055/06/18(J)
Chartered Accountant

Analysis of Unitholdings

Distribution of Unitholdings as at 31 December 2016

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units	% of Unitholdings
Less than 100	38	0.75	754	0.00
100 - 1,000	987	19.37	731,900	0.02
1,001 - 10,000	2,855	56.03	14,153,400	0.47
10,001 - 100,000	991	19.45	33,698,400	1.12
100,001 to less than 5% of issued units	220	4.32	585,597,712	19.37
5% and above of issued units	4	0.08	2,388,343,103	79.02
Total	5,095	100.00	3,022,525,269	100.00

Thirty largest unitholders as per record of depositors as at 31 December 2016

No	Name of Unitholders	No. of Units	%
1.	HSBC Nominees (Asing) Sdn Bhd CS (Switz) for Qatar Holding LLC	1,082,900,000	35.83
2.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Siew Choon (432218)	845,325,000	27.97
3.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account- for Tan Kewi Yong (129118)	281,775,000	9.32
4.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	178,343,103	5.90
5.	Amanahraya Trustees Berhad Amanah Saham Bumiputera	75,000,000	2.48
6.	Kumpulan Wang Persaraan (Diperbadankan)	63,045,100	2.09
7.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Newton Asian Income Fund	61,020,500	2.02
8.	Citigroup Nominees (Tempatan) Sdn Bhd Exempt an for AIA Bhd	47,838,900	1.58
9.	Valuecap Sdn Bhd	20,832,700	0.69
10.	Cartaban Nominees (Tempatan) Sdn Bhd PAMB for Prulink Equity Fund	19,792,900	0.65
11.	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	19,129,800	0.63
12.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LSF)	13,169,700	0.44
13.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 3)	13,000,000	0.43
14.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Amundi)	12,300,000	0.41

Analysis of Unitholdings (Cont'd)

Thirty largest unitholders as per record of depositors as at 31 December 2016 (continued)

No	Name of Unitholders	No. of Units	%
15.	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	11,618,000	0.38
16.	HSBC Nominees (Asing) Sdn Bhd Exempt an for JPMorgan Chase Bank, National Association (U.S.A.)	10,453,600	0.35
17.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Allianz Life Insurance Malaysia Berhad (P)	9,771,000	0.32
18.	Cartaban Nominees (Asing) Sdn Bhd Exempt an for State Street Bank & Trust Company (West CLT OD67)	9,527,800	0.32
19.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB Prin)	8,476,300	0.28
20.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Newton Emerging Income Fund	8,214,400	0.27
21.	Amanahraya Trustees Berhad PB Growth Fund	7,479,200	0.25
22.	Pertubuhan Keselamatan Sosial	6,482,400	0.21
23.	Cartaban Nominees (Tempatan) Sdn Bhd PAMB for Participating Fund	6,000,000	0.20
24.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Zurich Insurance Malaysia Berhad (Life Par)	5,980,000	0.20
25.	HSBC Nominees (Asing) Sdn Bhd Six SIS for B&I Pan-Asian Total Return Real Estate Securities Fund	5,968,500	0.20
26.	HSBC Nominees (Asing) Sdn Bhd BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund	5,923,300	0.20
27.	Amanahraya Trustees Berhad Amanah Saham Malaysia	5,165,800	0.17
28.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (CIMB Equities)	4,995,500	0.17
29.	CIMB Commerce Trustee Berhad Public Focus Select Fund	4,583,700	0.15
30.	Pavilion REIT Management Sdn Bhd	4,233,869	0.14

Analysis of Unitholdings (Cont'd)

Major Unitholders (5% and above) as at 31 December 2016

No	Name of Unitholders	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Qatar Holding LLC	1,082,900,000	35.83	–	–
2.	Tan Sri Lim Siew Choon	845,425,000	27.97	–	–
3.	Puan Sri Tan Kewi Yong	281,875,000	9.32	–	–
4.	Employees Provident Fund Board	199,119,403	6.59	–	–

Unitholdings of Directors and Chief Executive Officer as at 31 December 2016

No	Name of Unitholder	Direct Interest No. of Units	%	Deemed Interest No. of Units	%
1.	Tan Sri Lim Siew Choon	845,425,000	27.97	–	–
2.	Puan Sri Tan Kewi Yong	281,875,000	9.32	–	–
3.	Dato' Lee Tuck Fook	100,000	*	–	–
4.	Navid Chamdia	100,000	*	–	–
5.	Ooi Ah Heong	100,000	*	–	–
6.	Dato' Mohzani bin Abdul Wahab	100,000	*	–	–
7.	Dato' Maznah binti Abdul Jalil	100,000	*	–	–
8.	Philip Ho Yew Hong	95,000	*	–	–

*: Negligible

Market Overview

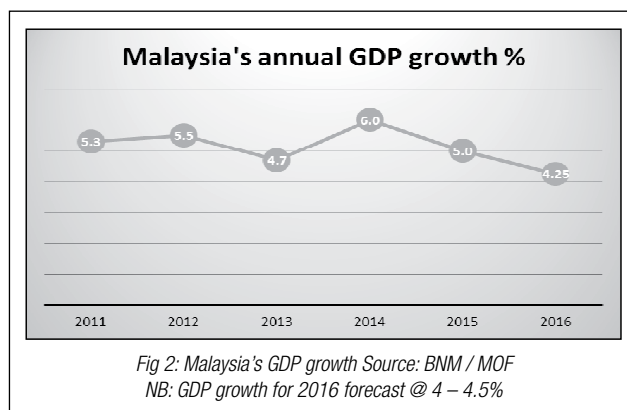
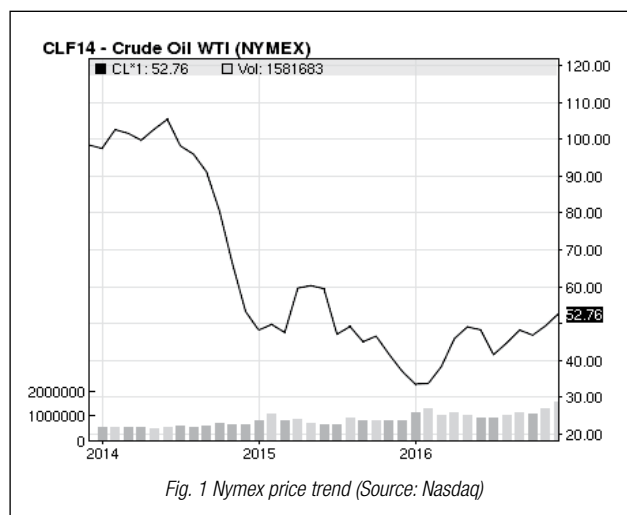
GENERAL ECONOMIC OVERVIEW 2016

The Malaysian economy is estimated to have grown at a slower pace of between 4.0% and 4.5% in 2016 compared to the 5.0% achieved in 2015. This is against a backdrop of a slightly lower projected global economic growth by the International Monetary Fund of 3.1% in 2016 compared to 3.2% in 2015. Economic growth is supported by strong domestic demand but weighed down by continued weakness in exports and the agriculture sector. Exports contracted 0.6% in the first 10 months of the year, significantly lower than the 4.0% average annual growth achieved in the period of 2010 to 2015.

Crude oil prices plunged to a low of below USD30 per barrel in January 2016 before recovering to above USD45 per barrel in November and above USD52 per barrel in mid December after Opec and non-Opec oil producing countries announced production cuts, which is nevertheless still below the high of above USD56 per barrel achieved in 2015 and the record high of USD145 per barrel in 2008. The drop in the nation's oil revenues is however, offset by the increase in revenue through the goods and services tax (collection to date as at 19 October 2016 is reported by the Finance Minister at RM30 billion) and its impact is lessened due to a lower dependence on oil and gas revenue from 41.3% in 2009 to 14.6% in 2016 (Source: Finance Minister's Budget Speech 2016).

For 2017, commodity prices are expected to recover and Malaysia's economic growth is projected to improve slightly to between 4.0% and 5.0%. The World Bank expects Malaysia's GDP to grow by 4.5% in 2017 and 2018. The unexpected vote for Brexit and surprise election of Donald Trump as US President has created much anxiety and uncertainty in the global economy and this has led to declines in stock markets around the world and wild currency fluctuations. The Ringgit has been adversely affected and has declined sharply against major currencies. On 11 November 2016, the Ringgit has dropped to its lowest level in a decade, the largest drop amongst Asian currencies. The recent US interest rate hike in mid-December, which is the second time in a decade, has caused some currencies around the world, including the Ringgit to weaken further.

In terms of consumption and investment, private consumption rose 6.3% in Q2 2016 whilst private investments went up by 5.6%. Public consumption on the other hand rose 6.5% and public investments increased by 7.5% compared to a decline of 4.5% in Q1 2016. Malaysian Institute of Economic Research has projected Malaysia's inflation rate to be maintained at 2.2% against the previous year's 2.1%.



Market Overview (Cont'd)

THE RETAIL SECTOR

KLANG VALLEY RETAIL SUPPLY IN 2016

Total Retail Supply and Demand

As at December 2016, Klang Valley (Kuala Lumpur, Selangor and Putrajaya) has 255 shopping centres with a total supply of about 68.2 million square feet in retail space. The average occupancy rate of these shopping centres during the year dropped slightly from 80.4% in 2015 to 79.9%.

The total supply of retail space in Kuala Lumpur, Selangor and Putrajaya is detailed out in the table below:

Table 1: Supply of Retail Space in Klang Valley, 2016

No	Location	No. of Malls#	Total Nett Floor Area (square feet)	Average Rental Rate (RM per square feet per month)*	Average Occupancy Rate (%)
1	Kuala Lumpur	109	30,135,618	12.63	81.5
2	Selangor	143	36,100,486	9.39	78.0
3	Putrajaya	3	1,957,573	3.81	82.0
	TOTAL	255	68,193,677	9.21	79.9

- include hypermarket malls and arcades

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

Source : Henry Butcher Retail/ 2H2016 Property Market Report, NAPIC

The average rental rate for Klang Valley declined slightly from RM9.76 per square feet per month in 2015 to RM9.21 per square feet per month in 2016. This average did not include rental rates of anchor tenants such as supermarkets, department stores, cineplexes, bowling alleys, etc.

For 2016, Klang Valley shopping centres faced the same challenges as in 2015 - higher operations costs, reduced shopping traffic, declining retail sales and early termination of tenants. It also took longer to secure new tenants to fill up vacant lots.

Many shopping centre owners needed to introduce rental rebates or reduce rental rates in order to retain existing tenants. Shopping centres that suffered from low occupancy rates last year were unable to change their fates this year. In addition, many new shopping centres faced difficulty to secure new tenants to take up their retail shops.

Numerous shopping centres scheduled for opening in 2016 were delayed till next year. They include Empire City Mall, Centrus Mall, M Square, KL Gateway, Selayang StarCity Mall, Bangsar Trade Centre, Evo Mall and KL Eco City.

Market Overview (Cont'd)

New Mall Opened in 2016

Table 2: List of Shopping Centres which Opened in 2016 in the Klang Valley

Name	Location	Net Lettable Area (sf)	Anchor Tenant	Occupancy Rate (%)*
Da Men Mall	USJ Subang	420,000	Jaya Grocer	90
AEON Mall	Shah Alam	800,000	Aeon	95
Giant Setapak	Setapak	140,000	Giant	98
Glo	Damansara	360,000	BIG	35
M3 Mall	Tmn Melati	200,000	The Store	90
Utropolis Marketplace	Shah Alam	120,000	Sam's Groceria	90
Pearl Suria	Old Klang Rd	200,000	Jaya Grocer, Popular	98
GM Klang Phase 3	Klang	350,000	NA	70
DC Mall	Damansara	190,000	NA	20
Sunway Pyramid P3	Sunway	100,000	Parenthood Superstore	70
IRDKL Mall	Shah Alam	70,000	TSR Cinemax	85
Pavilion Elite	Bukit Bintang	225,000	Coach	70
Sunway Velocity	Tmn Maluri	1,000,000	Parkson, TGV	87
The Starling	Damansara	380,000	Jaya Grocer, MBO	**NA
TOTAL		4,555,000		

Source: Henry Butcher Retail

NA - Not available

* - occupancy rates were estimated based on observation studies carried out before 10 December 2016

** - The Starling opened on 10 December 2016. At the time of writing this report, we were not able to establish the occupancy rate.

A total of 14 shopping centres were completed and opened during the year. More than 40% of them rushed to open during the last quarter of the year in order to capture the holiday shopping crowd.

- M3 (Medan Mega Melati) Mall in Taman Melati was the first shopping centre in Klang Valley to open in 2016.
- In March 2016, Shah Alam residents welcomed its latest shopping centre, AEON Mall located at Section 13 of Shah Alam.
- Da Men Mall in USJ Subang Jaya opened to the public in January 2016 offering grocery shopping and a wide variety of foods & beverages outlets.
- After e@Curve in Mutiara Damansara, IRDKL Mall is the second commercial complex with a variety of entertainment facilities as anchor tenants in Malaysia. Opened in September, IRDKL Mall offers an 8-screen cineplex, 9D virtual reality simulators, snooker centre, children arcade and karaoke centre. This latest shopping centre also has a large convention hall at its rooftop.
- DC Mall in Damansara Heights has positioned itself as a F&B focused shopping centre. It has allocated 70% of its nett floor area for foods & beverages outlets.
- Block B of GM Klang Wholesale City in Klang opened in November. 5 of the 7 floors were opened for business. The remaining 2 floors will be tenanted before middle of next year.
- Pavilion Elite is the second phase of Pavilion KL. It has 10 retail levels with nett floor area of 225,000 square feet. It has attracted numerous international retailers to open their first stores in Malaysia - COS, VLV, The Wallet Shop, Simmer Huang, ABC Cooking Studio and The Planet Traveller. Coach will open its largest flagship store in Southeast Asia on the prime area of this shopping centre.
- Sunway Velocity Mall managed to open by early December to capture the holiday crowd. Major tenants include Parkson, AEON MaxValu Prime, TGV Cinemas, Grand Imperial, Uniqlo, Harvey Norman, Padini Concept Store, Popular Bookstore, Toys R Us and Chi-X Fitness.
- The Starling in Damansara Uptown opened on 10 December 2016. It has secured major anchors and mini-anchors such as Jaya Grocer, MBO Cinemas, Chi-X Fitness, SSF Home Decor, Padini Concept Store, ACE Hardware, Brands Outlet, Daiso, Nichi, Kitschen, ESH, Original Classic, Tang Room and Popular Bookstore. It claimed to secure 85% take-up rate.

Market Overview (Cont'd)

PERFORMANCE OF KLANG VALLEY SHOPPING CENTRES IN 2016

Overview of Shopping Centres Sector

Similar to last year, the main challenges for Klang Valley shopping centres in 2016 have been reduced consumers' spending and rising operations costs. Shopping centre owners are facing higher operations costs (air-conditioning, security, cleaning and staff costs), but yet they are not able to increase their rental rates much.

The current weak market is preventing many national chain retailers to open in shopping centres. Shopping centre owners need to offer monetary incentives (including lower rental, longer rent free period, subsidized renovation costs, etc) in order to attract reputable tenants to open shops in shopping centres.

Despite the weak retail market in 2016, the Klang Valley shopping centre industry was filled with activities and excitement. Amongst the more notable happenings are:

- a) In February 2016, Giant left SS15 Courtyard in Subang Jaya as its anchor tenant. It has since been replaced by Jaya Grocer.
- b) Early this year, JAKS Resources Bhd, the owner of Evolve Concept Mall in Ara Damansara, was reported to be looking for a buyer for its newly completed mall.
- c) During this same period, MCT Group announced the repositioning of their mall in One City, The Place, into a one-stop wedding hub. A new supermarket was also opened later at the basement level.
- d) During the month of May, Jaya Grocer (a supermarket chain in Klang Valley) was reported in the media to have been sold to a private equity fund managed by CIMB Private Equity and Mitsubishi Corp for RM 300 million.
- e) In the same month, TREC in Jalan Tun Razak opened their Phase 2 with more offerings of F&B and entertainment outlets.
- f) In the month of June, UAE-based Lulu Hypermarket opened their first Malaysian outlet in Capital Square Kuala Lumpur.
- g) Pokemon Go was launched in Malaysia during the month of August. It created a craze among Malaysians. Many shopping centres in the Klang Valley benefited from this craze with increased visitors for a short period of time.
- h) During the third quarter of this year, Subang Avenue in Subang Jaya closed down for refurbishment.
- i) Isetan closed down its outlet in Lot 10 Bukit Bintang this year and re-opened with a new concept in October. Isetan The Japan Store offers a wide variety of lifestyle products with Japanese style of hospitality.
- j) After almost 2 years, the refurbishment of Summit in USJ Subang Jaya was completed in October 2016.
- k) Businessman Tan Sri Desmond Lim emerged as the largest shareholder of WCT Holdings Bhd in November 2016. WCT owns 3 shopping centres, namely Paradigm Mall in Kelana Jaya, AEON Bukit Tinggi in Klang and Gateway@KLIA in Sepang. These three shopping centres may be injected into Pavilion Real Estate Investment Trust (REIT).
- l) The shareholding of The Store Corp Bhd changed in the last 2 months of the year. After buying over a 13.88% stake of this company from Tan Sri Vincent Tan and the Berjaya Group, Tan Sri Kong Hon Kong resold it to the major shareholders of The Store - Tan Sri Tang Yeam Soon and his wife Puan Sri Khor Guik Lee. As a result, a mandatory general offer for the company was triggered.
- m) Despite the weak economy, overseas retailers continued to choose Klang Valley shopping centres to open their first outlets in Malaysia.
- n) New retail outlets from overseas which opened in 2016 included Boggi Milano (Italy), Roger Vivier (France), Pretty Ballerinas (Spain), Michael Kors Watch & Jewellery (United States), Lulu (UAE), Dior Homme (France), John Lewis (United Kingdom), MUJOSH (Hong Kong), Shoopon (South Korea), Saint Laurent (France), Manolo Blahnik (Spain), Decathlon (France), Themos (Germany), ic!berlin (Germany), Coleman (United States), Le Creuset (France), Lalique (France), Family Mart (Japan), Mamonde (South Korea), The Wallet Shop (Singapore), Collection of Style (Sweden), LukFook Jewellery (Hong Kong) The Planet Traveller (Singapore), ABC Cooking Studio (Japan), VLV Life (Singapore), etc.
- o) In addition, new foreign F&B outlets opened in 2016 included Nathan's Famous (United States), Chateraise (Japan), Aboong (South Korea), Naughty Nuri's (Indonesia), Milkissimo (Japan), Gindaco (Japan), Tsujiri (Japan), Tokyo Secret (Hong Kong), Hokkaido Baked Cheese Tart (Japan), Shakeaway (United Kingdom), KitKat Chocolatory (Switzerland), Nespresso (Switzerland), Hogan Bakery (Taiwan), Pablo (Japan), Dazzling Cafe (Taiwan), Paul Boulangerie (France), Simmer Huang (Australia), etc.

Market Overview (Cont'd)

Review of Klang Valley Retail Market

The retail industry in the Klang Valley in 2015 was adversely affected by the introduction of the Goods & Services Tax (GST) in April that year. In 2016, it continued to disappoint retailers operating in this largest retail market in Malaysia. This was because of the weak domestic economy, lacklustre consumers' spending, depreciated currency and rising cost of retail operation.

For the first quarter of 2016, the Malaysian retail industry recorded a growth rate of -4.4% in retail sales, as compared to the same period in 2015. A negative first quarter growth rate was expected taking into consideration the higher pre-GST sales during the same period a year ago (at 4.6%).

A year ago, consumers' spending rose sharply during the last few weeks before the implementation of GST. Consumers took advantage of the retail offers in anticipation of price increases after the implementation of GST. Retailers of big-ticket items were also clearing their old stocks aggressively with large discounts.

The poor first quarterly growth rate was also due to weak Chinese New Year sales in February 2016. In addition, prices of retail goods and services had been increasing gradually since the beginning of this year, partly due to our weak Malaysian currency. This further affected the spending power of Malaysian consumers during the first quarter of this year.

Retailers continued to depend on heavy price discounts to attract Malaysian consumers to buy. As a result, their profits were eroded. For the second quarter of 2016, the Malaysian retail industry reported a lower-than-expected growth rate of 7.5% in retail sales, as compared to the same period in 2015. This period marked the first anniversary of the implementation of GST in Malaysia.

A year ago, Malaysian retailers suffered a severe decline in retail sales of 11.9%. It was the worst quarterly growth rate since 1999. For the third quarter of 2016, Malaysia's retail industry reported another disappointing growth rate of 1.9% in retail sales, as compared to the same period in 2015. The Hari Raya festival in early July did not lead to higher retail sales. Higher minimum wages from 1 July 2016 did not bring cheer to retailers as well. Malaysian consumers have yet to recover from the negative impact of GST.

The fourth quarter growth rate was estimated by Retail Group Malaysia at 5.5%. The year-end school holiday and festival should contribute to the positive growth of this last quarter. The projected retail sale growth rate of Malaysia retail industry in 2016 by Retail Group Malaysia had been revised downwards from 3.5% to 3.0%. This was the second revision in 2016 on the retail sales growth rate. This was mainly due to the poor performance of retail sales during the third quarter of 2016.

Tourist Arrivals

The Malaysian government aims for 30.5 million tourist arrivals in 2016 with a targeted revenue of RM103 billion. After a long delay, the Malaysian government introduced a visa-waiver programme early this year for Chinese tourists staying in the country for not more than 15 days. This resulted in higher tourist arrivals from this second largest economy in the world. China is now the third largest tourist market for Malaysia. The weak Malaysian currency also encouraged more foreign tourist arrivals during the year, especially Singaporeans. The terrorist bombing incident in Puchong in the month of June 2016 had a short-term negative impact on tourist arrivals from United States, Canada and United Kingdom. The weakening of the pound sterling for the first time in 30 years due to Brexit also led to lower tourist arrivals from the United Kingdom.

Market Overview (Cont'd)

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.

Table 3: Rental Rates of Selected Shopping Centres in Klang Valley, 2016

Name	Rental Rate (RM psf per month)					
	Lower Ground	Ground floor	First floor	Second floor	Third floor	Fourth floor
Suria KLCC	25.00 – 150.00	50.00 – 150.00	36.00 – 90.00	35.00 – 86.00	30.00 – 90.00	30.00 – 56.00
Low Yat Plaza	10.00 – 20.00	19.00 – 55.00	22.00 – 32.00	11.00 – 31.00	15.00 – 28.00	11.00 – 20.00
Cheras Leisure Mall	15.00 – 29.00	14.00 – 20.00	10.00 – 20.00	8.00 – 18.00	NA	NA
Mid Valley Megamall	28.00 – 60.00	39.00 – 60.00	18.00 – 48.00	11.00 – 30.00	10.00 – 28.00	NA
Sunway Pyramid	14.00 – 28.00	20.00 – 32.00	13.00 – 30.00	13.00 – 26.00	7.00 – 17.00	NA
The Mines	NA	7.00 – 15.00	7.00 – 12.00	6.00 – 9.00	6.00 – 9.00	5.00 – 7.00
SACC Mall	7.00 – 18.00	4.00 – 20.00	5.00 – 20.00	2.00 – 6.00	4.00 – 8.00	NA

Source : Property Market Report, NAPIC / Henry Butcher Retail

NA – not applicable

Market Overview (Cont'd)

PROJECTED SUPPLY OF RETAIL SPACE IN THE KLANG VALLEY IN 2017

At least 14 shopping centres are expected to open in 2017 with a total net floor area of 6.3 million square feet. They are located in all parts of Klang Valley. The list of new shopping centres in Klang Valley include:

Table 4: New Shopping Centres in Klang Valley - Expected to Open in 2017

No	Name	Location	Net Floor Area (sf)
1	MyTown Shopping Centre	Cheras	1,100,000
2	KL Gateway	Bangsar South	350,000
3	KL Eco City	Pantai	300,000
4	Centrus Mall	Cyberjaya	200,000
5	Bangsar Trade Centre	Pantai	100,000
6	Eight Kinrara	Bandar Kinrara	70,000
7	M Square	Puchong	186,000
8	Amerin Mall	Balakong	155,000
9	Empire City Mall	Damansara	1,800,000
10	Pacific Star	Petaling Jaya	350,000
11	Selayang StarCity Mall	Selayang	550,000
12	Melawati Mall	Melawati	620,000
13	Four Seasons Place	KL City Centre	300,000
14	Evo Mall	Bangi	250,000
	TOTAL		6,331,000

Source: Henry Butcher Retail

Half of the new shopping centres are located in Kuala Lumpur and the other half in Selangor. 9 of them (64%) were supposed to open in 2015 but were delayed due to various reasons.

The largest shopping mall to be opened in 2017 will be Empire City Mall with 1.8 million square feet of net floor area. This mall was supposed to open in 2015, but was delayed several times. It is now scheduled for opening in the first quarter of 2017. Anchor tenants include Parkson, CJ TGV Cinemas, an Olympic-size ice skating ring and a large bowling alley.

MyTown Shopping Centre in Cheras is scheduled for opening by the first quarter of 2017. It will offer 460 retail lots over 5 levels. Confirmed anchor tenants include Parkson, Village Grocer and GSC. It will be the second largest shopping centre to be opened in the new year.

Selayang StarCity Mall is scheduled for opening by the second quarter of 2017. Its confirmed anchor tenants include Pacific department store, AEON MaxValue and GSC cineplex. It was reported that the developer has secured 80% take-up rate.

Market Overview (Cont'd)

OUTLOOK FOR THE KLANG VALLEY SHOPPING CENTRE MARKET IN 2017

Once again, the uncertain economic outlook, rising cost of living and increasing retail supply will affect the shopping centre market in the Klang Valley next year.

Klang Valley Consumer Market

The new year remains a challenging one for Malaysian retailers. Any significant recovery can only be expected during the second half of 2017. Retail Group Malaysia projects a 5.0% growth rate in retail sales for 2017.

As the economy is not anticipated to recover strongly in the immediate term, Malaysian consumers are expected to hold back on their spending during the first half of next year. At the same time, cost of living of average Malaysians will continue to rise in 2017 (including food and beverages, medical, transportation, etc.).

The continued weakening of the ringgit will impact the costs of retail goods. Retailers may be forced to raise prices again during the first 6 months of next year.

Klang Valley Shopping Centre Industry

Despite the uncertain economic outlook, Klang Valley consumers are expected to continue to visit shopping centres in 2017. High shopping traffic is expected during weekends, eve of public holidays, public holidays, school holidays, festivals and annual sales events organised by the Ministry of Tourism.

Large and regional shopping malls in the Klang Valley which are able to offer a wide variety of goods and services will continue to attract the most shoppers. They will continue to draw large amount of shoppers on both weekdays and weekends.

New shopping centres targeted for opening in 2017 will face challenges to fill up most of their retail lots upon their opening. To attract tenants, they will need to lower their rental rates in order to lure popular tenants. Shoppers will continue to visit these popular shopping centres due to their wide ranges of offerings.

The already poorly occupied shopping centres will remain so with great challenges ahead to lift the occupancy rates.

The old shopping centres will face pressure from the new ones. They need to refurbish in order to meet today's shoppers' needs. If they do not do so, they will lose tenants who will move to newer shopping centres.

Strata-titled shopping centres will face challenges to re-invest themselves in order to meet the market changes due to multiple ownerships.

Target Tourist Arrivals

Malaysia targets to attract 32 million tourist arrivals in 2017. During 2017 Budget announced in October 2016, a sum of RM400 million will be allocated to promote and enhance tourism facilities.

The Malaysian government will take advantage of 2 major events in 2017 to promote tourism. Malaysia will be hosting the 2017 SEA Games and Asean PARA Games. Visit Asean @ 50 Year Campaign will be held next year in conjunction with the 50th anniversary of Asean. To attract more foreign tourists to Malaysia, the government also plans to introduce eVisa to Balkan and South Asian countries.

Market Overview (Cont'd)

PURPOSE BUILT OFFICE SECTOR

Existing & Incoming Supply

The supply of purpose built office space in Kuala Lumpur increased to approximately 90.9 million square feet (8.5 million square metre) in the first half of 2016, up from the 89.2 million square feet recorded as at the end of 2015, based on the latest available statistics from NAPIC. There is another 22.1 million square feet (2.05 million square metre) supplied by buildings in Putrajaya whilst Selangor contributes another 35.6 million square feet (3.3 million square metre).

Table 5: Existing Supply of Office Space in Kuala Lumpur & Selangor as at 1H 2016

State	Existing supply (square metre)	Completion (square metre)	Occupancy (square metre)	Occupancy rate (%)	Incoming supply (square metre) *
Kuala Lumpur	8,449,899	95,157	6,732,595	80	1,741,801
W.P. Putrajaya	2,052,944	0	1,926,719	94	950,744
Selangor	3,307,385	0	2,537,138	77	505,562
Total	13,810,228		11,196,452	81	3,198,107

NB: Incoming supply includes projects under construction, projects which have received approvals as well as projects which are planned (Source: NAPIC)

Approximately 21% of the office space is located within the premier KLCC / Golden Triangle area (KLCC/GT) whilst 19% is located within the older Central Business District (CBD). The bulk (approximately 33%) of the existing supply are in buildings located within the city centre (WCC) but outside the KLCC / GT and CBD whilst suburban commercial hubs contribute the balance 25%.

Table 6: Existing Supply of Office Space by Districts in Kuala Lumpur as at 1H 2016

Area	No. of buildings	Existing supply (square metre)	Occupancy rate (%)
Golden Triangle	91	2,587,457	82.6
CBD	83	1,280,668	86.6
WCC	143	2,949,211	76.0
Suburban	107	1,632,563	76.1
Total	424	8,449,899	79.7

Market Overview (Cont'd)

Between 2016 and 2018 there are a number of major office developments due for completion and these are tabulated below:

Table 7: New Office Buildings Due for Completion 2016 – 2019

Building	Location	Net Lettable Area (square feet)	Estimated completion
Kuala Lumpur			
JKG Tower	Jalan Raja Laut	390,000	2016
Ken TTDI	TTDI	220,000	2016
Vertical	Bangsar South	1,000,000	2016
KL Eco City Tower 1 Tower 2 Tower 3 Boutique offices	Abdullah Hukum	700,000 540,000 400,000 700,000	2017
Menara Public Mutual	Jalan Raja Chulan	420,000	2017
South Point	MidValley City	958,000	2017
Equatorial Plaza	Jalan Sultan Ismail	470,000	2018 / 19
Etiqa Insurance	Bangsar	390,000	2018 / 19
Merdeka PNB 118	Stadium Merdeka / Chinatown	1,700,000	2019 - 2020
Total		7,888,000	

Market Overview (Cont'd)

Building	Location	Net Lettable Area (square feet)	Estimated completion
Petaling Jaya			
One City	USJ	1,500,000	2016
Mercu Mustapha Kamal 1 & 2	Damansara Perdana	290,000 181,000	2016
Menara Star 2 @ Pacific Star	Petaling Jaya	270,000	2017
Empire City HCK Tower Block H	Empire City Damansara, PJ	347,000 239,000	2017 2017
PJ Sentral Celcom MBSB MyIPO PKNS	Section 52, Petaling Jaya	450,000 281,000 294,000 862,000	2017 onwards
Paramount Tower 1 & 2	Jalan Universiti PJ	572,000	After 2018
Uptown 8	Damansara Uptown	450,000	After 2018
PJCC	PJ	290,000	After 2018
Petaling Tin redevelopment	PJ	300,000	After 2018
MRCB	PJ	184,000	After 2018
i-City Corporate tower 1 & 2	Shah Alam	2,080,000	After 2018
Fraser Square	Section 13 PJ	240,000	After 2018
Total		8,830,000	
Grand Total		16,718,000	

Source: Henry Butcher Research

Besides the above projects currently under construction or approved, there are a few major office developments which are part of massive integrated commercial developments in the city which have been announced and which, if launched and completed, will add significantly to the future supply of office space in Kuala Lumpur. Some of these projects involved demolishing old buildings and redeveloping the sites to take advantage of higher plot ratios now allowed by the authorities:

- Tun Razak Exchange (TRX), Jalan Tun Razak
 - o Parcel sold to Mulia Group, Indonesia
 - o Parcel sold to Lembaga Tabung Haji
 - o Parcel sold to Affin Bank
 - o Parcel sold to WCT
- Lot 185 KLCC
- Bandar Malaysia
- Bukit Bintang City Centre (BBCC) by Eco World Group
- Former Brickfields District HQ – Seni Nadi
- Tradewinds Centre, Jalan Sultan Ismail (redevelopment of Kompleks Antarabangsa & Crowne Plaza Hotel)
- Redevelopment of Menara Tun Razak, Jalan Raja Laut
- Redevelopment of Pusat Bandar Damansara

Market Overview (Cont'd)

Office Occupancy Rates & Rentals

Overall, office occupancy rates in Kuala Lumpur eased marginally to 80% as at the end of 1H 2016 compared to 81.2% the year before and 83.2% in 2014. For Selangor, occupancy rates went up slightly to 77.0% compared to 75.7% in 2015 and 76.4% in 2014. The additional supply coming onto the market by the end of the year / early next year is expected to result in occupancy rates dipping further.

Chart 3: Supply and Occupancy Rates of Office Buildings in Kuala Lumpur (2005 to 2015)

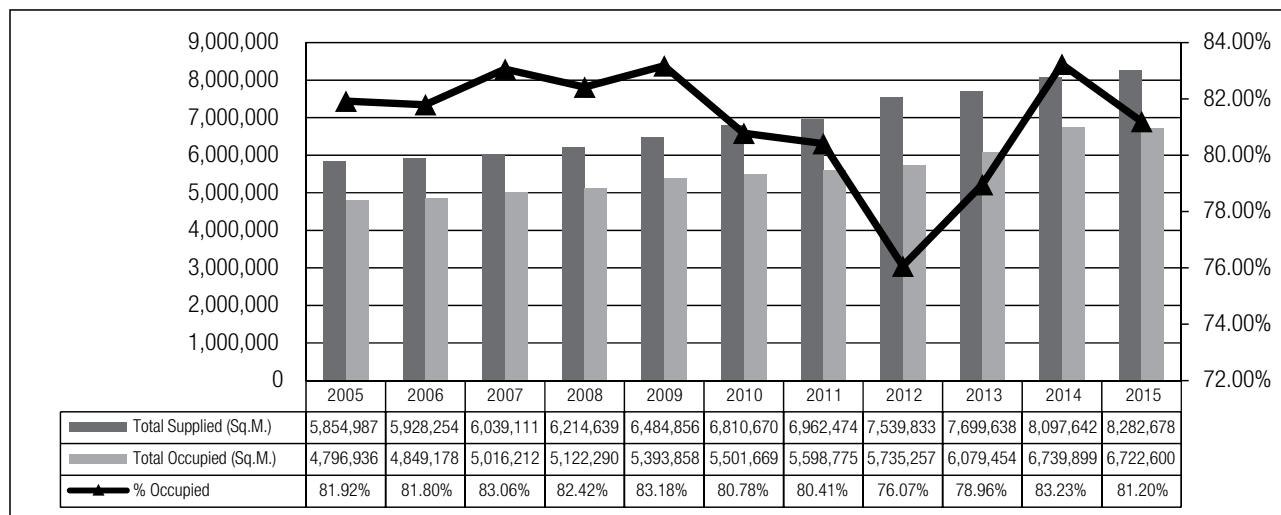
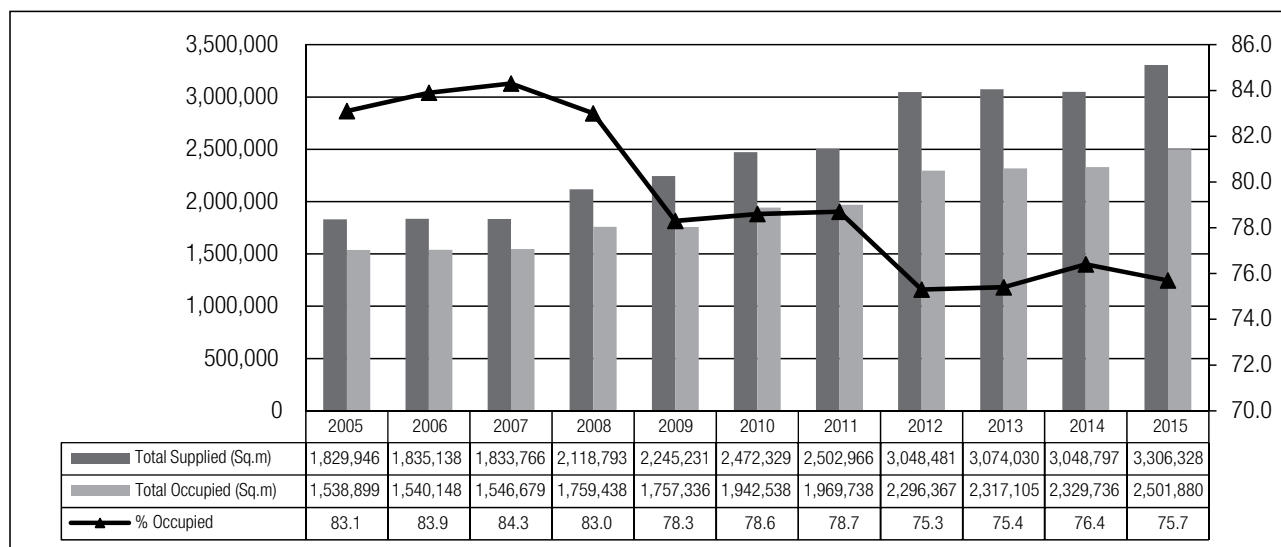


Chart 4: Supply and Occupancy Rates of Office buildings in Selangor (2005 to 2015)



Source: Nipic / HBM

The substantial increase in supply over the past five years has also begun to put pressure not only on occupancy rates but rentals as well, especially as demand for space from the finance and oil and gas industries which have been the key demand generators over the past few years has contracted due to the poor performance of the oil & gas sector. Overall, the range of rentals in the various sub-markets in Kuala Lumpur's office sector weakened marginally but individually some, especially the newly completed buildings as well as the older buildings which have not carried out any refurbishment exercises have recorded larger declines in their effective rents after taking into account rent free periods and other incentives offered by the landlords to attract tenants.

Market Overview (Cont'd)

Table 7: Range of Office Rentals - 2016

Location	Rental range (RM per square feet per month)
KLCC / GT	
Grade A+	10.00 – 14.00
Grade A	6.50 – 9.50
Grade B	4.00 – 5.50
CBD	
Grade A	4.50 – 5.50
Grade B	3.80 – 4.50
WCC	3.00 – 8.00
Suburbs	3.00 – 6.50

Source: HBM Research

Major Office Leasing & Sales Transactions

In terms of office leasing activities, we noted a number of major office opened / relocated during the year and the main ones are summarized in the table below:

Table 8: Major Office Leases / Relocations

Company	New Office Location	Area Occupied (square feet)
Inflobox	Uptown 1	n.a.
Milliman Inc	1 Sentral	n.a.
CE & T Power group	Plaza Sentral	n.a.
Mitsui & Co	Menara Hap Seng 2	30,000
McDermott Asia Pacific	Menara Hap Seng 2	45,000
KWAP	Integra Tower @ Intermark	100,000
Convergys	Nu Tower 2	52,000
Bayer Co & Roche Diagnostics	The Ascent @ Paradigm	41,000
Hytera Communication	Tower A, Vertical Business Suites Bangsar South	n.a.
Sanovo Group	Menara Obyu Damansara Perdana	n.a.
AECOM	Wisma Guocoland, Damansara City	50,000
Dentsu Aegis	Wisma Guocoland, Damansara City	60,000
Johnson & Johnson	Pinnacles, Bandar Sunway	50,000

Source: Henry Butcher Research

Market Overview (Cont'd)

There were not many transactions of office buildings in 2016. The following were major transactions that were noted:

Table 9: Major Office Transactions

Building	Nett Lettable Area (square feet)	Consideration (RM)	Price RM per square feet
Tropicana Plaza Jalan Tun Razak	156,000	140 m	895
Garden office @ The Strand, Kota Damansara	43,000	27 m	628
Menara Shell KL Sentral	557,000	640 m	1,149
7 out of 45 floors in Iconic Office Tower (Block H) Empire City Damansara	n.a.	44.29 m	n.a.
British American Tobacco Petaling Jaya	n.a.	218 m	n.a.
Menara AIA CapSquare Downtown KL	601,000	511 m	850

* Sale together with 471 car park bays Source: Henry Butcher Research

Outlook for Office Sector

The significant increase in the supply of office space over the past five years have begun to put pressure on occupancy rates and newly completed buildings are taking a longer time to fill up. Nevertheless, the bulk of the existing supply of office space are located in old buildings of more than ten years in age and tenants are taking the opportunity to upgrade to better quality premises with improved infrastructure and facilities in the newer buildings especially those which are served by public transport such as the LRT. The trend of decentralization is also continuing as better quality new buildings in city fringe areas like KL Sentral and Damansara are attracting companies to move out of the congested city centre. Buildings which have MSC status and are green certified have an edge as they are preferred particularly by multinational companies. Shariah compliant buildings have a harder time filling up the space in view of the restriction to take in only Shariah compliant tenants.

Rentals have been quite stable to date, registering only marginal declines, despite the significant increase in supply. Nevertheless, both occupancy rates and rentals could come down in the face of the huge supply of space which is expected to come onto the market from 2016. The oil and gas and finance industries which have been the main sources of demand for office space over the past few years are no longer performing as well as before with crude oil prices having fallen to record lows and the country's economic growth slowing down. A number of banks have carried out voluntary staff separation schemes and this would have meant a reduction of the office space needed by these banks. Without additional stimulus measures by the government to boost the economy and demand for office space, the next few years look challenging for the office sector. Nevertheless the recent hefty decline of the Ringgit against major currencies has made Malaysia a cheaper location and given a reason to multi-nationals operating in the region to relocate their regional offices, back offices or data centres to Kuala Lumpur, provided the overall economic and political climate and business and investment conditions remain stable and favourable.

Market Overview (Cont'd)

THE MALAYSIAN REITS (M-REITS) MARKET OVERVIEW 2016

There are 17 REITs listed on Bursa Malaysia as at the end 2016, the same as the previous year. The largest REIT by market capitalization is KLCCP at RM14.1 billion followed by Pavilion REIT at RM5.441 billion, IGB REIT at RM5.415 billion and Sunway REIT at RM4.984 billion. There are three REITs which have market capitalisations of above RM1 billion viz., Al-Aqar, Axis and YTL Hospitality. It is noted that nine out of the seventeen REITs managed to generate dividend yields of above 6% with the highest at 7.64%. The performance of the 17 REITs for 2016 are summarized in the table below:

No.	Company	Property portfolio	Market Capital (RM)	EPS (cent)	P/E Ratio	ROE %	Dividend Yield %	NTA (RM)	Share Price (RM)
1	AHP	Office shops	217.80 m	6.09	16.26	3.89	7.07	1.566	0.995
2	Alaqar	Health care	1.092 b	9.65	15.54	7.97	5.13	1.211	1.510
3	Al-Salam	Islamic diversified	603.20 m	6.82	15.25	6.70	2.50	1.018	1.040
4	AmFirst	Office / Retail	531.96 m	9.31	8.32	7.35	6.58	1.267	0.775
5	Amanah Raya	Diversified	524.50 m	0	–	0.00	6.90	1.158	0.915
6	Atrium	Industrial	132.76 m	9.20	11.85	6.45	7.57	1.426	0.000
7	Axis	Offices / Industrial / Retail	1.812 b	10.40	15.77	8.26	7.68	1.259	1.620
8	Capitaland	Retail	3.149 b	8.47	18.30	6.62	5.55	1.280	1.530
9	Hektar	Retail	624.99 m	0.56	278.57	0.38	6.73	1.457	1.580
10	IGB	Retail	5.485 b	7.46	21.05	6.95	5.22	1.073	1.570
11	KLCCP	Office / Retail	14.082 b	64.38	12.12	9.22	4.44	6.980	7.800
12	MRCB-Quill	Office / Retail	820.11 m	9.41	13.18	7.14	6.76	1.318	1.250
13	Pavilion	Office / Retail	5.259 b	9.35	18.61	7.46	4.73	1.254	1.760
14	Sunway	Diversified	4.918 b	10.98	15.21	8.10	5.50	1.355	1.680
15	Tower	Office	336.60 m	10.00	12.00	5.18	5.78	1.929	1.180
16	UOA	Office	731.57 m	25.83	6.70	15.58	6.37	1.658	1.730
17	YTL Hospitality	Hotels	1.909 b	–	–	–	7.05	1.478	1.100

Source: Malaysia Stock Biz & individual REIT websites, share prices as at 16 December 2016

In Budget 2017, it was announced that with effect from year of assessment 2017, only REITs and Property Trust Funds (PTF) which are listed on Bursa Malaysia will be given full tax transparency. Currently, where a REIT/ PTF distributes at least 90% of its income to unit holders, full tax transparency is accorded to the REIT/ PTF.

REITs which typically offer more attractive dividends than fixed deposits and are less volatile than stocks, tend to gain when the government embarks on monetary easing measures due to this asset class being relatively stable and high yielding compared to bonds, short term instruments and fixed deposits. Any lowering of interest rates by Bank Negara Malaysia would be positive for REITs as it would firstly lower borrowing cost and boost net income for REITs and make the yields even more attractive. As at the present moment, economists are generally divided over whether Malaysia will raise interest rates in the wake of the rate hike by the US Feds in December as it needs to balance economic growth with maintaining the Ringgit's stability. It is possible that interest rates will be maintained in 2017 to retain a stable economic environment. This will be generally positive for the REITs industry.

The anticipated recovery of crude oil and commodity prices will augur well for the Malaysian economy in 2017. The weaker Ringgit may help to boost export growth although it will at the same time, increase costs of imported goods and raw materials. A stable economy will benefit Malaysian REITs.

Nevertheless with increased supply of office and retail space, lower consumer spending and reduced occupancy rates due to a scaling down of expansion plans or trimming of head count by companies, securing new tenants as well as renewing existing tenants will likely be more challenging in 2017 for REITs hoping to boost or maintain occupancy rates and therefore income for the industrial, office, retail, hospitality and healthcare properties in their portfolios. This may affect dividend payout by the REITs if they are unable to maintain the performance of the properties under management. Nevertheless, most REITs have signed up long term, grade A tenants and this will help to cushion the impact of any slowdown in the property market.

Market Overview (Cont'd)

CONCLUSION

The outlook for both the retail and office sectors in 2017 appears challenging, being weighed down by several less favourable factors.

The retail sector will continue to be affected by rising operations costs, weaker consumer sentiments, further increase in the supply of retail space due to the sizeable number of malls expected to open during the year, slowing economy, declining Ringgit, political uncertainty and the looming general elections which have to be held by 2018. On the positive side, commodity prices as well as crude oil prices could be recovering in 2017 and the weaker Ringgit could boost exports and bring in more tourists which would provide some welcome relief to the retail industry. Established shopping centres which are well located, professionally managed and which are more receptive to the needs of their tenants and customers will be able to ride out any storms which may come this way. New shopping centres which have yet to achieve a respectable occupancy rate will have to decide whether to defer their opening whilst older malls should start planning for refurbishments to upgrade shoppers' experience in order to compete in a highly competitive market.

The office market will face increasing supply and slower growth in demand for office space due to a more mundane pace of economic growth. Occupancy rates and rentals will come under pressure although no significant declines are expected. Landlords will be offering more incentives to retain tenants during renewals and to attract new tenants.

In a soft property market and volatile stock market, investors may choose to diversify to REITs which provide stable returns which are more attractive than fixed deposit rates. REITs with funds for new investments may find more opportunities in 2017 to pick up new properties to add to their portfolios as owners may be more willing to sell to generate cash, enhance their income statement and be more realistic in their price expectations.

Glossary

Board	:	Board of Directors of the Manager
Bursa Malaysia	:	Bursa Malaysia Securities Berhad
Company	:	Pavilion REIT Management Sdn Bhd
CEO	:	Chief Executive Officer
CPI	:	Consumer Price Index
CSR	:	Corporate social responsibility
Deed	:	The 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
FY	:	Financial year from 1 January to 31 December
GDP	:	Gross domestic product
GFA	:	Gross floor area
GST	:	Goods & Service Tax
IMF	:	International Monetary Fund
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	:	MTrustee Berhad
TAV	:	Total asset value
Unit	:	An undivided interest in Pavilion REIT as provided for in the Deed
WALE	:	Weighted average lease expiry

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifth Annual General Meeting of Pavilion Real Estate Investment Trust ("Pavilion REIT") will be held at The Saujana Hotel, Saujana Resort, Jalan Lapangan Terbang SAAS, 40150 Selangor Darul Ehsan, Malaysia on Thursday, 30 March 2017 at 10.00 a.m. to transact the following businesses:-

ORDINARY BUSINESS

1. To lay the Audited Financial Statements of Pavilion REIT for the year ended 31 December 2016 together with the Trustee's Report to the Unitholders issued by MTrustee 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 I)

SPECIAL BUSINESS

To consider and, if thought fit, to pass with or without any modification, the following Resolution:

2. **PROPOSED AUTHORITY TO ALLOT AND ISSUE NEW UNITS PURSUANT TO CLAUSE 14.03 OF THE SECURITIES COMMISSION MALAYSIA'S GUIDELINES ON REAL ESTATE INVESTMENT TRUSTS (REITS GUIDELINES) (PROPOSED AUTHORITY)**

Ordinary Resolution

"THAT pursuant to the REITs Guidelines, Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the approval of the relevant regulatory authorities, where such approval is required, authority be and is hereby given to Pavilion REIT Management Sdn Bhd ("the Manager") to allot and issue new units in Pavilion REIT ("New Units") from time to time to such persons and for such purposes as the Manager may in its absolute discretion deem fit and in the best interest of Pavilion REIT, provided that the aggregate number of New Units issued pursuant to this resolution, when aggregated with the number of units in Pavilion REIT issued during the preceding 12 months, must not exceed 20% of the approved fund size of Pavilion REIT of 3,100,000,000 units;

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

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

whichever occurs first ("Validity Period");

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

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

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

BY ORDER OF THE BOARD

Pavilion REIT Management Sdn Bhd (939490-H)
(as the Manager of Pavilion Real Estate Investment Trust)

Lim Mei Yoong (LS 02201)
Company Secretary

Kuala Lumpur
28 February 2017

Notice of Annual General Meeting (Cont'd)

Notes:

1. A unitholder who is entitled to attend at the meeting is entitled to appoint not more than 2 proxies to attend instead of him. A proxy need not be a unitholder. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless he specifies the proportions of his holding (expressed as a percentage of the whole) to be represented by each proxy.
2. Where a unitholder is a corporation, its duly authorised representative shall be entitled to attend at the meeting and shall be entitled to appoint another person (whether a unitholder or not) as its proxy to attend.
3. Where a unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in units standing to the credit of the said securities account. Where a unitholder appoints 2 proxies, the appointments shall be invalid unless it specifies the proportions of its holdings (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if such appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
5. The instrument appointing proxy shall be deposited at the Registered Office of the Manager at 6-2, Level 6, East Wing, Menara Goldstone (Holiday Inn Express), No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 28 March 2017 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 23 March 2017 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.

Explanatory Notes on:

(I) **Ordinary Business**

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

(II) **Special Business**

The Proposed Ordinary Resolution, if passed, would enable the Manager to allot and issue New Units from time to time provided that the aggregate number of the New Units to be issued during the Validity Period, when aggregated with the number of units issued during the preceding 12 months must not exceed 20% of the approved fund size of Pavilion REIT of 3,100,000,000 units.

The Proposed Authority will allow the Manager the flexibility to allot and issue New Units to raise funds to finance future investments, acquisitions and/or capital expenditure to enhance the value of Pavilion REIT and/or to refinance existing debt as well as for working capital purposes, subject to the relevant laws and regulations. With the Proposed Authority, delays and further costs involved in convening separate general meetings to approve such issue of New Units to raise funds can be avoided.

The Manager may, subject to relevant laws and regulations, use the net proceeds from the issuance of New Units under the Proposed Authority as its absolute discretion for other purposes as permitted for under the REITs Guidelines.

Any allotment and issuance of New Units pursuant to the Proposed Authority will be subject to the relevant approvals of Securities Commission Malaysia and Bursa Malaysia Securities Berhad.

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PAVILION

REAL ESTATE INVESTMENT TRUST

(Established in Malaysia under the 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./Passport No./Company No. _____ Tel./Mobile No. _____

of _____
(full address) being a unitholder of **PAVILION REAL ESTATE INVESTMENT TRUST** ("Pavilion REIT") and entitled to vote hereby appoint:-

1st PROXY 'A'

Full name :		Proportion of unitholdings represented	
		No. of Units	%
Address :	NRIC No./Passport No./ Company No.:		

and/or failing *him/her

2nd PROXY 'B'

Full name :		Proportion of unitholdings represented	
		No. of Units	%
Address :	NRIC No./Passport No./ Company No.:		

or failing *him/her, the Chairman of the Meeting as *my/our proxy to attend and vote for *me/us on *my/our behalf at the Fifth Annual General Meeting of Pavilion REIT to be held at The Saujana Hotel, Saujana Resort, Jalan Lapangan Terbang SAAS, 40150 Selangor Darul Ehsan, Malaysia on Tuesday, 30 March 2017 at 10.00 a.m. and any adjournment thereof.

* Strike out whichever not applicable

Please indicate with an "X" in the space below on how you wish your votes to be cast. If you do not do so, the proxy/proxies will vote or abstain from voting at his/her/their discretion.

Ordinary Resolution – Special Business	For	Against
Proposed Authority to Allot and Issue New Units		

Dated this _____ day _____ 2017

Signature of Unitholder/Common Seal

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 Goldstone (Holiday Inn Express), No. 84, Jalan Raja Chulan, 50200 Kuala Lumpur not later than 28 March 2017 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 23 March 2017 shall be entitled to attend and speak at the meeting or appoint proxy(ies) to attend on his behalf.



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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 Goldstone (Holiday Inn Express)
No. 84, Jalan Raja Chulan
50200 Kuala Lumpur

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