



Achieving Goals

Axis-REIT Annual Report 2008



Malaysia's 1st Islamic Office/Industrial REIT

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Our Logo, Vision & Business Philosophy

Our Logo depicts the four corners of the world where “Eastern Philosophy Meets Western Business Practises”; representing the international components of Axis REIT Managers Berhad. It displays the culmination of their experiences, backgrounds and knowledge from Europe and Asia.

Our vision is to become the Country's leading supplier of commercial, office and light industrial real estate.

Our Business Philosophy is to provide our customers with the best solutions in the supply of office/commercial and industrial space. We practice an open, transparent and creative management of our real estate portfolio, whilst being 'hands

on' with our tenants. Our principal objective is to translate our business philosophy into best management practises thereby maximising returns to Axis-REIT Unitholders.

This annual report for the year ended 31 December 2008 has been prepared by Axis REIT Managers Bhd (649450-W) as the Manager of Axis-REIT. Whilst every care has been taken in relation to the accuracy, no warranty is given or implied. The information provided is not investment advice and recipients should consider obtaining independent advice before making any decision that relies on this information. All currencies are expressed in Ringgit Malaysia unless otherwise stated. This Annual Report is dated in February 2009.

About Us

Axis Real Estate Investment Trust (“Axis-REIT” or “The Fund”)

Axis-REIT was the first Real Estate Investment Trust (“REIT”) to list on Bursa Malaysia Securities Berhad (“Bursa Securities”) on 3 August 2005.

On 11 December 2008 Axis-REIT was reclassified as an Islamic REIT.

Axis-REIT owns a diversified portfolio of properties in the Klang Valley comprising:

- Commercial Offices
- Office industrial Buildings
- Warehouse / Logistics Centers
- Light Industrial Buildings
- Warehouse Retail Facilities



“ Our portfolio grew from fourteen (14) properties at the beginning of the year to nineteen (19) as of 31 December 2008. Net rental income grew from RM38,180,000 in 2007 to RM53,455,000 in 2008; an increase of 40%. Total assets under management rose to RM726,371,000 in 2008 from RM581,857,000 in 2007; an increase of 25%.”

These properties house many multinational companies which have been tenants of the Axis Group for numerous years. They are involved in Imaging, Medical, Home Appliances, Automotive, Pharmaceutical, Insurance, Wellness, Electronics IT, Retail Warehousing, Fast Moving Consumer Goods, Telecommunications and Fitness industries.

Axis REIT Managers Bhd is the Manager of Axis-REIT.

The Manager is committed to deliver long term sustainable distributions and capital stability through its four principles of management:

- Prudent Capital and Risk Management
- Yield Accretive Asset Purchases
- Proactive Asset and Tenant Management
- Excellent Investor Relations.

Financial Highlights

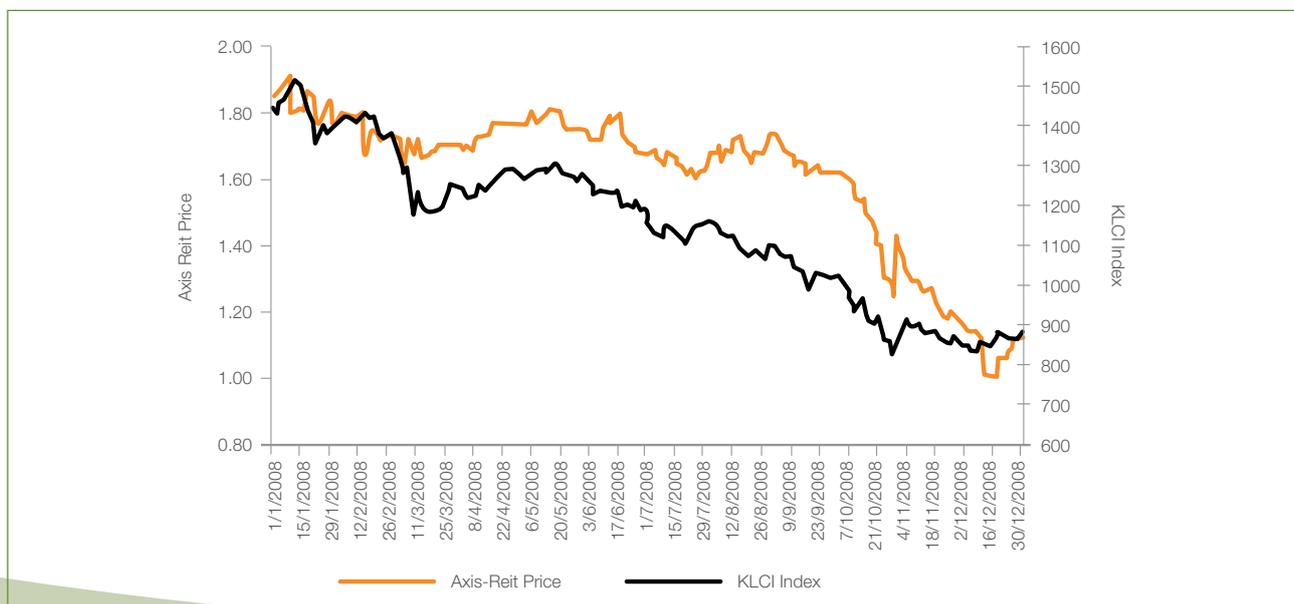
	Actual Audited 1 Jan 08 to 31 Dec 08		Actual Audited 1 Jan 07 to 31 Dec 07
Total Net Income (RM '000)	63,449	#1	68,607
Income available for Distribution (RM '000) (Realised)	38,971		27,991
Earnings per Unit ("EPU") - sen (Realised)	15.46		13.59
Income Distribution (RM '000)	38,701		28,064
Distribution per Unit ("DPU") (sen)	15.27		13.63

#1 – includes unrealised income (not available for distribution) of RM 24,477,996 for the whole of 2008

#2 – includes unrealised income (not available for distribution) of RM 40,613,346 for the whole of 2007

	Actual Audited 1 Jan 08 to 31 Dec 08		Actual Audited 1 Jan 07 to 31 Dec 07
Number of investment properties	19		14
Total Assets (RM '000)	726,371		581,857
Total Borrowings/Financing (RM '000)	230,456		209,816
Total Unitholders's fund (RM '000)	447,846		334,652
Market Capitalization (RM '000)	286,609		380,917
Total Borrowings/Financing to Total Assets (%)	31.73		36.06
Net asset value per Unit – (RM)	1.75		1.63
Unit Price (RM) – IPO – retail price	1.25		1.25
Market Price per unit – (RM)	1.12		1.85
No. of Units in circulation ('000)	255,901		205,901
No. of Unitholders	1,652		1,166

Monthly Trading Performance



Trading Statistics for 2008

Opening Price – 1 Jan 2008	RM 1.85
Closing Price – 31 Dec 2008	RM 1.12
High – 8 January 2008	RM 1.91
Low – 16 December 2008	RM 1.00

Distributions Since Listing

	Distribution per Unit
Period ended 31 Dec 2005	4.70 sen
Total for 2006	12.95 sen
Total for 2007	13.63 sen
Total for 2008	15.27 sen

Comparable Yields



Board of Directors



YAM Tunku Dato' Seri
Shahabuddin Bin
Tunku Besar Burhanuddin
Chairman

YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin, a Malaysian, was appointed as an Independent Non-Executive Director to the Board of Axis REIT Managers Berhad on 10 August 2007. On 18 September 2007 he was appointed the Chairman of the Board of Directors and on 23 October 2007 he was appointed as Chairman of the Audit Committee. Tunku holds a vast and illustrious career in the local administrative and business arena with various roles in multi-national companies. Upon graduating from the Queens University of Belfast with a Bachelor of Science (Economics), Tunku Shahabuddin began his career as an Economist with Esso (M) Ltd.

He later moved into the finance industry as a manager to a finance company within the Malayan Banking Group. Tunku Shahabuddin then started his own business which spanned involvement in the manufacturing, production, trading, construction, finance, services and information technology sectors, amongst others. He currently serves as the Executive Chairman of Kompakar Inc Bhd and Kompakar E Systems Sdn Bhd and also sits on the Board of Iris Corporation Berhad.

In addition, he is the Chairman of Baker Hughes Inteq Sdn Bhd, Jotun (M) Sdn Bhd and DHL Worldwide Express (M) Sdn Bhd. Tunku Shahabuddin is also active in the social front as Chairman of the Selangor Turf Club. He recently retired as Chairman of the Malaysia Australia Business Council after heading the council for the past 19 years. Tunku Shahabuddin's past achievements include being the Chairman of the Automobile Association of Malaysia for 23 years, President of the Asia-Pacific Region of the Alliance International de Tourism and a Governing Board Member of the Malaysia Canada Business Council. He was appointed as Honorary Council General of Austria in 1972.

He was a recipient of the 'Austrade International Award 2000' an Australian Export Award for outstanding contributions to Australia's international trading performance by a foreign individual based outside of Australia. He was also appointed as an Honorary Officer (AO) in the General Division of the 'Order of Australia Award' for his service to Australian-Malaysian Relations by the Governor-General of the Commonwealth of Australia.



Dato' Abas Carl Gunnar
Bin Abdullah
Non-Independent Executive
Deputy Chairman

Dato' Abas Carl Gunnar bin Abdullah, a Norwegian, has been a Non-Independent Non-Executive Director of Axis REIT Managers Berhad since 15 March 2005. On 20 November 2006 he was appointed Non-Independent Non-Executive Deputy Chairman. On 18 September 2007 he was redesignated to Executive Deputy Chairman.

He graduated with a Diploma in Chemistry from the University of Gothenburg, Sweden in 1980 and a Diploma in Marketing from the University of Oslo, Norway in 1981. From 1985 to 1993, he was the Managing Director of Jotun Powder Coatings (M) Sdn Bhd (formerly known as Corro-Coat (M) Sdn Bhd).

In 1989 he embarked on a build and lease project with the multinational APV Hills & Mills. In 1992 he teamed up with Stephen Tew Peng Hwee and other investors to build Crystal Plaza. This was followed with the building of Axis Business Park, Axis Plaza and Menara Axis, all of which formed the core portfolio of Axis-REIT upon listing. He currently serves as a member of the Executive and the Remuneration and Nomination Committees of the board of the Manager ("Board"). He is also a director of a number of private companies, which are involved in property development and property investment. He is also the director of Axis Development Sdn Bhd ("ADSB") since 1999.



Stephen Tew Peng Hwee
Non-Independent
Non-Executive Director

Stephen Tew Peng Hwee, a Malaysian, is a Non-Independent Non-Executive Director of Axis REIT Managers Berhad.

He graduated with a Diploma from the Institute of Marketing, United Kingdom in 1982, following which he started his career as a Real Estate Agent and today owns the real estate agency, Hectares & Stratas. He is the Past President of the Malaysian Institute of Estate Agents and served as a board member on the Board of Valuers, Appraisers and Estate Agents from 1998 till 2004.

Together with other investors, he has over the past 18 years, purpose-built for investment income many buildings which have housed multinationals. In 1992 he teamed up with Dato' Abas Carl Gunnar Bin Abdullah and other investors to build Crystal Plaza. This was followed with the building of Axis Business Park, Axis Plaza and Menara Axis, all of which formed the core portfolio of Axis-REIT upon listing. He currently serves as a member of the Executive Committee and the Remuneration and Nomination Committee of the Board. He is also a director of a number of private companies, which are investment holding companies.



Y Bhg Dato' Fateh Iskandar Bin
Tan Sri Dato' Mohamed Mansor
Independent Non-Executive
Director

Y Bhg Dato' Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor or fondly known as Dato' FD Iskandar is the Group Managing Director of Glomac Berhad, a main board property company listed on Bursa Malaysia since June 2000.

Dato' FD Iskandar attended the Malay College Kuala Kangsar (MCKK) and later obtained his law degree from the University of Queensland, Australia and subsequently went on to obtain his Masters in Business Administration.

He practiced law in Australia before coming back to Malaysia joining Kumpulan Perangsang Selangor Berhad (KPS) as its Corporate Manager. He left KPS to join Glomac in 1992 as General Manager for Business Development and climbed the way up the corporate ladder. In February 1997, he was appointed to the Board of Glomac Berhad.

Apart from sitting on several private limited companies, he is also currently the Vice President of The Real Estate & Housing Developer's Association (REHDA) Malaysia and Chairman of REHDA Selangor Branch. He is also a Director of MPI (Malaysian Property Incorporated), a partnership between Government and the private sector that was established to promote property investments among foreigners in Malaysia. Recently, he was appointed as an EXCO Member of the Malaysian Australian Business Council (MABC) and also as Chairman of Gagasan Badan Ekonomi Melayu Selangor Branch (GABEM).

With over 18 years of experience and involvement in the property development industry, his vast experiences and expertise has made him a very well-known and respected figure among his peers locally as well as on the international arena. He is frequently invited as a guest speaker in forums, seminars and conventions to offer his insights and views and to share his wealth of experiences, and has given talks both locally and internationally on the property market in Malaysia over the years.

Board of Directors



Yin-Yong Lee Lao
Non-Independent
Non-Executive Director

Yin-Yong Lee Lao, a Filipino national, was appointed as Non-Independent Non-Executive Director and a member of the Audit Committee of Axis REIT Managers Berhad since 23 October 2007. He graduated from the Ateneo de Manila University with a Bachelor of Arts Degree in 1973. He is a director of a public listed company, Chemrez Technologies Inc since 2006, as well as the following private companies in Manila; D & L Industries Inc., Chemrez Inc., Areo-Pack Industries Inc., FIC Marketing Co. Inc., First In Colors Inc., Oleo-Fats Inc and LBL Industries Inc.

He acts as a Trustee in the following organizations; Association of Petrochemical Manufacturers of the Philippines & The Polystyrene Packaging Council of the Philippines. He has held the position of Treasurer in the companies he has directorships over a period of 7 to 12 years, and still heads the Treasury function in LBL Industries Inc.

He is the brother of Alex Lee Lao, who is a substantial unitholder of Axis-REIT and Alternate Director to Dato' Abas Carl Gunnar Bin Abdullah, the Executive Deputy Chairman of Axis REIT Managers Bhd. Yin-Yong Lee Lao brings a wealth of experience in the treasury function of the companies he has served as a director and has an intimate knowledge of the running of other industries as well.



Mohd Sharif Bin Hj Yusof
Independent Non-Executive
Director

Mohd Sharif Bin Hj Yusof, a Malaysian, was appointed as an Independent Non-Executive Director to the Board of Axis REIT Managers Berhad on 10 August 2007, and on 23 October 2007 he was appointed a Member of the Audit Committee.

Mohd Sharif is a Fellow of the Institute of Chartered Accountants in England and Wales and has had a career spanning both the corporate finance and accounting disciplines. He has served as Senior Accountant in Anglo Oriental Sdn Bhd from 1972-1973 and then joined as Corporate Finance officer in Bumiputera Merchant Bankers Berhad from 1973-1977. This was followed by a 12 year career as Senior Vice President and Company Secretary of Manulife Insurance Malaysia Berhad (formerly known as British American Life & General Insurance Company Berhad).

He currently serves on the Boards of the following Public Companies; APM Automotive Holdings Bhd, Ireka Corporation Bhd, Amanah Capital Malaysia Berhad (in liquidation), Kemayan Corporation Bhd, Asia Unit Trusts Bhd and DFZ Capital Berhad.

He is also a Director of Setia Raya Sdn Bhd, a family owned company since 1989.



George Stewart LaBrooy
Chief Executive Officer/
Executive Director

George Stewart LaBrooy, a Malaysian, has been the Director of Axis REIT Managers Berhad since 25 October 2004, and was appointed by the Board of Directors of the Manager as Executive Director on 22 March 2005. On 18 September 2007, he was redesignated to Chief Operating Officer/Executive Director. On 5 August 2008 he was redesignated to the position of Chief Executive Officer/Executive Director.

He graduated with a Bachelor of Engineering (Hons) and a Post Graduate Diploma in Business Studies from the University of Sheffield in 1973 and 1974, respectively. Currently, he is a member of the Institute of Engineers, Malaysia.

He has served in top management positions in the Malaysian industrial sector for over 20 years before joining Axis Equities Sdn Bhd (a major shareholder of ADSB) in 1995. During this period he managed two (2) of the Group's Build and Lease projects and set up the Property Management division in ADSB and headed the asset and lease management for the real estate owned by the group.

In November 2003, he spearheaded a project to identify suitable properties owned by common shareholders of ADSB to be injected into Malaysia's first REIT. This was successfully concluded on 3 August 2005 when Axis-REIT was listed on the main Board of Bursa Securities. He is a prominent speaker on the subject of REITs and has been invited to present papers at seminars in Malaysia, Singapore, Hong Kong, Indonesia and New York.

In addition to his duties as CEO, he oversees the acquisition strategy of Axis-REIT, the Investor Relations, and is a Member of the Executive Committee. He is also a Board member of the Asia Pacific Real Estate Association ("APREA") and is also a director of a number of private companies, which is involved in property development and property investment.

Chairman's Message



Dear Unitholders

On behalf of the Board, I am pleased to present Axis-REIT's annual report for the financial year ended 31 December 2008.

ACHIEVING GOALS

For 2008, we set out an ambitious agenda for the Manager to accomplish. Key components was to make Axis-REIT the world's first Islamic Office/Industrial REIT, improve on the DPU to Unitholders, to continue growing the Fund's portfolio, enhance the properties, raise fresh capital through a placement of new Units and develop our human capital.

To all the above I am pleased to report that the Manager has achieved their goals and all that I can say is - 'Mission Accomplished'.

PERFORMANCE REVIEW AND DISTRIBUTION

REITs are all about returns to Unitholders, and I am delighted to say that the Manager has announced a DPU of 15.27 sen for 2008, up from 13.63 sen in 2007, representing an increase of 12%. This very impressive result was achieved against the backdrop of a growing global financial crisis as well as having to cope with a larger Unitholder base.

Our portfolio grew from fourteen (14) properties at the beginning of the year to nineteen (19) as of 31 December 2008. Net rental income grew from RM38,180,000 in 2007 to RM53,455,000 in 2008 an increase of 40%. Total Assets Under Management ("AUM") rose to RM726,371,000 in 2008 from RM581,857,000 in 2007, an increase of 25%.

The Manager delivered these results through continued focus on its core strengths of proactive asset management, timely enhancements, yield accretive acquisitions and capital and risk management.

IMPROVING OUR LIQUIDITY

The Manager had successfully placed 50 million new Units on 14 January 2008 and these were listed on Bursa Securities on 30 January 2008 resulting in an increase of the Fund size to 255,901,000 units. The New Units were priced at RM1.80 representing a discount of 3.22% to the five (5) day Volume Weighted Average Market Price ("VWAMP") up to 11 January 2008. The proceeds from the placement were used to pare down borrowings as well as to provide Axis-REIT with sufficient headroom to make the five (5) additional acquisitions in 2008.

ADDING TALENT

In our efforts to further strengthen delivery system to Unitholders and tenants alike there have been some changes in our management line up in 2008. In August we welcomed Ms. Leong Kit May as our new Chief Financial Officer and Mr. Chan Wai Leo as our new Senior Manager Business Development and Investor Relations. In September 2008, we welcomed Mr. David Aboud to our management team as the General Manager of the Asset and Lease Management. He replaced Mr. Subramaniam who left us that same month. David, who is Australian, brings with him a wealth of experience in asset and lease management having worked previously with Colliers International.

MALYSIAN ECONOMY IS EXPECTED TO SLOW IN 2009

The Global economy is currently experiencing "negative feedback loop" from the financial crisis and the ensuing credit crunch in the US and Europe. After the slowdowns and recessions reported in the 3Q and 4Q of 2008 we expect the quarterly GDP figures to worsen until 1H 09 at least.

Given the risk of a deep and prolonged global recession policy responses especially on the monetary and fiscal fronts have been unprecedented in terms of the scale and scope, not to mention the cooperation and synchronization of the central banks around the world.

Meanwhile, on 22 January 2009, Bank Negara Malaysia cut its benchmark interest rate by 75 basis points to 2.50% recognizing that the sharper deterioration of the global economy is expected to have a greater impact on the Malaysian economy. It also cut the statutory reserve requirement to 2% from 3.5% effective on 1 February 2009.

The move parallels the relatively aggressive rate cuts announced in recent months by central banks across the region in response to concerns about the drag on economic growth from collapsing global export demand.

Despite the Ninth Malaysia Plan being rolled out, the economists are revising down the 2009 GDP growth forecast to 1.5% from 3.5% a quarter ago. This represents a 0.7% Year-on-Year ("Y-O-Y") GDP growth in the 1H 2009 followed by a recovery of 2.4% Y-O-Y in 2H 2009. Growth will remain weak in 2010 projected at 3.3%. Against this backdrop is the consensus that the benchmark rates set by Bank Negara may fall further in 2009 providing better funding possibilities for Axis-REIT.

With the declining commodity prices and falling demand for our exports, it will be a very challenging year ahead for all of us.

M REITS – THE IMPACT OF THE FINANCIAL CRISIS

The Asian REIT market has been a significant success story but it remains at the start of its journey and is now experiencing its first challenge.

At the end of 2007, things were still looking rosy despite the start of the stock market decline as the 110 REITs in Asia had a market capitalization of USD83 billion with a growth of 18% annually. However in 2008, the contagion of the financial crisis spread and developed into a credit crisis and Asia REITs were not spared. Market capitalization on the three largest REIT markets Japan, Singapore and Hong Kong plummeted by 50% from December 2007 to January 2009 with Singapore being the worst affected dropping by 2/3 in value.

Triggered by massive sell-offs by overseas investors as they rushed to cover positions in their home countries, this capital has not returned and the refinancing of the REITs debt through CMBS structures are presenting difficulties given the current credit freeze.

However in Malaysia, REITs have a very different story to tell. They are locally funded in Ringgit with local banks, managed very conservatively, highly regulated and with an average gearing in the low 30%. They are tightly held by institutional investors who are long in the market providing a much more stable pricing structure. As a result M REITs are trading at a mere 25% discount to Net Asset Value (NAV) when compared to Singapore; where S REITs are trading at a 50-80% discount to NAV's.

As at 31 January 2009, Axis-REIT has outperformed the Kuala Lumpur Composite Index ("KLCI") by 15 percentage points since 1 January 2008.

PLACEMENT EXERCISE ON HOLD

With the fall in the unit prices of M REITs the Board has decided to defer the planned placement scheduled for late 2008 until the market sentiment recovers so that the Manager can do a placement that would be non-dilutive to Unitholders.

AXIS-REIT ANNOUNCES HIGHEST 2H08 DISTRIBUTION TO UNITHOLDERS.

Despite making provisions for an aborted acquisition, cost relating to the reclassification to an Islamic REIT, write down on the costs for the 2008 general mandate, additional borrowing costs relating to debt raising and accruing for revaluation expenses, the Fund recorded an excellent set of results for 2008 and I, together with the other Board members, am pleased to announce a final DPU of 7.87 sen for 2008. This represents an increase of 6.35% over the 1st half of 2008 DPU of 7.40 sen. Much of this increase is a result of rent reversions, new tenants moving into the newly refurbished Wisma Kemajuan and income recognized from the five (5) new acquisitions completed during 2008.

PLANNED RECLASSIFICATION COMPLETED: IMPROVED ACCESS TO SHARIAH-BASED FUNDS

I am pleased to announce that Axis-REIT is now the world's first Islamic Office/Industrial REIT. The work commenced after the green light was given at our January 2008 Board meeting and we now have an opportunity to attract more interest from domestic and Middle Eastern Shariah-based funds. It's a long term strategy for Axis-REIT and one which I am sure will pay handsome returns when the markets recover.

IMPROVED CORPORATE GOVERNANCE

The Board has taken the view that the Manager will comply with all the requirements for best practices in Corporate Governance as laid out by the regulators. It has engaged the services of an independent Internal Auditor to advise the Manager on risk management and other operating aspects of the day to day management of Axis-REIT.

IN APPRECIATION

The success of Axis-REIT belongs to the efforts of many parties. May I first thank my fellow Board members for their advice and contributions throughout the year. My appreciation also extends to the Manager who has done a remarkable job of delivering steady growing distributions, expanding the portfolio of the Fund with some excellent acquisitions and laying down a solid strategy for the Fund to continue its growth path.

I would like to acknowledge our tenants and business partners for their support over the past year and wish to thank you, our Unitholders, for your continuing trust and confidence in us.

I am confident that we will continue to repeat our success in the coming year by providing our Unitholders with stable returns and continued growth of Axis-REIT.



YAM Tunku Dato' Seri Shahabuddin
Bin Tunku Besar Burhanuddin
Chairman
20 February 2009

Manager's Report



The Directors of Axis REIT Managers Berhad; the Manager of Axis-REIT have pleasure in submitting their report to the Unitholders of Axis-REIT together with the audited financial statements for the year ended 31 December 2008.

Since the beginning of the year the Manager successfully acquired five (5) new properties. The completion of these five (5) acquisitions will see a significant contribution to the income of the Fund in 2009.

The Highlights for 2008 are:

- ◆ Recorded a net income available for distribution of **RM38,971,000 a rise of 39%** year-on-year ("y-o-y") on the net income figures of 2007 which were stated at RM27,994,000.
- ◆ **Recorded a positive change** in the fair value of the properties of the Fund of RM24,478,000 for 2008.
- ◆ **DPU rose from 7.4 sen in the first half to 7.87 sen** in the second half of the year representing an increase of 6.35%.
- ◆ Achieved a DPU of 15.27sen for the whole year; **a 12% increase y-o-y.**
- ◆ The NAV per unit **rose from RM1.625 sen to RM1.75 sen**; an increase of 7.7%.
- ◆ Added five (5) properties to the portfolio with a **market value of RM131.1 Million.**
- ◆ Successful capital raising of RM90,000,000 through the placement of **50,000,000 new units** in January 2008.
- ◆ Successful completion of conversion of Axis-REIT into the **world's first Islamic Office/Industrial REIT** in December 2008.
- ◆ **Successfully refinanced** the Fund's debt into Shariah compliant debt instruments with no change in the cost of financing to the Fund.
- ◆ Reduced the overall vacancy of the portfolio from 7.3% on 31 December 2007 to 4.8% on 31 December 2008. **Average occupancy currently stands at 95.2%** as at 31 December 2008.
- ◆ **Commenced the enhancement** of Menara Axis and planning for the enhancements of Nestle House and Crystal Plaza.
- ◆ Increased the total AUM to RM726,371,000 from RM581,857,000, **an increase of 25% y-o-y.**

Financial Performance

SUMMARY

	2008	2007	2006
Total Asset Value (RM,000)	726,371	581,857	411,781
Total Net Asset Value (RM,000)	447,846	335,652	294,109
Units in Circulation (Units)	255,901,000	205,901,000	205,901,000
Net Asset Value per Unit (RM)			
- As at 31 December	1.75	1.63	1.43
- Lowest NAV during the year	1.63	1.43	1.35
- Highest NAV during the year	1.75	1.63	1.43
Market Value per Unit (RM) as at 31 December	1.12	1.85	1.68
Highest Traded Price for the year (RM)	1.91	2.28	1.83
Lowest Traded Price for the year (RM)	1.00	1.60	1.63

RESULTS

Total Gross Income (RM,000)	63,331	46,819	40,931
Total Property Expenses (RM,000)	(9,876)	(8,639)	(7,802)
Net Rental Income (RM,000)	53,455	38,810	33,129
Interest/Profit Income (RM,000)	111	8	37
Changes in fair value of investment properties (RM,000)	24,478	40,613	16,517
Total Income (RM,000)	78,044	78,801	49,683
Total Non-Property Expenses (RM,000)	(14,595)	(10,197)	(6,501)
Total Net Income (RM,000)	63,449	68,607	42,922
Consisting of:			
Realised income after taxation (RM,000)	38,971	27,994	26,405
Unrealised Income after taxation (RM,000)	24,478	40,613	16,517
Earnings per Unit (Realised) (sen)	15.46	13.60	12.82
Earnings per Unit (Realised + Unrealised) (sen)	25.18	33.32	20.85
Distribution per Unit (DPU) (sen)	15.27	13.63	12.95
Distribution yield (based on closing market price) (%)	13.63	7.37	7.71
EPU yield (based on closing market price) (%)	22.48	18.01	12.41
MER (%)	1.35	1.38	0.99
Annual total return* (%)	(16.98)	28.13	9.52
Average total return (3 years) (%)	6.89	27.60	Not Applicable

* Based on movement in unit price and EPU yield

Our success is built on our four principles of management and those are:

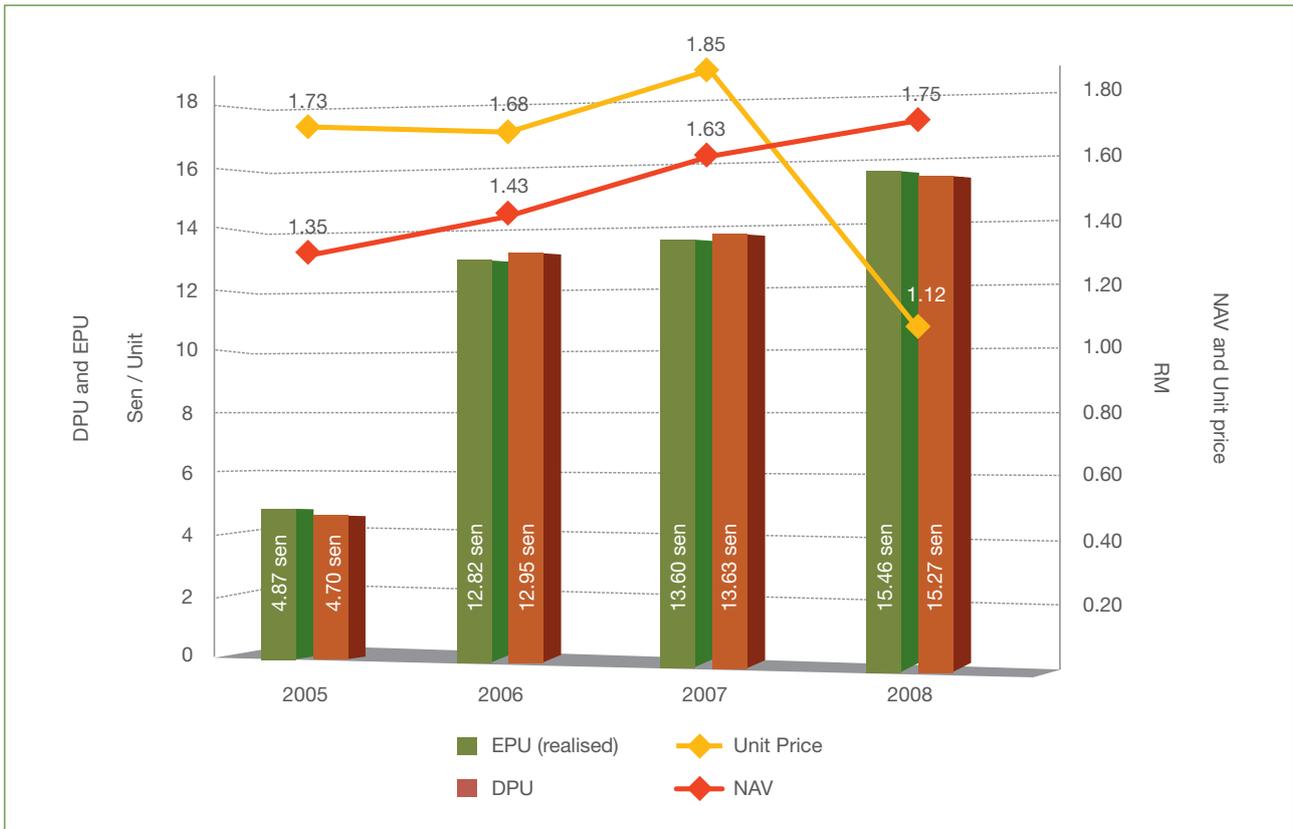
- Prudent Capital and Risk Management
- Yield Accretive Asset Purchases
- Proactive Asset and Tenant Management
- Excellent Investor Relations.

Despite difficult trading conditions, the Manager has yet again delivered an excellent set of results for 2008.

With the successful expansion of our portfolio from fourteen (14) to nineteen (19) properties in 2008, Axis-REIT's gross property revenue grew from RM46,819,000 in 2007 to RM63,331,000 in 2008 - a gain of 35.3% despite difficult trading conditions for the second half of the year under review. Net income available for distribution grew by 39.2% to RM38,971,000 compared to RM27,994,000 in the previous financial year.

Our book value of AUM has increased from RM570,409,000 at 31 December 2007 to RM723,100,000 as at 31 December 2008. Our AUM growth rate has been 118% with a Compounded Annual Growth Rate ("CAGR") of 30% since listing.

Manager's Report



DPU, EPU, NAV and Unit Price Compared

The Manager expects to maintain the Fund's excellent performance from its enlarged portfolio of nineteen (19) properties for the year 2009 through the application of its four (4) principles of management .

In a market which has seen share prices fall globally, Axis-REIT outperformed the KLCI by 15 percentage points as of 31 January 2009 underlying its defensive nature as a stock.

PERFORMANCE OF THE FUND FOR 2008

In anticipation of the issuance of 50 million New Axis-REIT Units which was placed out on 14 January 2008, allotted on 24 January 2008 and listed on Bursa Securities on 30 January 2008, the Manager paid the first interim 2008 income distribution of 0.75 sen per unit for the period 1 January 2008 till 18 January 2008, so that all existing Unitholders will be entitled to receive their share of the Fund's earnings prior to the placement of the 50 million New Axis-REIT Units.

The total DPU for the financial year 1 January 2008 to 31 December 2008 stands at 15.27 sen equivalent to a gross yield 13.63% based on the closing price of RM1.12 on 31 December 2008. This also represents an increase in total DPU of 12% over that of 2007.

The EPU (realised) increased during year due to the additional income contributed by the five (5) new properties acquired in 2008. Coupled with an increase in the occupancy rates and positive rent reversions during the year, the realized EPU has increased by 13.7% to 15.46 sen for 2008. In turn the NAV of the Fund also increased by RM113.194 million mainly due to the net proceeds of RM88.446 million from the successful placement of 50.0 million Units and the RM24.478 million appreciation in the value of the properties.

Due to the fallout of the global financial crisis, the Unit price of Axis-REIT together with other M REITs and equities in general were not spared. Axis-REIT was trading at RM1.85 in the beginning of the year but closed at RM1.12 at end of 2008. However, since our conversion to an Islamic REIT and the announcement of the annual results we have seen the price recover to RM1.40 as of 30 January 2009. The fall in Unit price does not represent the real performance of the Fund as seen in the increases registered in the EPU, DPU and NAV, but rather a reflection of the current weak market sentiment. However, with the Unit price of the Fund currently trading below its NAV, it has created a new set of challenges for the Manager to raise fresh capital without diluting earnings, strategies for which are being formulated for 2009.

Successful Reclassifying Axis-REIT into an Islamic REIT



Axis REIT Managers Bhd with the Shariah Advisors from IBFIM

From left to right: Ms Leong Kit May, Encik Roslan Abd Razak (Director Training & Shariah Business Advisory IBFIM), Stewart LaBrooy, Ustaz Mohd Bakir Hj Mansor (Distinguished Shariah Fellow IBFIM), David Aboud & Chan Wai Leo

ANNOUNCEMENT

The Board, had on 4 August 2008, announced to Bursa Securities that Axis-REIT proposed to undertake the following:

- (i) Proposed reclassification of Axis-REIT from a conventional REIT to an Islamic REIT.
- ii) Proposed amendments to the Deed dated 15 June 2005 and the Supplemental Deed dated 8 December 2006, constituting Axis-REIT in relation to the proposed reclassification.

Pursuant to this announcement, the Board had appointed Islamic Banking and Finance Institute Malaysia Sdn. Bhd. ("IBFIM") as the Shariah Adviser to Axis-REIT pursuant to the proposed reclassification of Axis-REIT from a conventional REIT to an Islamic REIT.

IBFIM is registered with the SC to act in the capacity of Shariah Advisers, pursuant to SC's list of Registered Eligible Shariah Advisers. IBFIM will be paid a fee of RM18,000 per annum for references and consultations to the Manager on permitted investments as provided in the SC's Guidelines on Islamic REIT's, and monitoring and ensuring that Axis-REIT has been managed and administered in accordance with the Shariah requirements and the SC's Guidelines on Islamic REITs.

OBJECTIVES

The Manager took the strategic decision to reclassify Axis-REIT in order:

- To widen Axis-REIT's investor base to include local Shariah-based funds, as well as developing investor interest from foreign Shariah-based funds; and
- To become the 1st Office/Industrial REIT in the world to comply with Islamic REIT Guidelines;

The salient compliance requirements of SC's Guidelines on Islamic REITs are:-

- Non-Permissible rental activities must not exceed the 20% benchmark based on the total turnover or area occupied;
- Not permitted to own real estate in which all the tenants operate non-permissible activities even if the percentage based on turnover/floor area is less than the 20% benchmark;
- All forms of investments, deposits and financing must comply with Shariah principles;
- Must use the Takaful schemes to insure its real estates.

SUCCESSFUL CONCLUSION

The Manager is pleased to report that on the 11 December 2008, the SC had confirmed the reclassification of Axis-REIT as an Islamic REIT, having complied with the conditions set by the SC's Guidelines on Islamic REITs.

Manager's Report

Four Principles of Management

◆ PRUDENT CAPITAL AND RISK MANAGEMENT

LIQUIDITY RISK

With the ongoing credit crunch, the Manager is taking measures to diversify its funding sources. Currently all debt is of a short term Islamic Revolving Credit ("RC") and a single overdraft facility. The Manager is currently seeking medium term facilities to reduce the dependence on short term financing.

INTEREST RATE RISK

With the recent steps by Bank Negara Malaysia to reduce the Overnight Policy Rate ("OPR") to 2.5% in January 2008 bodes well for Axis-REIT as it moves its facilities from short term Islamic RC facilities to medium term Islamic facilities in that the profit rates offered by the banks could be attractive. The Manager expects the rate to remain in force or even reduced further in 2009.

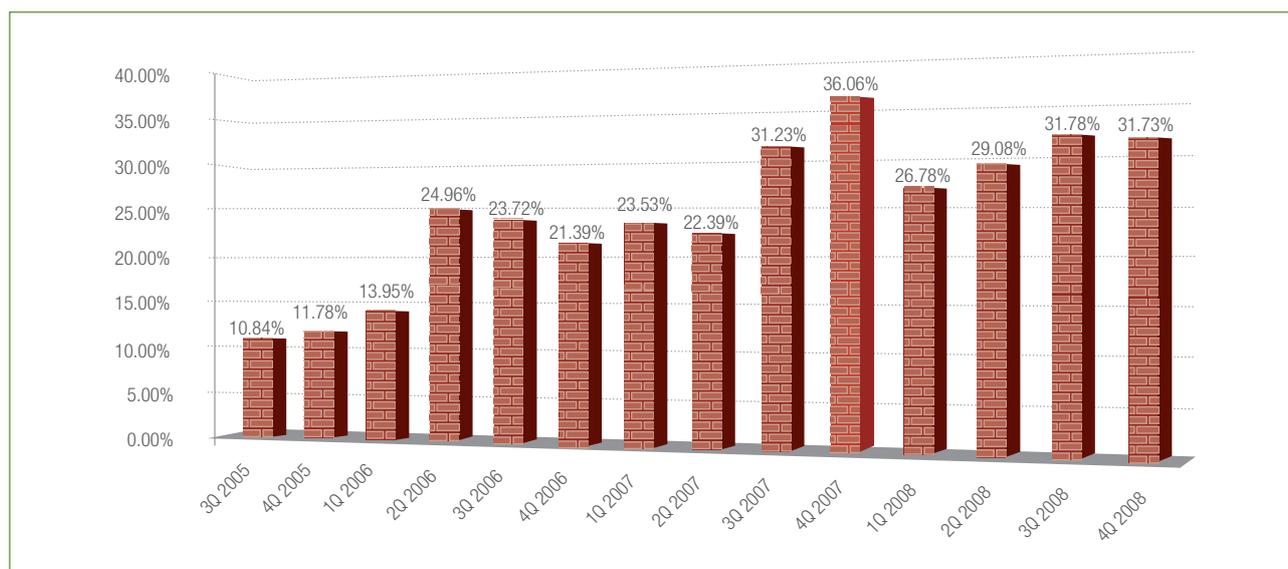
CAPITAL MANAGEMENT

Axis-REIT successfully placed out 50 million Units @ RM1.80 per unit back in January 2008. The placement proceeds of RM90million provided a war chest for the five (5) property acquisitions in 2008. These acquisitions proved to be yield accretive to the Fund with average gross yields of 10.5%.

Axis-REIT has a RM280,000,000 secured facility comprising RM220,000,000 RC and a RM60,000,000 Overdraft Facility. In November 2008, all RC's due have been converted into Shariah compliant instruments.

The Overdraft Facility is short term in nature with a 12 month fixed rate. As regards to the RC facilities, bills are drawn to mature in 1, 3, 6, 9 or 12 months with fixed rates depending on the tenor.

As at 31 December 2007, Axis-REIT has drawn down RM200,000,000 of the RC facilities and utilized RM30,456,000 of the Overdraft Facility.



Gearing

GEARING

Axis-REIT has historically maintained a very conservative optimal gearing limit not exceeding 36%.

As at 31 December 2008, Axis-REIT had a gearing ratio of 31.73% (36.06% as at 31 December 2007), and had available credit facilities of RM49,544,000. There is capacity for an additional RM132,730,000 financing before reaching the 50% limit permitted under the SC's Guidelines on REITs.

The Manager will be utilizing the available credit facilities to further pursue its acquisitions prior to any new Unit Issue.

RAISING FRESH CAPITAL THROUGH THE PROPOSED PLACEMENT OF 120,000,000 NEW AXIS-REIT UNITS

ANNOUNCEMENT

On 4 August 2008, the Board had announced to Bursa Securities that Axis-REIT proposes to undertake the following:

- (i) Proposed placement of up to 120,000,000 new Units ("Proposed Placement") representing approximately 46.9% of the existing Units in Axis-REIT in circulation at a price to be determined later; and

- (ii) Proposed increase in the existing approved fund size of Axis-REIT of 255,901,000 Units to a maximum of 375,901,000 Units in relation to the Proposed Placement.

Submission to the relevant authorities was done on 12 August 2008.

INFORMATION ON THE PROPOSED PLACEMENT

- The placement will involve the issuance of 120,000,000 new Axis-REIT's Units representing approximately 46.9% of the existing Units.
- The placement was to be implemented in multiple tranches whenever the Manager anticipates that the bank borrowings/financing will exceed 40% of the total assets of Fund, after taking into account new acquisitions in the pipeline.
- The pricing was to be determined closer to the date of placement but was likely to be based on five (5)-day VWAMP and at a discount to be determined later.
- The placement was planned in two tranches of 60,000,000 units each to match the acquisition timelines.
- The first tranche was expected to be placed out in 4th quarter 2008.
- The second tranche likely to be placed out in the 2nd quarter 2009.

APPROVALS BY THE SC AND THE UNITHOLDERS

The SC had on 21 August 2008 introduced a new set of REIT Guidelines, where amongst others, the Unitholders of REITs are now allowed to give a general mandate to the management company via a resolution in general meeting, for the management company to issue new Units of not more than 20% of the approved fund size subject to certain terms and conditions.

On the 2nd September 2008, SC had approved the Proposed Placement, subject to the following conditions:

- (i) The Manager together with the Corporate Advisor are to inform the SC of the actual Units for each tranche and the date of issuance of the Units; and
- (ii) The issuance of the new Units of Axis-REIT and the listing of the new Units on the Main Board of Bursa Securities must be completed within six (6) months from the date of the SC's approval. The approval is deemed to lapse if the Manager fails to do so within the stipulated time frame.

Further thereto, the Manager had successfully obtained the Unitholders' approval on 24 September 2008 for a general mandate under the revised REIT Guidelines to issue up to 51,180,200 new Units being the first tranche of the Proposed Placement.

CHANGES TO THE PROPOSED PLACEMENT

In November 2008, due to the delay in the proposed reclassification of Axis-REIT into an Islamic REIT (it was pending the conversion of certain existing conventional borrowings of Axis-REIT to Islamic financing), the Board had on 10 November 2008 informed its intention to delay the Proposed Placement until after the completion of the proposed reclassification in order to diversify its prospective investor base to also include Shariah-based funds.

In relation thereto, the Board will be seeking a new general mandate from the Unitholders for the Manager to allot and issue the Proposed Placement Units in 2009 following on the expiration of the current general mandate.

◆ YIELD ACCRETIVE ASSET PURCHASES

The disciplined acquisition of high quality yield accretive properties has been the focus of our strategy in building the portfolio of the Fund. In 2008, we have concluded the acquisition of five (5) high yielding new properties valued at RM 131,500,000.

The properties come with long leases from well known tenants which provide the Fund with stable returns on pre-arranged terms.

The acquisitions were:

Kompakar CRC HQ, Petaling Jaya

- Acquisition completed on 25 January 2008
- Total NLA – 104,903 sq ft
- Single tenant
- Lease term – 3+3 years from November 2007 with a 14% step-up for the second term



Manager's Report



BMW Centre, PTP Johor

- Acquisition completed on 30 April 2008
- Total NLA – 161,474 sq ft
- Single tenant
- Lease term – 10 years from June 2004 with a 12% step-up from year 6

Niro Warehouse, Johor

- Acquisition completed on 30 April 2008
- Total NLA – 167,193 sq ft
- Single tenant
- Lease term – 6+6 years from May 2008 with a 7% step-up from year 4



Delfi Warehouse, Johor

- Acquisition completed on 4 August 2008
- Total NLA – 130,743 sq ft
- Single tenant
- Lease term – 3 years from January 2007

* Axis Vista, Petaling Jaya

- Acquisition completed on 9 December 2008
- Total NLA – 118,017 sqft
- Multi tenants (3 tenants)
- Lease terms – 3+3 years from May 2007, December 2007 and August 2008

* *Axis Vista was acquired from a related party of the directors of the Manager.*



In evaluating future acquisitions, the Manager will continue to focus on the following areas:

- Location
- Tenant strength
- Lease structure
- Building age and enhancement possibilities
- Valuation
- Occupancy
- Capital appreciation
- Future redevelopment potential

PORTFOLIO DIVERSIFICATION AND GROWTH

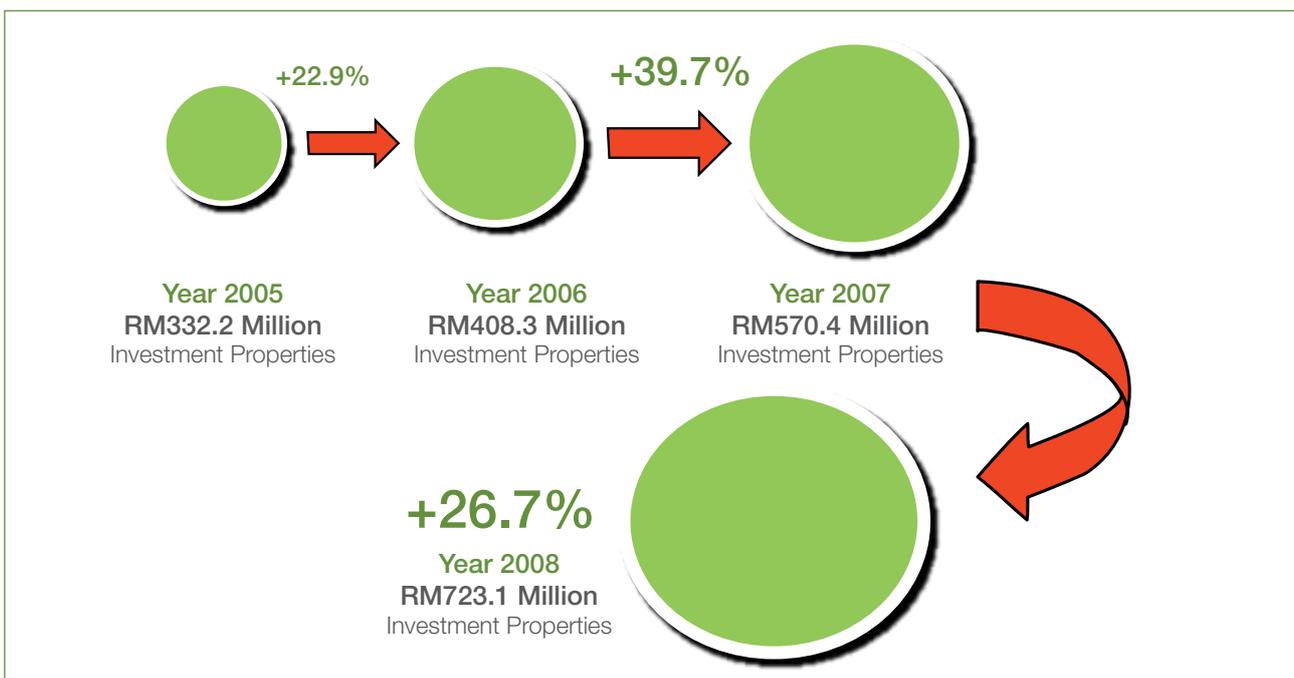
Axis-REIT now owns a well diversified portfolio of properties in the following subsectors:

- Office
- Office Industrial
- Light Industrial
- Warehousing / Logistics
- Warehouse Retail Facilities

As at 31 December 2008, space under management increased to 2,858,121 sq ft with a growth of 190% and CAGR of 42.6% since IPO.



As of 31 December 2008, the total investment properties of Axis-REIT was RM 723,100,000. This represented an increase of 26.7% over 2007.

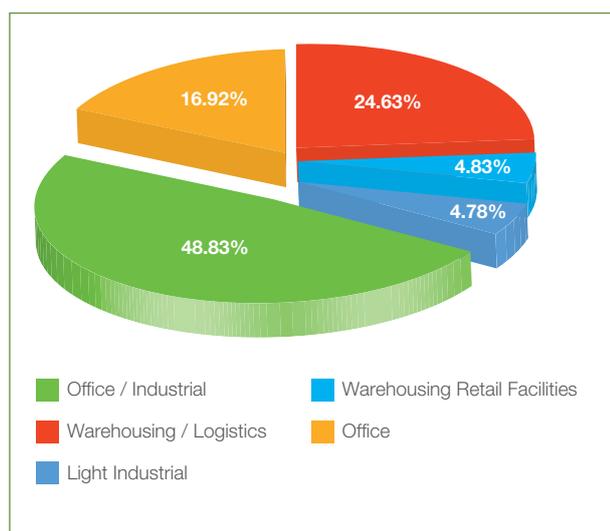


Manager's Report

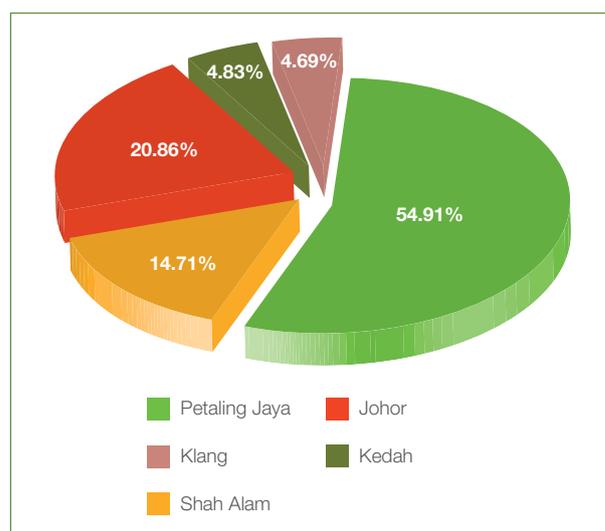
◆ PROACTIVE ASSET & TENANT MANAGEMENT

PORTFOLIO SUMMARY

Axis-REIT has a diverse portfolio of nineteen (19) properties across five (5) subsectors with our tenants coming from a pool of some of the top names in the corporate world. Our five (5) subsectors are shown below by type and geographical location.



Portfolio by Type and Net Lettable Area



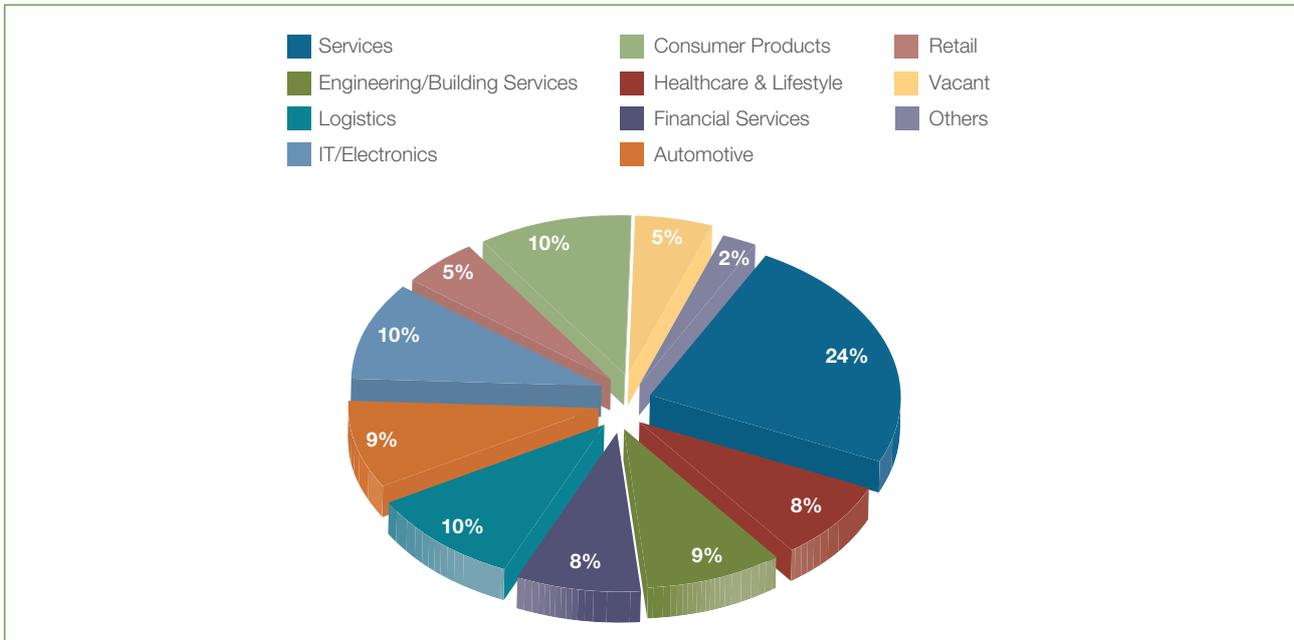
Portfolio by Geographical Diversification and Net Lettable Area

PORTFOLIO BY VALUE AND DATE OF ACQUISITION

Property Description	Acquisition Date	Acquisition Cost (RM'000)	Total Investment Outlay (including enhancements) (RM'000)	Fair Value Adjustments (RM'000)	Book Value based on latest Valuation (RM'000)	% of Total Portfolio
Axis Plaza	03/08/05	22,500	22,502	8,198	30,700	4.24%
Axis Business Park	03/08/05	84,600	84,964	17,536	102,500	14.17%
Crystal Plaza	03/08/05	56,400	56,496	33,304	89,800	12.42%
Menara Axis	03/08/05	71,440	73,171	18,529	91,700	12.68%
Infinite Centre	03/08/05	25,450	25,613	9,587	35,200	4.86%
Wisma Kemajuan	16/12/05	29,192	33,174	19,326	52,500	7.26%
Axis North Port LC1	22/05/06	10,373	10,650	950	11,600	1.60%
Kayangan Depot	30/06/06	16,224	16,538	5,462	22,000	3.04%
Wisma Bintang	30/06/06	32,680	32,684	5,316	38,000	5.26%
Axis Shah Alam DC 1	01/08/07	18,783	19,063	(563)	18,500	2.56%
Giant Hypermarket	07/09/07	38,678	38,678	(678)	38,000	5.26%
FCI Senai	15/11/07	12,538	12,551	1,449	14,000	1.94%
Nestle Office & Warehouse	16/11/07	7,352	7,351	149	7,500	1.04%
Nestle House	30/11/07	40,376	40,376	(376)	40,000	5.53%
Kompakar CRC HQ	25/1/08	37,549	37,557	2,443	40,000	5.53%
Niro Warehouse	30/4/08	14,811	14,811	(311)	14,500	2.01%
BMW Centre PTP	30/4/08	27,471	27,471	(371)	27,100	3.75%
Delfi Warehouse	4/8/08	12,743	12,743	757	13,500	1.87%
Axis Vista	9/12/08	32,481	32,481	3,519	36,000	4.98%
TOTAL		591,641	598,874	124,226	723,100	100%

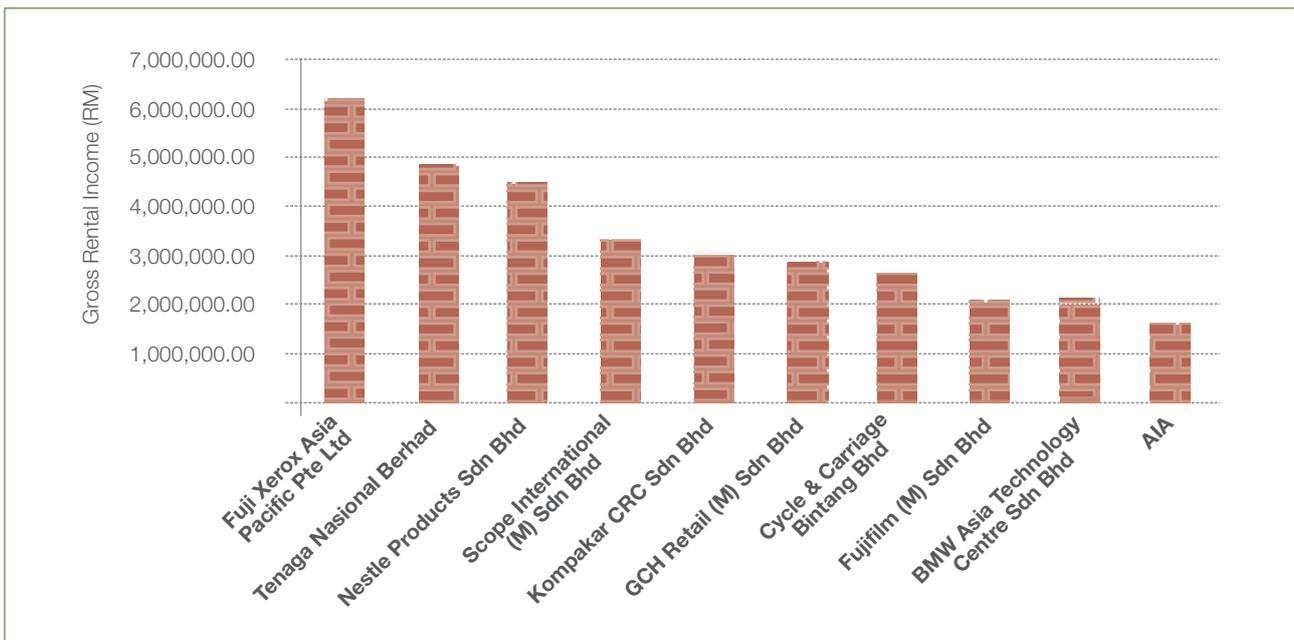
DIVERSITY IN TENANT BASE

Within the nineteen (19) properties, we have a high quality tenant base of 92 international and local companies covering a wide range of businesses. This provides Axis-REIT with a stable, diversified income stream without excessive concentration in any particular sector.



Portfolio Diversification by Sector and Net Lettable Area

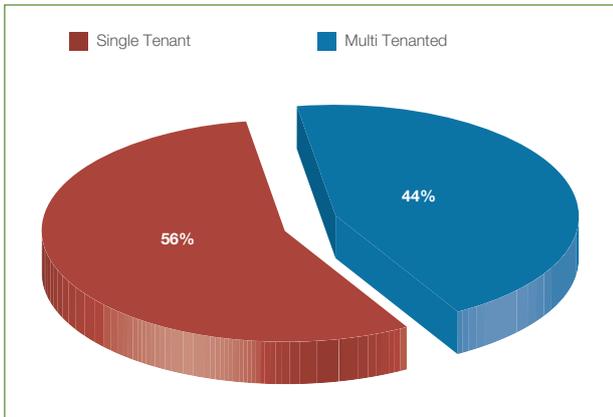
As of 31 December 2008, the top ten (10) tenants accounted for 51.8% of the gross rental income of the Fund. This year, we witnessed the entry of two (2) new candidates into the top ten both of which have long leases; BMW Asia Technology Centre Sdn Bhd and Kompakar CRC Sdn Bhd.



Top Ten Tenants

Manager's Report

WELL BALANCED LEASE TENURES WITH BUILT IN GROWTH



Tenant Type by Areas Leased

The current portfolio represents properties with tenants having long term leases together with multi tenanted properties with shorter leases. This provides the Fund with a balance of stability and growth drivers.

The long term leases have pre-agreed income increases over the fixed period of the lease which provides us with stable growth, whereas the properties with shorter term leases allow the Fund to leverage on the rental market to provide positive rent reversions upon renewal.

ORGANIC GROWTH DRIVERS

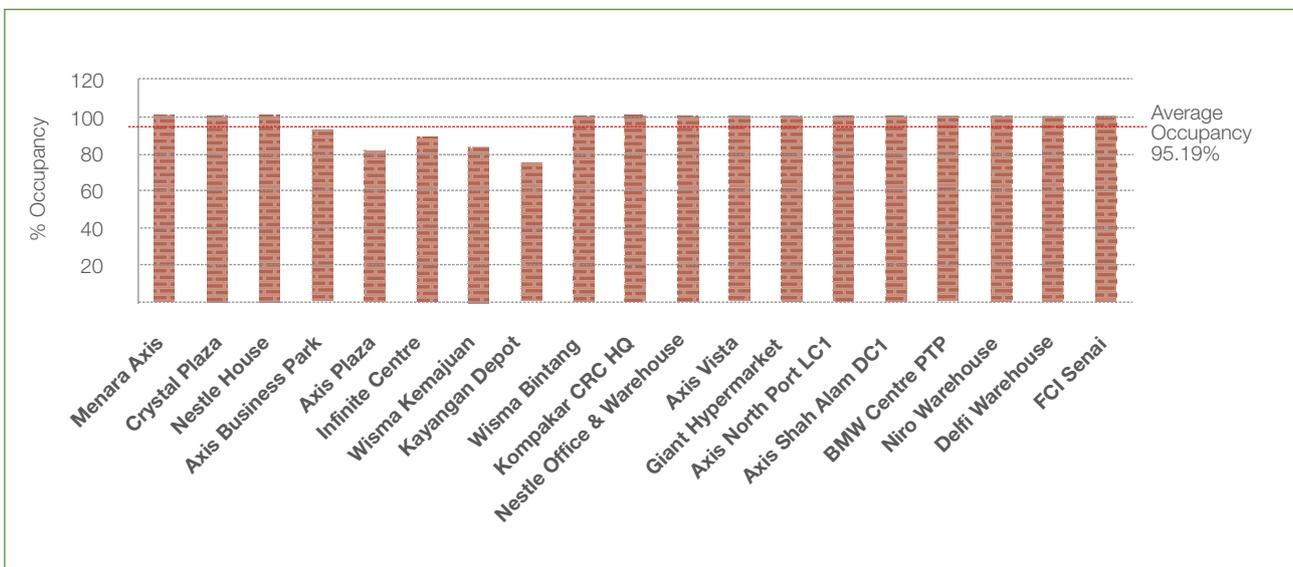
PROACTIVE LEASING STRATEGIES RESULT IN HIGH OCCUPANCY

Our management team has pursued an energetic and focused campaign to increase occupancy in our buildings.

The management has effectively used the Axis-REIT website to allow visitors to view the vacant spaces in the portfolio and download information on properties. This enables property agents the opportunity to prepare professional presentations when offering our properties to their clients.

This has resulted in a reduction in the overall vacancy of the portfolio from 7.3% as at 31 December 2007 to 4.81% as at 31 December 2008. As at 31 December 2008, the average occupancy currently stands at 95.19% which outperformed the average occupancy rate in the Klang Valley.

Moving forward, the Manager will remain focused on winning new tenants for the current vacant spaces plus retaining the existing tenants within the portfolio, thus preserving the income of the Fund. In the current market, we understand the need to work harder to retain occupancy levels. To achieve this, management has instituted focused tenant relationship programs and a series of marketing initiatives to more actively promote the vacant spaces that we still retain.



Occupancy

RISK MANAGEMENT STRATEGY – OCCUPANCY

In light of the current economic climate, the Managers have initiated a targeted risk management plan which will actively enhance inter-action with tenants with a view to quickly identifying any issues regarding rental payments, downsizing and /or business closure etc. The principle here is that the sooner problems are identified the better they can be mitigated. This policy is coupled with the already stated policies designed to contain property expenditure and the combined result will be to preserve income whilst containing costs. The strategy is actively tracked by management.

POSITIVE RENT REVERSIONS

Despite the effects of the global economic downturn, the Manager successfully renegotiated a total of 510,870 sq ft of space representing 17.87% of the total lettable space in the portfolio as of 31 December 2008 with positive rental reversions.

Multi Tenanted Properties	Space Negotiated	% Movement
Crystal Plaza	33,830	+ 13.29%
Menara Axis	16,440	+ 3.71%
Infinite Centre	60,712	+ 6.38%
Axis Business Park	279,162	+ 4.57%
Axis Plaza	64,398	+ 6.39%
Wisma Kemajuan	30,880	- 8.46%**
Kayangan Depot	25,448	+ 13.66%

** Due to reduction in space taken by a tenant upon renewal despite securing a 20% higher rental.

The Manager is of the view that the rental rates offered by the properties in the portfolio are still below the current market and present an excellent opportunity for those companies that are looking for more affordable accommodation in the coming years.

EXPENSE MANAGEMENT

The Manager continues to work closely with our Property Manager, Axis Property Services, to ensure that all expenses and costs of the operation are carefully managed and monitored.

Expanding on the panel of vendors used and leveraging on the size of our portfolio ensures that we can obtain the best possible contract rates and service levels for the benefit of our tenants.

Building maintenance is a very high priority and preventive maintenance programs are under constant review. A summary of our property expenses is tabled below:

Property Description	Gross Rental (RM)	Property Expenses (RM)	Net Property Income (RM)
Axis Plaza	2,764,082	841,314	1,922,768
Axis Business Park	10,645,255	1,458,262	9,186,993
Crystal Plaza	9,349,398	1,192,405	8,156,994
Menara Axis	9,518,933	1,691,898	7,827,035
Infinite Centre	3,666,289	617,195	3,049,094
Wisma Kemajuan	4,591,173	1,425,352	3,165,821
Axis North Port LC1	1,154,070	204,199	949,872
Kayangan Depot	2,256,604	717,362	1,539,242
Wisma Bintang	2,610,843	303,506	2,307,337
Axis Shah Alam DC 1	1,233,862	159,014	1,074,849
Giant Hypermarket	2,898,000	247,041	2,650,959
FCI Senai	1,311,542	83,265	1,228,278
Nestle Office & Warehouse	615,000	75,297	539,703
Nestle House	3,816,000	355,692	3,460,308
Kompakar CRC HQ^	3,002,933	185,923	2,817,010
BMW Centre PTP^^	2,016,000	106,529	1,909,471
Niro Warehouse^^	1,040,000	86,240	953,760
Delfi Warehouse*	533,785	64,829	468,956
Axis Vista **	307,610	60,850	246,760
	63,331,379	9,876,169	53,455,210

^ Acquired on 25/1/2008

^^ Acquired on 30/4/2008

* Acquired on 4/8/2008

** Acquired on 9/12/2008

In 2009, the management team will be introducing a management program called the “Axis al-Tashhen 09 Program”. This means “improvement and enhancement” and the focus will be to empower building management staff to improve the quality and speed of service delivery. This is seen as a pro-active step by management to counter the current economic hardships by improving the delivery of services.

Manager's Report

LEASE EXPIRY PROFILE FOR 2009-2011

Due to the diversification of the portfolio, only 19% of the portfolio will be up for renewal in 2009, 24.2% in 2010 and 20.7% in 2011 [based on NLA]. Many of these properties are located in areas that enjoy high rentals and occupancy. Rents offered here are still modest and the Manager is confident that despite the current economic outlook these spaces will be renewed at rates that are the same or better.

Property	Year 2009	% of Total NLA	% of Rental Income/month	Year 2010	% of Total NLA	% of Rental Income/month	Year 2011	% of Total NLA	% of Rental Income/month
1. Axis Plaza	5,939	0.21%	0.17%	32,873	1.15%	1.37%	58,459	2.05%	2.25%
2. Axis Business Park	34,693	1.21%	1.24%	40,189	1.41%	1.49%	254,017	8.89%	12.66%
3. Crystal Plaza	24,856	0.87%	1.63%	169,002	5.91%	9.68%	9,118	0.32%	0.65%
4. Menara Axis	51,510	1.80%	3.11%	58,002	2.03%	4.92%	14,034	0.49%	1.48%
5. Infinite Centre	31,912	1.12%	1.12%	81,680	2.86%	3.04%	12,552	0.44%	0.47%
6. Wisma Kemajuan	30,174	1.06%	1.05%	44,232	1.55%	3.22%	42,676	1.49%	1.54%
7. Axis NPLC 1	121,155	4.24%	1.62%	-	-	-	13,000	0.45%	0.20%
8. Kayangan Depot	2,609	0.09%	0.08%	103,333	3.62%	2.29%	16,856	0.59%	0.29%
9. Wisma Bintang	-	-	-	-	-	-	-	-	-
10. Axis Shah Alam DC 1	-	-	-	-	-	-	110,406	3.86%	2.19%
11. Giant Hypermarket	-	-	-	-	-	-	-	-	-
12. FCI Senai	-	-	-	-	-	-	-	-	-
13. Nestle Office & Warehouse	-	-	-	-	-	-	-	-	-
14. Nestle House	106,000	3.71%	5.67%	-	-	-	-	-	-
15. Kompakar CRC HQ	-	-	-	104,903	3.67%	4.77%	-	-	-
16. BMW Centre PTP	-	-	-	-	-	-	-	-	-
17. Niro Warehouse	-	-	-	-	-	-	-	-	-
18. Delfi Warehouse	130,743	4.57%	1.94%	-	-	-	-	-	-
19. Axis Vista	-	-	-	57,617	2.02%	2.41%	60,400	2.11%	1.69%
	539,591	18.88%	17.63%	691,831	24.21%	33.17%	591,518	20.70%	23.42%

ASSET ENHANCEMENT STRATEGIES

ORGANIC GROWTH THROUGH ENHANCEMENTS

The Asset and Lease Management team, headed by David Aboud, is constantly exploring ways to enhance the value of the existing portfolio. In 2007, we completed the enhancement of two (2) of our properties namely Wisma Kemajuan and Kayangan Depot.

In 2008, we commenced the enhancement of Menara Axis and embarked on planning the enhancement of two (2) more properties in 2009, namely Nestle House and Crystal Plaza.



MENARA AXIS

As of the date of this report, the Manager is pleased to report that the two additional lifts to the building are completed and running, greatly enhancing the tenant experience in the building. The facelift to the building will commence in February 2009 and be completed by the 2nd Quarter 2009 to maintain its premium office status.



External lift skeletons being installed



Completed assembly with cladding



New ground floor lift lobby



Detail of the upper floors

Manager's Report



NESTLE HOUSE

As Nestle Products Sdn Bhd will be moving out of Nestle House at the end of November 2009, the Manager will be taking the opportunity to undertake a complete refurbishment bringing it up to the best in class. A Request for Proposal has been given out and the contract will be awarded towards the middle of 2009. There is much interest in the property due to its central location, its connectivity to both the LRT and bus transport and its proximity to eateries and the Petaling Jaya Hilton next door.



*PROPOSAL 1 :
For a complete building makeover
with a modern interpretation*

*PROPOSAL 2 :
For a complete building makeover
with a modern interpretation*



Modern drop-off lobby area

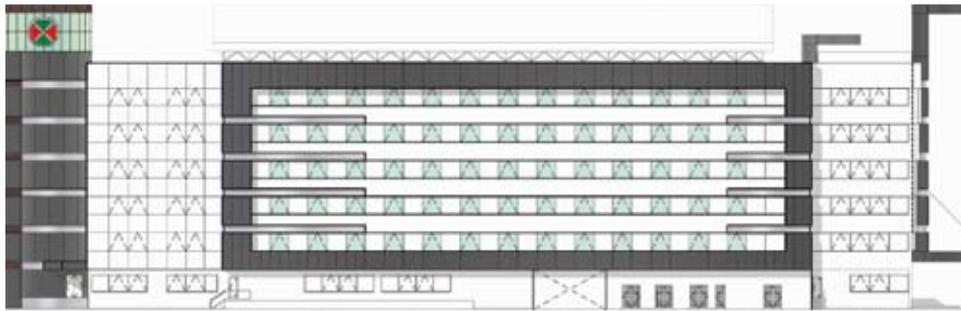


New reception area



CRYSTAL PLAZA

The Manager is planning to give the building a complete makeover to maintain its competitive position as a preferred office. A new drop-off zone with additional F&B facilities is being planned together with fully renovated toilets and lobbies to the latest standards. Work was expected to start in the 4th Quarter 2008 but it will now be deferred until 2010.



Re-cladding of the building with new highlights



New drop-off zone



New F&B outlet

The asset enhancements described are testimony to the Manager's commitment to continue to find ways of enhancing the properties in our portfolio, whereby increasing the revenue streams of its existing properties, enhancing the capital values of the properties and gaining the confidence of our tenants.

Manager's Report

◆ INVESTOR RELATIONS

At Axis-REIT, we take pride in maintaining an excellent relationship with our Unitholders. We are in constant communication with our Unitholders and the general investing public via our website at www.axis-reit.com.my, e-mails and telephone calls. In addition, we hold regular meetings with Fund Managers and Unitholders to constantly update and provide them with transparent and continuous disclosures. This bodes well for our corporate culture of promoting transparency in our communication.

We will continue to generate awareness with the general public through our active engagement with the media and participation in local and regional seminars. Throughout 2008, we have held two (2) briefings for Analysts and members of the media and one (1) Unitholders meeting.

Throughout 2008, CEO Stewart LaBrooy was invited to speak at seminars on the subject of REITs primarily to improve investor education on the asset class and its investment characteristics, and to promote M REITs internationally. The following conferences featured Mr LaBrooy as a guest speaker.

Date	Topic	Venue
22 January	REIT Review Asia Conference	Singapore
29 January	Malaysian Property Outlook and Updates 2008 "Diversification Into Real Estate Investment Trust"	Kuala Lumpur
28 February	"Opportunities of REIT Markets in Developing Asian Countries as its economies recover and grow"	Singapore
22 March	Asia Traders & Investors Convention	Kuala Lumpur
21 May	"Leveraging on Real Estate Investment Trust"	Kuala Lumpur
11 June	RHB Investors Seminar on the Property Market "Regional REITs outlook and why should we invest In Malaysian REITs/The correlation between Regional REITs performance and M-REITs"	Kuala Lumpur
10 September	Citiscapex New York - Panelist	New York USA
16 September	Current Trends, Development & Opportunities for REITs "Conventional REIT vs Islamic REIT : Prospect and challenges"	Kuala Lumpur
23 September	Real Estate Developments and Investment "Best practices and overview on Malaysian REITs Industry"	Indonesia
13 November	National Property & Housing Summit 2008 "Globalization and Liberalization of the Property Sector & its impact on Malaysian developers"	Petaling Jaya
24 November	APREA Roundtable Conference on Malaysian REITs Realizing the potential	Petaling Jaya
25 November	** PPK Malaysia Seminar – Appointing A Managing Agent "Strategies in REITs Property Management" ** <i>David Aboud spoke on behalf of Axis REIT Managers Bhd</i>	Kuala Lumpur
4 December	ASLI – The 13th Malaysian Capital Market Summit'08	Kuala Lumpur

CONTACT INFORMATION

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Or

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50100 Kuala Lumpur, Malaysia

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CEO, Stewart LaBrooy presenting during the Analyst Briefing



Question and answer session with the members of the media

PROPOSED CALENDAR OF FINANCIAL EVENTS 2009

January 2009	<ul style="list-style-type: none"> • Announcement of Unaudited Results for FY 08 • Announcement of the 2H08 Final Income Distribution
February 2009	<ul style="list-style-type: none"> • Book Closure date to determine entitlement to 2H08 Final Income Distribution • Payment of the 2H08 Final Income Distribution • Release of the 2008 Annual Report
April 2009	<ul style="list-style-type: none"> • Announcement of the Unaudited 1Q09 results • Announcement of the 1Q09 Interim Income Distribution
May 2009	<ul style="list-style-type: none"> • Book closure date to determine the entitlement to 1Q09 Interim Income Distribution • Payment of 1Q09 Interim Income Distribution
July 2009	<ul style="list-style-type: none"> • Announcement of the Unaudited 2Q09 results • Announcement of the 2Q09 Interim Income Distribution
August 2009	<ul style="list-style-type: none"> • Book closure date to determine the entitlement to 2Q09 Interim Income Distribution • Payment of 2Q09 Interim Income Distribution
October 2009	<ul style="list-style-type: none"> • Announcement of the Unaudited 3Q09 results • Announcement of the 3Q09 Interim Income Distribution
November 2009	<ul style="list-style-type: none"> • Book closure date to determine the entitlement to 3Q09 Interim Income Distribution • Payment of 3Q09 Interim Income Distribution
January 2010	<ul style="list-style-type: none"> • Announcement of Unaudited Results for FY 09 • Announcement of the 4Q09 Final Income Distribution

Strategies and Prospects

Given the country's well diversified economy and positive economic growth, the Malaysian property sector has been buoyant in 2008 despite the worsening situation in the global financial markets triggered by the Subprime crisis in the USA. Between January 2008 to November 2008 there were a total of 315,901 transactions worth RM82.27 billion an increase of 13.7% when compared to the corresponding period in 2007.

However, there is a mood of caution for 2009 as the full impact of the global recession reaches our shores. The strategy of transforming Axis-REIT into an Islamic REIT was anticipated early and this will widen Axis-REIT's investor base to include local Shariah-based funds as well as developing investor's interest from foreign Shariah-based funds and allowing Axis-REIT to tap the growing Shariah-based funds in Malaysia and the Middle East. With this, we will be able to expedite its asset growth with new strategic partners in a difficult environment.

Becoming the 1st Office/Industrial REIT globally to comply with Islamic REIT Guidelines will place us in a strong position in the future.

As global capital markets continue to be plagued with volatility and illiquidity, the key concerns for investors in REITs that have emerged are:

- Refinancing risk and credit spreads
- Gearing
- Negative rental reversions/downside dividend yields
- Valuation
- Dilutive equity raisings

As a result, the Manager has put in place a focused strategy to deal with these concerns.

PROPOSED CAPITAL MANAGEMENT – CHANGING THE DEBT MATURITY PROFILE TO ADDRESS REFINANCING RISK

Currently the Fund has the following available banking facilities – RC's of RM220 million and an Overdraft of RM60 million.

In November 2008, the Manager successfully refinanced the Fund's debt into Shariah-compliant instruments with the Islamic banking subsidiaries of our current financiers. The average rates negotiated ranged from 4.35% to 4.65% p.a.

For 2009, we are planning to achieve a mix of short term financing and medium term financing in the ratio of approximately 54%: 46%. The plan would be to further move the ratio to 38% : 62% in 2010. The longer term facilities planned will attract higher financial cost but will be mitigated by the double OPR cut by 25bps and 75bps.

GEARING LEVELS

The Manager will continue to be prudent in the management of the gearing levels of the Fund. A maximum gearing level of 40% has been set as an internal target for the Fund.

MAINTAINING POSITIVE RENTAL REVERSIONS

There will be a real focus in 2009 to maintain our positive rent reversions and work hard to fill the vacant spaces in our buildings. The properties in the portfolios have extremely competitive rental rates vis-à-vis the commercial and industrial market in the areas we are located and this will work in our favour as tenants decide to move out of expensive properties to minimize costs.

Over 2008, the Manager has successfully renegotiated a total of 510,870 sq ft of space representing 17.87% of the total lettable space in the portfolio as of 31 December 2008.

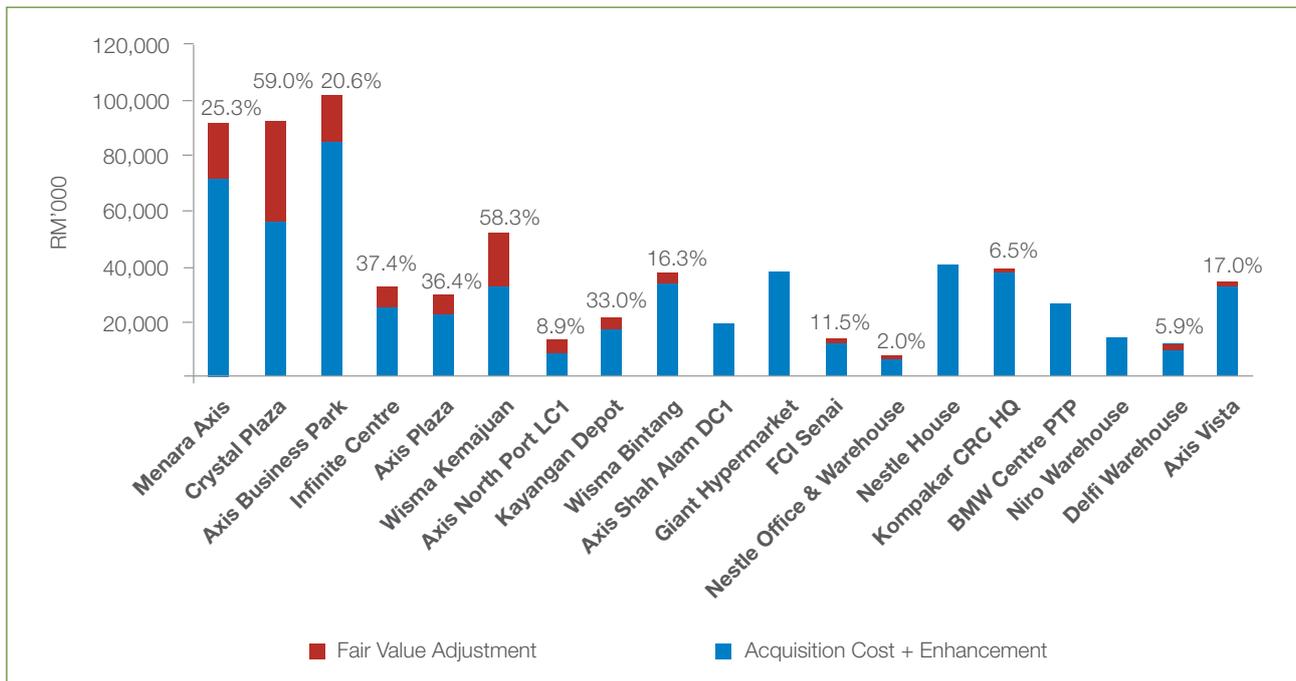
MOVING TO A QUARTERLY INCOME DISTRIBUTION POLICY

In order to improve the returns to Unitholders, the Manager will commence in 2009 to distribute a quarterly income distribution as opposed to the current semi-annual distribution policy. The Manager will maintain its policy of distributing greater than 90% on net realised income of the Fund.

ASSET ENHANCEMENTS ON CURRENT PORTFOLIO - MAINTAINING VALUATION

The Manager recognizes that asset enhancement is an important part of improving the value of the portfolio as the chart below demonstrates. As an example, since refurbishing Wisma Kemajuan we have seen values improve by 58.3%.

As at 31 December 2008, the portfolio has recorded a favourable gain in fair value of RM124.2million. Book values of the portfolio are not at the top-end of market valuations as the following table amply demonstrates.



Properties Appreciation Value as at 31 December 2008

Valuation Analysis		Book Value RM'000	Book Value RM/psf	Total Investment Outlay (including enhancements) RM/psf	Gross Yield based on Investment Outlay (including enhancements)
1.	Axis Business Park	102,500	300	249	12.53%
2.	Axis Plaza	30,700	258	189	12.28%
3.	Crystal Plaza	89,800	442	278	16.55%
4.	Infinite Centre	35,200	239	173	14.31%
5.	Menara Axis	91,700	524	418	13.01%
6.	Wisma Kemajuan	52,500	261	165	13.84%
7.	Axis NPLC 1	11,600	86	79	10.84%
8.	Kayangan Depot	22,000	134	101	13.65%
9.	Wisma Bintang	38,000	220	189	7.99%
10.	Axis Shah Alam DC1	18,500	168	173	6.47%
11.	Giant Hypermarket	38,000	275	280	7.49%
12.	FCI Senai	14,000	102	92	10.45%
13.	Nestle Office & Warehouse	7,500	272	267	8.37%
14.	Nestle House	40,000	377	381	9.45%
15.	Kompakar CRC HQ*	40,000	381	358	8.55%
16.	Niro Warehouse*	14,500	87	89	10.53%
17.	BMW Centre PTP*	27,100	168	170	11.01%
18.	Delfi Warehouse *	13,500	103	97	10.67%
19.	Axis Vista *	36,000	305	275	8.50%

* Annualised

Manager's Report

ADDRESSING RESPONSIBLE CAPITAL MANAGEMENT

The Manager has deferred the capital raising exercise via general mandate planned for the end of 2008 due to the weakness in the market price. Furthermore, the Manager took the view to pursue capital raising only upon the successful reclassification of Axis-REIT into an Islamic REIT which will provide a broader pool of investors.

We are cognisant of the current market price of Axis-REIT which is trading at 28% discount to NAV and will defer any dilutive capital raising. Future capital raising will be dependent on market price recovery or a potential acquisition which will accrete the Fund at current prices.

The Manager is already taking preparatory steps to raise capital when the market recovers.

PROSPECTS

The Governments RM7 billion economic stimulus package is a positive measure to cushion the impact of the slowdown and the Government has taken many further bold measures some of the more significant were:

- RM1.2 billion to build 25,000 units of medium and low cost housing.
- Abolition of import duty on cement and long iron and steel products to facilitate more competitive pricing in the markets.
- FIC approval exemption on commercial properties valued over RM500,000 to stimulate investment in commercial real estate.
- Housing loan repayment extended for civil servants from 25 to 35 years.
- Employees options to reduce their contributions to EPF to 8% for 2 years to boost consumer spending.
- The development of Government held land under an open tender system.
- A RM1.5 billion fund to attract more private sector investors with a focus on high value add, high technology, and knowledge workers based industries.
- RM400 million allocation for high speed broadband project.
- RM100 housing Credit Guarantee Scheme to assist lower income earners to own their homes.

- RM100 million for the building of more business premises and enhancing the environment of small business by Syarikat Prasarana Negara Berhad.

To summarize, despite the weak market sentiment and slow growth forecast for Malaysia, the Manager will continue to seek opportunities in the acquisition market so pipelines can be identified and lined up for when the markets recover. With the focus on the areas described, we will emerge a stronger and more capable Fund when the crisis abates.

Corporate Social Responsibility Program

The Board has approved a proposal by the Manager for the Corporate Responsibility Program ("CSR") to focus on the refurbishment of existing children's homes and centres. As professional managers of properties, the Board felt that that it was best to use our skills in asset management and maintenance to assist those deserving NGO's who dedicate their time and effort in providing these much needed services to society.

For 2009, the Board has approved an annual grant of up to RM 50,000 which will be set aside for this purpose. The Manager will involve all members of staff in assessing the needs of the homes that qualify for assistance as well as undertake the selection process.

For 2008, the Manager is pleased to report that it commenced the program on a pilot scale and has selected and completed the refurbishment of the Kiwanis Down Syndrome Foundation Klang Centre ("Centre"). The Centre currently teaches 45 children serving the Klang, Shah Alam, Banting and Kuala Selangor Districts.

The Centre was repainted inside and out, floors re-varnished, furniture repaired, fans replaced, light fittings replaced, and the Manager also undertook to build additional facilities at the request of the centre's administration.

The total makeover for the Centre cost the Manager RM30,000 and the teachers and parents of the children are delighted with the results.

Some pictures of the program are shown below:



Slippery tiles caused accidents and were replaced by new non-slip homogenous tiles



Exterior and interior cleaning and painting



Varnishing and repainting of all the interior surfaces



Replacement of old fans and the addition of new ones



Broken furniture was repaired and repainted

Manager's Report



New sink for the washing of children's hands



Addition of a new sandpit to improve gross motor skills



Makeover completed and handed back to the Centre's administration

DIRECTORS BENEFITS

For the year ended 31 December 2008, no director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Fund or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except as disclosed in Note 22 of the Financial Statements.

There were no arrangements during and at the end of the twelve month period which had the objective of enabling directors of the Manager to acquire benefits by means of the acquisition of units in or debentures of the Fund or any other body corporate.

MANAGER'S FEE

The Manager receives a fee of 1% per annum of the NAV of Axis-REIT, calculated on a monthly basis and payable to the Manager monthly in arrears. There will be no payment due to the Manager by way of remuneration for its services upon the subscription for the purchase or sale of Axis-REIT Units or upon any distribution of income and capital.

Any increase in the maximum permitted level of the Manager's fees of 1% per annum must be approved by the Trustee and Unitholders by way of an ordinary resolution of the Unitholders passed at a Unitholders' meeting convened in accordance with the Deed.

For the year under review, the Manager's fee was RM4,242,247, representing 1.0% per annum of the NAV of Axis-REIT. The Manager did not receive any soft commissions during the year.

The Manager is also entitled to an acquisition and disposal fee of 1% and 0.5% respectively based on the purchase and disposal consideration of the real estate assets upon the completion of the acquisition and disposal. For the period under review there were a total of five (5) acquisitions successfully completed which resulted in a fee of RM1,230,000 being paid to the Manager.

Save for the expenses incurred for the general overheads and costs of services which the Manager is expected to provide, or falling within the normal expertise of the Manager, the Manager has the right to be reimbursed the fees, costs, charges, expenses and outgoings incurred by it that are directly related and necessary to the business of the Fund.

Other Statutory Information

Before the financial statements of Axis-REIT were made out, the Manager took reasonable steps to ascertain that all current assets have been stated at the lower of cost and net realizable value.

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

- i) that would render the value attributed to the current assets in the Axis-REIT financial statements misleading, or
- ii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of Axis-REIT misleading or inappropriate, or
- iii) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of Axis-REIT misleading.

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

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

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

In the opinion of the Manager, the results of the operations of Axis-REIT for the financial year ended 31 December 2008 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial period and the date of this report.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

This concludes the Managers Report.

For and on behalf of Axis REIT Managers Berhad signed in accordance with a resolution of the Directors



Stephen Tew Peng Hwee
Director



George Stewart LaBrooy
Chief Executive Officer/Executive Director

Date: Kuala Lumpur
20 February 2009

Shariah Adviser's Report



To the Unitholders of AXIS REAL ESTATE INVESTMENT TRUST ("AXIS-REIT")

We have acted as the Shariah Adviser of **AXIS-REIT** effective from 11 December 2008. Our responsibility is to ensure that the procedures and processes employed by **AXIS REIT Managers Berhad** and that the provisions of the Deed dated 15 June 2005 and the Supplemental Deeds dated 8 December 2006 and 1 December 2008 are in accordance with Shariah principles.

In our opinion, **AXIS REIT Managers Berhad** has managed and administered **AXIS-REIT** in accordance with Shariah principles and complied with applicable guidelines, rulings and decisions issued by the Securities Commission pertaining to Shariah matters for the financial year ended 31 December 2008.

In addition, we also confirm that the investment portfolio of **AXIS-REIT** is Shariah-compliant, which comprises:

1. Rental income from properties which complied with the Guidelines for Islamic Real Estate Investment Trust;
2. Cash placement and liquid assets, which are placed in Shariah-compliant investments and/or instruments.
3. The total financing facilities of RM280 millions have been converted into Islamic financing EXCEPT for RM32 millions facility which will be fully converted into Islamic financing by 8 July 2009.

For **Islamic Banking and Finance Institute Malaysia Sdn. Bhd.**



MOHD NASIR ISMAIL

Senior Shariah Fellow/Designated Person Responsible for Shariah Advisory

Kuala Lumpur

Property Portfolio at a Glance

as at 31 December 2008

1. **MENARA AXIS**
No. 2, Jalan 51A/223
46100 Petaling Jaya
Selangor.



2. **CRYSTAL PLAZA**
No. 4, Jalan 51A/223
46100 Petaling Jaya
Selangor.

3. **AXIS BUSINESS PARK**
No. 10, Jalan Bersatu
13/4, 46200
Petaling Jaya
Selangor.



4. **INFINITE CENTRE**
Lot 1, Jalan 13/6
46200 Petaling Jaya
Selangor.



5. **WISMA KEMAJUAN**
No. 2, Jalan 19/1B
46300 Petaling Jaya
Selangor.

6. **AXIS PLAZA**
Lot 5, Jalan Penyair
U1/44, Off Jalan
Glenmarie, Temasya
Industrial Park, Batu Tiga
40150 Shah Alam
Selangor.



7. **AXIS NORTH PORT
LC 1**
Lot 24, Jalan Lebu 1
Kawasan Perindustrian
Sultan Sulaiman
North Port
Port Klang.



Property Portfolio at a Glance as at 31 December 2008

8. **KAYANGAN DEPOT**
No. 3, Jalan 15/16
Section 15, 40000
Shah Alam
Selangor.



9. **AXIS SHAH ALAM DC1**
Lot 2-22, 2-24, 2-26
2-28, Jalan SU 6A
Taman Perindustrian
Subang (Lion Industrial
Park), Section 22
40200 Shah Alam
Selangor.



10. **WISMA BINTANG**
Lot 13A & 13B
Jalan 225, Section 51A
46100 Petaling Jaya
Selangor.



11. **NESTLE HOUSE**
No. 4, Lorong
Persiaran Barat
46200 Petaling Jaya
Selangor.

12. **NESTLE OFFICE &
WAREHOUSE**
Lot 14, Jalan Delima 1/1
Subang Hi-Tech Industrial
Park, Batu Tiga
40000 Shah Alam
Selangor.



13. **FCI SENAI**
PLO 205
Jalan Cyber 14
Senai IV Industrial Area
Johor Bahru, 81400
Johor.



- 14. BMW ASIA TECHNOLOGY CENTRE PTP JOHOR
Lot D21
Jalan Tanjung A/3
Port of Tanjung Pelepas
81560 Johor.



14

- 15. NIRO WAREHOUSE
PLO 419-421
Jalan Emas 2
Pasir Gudang Industrial Estate, 81700
Pasir Gudang
Johor.



15

- 16. GIANT HYPERMARKET
Jalan Lecongan Barat
08000 Sungei Petani
Kedah.



16

- 17. KOMPAKAR CRC HQ
No. 12 Jalan
Bersatu 13/4
Section 13, 46200
Petaling Jaya
Selangor.



17

- 18. DELFI WAREHOUSE
PLO 563, Jalan Keluli 8
Pasir Gudang Industrial Estate, 81700
Pasir Gudang
Johor.



18

- 19. AXIS VISTA
No. 11, Jalan 219
Section 51A
46100 Petaling Jaya
Selangor.



19

Portfolio Details

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-08 (RM'000)	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
1 Menara Axis	3/8/2005	71,400	73,171	91,700	174,955
2 Crystal Plaza	3/8/2005	56,400	56,496	89,800	202,976
3 Axis Business Park	3/8/2005	84,600	84,964	102,500	341,215
4 Infinite Centre	3/8/2005	25,450	25,613	35,200	147,480
5 Axis Plaza	3/8/2005	22,500	22,502	30,700	118,765
6 Wisma Kemajuan	16/12/2005	29,000	33,174	52,500	200,930
7 Axis North Port LC 1	22/5/2006	10,300	10,650	11,600	134,155
8 Kayangan Depot	30/6/2006	16,100	16,538	22,000	163,769
9 Wisma Bintang	30/6/2006	32,500	32,684	38,000	Lot 13A - 65,816 Lot 13B - 107,151

Address	Gross Revenue for the period ended 31-12-08 (RM '000)	Occupancy Rate as at 31-12-08	Major Tenants
No. 2, Jalan 51A/223, 46100 Petaling Jaya, Selangor.	9,518,933	100%	Fujifilm (M) Sdn Bhd American International Assurance Co Ltd Sportathlon (M) Sdn Bhd Philips Malaysia Sdn Bhd DHL Asia Pacific Shared Services Sdn Bhd
No. 4, Jalan 51A/223, 46100 Petaling Jaya, Selangor.	9,349,398	100%	Tenaga Nasional Bhd Scope International (M) Sdn Bhd Cosmopoint Sdn Bhd Asiaworks Training Sdn Bhd
No. 10, Jalan Bersatu 13/4, 46200 Petaling Jaya, Selangor.	10,645,255	93.29%	Fuji Xerox Asia Pacific Pte Ltd PL Asia Pacific (Singapore) Pte Ltd eBworx Berhad Honeywell Engineering Sdn Bhd Johnson & Johnson Sdn Bhd
Lot 1, Jalan 13/6, 46200 Petaling Jaya, Selangor.	3,666,289	88.89%	UTAR Konica Minolta Business Solutions (M) Sdn Bhd FJ Benjamin (M) Sdn Bhd C Melchers Gmbh & Co Crystal Edge Sdn Bhd
Lot 5, Jalan Penyair U1/44, Off Jalan Glenmarie, Temasya Industrial Park, Batu Tiga, 40150 Shah Alam, Selangor.	2,764,082	82%	Ricoh (Malaysia) Sdn Bhd CSE Automotive Technologies Sdn Bhd Electrolux Commercial Products Sdn Bhd City-Link Express (M) Sdn Bhd EMS Asia Group Sdn Bhd
No. 2, Jalan 19/1B, 46300 Petaling Jaya, Selangor.	4,591,173	82.25%	Goucera Marketing Sdn Bhd Hong Leong Marketing Sdn Bhd EP2M Services Sdn Bhd Fossil Time Malaysia Sdn Bhd Silverlake Infrastructure & Logistics Sdn Bhd
Lot 24, Jalan Lebu 1, Kawasan Perindustrian Sultan Sulaiman North Port, Port Klang.	1,154,070	100%	MISC Integrated Logistics Sdn Bhd ITS Testing Services (M) Sdn Bhd
No. 3, Jalan 15/16, Section 15, 40000 Shah Alam, Selangor.	2,256,604	74.98%	Courts Mammoth Sdn Bhd Naza Kia Sdn Bhd Nineteen-O-One Sdn Bhd City-Link Express (M) Sdn Bhd
Lot 13A & 13B, Jalan 225, Section 51A 46100 Petaling Jaya, Selangor.	2,610,843	100%	Cycle & Carriage Bintang Berhad

Portfolio Details

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-08 (RM'000)	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
10 Axis Shah Alam DC1	1/8/2007	18,500	19,063	18,500	110,406
11 Giant Hypermarket	7/9/2007	38,000	38,678	38,000	138,000
12 FCI Senai	15/11/2007	12,300	12,551	14,000	136,619
13 Nestle Office & Warehouse	16/11/2007	7,200	7,351	7,500	Office - 19,288 W/hse - 8,266
14 Nestle House	30/11/2007	39,800	40,376	40,000	106,000
15 Kompakar CRC HQ	25/1/2008	37,000	37,557	40,000	104,903
16 BMW Asia Centre PTP	30/4/2008	27,000	27,471	27,100	161,474
17 Niro Warehouse	30/4/2008	14,500	14,811	14,500	167,193
18 Delfi Warehouse	4/8/2008	12,500	12,743	13,500	130,743
19 Axis Vista	9/12/2008	32,000	32,481	36,000	118,017

Address	Gross Revenue for the period ended 31-12-08 (RM '000)	Occupancy Rate as at 31-12-08	Major Tenants
Lots 2-22,2-24,2-26,2-28, Jalan SU 6A Taman Perindustrian Subang, (Lion Industrial Park), Section 22, 40300 Shah Alam, Selangor.	1,233,862	100%	Gapima Sdn Bhd
Jalan Lencongan Barat, 08000 Sungei Petani, Kedah.	2,898,000	100%	GCH Retail (Malaysia) Sdn Bhd
PLO 205, Jalan Cyber 14, Senai IV Industrial Area, 81400 Johor Bahru.	1,311,542	100%	FCI Connectors Malaysia Sdn Bhd
Lot 14, Jalan Delima 1/1, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor.	615,000	100%	Nestle Products Sdn Bhd
No. 4 Lorong Persiaran Barat, 46200 Petaling Jaya, Selangor.	3,816,000	100%	Nestle Products Sdn Bhd
No. 12 Jalan Bersatu 13/4, Section 13, 46200 Petaling Jaya, Selangor.	3,002,933	100%	Kompakar CRC Sdn Bhd
Lot D21, Jalan Tanjung A/3, Port of Tanjung Pelepas, 81560 Johor	2,016,000	100%	BMW Asia Technology Centre Sdn Bhd
PLO 419-421, Jalan Emas 2, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor	1,040,000	100%	Niro Ceramic (M) Sdn Bhd
PLO 563, Jalan Keluli 8, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor	533,785	100%	Delfi Cocoa (Malaysia) Sdn Bhd
No. 11, Jalan 219, Section 51A 46100 Petaling Jaya Selangor.	307,610	100%	Cergazam Sdn Bhd Melco Sales Malaysia Sdn Bhd Samsung Malaysia Electronics (SME) Sdn Bhd

The Axis-REIT Team



from left to right : Nikki Ng, Chan Wai Leo, Leong Kit May, Stewart LaBrooy, David Aboud, Selina Khor, Jackie Law

George Stewart LaBrooy

Chief Executive Officer/ Executive Director

Stewart is responsible for the overall management and operations of Axis-REIT. He works closely with the Executive Committee and the Board of Directors to formulate the strategic direction for the Fund. Together with the members of his management team he works to ensure that all business activities are in alignment with the Fund's strategic goals.

Stewart has been a spokesperson for the Malaysian REIT Industry since listing and has been an invited speaker at several prominent international, regional and local property and REIT conferences.

David Aboud

General Manager, Asset & Lease Management

David Aboud is an Australian citizen who has lived and worked in S.E. Asia since the early 1990's. He graduated from the Royal Military College, Duntroon, in Australia in 1979 and his tertiary qualifications include a BA [Economics / Politics] at the University of New South Wales- Australia, and a Diploma of Business – Property at the University of Queensland, Australia. David is a qualified valuer and a member of the Australian Property Institute.

From 1997-1999, he was the manager responsible for the Commercial and Investment Property Division in Regroup Associates, a leading Malaysian real estate services company which is part of an Asia wide alliance of real estate companies. Here he was responsible for the establishment of a new property division that focused on commercial and industrial properties as well as the development of an information base to provide relevant information to institutional investors in Malaysia, Singapore and offshore institutions.

In 1999, David joined Colliers International where he was appointed as Director of Corporate Services, Singapore and Malaysia. In this position he was responsible for the servicing of many large corporate clients with operations in Singapore and Malaysia and was involved in many significant commercial and industrial deals in these two countries. These included brokering the shift of Standard Chartered Bank to their new HQ in Menara Standard Chartered as well as representing such corporate clients such as GE, 3M, Reuters, FedEx, DHL and Lafarge in both commercial and industrial leases. He has a well developed network amongst the corporate property sector in Asia and understands the business requirements of MNC's.

Prior to joining Axis REIT Managers Bhd he was involved in a development and project management group, Opus Estate Capital, which is involved in the placement of investments in Malaysian real estate to Middle Eastern clients.

Leong Kit May
Chief Financial Officer

Leong Kit May was appointed Accountant of Axis-REIT Managers on 18 September 2006 and later redesignated to the position of Finance Manager. On 5 August 2008 she was promoted to be the Chief Financial Officer of Axis REIT Managers Bhd.

She graduated with a Bachelor of Business (Accountancy) from RMIT Australia in 1997 and is a Member of the Malaysian Institute of Accountants and Certified Practising Accountants of Australia. She is responsible for treasury, capital management, financial reporting and finance and risk management. She has been designated the officer in charge of regulatory compliance in the company.

Prior to joining Axis-REIT Managers she was the Accountant of UOA Asset Management Sdn Bhd (the Manager of UOA REIT) where she was instrumental in the listing of UOA REIT. She was seconded from UOA Holdings Sdn Bhd where she had worked for the UOA Group since 2001. Preceding that she was with Ernst & Young where she gained her audit and accounting skills.

Chan Wai Leo
Senior Manager, Business Development and Investor Relations

Chan Wai Leo was appointed Manager, Business Development and Investor Relations on 5 August 2008. As of 1 January 2009 he was re-designated Senior Manager, Business Development and Investor Relations. Prior to his appointment he was the Senior Finance Manager of Axis Development Sdn Bhd, the holding company of Axis REIT Managers Bhd which is principally involved in investment properties. He was responsible for all aspects of the finance functions of the Group which includes capital management, cash flow monitoring, management reporting and the budgeting processes.

He currently is a Fellow Member of The Chartered Association of Certified Accountants, UK and a member of the Malaysian Institute of Accountants.

Prior to holding his position in Axis Development Sdn Bhd, he was the Group Accountant for Pacific Star Group, a Singapore-based real estate investment company. He was responsible for all aspects of the finance functions of the Group which includes the management reporting and budgeting processes. The Pacific Star Group together with Macquarie Bank are the Managers of Macquarie Prime REIT [now renamed YTL Global REIT], a real estate investment trust listed in the Singapore Stock Exchange in 2005.

From 1997 to 2002, Mr. Chan was with Arthur Andersen. During his tenure there he was with the Assurance Division handling statutory audits and profit forecasts. Subsequently, he was transferred to the Transaction Advisory Division where he was involved in the execution of financial advisory assignments which include valuations and corporate debt restructuring.

Selina Khor
Property Manager

Selina Khor Siew Suan is a member of the Board of Valuers and the registered owner of Axis Property Services, the appointed Property Manager of Axis-REIT since 1 January 2007. Selina is a graduate from the Royal Melbourne Institute of Technology where she obtained an Associate Diploma in Valuation. She served at Rahim & Co for a period of 23 years where she was an Executive Director.

She is responsible for the management of all the properties in Axis-REIT which includes the building and maintenance management as well as the fit out projects and enhancements. She works closely with David About on the tenant leasing and care and with the CEO on matters on valuation regarding existing and new properties.

Jackie Law
Marketing and Lease Executive

Jackie Law Chong Lian was appointed as Marketing and Leasing Executive on 1 February 2007. Prior to this she served in a similar function in Axis Management Sdn Bhd since May 2005. Her transfer effectively brings the Asset and Leasing Management function under direct control of the Manager.

Her main responsibility is the marketing and leasing of space in the Axis-REIT portfolio as well as overseeing the Tenant Care Program. In addition she handles the preparation of all tenancies as well as participates in the negotiations of new tenancies as well as renewals.

Jackie has a Diploma in Business Administration from the Malaysian Institute of Training and Development and has served in several administrative functions in the Axis Group since 1994. She is currently pursuing an MSc in Facilities Management.

Nikki Ng
Accountant

Nikki Ng Choy Tip was appointed as the Accountant effective on 15th September 2008 where her responsibilities involve overseeing the accounting department and the preparation of monthly and statutory financial statements. She also works closely with the Chief Financial Officer in dealing with matters related to corporate finance and regulatory compliance.

Before assuming her current role in Axis REIT Managers Berhad, she was the Finance Manager of Paxelent Corporation Berhad where she has been involved in the dealings of financial management as well as corporate planning since 2004. She was also attached to IGB Corporation Berhad where she has served for 6 years before moving forward to her next level of career in Paxelent Corporation Berhad.

Nikki holds a Bachelor of Accountancy (Hons) degree from the Oxford Brookes University, United Kingdom.

Corporate Governance

The Manager recognizes that an effective corporate governance culture is critical to the performance of the Manager and consequently the success of Axis-REIT.

As a result, the Manager has adopted a comprehensive Corporate Governance framework that meets best practice principles. In particular, the Manager has to act honestly, with due care and diligence, and in the best interest of the Unitholders.

The following sections describe the Manager's main Corporate Governance Practices and Policies. They are designed to ensure that applicable laws and regulations as determined by Securities Laws (as defined in section 2(1) of the SCA), the SC's Guidelines on REITs as well as SC's Guidelines on Islamic REITs, the Listing Requirements of Bursa Securities, the rules of the depository, taxation laws and rulings, the Corporate Governance Code and that the Managers obligations as described in the Deed are properly and efficiently carried out.

THE MANAGER OF AXIS-REIT

The Manager has the general power over the assets of the Fund. The Manager's main responsibility is to manage the assets and liabilities of Axis-REIT for the benefit of the Unitholders.

The primary role of the Manager is to set the strategic direction of the Fund and make recommendations to the Trustee on acquisitions, divestments and enhancements in line with the agreed strategy.

The Manager is also responsible for the risk management of the Fund. Its other main functions are listed below;

- Using its best endeavors to carry on and conduct its business in a proper and efficient manner and conduct all transactions of the Fund in a transparent manner and at arm's length.
- Preparing an annual review for the Board of Directors which may contain proposals and forecasts on net income, DPU, capital expenditure, sales and valuations frequency, explanations on variances to previous forecasts, written reports on the future potential rental income stream generated by the portfolio of properties owned by Axis-REIT and the underlying assumptions, operational costs and any other assumptions.
- Ensuring compliance to all legislation, rules and guidelines issued by the SC and Bursa Securities.

- Ensuring compliance of any tax rulings issued by the Inland Revenue Department.
- Attending to all queries from Unitholders.
- Supervising the Property Manager which performs the facilities management, lease and marketing management, project management services, and fit-out management services.

Axis-REIT is externally managed by the Manager and as a result has no employees. The Manager appoints experienced and well qualified personnel to handle its day to day operations. All directors and employees of the Manager are remunerated by the Manager and not by the Fund.

Axis-REIT Managers Berhad is the appointed Manager of Axis-REIT in accordance with the terms of the Deed dated 15 June 2005. The Deed outlines the circumstances under which the Manager can be retired.

BOARD OF DIRECTORS

The Board of Directors of the Manager oversees the management and corporate governance of the Manager including the establishment of Key Performance Indicators for management and the monitoring achievement of the same. All Board members participate in matters relating to corporate governance, business operations, risk management, financial performance and the nomination and review of directors.

The Board meets regularly at least once a quarter, to discuss and approve the release of the quarterly, half year and annual results, review acquisitions and disposals, the annual budget, capital expenditure requirements, performance of the Manager and Axis-REIT against the previously approved budget. When necessary, the Board meets to review and approve acquisitions or disposals for recommendation to the Trustee.

Changes to regulations, policies, guidelines and accounting policies are monitored closely. The directors are briefed of any changes to current practices at regular Board meeting, specially convened meetings or via circularized board papers.

BOARD COMPOSITION

Board of Directors & Meeting Attendance

Directors	Designation	Attendance (No. of meetings held : 4)	Remarks
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Independent Non-Executive Chairman	2/4	No Change
Dato' Abas Carl Gunnar Bin Abdullah	Non-independent Executive Deputy Chairman	4/4	No Change
Tew Peng Hwee @ Teoh Peng Hwee	Non-Independent Non-Executive Director	4/4	Re-designated as Non-Executive Director w.e.f. 5 August 2008
George Stewart LaBrooy	Chief Executive Officer/ Executive Director	4/4	Appointed as Chief Executive Officer w.e.f. 5 August 2008
Y Bhg Dato' Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Independent Non-Executive Director	4/4	No Change
Mohd Sharif Bin Hj Yusof	Independent Non-Executive Director	4/4	No Change
Yin- Yong Lee Lao	Non-Independent Non-Executive Director	4/4	No Change

Members of the Audit Committee and Meeting Attendance

Audit Committee Members	Designation	Attendance (No. of meetings held : 2) *	Remarks
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Chairman	2/2	No Change
Mohd Sharif Bin Hj Yusof	Member	2/2	No Change
Yin-Yong Lee Lao	Member	2/2	No Change

* In addition to the two Audit Committee meetings held, there were two other meetings held which were deemed discussion meetings due to a lack of quorum.

Corporate Governance

Members of the Remuneration & Nomination Committee & Meeting Attendance

Remuneration & Nomination Committee Members	Designation	Attendance (No. of meetings held : 3)	Remarks
Y Bhg Dato' Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Chairman	3/3	No Change
Dato' Abas Carl Gunnar Bin Abdullah	Member	3/3	No Change
Tew Peng Hwee @ Teoh Peng Hwee	Member	3/3	No Change

As of 31 December 2008 the Board currently comprises seven (7) members, three (3) of whom are independent directors in compliance with the SC's REIT Guidelines.

The following principles guides the Board composition

- The Chairman of the Board should be an independent Non-Executive Director.
- The Board should comprise directors with a broad range of commercial experience including expertise in fund management and the property market.
- At least 1/3 of its members should be independent directors.

The structure, size and composition of the Board are reviewed annually to ensure that it has the best mix of expertise and experience. Each director had also carried out self-evaluation during the year as a best practice in ensuring that their contribution to the Board as a whole is relevant and effective.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER/ EXECUTIVE DIRECTOR

The position of Chairman and Chief Executive Officer (CEO)/ Executive Director is held by separate persons in order to maintain an effective segregation of duties.

The Chairman ensures that members of the Board work together with the management in a constructive manner to address strategies, business operation, financial performance and enterprise issues.

The CEO/Executive Director has full executive responsibilities over the execution of the agreed business policies and directions set by the Board and of all operational decisions of managing Axis-REIT.

With more than 1/3 of the Board being independent directors, it enables the management to tap their expertise and broad business experience of issues presented before the Board. This promotes a healthy and professional relationship between the Board and the Manager.

BOARD REMUNERATION

The remuneration of the directors is paid by the Manager and not from the Fund.

COMMITTEES

The Board has established the following committees to assist in discharging its duties. The committees are:

- The Executive Committee.
- The Audit Committee.
- The Remuneration and Nomination Committee.

THE EXECUTIVE COMMITTEE

The Executive Committee operates under the delegated authority from the Board and the following are the Executive Committee Members as of 31 December 2008:

- Dato' Abas Carl Gunnar Bin Abdullah
– Non-Independent Executive Deputy Chairman
- Stephen Tew Peng Hwee
– Non-Independent Non- Executive Director
- Stewart LaBrooy
– Executive Director / Chief Executive Officer

This committee oversees the day-to-day activities of the Manager on behalf of the Board which includes:

- Recommendations for presentation to the Board of all acquisitions, investments and disposals;
- Make recommendations to the Board on any financing offers and additional banking facilities;
- Report and recommend to the Board any corporate exercise, including the issuance of new Axis-REIT Units and;
- Forward summary reports and minutes of meetings of all Executive Committee meetings and activities undertaken by the Manager to all Audit Committee and Board members.

The Executive Committee has met formally a total of ten (10) times in 2008. However there have been several informal meetings held between members of the committee during the period.

THE AUDIT COMMITTEE

Details of the Audit Committee will be covered under the section on Audit Committee Report.

THE REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee was established by the Board on 21 November 2005. The composition of the committee as of 31 December 2008 is:

- Y Bhg Dato' Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor
– Independent Non-Executive Director & Chairman
- Dato' Abas Carl Gunnar Bin Abdullah
– Non Independent Executive Deputy Chairman
- Stephen Tew Peng Hwee
– Non Independent Non-Executive Director

The responsibilities of the committee are:

- To establish and recommend to the Board the policy framework in determining the remuneration of members of the Board, the Executive Director, members of executive management and to review changes to the remuneration policy from time to time, so as to ensure that the Manager attracts and retains individuals of the highest caliber.
- To recommend to the Board, candidates for directorships proposed by and other board members and/or from senior management;
- To recommend to the Board, any director(s) to fill seats on Board committees.
- To assess the effectiveness of the Board as a whole, Board committees and the contribution of each individual director.
- To determine appropriate training for directors and review the fulfillment of such training.

During the year, assessments have been carried out by the committee to ensure that the Board and its committees (Audit Committee and the Remuneration and Nomination Committee) have been functioning effectively.

TRADING IN AXIS-REIT UNITS

In general the Manager encourages the directors and employees to hold Axis-REIT Units. However, dealings in Axis-REIT Units during closed period will be subject to compliance with paragraph 14.08 of the Bursa Securities listing requirements as follow: -

- During the period commencing one month before the public announcement of Axis-REIT's quarterly, half year and annual results and ending on the day of the announcement; and
- At any time the Manager is in possession of price sensitive information.

The Director are also subject to compliance with the Capital Market and Services Act 2007 in respect of notification of dealings in Axis-REIT units.

RISK ASSESSMENT AND MANAGEMENT OF BUSINESS RISK

Effective risk management is a fundamental part of the Manager's business strategy in order to ensure there are no adverse disruptions to the income distribution and to mitigate any potential loss which may impact negatively upon all the unitholders so as to preserve their investments.

The Manager is aware that the most likely risk will arise when making property investment decisions and as such the Manager has established a procedure to be followed during the acquisition process. In accordance with this policy, the Manager ensures that a comprehensive due diligence process is carried out in relation to any proposed investment and to evaluate any likely risk factors that may have any significant impact.

The Board will meet quarterly and more often, if necessary, to assess the performance of the Manager and Axis-REIT against established and approved budgets. The Board also assesses the risk factors the assets of Axis-REIT are exposed to, examines liability management and act on comments submitted by the auditors, the Internal Auditors or the Audit Committee.

The Board and the Executive Committee reviews and approves all investment decisions.

The Manager meets regularly to review compliance to operational manuals established as well to discuss continuous disclosure issues.

DEALINGS WITH CONFLICTS OF INTEREST

The Manager has established the following procedures to deal with potential conflicts of interest issues which it (including its directors, executive officers and employees) may encounter in managing Axis-REIT:

- The Manager will be a dedicated manager of Axis-REIT and will not manage any other real estate investment trust or be involved in any other real property business;
- All Executive Officers will be employed by the Manager;
- Any related party transactions must be duly disclosed by the related parties to the Audit Committee and the Board;
- The Board shall ensure 1/3 of its members are Independent Directors;
- In circumstances where any directors or officers of the Manager may have a direct or indirect interest in any related party transactions they will abstain from voting at any Board meeting and will require Trustee's approval prior to entering into any agreement.

The directors of the Manager are under a fiduciary duty towards Axis-REIT to act in the best interest in relation to decisions affecting Axis-REIT when they are voting as a member of the Board. In addition, the directors, the Executive Directors (including the Chief Executive Officer) and the Executive Officers of the Manager are expected to act with honesty and integrity at all times.

Under the Deed, the Manager and its Associates (as defined in the Deed) are prohibited from voting on Units at, or being part of a quorum for, any meeting of Unitholders convened to approve any matter which the Manager or any of its Associates has a material interest in the business to be conducted.

DEALINGS WITH RELATED PARTY TRANSACTIONS

The Manager will comply with all requirements as laid out in the SC's REIT Guidelines on related party transactions including provisions contained in the Deed.

The Manager will establish procedures that will ensure that such transactions are undertaken in full compliance to the SC's REIT Guidelines and are carried out on an arm's length basis and under normal commercial terms, which are no more favourable than those extended to unrelated third parties. The Manager would have to demonstrate to the Audit Committee that transactions (whether they be for the purchase of services or property) would be taken on normal commercial terms, which may include in the case of the purchase of services the obtaining quotations from parties unrelated to the Manager, or in the case of purchase of property the obtaining the valuation from an independent valuer.

Related party transactions shall require the Trustee to ensure that such transactions are at arm's length in accordance with all applicable requirements of the SC's REIT Guidelines. Furthermore, has the ultimate discretion under the Deed to decide whether or not to enter into a transaction involving a related party of the Manager. If

the Trustee is to sign any contract with a related party of the Trustee or the Manager, the Trustee will review the contract documentation to ensure it complies with the requirements relating to related party transactions in the Guidelines for REITs and provisions as described in the Deed, and any future revisions of the said guidelines and provisions.

All related party transactions are subject to regular periodic review by the Audit Committee. The Audit Committee plans to review Internal Audit reports to ensure that guidelines and procedures established are complied with in relation to Related Party Transactions. If a member of the Audit Committee has an interest in a transaction he is to abstain from participating in the review and recommendation process in relation to that transaction.

COMMUNICATION WITH UNITHOLDERS, FUND MANAGERS, ANALYSTS & MEDIA

The listing requirements of Bursa Securities state that a listed entity discloses to the market matters that could have a material effect on the price of the entity's securities.

The Manager has established a strong culture of continuous disclosure and transparent communication with Unitholders and the investment community. The Manager achieves this through timely and full disclosure of all material information relating to Axis-REIT by way of public announcements on the Bursa Securities website and through its own website at www.axis-reit.com.my.

The Manager has also conducted regular briefings for analysts and fund managers, as well as the media. A total of two (2) briefings were held for the fund managers and media and one (1) Unitholders' meeting in the year. At these briefings the Manager presents the latest acquisitions of Axis-REIT, the quarterly, half yearly and annual results, as well as discusses the business outlook of the industry. The Manager has also actively participated in various seminars on REITs in Malaysia, Hong Kong, USA and Singapore further advancing the understanding of the asset class.

During the year, the Manager has met with or teleconferenced with institutional investors in Singapore, Switzerland, Hong Kong and the USA.

OTHER INFORMATION

Relationship

There are no family relationships among the directors and/or substantial unitholders.

Conflict of Interest

None of the directors has any conflict of interest with Axis-REIT.

Conviction for Offences

None of the directors has been convicted for any offences other than traffic offences within the past ten (10) years.

Audit Committee Report

1. COMPOSITION OF AUDIT COMMITTEE

The Audit Committee comprises three (3) members two of whom (including the Chairman) are Independent Non-Executive Directors of the Board. The composition of the Committee as at 31 December 2008 is:

- (i) YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin
- Independent Non-Executive Chairman
- (ii) Mohd Sharif Bin Hj Yusof
- Independent Non-Executive Director
- (iii) Yin-Yong Lee Lao
- Non-Independent Non-Executive Director

2. TERMS OF REFERENCE

2.1 Constitution

The Board of Directors has constituted and established a committee of the Board to be known as the Audit Committee ("the Committee").

2.2 Membership

2.2.1 The Committee shall be appointed by the Board of Directors from amongst the directors of the Company and shall comprise at least three (3) members, all of whom must be non-executive directors, with a majority of them being independent.

2.2.2 At least one (1) member of the Committee:-

- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and:-
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - he must be a member of one (1) of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
- (iii) fulfils such other requirements as prescribed or approved by the Exchange.

2.2.3 No alternate director shall be appointed as a member of the Committee.

2.2.4 The members of the Committee shall elect a Chairman from among their number who shall be an Independent Non-Executive Director.

2.2.5 The Company Secretary or such other person(s) authorised by the Board of Directors shall act as the Secretary to the Committee.

2.2.6 If a member of the Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board of Directors shall, within three (3) months from the date of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

2.2.7 The term of office and performance of the Committee and each of its members shall be reviewed by the Board of Directors at least once every three (3) years to determine whether such Committee and its members have carried out their duties in accordance with their terms of reference.

2.3 Meetings and Minutes

2.3.1 The Committee shall meet at least four (4) times in a financial year, although additional meetings may be called at any time at the Committee Chairman's discretion.

2.3.2 The quorum for the meeting of the Committee shall consist of not less than two (2) members, a majority of whom must be independent Directors.

2.3.3 Other than in circumstances which the Chairman of the Committee considers inappropriate, the Head of Finance or Financial Controller or Chief Financial Officer and the representatives of the external auditors and internal auditors will normally attend any meeting of the Committee to make known their views on any matter under consideration pertaining to Axis-REIT, by the Committee or which in their opinion, should be brought to the attention of the Committee. Other Board members, employees and external professional advisers shall attend any particular meetings upon invitation by the Committee.

2.3.4 The Committee shall report to the Board and its minutes tabled and noted by the Board of Directors. The books containing the minutes of proceedings of any meeting of the Committee shall be kept by the Manager at the registered office or the principal office of the Manager, and shall be open for inspection of any member of the Committee and the Board of Directors.

Audit Committee Report

2.3.5 A circular resolution in writing signed by the members of the Committee who are sufficient to form a quorum, shall be valid and effectual as if it had been passed at a meeting of the Committee duly convened. Any such resolution may consist of several documents in like form, each signed by one (1) or more members of the Committee.

2.3.6 Any member of the Committee may participate in any meeting of the Committee via telephone conferencing, video conferencing or by means of any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

2.4 Authority

2.4.1 The Committee is authorised by the Board to investigate any matter within the Committee's terms of reference. It shall have full and unrestricted access to any information pertaining to Axis-REIT or the Manager (if required) and shall have the resources it requires to perform its duties. All employees of the Manager are required to comply with the requests made by the Committee.

2.4.2 The Committee is authorised by the Board to obtain outside legal or external independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, the expenses of which will be borne by the Manager and/or Axis-REIT, where applicable.

2.4.3 The Committee shall have direct communication channels with the external auditors and internal auditors.

2.4.4 The Committee shall be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and management, whenever deemed necessary, in order to enable the Committee and the external auditors or the internal auditors or both, to discuss problems and reservations and any other matter pertaining to Axis-REIT or the Manager (if any), the external auditors or internal auditors may wish to bring up to the attention of the Committee.

2.5 Functions and Duties

2.5.1 The Committee shall, amongst others, discharge the following functions:-

(a) Review the following and report the same to the Board of Directors of the Manager:-

- with the external auditors, the audit plan of Axis-REIT, the nature and scope of work and ascertain that it will meet the needs of the Board, the unitholders and regulatory authorities;
- with the external auditors, their evaluation of the quality and effectiveness of entire accounting system and the adequacy and integrity of the internal control system of Axis-REIT;
- with the external auditors, their audit report;
- the assistance given by management to the external and internal auditors;
- the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work;
- the internal audit programme, processes and results of the internal audit programme, processes, major findings of internal investigation and management's response and whether or not appropriate action is taken on the recommendations of the internal audit function;
- the quarterly results, annual and semi-annual financial statements of Axis-REIT prior to the approval by the Board of Directors, focusing particularly on:-
 - changes in or implementation of major accounting policies and practices;
 - significant and unusual events;
 - significant adjustments arising from the audit;
 - compliance with accounting standards, other statutory and legal requirements and the going concern assumption;

- the accuracy and adequacy of the disclosure of information essential to a fair and full presentation of the financial affairs of Axis-REIT;
 - any related party transactions and conflict of interest situations that may arise within the Manager and/or Axis-REIT including any transaction, procedure or course of conduct that raises questions of management integrity;
 - any significant audit findings, reservations, difficulties encountered or material weaknesses reported by the external and internal auditors, particularly any comments and responses in management letters as well as the assistance given by the employees of the Manager in order to be satisfied that appropriate action is being taken.
 - to review the Statement of Internal Control for recommendation to the Board of Directors for approval.
 - To ensure the internal audit function reports directly to the Committee and the said internal audit function shall have direct access to the Chairman of the Committee on all matters of control and audit pertaining to Axis-REIT or the Manager (if necessary).
- (b) Recommend for Board's approval, the nomination of a person or persons as external auditors and internal auditors and their proposed audit fees, review or appraise the performance of the external auditors and internal auditors (where necessary), and to discuss issues relating to the resignation or dismissal of external auditors or internal auditors.
- (c) Promptly report to the Exchange on any matter reported by it to the Board of the Manager which has not been satisfactorily resolved resulting in a breach of the Listing Requirements of the Exchange.
- (d) Carry out any other functions that may be mutually agreed upon by the Committee and the Board of Directors which would be beneficial to Axis-REIT and/or the Manager and ensure the effective discharge of the Committee's duties and responsibilities.

3. RESPONSIBILITIES OF AUDIT COMMITTEE

The role of the Audit Committee is to monitor and evaluate the effectiveness of the Manager's internal controls and financial management. The Audit Committee also reviews the quality and reliability of information prepared for inclusion in financial reports and for its subsequent announcement. The Audit Committee is also responsible for the appointment of the external and internal auditors.

The Audit Committee's responsibilities also include:

- Reviewing external audit reports to ensure that where deficiencies in internal control has been identified, appropriate and prompt remedial action is taken by management;
- Monitoring legislation regulated by Securities Laws (as defined in section 2(1) of the SCA), the SC's Guidelines on REITs, the Listing Requirements of Bursa Securities, the Rules of the Depository and taxation laws and rulings;
- Reviewing Internal Audit reports pertaining to risk management, the operational manual compliance and internal controls ensuring that changes recommended and agreed on are promptly implemented by the management;
- Reviewing the Statutory financial statements and audit report for quarterly, half yearly and annual reports and reporting the Board; and
- Monitoring the procedures established for related party transactions to ensure that compliance is strictly adhered to as laid out in the SC's Guidelines for REITs and the Deed.

Statement on Internal Control pursuant to paragraph 15.27(b) of the Listing Requirements

The Board of Directors of the Company, being the management company of Axis Real Estate Investment Trust ("Axis-REIT") has voluntarily adopted the best practices in corporate governance by establishing an Audit Committee and setting up an Internal Audit Function although it is not compulsory for Axis-REIT, being a real estate investment trust, to comply with such requirements under the Listing Requirements of Bursa Malaysia Securities Berhad. This is because the Board is committed to maintaining a sound and effective system of internal control to safeguard the interests of the Unitholders of Axis-REIT, the investments and assets of Axis-REIT as well as the shareholder's interests and assets of the Company.

The Board has overall responsibility for the reviewing and ensuring the effectiveness, adequacy and integrity of the system of internal control of Axis-REIT and the Company. Because of the limitations that are inherent in any system of internal control, this system is designed to manage rather than eliminate, the risk of failure to achieve corporate objectives. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

KEY ELEMENTS OF THE INTERNAL CONTROL SYSTEM ESTABLISHED

Internal Audit Function and Risk Management

Risk management has been part of the Management's day-to-day operations and there is an Operations Manual which provides an overview of the Company's responsibilities in relation to the management of Axis-REIT. This Operations Manual is a guide to daily activities and operations of Axis-REIT and it is subject to periodic review and updates. The Management team of the Company is committed to be guided by the Operations Manual and this ensures consistency of operational procedures within the Company.

The following initiatives were undertaken during the financial year ended 31 December 2008 as part of the ongoing risk management process: -

1. Maintenance of Related Party Transaction ("RPT") and Recurrent Related Party Transactions ("RRPT") Register; and
2. Update of Operations Manual on RPT and RRPT and shariah compliance issues.

Hence, in accordance with the Statement on Internal Control - Guidance for Directors of Public Listed Companies, Axis-REIT and the Company have in place, an ongoing process for identifying, evaluating and managing the significant risks faced by Axis-REIT and the Company and this process has operated during the financial year under review up to the date of approval of the Annual Report of Axis-REIT.

The Board, with the assistance of the Internal Audit Function, continuously reviews the effectiveness, adequacy and integrity of the system of internal control of Axis-REIT and the Company. The Audit Committee and the Board also acknowledge that a formal risk management framework is useful in order to identify, prioritize and evaluate and manage risks facing Axis-REIT and the Company, with the main focus areas being finance, lease and asset management, investor relations and facilities management.

There were no control deficiencies noted during the financial year under review which had a material impact on Axis-REIT or the Company's financial performance or operations.

Frequently Asked Questions (FAQ's)

1. HOW OFTEN DOES AXIS-REIT MAKES AN INCOME DISTRIBUTION?

Effective 1st January 2009, Axis-REIT has changed its current income distribution policy from semi-annual payment to quarterly payment payable within 2 months from the close of the quarter ie income distribution for the 1st quarter will be payable no later than 31 May. However, in certain circumstances such as the issuance of New Units by Axis-REIT during the year, it may be necessary to make a special income distribution at different periods in order to attribute income distribution to existing Unitholders to avoid any income dilution from the enlarged Unitholders' capital.

2. HOW IS THIS INCOME DISTRIBUTION PAID?

Payments are made via cheques to each Unit holder with an attached Distribution Tax Voucher detailing entitlement and gross/net amount payable.

3. ARE THERE DIFFERENT TYPES OF INCOME DISTRIBUTION?

Yes. At the Fund level, the source from which income is distributed could be derived from:

- Current year's realized income before taxation;
- Current year's tax exempt income, if any;
- Portion of 'Accumulated Retained Earnings' that have been taxed;
- Portion of 'Accumulated Retained Earnings' that consist of tax exempt income.

4. WHAT IS THE TAX TREATMENT OF UNITHOLDERS?

Pursuant to the amended Section 109D (2) of the Income Tax Act, 1967 under the Finance Act 2009 which was gazetted on 8 January 2009, the following withholding tax rates would be applicable on distribution of income which is tax exempt at Axis-REIT's level:

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

Directors	Withholding tax rate		
	2009	2008	2007
Resident corporate	-	Nil [^]	Nil [^]
Resident non-corporate	-	10%	15%
Non-resident individual	-	10%	15%
Non-resident corporate	-	25%	27%
Non-resident institutional	-	10%	20%

[^] Resident corporate unitholder will enjoy tax transparency but will be subject to the prevailing corporate tax rate.

5. HOW DO I CALCULATE MY DISTRIBUTION?

For the financial year ended 31 December 2008, the total distribution was 15.27 sen per unit.

Type of Unitholder	Assumption: 10,000 Axis-REIT units	
	Gross distribution	Net distribution to unitholders after deduction of withholding tax
Resident corporate	1,527.00	1,527.00 *
Resident individual/institutional	1,527.00	1,337.30
Foreign corporate	1,527.00	1,137.85
Foreign institution	1,527.00	1,300.30
Foreign individual	1,527.00	1,337.30

* Resident corporate unitholder will enjoy tax transparency but will be subject to the prevailing corporate tax rate.

6. WHAT IS MY NET DISTRIBUTION YIELD FOR 2008?

For the financial year ended 31 December 2008, the total distribution was 15.27 sen per unit.

Type of Unitholder	Net Distribution based on IPO price of RM 1.25	Net distribution based on closing price of RM 1.12 on 31 December 2008
	Resident corporate	12.22%
Resident individual/institutional	10.70%	11.94%
Foreign corporate	9.10%	10.16%
Foreign institution	10.40%	11.61%
Foreign individual	10.70%	11.94%

7. WHERE CAN I VIEW THE TRUST DEED OF AXIS-REIT?

The Deed is available for inspection at the principal place of business of the Manager and at the principal place of business of the Trustee, OSK Trustee Berhad.

Frequently Asked Questions (FAQ's)

8. WHAT ARE THE TOTAL NUMBERS OF AXIS-REIT UNITS CURRENTLY IN ISSUE?

A total of 255,901,000 Units are in circulation.

9. HOW CAN NEW UNITS BE ISSUED?

The Manager may from time to time recommend an increase in the number of Units by way of A rights or bonus issue to existing Unitholders in proportion to their holding of Units, or by way of placement to any person, as consideration issue for subscription or such other methods as may be governed by the SC's Guidelines on REITs. The issue of Units are to finance acquisitions for Axis-REIT or to balance the debt-equity matrix of the Fund.

The prior approval of the SC and the Trustee are required for any increase in the size of the REIT through the creation of further Units. The prior approval of the Unitholders will also be required for the creation of further Units where stipulated in the Deed or under the applicable laws and requirements.

10. WHAT ARE MY RIGHTS AS A UNITHOLDER?

The key rights of Unitholders include rights to receive income and other distributions attributable to the Units held; received the fund reports of Axis-REIT; and participate in the termination of Axis-REIT by receiving a share of all net cash proceeds derived from the realization of the assets of Axis-REIT less any liabilities, in accordance with their proportionate interests in Axis-REIT.

11. HOW CAN THE TRUST DEED BE AMENDED?

Save where an amendment to the Deed has been approved by a resolution of not less than. of all Unitholders for the time being (or such other majority as may be required under the SC's Guidelines on REITs) passed at a meeting of Unitholders duly convened and held in accordance with the previous of the Deed, no amendment may be made to the provisions of the Deed unless the Trustee certifies, in its opinion, that such amendment does not materially prejudice the interests of Unitholders and does not operate to release to any material extent the Trustee or the Manager from any responsibility to the Unitholders.

12. UNDER WHAT CIRCUMSTANCES CAN A MEETING OF UNITHOLDERS BE CALLED?

Under the applicable law and requirements and the provisions of the Deed, Axis-REIT will not hold any meetings for Unitholders unless the Trustee or the Manager convenes a meeting or unless not less than 50 Unitholders or 1/10th in number of Unitholders (whichever is lesser) request a meeting to be convened.

Any decision to be made by resolution of Unitholder shall be made by ordinary resolution, unless a special resolution is required by the applicable laws and requirements and/or the Deed. At least 14 days' notice of every meeting (other than a meeting convened to pass a special resolution, which requires at least

21 days' notice) shall be given to the Unitholders in the manner provided in the Deed. The quorum at a meeting shall be as follows:

- a) where an ordinary resolution only is to be proposed, at least five persons holding or representing by proxy at least 10% of all the Units and carrying the right to vote at the meeting; and
- b) where a special resolution is to be proposed, at least five persons holding or representing by proxy at least 15% of all the Units and carrying the right to vote at the meeting.

Voting at a meeting shall be by a show of hands provided that a poll shall be taken in any case where:

- a) it is required by the Deed or by law that the question be decided by a majority which is to be measured by a percentage of the votes of those present; or
- b) it is demanded either before or immediately after any question is put to a show of hands by Unitholders present, holding (or representing by proxy) between them not less than 5% of the Units issued.

13. CAN THE MANAGER VOTE AT UNITHOLDERS' MEETINGS?

No. However related parties (as defined in the Deed) to the Manager may vote provided that they have no interest in the outcome of the voting.

14. WHY WAS AXIS-REIT RECLASSIFIED INTO AN ISLAMIC REIT?

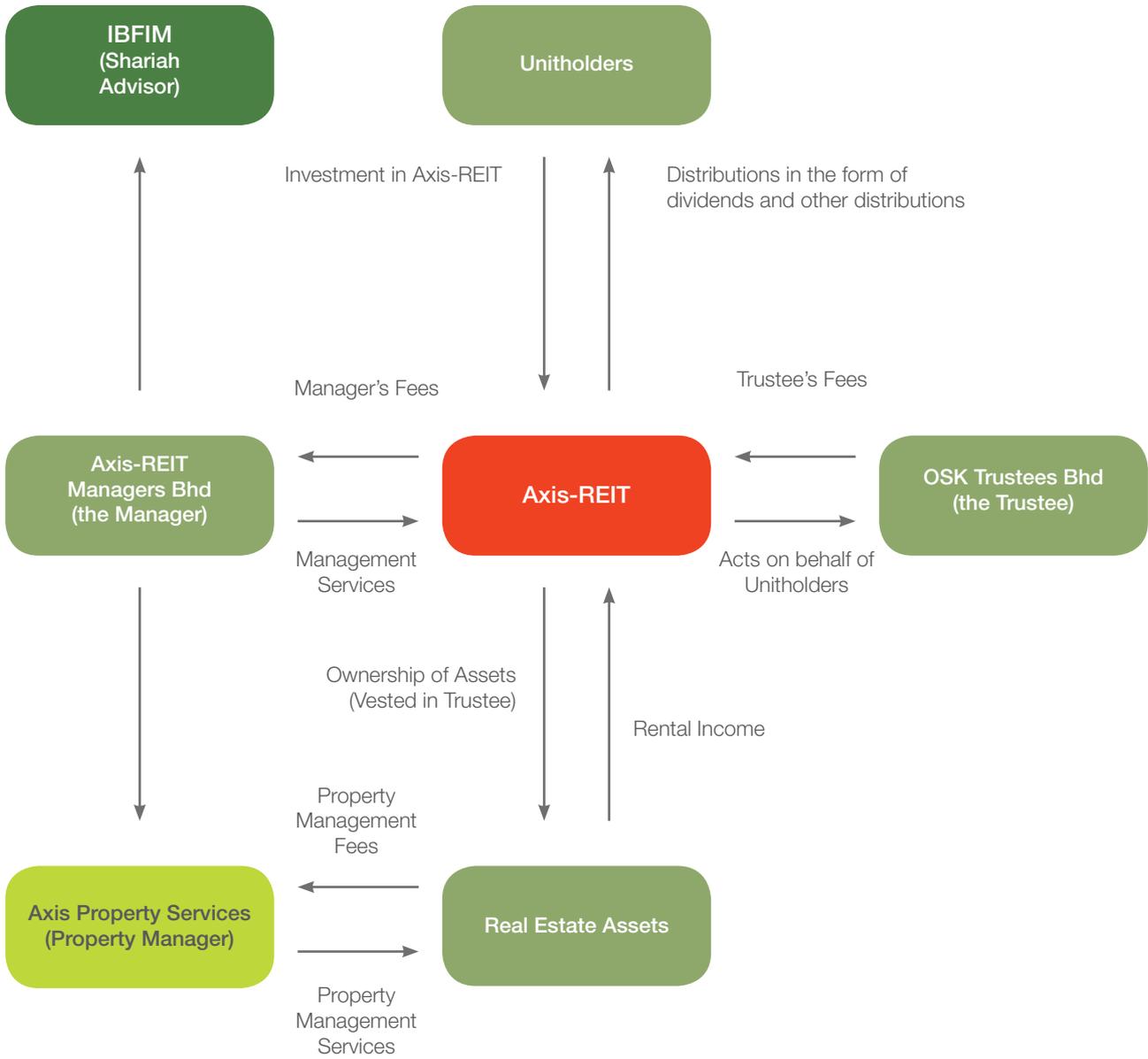
- a) To widen its investor base to include local Shariah-based Funds and also to develop investors interest from Shariah-based foreign funds.
- b) To expedite its asset growth with new strategic partners.
- c) To become the 1st Office Industrial REIT globally to comply with Islamic REIT Guidelines.

15. WHAT ARE THE SECURITIES COMMISSION'S GUIDELINES FOR ISLAMIC REITS

The salient compliance requirements are:-

- i. Non-Permissible rental activities must not exceed the 20% benchmark based on the total turnover or area occupied;
- ii. Not permitted to own real estate in which all the tenants operate non-permissible even if the percentage based on turnover /floor area is less than the 20% benchmark;
- iii. All forms of investments, deposits and financing must comply with the Shariah principles;
- iv. Must use the Takaful schemes to insure its real estate.

Axis-REIT Structure



Property Market Overview 2H 2008 – Klang Valley

1.0 PURPOSE BUILT OFFICES

1.1 Market Overview

Set against the apocalyptic events of the second half of 2008, the Kuala Lumpur office market displayed remarkable resilience.

Seemingly unaffected by world events, occupancy rates inched higher and asking rents increased.

Towards the end of this year, it seems inevitable that the market will succumb to overpoweringly negative sentiment. However, the landing cannot be anything other than soft, since rents have so far only seen moderate increase, and the supply of new space is not excessive.

The net take up of new space in the second half of the year was just over one million sq ft. Net absorption for the whole of the year was just over 2.13 million sq ft. This take up occurred mainly with the completion of new buildings such as Mercu UEM at KL Sentral, The Gardens North Tower in Mid Valley, and One Chulan Tower in Jalan Conlay, all of which had been completely or substantially pre-let. Total new supply was just over 2.13 million sq ft.

By the end of the year, vacancy rates in Grade A buildings across the Klang Valley had dropped from 7.5% to 6.7%. Grade A office buildings in Kuala Lumpur saw a vacancy rate of 6.9% by the year end, and suburban areas under our review finished the year with an average vacancy rate of only 4.6%, down from 6.5% in the third quarter.

Unsurprisingly the response to this tight supply situation was an increase in asking rentals for Grade A buildings. These continued to rise through the year from RM6.50 to RM7.10 average, an increase of 9.2%.

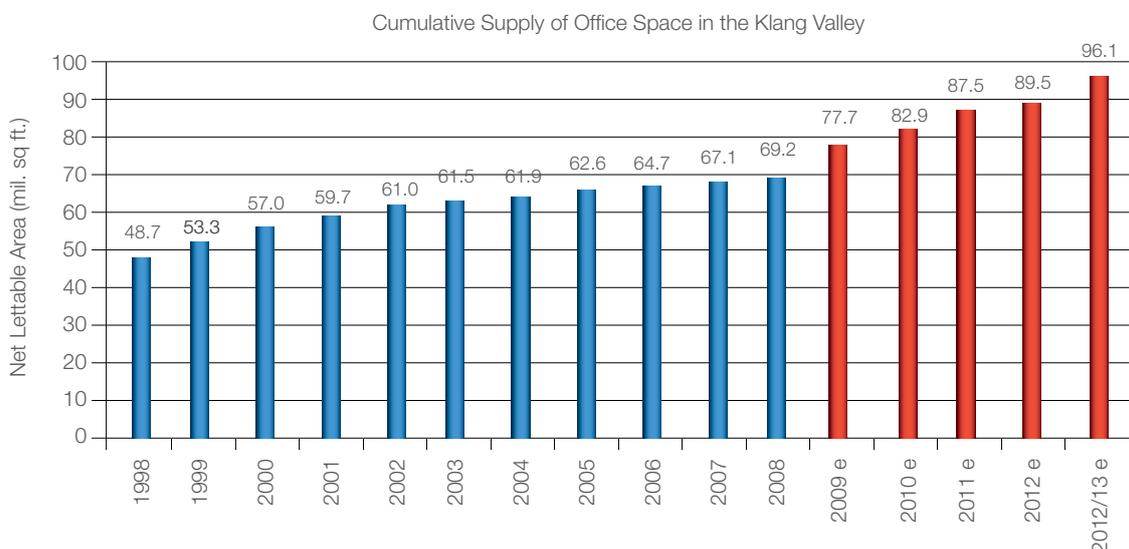
The second half of the year saw four major sales of office buildings, with two sales being subsequently aborted. There is still substantial investor interest in good quality assets. However, many of the foreign funds have withdrawn from the market for the time being and demand now stems primarily from domestic REIT and other institutions.

1.2 Supply

Three office buildings were completed during 2H 2008 contributing a total of 889,000 sq ft of office space to the Klang Valley office market. These buildings were The Gardens North Tower (480,000 sq feet) and Mercu UEM (307,000 sq feet) at KL Sentral located at the decentralized area of Kuala Lumpur, and One Chulan Tower (102,000 sq feet) in the Golden Triangle area in the city. There was no major new office building entered the market in the suburban areas in Selangor during the review period. Menara UAC (141,341 sq ft) which is located in Petaling Jaya, and I-City Phase 1 (260,000 sq ft) in Shah Alam were the main office space completed in 1H 2008.

With the addition of the new office space in the review period, the cumulative supply of office space in Klang Valley stood at 69.18 million sq ft as at December 2008, of which 56.78 million sq ft (82.1%) and 12.40 million sq ft (17.9%) office space were located in Kuala Lumpur and suburban area, respectively.

Chart 1: Cumulative Supply of Office Space in the Klang Valley (1998 – 2012/13e)



Source: Regroup Associates Sdn Bhd

1.3 Future Supply

There were a total of 54 office building developments under construction as at December 2009 which will add another 20.28 million sq ft of space to the Klang Valley by year 2012. By year 2009, an estimated 8.56 million sq ft of office space will complete in the Klang Valley.

The supply will be mainly in the KL city centre (2.56 million sq ft) and includes Menara Bumiputera-Commerce, KL Pavilion office tower, GTower and Perkeso Headquarters. Menara Bumiputera-Commerce is fully let to CIMB, whilst Perkeso (SOCSCO) will fully occupy its new building.

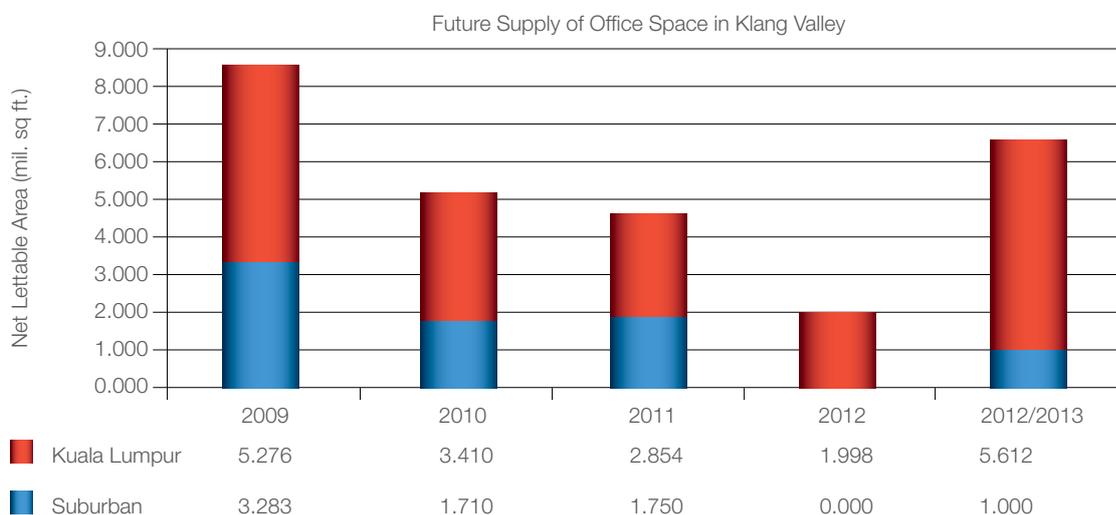
Bangsar vicinity will provide the second largest supply of new office space (1.84 million sq ft) once the construction work of Menara UOA Bangsar (two buildings), UOA Bangsar South (Phase 1) and Bangsar Premier Office Suites are completed during the year. KL Sentral, on the other hand, will bring an additional 0.88 million sq ft new space in three buildings to the market. MIDA and SSM (Companies Commission of Malaysia) will each occupy one tower block, while 80% of Tower D (with net lettable area of 300,000 sq ft) at Lot J of KL Sentral has been pre-let.

New supply in the suburban areas in year 2009 will be concentrated in Mutiara Damansara / Damansara Perdana and includes Surian Tower, Batu Kawan Office and PJ Trade Centre.

There will be fewer new buildings coming on-stream starting from year 2010 and some proposed developments may not go ahead or may be shelved. In November 2008, Tenaga Nasional Bhd announced its decision to defer a plan to build a new corporate headquarters in Bangsar due to the further deteriorating world economy. Capital Square North and South Tower have yet to be constructed as the developers seek to secure buyers off the plan.

Office building developments which were still at the planning stage as at December 2008 would bring another 6.61 million sq ft by year 2012/2013 if the developers proceeded to start construction in the next two years.

Chart 2: Future Supply of Office Space in Klang Valley (under construction / under planning)



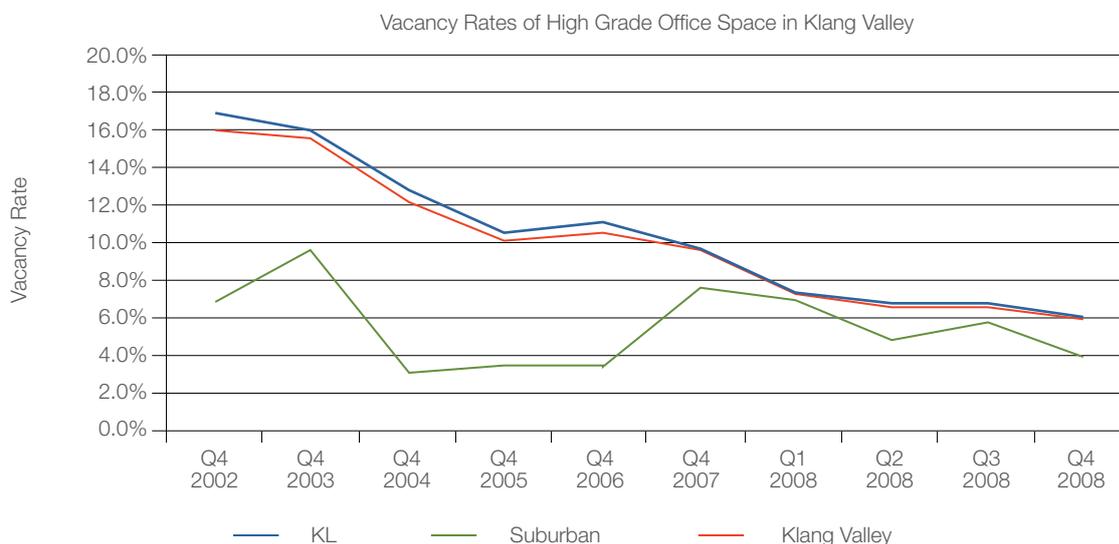
Note: Year 2009 to 2012 – for projects under construction as at December 2008
Year 2012/2013- for projects still at planning stage as at December 2008

Source: Regroup Associates Sdn Bhd

1.4 Average Vacancy Rates

Average vacancy rates improved from Q1 2008 compared to the last quarter in 2007 (see Chart 2). This suggests that high-grade office space is limited in supply in the Klang Valley.

Chart 2: Average Vacancy Rates for High Grade Office Buildings in the Klang Valley (Q4 2002 – Q4 2008)



Source: Regroup Associates Sdn Bhd

1.5 Average Current Asking Rental Rates

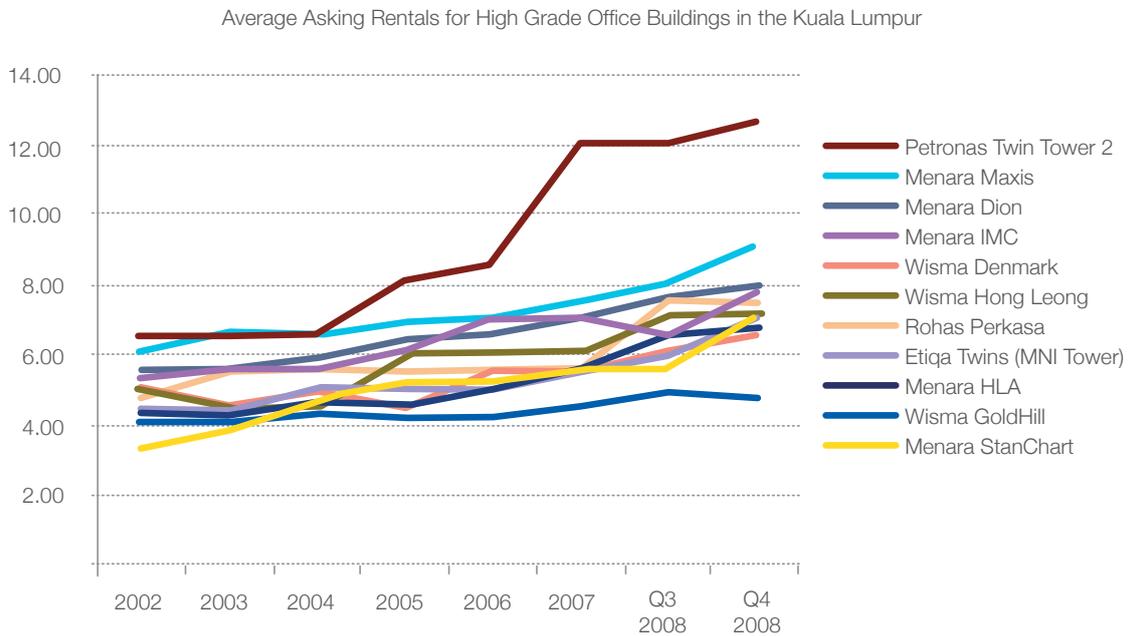
Average asking rental in the sample buildings continued to rise in 2H 2008 (see Table 1 & Chart 3). Overall, asking rentals for the selected office buildings have been revised upward mainly in the range of RM0.50psf to RM1.00psf, with the highest increase recorded up to RM1.50psf. This indicates a sustained demand for high-grade office buildings in KL city as the market entered into the second half of the year.

Table 1: Average Current Asking Rentals of Purpose Built Office Buildings in Klang Valley (2005 – 2H 2008)

Name	2005	2006	2007	1H 2008	2H 2008	1H vs 2H 2008
Menara HLA	4.50	5.00	5.50	6.50	6.75	0.25
Menara IMC	6.00	7.00	7.00	6.50	7.75	1.25
Menara StanChart	5.10	5.10	5.50	5.50	7.00	1.50
Wisma Hong Leong	6.00	6.00	6.00	7.00	7.00	-
Etiqa Twins (MNI Tower)	5.00	5.00	5.50	6.00	7.00	1.00
Petronas Twin Tower 2	8.00	8.50	12.00	12.00	12.50	0.50
Wisma Goldhill	4.20	4.20	4.50	4.80	4.80	-
Menara Dion	6.30	6.50	7.00	7.50	8.00	0.50
Menara Maxis	6.90	7.00	7.50	8.00	9.00	1.00
Rohas Perkasa	5.50	5.50	5.50	7.50	7.50	-
Wisma Denmark	4.50	5.50	5.50	6.00	6.50	0.50

Source: Regroup Associates Sdn Bhd

Chart 3: Asking Rental for Selected Purpose Built Offices in the Golden Triangle (2002 – Q4 2008)



Source: Regroup Associates Sdn Bhd

1.6 Future Supply

There were four major transactions of office buildings in the 2H 2008, namely Menara Citibank, Kenanga International building and Menara Standard Chartered located in Kuala Lumpur, and CP Tower in Petaling Jaya.

During the 4Q of 2008, however, two major office transactions were aborted. First of all, the sale of Menara Citibank to IOI Corporation Berhad was cancelled by the purchaser in November with the effect of economic slowdown being given as the reason.

Secondly, the sale of the Kenanga International building to Tower REIT was rescinded in December when certain condition precedents were not met.

Meanwhile, Menara Standard Chartered was sold by Reco City Sdn Bhd (affiliate of GIC Real Estate Pte Ltd) to ING Insurance Bhd in November. In December, PHBB (Pelaburan Hartanah Bumiputera Bhd) bought CP Tower from CIMB-Mapletree.

Table 5: Major Transactions of Purpose Built Office Buildings in Klang Valley in 2008

Building Name	Zone	RM psf NLA	Estimated Net Yield (%)
2H 2008			
Menara CitiBank (RM733.6 million) <i>(transacted in Aug 08; aborted in Nov '08)</i>	KL	1,000	6.35*
Menara Standard Chartered (RM328 million)	KL	950	-
The Kenanga International <i>(transacted in Sep 08; aborted in Dec '08)</i>	KL	934**	-
CP Tower (RM200 million)	PJ	637	-
1H 2008			
Capital Square's Office Tower 2	KL	732	-
Menara YNH	KL	1,230	-
***Vision City	KL	-	-
Wisma Angkasa Raya (redevelopment)	KL	-	-
Platinum Park (u/p)	KL	930	-
Menara TM, Wisma TM, Menara Celcom & Cyberjaya Complex	KL	-	-
PJ City (u/c)	PJ	440	0
I-City Cybercentre Office Suites	SA	-	6.5
Menara HeiTech Village	SJ	-	5.5 - 6.0
DHL XPJ	SA	463	5.5 - 6.0
HSBC in Sec. 13	PJ	389	5.5 - 6.0

Notes:

* *Gross Yield*

** *Effective price RM756 psf after renovation with expansion of space*

*** *The acquisition includes a pre-approved development order for the construction of a seven-level retail centre with a net lettable area (NLA) of 752,000 sq ft, a 35-storey office tower with NLA of 500,000 sq ft, a 45-storey serviced apartment block with 450 units and 2,280 car parks*

2.0 INDUSTRIAL PROPERTY

2.1 Overview of Manufacturing Sector in Malaysia Economy

According to the Central Bank, the manufacturing sector registered the lowest growth rate during Q3 2008 at 1.8% growth rate compared to the 5.6% and 7.0% growth rates recorded in Q2 and Q1 2008, respectively, due mainly to the weaker performance of export-oriented industries amidst the sharp deterioration in the global economic environment. The three consecutive contractions of the Index of Industrial Production from September to November in 2008 as compared to the corresponding period

in 2007 (September 08: -1.6%, October 08: -2.9% and November 08: -7.7%) reflects the continued deterioration in the manufacturing sector towards the end of the year.

According to the Department of Statistics Malaysia, Malaysia's exports in November 2008 contracted by 4.9% compared to the corresponding month in the preceding year, the biggest fall in seven years due to weakening demand from major markets. Major products contributing to the decline in exports were electrical and electronic (E&E), refined petroleum products, palm oil, chemicals and chemical products, crude rubber as well as iron and steel products.

Table 5: Existing Supply of Industrial Properties in Klang Valley (2003 – Q3 2008)

Area	Type of Property	2003	2004	2005	2006	2007	Q1 2008	Q2 2008	Q3 2008
WP Kuala Lumpur	Terraced	2,945	2,975	2,975	2,975	2,975	2,975	2,975	2,975
	Semi-Detached	457	457	457	457	457	457	457	457
	Detached	550	552	553	553	553	553	553	553
	Flatted Factory	956	956	1,116	1,116	1,116	1,116	1,116	1,116
	Industrial Complex	14	14	14	14	14	14	14	14
	Total	4,922	4,954	5,115	5,115	5,115	5,115	5,115	5,115
Selangor	Terraced	24,528	24,534	24,978	25,049	25,250	25,300	25,623	25,737
	Semi-Detached	2,981	2,961	3,133	3,141	3,210	3,220	3,247	3,263
	Detached	3,261	3,262	3,502	3,514	3,928	3,935	3,971	3,978
	Flatted Factory	270	270	270	270	270	270	270	270
	Industrial Complex	90	93	94	94	95	99	100	100
	Total	31,310	31,120	31,977	32,068	32,753	32,824	33,211	33,348

Source: Property Market Report 2003 - Q3 2008, Valuation & Property Services Department, Ministry of Finance

It is anticipated that the manufacturing sector in the country will face more stringent challenges in the near future since there is no signs of world economic recovery in 2009.

As at Q3 2008, existing supply of industrial property in WP Kuala Lumpur remained the same at 5,115 units since 2005, whilst supply in Selangor was increased slightly by 137 units during the review period from Q2 2008. Terraced factories continued to dominate with 58% and 77% of the total supply in WP Kuala Lumpur and Selangor respectively.

2.2 Future Supply

Selangor made up the bulk of future supply of industrial properties in the Klang Valley. It recorded a total of 1,875 units planned supply in Q3 2008, up by 91 units compared to 1,784 units reported in Q2 2008. WP Kuala Lumpur, on the other hand, remained unchanged in planned supply during Q3 2008 and no incoming supply was reported since 2007.

During Q3 2008, planned supply of detached industrial property in Selangor increased slightly by 6.8% to 629 units, up from 589 units reported in Q2 2008. Planned supply for semi-detached industrial property recorded an increase of 48 units to 187 units during Q3 2008 compared to the 139 units in the preceding quarter. There was no new planned supply for terraced factories since Q2 2008.

2.3 Market Status

According to the Property Market Status Report Q3 2008, Kuala Lumpur did not have any overhang,

unsold under construction and unsold not constructed industrial properties since 2007 till Q3 2008.

In Selangor, there were :

- **Overhang Units:** Selangor recorded 218 units of industrial overhang units, representing 32% (Q2 2008: 34%) of the total number of 676 overhang units in Malaysia (Q2 2008: 707 units) during Q3 2008. Terraced factories made up a bulk of 84.8% of the total no. of overhang units in Selangor.
- **Unsold Under Construction Units:** As at Q3 2008, unsold under construction units in Selangor remained same as Q2 2008 at 201 units despite the fact that total number of unsold units in Malaysia have reduced to 688 units during the review quarter from 729 units in Q2 2008.
- **Unsold Not Constructed Units:** There were no unsold units as there were no launches of new industrial units in Selangor during Q3 2008.

2.4 Rental

Overall, asking rentals for factory/warehouse properties in Klang Valley remained stable in Q3 2008 and Q4 2008. Factory/warehouse properties located in WP Kuala Lumpur in areas such as Kepong and Shamelin Perkasa ranged from RM0.70 psf and RM2.50 psf whilst asking rentals in suburban areas, covering Petaling Jaya, Klang, Shah Alam, Subang and Puchong were ranged from RM0.45 psf and RM2.40 psf.

Property Market Overview 2h 2008 – Johor

1.0 GENERAL OVERVIEW

The current global meltdown has seriously affected buyer confidence in the Johor property market. Coupled with rising inflation, the present general sentiment for property market is gloomy.

So far Iskandar Malaysia has been the catalyst for property development in Southern Johor. Major government infrastructure works such as the newly completed Customs, Immigration and Quarantine complex, the ongoing RM1.3 billion Eastern Dispersal Link (EDL) highway project, the Second Permas Bridge and the road/bridge to Nusa Jaya Area are part of the overall efforts to trigger growth in southern Johor. More recently, Iskandar Malaysia got a much needed shot in the arm by the announcement of the RM750 million Legoland Park and RM100 million Newcastle University Medicine Malaysia.

Beyond that however the market in JB was decidedly hollow, with poor investor sentiments drying up transactions and activity overall.

2.0 PURPOSE BUILT OFFICE

Demand and supply for purpose-built office space (excluding office buildings owned and tenanted by government departments) in the city centre remained stagnant in 2H 2008 as it had over the last few years. The same status quo applies in respect of occupancy and rental rates. Johor Bahru currently has 658,000 square metres (7.08 mil sf) in purpose built commercial buildings. The average occupancy rate for these office buildings in the city centre stands at 68.5%.

Prime space is let at an average of RM22 psm/mth (RM2.00 psf gross per month) whilst offices at secondary locations average RM13 psm/mth (RM1.20 psf per mth) gross.

No new supply is planned in the city centre for 2009.

3.0 INDUSTRIAL PROPERTY

The industrial sector has been performing reasonably well with foreign direct investment (FDI) in Johor reaching RM11 billion last year. High operating costs in Singapore is one of the main reasons why industrialists chose to relocate to this lower-cost state.

Existing industrial estates like Pasir Gudang, Tebrau, Tampoi and Senai Industrial Estates have also been performing reasonably well due to the availability of good infrastructure and to a certain extent the limitation of new supply.

Property Market Overview 2h 2008 – Penang

1.0 PURPOSE BUILT OFFICE SPACE MARKET

There were no recent launches of new office buildings in Penang island and the supply of office space remained at 8.6 million sf. The majority of the space or about 85.6% of total office space is located in George Town, the traditional city centre of the island.

Two new projects were launched last year, i.e. the CEO (currently about 60 to 70% completed) and BayCapital (shelved). The average occupancy rate is maintaining at a low 70% - 75% level with prime office buildings achieving monthly rental rates of about RM2.20 to RM2.70 psf (gross). Average rental rates of secondary office buildings remain at RM1.50 to RM2.00 psf per month.

2.0 INDUSTRIAL PROPERTY

No new industrial property was developed at the end of 2008. Major industrial premises such as detached factories and industrial complexes are still mainly located in the South-West District, within the Bayan Lepas Free Trade Zone.

The new state government intends to continue to focus on the areas of electronics, information communications technologies (ICT), biotechnology, medical devices and all supportive industries in the manufacturing sector.

Rentals of industrial space within detached factories/ industrial complexes remain within the range of RM 1.20 to RM 1.50 psf per month.

3.0 GENERAL COMMENTS

The mega projects under the Northern Corridor Economic Region (NCER), i.e. the Penang Outer Ring Road (PORR), Penang Monorail and Penang Global City Centre (PGCC) have been deferred due to the political changes in the State, rising material cost and the global economic downturn. This has dampened general market sentiments in Penang. Transactional activities of purpose built offices and industrial properties will most likely enter a slower phase in the short to medium term whilst prices and rents will most likely drop this year.

Submitted on behalf of Regroup Associates



Allan Soo
Managing Director
February 2009

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An interior view of Guocera's showroom at Wisma Kemajuan.

Balance Sheet

as at 31 December 2008

	Note	2008 RM'000	2007 RM'000
Assets			
Investment properties	4	723,100	570,400
Receivables, deposits and prepayments	5	2,752	10,647
Tax recoverable		154	154
Cash and cash equivalents	6	365	656
Total assets		726,371	581,857
Liabilities			
Payables and accruals	7	27,930	21,885
Provision for income distribution	8	20,139	15,504
Borrowings/Financing	9	230,456	209,816
Total liabilities		278,525	247,205
Net asset value ("NAV")		447,846	334,652
Unitholders' funds			
Unitholders' capital	10	323,338	234,892
Undistributed income	10	124,508	99,760
Total unitholders' funds		447,846	334,652
Units in circulation ('000)		255,901	205,901
Net asset value ("NAV") per unit (RM)			
- Before income distribution		1.8288	1.7006
- After income distribution		1.7501	1.6253

The notes on pages 69 to 85 are an integral part of these financial statements.

Income Statement

for the year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
Gross revenue	11	63,331	46,819
Property operating expenses	12	(9,876)	(8,639)
Net rental income		53,455	38,180
Interest/Profit income		111	8
Change in the fair value of investment properties	4	24,478	40,613
Total income		78,044	78,801
Manager's fees	1(b)	4,242	3,077
Trustee's fees	1(c)	212	154
Auditor's fees		78	55
Tax agent's fees		11	11
Bad debts written off		-	144
Allowance for/(Reversal of) for doubtful debts		158	(125)
Administrative expenses		1,068	673
Incidental cost of borrowing/financing		227	600
Interest expense		8,393	5,454
Valuation fees		206	154
Total expenses		14,595	10,197
Net income before taxation		63,449	68,604
Tax expense	13	-	3
Net income for the year		63,449	68,607
Net income for the year is made up as follows:			
Realised		38,971	27,994
Unrealised			
- Change in the fair value of investment properties	4	24,478	40,613
		63,449	68,607
Earnings per Unit (sen)	14	25.18	33.32
Earnings per Unit (before manager's fee)			
- Gross (sen)		26.69	34.81
- Net (sen)		26.69	34.81

Income Statement

for the year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
Net income distribution			
Interim income distribution of 7.40 sen per unit paid on 20 February 2008 and 29 August 2008 (2007: 6.10 sen per unit paid on 30 August 2007)		18,562	12,560
Proposed final income distribution of 7.87 sen per unit payable on 27 February 2009 (2007: 7.53 sen per unit paid on 20 February 2008)		20,139	15,504
	15	38,701	28,064
Income distribution per Unit			
- Gross (sen) - interim	15	7.40	6.10
- final	15	7.87	7.54
- Net (sen)* - interim	15	7.40	6.10
- final	15	7.87	7.53

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

		Withholding tax rate		
		2009	2008	2007
Resident corporate	-	Nil [^]	Nil [^]	Nil [^]
Resident non-corporate	-	10%	15%	15%
Non-resident individual	-	10%	15%	15%
Non-resident corporate	-	25%	26%	27%
Non-resident institutional	-	10%	20%	20%

[^] to tax at prevailing rate

The notes on pages 69 to 85 are an integral part of these financial statements.

Statement of Changes in Net Asset Value

for the year ended 31 December 2008

	Unitholders' capital RM'000	Distributable Undistributed income		Total Unitholders' funds RM'000
		Realised RM'000	Unrealised RM'000	
At 1 January 2007	234,892	82	59,135	294,109
Operations for the year ended 31 December 2007				
Net income for the year	-	27,994	40,613	68,607
Increase in net assets resulting from operations	-	27,994	40,613	68,607
Unitholders' transactions				
Distribution to Unitholders				
- Paid and provision (Note 15)	-	(28,064)	-	(28,064)
Decrease in net assets resulting from Unitholders' transactions	-	(28,064)	-	(28,064)
Net assets as at 31 December 2007	234,892	12	99,748	334,652
	Note 10			
At 1 January 2008	234,892	12	99,748	334,652
Operations for the year ended 31 December 2008				
Net income for the year	-	38,971	24,478	63,449
Increase in net assets resulting from operations	-	38,971	24,478	63,449
Unitholders' transactions				
Placement of units	90,000	-	-	90,000
Distribution to Unitholders				
- Paid and provision (Note 15)	-	(38,701)	-	(38,701)
Issuing expenses	(1,554)	-	-	(1,554)
Decrease in net assets resulting from Unitholders' transactions	88,446	(38,701)	-	49,745
Net assets as at 31 December 2008	323,338	282	124,226	447,846
	Note 10			

The notes on pages 69 to 85 are an integral part of these financial statements.

Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
Cash flows from operating activities			
Net income before taxation		63,449	68,604
<i>Adjustments for:</i>			
Interest expense		8,393	5,454
Interest/Profit income		(111)	(8)
Change in fair value of investment properties		(24,478)	(40,613)
Operating income before changes in working capital		47,253	33,437
Receivables, deposits and prepayments		7,895	(7,329)
Payables and accruals		6,045	6,200
Cash generated from operation		61,193	32,308
Tax paid		-	-
Net cash from operating activities		61,193	32,308
Cash flows from investing activities			
Interest/Profit received		111	8
Uplift/(Placement) of pledged deposits placed with licensed banks		270	(570)
Purchase of investment properties		(125,055)	(117,727)
Payment for enhancement of investment properties		(3,167)	(3,810)
Net cash used in investing activities		(127,841)	(122,099)
Cash flows from financing activities			
Interest paid		(8,393)	(5,454)
Proceeds from borrowings		25,000	135,000
Distribution paid to Unitholders		(34,066)	(26,458)
Proceeds from issue of units		90,000	-
Issuing expenses		(1,554)	-
Net cash generated from financing activities		70,987	103,088
Net increase in cash and cash equivalents		4,339	13,297
Cash and cash equivalents at 1 January		(34,730)	(48,027)
Cash and cash equivalents at 31 December	(i)	(30,391)	(34,730)

(i) *Cash and cash equivalents*

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Note	2008 RM'000	2007 RM'000
Cash and bank balances	6	65	86
Bank overdraft	9	(30,456)	(34,816)
		30,391	(34,730)

The notes on pages 69 to 85 are an integral part of these financial statements.

Notes to the Financial Statements

1. GENERAL

Axis Real Estate Investment Trust ("Axis-REIT") is a Malaysia-domiciled real estate investment trust constituted pursuant to the Deed dated 15 June 2005 and the Supplemental Deeds dated 8 December 2006 and 1 December 2008 (collectively referred to as "the Deed") between Axis REIT Managers Berhad ("the Manager") and OSK Trustees Berhad ("the Trustee"). The Deed is regulated by the Securities Commission Act, 1993, the Securities Commission's Guidelines on Real Estate Investment Trusts, Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, the Listing Requirement of Bursa Malaysia Securities Berhad, the Rules of the Depository and taxation laws and rulings. Axis-REIT will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of Clause 26 of the Deed. The addresses of its registered office and principal place of business are as follows:

Registered office	Principal place of business
Suite 11.1A, Level 11 Menara Weld 76 Jalan Raja Chulan 50200 Kuala Lumpur	Suite 6.04 Penthouse Wisma Academy 4A Jalan 19/1 46300 Petaling Jaya Selangor Darul Ehsan

Axis-REIT is principally engaged in investing in a diverse portfolio of properties with the primary objective of achieving an attractive level of return from rental income and long-term capital growth. There has been no significant change in the nature of this activity during the year.

Axis-REIT was formally admitted to the Main Board of Bursa Malaysia Securities Berhad on 3 August 2005.

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

(a) **Property management fees**

The Property Manager, Axis Property Services, is entitled to a property management fee in respect of the management of the investment properties owned by Axis-REIT as provided in the Deed. The fee is based on a certain graduated scale as provided in the provisions of the revised Valuers, Appraisers and Estate Agents Act, 1981 as required by the Securities Commission's Guidelines on Real Estate Investment Trust. The property management fees are payable monthly in arrears.

(b) **Manager's fees**

Pursuant to the Deed, the Manager is entitled to receive a fee of up to a maximum of 1.00% (2007: 1.00%) per annum of the Net Asset Value of Axis-REIT, calculated based on a monthly accrual basis and payable monthly in arrears. The Manager's fees for the year ended 31 December 2008 of RM4,242,247 (2007: RM3,077,064) is 1.00% (2007: 1.00%) of the monthly net asset value.

Pursuant to the Supplemental Deed dated 8 December 2006, the Manager is entitled to receive an acquisition fee or a disposal fee of 1% or 0.5% of the acquisition price or the disposal price, respectively, of any investment property purchased or disposed directly or indirectly by Axis-REIT which is payable after the completion of the acquisition or the disposal. The acquisition fees for the year ended 31 December 2008 of RM1,230,000 (2007: RM1,158,000) is 1.00% (2007: 1.00%) of the acquisition price. The acquisition fees are included in the acquisition cost of the investment properties acquired (Note 4).

No disposal fees are paid or payable for the year ended 31 December 2008 (2007: Nil).

(c) **Trustee's fees**

Pursuant to the Deed, the Trustee is entitled to receive a fee of 0.05% (2007: 0.05%) per annum of the Net Asset Value of Axis-REIT calculated based on a monthly accrual basis and payable monthly in arrears. The trustee's fees for the year ended 31 December 2008 is RM212,112 (2007: RM154,128).

The financial statements were approved by the Board of Directors of the Manager on 20 February 2009.

Notes to the Financial Statements

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of Axis-REIT have been prepared in accordance with the provisions of the Deed, the Securities Commission's Guidelines on Real Estate Investment Trusts, Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws, Financial Reporting Standards ("FRS") and accounting principles generally accepted in Malaysia. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

Axis-REIT has not applied the following accounting standards (including its consequential amendments) and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

FRSs / Interpretations	Effective date
FRS 4, <i>Insurance Contracts</i>	1 January 2010
FRS 7, <i>Financial Instruments: Disclosures</i>	1 January 2010
FRS 8, <i>Operating Segments</i>	1 July 2009
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	1 January 2010
IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	1 January 2010
IC Interpretation 10, <i>Interim Financial Reporting and Impairment</i>	1 January 2010

Axis-REIT plans to apply the abovementioned FRSs / Interpretations from the annual period beginning 1 January 2010.

The impact of applying FRS 4, FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective FRSs. The initial application of the above standards (and their consequential amendments) and interpretations is not expected to have any material impact on the financial statements of Axis-REIT.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for investment properties as explained in Note 4.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 4 - valuation of investment properties.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Axis-REIT, unless otherwise stated.

(a) Investment properties

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both.

Prior to 1 January 2006, all investment properties were stated at valuation with the surplus recognised as a revaluation reserve. Following the adoption of FRS 140, *Investment Property*, all investment properties are measured initially and subsequently at fair value with any change therein recognised in the income statement.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values Axis-REIT's investment property portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between Axis-REIT and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

Significant assumptions in arriving at the fair value of investment properties are disclosed in Note 4.

(b) Leases

Leases in terms of which Axis-REIT assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on Axis-REIT's balance sheet. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

(c) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment

The carrying amounts of assets, except for investment property that is measured at fair value, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement.

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

Impairment losses recognised in prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(f) Borrowings/Financing

Borrowings/financing are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings/financing using the effective interest method. For Islamic financing, a similar approach is used to determine the same.

(g) Provisions

A provision is recognised if, as a result of a past event, Axis-REIT has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provision for income distribution

Provision for income distribution is recognised when any distribution is declared, determined or publicly recommended by the Directors of the Manager and approved by the Trustee but not distributed at the balance sheet date.

(h) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(i) Revenue

(i) *Rental income*

Rental income consists of rental income from letting of lots, car parks and other associated income, is recognised on a straight line basis over the term of rent unless collectibility is in doubt, in which case, they are recognised on a receipt basis.

Rental is recognised on an accrual basis except where default in payment of rent has already occurred and rent dues remain outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to the suspension, income is recognised on the receipt basis until all arrears have been paid.

(ii) *Interest/Profit income*

Interest/Profit income is recognised as it accrues, taking into account the effective yield on the assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Expenses

(i) *Property expenses*

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

Property management fees are recognised on an accrual basis using the applicable formula, stipulated in Note 1 (a).

(ii) *Manager's fees*

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

(iii) *Trustee's fees*

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

(iv) *Interest expense*

All interest and other costs incurred in connection with borrowings/financing are expensed using the effective interest method, in period in which they are incurred.

(v) *Lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in unitholders' fund, in which case it is recognised in unitholders' fund.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. INVESTMENT PROPERTIES

	2008 RM'000	2007 RM'000
At 1 January	570,400	408,250
Acquisitions	125,055	117,727
Enhancement	3,167	3,810
Change in fair value	24,478	40,613
At 31 December	723,100	570,400
Included in the above are:		
Land and buildings	723,100	570,400

Notes to the Financial Statements

4. INVESTMENT PROPERTIES (CONTINUED)

Description of Property	Tenure of land	Term of lease year	Remaining term of lease year	Location	Existing Use	Occupancy rates as at 31.12.2008 %	Fair value as at 31.12.2008 RM'000	Initial acquisition cost as at 31.12.2008 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2008 %
Menara Axis#	Leasehold	99	57	Petaling Jaya	Commercial	100	91,700	71,440	20.5
Crystal Plaza#	Leasehold	99	51	Petaling Jaya	Commercial	100	89,800	56,400	20.1
Axis Business Park#	Leasehold	99	52	Petaling Jaya	Office & Warehouse	93.3	102,500	84,600	22.9
Infinite Centre*#	Leasehold	99	57	Petaling Jaya	Office & Warehouse	88.9	35,200	25,450	7.9
Axis Plaza*	Freehold	-	-	Shah Alam	Office & Warehouse	81.9	30,700	22,500	6.9
Wisma Kemajuan****#	Leasehold	99	57	Petaling Jaya	Office & Warehouse	83.1	52,500	29,192	11.7
Axis North Port LC 1 *	Leasehold	99	97	Klang	Warehouse	100	11,600	10,373	2.6
Kayangan Depot****	Leasehold	99	78	Shah Alam	Office & Warehouse	75.0	22,000	16,224	4.9
Wisma Bintang*#	Leasehold	99	59/63	Petaling Jaya	Office & Workshop	100	38,000	32,681	8.5
Axis Shah Alam DC 1*	Freehold	-	-	Shah Alam	Factory/Warehouse	100	18,500	18,783	4.1
Giant Hypermarket***	Freehold	-	-	Sungei Petani	Warehouse	100	38,000	38,678	8.5
FCI Senal**	Leasehold	60	59	Senai, Johor	Office & Factory	100	14,000	12,538	3.1
Nestle Office & Warehouse***	Freehold	-	-	Shah Alam	Office & Warehouse	100	7,500	7,352	1.7
Nestle House***	Leasehold	99	64	Petaling Jaya	Office	100	40,000	40,376	8.9
Kompakar CRC HQ****	Leasehold	99	60	Petaling Jaya	Office & Warehouse	100	40,000	37,549	8.9
BMW Centre PTP**	Leasehold	99	91	Tanjung Pelepas	Office & Warehouse	100	27,100	27,470	6.1
Niro Warehouse***	Leasehold	60	43	Pasir Gudang	Office & Warehouse	100	14,500	14,811	3.2
Defli Warehouse***	Leasehold	60	59	Pasir Gudang	Office & Warehouse	100	13,500	12,743	3.0
Axis Vista^	Leasehold	99	58	Petaling Jaya	Office & Warehouse	100	36,000	32,481	8.0
Investment properties							723,100	591,641	

* Axis Plaza, Infinite Centre, Menara Axis, Crystal Plaza, Axis Business Park, Axis Shah Alam DC 1, Wisma Bintang and Axis North Port LC 1 were valued on 25 November 2008, 25 November 2008, 26 November 2008, 26 November 2008, 26 November 2008, 2 December 2008, 3 December 2008 and 15 December 2008 respectively, by Colliers, Jordan Lee & Jaafar Sdn. Bhd., an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison, cost and investment methods of valuation.

** FCI Senai and BMW Centre PTP were valued on 10 December 2008, by C H Williams Talhar & Wong Sdn. Bhd., an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison and investment methods of valuation.

*** Nestle Office & Warehouse, Nestle House, Niro Warehouse, Defli Warehouse and Giant Hypermarket were valued on 20 November 2008, 20 November 2008, 21 November 2008, 21 November 2008 and 1 December 2008 respectively, by REGROUP Associates, an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison and investment methods of valuation.

**** Wisma Kemajuan, Kayangan Depot and Kompakar CRC HQ were valued on 29 October 2008, 29 October 2008 and 28 November 2008 respectively, by PA International Property Consultant (KL) Sdn. Bhd., an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison, cost and investment methods of valuation.

^ Axis Vista was valued on 13 August 2008, by Raine & Horne International Zaki + Partners Sdn. Bhd., an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison, cost and investment methods of valuation.

The properties are charged to financial institutions for banking facilities granted to Axis-REIT (Note 9).

4. INVESTMENT PROPERTIES (CONTINUED)

The comparison method considers the sales of similar or substitute properties and related market data, and establishes a value estimate by processes involving comparison. In general, the property being valued is compared with sales of similar properties that have been transacted in the open market. Listing and offering may also be considered. Valuation under this method may be significantly affected by the timing and the characteristics (such as location, accessibility, design, size and condition) of the property transactions used for comparison.

The cost method considers the summation of the value components of the land and cost of building. The value components of land are estimated based on location, plot size, accessibility and other relevant factors. The cost of building is determined based on current estimates of size, reproduction cost less depreciation or replacement cost less depreciation, obsolescence and existing physical condition of the building. The reproduction or replacement cost of building is derived from estimates of current market prices for materials, labour and present construction techniques. Valuation under this method may be significantly affected by the location of the property and the market prices for materials and labour.

The investment method considers income and expenses data relating to the property being valued and estimates value through a capitalisation process. Capitalisation relates net income and a defined value type by converting an income amount into a value estimate. The annual rental income presently received or expected to command over a period of time relating to the lease of the property is estimated to obtain the net annual rental value. This net annual income is then appropriately adjusted with a discounting rate to present value and then capitalised by an appropriate capitalisation rate or years purchase figure to adjust the income into the present capital value of the property. Valuation under this method may be significantly affected by the yield, occupancy rate, discount factor and capitalisation rate used. The range of yield applied to the net annual rentals to determine fair value of the property is between 6.5% and 7.0% (2007: 6.5% - 7.0%).

The valuers have considered the results of the above methods in their valuation and applied professional judgment in the determination of the fair value of these investment properties.

Included in the acquisition cost of investment properties are RM1,230,000 (2007: RM1,158,000) which relates to acquisition fees paid or payable to the Manager (Note 1(b)).

Notes to the Financial Statements

4. INVESTMENT PROPERTIES (CONTINUED)

Description of Property	Tenure of land	Term of lease year	Remaining term of lease year	Location	Existing Use	Occupancy rates as at 31.12.2007 %	Fair value as at 31.12.2007 RM'000	Initial acquisition cost as at 31.12.2007 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2007 %
Menara Axis#	Leasehold	99	58	Petaling Jaya	Commercial	100	87,700	71,440	26.2
Crystal Plaza#	Leasehold	99	52	Petaling Jaya	Commercial	99.8	82,800	56,400	24.7
Axis Business Park#	Leasehold	99	53	Petaling Jaya	Office & Warehouse	97.6	97,800	84,600	29.2
Infinite Centre#	Leasehold	99	58	Petaling Jaya	Office & Warehouse	100	35,200	25,450	10.5
Axis Plaza*	Freehold	-	-	Shah Alam	Office & Warehouse	81.6	30,700	22,500	9.2
Wisma Kemajuan**#	Leasehold	99	58	Petaling Jaya	Office & Warehouse	66.4	45,900	29,192	13.7
Axis North Port LC 1*	Leasehold	99	98	Klang	Warehouse	93.2	13,600	10,373	4.1
Kayangan Depot**	Leasehold	99	79	Shah Alam	Office & Warehouse	68.9	21,800	16,224	6.5
Wisma Bintang#	Leasehold	99	60/64	Petaling Jaya	Office & Workshop	100	36,000	32,681	10.8
Axis Shah Alam DC 1*	Freehold	-	-	Shah Alam	Factory/Warehouse	100	18,500	18,783	5.5
Giant Hypermarket***	Freehold	-	-	Sungei Petani	Warehouse	100	38,000	38,678	11.4
FCI Senai**	Leasehold	60	60	Senai, Johor	Office & Factory	100	13,900	12,538	4.2
Nestle Office & Warehouse***	Freehold	-	-	Shah Alam	Office & Warehouse	100	7,500	7,352	2.2
Nestle House***	Leasehold	99	65	Petaling Jaya	Office	100	41,000	40,376	12.3
Investment properties							570,400	466,587	

* Menara Axis, Crystal Plaza, Axis Business Park, Infinite Centre, Axis Plaza, Axis North Port Logistics Centre 1, Wisma Bintang and Axis Shah Alam DC 1 were valued on 9 August 2007, 13 August 2007, 10 August 2007, 13 August 2007, 10 August 2007, 12 November 2007, 9 November 2007, 19 March 2007 respectively, by Colliers, Jordan Lee & Jaafar Sdn. Bhd., an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison, cost and investment methods of valuation.

** Wisma Kemajuan, Kayangan Depot and FCI Senai were valued on 10 July 2007, 14 November 2007 and 16 November 2007 respectively, by C H Williams Talhar & Wong Sdn. Bhd., an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison and investment methods of valuation.

*** Giant Hypermarket, Nestle Office & Warehouse and Nestle House were valued on 28 May 2007, 29 May 2007 and 6 June 2007 respectively, by REGROUP Associates, an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison and investment methods of valuation.

The properties are charged to financial institution for banking facilities granted to Axis-REIT (Note 9).

5. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2008 RM'000	2007 RM'000
Trade		
Trade receivables	1,858	1,889
Less: Allowance for doubtful debts	(199)	(42)
	1,659	1,847
Non-trade		
Other receivables	55	14
Deposits	883	8,671
Prepayments	155	115
	1,093	8,800
	2,752	10,647

6. CASH AND CASH EQUIVALENTS

	Note	2008 RM'000	2007 RM'000
Deposits placed with licensed banks	a	300	570
Cash and bank balances		65	86
		365	656

Note a

Deposits placed with licensed banks are pledged for banking facilities granted to Axis-REIT (Note 9).

7. PAYABLES AND ACCRUALS

	2008 RM'000	2007 RM'000
Trade		
Trade payables	1,044	773
Non-trade		
Other payables and accrued expenses	3,354	3,047
Tenants' deposits		
- payable within 12 months	3,854	4,526
- payable after 12 months	19,678	13,539
	26,886	21,112
	27,930	21,885

Included in other payable and accrued expenses is amount due to the Manager and the Property Manager of RM4,129 (2007: RM39,800) and RM119,397 (2007: Nil) respectively which are unsecured, interest free and payable monthly in arrears.

Notes to the Financial Statements

8. PROVISION FOR INCOME DISTRIBUTION

	2008 RM'000	2007 RM'000
At 1 January	15,504	13,898
Provisions made during the year	38,701	28,064
Payments made during the year	(34,066)	(26,458)
At 31 December	20,139	15,504

9. BORROWINGS/FINANCING

	2008 RM'000	2007 RM'000
Current		
Secured revolving credit	200,000	175,000
Bank overdraft	30,456	34,816
	230,456	209,816

Terms and debt repayment schedule

	Year of Maturity	Interest rate %	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
2008							
Revolving credit	2009	4.23 – 4.65	200,000	200,000	-	-	-
Bank overdraft	2009	4.35	30,456	30,456	-	-	-
2007							
Revolving credit	2008	4.25 – 4.88	175,000	175,000	-	-	-
Bank overdraft	2008	4.35 – 4.91	34,816	34,816	-	-	-

10. TOTAL UNITHOLDERS' FUNDS

Unitholders' capital	2008 Number of Units '000	2007 Number of Units '000
Authorised:		
At 1 January	255,901	205,901
Increased during the year	-	50,000
At 31 December	255,901	255,901
Issued and fully paid up:		
At 1 January	205,901	205,901
Issued during the year	50,000	-
At 31 December	255,901	205,901
At 1 January	234,892	234,892
Issue of new units:		
- 50,000,000 units @ RM1.80 per unit	90,000	-
Issuing expenses (Note 16)	(1,554)	-
At 31 December	323,338	234,892

Unitholdings of substantial unitholders, Directors and their related parties

As at 31 December 2008, the Manager did not hold any Units in Axis-REIT. However, the Directors of the Managers and their related parties held Units in Axis-REIT, details of which are as follows:

	2008		2007	
	Number of Units '000	Market value RM'000	Number of Units '000	Market value RM'000
Axis-REIT's substantial unitholders' direct Unitholdings in Axis-REIT:				
Baiduri Kemas Sdn. Bhd.	33,790	37,845	33,790	62,512
Tew Peng Hwee @ Teoh Peng Hwee	15,934	17,846	16,963	31,381
The Manager's Directors' direct Unitholdings in Axis-REIT:				
Dato' Abas Carl Gunnar bin Abdullah	9,410	10,539	9,386	17,364
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	10	11	10	19
Tew Peng Hwee @ Teoh Peng Hwee	15,934	17,846	16,963	31,381
George Stewart LaBrooy	95	106	40	74
Alex Lee Lao#	12,694	14,217	14,694	27,183
Yin-Yong Lee Lao	400	448	-	-

Notes to the Financial Statements

10. TOTAL UNITHOLDERS' FUNDS (CONTINUED)

	2008		2007	
	Number of Units '000	Market value RM'000	Number of Units '000	Market value RM'000
The Manager's Directors' indirect Unitholdings in Axis-REIT ¹ :				
Dato' Abas Carl Gunnar bin Abdullah*	36,040	40,365	36,040	66,674
Tew Peng Hwee @ Teoh Peng Hwee**	35,040	39,245	35,040	64,824
Alex Lee Lao***	36,440	40,813	35,040	64,824
Yin-Yong Lee Lao****	48,734	54,582	49,734	92,007
The direct Unitholdings of the related parties of the Manager's Directors in Axis-REIT:				
Crystal Properties Sdn. Bhd. (in Members' Voluntary Liquidation)	250	280	250	463
Prestigious Landmarks Sdn. Bhd. (in Members' Voluntary Liquidation)	1,000	1,120	1,000	1,850
Datin Kuyas Emiloglu	1,000	1,120	1,000	1,850
Leon Lee Lao	1,000	1,120	-	-

¹ The breakdown of the indirect Unitholdings of the Manager's Directors can be obtained from the information on the direct Unitholdings of Baiduri Kemas Sdn Bhd, a substantial unitholder as well as the direct Unitholdings of the related parties of the Manager's Directors.

Alex Lee Lao is an Alternate Director to Dato' Abas Carl Gunnar Bin Abdullah.

* Deemed interested by virtue of his shareholdings in Axis Equities Sdn. Bhd.[^], Crystal Properties Sdn Bhd (In Members' Voluntary Liquidation), Prestigious Landmarks Sdn Bhd (In Members' Voluntary Liquidation), both are unitholders of Axis-REIT as well as the unitholdings of his spouse, Datin Kuyas Emiloglu.

** Deemed interested by virtue of his shareholdings in Pet Resins (M) Sdn. Bhd.^{^^}, Crystal Properties Sdn Bhd (In Members' Voluntary Liquidation), Prestigious Landmarks Sdn Bhd (In Members' Voluntary Liquidation), both are unitholders of Axis-REIT.

*** Deemed interested by virtue of his shareholdings in Axis Equities Sdn. Bhd.[^], Crystal Properties Sdn Bhd (In Members' Voluntary Liquidation), Prestigious Landmarks Sdn Bhd (In Members' Voluntary Liquidation), both are unitholders of Axis-REIT as well as the direct unitholdings of his brothers, Yin-Yong Lee Lao and Leon Lee Lao.

**** Deemed interest in Alex Lee Lao's (brother) direct and indirect unitholdings in Axis-REIT and the direct unitholdings of Leon Lee Lao, both are his brothers.

[^] Axis Equities Sdn. Bhd. is the ultimate holding company of T.S. Property Development Sdn. Bhd.. T.S. Property Development Sdn. Bhd. has a substantial interest in Axis Development Sdn. Bhd. which in turn has substantial interest in Baiduri Kemas Sdn. Bhd., a substantial unitholder of Axis-REIT.

^{^^} Pet Resins (M) Sdn. Bhd. has a substantial interest in Axis Development Sdn. Bhd., a company having substantial interest in Baiduri Kemas Sdn. Bhd., a substantial unitholder of Axis-REIT.

10. TOTAL UNITHOLDERS' FUNDS (CONTINUED)

The market value of the Units was determined by multiplying the number of Units with the market price of RM1.12 (2007: RM1.85) as at 31 December 2008.

	Note	2008 RM'000	2007 RM'000
Undistributed income			
- Realised		282	12
- Unrealised	a	124,226	99,748
		124,508	99,760

Note a

This unrealised income relates to the cumulative net change arising from the fair value adjustment to the investment properties (Note 4).

11. GROSS REVENUE

	2008 RM'000	2007 RM'000
Rental income from investment properties	58,716	42,407
Car park income	2,905	2,773
Other income	1,710	1,639
	63,331	46,819

12. PROPERTY OPERATING EXPENSES

	2008 RM'000	2007 RM'000
Assessment	1,666	1,296
Service contracts and maintenance	2,770	2,815
Property management fees	1,341	990
Property management reimbursements	797	542
Utilities	2,354	2,164
Others	948	832
	9,876	8,639

Notes to the Financial Statements

13. TAX EXPENSE

	2008 RM'000	2007 RM'000
Current tax expense/(income)		
- Current year	-	-
- Prior year	-	(3)
	-	(3)
Reconciliation of effective tax expense		
Net income before taxation	63,449	68,604
Income tax using Malaysian tax rate of 26% (2007: 27%)	16,497	18,523
Non-deductible expenses	279	367
Effect of fair value adjustment of investment properties not subject to tax	(6,364)	(10,966)
Effect of income exempted from tax	(10,412)	(7,927)
	-	(3)

Pursuant to the amendment of Section 61A of the Income Tax Act, 1967 under the Finance Act 2006 which was gazetted on 31 December 2006, where in the basis period for a year of assessment, 90% or more of the total income of the trust is distributed to its unitholders, the total income of the trust for that year of assessment shall be exempt from tax.

14. EARNINGS PER UNIT

The calculation of earnings per Unit is based on the net income for the year of RM63,449,000 (2007: RM68,607,000) and on the weighted average number of units in circulation during the year of 251,939,251 (2007: 205,901,000).

15. DISTRIBUTION TO UNITHOLDERS

Distribution to Unitholders is from the following sources:

	2008 RM'000	2007 RM'000 restated
Net rental income		
- current year	53,455	38,180
- prior year portion (already subject to tax)	-	82
Interest/Profit income	111	8
	53,296	38,270
Less: Expenses	(14,595)	(10,197)
	38,971	28,073
Less: Undistributed income	(270)	(9)
	38,701	28,064
Gross distribution (paid and provision) per Unit (sen)	15.27	13.64
Net distribution (paid and provision) per Unit (sen)	15.27	13.63

16. ISSUING EXPENSES

	2008 RM'000	2007 RM'000
At 1 January	-	-
Addition during the year:		
Professional fees	1,512	-
Miscellaneous expenses	42	-
Total (Note 10)	1,554	-

17. PORTFOLIO TURNOVER RATIO

	2008	2007
Portfolio Turnover Ratio ("PTR") (times)	0.15	0.20

The calculation of PTR is based on the average of total acquisitions and total disposals of investments in Axis-REIT for the year to the average net asset value during the year.

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

18. MANAGEMENT EXPENSE RATIO

	2008	2007
Management expense ratio ("MER") (%)	1.35	1.38

The calculation of the MER is based on the total fees of Axis-REIT incurred, including Manager's fees, Trustee's fees, audit fees, tax agent's fees and administrative expenses, to the average net asset value during the year. Comparison of the MER of Axis-REIT with other real estate investment trusts which uses different basis of calculation may not be an accurate comparison.

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS

Financial risks management objectives and policies

Exposure to credit, interest rate and liquidity risk arises in the normal course of Axis-REIT's business. These risks are monitored by the Manager on an on-going basis.

Credit risk

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of financial asset.

Interest rate risk

Axis-REIT's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

Interest rate is a general economic indicator that will have an impact on the management of the Fund regardless of whether it is a Shariah-based Fund or otherwise. It does not in any way suggest that this Fund will invest in conventional financial instruments.

Liquidity risk

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

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing liabilities, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature:

	2008			2007		
	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	Average effective interest rate %	Total RM'000	Less than 1 year RM'000
Floating rate instruments						
Financial asset						
Deposits with licensed banks	Nil	300	300	3.20	570	570
Financial liability						
Revolving credit	4.23 – 4.65	200,000	200,000	4.31	175,000	175,000
Bank overdraft	4.35	30,456	30,456	4.46	34,816	34,816

Fair values

The carrying amounts of cash and cash equivalents, receivables, deposits and prepayments, payables and accruals, and short term borrowings/financing approximate their fair values due to the relatively short term nature of these financial instruments.

20. OPERATING LEASES

Leases as lessor

Axis-REIT leases out its investment properties under operating leases (Note 4). The future minimum lease payments under non-cancellable leases are as follows:

	2008 RM'000	2007 RM'000
Less than one year	58,175	37,521
Between one and five years	98,334	111,203
More than five years	42,440	37,914
	198,949	186,638

21. CAPITAL COMMITMENTS

	2008 RM'000	2007 RM'000
Capital expenditure commitments		
Investment properties		
<i>Contracted but not provided for and payable:</i>		
- Within one year	-	57,600

22. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Axis-REIT either directly or indirectly. The key management personnel include all the Directors of Axis-REIT Managers Berhad, and certain members of senior management of Axis-REIT Managers Berhad and OSK Trustees Berhad.

	Transaction value		Balance outstanding	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Tenancy agency commissions payable to a related party of the Directors of the Manager	-	158	-	14
Acquisition cost of an investment property payable to a related party of the Directors of the Manager	32,000	-	-	-

These transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

Statement by the Manager

In the opinion of the Directors of the Manager, the financial statements set out on pages 64 to 85 are drawn up in accordance with the provisions of the Deed dated 15 June 2005 and the Supplemental Deeds dated 8 December 2006 and 1 December 2008, the Securities Commission's Guidelines on Real Estate Investment Trusts, Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws and Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of Axis Real Estate Investment Trust at 31 December 2008 and of its financial performance and cash flows for the year ended on that date.

For and on behalf of the Manager,
Axis REIT Managers Berhad,
Signed in accordance with a resolution of the Directors of the Manager:



Stephen Tew Peng Hwee



George Stewart LaBrooy

Kuala Lumpur,

Date: 20 February 2009

Statutory Declaration

I, **George Stewart LaBrooy**, the Director of Axis REIT Managers Berhad primarily responsible for the financial management of Axis Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 64 to 85, are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 20 February 2009.



George Stewart LaBrooy

Before me:



No: 86, Tingkat Bawah
Jalan Putra
50350 KUALA LUMPUR

Trustee's Report

To the Unitholders of Axis Real Estate Investment Trust (Established in Malaysia)

We have acted as Trustee of Axis Real Estate Investment Trust ("Axis-REIT") for the financial year ended 31 December 2008. In our opinion and to the best of our knowledge, Axis REIT Managers Berhad ("the Manager") has managed Axis-REIT in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Deed dated 15 June 2005 and the Supplemental Deeds dated 8 December 2006 and 1 December 2008, the Securities Commission's Guidelines on Real Estate Investment Trusts, Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws and other applicable laws during the financial year then ended.

We have ensured the procedures and processes employed by the Manager to value and price the units of Axis-REIT are adequate and that such valuation/pricing is carried out in accordance with the Deeds and other regulatory requirements.

We also confirm that the income distributions declared and paid during the financial year ended 31 December 2008 are in line with and are reflective of the objectives of Axis-REIT. Three distributions have been declared for the financial year ended 31 December 2008 as follows:-

- 1) 1st interim income distribution of 0.75 sen per unit paid on 20 February 2008;
- 2) 2nd interim income distribution of 6.65 sen per unit paid on 29 August 2008; and
- 3) Final income distribution of 7.87 sen per unit payable on 27 February 2009.

For and on behalf of the Trustee,
OSK Trustees Berhad



Ong Eu Jin
Chief Operating Officer

Kuala Lumpur,

Date: 20 February 2009

Independent Auditors' Report

To the Unitholders of Axis Real Estate Investment Trust (Established in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Axis Real Estate Investment Trust ("Axis-REIT"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 69 to 85.

Directors of Axis REIT Manager Berhad's Responsibility for the Financial Statements

The Directors of Axis REIT Manager Berhad (the "Manager") of Axis-REIT are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Deed dated 15 June 2005 and the Supplemental Deeds dated 8 December 2006 and 1 December 2008, the Securities Commission's Guidelines on Real Estate Investment Trusts, Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws and Financial Reporting Standards in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Manager's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Manager's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient appropriate to provide a basis for our opinion.

Opinion

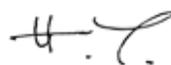
In our opinion, the financial statements have been properly drawn up in accordance with the provisions of the Deed dated 15 June 2005 and the Supplemental Deeds dated 8 December 2006 and 1 December 2008, Securities Commission's Guidelines on Real Estate Investment Trusts, Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws and Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of Axis-REIT as of 31 December 2008 and of its financial performance and cash flows for the year then ended.

Other Matters

This report is made solely to the unitholders of Axis-REIT and for no other purpose. We do not assume responsibility to any other person for the content of this report.



KPMG
Firm Number: AF 0758
Chartered Accountants



Hasman Yusri Yusoff
Chartered Accountant
Approval Number: 2583/08/10(J)

Petaling Jaya,

Date: 20 February 2009

Unitholders' Statistics

ANALYSIS OF UNITHOLDINGS AS AT 31 DECEMBER 2008

Size of Holdings	Number of Unitholders	%	Number of Units Held	%
1 - 99	2	0.12	85	0.00
100 – 1,000	368	22.28	257,515	0.10
1,001 – 10,000	811	49.09	4,080,800	1.59
10,001 – 100,000	322	19.49	11,226,200	4.39
100,001 – 12,795,049 #	147	8.9	187,128,400	73.13
10,295,050 ## and above	2	0.12	53,208,000	20.79
Total	1,652	100.00	255,901,000	100.00

less than 5% of total issued units
5% and above of total issued unit

TOP 30 UNITHOLDERS AS AT 31 DECEMBER 2008 AS LISTED IN THE REGISTER OF UNITHOLDERS

Ranking	Unitholder	No. of Units	% of Total Issued Units
1	Baiduri Kemas Sdn Bhd	33,790,000	13.20
2	Employees Provident Fund Board	19,418,000	7.59
3	Alex Lee Lao	12,693,600	4.96
4	Citigroup Nominees (Tempatan) Sdn Bhd Exempt an for American International Assurance Berhad	11,266,000	4.40
5	Valuecap Sdn Bhd	9,449,300	3.69
6	AMSEC Nominees (Tempatan) Sdn Bhd AmBank (M) Berhad for Abas Carl Gunnar Bin Abdullah	9,400,000	3.67
7	Tew Peng Hwee @ Teoh Peng Hwee	8,634,000	3.37
8	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Wawasan 2020	7,429,800	2.90
9	Amanah Raya Nominees (Tempatan) Sdn Bhd Sekim Amanah Saham Nasional	6,979,200	2.73
10	AMSEC Nominees (Tempatan) Sdn Bhd AmBank (M) Berhad for Tew Peng Hwee @ Teoh Peng Hwee	6,700,000	2.62
11	Citigroup Nominees (Asing) Sdn Bhd Exempt an for Mellon Bank (ABNAMRO MELLON)	6,417,700	2.51
12	Lim Kian Thiam	5,914,200	2.31
13	HSBC Nominees (Tempatan) Sdn Bhd Nomura Asset Mgmt Malaysia for Employees Provident Fund	5,691,100	2.22
14	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Malaysia	5,000,000	1.95

TOP 30 UNITHOLDERS AS AT 31 DECEMBER 2008
AS LISTED IN THE REGISTER OF UNITHOLDERS (CONTINUED)

Ranking	Unitholder	No. of Units	% of Total Issued Units
15	Citigroup Nominees (Tempatan) Sdn Bhd ING Insurance Berhad (INV-IL PAR)	4,830,500	1.89
16	Uni.Asia General Insurance Berhad	3,500,000	1.37
17	Cartaban Nominees (Tempatan) Sdn Bhd Exempt an for Allianz Life Insurance Malaysia Berhad (P)	3,300,000	1.29
18	ABB Nominee (Tempatan) Sdn Bhd Pledged securities account for Lim Kian Thiam	3,300,000	1.29
19	HSBC Nominees (Asing) Sdn Bhd Exempt an for The Hongkong and Shanghai Banking Corporation Limited (HBFS-I CLT ACCT)	3,252,100	1.27
20	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Far-East Property & Resorts Sdn Bhd	2,901,000	1.13
21	Permodalan Nasional Berhad	2,853,500	1.12
22	Citigroup Nominees (Tempatan) Sdn Bhd Uni.Asia Life Assurance Berhad (Life Fund)	2,834,600	1.11
23	TM Asia Life Malaysia Bhd as beneficial owner (PF)	2,666,000	1.04
24	AMSEC Nominees (Tempatan) Sdn Bhd Amtrustee Berhad For Pacific Pearl Fund (UT-PM-PPF)	2,609,300	1.02
25	Jerneh Insurance Bhd	1,900,000	0.74
26	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LGF)	1,895,000	0.74
27	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Prudential Equity Income Fund (4801)	1,864,800	0.73
28	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Smallcap Fund	1,850,000	0.72
29	Citigroup Nominees (Tempatan) Sdn Bhd ING Insurance Berhad (INV-IL NON-PAR)	1,526,700	0.60
30	HSBC Nominees (Asing) Sdn Bhd Exempt an for HSBC Private Bank (Suisse) S.A. (NASSAU AC CL)	1,520,000	0.59

Glossary

Axis-REIT / the Trust	:	Axis Real Estate Investment Trust
Bursa Securities / the Exchange	:	Bursa Malaysia Securities Berhad (Company No. 635998-W)
Deed	:	The Deed dated 15th June 2005 and the supplement deeds dated 8th December 2006 and 9th December 2008 between the Trustee and the Manager
DPU	:	Distribution per Unit
GAV	:	Gross Asset Value
Gearing	:	External borrowings to Total Assets
Gross Revenue	:	Gross rental income and other income earned from the properties including license fees, car park income, utilities and miscellaneous income
Islamic REIT	:	REIT that complies with SC's Guidelines on Islamic REITs
MER	:	Management Expense Ratio
Manager	:	Axis REIT Managers Berhad (Company No. 649450-W), being the management company of Axis-REIT
NAV	:	Net Asset Value
NTA	:	Net Tangible Assets
Net Lettable Area	:	Consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
OMV	:	Open Market Value
PTR	:	Portfolio Turnover Ratio
Property Manager	:	Axis Property Services
REIT(s)	:	Real Estate Investment Trust(s)
RM and sen	:	Ringgit Malaysia and sen, respectively
SC	:	Securities Commission
SCA	:	Securities Commission Act, 1993
SC's Guidelines on REITs	:	Guidelines on Real Estate Investment Trusts issued by the SC on 21 August 2008
SC's Guidelines on Islamic REITs	:	Guidelines on Islamic Real Estate Investment Trusts issued by the SC on 21 November 2005
Sq. ft.	:	Square feet
Sqm	:	Square metres
Symphony Share Registrars	:	Symphony Share Registrars Sdn Bhd (Company No. 378993-D)
Trustee	:	OSK Trustees Berhad (Company No. 573019-U) being the Trustee of Axis-REIT
Unit(s)	:	Undivided interest(s) in Axis-REIT as constituted by the Deed
Unitholder(s)	:	Holder(s) of the Units

Corporate Directory

MANAGER

Axis REIT Managers Berhad

MANAGER'S PRINCIPAL PLACE OF BUSINESS

Suite 6.04 Penthouse
Wisma Academy
4A Jalan 19/
46300 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7958 4882
Fax : 03-7957 6881

MANAGER'S REGISTERED OFFICE :

Suite 11.1A Level 11
Menara Weld
76 Jalan Raja Chulan
50200 Kuala Lumpur
Tel : 03-2031 1988
Fax : 03-2031 9788

BOARD OF DIRECTORS OF THE MANAGER

YAM Tunku Dato' Seri Shahabuddin
Independent Non-Executive
Chairman

George Stewart LaBrooy
Chief Executive Officer /
Executive Director

Dato' Abas Carl Gunner bin Abdullah
Non-Independent Executive
Deputy Chairman

Stephen Tew Peng Hwee
Non-Independent Non-Executive
Director

Y Bhg Dato' Fateh Iskandar Bin Tan
Sri Dato' Mohamed Mansor
Independent Non-Executive Director

Mohd Sharif bin Haji Yusof
Independent Non-Executive Director

Yin-Yong Lee Lao
Non-Independent Non-Executive
Director

Alex Lee Lao
Alternate to Dato' Abas Carl Gunnar
bin Abdullah

AUDIT COMMITTEE :

YAM Tunku Dato' Seri Shahabuddin
(Chairman)

Mohd Sharif bin Haji Yusof
Yin-Yong Lee Lao

EXECUTIVE COMMITTEE :

Dato' Abas Carl Gunnar bin Abdullah
(Chairman)

George Stewart LaBrooy
Stephen Tew Peng Hwee

REMUNERATION AND NOMINATION COMMITTEE :

Y Bhg Dato' Fateh Iskandar Bin Tan
Sri Dato' Mohamed Mansor
(Chairman)

Stephen Tew Peng Hwee
Dato' Abas Carl Gunnar bin Abdullah

COMPANY SECRETARY OF THE MANAGER :

Yeoh Chong Keat
(Membership number: MIA2736)
Rebecca Leong Siew Kwan
(Membership Number: MAICSA
7045547)

SHARIAH ADVISER:

Islamic Banking and Finance
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Fax : 03-2175 3288

Email : OSK_Trustees@osk.com.my
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PRINCIPAL BANKERS OF THE FUND :

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37th Floor Menara Maybank
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50050 Kuala Lumpur

CIMB Islamic Bank Berhad
UL Bangunan Amanah Raya
Jalan Semantan
Damansara Heights
50490 Kuala Lumpur

HSBC Amanah Bank Malaysia
Berhad
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Selangor

TAX AGENT :

KPMG Tax Services Sdn Bhd
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REGISTRAR :

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BURSA SECURITIES NAME : AXREIT

BURSA MALAYSIA
SECURITIES STOCK CODE :
5106



REAL ESTATE INVESTMENT TRUST

AXIS REIT MANAGERS BERHAD

(Company Number 649450-W)

(Incorporated in Malaysia under the Companies Act, 1965)

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