

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019 (UNAUDITED)

CONDENSED STATEMENT OF FINANCIAL POSITION

| | As at 30 September 2019 (Unaudited) RM'000 | As at 31 December 2018 (Audited) RM'000 |
|---|--|---|
| ASSETS | | |
| Plant and equipment | 1,213 | 1,570 |
| Investment properties | 5,896,799 | 5,893,000 |
| Total non-current assets | <u>5,898,012</u> | <u>5,894,570</u> |
| Inventories | 1,909 | 2,084 |
| Trade and other receivables | 79,243 | 81,302 |
| Cash and bank balances | 311,368 | 379,768 |
| Total current assets | <u>392,520</u> | <u>463,154</u> |
| TOTAL ASSETS | 6,290,532 | 6,357,724 |
| LIABILITIES | | |
| Borrowings | 2,156,682 | 1,431,874 |
| Payables and accruals | 70,834 | 46,987 |
| Total non-current liabilities | <u>2,227,516</u> | <u>1,478,861</u> |
| Borrowings | - | 715,959 |
| Payables and accruals | 158,000 | 184,948 |
| Total current liabilities | <u>158,000</u> | <u>900,907</u> |
| TOTAL LIABILITIES | 2,385,516 | 2,379,768 |
| NET ASSET VALUE | 3,905,016 | 3,977,956 |
| FINANCED BY | | |
| UNITHOLDERS' FUND | | |
| Unitholders' capital | 2,931,927 | 2,924,229 |
| Accumulated income | 973,089 | 1,053,727 |
| TOTAL UNITHOLDERS' FUND | 3,905,016 | 3,977,956 |
| Number of units in circulation ('000 units) | 3,041,090 | 3,036,705 |
| Net asset value per unit (RM) | | |
| - Before income distribution | 1.2841 | 1.3100 |
| - After income distribution* | 1.2637 | 1.2656 |

*after distributable income of 2.04 sen per unit (2018: after final income distribution of 4.44 sen per unit)

The unaudited condensed statement of financial position should be read in conjunction with the Audited Financial Report for the year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019 (UNAUDITED)

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Current Quarter 30 September | | Year to Date 30 September | |
|---|---------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2019 (Unaudited) RM'000 | 2018 (Unaudited) RM'000 | 2019 (Unaudited) RM'000 | 2018 (Unaudited) RM'000 |
| Rental Income | 125,227 | 124,324 | 378,690 | 360,448 |
| Revenue from contract customers | 12,534 | 10,968 | 41,820 | 30,059 |
| Other Income | 6,589 | 6,056 | 18,881 | 17,411 |
| GROSS REVENUE | 144,350 | 141,348 | 439,391 | 407,918 |
| Utilities | (19,161) | (17,173) | (55,312) | (46,880) |
| Maintenance | (17,147) | (14,645) | (49,074) | (42,555) |
| Property taxes | (4,093) | (4,246) | (12,282) | (11,190) |
| Other operating expenses | (12,873) | (11,108) | (38,787) | (33,490) |
| PROPERTY OPERATING EXPENSES | (53,274) | (47,172) | (155,455) | (134,115) |
| NET PROPERTY INCOME | 91,076 | 94,176 | 283,936 | 273,803 |
| Interest income | 2,803 | 3,013 | 8,722 | 8,152 |
| Change in fair value of investment properties | - | - | - | - |
| NET INVESTMENT INCOME | 93,879 | 97,189 | 292,658 | 281,955 |
| Manager's management fees | (7,402) | (7,433) | (22,633) | (21,593) |
| Trustee's fees | (122) | (121) | (363) | (354) |
| Other trust expenses | (266) | (266) | (1,075) | (921) |
| Borrowings costs | (26,641) | (27,122) | (80,679) | (70,683) |
| TOTAL TRUST EXPENDITURE | (34,431) | (34,942) | (104,750) | (93,551) |
| INCOME BEFORE TAXATION | 59,448 | 62,247 | 187,908 | 188,404 |
| Taxation | - | - | - | - |
| INCOME AFTER TAXATION / TOTAL COMPREHENSIVE INCOME | 59,448 | 62,247 | 187,908 | 188,404 |
| Income after taxation comprises the followings:- | | | | |
| Realised | 59,448 | 62,247 | 187,908 | 188,404 |
| Unrealised | - | - | - | - |
| | <u>59,448</u> | <u>62,247</u> | <u>187,908</u> | <u>188,404</u> |
| Earnings per unit – basic (sen) # | 1.95 | 2.05 | 6.18 | 6.21 |
| Earnings per unit – diluted (sen) # | 1.95 | 2.05 | 6.18 | 6.21 |

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 2018 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 | |
|---|---------------------------------|-----------------------|------------------------------|-----------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | (Unaudited) RM'000 | (Unaudited) RM'000 | (Unaudited) RM'000 | (Unaudited) RM'000 |
| Total comprehensive income for the period ¹ | 59,448 | 62,247 | 187,908 | 188,404 |
| Distribution adjustments ² | 2,548 | 2,907 | 8,042 | 8,459 |
| Distributable income | 61,996 | 65,154 | 195,950 | 196,863 |

¹ Total comprehensive income is derived after charging:-

| | Current Quarter 30 September | | Year to Date 30 September | |
|--|---------------------------------|-----------------------|------------------------------|-----------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | (Unaudited) RM'000 | (Unaudited) RM'000 | (Unaudited) RM'000 | (Unaudited) RM'000 |
| Depreciation | 111 | 140 | 357 | 424 |
| Foreign exchange (gain)/loss | (1) | - | 5 | (3) |
| Impairment loss on/(Write back of) trade receivables | 195 | 56 | 136 | (532) |

Other than the above, items listed under Appendix 9B Note 16 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad are not applicable.

² Included in the distribution adjustments are the followings:-

| | Current Quarter 30 September | | Year to Date 30 September | |
|---|---------------------------------|-----------------------|------------------------------|-----------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | (Unaudited) RM'000 | (Unaudited) RM'000 | (Unaudited) RM'000 | (Unaudited) RM'000 |
| Amortisation of borrowing transaction costs | 587 | 909 | 2,027 | 2,637 |
| Depreciation | 111 | 140 | 357 | 424 |
| Manager's management fees payable in units | 1,850 | 1,858 | 5,658 | 5,398 |
| | 2,548 | 2,907 | 8,042 | 8,459 |

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019 (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 2018 | 2,913,849 | 1,026,428 | 3,940,277 |
| Total comprehensive income for the period | - | 188,404 | 188,404 |
| Unitholders' transactions | | | |
| - Issue of new units ³ | | | |
| - Manager's management fees paid in units | 10,380 | - | 10,380 |
| - Distribution to unitholders | - | (261,385) | (261,385) |
| Increase/(Decrease) in net assets resulting from unitholders' transactions | 10,380 | (261,385) | (251,005) |
| As at 30 September 2018 (unaudited) | 2,924,229 | 953,447 | 3,877,676 |
| As at 1 January 2019 | 2,924,229 | 1,053,727 | 3,977,956 |
| Total comprehensive income for the period | - | 187,908 | 187,908 |
| Unitholders' transactions | | | |
| - Issue of new units ³ | | | |
| - Manager's management fees paid in units | 7,698 | - | 7,698 |
| - Distribution to unitholders | - | (268,546) | (268,546) |
| Increase/(Decrease) in net assets resulting from unitholders' transactions | 7,698 | (268,546) | (260,848) |
| As at 30 September 2019 (unaudited) | 2,931,927 | 973,089 | 3,905,016 |

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 2018 and the accompanying explanatory notes attached to the interim financial statements.

³ Issue of new units consists of the followings:-

| | 30 September 2018 | |
|---|-------------------|------------------|
| | Units 000 | Amount RM'000 |
| Issuance of new units pursuant to 50% Manager's management fees paid in units :- | | |
| - at RM1.5511 per unit for entitlement for the 6 months period ended 31 December 2017 | 4,408 | 6,838 |
| - at RM1.5851 per unit for entitlement to disposal fees | 1 | 2 |
| Issuance of new units pursuant to 25% Manager's management fees paid in units :- | | |
| - at RM1.6080 per unit for entitlement for the 6 months period ended 30 June 2018 | 2,202 | 3,540 |
| Total Manager's fees paid | <u>6,611</u> | <u>10,380</u> |

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| | 30 September 2019 | |
|---|---------------------|-------------------------|
| | Units 000 | Amount RM'000 |
| Issuance of new units pursuant to 25% Manager's management fees paid in units :- | | |
| - at RM1.6802 per unit for entitlement for the 6 months period ended 31 December 2018 | 2,315 | 3,891 |
| - at RM1.8396 per unit for entitlement for the 6 months period ended 30 June 2019 | 2,070 | 3,807 |
| Total Manager's fees paid | 4,385 | 7,698 |

PAVILION REAL ESTATE INVESTMENT TRUST
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CONDENSED STATEMENT OF CASH FLOWS

| | Current Year to Date 30 September 2019 RM'000 | Preceding Year to Date 30 September 2018 RM'000 |
|--|--|--|
| Cash Flows From Operating Activities | | |
| Income before taxation | 187,908 | 188,404 |
| <i>Adjustments for :-</i> | | |
| Borrowing cost | 80,679 | 70,683 |
| Interest income | (8,722) | (8,152) |
| Depreciation | 357 | 424 |
| Gain on disposal of plant and equipment | - | (24) |
| Impairment loss on/(Reversal of) trade receivables | 136 | (532) |
| Operating income before changes in working capital | 260,358 | 250,803 |
| Inventories | 175 | (250) |
| Trade and other receivables | 1,923 | (27,895) |
| Trade and other payables | 4,953 | (44,745) |
| Tenants' deposits | (356) | 10,763 |
| Net cash from operating activities | 267,053 | 188,676 |
| Cash Flow From Investing Activities | | |
| Acquisition of investment properties | - | (505,362) |
| Interest received | 8,722 | 8,152 |
| Payment for enhancement of investment properties | (3,799) | (2,855) |
| Pledged deposit | (1,920) | (18,497) |
| Proceed from disposal of plant and equipment | - | 24 |
| Net cash from/(used in) investing activities | 3,003 | (518,538) |
| Cash Flow from Financing Activities | | |
| Distribution to unitholders | (268,546) | (261,385) |
| Interest paid | (78,652) | (68,024) |
| Payment of financing expenses | (2,218) | (1,014) |
| Proceeds from borrowings | 386,840 | 770,000 |
| Repayment of borrowings | (377,800) | (117,200) |
| Net cash (used in)/from financing activities | (340,376) | 322,377 |
| Net decrease in cash and cash equivalents | (70,320) | (7,485) |
| Cash and cash equivalents as at the beginning of the year | 319,748 | 234,395 |
| Cash and cash equivalents as at the end of the period | 249,428 | 226,910 |
| Cash and cash equivalents as at the end of the period comprise :- | | |
| Cash and bank balances | 14,276 | 4,314 |
| Deposits placed with licensed banks | 297,092 | 282,081 |
| | 311,368 | 286,395 |
| Pledged deposit | (61,940) | (59,485) |
| | 249,428 | 226,910 |

The unaudited condensed statement of cash flows should be read in conjunction with the Audited Financial Report for the year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

PAVILION REAL ESTATE INVESTMENT TRUST
FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019 (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 nine months ended 30 September 2019 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 amended and restated trust deed dated 18 February 2019 (“the Trust Deed”), the Securities Commission’s Guidelines on Real Estate Investment Trusts (“the REITs Guidelines”) and the accounting standards, amendments and interpretations where applicable to Pavilion REIT that are effective for annual periods beginning on or after 1 January 2019. 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 2018 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 2018, 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 2018.

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 2018, except as disclosed below.

The accounting policy of investment properties as adopted by Pavilion REIT requires investment 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 Manager, 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 2019, 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.

**PAVILION REAL ESTATE INVESTMENT TRUST
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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 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 |
|--------------|----------------|--|---|
| 2,315,511 | RM1.6802 | 20 February 2019 | Based on the 5-day volume weighted average price of the units up to but excluding 29 January 2019 (as management fee) |
| 2,069,863 | RM1.8396 | 14 August 2019 | Based on the 5-day volume weighted average price of the units up to but excluding 25 July 2019 (as management fee) |

A9 Segmental Reporting

Segmental results for the period ended 30 September 2019 is as follows:-

| Business Segment | Retail RM'000 | Office RM'000 | Total RM'000 |
|---------------------------------|------------------|------------------|-----------------|
| Gross Revenue | 430,333 | 9,058 | 439,391 |
| Net Property Income | 278,686 | 5,250 | 283,936 |
| Interest Income | | | 8,722 |
| Net Investment Income | | | 292,658 |
| Trust Expenses | | | (24,071) |
| Borrowings Cost | | | (80,679) |
| Income Before Taxation | | | 187,908 |
| Taxation | | | - |
| Income After Taxation | | | 187,908 |
| Segment assets | 6,107,942 | 134,124 | 6,242,066 |
| Other non-allocated assets | | | 48,466 |
| | | | 6,290,532 |
| Segment liabilities | 2,354,557 | 30,748 | 2,385,305 |
| Other non-allocated liabilities | | | 211 |
| | | | 2,385,516 |

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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 2019 | 3,036,704,925 |
| Units issued as payment of Manager's management fees | 4,385,374 |
| Total units issued | <u>3,041,090,299</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 |
| Investment Properties: | |
| Authorised and contract for | 734 |

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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 | |
|--|---------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2019 (Unaudited) RM'000 | 2018 (Unaudited) RM'000 | 2019 (Unaudited) RM'000 | 2018 (Unaudited) RM'000 |
| Gross Revenue | | | | |
| Retail: | | | | |
| Pavilion Kuala Lumpur Mall | 114,618 | 109,696 | 348,650 | 328,469 |
| Intermark Mall | 6,282 | 7,264 | 20,036 | 21,744 |
| DA MEN Mall | 5,762 | 7,131 | 16,766 | 22,088 |
| Elite Pavilion Mall | 14,798 | 13,978 | 44,881 | 25,850 |
| | <u>141,460</u> | <u>138,069</u> | <u>430,333</u> | <u>398,151</u> |
| Office: | | | | |
| Pavilion Tower | 2,890 | 3,279 | 9,058 | 9,767 |
| Total Gross Revenue | <u>144,350</u> | <u>141,348</u> | <u>439,391</u> | <u>407,918</u> |
| Property Operating Expenses | | | | |
| Retail: | | | | |
| Pavilion Kuala Lumpur Mall | 37,073 | 31,810 | 108,389 | 95,724 |
| Intermark Mall | 3,298 | 3,234 | 9,713 | 10,194 |
| DA MEN Mall | 5,677 | 5,671 | 16,663 | 15,869 |
| Elite Pavilion Mall | 5,758 | 5,352 | 16,882 | 9,055 |
| | <u>51,806</u> | <u>46,067</u> | <u>151,647</u> | <u>130,842</u> |
| Office: | | | | |
| Pavilion Tower | 1,468 | 1,105 | 3,808 | 3,273 |
| Total Property Operating Expenses | <u>53,274</u> | <u>47,172</u> | <u>155,455</u> | <u>134,115</u> |
| Net Property Income | | | | |
| Retail: | | | | |
| Pavilion Kuala Lumpur Mall | 77,545 | 77,886 | 240,261 | 232,745 |
| Intermark Mall | 2,984 | 4,030 | 10,323 | 11,550 |
| DA MEN Mall | 85 | 1,460 | 103 | 6,219 |
| Elite Pavilion Mall | 9,040 | 8,626 | 27,999 | 16,795 |
| | <u>89,654</u> | <u>92,002</u> | <u>278,686</u> | <u>267,309</u> |
| Office: | | | | |
| Pavilion Tower | 1,422 | 2,174 | 5,250 | 6,494 |
| Total Net Property Income | <u>91,076</u> | <u>94,176</u> | <u>283,936</u> | <u>273,803</u> |

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| | Current Quarter | | Year to Date | |
|----------------------------------|-----------------|---------------|----------------|----------------|
| | 30 September | | 30 September | |
| | 2019 | 2018 | 2019 | 2018 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Total Net Property Income | 91,076 | 94,176 | 283,936 | 273,803 |
| Interest Income | 2,803 | 3,013 | 8,722 | 8,152 |
| Net Investment Income | <u>93,879</u> | <u>97,189</u> | <u>292,658</u> | <u>281,955</u> |
| Manager's Management Fees | 7,402 | 7,433 | 22,633 | 21,593 |
| Other Trust Expenses | 388 | 387 | 1,438 | 1,275 |
| Borrowings Costs | 26,641 | 27,122 | 80,679 | 70,683 |
| Total Trust Expenses | <u>34,431</u> | <u>34,942</u> | <u>104,750</u> | <u>93,551</u> |
| Income Before Taxation | 59,448 | 62,247 | 187,908 | 188,404 |
| Taxation | - | - | - | - |
| Income After Taxation | <u>59,448</u> | <u>62,247</u> | <u>187,908</u> | <u>188,404</u> |
| Distribution Adjustments | 2,548 | 2,907 | 8,042 | 8,459 |
| Distributable Income | <u>61,996</u> | <u>65,154</u> | <u>195,950</u> | <u>196,863</u> |

Quarterly Results

Pavilion REIT recognised total gross revenue of RM144.4 million in Q3 2019, an increase of RM3.0 million or 2% compared to Q3 2018 of RM141.3 million. The increase was mainly contributed by higher revenue rent and electricity income from Pavilion Kuala Lumpur Mall for supplying electricity to Pavilion Hotel and Pavilion Suites. This was offset by lower rental income from DA MEN Mall due to lower occupancy and rental rate.

Total property operating expenses was higher by RM6.1 million or 13% compared to Q3 2018 mainly due to the higher electricity cost incurred for providing electricity supply to Pavilion Hotel and Pavilion Suites as well as the further increase in electricity adjusted rate for imbalance cost pass-through (ICPT) approved by the government that took effect from 1 March 2019 onwards, cost incurred for repairing air conditioning system and higher marketing and promotional expenses incurred for branding and to attract more shoppers.

These have resulted in lower total net property income by RM3.1 million or 3% in Q3 2019 compared to Q3 2018.

Manager's management fees incurred for Q3 2019 were slightly lower compared to the same quarter last year. This was in line with decrease in net property income. Borrowing costs incurred during the quarter was lower by RM0.5 million compared to Q3 2018.

Distributable income for the quarter under review was RM62.0 million or 2.04 sen per unit, consisting of income after tax of RM59.4 million and non-cash adjustments for depreciation of RM0.1 million, amortisation of borrowings transaction cost of RM0.6 million and 25% of Manager's management fees payable in units amounting to RM1.9 million.

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Year-to-Date Results

Total revenue for year-to-date 30 September 2019 was RM439.4 million. It was higher by RM31.5 million or 8% compared to preceding year-to-date 30 September 2018's performance. The increase was mainly contributed by income from Elite Pavilion Mall that was acquired at the end of April 2018, higher revenue rent and electricity income from Pavilion Kuala Lumpur Mall for supplying electricity to Pavilion Hotel and Pavilion Suites. This was offset by lower rental income from DA MEN Mall due to lower occupancy and rental rate.

Total property operating expenses incurred was higher by RM21.3 million or 16% compared to year-to-date 30 September 2018. This was mainly due to higher operating cost incurred for the Elite Pavilion Mall that was acquired at the end of April 2018, higher electricity cost incurred for providing electricity supply to Pavilion Hotel and Pavilion Suites as well as the increase in electricity adjusted rate for imbalance cost pass-through (ICPT) approved by the government that took effect from 1 July 2018 and 1 March 2019 onwards, cost incurred for repairing air conditioning system, higher marketing and promotional expenses incurred for branding and to attract more shoppers as well as higher write back of impairment loss on trade receivables in year-to date 30 September 2019.

Borrowing cost was higher by RM10.0 million due to drawdown of additional borrowing for acquisition of Elite Pavilion Mall and for working capital purposes.

These resulted in lower income before taxation by RM0.5 million or 0.2% compared to preceding year-to-date 30 September 2018.

Distributable income for the nine months ended 30 September 2019 was RM196.0 million or 6.44 sen per unit, consisting of income before taxation of RM187.9 million and non-cash adjustments for depreciation of RM0.4 million, amortisation of borrowings transaction cost of RM2.0 million and 25% of manager's management fees payable in units amounting to RM5.7 million.

Pavilion REIT has expended approximately RM3.8 million of its capital commitment during the year, mainly for toilet refurbishment and food court re-planning works at Pavilion Kuala Lumpur Mall as well as landlord provisions for tenancy lots at DA MEN Mall.

B2 Material Changes in Quarterly Results

| | Quarter Ended 30 Sep 2019 (unaudited) RM'000 | Quarter Ended 30 Jun 2019 (unaudited) RM'000 | Change % |
|-----------------------------|--|--|-------------|
| Gross revenue | 144,350 | 144,119 | 0.2 |
| Property operating expenses | (53,274) | (52,767) | -1.0 |
| Net property income | 91,076 | 91,352 | -0.3 |
| Interest income | 2,803 | 2,992 | -6.3 |
| Net investment income | 93,879 | 94,344 | -0.5 |
| Total trust expenses | (7,790) | (7,978) | 2.4 |
| Borrowing cost | (26,641) | (27,137) | 1.8 |
| Income before taxation | 59,448 | 59,229 | 0.4 |

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

**PAVILION REAL ESTATE INVESTMENT TRUST
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B3 Prospects

The Malaysian retail industry is expected to grow marginally in the 4th quarter of 2019 due to year end festive holidays and promotions. Hence to stay competitive and to ensure Pavilion REIT results are sustainable, the Manager will continue to explore enhancement to its tenant mix, cost management and enhance shopping experiences to attract shoppers.

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 ending 31 December 2019, Pavilion REIT proposes to distribute 100% of its distributable income.

Distribution of 4.40 sen per unit or RM133.7 million earned for 1st half of 2019 was distributed on 30 August 2019. Distribution for the quarter ended 30 September 2019 would be payable together with the distribution for the quarter ending 31 December 2019.

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FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019 (UNAUDITED)

Statement of Income Distribution

| | Current Quarter 30 September | | Year to Date 30 September | |
|--|---------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2019 (Unaudited) RM'000 | 2018 (Unaudited) RM'000 | 2019 (Unaudited) RM'000 | 2018 (Unaudited) RM'000 |
| Rental income | 125,227 | 124,324 | 378,690 | 360,448 |
| Revenue from contract customers | 12,534 | 10,968 | 41,820 | 30,059 |
| Interest income | 2,803 | 3,013 | 8,722 | 8,152 |
| Other income | 6,589 | 6,056 | 18,881 | 17,411 |
| | <u>147,153</u> | <u>144,361</u> | <u>448,113</u> | <u>416,070</u> |
| Less: Expenses | <u>(87,705)</u> | <u>(82,114)</u> | <u>(260,205)</u> | <u>(227,666)</u> |
| Total comprehensive income for the period | 59,448 | 62,247 | 187,908 | 188,404 |
| Distribution adjustment | <u>2,548</u> | <u>2,907</u> | <u>8,042</u> | <u>8,459</u> |
| Realised income for the period | <u>61,996</u> | <u>65,154</u> | <u>195,950</u> | <u>196,863</u> |
| Previous period/year's undistributed realised income | <u>511</u> | <u>215</u> | <u>274</u> | <u>203</u> |
| Total realised income available for distribution | <u>62,507</u> | <u>65,369</u> | <u>196,224</u> | <u>197,066</u> |
| Less: Proposed/declared income distribution | <u>(62,038)</u> | <u>(64,986)</u> | <u>(195,755)</u> | <u>(196,683)</u> |
| Balance undistributed realised income | <u><u>469</u></u> | <u><u>383</u></u> | <u><u>469</u></u> | <u><u>383</u></u> |
| Distribution per unit (sen) | 2.04 | 2.14 | 6.44 | 6.48 |

B7 Portfolio Composition

As at 30 September 2019, the properties under Pavilion REIT's portfolio comprises Pavilion Kuala Lumpur Retail Mall, Pavilion Tower, DA MEN Mall, Intermark Mall and Elite Pavilion 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 ending 31 December 2019, 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.

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FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019 (UNAUDITED)**

B10 Borrowings and Debt Securities

| As at 30 September 2019 | Total |
|--|-----------|
| Secured | RM'000 |
| Revolving Term Loans | 1,085,900 |
| Unrated Medium Term Notes | 1,075,000 |
| Unamortised Borrowings Transaction Costs | (4,218) |
| | 2,156,682 |
| Gearing | 34.3% |
| Average interest cost | 4.8% |
| Composition of borrowings: | |
| Fixed Rate | 42.8% |
| Floating Rate | 57.2% |

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 2019 | Immediate preceding quarter ended 30 June 2019 |
|--|--|---|
| Number of units in issue (units) | 3,041,090,299 | 3,039,020,436 |
| Net Asset Value (“NAV”) (RM’000) | 3,905,016 | 3,975,478 |
| NAV per unit (RM) | 1.2841 | 1.3081 |
| Total comprehensive income (RM’000) | 59,448 | 59,229 |
| Weighted average number of units in issue – year to date (units) | 3,038,960,282 | 3,038,380,792 |
| Earnings per Unit after Manager’s management fees (Sen) | 1.95 | 1.95 |
| Proposes / Declared Distribution per Unit (“DPU”) (Sen) | 2.04 | 2.03 |
| Market Price (RM) | 1.81 | 1.83 |
| Distribution Yield (%) ⁴ | 4.76 | 4.85 |

⁴ 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 2019 | Year to Date 30 September 2019 | Basis |
|-----------------|--------------------------------------|-----------------------------------|---------------------------------------|
| Base Fee | 4,670 | 14,115 | 0.3% per annum on total asset value |
| Performance Fee | 2,732 | 8,518 | 3.0% per annum on net property income |
| Total | 7,402 | 22,633 | |

25% 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 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 2019 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: LS0002201)

Kuala Lumpur
24 October 2019