

**PAVILION REAL ESTATE INVESTMENT TRUST**  
**FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

**CONDENSED STATEMENT OF FINANCIAL POSITION**

	As at 30 September 2017 (Unaudited) <b>RM'000</b>	As at 31 December 2016 (Audited) <b>RM'000</b>
<b>ASSETS</b>		
Plant and equipment	1,911	1,958
Investment properties	5,241,153	5,229,000
Other non-current assets	58,000	-
Total non-current assets	<u>5,301,064</u>	<u>5,230,958</u>
Inventories	1,433	1,315
Trade and other receivables	51,660	43,074
Cash and bank balances	200,703	317,071
Total current assets	<u>253,796</u>	<u>361,460</u>
<b>TOTAL ASSETS</b>	<b>5,554,860</b>	<b>5,592,418</b>
<b>LIABILITIES</b>		
Borrowings	1,449,856	1,412,351
Payables and accruals	71,874	65,398
Total non-current liabilities	<u>1,521,730</u>	<u>1,477,749</u>
Payables and accruals	175,472	193,820
Total current liabilities	<u>175,472</u>	<u>193,820</u>
<b>TOTAL LIABILITIES</b>	<b>1,697,202</b>	<b>1,671,569</b>
<b>NET ASSET VALUE</b>	<b><u>3,857,658</u></b>	<b><u>3,920,849</u></b>
<b>FINANCED BY</b>		
<b>UNITHOLDERS' FUND</b>		
Unitholders' capital	2,913,849	2,900,708
Accumulated Income	943,809	1,020,141
<b>TOTAL UNITHOLDERS' FUND</b>	<b><u>3,857,658</u></b>	<b><u>3,920,849</u></b>
Number of units in circulation ('000 units)	3,030,094	3,022,525
Net asset value per unit (RM)		
- Before income distribution	1.2731	1.2972
- After income distribution	1.2731	1.2972

The unaudited condensed statement of financial position should be read in conjunction with the Audited Financial Report for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

**PAVILION REAL ESTATE INVESTMENT TRUST**  
**FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

**CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Current Quarter 30 September		Year to Date 30 September	
	2017 (Unaudited) <b>RM'000</b>	2016 (Unaudited) <b>RM'000</b>	2017 (Unaudited) <b>RM'000</b>	2016 (Unaudited) <b>RM'000</b>
Rental Income	100,818	99,528	296,937	290,159
Other Income	20,538	18,016	63,616	52,079
<b>GROSS REVENUE</b>	<b>121,356</b>	<b>117,544</b>	<b>360,553</b>	<b>342,238</b>
Utilities	(15,392)	(15,017)	(43,915)	(41,518)
Maintenance	(13,486)	(8,724)	(38,945)	(27,827)
Property taxes	(3,148)	(3,150)	(9,603)	(8,876)
Other operating expenses	(11,168)	(9,941)	(34,236)	(26,235)
<b>PROPERTY OPERATING EXPENSES</b>	<b>(43,194)</b>	<b>(36,832)</b>	<b>(126,699)</b>	<b>(104,456)</b>
<b>NET PROPERTY INCOME</b>	<b>78,162</b>	<b>80,712</b>	<b>233,854</b>	<b>237,782</b>
Interest income	2,117	2,409	6,324	6,376
Change in fair value of investment properties	-	-	-	-
<b>NET INVESTMENT INCOME</b>	<b>80,279</b>	<b>83,121</b>	<b>240,178</b>	<b>244,158</b>
Manager's management fees	(6,510)	(6,458)	(19,480)	(18,881)
Trustee's fees	(119)	(117)	(352)	(341)
Other trust expenses	(243)	(128)	(791)	(750)
Borrowings costs	(18,000)	(17,029)	(52,727)	(43,772)
<b>TOTAL TRUST EXPENDITURE</b>	<b>(24,872)</b>	<b>(23,732)</b>	<b>(73,350)</b>	<b>(63,744)</b>
<b>INCOME BEFORE TAXATION</b>	<b>55,407</b>	<b>59,389</b>	<b>166,828</b>	<b>180,414</b>
Taxation	-	-	-	-
<b>INCOME AFTER TAXATION / TOTAL COMPREHENSIVE INCOME</b>	<b>55,407</b>	<b>59,389</b>	<b>166,828</b>	<b>180,414</b>
Income after taxation comprises the followings:-				
Realised	55,407	59,389	166,828	180,414
Unrealised	-	-	-	-
	<u>55,407</u>	<u>59,389</u>	<u>166,828</u>	<u>180,414</u>
Earnings per unit – basic (sen) #	1.83	1.97	5.51	5.97
Earnings per unit – diluted (sen) #	1.83	1.97	5.51	5.97

The unaudited condensed statement of profit or loss and other comprehensive income should be read in conjunction with the Audited Financial Report for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

# Earnings per unit is derived based on income after taxation divided by the weighted average number of units in issue.

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	Current Quarter 30 September		Year to Date 30 September	
	2017	2016	2017	2016
	(Unaudited) RM'000	(Unaudited) RM'000	(Unaudited) RM'000	(Unaudited) RM'000
<b>Total comprehensive income for the period</b>	<b>55,407</b>	<b>59,389</b>	<b>166,828</b>	<b>180,414</b>
Distribution adjustments <sup>1</sup>	4,250	2,694	12,679	7,408
<b>Distributable income</b>	<b>59,657</b>	<b>62,083</b>	<b>179,507</b>	<b>187,822</b>

<sup>1</sup> Included in the distribution adjustments are the followings:-

	Current Quarter 30 September		Year to Date 30 September	
	2017	2016	2017	2016
	(Unaudited) RM'000	(Unaudited) RM'000	(Unaudited) RM'000	(Unaudited) RM'000
Amortisation of borrowing transaction costs	866	911	2,569	2,202
Depreciation	129	169	370	486
Manager's management fees payable in units	3,255	1,614	9,740	4,720
	4,250	2,694	12,679	7,408

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**CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE**

	Unitholders' Capital	Income / (Deficit)	Total Funds
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>As at 1 January 2016</b>	2,893,046	958,561	3,851,607
Total comprehensive income for the period	-	180,414	180,414
<b>Unitholders' transactions</b>			
- Issue of new units <sup>2</sup>			
- Manager's management fees paid in units	7,662	-	7,662
- Distribution to unitholders	-	(250,563)	(250,563)
Increase/(Decrease) in net assets resulting from unitholders' transactions	7,662	(250,563)	(242,901)
<b>As at 30 September 2016 (unaudited)</b>	<b><u>2,900,708</u></b>	<b><u>888,412</u></b>	<b><u>3,789,120</u></b>
<b>As at 1 January 2017</b>	2,900,708	1,020,141	3,920,849
Total comprehensive income for the period	-	166,828	166,828
<b>Unitholders' transactions</b>			
- Issue of new units <sup>2</sup>			
- Manager's management fees paid in units	13,141	-	13,141
- Distribution to unitholders	-	(243,160)	(243,160)
Increase/(Decrease) in net assets resulting from unitholders' transactions	13,141	(243,160)	(230,019)
<b>As at 30 September 2017 (unaudited)</b>	<b><u>2,913,849</u></b>	<b><u>943,809</u></b>	<b><u>3,857,658</u></b>

The unaudited condensed statement of changes in net asset value should be read in conjunction with the Audited Financial Report for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

<sup>2</sup> Issue of new units consists of the followings:-

	30 September 2016	
	Units 000	Amount RM'000
Issuance of new units pursuant to 25% Manager's management fees paid in units :-		
- at RM1.4970 per unit for entitlement for the 6 months period ended 31 December 2015	1,963	2,939
Issuance of new units pursuant to 25% Manager's management fees paid in units :-		
- at RM1.7503 per unit for entitlement to management fees for the 6 months period ended 30 June 2016	1,774	3,106
- at RM1.7102 and RM1.5446 per unit for entitlement to acquisition and disposal fees	946	1,617
Total Manager's fees paid	<u>4,683</u>	<u>7,662</u>

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	30 September 2017	
	Units	Amount
	<b>000</b>	<b>RM'000</b>
Issuance of new units pursuant to 50% Manager's management fees paid in units :-		
- at RM1.7707 per unit for entitlement for the 6 months period ended 31 December 2016	3,759	6,656
Issuance of new units pursuant to 50% Manager's management fees paid in units :-		
- at RM1.7024 per unit for entitlement for the 6 months period ended 30 June 2017	3,809	6,485
Total Manager's fees paid	<u>7,568</u>	<u>13,141</u>

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**CONDENSED STATEMENT OF CASH FLOWS**

	Current Year to Date 30 September 2017 RM'000	Preceding Year to Date 30 September 2016 RM'000
<b>Cash Flows From Operating Activities</b>		
Income before taxation	166,828	180,414
<i>Adjustments for :-</i>		
Borrowing cost	52,727	43,772
Interest income	(6,324)	(6,376)
Depreciation	370	486
(Gain)/Loss on disposal of plant and equipment	(1)	18
Plant and equipment written off	-	3
Impairment loss on trade receivables	1,959	-
<b>Operating income before changes in working capital</b>	<b>215,559</b>	<b>218,317</b>
Inventories	(118)	(34)
Trade and other receivables	(10,545)	(25,418)
Trade and other payables	(1,571)	22,570
Tenants' deposits	2,840	20,908
<b>Net cash from operating activities</b>	<b>206,165</b>	<b>236,343</b>
<b>Cash Flow From Investing Activities</b>		
Acquisition of investment properties	-	(529,051)
Deposit for acquisition of investment properties	(58,000)	-
Interest received	6,324	6,376
Payment for enhancement of investment properties	(12,153)	(8,522)
Pledged deposit	(948)	(17,987)
Proceed from disposal of plant and equipment	1	1
Purchase of plant and equipment	(323)	(570)
<b>Net cash used in investing activities</b>	<b>(65,099)</b>	<b>(549,753)</b>
<b>Cash Flow from Financing Activities</b>		
Distribution to unitholders	(243,160)	(250,563)
Interest paid	(50,158)	(41,570)
Payment of financing expenses	(64)	(7,129)
Proceeds from borrowings	35,000	766,587
Repayment of borrowings	-	(100,000)
<b>Net cash (used in)/from financing activities</b>	<b>(258,382)</b>	<b>367,325</b>
Net (decrease)/increase in cash and cash equivalents	(117,316)	53,915
Cash and cash equivalents as at the beginning of the year	277,353	164,730
Cash and cash equivalents as at the end of the period	160,037	218,645
Cash and cash equivalents as at the end of the period comprise :-		
Cash and bank balances	13,751	20,372
Deposits placed with licensed banks	186,952	235,536
	200,703	255,908
Pledged deposit	(40,666)	(37,263)
	160,037	218,645

The unaudited condensed statement of cash flows should be read in conjunction with the Audited Financial Report for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

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**Part A – Disclosure Requirement Pursuant to Malaysian Financial Reporting Standard (MFRS) 134 and International Accounting Standard (IAS) 34**

**A1 Basis of Preparation**

The condensed interim financial statements as at and for the nine months ended 30 September 2017 comprise Pavilion REIT and its subsidiaries. The unaudited interim financial statements have been prepared in accordance with MFRS 134, *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial Reporting*, and Paragraph 9.44 of the Listing Requirements of Bursa Securities, provision of the trust deed dated 13 October 2011 (“the Trust Deed”) and the Securities Commission’s Guidelines on Real Estate Investment Trusts (“the REITs Guidelines”). They do not include all of the information required for a full set of annual financial statements, and should be read in conjunction with the Audited Financial Report for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

**A2 Audit Report of Preceding Financial Year**

There was no qualification to the Pavilion REIT’s audit report for the preceding financial year ended 31 December 2016, which was prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

**A3 Significant accounting policies**

The accounting policies applied in these condensed interim financial statements are the same as those applied in its consolidated annual financial statements as at and for the year ended 31 December 2016.

**A4 Estimates**

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

In preparing these condensed interim financial statements, the significant judgements made by the Manager in applying the accounting policies and the key sources of estimation were the same as those that were applied to the financial statements as at and for the year ended 31 December 2016, except as disclosed below.

The accounting policy of investment properties as adopted by Pavilion REIT requires investments properties to be stated at fair value. In estimating the fair value of the investment properties, the Manager will rely on professionally qualified valuers at annual reporting dates. However, for interim financial reporting, the fair values of the investment properties are not updated. Asset improvement initiatives undertaken by the management, the economic environment and other factors may change the fair values of the investment properties. When the fair values are updated as at 31 December 2017, the fair values could be materially different from the current carrying value.

**A5 Seasonality or Cyclicity of Operations**

The business operations of Pavilion REIT are not affected by material seasonal or cyclical factors.

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**A6 Exceptional or Unusual Item**

There were no exceptional or unusual items to be disclosed for the quarter under review.

**A7 Changes in Estimates**

There were no changes in estimates that have had material effect in the current quarter.

**A8 Debt and Equity Securities**

There were no issuance, cancellation, repurchase, sale and payment of debt and equity securities for the current quarter and year to date except for payment of 50% Manager's fees paid in Pavilion REIT units, with details as disclosed below.

Units issued	Price per Unit	Listed on Main Market of Bursa Securities on	Remark
3,758,861	RM1.7707	10 February 2017	Based on the 5-day volume weighted average price of the units up to but excluding 19 January 2017
3,809,475	RM1.7024	14 August 2017	Based on the 5-day volume weighted average price of the units up to but excluding 27 July 2017

**A9 Segmental Reporting**

Segmental results for the period ended 30 September 2017 is as follows:-

Business Segment	Retail RM'000	Office RM'000	Total RM'000
Gross Revenue	351,289	9,264	360,553
Net Property Income	227,918	5,936	233,854
Interest Income			6,324
Net Investment Income			240,178
Trust Expenses			(20,623)
Borrowings Cost			(52,727)
Income Before Taxation			166,828
Taxation			-
Income After Taxation			166,828
Segment assets	5,392,788	133,992	5,526,780
Other non-allocated assets			28,080
			5,554,860
Segment liabilities	1,666,347	30,603	1,696,950
Other non-allocated liabilities			252
			1,697,202

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A10 Valuation of Investment Properties

The investment properties are to be valued annually based on valuation by independent registered valuer. Any differences between the valuation and the book value of the respective investment properties are charged or credited to the profit or loss for the period in which they arise. For investment properties acquired under equity-settled share-based payment transactions, the investment properties are initially measured at fair value, with corresponding increase in equity.

A11 Material Events Subsequent to Period End

There were no material events subsequent to the end of the reporting quarter that require disclosure or adjustments to the unaudited interim financial statement.

A12 Changes in the Composition of Pavilion REIT

The movement to the composition of Pavilion REIT during the period is as follows:-

	Units
Balance as at 1 January 2017	3,022,525,269
Units issued as payment of Manager's management fees	7,568,336
Total units issued	<u>3,030,093,605</u>

A13 Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets to be disclosed during the quarter under review.

A14 Capital Commitments

	RM'000
Authorised but not contracted for	14,662
Contracted but not provided for	4,946

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**Part B – Additional Information Pursuant to Paragraph 9.44 of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad**

B1 Review of Performance

	Current Quarter 30 September		Year to Date 30 September	
	2017 (Unaudited) RM'000	2016 (Unaudited) RM'000	2017 (Unaudited) RM'000	2016 (Unaudited) RM'000
<b>Gross Revenue</b>				
Retail:				
Pavilion Kuala Lumpur Mall	104,465	98,611	306,862	300,554
Intermark Mall	6,273	5,646	18,562	11,363
DA MEN Mall	7,442	10,045	25,865	20,935
	<u>118,180</u>	<u>114,302</u>	<u>351,289</u>	<u>332,852</u>
Office:				
Pavilion Tower	3,176	3,242	9,264	9,386
<b>Total Gross Revenue</b>	<u>121,356</u>	<u>117,544</u>	<u>360,553</u>	<u>342,238</u>
<b>Property Operating Expenses</b>				
Retail:				
Pavilion Kuala Lumpur Mall	32,862	26,873	93,698	84,830
Intermark Mall	3,300	3,557	10,679	6,315
DA MEN Mall	5,884	5,543	18,994	10,416
	<u>42,046</u>	<u>35,973</u>	<u>123,371</u>	<u>101,561</u>
Office:				
Pavilion Tower	1,148	859	3,328	2,895
<b>Total Property Operating Expenses</b>	<u>43,194</u>	<u>36,832</u>	<u>126,699</u>	<u>104,456</u>
<b>Net Property Income</b>				
Retail:				
Pavilion Kuala Lumpur Mall	71,603	71,738	213,164	215,724
Intermark Mall	2,973	2,089	7,883	5,048
DA MEN Mall	1,558	4,502	6,871	10,519
	<u>76,134</u>	<u>78,329</u>	<u>227,918</u>	<u>231,291</u>
Office:				
Pavilion Tower	2,028	2,383	5,936	6,491
<b>Total Net Property Income</b>	<u>78,162</u>	<u>80,712</u>	<u>233,854</u>	<u>237,782</u>

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	Current Quarter		Year to Date	
	30 September		30 September	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RM'000	RM'000	RM'000	RM'000
<b>Total Net Property Income</b>	78,162	80,712	233,854	237,782
Interest Income	2,117	2,409	6,324	6,376
<b>Net Investment Income</b>	<u>80,279</u>	<u>83,121</u>	<u>240,178</u>	<u>244,158</u>
Manager's Management Fees	6,510	6,458	19,480	18,881
Other Trust Expenses	362	245	1,143	1,091
Borrowings Costs	18,000	17,029	52,727	43,772
Total Trust Expenses	<u>24,872</u>	<u>23,732</u>	<u>73,350</u>	<u>63,744</u>
<b>Income Before Taxation</b>	55,407	59,389	166,828	180,414
Taxation	-	-	-	-
<b>Income After Taxation</b>	<u>55,407</u>	<u>59,389</u>	<u>166,828</u>	<u>180,414</u>
Distribution Adjustments	4,250	2,694	12,679	7,408
<b>Distributable Income</b>	<u>59,657</u>	<u>62,083</u>	<u>179,507</u>	<u>187,822</u>

#### Quarterly Results

Pavilion REIT recognised total gross revenue of RM121.4 million in Q3 2017, higher by RM3.9 million or 3% compared to Q3 2016 of RM117.5 million. The increase was mainly contributed by rental income from Pavilion Kuala Lumpur Mall's tenants after the repositioning exercise.

Total property operating expenses was higher by RM6.4 million or 17% compared to Q3 2016 mainly due to higher maintenance cost incurred such as continuous air conditioning system improvement and upgrading works, replacement of pumps, escalator handrails and steps at Pavilion Kuala Lumpur Mall as well as sponsorship of 2017 Sea Games.

These have resulted in lower total net property income by RM2.5 million or 3% in Q3 2017 compared to Q3 2016.

Manager's management fees incurred for Q3 2017 were slightly higher by RM0.1 million compared to same quarter last year. This was in line with the increased in total asset value. Borrowing costs incurred during the quarter have increased by RM1.0 million compared to Q3 2016 due to the drawdown of additional borrowings for acquisition of investment properties and working capital purposes.

Distributable income for the quarter under review was RM59.7 million or 1.96 sen per unit, consisting of income after tax of RM55.4 million and non-cash adjustments for depreciation of RM0.1 million, amortisation of borrowings transaction cost of RM0.9 million and 50% of Manager's management fees payable in units amounting to RM3.3 million.

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Year-to-date Results

Total revenue for year-to-date 30 September 2017 was RM360.6 million. It was higher by RM18.3 million or 5% compared to preceding year-to-date 30 September 2016's performance. The achievement was mainly contributed by rental income from the two newly acquired properties as well as Pavilion Kuala Lumpur Mall's tenants after the repositioning exercise.

Total property operating expenses incurred was higher by RM22.2 million or 21% compared to year to date 30 September 2016. This was mainly due to the routine operating expenses incurred for the two new properties and higher maintenance cost incurred such as air conditioning system improvement and upgrading work, air chillers rewinding, replacement of escalator handrails, steps and broken combs at Pavilion Kuala Lumpur Mall, replacement of lift and escalator parts and improvement of light fittings at Intermark Mall, tenancy costs incurred for landlord provisions at Damen Mall, higher provision of doubtful debts, as well as higher marketing cost incurred due to sponsorship of 2017 Sea Games.

Manager's management fees were slightly higher despite lower net property income due to the increased in total asset value. Borrowing costs were higher by RM8.9 million due to drawdown of additional borrowings for acquisition of investment properties and working capital purposes.

These resulted in income before taxation being lower by RM13.6 million compared to preceding year-to-date 30 September 2016.

Distributable income for the nine months ended 30 September 2017 was RM179.5 million or 5.92 sen per unit, consisting of income before taxation of RM166.8 million and non-cash adjustments for depreciation of RM0.4 million, amortisation of borrowings transaction cost of RM2.6 million and 50% of manager's management fees payable in units amounting to RM9.7 million.

Pavilion REIT has expended approximately RM12.2 million of its capital commitment during the year, mainly for the continuous toilet upgrading works, installation of way finding system in Pavilion Kuala Lumpur Mall, upgrading of the drop off entrance and canopy at Couture Pavilion, façade enhancement at Jalan Bukit Bintang entrance, new rain screen at Jalan Raja Chulan connection area, improvements of tenancy lots and creation of additional food and beverages kiosks at the Intermark Mall.

**B2 Material Changes in Quarterly Results**

There was no material change in the income before taxation for the current quarter under review as compared to the last immediate quarter.

**B3 Prospects**

Although retail environment is challenging, marketing will continue to create differentiation and key attractions to build shopping experience to attract and retain shoppers' loyalty to the retail malls with operating cost being monitored to optimise efficiency.

**B4 Investment Objectives**

The Manager's key objective is to provide unitholders with regular and stable distributions and achieve long term growth in net asset value per unit, while maintaining an appropriate capital structure.

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**B5 Strategies and Policies**

The Manager's strategies and policies as reported in the latest annual report remain unchanged, ie to increase the income and consequently, the value of its investment properties and continue Pavilion REIT's growth through the following strategies:-

- a) proactively managing its investment properties and implementing asset enhancement strategies;
- b) actively pursuing acquisition opportunities in accordance with the authorised investments of Pavilion REIT stated in the Trust Deed; and
- c) pursuing an efficient capital management strategy.

**B6 Income Distribution**

Pursuant to Section 61A of the Income Tax Act 1967, the withholding tax rate applicable on the recipients of income distribution is as follows:-

*Resident Unitholder*

- |  |   |
|--|---|
| a) Resident company:                       | Tax flow through, thus no withholding tax |
| b) Unitholder other than resident company: | Withholding tax at 10%                    |

*Non-Resident Unitholder*

- |  |                        |
|--|------------------------|
| a) Non-resident company:   | Withholding tax at 24% |
| b) Non-resident institutional investor:                          | Withholding tax at 10% |
| c) Non-resident, other than company and institutional investors: | Withholding tax at 10% |

As per the distribution policy stated in the Trust Deed, the Manager intends to distribute at least 90% of Pavilion REIT distributable income on a half yearly basis. For the financial year ending 31 December 2017, Pavilion REIT proposes to distribute 100% of its distributable income.

Distribution of 3.96 sen per unit or RM119.8 million earned for 1<sup>st</sup> half of 2017 was distributed on 6 September 2017. Distribution for the quarter ended 30 September 2017 would be payable together with the distribution for the quarter ending 31 December 2017.

**B7 Portfolio Composition**

There was no change to the number of properties held by Pavilion REIT since the last reporting quarter, ie its portfolio comprises Pavilion Kuala Lumpur Retail Mall, Pavilion Tower, Damen Mall and Intermark Mall.

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**B8 Taxation**

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 proposes to declare 100% of its distributable income to its unitholders for the financial year ending 31 December 2017, no provision for taxation has been made for the current quarter.

**B9 Status of Corporate Proposal**

Corporate proposals announced but not completed as at the latest practicable date from the issuance of this report are as follows:-

On 27 July 2017, the Board of Directors of the Manager, CIMB Investment Bank Berhad and Maybank Investment Bank Berhad announced that MTrustee Berhad, as trustee of Pavilion REIT (“Trustee”), had entered into the following agreements in relation to the proposed acquisition:

- a) Conditional sale and purchase agreement with Urusharta Cemerlang (KL) Sdn Bhd (“UCKL”) for the acquisition of Elite Pavilion Mall comprising the followings, for a total purchase consideration of RM580,000,000 (“Elite SPA”):
  - (i) Level B3, Level B2, Level B1, Level 1 – Level 10 (inclusive), Level 10M, Level 10MM, Level 11 (including roof) and Level 52 (including the external façade of Level 52 up to roof level) of the building, and the stratified parcels comprising, amongst others, 50 car park bays located at Level B3 to Level 2 within the building. The strata floor area is approximately 437,585 square feet;
  - (ii) The assignment of all benefits, rights and entitlements to an underground pedestrian tunnel with strata floor area of approximately 8,697 square feet together with retail outlets and other relevant spaces that interconnects Elite Pavilion Mall with Fahrenheit 88 shopping mall across Jalan Bukit Bintang, Kuala Lumpur (“Subway Linkage”);
  - (iii) The transfer of tenancies within Elite Pavilion Mall and the Subway Linkage under the transfer agreements (“Transferred Agreements”).
- b) An agreement with Urusharta Cemerlang Sdn Bhd (“UCSB”) and UCKL for UCSB to vest to the Trustee of all rights, title, interest, benefits, and entitlement to and ownership of amongst others, the pedestrian link bridges on Levels 4 to 7 with seating and/or retail areas located on Levels 4 to 10 that interconnect Elite Pavilion Mall with Pavilion KL Mall (with strata floor area of approximately 18,407 square feet) together with the transfer of all rights, benefits and entitlement to the on-going tenancies on these areas to the Trustee (“Vesting Agreement”).

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- c) Conditional sale and purchase agreement with UCSB for the disposal of an area comprising, amongst others, 10 car park bays with a provision gross floor area of approximately 2,324 square feet located at Levels 1 and 1M within the Pavilion KL Mall by the Trustee to UCSB (“Car Park Disposal SPA”) for a cash consideration of RM880,000 to facilitate the construction of an electrical sub-station by UCKL that will supply electricity to, amongst others, Elite Pavilion Mall as well as a block of serviced suites comprising 383 units being erected above Elite Pavilion Mall. The Electrical Sub-Station will ultimately be surrendered to Tenaga Nasional Berhad (“TNB”).

The Elite SPA and Vesting Agreement are inter-conditional upon each other and are to be completed concurrently.

The Elite SPA is conditional upon the Car Park Disposal SPA. However, the Car Park Disposal SPA is not conditional upon the Elite SPA and Vesting Agreement, and will be completed even if the parties do not complete the Elite SPA and Vesting Agreement. The sale of the Disposed Car Park Bays is to ensure that the Electrical Sub-Station will be built by UCKL and surrendered to TNB to supply electricity to Elite Pavilion Mall and the serviced suites which are currently being constructed above Elite Pavilion Mall.

**B10 Borrowings and Debt Securities**

	As at 30 September 2017 RM'000
Long term borrowings	
Secured Revolving Term Loan	1,156,888
Unrated Medium Term Notes	300,000
Less: Unamortised Borrowings Transaction Cost	(7,032)
	1,449,856

**B11 Off Balance Sheet Financial Instruments**

Pavilion REIT does not have any financial instruments with off balance sheet risk as at the latest practicable date from the issuance of this report.

**B12 Material Litigation**

There is no pending material litigation as at the latest practicable date from the date of issuance of this report.

**B13 Soft Commission Received**

There was no soft commission received by the Manager and / or its delegates during the period under review.

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B14 Summary of DPU, EPU, NAV and Market Price

	Current quarter ended 30 September 2017	Immediate preceding quarter ended 30 June 2017
Number of units in issue (units)	3,030,093,605	3,026,284,130
Net Asset Value (“NAV”) (RM’000)	3,857,658	3,915,607
NAV per unit (RM)	1.2731	1.2939
Total comprehensive income (RM’000)	55,407	54,400
Weighted average number of units in issue – year to date (units)	3,026,403,179	3,025,453,442
Earnings per Unit after Manager’s management fees (Sen)	1.83	1.80
Proposes / Declared Distribution per Unit (“DPU”) (Sen)	1.96	1.94
Market Price (RM)	1.75	1.76
Distribution Yield (%) <sup>3</sup>	4.52	4.54

<sup>3</sup> Distribution yield of year to date DPU divided by the Market Price (as at the end of the period) has been annualised.

B15 Manager’s Management Fees

The Manager’s fees for the current quarter and year to date is as follows:-

Type RM’000	Current Quarter 30 September 2017	Year to Date 30 September 2017	Basis
Base Fee	4,165	12,464	0.3% per annum on total asset value
Performance Fee	2,345	7,016	3.0% per annum on net property income
Total	6,510	19,480	

50% of the total Manager’s fees would be payable in units.

B16 Trustee’s Fees

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

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B17 Significant related party transactions

Significant related party transactions, other than Manager's management fees for the quarter ended 30 September 2017 is as follows:-

Companies related to the Manager / director's interest	Nature of Transactions	Transaction Value Year to Date: 30 Sep		Balance Outstanding As at	
		2017 RM'000	2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Pavilion REIT Management Sdn Bhd	Rental income and its related charges	341	350	4	4
Malton Berhad group #	Rental income and its related charges	2,294	2,297	11	12
Crabtree & Evelyn (Malaysia) Sdn Bhd *	Rental income and its related charges	674	866	(81)	191
	Purchase of product	280	64	6	6
Lumayan Indah Sdn Bhd ^	Rental income and its related charges	72	3	16	-
Impian Ekspresi Sdn Bhd ◇	Rental income and its related charges	574	461	3	196
Urusharta Cemerlang (KL) Sdn Bhd α	Rental income and its related charges	582	580	4	3
	Reimbursement of electricity supply to Elite Pavilion Mall	4,178	-	459	-
Kuala Lumpur Pavilion Sdn Bhd ∞	Reimbursement of MRT station naming rights fee and its related charges	250	-	-	-

# 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.

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- α 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.

- ∞ 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.

**B19 Responsibility Statement**

In the opinion of the Directors of the Manager, this quarterly financial report has been prepared in accordance with MFRS 134: *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial Reporting*, and Paragraph 9.44 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad so as to give a true and fair view of the financial position of Pavilion REIT as at 30 September 2017 and of its financial performance and cash flows for the period ended on that date and duly authorised for release by the Board of the Manager.

**BY ORDER OF THE BOARD**

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

Lim Mei Yoong  
Company Secretary (Licensed Secretary Number: LS 02201)

Kuala Lumpur  
26 October 2017