

**PAVILION REAL ESTATE INVESTMENT TRUST**  
**FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

**CONDENSED STATEMENT OF FINANCIAL POSITION**

	As at 31 December 2017 (Unaudited) <b>RM'000</b>	As at 31 December 2016 (Audited) <b>RM'000</b>
<b>ASSETS</b>		
Plant and equipment	2,129	1,958
Investment properties	5,268,000	5,229,000
Other non-current assets	58,000	-
Total non-current assets	<u>5,328,129</u>	<u>5,230,958</u>
Inventories	1,554	1,315
Trade and other receivables	48,098	43,074
Cash and bank balances	275,383	317,071
Total current assets	<u>325,035</u>	<u>361,460</u>
<b>TOTAL ASSETS</b>	<b>5,653,164</b>	<b>5,592,418</b>
<b>LIABILITIES</b>		
Borrowings	1,462,681	1,412,351
Payables and accruals	73,107	65,398
Total non-current liabilities	<u>1,535,788</u>	<u>1,477,749</u>
Payables and accruals	177,099	193,820
Total current liabilities	<u>177,099</u>	<u>193,820</u>
<b>TOTAL LIABILITIES</b>	<b>1,712,887</b>	<b>1,671,569</b>
<b>NET ASSET VALUE</b>	<b><u>3,940,277</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	1,026,428	1,020,141
<b>TOTAL UNITHOLDERS' FUND</b>	<b><u>3,940,277</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	1.3004	1.2972
- After income distribution	1.3004	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 31 DECEMBER 2017 (UNAUDITED)**

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

	Current Quarter 31 December		Year to Date 31 December	
	2017 (Unaudited) RM'000	2016 (Unaudited) RM'000	2017 (Unaudited) RM'000	2016 (Audited) RM'000
Rental income	100,431	98,322	397,368	388,481
Other income	29,017	19,141	92,633	71,220
<b>GROSS REVENUE</b>	<b>129,448</b>	<b>117,463</b>	<b>490,001</b>	<b>459,701</b>
Utilities	(14,044)	(14,519)	(57,959)	(56,037)
Maintenance	(10,836)	(11,617)	(49,781)	(39,444)
Property taxes	(3,190)	(3,134)	(12,793)	(12,010)
Other operating expenses	(12,319)	(11,201)	(46,555)	(37,436)
<b>PROPERTY OPERATING EXPENSES</b>	<b>(40,389)</b>	<b>(40,471)</b>	<b>(167,088)</b>	<b>(144,927)</b>
<b>NET PROPERTY INCOME</b>	<b>89,059</b>	<b>76,992</b>	<b>322,913</b>	<b>314,774</b>
Interest income	1,841	2,339	8,165	8,715
Gain on disposal of investment property	274	-	274	-
Change in fair value of investment properties	17,028	76,872	17,028	76,872
<b>NET INVESTMENT INCOME</b>	<b>108,202</b>	<b>156,203</b>	<b>348,380</b>	<b>400,361</b>
Manager's management fee	(7,171)	(6,854)	(26,651)	(25,735)
Trustee's fee	(118)	(119)	(470)	(460)
Other trust expenses	(287)	(226)	(1,078)	(976)
Borrowings cost	(18,007)	(17,275)	(70,734)	(61,047)
<b>TOTAL TRUST EXPENDITURE</b>	<b>(25,583)</b>	<b>(24,474)</b>	<b>(98,933)</b>	<b>(88,218)</b>
<b>INCOME BEFORE TAXATION</b>	<b>82,619</b>	<b>131,729</b>	<b>249,447</b>	<b>312,143</b>
Taxation	-	-	-	-
<b>INCOME AFTER TAXATION / TOTAL COMPREHENSIVE INCOME</b>	<b>82,619</b>	<b>131,729</b>	<b>249,447</b>	<b>312,143</b>
Income after taxation comprises the followings:-				
Realised	65,591	54,857	232,419	235,271
Unrealised	17,028	76,872	17,028	76,872
	<u>82,619</u>	<u>131,729</u>	<u>249,447</u>	<u>312,143</u>
Earnings per unit – basic (sen) #	2.73	4.36	8.24	10.33
Earnings per unit – diluted (sen) #	2.73	4.36	8.24	10.33

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 31 December		Year to Date 31 December	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Audited)
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Total comprehensive income for the period</b>	<b>82,619</b>	<b>131,729</b>	<b>249,447</b>	<b>312,143</b>
Distribution adjustments <sup>1</sup>	(12,443)	(70,767)	236	(63,359)
<b>Distributable income</b>	<b>70,176</b>	<b>60,962</b>	<b>249,683</b>	<b>248,784</b>

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

	Current Quarter 31 December		Year to Date 31 December	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Audited)
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Amortisation of borrowing transaction costs	866	894	3,435	3,096
Depreciation	134	170	504	656
Fair value gain of investment properties	(17,028)	(76,872)	(17,028)	(76,872)
Manager's management fee payable in units	3,585	5,041	13,325	9,761
	(12,443)	(70,767)	236	(63,359)

**PAVILION REAL ESTATE INVESTMENT TRUST  
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**CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE**

	Unitholders' Capital	Income / (Deficit)	Total Funds
	RM'000	RM'000	RM'000
<b>As at 1 January 2016</b>	<b>2,893,046</b>	<b>958,561</b>	<b>3,851,607</b>
Total comprehensive income for the period	-	312,143	312,143
<b>Unitholders' transactions</b>			
- Issue of new units <sup>2</sup>			
- Manager's management fee 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 31 December 2016 (audited)</b>	<b><u>2,900,708</u></b>	<b><u>1,020,141</u></b>	<b><u>3,920,849</u></b>
<b>As at 1 January 2017</b>	2,900,708	1,020,141	3,920,849
Total comprehensive income for the period	-	249,447	249,447
<b>Unitholders' transactions</b>			
- Issue of new units <sup>2</sup>			
- Manager's management fee 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 31 December 2017 (unaudited)</b>	<b><u>2,913,849</u></b>	<b><u>1,026,428</u></b>	<b><u>3,940,277</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:-

	31 December 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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	31 December 2017	
	Units <b>000</b>	Amount <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	3,810	6,485
Total Manager's fees paid	7,569	13,141

**PAVILION REAL ESTATE INVESTMENT TRUST**  
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**CONDENSED STATEMENT OF CASH FLOWS**

	Current Year Ended 31 December 2017 RM'000	Preceding Year Ended 31 December 2016 RM'000
<b>Cash Flows From Operating Activities</b>		
Income before taxation	249,447	312,143
<i>Adjustments for :-</i>		
Borrowing cost	70,734	61,047
Interest income	(8,165)	(8,715)
Depreciation	504	656
(Gain)/Loss on disposal of plant and equipment	(1)	18
Plant and equipment written off	14	3
Impairment loss on/(Reversal of) trade receivables	1,459	(184)
Gain on disposal of investment property	(274)	-
Fair value gain of investment properties	(17,028)	(76,872)
<b>Operating income before changes in working capital</b>	<b>296,690</b>	<b>288,096</b>
Inventories	(239)	(78)
Trade and other receivables	(5,691)	(26,540)
Trade and other payables	1,905	40,747
Tenants' deposits	2,186	20,464
<b>Net cash from operating activities</b>	<b>294,851</b>	<b>322,689</b>
<b>Cash Flow From Investing Activities</b>		
Acquisition of investment properties	-	(529,051)
Deposit for acquisition of investment properties	(58,000)	-
Interest received	8,165	8,715
Payment for enhancement of investment properties	(22,540)	(14,421)
Pledged deposit	(1,270)	(20,442)
Proceed from disposal of plant and equipment	1	1
Deposit received from disposal of investment property	88	-
Purchase of plant and equipment	(689)	(1,276)
<b>Net cash used in investing activities</b>	<b>(74,245)</b>	<b>(556,474)</b>
<b>Cash Flow from Financing Activities</b>		
Distribution to unitholders	(243,160)	(250,563)
Interest paid	(67,299)	(57,951)
Payment of financing expenses	(276)	(11,665)
Proceeds from borrowings	47,171	766,587
Repayment of borrowings	-	(100,000)
<b>Net cash (used in)/from financing activities</b>	<b>(263,564)</b>	<b>346,408</b>
Net (decrease)/increase in cash and cash equivalents	(42,958)	112,623
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	234,395	277,353
Cash and cash equivalents as at the end of the period comprise :-		
Cash and bank balances	18,706	18,938
Deposits placed with licensed banks	256,677	298,133
	275,383	317,071
Pledged deposit	(40,988)	(39,718)
	234,395	277,353

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.

**PAVILION REAL ESTATE INVESTMENT TRUST**  
**FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2017 (UNAUDITED)**

**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 year ended 31 December 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.

**A5 Seasonality or Cyclicity of Operations**

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

**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.

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**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 management fee 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 year ended 31 December 2017 was as follows:-

Business Segment	Retail RM'000	Office RM'000	Total RM'000
Gross Revenue	477,544	12,457	490,001
Net Property Income	314,907	8,006	322,913
Interest Income			8,165
Gain on Disposal of Investment Property			274
Changes in Fair Value of Investment Properties			17,028
Net Investment Income			348,380
Trust Expenses			(28,199)
Borrowings Cost			(70,734)
Income Before Taxation			249,447
Taxation			-
Income After Taxation			249,447
Segment assets	5,491,305	133,561	5,624,866
Other non-allocated assets			28,298
			5,653,164
Segment liabilities	1,678,700	30,251	1,708,951
Other non-allocated liabilities			3,936
			1,712,887



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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.

Property	Market Value @ 31 Dec 2017 RM'000	Market Value @ 31 Dec 2016 RM'000	Change in Value RM'000
<b>Retail</b>			
Pavilion Kuala Lumpur Mall	4,550,000	4,450,000	100,000
Intermark Mall	169,000	163,000	6,000
DA MEN Mall	416,000	483,000	(67,000)
	5,135,000	5,096,000	39,000
<b>Office</b>			
Pavilion Tower	133,000	133,000	-
Total Portfolio	5,268,000	5,229,000	39,000
Less: Capital Expenditure			(22,540)
Add: Disposal			568
Fair Value Gain			17,028

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 fee	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.

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A14	Capital Commitments	RM'000
	Authorised and contracted for	
	- within one year	522,000
	Authorised but not contracted for	
	- within one year	16,592
	Contracted but not provided for	-

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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 31 Dec		Year to Date 31 Dec	
	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	105,992	98,398	412,854	398,952
Intermark Mall	6,191	4,798	24,753	16,161
DA MEN Mall	14,072	11,091	39,937	32,026
	<u>126,255</u>	<u>114,287</u>	<u>477,544</u>	<u>447,139</u>
Office:				
Pavilion Tower	3,193	3,176	12,457	12,562
<b>Total Gross Revenue</b>	<u>129,448</u>	<u>117,463</u>	<u>490,001</u>	<u>459,701</u>
<b>Property Operating Expenses</b>				
Retail:				
Pavilion Kuala Lumpur Mall	32,987	30,524	126,685	115,354
Intermark Mall	2,105	3,360	12,784	9,675
DA MEN Mall	4,174	5,783	23,168	16,199
	<u>39,266</u>	<u>39,667</u>	<u>162,637</u>	<u>141,228</u>
Office:				
Pavilion Tower	1,123	804	4,451	3,699
<b>Total Property Operating Expenses</b>	<u>40,389</u>	<u>40,471</u>	<u>167,088</u>	<u>144,927</u>
<b>Net Property Income</b>				
Retail:				
Pavilion Kuala Lumpur Mall	73,005	67,874	286,169	283,598
Intermark Mall	4,086	1,438	11,969	6,486
DA MEN Mall	9,898	5,308	16,769	15,827
	<u>86,989</u>	<u>74,620</u>	<u>314,907</u>	<u>305,911</u>
Office:				
Pavilion Tower	2,070	2,372	8,006	8,863
<b>Total Net Property Income</b>	<u>89,059</u>	<u>76,992</u>	<u>322,913</u>	<u>314,774</u>

**PAVILION REAL ESTATE INVESTMENT TRUST**  
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	Current Quarter		Year to Date	
	31 Dec		31 Dec	
	2017 (Unaudited) RM'000	2016 (Unaudited) RM'000	2017 (Unaudited) RM'000	2016 (Unaudited) RM'000
<b>Total Net Property Income</b>	89,059	76,992	322,913	314,774
Interest Income	1,841	2,339	8,165	8,715
Gain on disposal of investment property	274	-	274	-
Change in fair value of investment properties	17,028	76,872	17,028	76,872
<b>Net Investment Income</b>	<u>108,202</u>	<u>156,203</u>	<u>348,380</u>	<u>400,361</u>
Manager's Management Fee	7,171	6,854	26,651	25,735
Other Trust Expenses	405	345	1,548	1,436
Borrowings Cost	18,007	17,275	70,734	61,047
Total Trust Expenses	<u>25,583</u>	<u>24,474</u>	<u>98,933</u>	<u>88,218</u>
<b>Income Before Taxation</b>	82,619	131,729	249,447	312,143
Taxation	-	-	-	-
<b>Income After Taxation</b>	<u>82,619</u>	<u>131,729</u>	<u>249,447</u>	<u>312,143</u>
Distribution Adjustments	(12,443)	(70,767)	236	(63,359)
<b>Distributable Income</b>	<u><u>70,176</u></u>	<u><u>60,962</u></u>	<u><u>249,683</u></u>	<u><u>248,784</u></u>

Quarterly Results:

Pavilion REIT recognised total gross revenue of RM129.4 million in Q4 2017, an increase of RM11.9 million or 10% as compared to Q4 2016 of RM117.5 million. The increase was mainly contributed by rental income from Pavilion Kuala Lumpur Mall's tenants after the repositioning exercise. Increased in other income was mainly due to higher advertising income, fees received from Damen's electricity provider to Pavilion REIT for collecting the electricity charges incurred by tenants in Damen Mall and increased in revenue rent in Pavilion Kuala Lumpur Mall.

Total property operating expenses was similar to Q4 2016 at RM40.4 million.

These have resulted in higher total net property income by RM12.1 million or 16% in Q4 2017 as compared to Q4 2016.

Fair value gain of RM17.0 million arising from the valuation of investment properties as at 31 December 2017 was recognised in the current quarter, mainly contributed by Pavilion Kuala Lumpur Mall. The fair value gain for 2016 recognised in Q4 2016 was RM76.9 million.

Manager's management fee incurred for Q4 2017 was higher by RM0.3 million compared to same quarter last year. This was in line with the increased in total asset value and net property income. Borrowing cost incurred during the quarter has increased by RM0.7 million compared to Q4 2016 due to the drawdown of additional borrowings for acquisition of investment properties and working capital purposes.

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Income before taxation for the current quarter under review was lower by RM49.1 million or 37% compared to Q4 2016 mainly due to lower fair value gain of investment properties being recognised in the current quarter. Excluding the fair value gain, income before taxation for current quarter was higher by RM10.7 million or 19% compared to Q4 2016 mainly due to higher rental income and revenue rent from Pavilion Kuala Lumpur Mall as well as electricity collection fees from Damen Mall.

Distributable income for the quarter under review was RM70.2 million or 2.32 sen per unit, consisting of income after tax of RM82.6 million and non-cash adjustments for fair value gain of investment properties of RM17.0 million, depreciation of RM0.1 million, amortisation of borrowings transaction cost of RM0.9 million and Manager's management fee payable in units amounting to RM3.6 million.

**Full Year Results:**

Total revenue for the year ended 31 December 2017 was RM490.0 million. It was higher by RM30.3 million or 6% compared to preceding year ended 31 December 2016's performance. The achievement was mainly contributed by Pavilion Kuala Lumpur Mall's tenants after the repositioning exercise, increased in revenue rent as well as the electricity collection fees from Damen Mall.

Total property operating expenses incurred was higher by RM22.2 million or 15% compared to preceding year ended 31 December 2016. This was mainly due to the routine operating expenses incurred for the two new properties from 25 March 2016 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. Non recoverable debts were written off with higher marketing cost incurred to create awareness and promote malls as well as sponsorship of 2017 Sea Games.

Higher Manager's management fee was in line with the higher achievement of net property income and increased in total asset value. Borrowing cost was higher by RM9.7 million due to drawdown of additional borrowings for acquisition of investment properties and working capital purposes.

The income before taxation for year ended 31 December 2017 was RM249.4 million, RM62.7 million or 20% higher compared to preceding year ended 31 December 2016. This was mainly due to the lower fair value gain of investment properties being recognised in Q4 2017. Excluding the fair value gain, income before taxation for the year ended 31 December 2017 was lower by RM2.9 million or 1% compared preceding year ended 31 December 2016.

Distributable income for the year ended 31 December 2017 was RM249.6 million or 8.24 sen per unit, consisting of income before taxation of RM249.4 million and non-cash adjustments for fair value gain of investment property of RM17.0 million, depreciation of RM0.5 million, amortisation of borrowings transaction cost of RM3.4 million and Manager's management fee payable in units amounting to RM13.3 million.

Pavilion REIT has expended approximately RM22.5 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.

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**B2 Material Changes in Quarterly Results**

The income before taxation for the current quarter under review was higher by RM27.2 million compared to the last immediate quarter mainly due to the fair value gain of RM17.0 million arising from the valuation of investment properties as at 31 December 2017. Other changes were due to the higher rental income and revenue rent from Pavilion Kuala Lumpur Mall as well as electricity collection fees from Damen Mall.

**B3 Prospects**

Retail environment continues to be challenging. Marketing will continue to create differentiation and key attractions to build shopping experience. Operating cost will be 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.

**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 ended 31 December 2017, Pavilion REIT proposes to distribute 100% of its distributable income.

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Distribution of 3.96 sen per unit or RM119.8 million earned for first half of 2017 was distributed on 6 September 2017. The distributable income for the second half of 2017 is proposed to be 4.28 sen per unit or RM129.7 million payable on 28 February 2018.

**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, DA MEN Mall and Intermark Mall.

**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 ended 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”).

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- 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”).

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

In conjunction with the Proposed Acquisition, The Board proposes to undertake the Proposed Placement of up to 218,000,000 new units in Pavilion REIT (“Unit”) of the total units in circulation, by way of bookbuilding to partly fund the Proposed Acquisition and also defray the expenses relating to the Proposals.

On 17 October 2017, Securities Commission had approved the issuance of up to 218,000,000 new Units under the Proposed Placement, listing and quotation of up to 218,000,000 new Units under the Proposed Placement on the Main Market of Bursa Securities. On 30 November 2017, Bursa Securities had approved the listing and quotation of up to 218,000,000 new Units to be issued pursuant to the Proposed Placement on the Main Market of Bursa Securities. The Proposed Acquisition was duly approved by the unitholders of Pavilion REIT at the unitholders’ meeting held on 16 January 2018.

**B10 Borrowings and Debt Securities**

	As at 31 December 2017
	RM’000
Long term borrowings:	
Secured Revolving Term Loan	1,169,059
Unrated Medium Term Notes	300,000
Less: Unamortised Borrowings Transaction Cost	(6,378)
	1,462,681
Gearing	25.9%
Average interest cost	4.6%
Composition of borrowings:	
Fixed Rate	20.4%
Floating Rate	79.6%

49.9% of borrowings will be due for repayment in 2019 with the balance in 2021.

**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.



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**B13 Soft Commission Received**

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

**B14 Summary of DPU, EPU, NAV and Market Price**

	Current quarter ended 31 December 2017	Immediate preceding quarter ended 30 September 2017
Number of units in issue (units)	3,030,093,605	3,030,093,605
Net Asset Value (“NAV”) (RM’000)	3,940,277	3,857,658
NAV per unit (RM)	1.3004	1.2731
Total comprehensive income (RM’000)	82,619	55,407
Weighted average number of units in issue – year to date (units)	3,027,333,368	3,026,403,179
Earnings per Unit after Manager’s management fee (Sen)	2.73	1.83
Proposes / Declared Distribution per Unit (“DPU”) (Sen)	2.32	1.96
Market Price (RM)	1.61	1.75
Distribution Yield (%) <sup>3</sup>	5.12	4.52

<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 Fee**

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

Type RM’000	Current Quarter 31 December 2017	Year to Date 31 December 2017	Basis
Base Fee	4,495	16,959	0.3% per annum on total asset value
Performance Fee	2,672	9,688	3.0% per annum on net property income
Divestment Fee	4	4	0.5% of transaction value in relation to disposal of any real estate and real estate related assets
<b>Total</b>	<b>7,171</b>	<b>26,651</b>	

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

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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.

B17 Significant related party transactions

Significant related party transactions, other than Manager's management fee for the quarter ended 31 December 2017 is as follows:-

Companies related to the Manager / director's interest	Nature of Transactions	Transaction Value Year to Date: 31 December		Balance Outstanding As at	
		2017 RM'000	2016 RM'000	31 Dec 2017 RM'000	31 Dec 2016 RM'000
Pavilion REIT Management Sdn Bhd	Rental income and its related charges	455	463	-	4
Malton Berhad group #	Rental income and its related charges	3,086	3,062	8	12
Crabtree & Evelyn (Malaysia) Sdn Bhd *	Rental income and its related charges	843	1,218	-	191
	Purchase of product	283	70	-	6
Lumayan Indah Sdn Bhd ^	Rental income and its related charges	118	3	1	-
Impian Ekspresi Sdn Bhd ◇	Rental income and its related charges	765	654	64	196
Urusharta Cemerlang (KL) Sdn Bhd α	Rental income and its related charges	776	774	-	3
	Reimbursement of electricity supply to Elite Pavilion Mall	6,086	-	1,214	-
Kuala Lumpur Pavilion Sdn Bhd ∞	Reimbursement of MRT station naming rights fee and its related charges	1,575	-	-	-
Urusharta Cemerlang Sdn Bhd Δ	Disposal of part area in Pavilion Kuala Lumpur Mall	880	-	792	-

# 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.

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- \* 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.
- 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.
- Δ 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.

**B18 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 31 December 2017 and of its financial performance and cash flows for the year 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  
25 January 2018