

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

CONDENSED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2016 (Unaudited) RM'000	As at 31 December 2015 (Audited) RM'000
ASSETS		
Plant and equipment	1,958	1,360
Investment properties	5,229,000	4,483,000
Other non-current assets	-	64,800
Total non-current assets	<u>5,230,958</u>	<u>4,549,160</u>
Inventories	1,315	1,237
Trade and other receivables	43,074	16,350
Cash and bank balances	317,071	184,006
Total current assets	<u>361,460</u>	<u>201,593</u>
TOTAL ASSETS	5,592,418	4,750,753
LIABILITIES		
Borrowings	1,412,351	754,333
Payables and accruals	65,398	29,143
Total non-current liabilities	<u>1,477,749</u>	<u>783,476</u>
Payables and accruals	193,820	115,670
Total current liabilities	<u>193,820</u>	<u>115,670</u>
TOTAL LIABILITIES	1,671,569	899,146
NET ASSET VALUE	<u>3,920,849</u>	<u>3,851,607</u>
FINANCED BY		
UNITHOLDERS' FUND		
Unitholders' capital	2,900,708	2,893,046
Accumulated income	1,020,141	958,561
TOTAL UNITHOLDERS' FUND	<u>3,920,849</u>	<u>3,851,607</u>
Number of units in circulation ('000 units)	3,022,525	3,017,842
Net asset value per unit (RM)		
- Before income distribution	1.2972	1.2763
- After income distribution	1.2972	1.2763

The unaudited condensed statement of financial position should be read in conjunction with the Audited Financial Report for the year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Current Quarter		Year to Date	
	31 December		31 December	
	2016 (Unaudited) RM'000	2015 (Unaudited) RM'000	2016 (Unaudited) RM'000	2015 (Audited) RM'000
Rental income	98,322	88,050	388,481	352,824
Other income	19,141	15,409	71,220	61,108
GROSS REVENUE	117,463	103,459	459,701	413,932
Utilities	(14,519)	(11,102)	(56,037)	(46,852)
Maintenance	(11,617)	(6,103)	(39,444)	(32,121)
Quit rent and assessment	(3,134)	(2,730)	(12,010)	(10,904)
Other operating expenses	(11,201)	(9,560)	(37,436)	(32,520)
PROPERTY OPERATING EXPENSES	(40,471)	(29,495)	(144,927)	(122,397)
NET PROPERTY INCOME	76,992	73,964	314,774	291,535
Interest income	2,339	1,418	8,715	6,211
Gain on disposal of investment property	-	593	-	593
Change in fair value of investment properties	76,872	41,035	76,872	41,035
NET INVESTMENT INCOME	156,203	117,010	400,361	339,374
Manager's management fee	(6,854)	(6,078)	(25,735)	(23,022)
Trustee's fee	(119)	(101)	(460)	(400)
Other trust expenses	(226)	(255)	(976)	(1,318)
Borrowings cost	(17,275)	(8,500)	(61,047)	(32,297)
TOTAL TRUST EXPENDITURE	(24,474)	(14,934)	(88,218)	(57,037)
INCOME BEFORE TAXATION	131,729	102,076	312,143	282,337
Taxation	-	-	-	-
INCOME AFTER TAXATION / TOTAL COMPREHENSIVE INCOME	131,729	102,076	312,143	282,337
Income after taxation comprises the followings:-				
Realised	54,857	61,041	235,271	241,302
Unrealised	76,872	41,035	76,872	41,035
	<u>131,729</u>	<u>102,076</u>	<u>312,143</u>	<u>282,337</u>
Earnings per unit – basic (sen) #	4.36	3.38	10.33	9.36
Earnings per unit – diluted (sen) #	4.36	3.38	10.33	9.36

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 2015 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.

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

	Current Quarter 31 December		Year to Date 31 December	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Audited)
	RM'000	RM'000	RM'000	RM'000
Total comprehensive income for the period	131,729	102,076	312,143	282,337
Distribution adjustments ¹	(70,767)	(39,075)	(63,359)	(33,452)
Distributable income	60,962	63,001	248,784	248,885

¹ Included in the distribution adjustments are the followings:-

	Current Quarter 31 December		Year to Date 31 December	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Audited)
	RM'000	RM'000	RM'000	RM'000
Amortisation of borrowing transaction costs	894	287	3,096	1,216
Depreciation	170	153	656	611
Fair value gain of investment properties	(76,872)	(41,035)	(76,872)	(41,035)
Manager's management fee payable in units	5,041	1,520	9,761	5,756
	(70,767)	(39,075)	(63,359)	(33,452)

**PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

CONDENSED STATEMENT OF CHANGES IN NET ASSET VALUE

	Unitholders' Capital	Income / (Deficit)	Total Funds
	RM'000	RM'000	RM'000
As at 1 January 2015	2,887,271	923,745	3,811,016
Total comprehensive income for the period	-	282,337	282,337
Unitholders' transactions			
- Issue of new units ²			
- Manager's management fee paid in units	5,775	-	5,775
- Distribution to unitholders	-	(247,521)	(247,521)
Increase/(Decrease) in net assets resulting from unitholders' transactions	5,775	(247,521)	(241,746)
As at 31 December 2015 (audited)	2,893,046	958,561	3,851,607
As at 1 January 2016	2,893,046	958,561	3,851,607
Total comprehensive income for the period	-	312,143	312,143
Unitholders' transactions			
- Issue of new units ²			
- 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)
As at 31 December 2016 (unaudited)	2,900,708	1,020,141	3,920,849

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 2015 and the accompanying explanatory notes attached to the interim financial statements.

² Issue of new units consists of the followings:-

	31 December 2015	
	Units 000	Amount RM'000
Issuance of new units pursuant to 25% Manager's management fee paid in units :-		
- at RM1.4007 per unit for entitlement for the 6 months period ended 31 December 2014	2,112	2,958
Issuance of new units pursuant to 25% Manager's management fee paid in units:-		
- at RM1.4739 per unit for entitlement for the 6 months period ended 30 June 2015	1,911	2,817
Total Manager's fee paid	4,023	5,775

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

	31 December 2016	
	Units	Amount
	000	RM'000
Issuance of new units pursuant to 25% Manager's management fee 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 fee paid in units :-		
- at RM1.7503 per unit for entitlement to management fee 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 fee paid	<u>4,683</u>	<u>7,662</u>

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

CONDENSED STATEMENT OF CASH FLOWS

	Current Year Ended 31 December 2016 RM'000	Preceding Year Ended 31 December 2015 RM'000
Cash Flows From Operating Activities		
Income before taxation	312,143	282,337
<i>Adjustments for :-</i>		
Borrowing cost	61,047	32,297
Interest income	(8,715)	(6,211)
Depreciation	656	611
Loss on disposal of plant and equipment	18	-
Plant and equipment written off	3	16
(Reversal of)/Impairment loss on trade receivables	(184)	982
Gain on disposal of investment property	-	(593)
Fair value gain of investment properties	(76,872)	(41,035)
Operating income before changes in working capital	288,096	268,404
Inventories	(78)	(9)
Trade and other receivables	(26,540)	(9,004)
Trade and other payables	40,747	14,538
Tenants deposits	20,464	4,443
Net cash from operating activities	322,689	278,372
Cash Flow 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)
Proceed from disposal of plant and equipment	1	-
Proceed from disposal of investment property	-	4,896
Purchase of plant and equipment	(1,276)	(152)
Net cash used in investing activities	(556,474)	(67,511)
Cash Flow from Financing Activities		
Distribution to unitholders	(250,563)	(247,521)
Interest paid	(57,951)	(31,081)
Payment of financing expenses	(11,665)	(8)
Proceeds 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 as at the beginning of the year	164,730	186,879
Cash and cash equivalents as at the end of the period	277,353	164,730
Cash and cash equivalents as at the end of the period comprise :-		
Cash and bank balances	18,938	4,738
Deposits placed with licensed banks	298,133	179,268
Pledged deposit	(39,718)	(19,276)
	277,353	164,730

The unaudited condensed statement of cash flows should be read in conjunction with the Audited Financial Report for the year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (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 2016 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 2015 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 2015, 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 2015.

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 2015.

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.

**PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

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 25% 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
1,963,157	RM1.4970	4 February 2016	Based on the 5-day volume weighted average price of the units up to but excluding 14 January 2016 (as management fee)
1,774,434	RM1.7503	16 August 2016	Based on the 5-day volume weighted average price of the units up to but excluding 28 July 2016 (as management fee)
945,441	RM1.7102 & RM1.5446	16 August 2016	Based on the 5-day volume weighted average price of the units up to but excluding their respective completion date (as acquisitions and disposal fees)

A9 Segmental Reporting

Segmental results for the year ended 31 December 2016 was as follows:-

Business Segment	Retail RM'000	Office RM'000	Total RM'000
Gross Revenue	447,139	12,562	459,701
Net Property Income	305,911	8,863	314,774
Interest Income			8,715
Changes in Fair Value of Investment Properties			76,872
Net Investment Income			400,361
Trust Expenses			(27,171)
Borrowings Cost			(61,047)
Income Before Taxation			312,143
Taxation			-
Income After Taxation			312,143
Segment assets	5,430,936	134,019	5,564,955
Other non-allocated assets			27,463
			5,592,418
Segment liabilities	1,641,094	30,210	1,671,304
Other non-allocated liabilities			265
			1,671,569

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

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

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 2016	3,017,842,237
Units issued as payment of Manager's management fee	4,683,032
Total units issued	<u>3,022,525,269</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 provided for and payable	
- within one year	28,021
Contracted but not provided for	-

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

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		
	2016	2015	Change	2016	2015	Change
	(Unaudited) RM'000	(Unaudited) RM'000	%	(Unaudited) RM'000	(Unaudited) RM'000	%
Gross Revenue						
Retail:						
Pavilion Kuala Lumpur Mall	98,398	100,420	-2.0%	398,952	402,646	-0.9%
Intermark Mall	4,798	-	100.0%	16,161	-	100.0%
DA MEN Mall	11,091	-	100.0%	32,026	-	100.0%
	<u>114,287</u>	<u>100,420</u>	<u>13.8%</u>	<u>447,139</u>	<u>402,646</u>	<u>11.1%</u>
Office:						
Pavilion Tower	3,176	3,039	4.5%	12,562	11,286	11.3%
Total Gross Revenue	<u>117,463</u>	<u>103,459</u>	<u>13.5%</u>	<u>459,701</u>	<u>413,932</u>	<u>11.1%</u>
Property Operating Expenses						
Retail:						
Pavilion Kuala Lumpur Mall	30,524	27,847	-9.6%	115,354	117,782	2.1%
Intermark Mall	3,360	-	-100.0%	9,675	-	-100.0%
DA MEN Mall	5,783	-	-100.0%	16,199	-	-100.0%
	<u>39,667</u>	<u>27,847</u>	<u>-42.4%</u>	<u>141,228</u>	<u>117,782</u>	<u>-19.9%</u>
Office:						
Pavilion Tower	804	1,648	51.2%	3,699	4,615	19.8%
Total Property Operating Expenses	<u>40,471</u>	<u>29,495</u>	<u>-37.2%</u>	<u>144,927</u>	<u>122,397</u>	<u>-18.4%</u>
Net Property Income						
Retail:						
Pavilion Kuala Lumpur Mall	67,874	72,573	-6.5%	283,598	284,864	-0.4%
Intermark Mall	1,438	-	100.0%	6,486	-	100.0%
DA MEN Mall	5,308	-	100.0%	15,827	-	100.0%
	<u>74,620</u>	<u>72,573</u>	<u>2.8%</u>	<u>305,911</u>	<u>284,864</u>	<u>7.4%</u>
Office:						
Pavilion Tower	2,372	1,391	70.5%	8,863	6,671	32.9%
Total Net Property Income	<u>76,992</u>	<u>73,964</u>	<u>4.1%</u>	<u>314,774</u>	<u>291,535</u>	<u>8.0%</u>

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

	Current Quarter			Year to Date		
	31 Dec		Change	31 Dec		Change
	2016 (Unaudited) RM'000	2015 (Unaudited) RM'000		2016 (Unaudited) RM'000	2015 (Unaudited) RM'000	
Total Net Property Income	76,992	73,964	4.1%	314,774	291,535	8.0%
Interest Income	2,339	1,418	65.0%	8,715	6,211	40.3%
Gain on disposal of car park bays	-	593	-100.0%	-	593	-100.0%
Change in fair value of investment properties	76,872	41,035	87.3%	76,872	41,035	87.3%
Net Investment Income	<u>156,203</u>	<u>117,010</u>	<u>33.5%</u>	<u>400,361</u>	<u>339,374</u>	<u>18.0%</u>
Manager's Management Fee	6,854	6,078	-12.8%	25,735	23,022	-11.8%
Other Trust Expenses	345	356	3.1%	1,436	1,718	16.4%
Borrowings Cost	17,275	8,500	-103.2%	61,047	32,297	-89.0%
Total Trust Expenses	<u>24,474</u>	<u>14,934</u>	<u>-63.9%</u>	<u>88,218</u>	<u>57,037</u>	<u>-54.7%</u>
Income Before Taxation	131,729	102,076	29.0%	312,143	282,337	10.6%
Taxation	-	-	-	-	-	-
Income After Taxation	<u>131,729</u>	<u>102,076</u>	<u>29.0%</u>	<u>312,143</u>	<u>282,337</u>	<u>10.6%</u>
Distribution Adjustments	(70,767)	(39,075)	81.1%	(63,359)	(33,452)	89.4%
Distributable Income	<u><u>60,962</u></u>	<u><u>63,001</u></u>	<u><u>-3.2%</u></u>	<u><u>248,784</u></u>	<u><u>248,885</u></u>	<u><u>0.0%</u></u>

Quarterly Results:

Pavilion REIT recognised total gross revenue of RM117.5 million in Q4 2016, an increase of RM14.0 million or 14% as compared to Q4 2015 of RM103.5 million. The increase was mainly contributed by rental income from the two new properties, DA MEN Mall and Intermark Mall that were acquired at the end of March 2016. Lower gross revenue for Pavilion Kuala Lumpur Mall was mainly due to repositioning of its tenants.

Total property operating expenses was higher by RM11.0 million or 37% compared to Q4 2015 mainly due to repair and maintenance / upkeep expenses for Pavilion Kuala Lumpur Mall and operating expenses from the two new properties which include initial setup cost eg setting up of first aid rooms, tools for safety requirements and lighting replacements.

These have resulted in higher total net property income by RM3.0 million or 4% in Q4 2016 as compared to Q4 2015.

Fair value gain of RM76.9 million arising from the valuation of investment properties as at 31 December 2016 was recognised in the current quarter mainly contributed by Pavilion Kuala Lumpur Mall. The fair value gain for 2015 recognised in Q4 2015 was RM41.0 million.

Manager's management fee incurred for Q4 2016 was higher by RM0.8 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 RM8.8 million compared to Q4 2015 due to the drawdown of additional borrowings for acquisition of investment properties and working capital purposes.

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

Income before taxation for the current quarter under review was higher by RM29.7 million or 29% compared to Q4 2015 mainly due to higher fair value gain of investment properties being recognised in the current quarter. Excluding the fair value gain, income before taxation for current quarter was lower by RM6.2 million or 10% compared to Q4 2015. This was mainly due to the higher borrowing cost incurred for acquiring the two new properties and working capital.

Distributable income for the quarter under review was RM60.9 million or 2.02 sen per unit, consisting of income after tax of RM131.7 million and non-cash adjustments for fair value gain of investment properties of RM76.9 million, depreciation of RM0.2 million, amortisation of borrowings transaction cost of RM0.9 million and Manager's management fee payable in units amounting to RM5.0 million.

Full Year Results:

Total revenue for the year ended 31 December 2016 was RM459.7 million. It was higher by RM45.8 million or 11% compared to preceding year ended 31 December 2015's performance. The achievement was mainly contributed by rental income from the two newly acquired properties. Lower contribution from Pavilion Kuala Lumpur Mall was mainly due to repositioning of its tenants which is expected to continue for the next quarter.

Total property operating expenses incurred was higher by RM22.5 million or 18% compared to year to date 31 December 2015. This was mainly due to the operating expenses and initial setup cost incurred for the new malls acquired.

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 RM28.7 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 2016 was RM312.1 million, RM29.8 million or 11% higher compared to preceding year ended 31 December 2015. This was mainly due to the higher fair value gain of investment properties being recognised in Q4 2016. Excluding the fair value gain, income before taxation for the year ended 31 December 2016 was lower by RM6.0 million or 2% compared preceding year ended 31 December 2015.

Distributable income for the year ended 31 December 2016 was RM248.8 million or 8.24 sen per unit, consisting of income before taxation of RM312.1 million and non-cash adjustments for fair value gain of investment property of RM76.9 million, depreciation of RM0.7 million, amortisation of borrowings transaction cost of RM3.1 million and Manager's management fee payable in units amounting to RM9.8 million.

Pavilion REIT has expended approximately RM14.4 million of its capital commitment during the year, mainly for the 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 Pavilion Kuala Lumpur Mall.

B2 Material Changes in Quarterly Results

The income before taxation for the current quarter under review was higher by RM72.3 million compared to the last immediate quarter mainly due to the fair value gain of RM76.9 million arising from the valuation of investment properties as at 31 December 2016. This was reduced by marketing expenses incurred for current quarter's festive decoration.

**PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

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 2016, Pavilion REIT proposes to distribute 100% of its distributable income.

Distribution of 4.16 sen per unit or RM125.6 million earned for first half of 2016 was distributed on 6 September 2016. The distributable income for the second half of 2016 is proposed to be 4.08 sen per unit or RM123.3 million payable on 28 February 2017.

**PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

B7 Portfolio Composition

There was no change to the number of properties held by Pavilion REIT since the last reporting quarter, ie its properties are Pavilion Kuala Lumpur retail mall and 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 2016, no provision for taxation has been made for the current quarter.

B9 Status of Corporate Proposal

There were no corporate proposals announced but not completed as at the latest practicable date from the issuance of this report.

B10 Borrowings and Debt Securities

	As at 31 December 2016 RM'000
Long term borrowings	
Secured Revolving Term Loan	1,121,888
Unrated Medium Term Notes	300,000
Less: Unamortised Borrowings Transaction Cost	(9,537)
	1,412,351

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.

**PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

B14 Summary of DPU, EPU, NAV and Market Price

	Current quarter ended 31 December 2016	Immediate preceding quarter ended 30 September 2016
Number of units in issue (units)	3,022,525,269	3,022,525,269
Net Asset Value (“NAV”) (RM’000)	3,920,849	3,789,120
NAV per unit (RM)	1.2972	1.2536
Total comprehensive income (RM’000)	131,729	59,389
Weighted average number of units in issue – year to date (units)	3,020,648,551	3,020,018,412
Earnings per Unit after Manager’s management fee (Sen)	4.36	1.97
Proposes / Declared Distribution per Unit (“DPU”) (Sen)	2.02	2.06
Market Price (RM)	1.90	1.77
Distribution Yield (%) ³	4.34	4.69

³ 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 2016	Year to Date 31 December 2016	Basis
Base Fee	4,545	16,292	0.3% per annum on total asset value
Performance Fee	2,309	9,443	3.0% per annum on net property income
Acquisition Fee	-	6,468	1.0% of transaction value in relation to acquisition of any real estate and real estate related assets
Total	6,854	32,203	

25% of the total Manager’s management fee charged for the first half of 2016 was paid in Pavilion REIT units. 50% of the total Manager’s management fee charged for the second half of 2016 would be payable in Pavilion REIT units.

**PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)**

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 2016 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	
		2016 RM'000	2015 RM'000	31 Dec 2016 RM'000	31 Dec 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
Kuala Lumpur Pavilion Sdn Bhd ∞	Property management fees and charges payable	-	4,078	-	869
Impian Ekspresi Sdn Bhd ◇	Rental income and its related charges	654	760	196	178
Urusharta Cemerlang (KL) Sdn Bhd α	Rental income and its related charges	774	-	3	-
Urusharta Cemerlang Sdn Bhd Δ	Disposal of part area in Pavilion Kuala Lumpur Mall	-	4,896	-	-

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.

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016 (UNAUDITED)

- ^ 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.
- ∞ 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.
- ◇ 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.

- 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 2016 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
19 January 2017