



# UNLOCKING VALUE

Annual  
Report  
**2013**

Malaysia's 1st Islamic Office/Industrial REIT



# UNLOCKING VALUE

Axis Business Campus

Valuation:

Pre-refurbishment **RM47** million

Post-refurbishment **RM68** million







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This annual report for the year ended 31 December 2013 has been prepared by Axis REIT Managers Berhad (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 2014.

# About AXIS-REIT

Axis-REIT is the first Real Estate Investment Trust (REIT) to list on Bursa Malaysia Securities Berhad on 3 August 2005. The listing was undertaken under the revised Securities Commission's (SC) Guidelines on REITs.

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

Having started with a modest portfolio of 5 properties, the Fund now boasts 31 properties, leading the industry in terms of its portfolio growth. Over the last 3 years, it has disposed 2 of its properties and committed on its 3<sup>rd</sup> disposal on 26 December 2013, enabling it to return capital gains to Unitholders.

Axis-REIT owns a diversified portfolio of properties in the Klang Valley, Johor, Penang, Negeri Sembilan and Kedah comprising:

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

These properties primarily house multinational and local companies which have been tenants of the Axis Group for many years. They are involved in the logistics, imaging, medical, home appliances, automotive, pharmaceutical, insurance, wellness, electronics, information technology, retail warehousing, fast moving consumer goods, telecommunications and fitness industries.

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

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

- Prudent capital and risk management;
- Yield accretive asset purchases;
- Excellent investor relations;
- Maintaining the highest levels of corporate governance;
- Proactive asset and tenant management;
- Development of human capital.

**Axis-REIT** is the first Islamic Office / Industrial REIT listed globally. It has grown from a portfolio of 5 assets to 31 assets in 8 years, increasing its Asset Under Management (AUM) from RM300 million to RM1.62 billion. It is one of the 8 Malaysian REITs with a market capitalisation greater than RM1 billion.

## MISSION

To provide consistent distributions to Unitholders through growing the property portfolio, displaying the highest level of corporate governance, excellent capital and risk management, and preserving capital values.

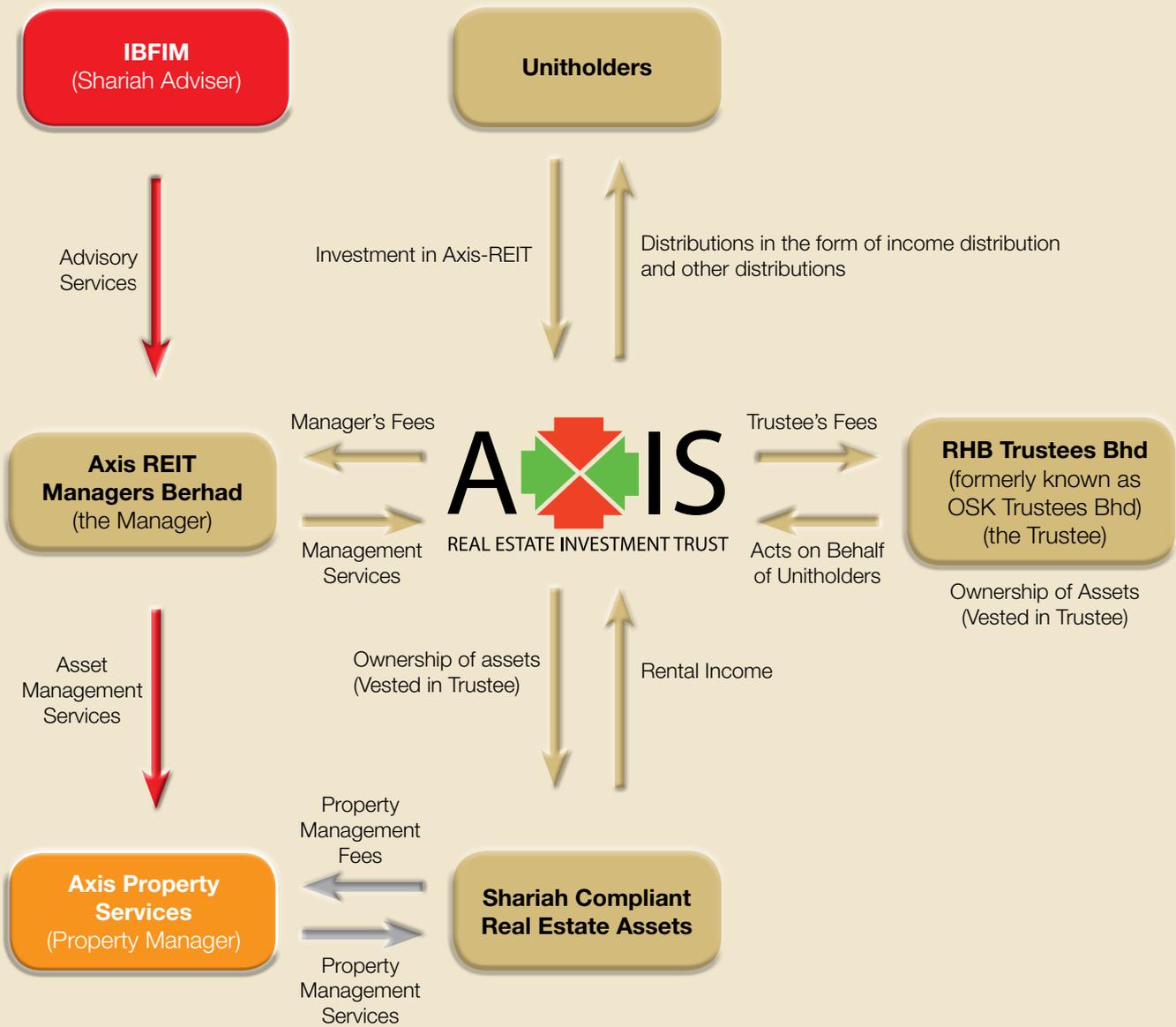
## VISION

To successfully benchmark Axis-REIT against the world's most successful REITs in terms of total return to Unitholders and be the REIT of choice for Shariah and non-Shariah Investors.

# Salient Features **OF AXIS-REIT**

<b>Fund Category</b>	Real Estate Investment Trust
<b>Fund Type</b>	Income and Growth
<b>Mission of the Fund</b>	To provide consistent distributions to Unitholders through growing the property portfolio, displaying the highest level of corporate governance, excellent capital and risk management, and preserving capital values.
<b>Vision of the Fund</b>	To successfully benchmark Axis-REIT against the world's most successful REITs in terms of total return to Unitholders and be the REIT of choice for Shariah and non-Shariah Investors.
<b>Approved Fund Size</b>	461,239,089 Units
<b>Market Capitalisation</b>	RM1,351,431,000
<b>Assets Under Management</b>	RM1,616,523,000
<b>Authorized Investments</b>	At least 50% of the Fund's total asset value must be invested in real estate and/or single purpose companies at all times.
<b>Initial Public Offering Retail Price</b>	RM1.25 per Unit
<b>Financial Year End</b>	31 December
<b>Distribution Policy</b>	<p>Quarterly income distribution.</p> <p>1<sup>st</sup> to 3<sup>rd</sup> quarter – at least 95% of the current year-to-date distributable income and</p> <p>4<sup>th</sup> quarter – at least 99% of the current year-to-date distributable income</p>
<b>Financing Limitations</b>	Up to 50% of the total assets value of the Fund.
<b>Revaluation Policy</b>	The investment properties shall be revalued at least once every year by registered independent valuers.
<b>Minimum Initial Investment</b>	Minimum of 100 Units
<b>Quotation</b>	Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities")
<b>Bursa Securities Stock Number</b>	AXREIT 5106

# Axis-REIT **STRUCTURE**



## Axis-REIT **HIGHLIGHTS**

**18.50 sen**

Income Distribution per Unit

**RM2.23**

Net Asset Value (NAV) Per Unit

**31.38%**

Premium to NAV  
(as at 31 Dec 2013)

**RM1,616,523,000**

Total Assets as at 31 Dec 2013

**9.07%**

Average net prop yield

Liquidity up by **94%** to

**104 million**

Units traded

# Winner of the 2013 APREA Best Practices Award

Emerging Market Category

## RM27,206,000

Valuation surplus for the year

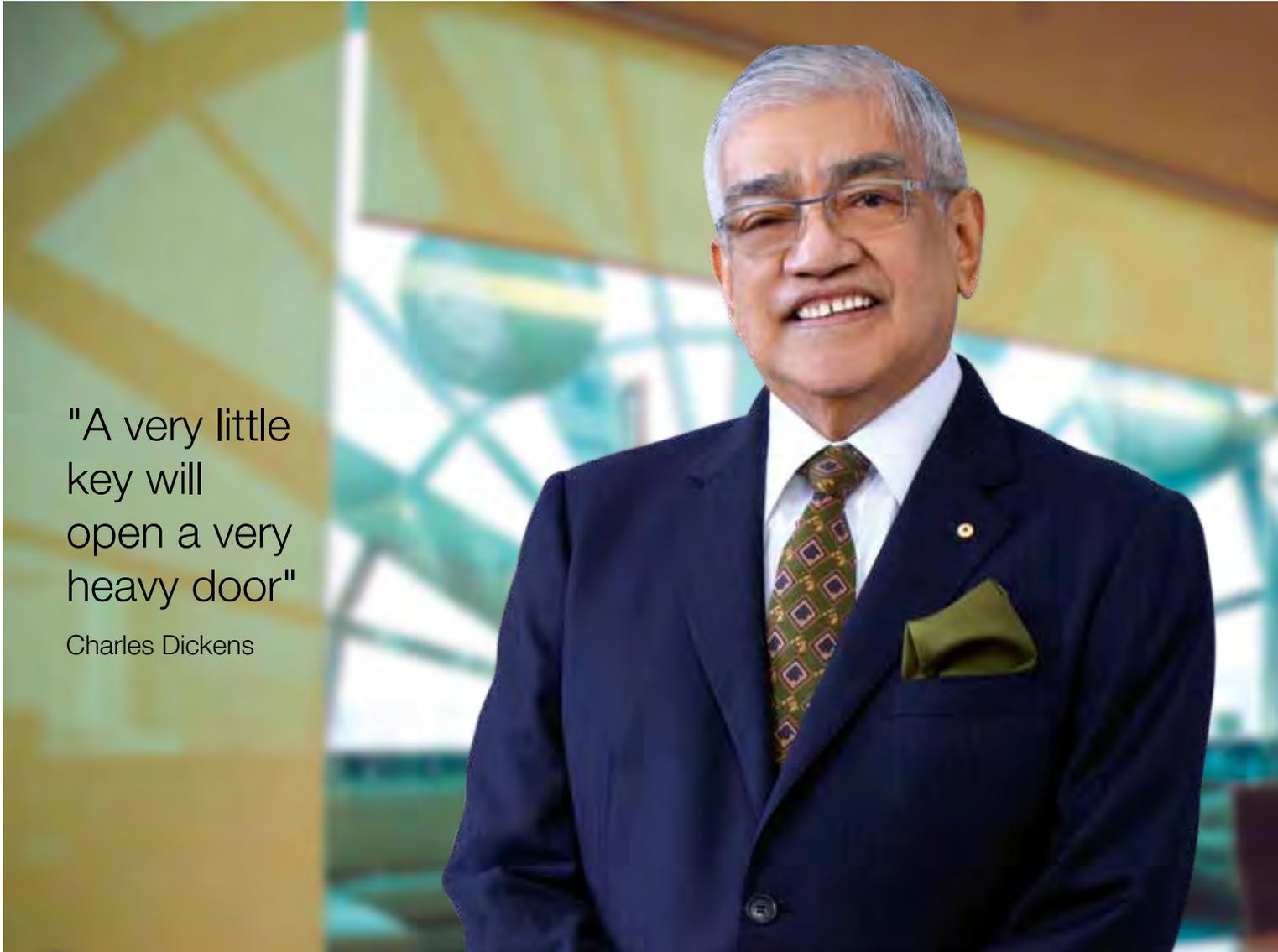
## 3.99 years

Weighted Average Lease Expiry  
(by rental revenue)

AXREIT counter included into the  
Thomson Reuters, Global Property, APREA,

# (TR/GPR/APREA) Composite Index

# Chairman's **MESSAGE**



"A very little  
key will  
open a very  
heavy door"

Charles Dickens

## **Dear Unitholders,**

On behalf of the Board, I am pleased to present Axis-REIT's ninth annual report for the financial year ended 31 December 2013.

### **Unlocking Value**

The theme for this annual report is about 'Unlocking Value.' In a market that had inflated prices beyond what we were prepared to pay, the Board decided to defer our acquisition programme for the year and, instead, focused on enhancing our existing buildings and approved the disposal of one of our older assets to 'unlock value' for our Unitholders. The cover reveals the work undertaken to transform Wisma Bintang into a vibrant modern business campus for new tenants. The transformation is well documented in this report.

Thomas Edison said that "The value of an idea is in the using of it" and I must congratulate the Manager for having the vision to bring the value of its portfolio to new heights.

Despite the difficult conditions experienced in 2013 I am pleased to report that yet again Axis-REIT continued to post a stellar set of results for the year.

## Overview

The global economy improved as 2013 closed on the back of an improving US economy, a receding recession in Europe, a stimulus-driven Japanese economy and with China's economy stabilizing. Positive signs of growth from the world's developed economies translated into a world trade that expanded at a faster rate of 2.7% in the third quarter (3Q) of 2013 compared with 1.8% in the first half (1H) of 2012. As US, Europe, Japan and China collectively account for 53% of world GDP, 49% of world trade and 40% of ASEAN's total exports, the improvement in their economies will continue to drive global demand and with it the economies of the likes of Malaysia, Singapore, Indonesia and the Philippines. All these ASEAN countries reported rebounding exports in the 3Q and 4Q 2013, giving their economies a much needed boost. Stock markets saw remarkable rises as optimism returned with many of them registering all-time highs as the year closed.

The first half of 2013 saw the Malaysian REITs (MREITs) having their best performance with the successful listing of Malaysia's first stapled REIT, KLCCP, in May. This was accompanied by a buying frenzy of MREITs supported by yield-seeking/ risk-averse investors accumulating MREIT stocks pre-General Election as they turned defensive and shunned political risk. Prices of MREIT stocks hit all-time highs as yields compressed to levels never seen before in the industry.

However, things changed when the US Federal Reserve System hinted on 22 May 2013 that Quantitative Easing (QE) could taper. The 10-year Malaysian government securities (MGS) surged to 4.0% (+98 basis points, or bps) and this led to a sell-down of MREITs. The continued weakness of the 10-year MGS has caused MREITs to fall out of favour with the fund managers - who felt that the spreads between MGS and MREITs should go all the way to 300 bps and provide gross yields around 7% - and could lead to further weakness in the MREIT space in 1H 2014. Axis-REIT was not spared and despite improving its performance for the 9th year in a row we saw our Unit price fall and for the first time reported a contraction of 0.5% in our annual total return to investors.

This year, all eyes are on the Fed and their tapering programme commencing in 2014, its effects on our bond market as well as movements in our Overnight Policy Rate, or OPR. The market view is that MREITs will recover in the 2H 2014 once the effects of the Fed's tapering programme is digested by the markets and bond yields stabilize.

As Malaysia moves into 2014, its GDP growth is projected to rise to 5%, backed by fiscal consolidation and reforms and a resurgence in exports underpinning its current account surplus which was contracting mid-2013, causing much concern. In addition, the strong pipeline of major infrastructure and investment projects under the Economic Transformation Programme (ETP) and Petronas's planned capital expenditure, or capex, will underpin the growth targets. However, we need to be wary of inflation which has been projected to rise to 3.5% and could trigger an increase in our OPR.

Despite the volatility during 2013, I am pleased to report that yet again Axis-REIT posted a great set of results for the year.

In the year under review, for the first time in our history, we did not enter the acquisition market, focusing instead on enhancing our portfolio to transform our older assets into modern buildings with much better prospects for better returns.

We also took the opportunity to dispose of Axis Plaza, one of the original assets in our initial public offering (IPO), which had matured to a point the Manger could not add any further value and rental growth was limited. The sale will provide our Unitholders with a special tax-free income distribution of 2.37 sen per Unit to be paid in the 2Q 2014. It was unfortunate that the sale could not have been concluded in 2013 as it could have provided Unitholders with a bumper dividend of 20.87 sen for 2013. The sale is part of our continuing strategy in recognizing the fact that our Unitholders are actually owners of the real property contained in the portfolio and should enjoy the profits from a sale - just as if it were their own property.

Another bonus was the fact that the Fund once again added value to our Unitholders through the recorded fair value gain for its portfolio of investment properties, amounting to RM27.2 million, which demonstrated the potential strength of the assets that the Fund has invested in.

Axis-REIT's fund size has increased from 456,517,221 units to 461,239,089 units as a result of the issuance and listing of 4,721,868 new Units under the Income Distribution Reinvestment Plan (IDRP) in 2013. Two rounds of IDRP were offered and the subscription rate was very encouraging, averaging 85%. So far we have had four IDRP offerings since the programme started in 2011.

# Chairman's **MESSAGE**

With renewed interest in the industrial hubs in Johor and Penang by multinational and Singaporean companies looking to relocate their operations out of Singapore and China, we see a great opportunity to add to our existing portfolio when these properties are built. The Manager has indicated that it will commence our acquisitions for 2014 as market cooling measures have resulted in prices of assets returning to more realistic levels.

As a result, we are also optimistic that in view of the current satisfactory performance of Axis-REIT's existing investment portfolio, together with its strategy of proactive capital management, asset-enhancement of its existing properties, tenant management, as well as its pursuit of quality acquisitions, the Fund will be able to maintain its current performance for the coming year.

## **Launch of our second Sukuk**

In 2013, Axis-REIT launched its second Sukuk issuance. On 15 August 2013 we announced that the Fund had successfully issued RM155 million in nominal value Sukuk via its special purpose entity Axis REIT Sukuk Berhad, a company incorporated by Axis-REIT to facilitate the establishment of a Sukuk programme of RM300 million in nominal value. The blended annual financing rate for the 5-year and 7-year Sukuk was 4.13% p.a. and 4.18% p.a., respectively.

With this we have moved 60% of our debt into fixed profit rates. 40% remains floating.

## **Distributions to Unitholders**

The Board of Directors of the Manager is pleased to announce that for the year under review, RM84,903,000 from income has been paid or is payable as follows:

- i) 1st Interim Income Distribution of 4.50 sen per unit paid on 13 June 2013.
- ii) 2nd Interim Income Distribution of 4.60 sen per unit paid on 30 August 2013.
- iii) 3rd Interim Income Distribution of 4.70 sen per unit paid on 13 December 2013.
- iv) Final Income Distribution of 4.70 sen per unit payable on 28 February 2014.

This translates to an annual Distribution Per Unit of 18.50 sen.

## **Unitholders attended the Annual General Meeting**

The Fund held its first Annual General Meeting on 30 April 2013.

The AGM's agenda was to receive Audited Financial Statements for FY2012 and to approve the renewal of IDRPs authority. These were duly approved.

The AGM was followed by a Unitholders' meeting where the Manager sought Unitholder approval for the additional issuance of up to 90,762,819 new Units and the corresponding increase in fund size; and to allot and issue up to 2 million new Units for payment of management fee to the Manager and the corresponding increase in fund size.

I am pleased to report that all the approvals sought were passed by the Unitholders.

## **Corporate governance takes centre stage**

### **Corporate governance continues to be a focus**

The Board continues to focus on improving our corporate governance and education. Baker Tilly Monteiro Heng Governance Sdn Bhd, the internal auditor of the Manager, conducted training on 'The Proposed Amendments to the Companies Bill' for all the Managers' directors and senior management on 21 October 2013.

I am also pleased to report that in 2013, Axis-REIT won the Asia Pacific Real Estate Association's (APREA) Best Practices Award in the Emerging Markets category and also received the following five merit awards:

- Emerging Markets – Market Disclosure Category
- Emerging Markets – Accounting and Financial Reporting Category
- Emerging Markets – Portfolio Performance Reporting Category
- Emerging Markets – Corporate Governance Category
- Country Award – Best Submission from Malaysia

This is the fourth year running that Axis-REIT has been recognized by APREA for its high level of corporate governance and compliance to best practices. Our involvement with APREA continues to bring Axis-REIT and the Manager unprecedented benefits from regional exposure.

### **Malaysian REIT Managers Association (MRMA)**

On the regulatory front, the Manager continues to show leadership in the MREIT sector since initiating the formation of MRMA in 2010.

I am pleased to report that our CEO, Dato' Stewart LaBrooy, was elected to lead the association for a further year at the association's AGM in December 2013. The association goes from strength to strength with 16 members, of whom 15 are MREIT managers.

### **Corporate Social Responsibility (CSR)**

Axis-REIT continues its CSR programme targeting sustainable projects for children of orphanages, schools and homes in Malaysia.

In 2013, the Fund donated RM18,000 towards BURSA Malaysia's KL Rat Race 2013. It also rebuilt the damaged west wing of the Selangor and Federal Territories Association for Mentally Handicapped (SAMH) special school at Jalan Langat Klang at a cost of RM93,900. Our CSR programme will continue to focus on sustainable projects which bring long-term benefits to its recipients.

### **In appreciation**

The success of Axis-REIT is due to the efforts of many parties.

May I first thank my fellow Board members for their continued advice and contributions throughout the year.

My appreciation also extends to the Management who have done a remarkable job of delivering consistent results year-on-year and especially for the 2013 results which are exceptional, given the very difficult market conditions. Their hard work and dedication have resulted in Axis-REIT being recognized as one of the top performing REITs in Malaysia today.

In closing, I would like to thank our tenants (or, as we refer to them, our customers) and our business partners for their support over the past years. I would also like to thank members of the media for their coverage of the Fund and the REIT sector in general.

Last, but not least, I wish to thank all our Unitholders, for continuing to have trust and confidence in us.

**We promise that we will continue to work hard in the coming years to reap even more success.**

**YAM Tunku Dato' Seri Shahabuddin  
Bin Tunku Besar Burhanuddin**

Chairman  
21 February 2014

# Board of **DIRECTORS**



**1. YAM Tunku Dato' Seri Shahabuddin  
Bin Tunku Besar Burhanuddin**  
Independent Non-Executive Chairman

**2. Y Bhg Dato' Abas Carl Gunnar Bin Abdullah**  
Non-Independent Executive Deputy Chairman



**3. Y Bhg Dato' George Stewart LaBrooy**  
Chief Executive Officer/Executive Director



**4. Stephen Tew Peng Hwee**  
Non-Independent Non-Executive Director



**5. Y Bhg Datuk Seri Fateh Iskandar  
Bin Tan Sri Dato' Mohamed Mansor**  
Independent Non-Executive Director



**6. Alvin Dim Lao**  
Non-Independent Non-Executive Director



**7. Mohd Sharif Bin Hj Yusof**  
Independent Non-Executive Director



**8. Leong Kit May**  
Chief Financial Officer/Executive Director

# Directors' **PROFILE**

## **YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin**

*Independent Non-Executive Chairman*

YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin, age 78, 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 Chairman of the Board of Directors, and on 23 October 2007, Chairman of the Audit Committee. He is also a member of the Nomination Committee. Tunku Shahabuddin has a vast and illustrious career in the local administrative and business arena with various roles in multinational companies.

Upon graduating from Queen's University Belfast as 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 manager of a finance company within the Malayan Banking Group. Tunku Shahabuddin then started his own businesses, which spanned involvement in the manufacturing, production, trading, construction, finance services and information technology sectors, among others. He currently serves as the Executive Chairman of Strateq Sdn Bhd (formerly known as Kompakar Inc Berhad) and Strateq Systems Sdn Bhd (formerly known as Kompakar eSystems Sdn Bhd) and also sits on the Board of Iris Corporation Berhad.

Tunku Shahabuddin is Chairman of Berjaya Assets Berhad, Jotun (M) Sdn Bhd and DHL Worldwide Express (M) Sdn Bhd. He was an inaugural member of NISIR (National Institute of Scientific Industrial Research), now known as SIRIM. He is the former Chairman of the Selangor Turf Club and now serves as their International Relations Chairman. He is the Honorary Life Chairman of the Malaysia Australia Business Council after heading the council for 19 years. Tunku Shahabuddin was also the Chairman of the Automobile Association of Malaysia for 23 years, President of the Asia-Pacific Region of the Alliance Internationale de Tourisme, Governing Board Member of the Malaysia Canada Business Council, and a former Committee Member of MASSA (Malaysia South-South Association). He was appointed Honorary Consul General of Austria in 1972.

Among the many awards bestowed on Tunku Shahabuddin is the Darjah Kerabat Terengganu Yang Amat Mulia Darjah Yang Pertama (D.K.) (Terengganu), and the Darjah Seri Paduka Tuanku Ja'afar Yang Amat Terpuji (S.P.T.J.) (Negeri Sembilan). Tunku Shahabuddin was the 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. In 2002, 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.

## **Y Bhg Dato' Abas Carl Gunnar Bin Abdullah**

*Non-Independent Executive Deputy Chairman*

Y Bhg Dato' Abas Carl Gunnar Abdullah, age 54, is a Norwegian and has been a Non-Independent Non-Executive Director of Axis REIT Managers Berhad since 15 March 2005. On 18 September 2007, he was redesignated as Non-Independent 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.

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 Committees of the Board of the Manager. He is also a director of a number of private companies which are involved in property development and property investment and has been the director of Axis Development Sdn Bhd (ADSB) since 1999.

## **Y Bhg Dato' George Stewart LaBrooy**

*Chief Executive Officer/Executive Director*

Y Bhg Dato' George Stewart LaBrooy, age 62, 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 as Chief Operating Officer/Executive Director. On 5 August 2008, he was redesignated as 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. 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 Axis Development Sdn Bhd) in 1995. During this period he managed two of the Group's build and lease projects and set up the property management division in ADSB. He also 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. In addition to his duties as CEO, he oversees the acquisition strategy of Axis-REIT, the investor relations, and public relations and is a member of the Executive Committee.

He is a Board member of the Asia Pacific Real Estate Association (APREA), an organization that represents and promotes the real estate asset class in the Asia Pacific region. It is the industry body for the suppliers and users of capital in the real estate sector. He is also Chairman of the Malaysian REIT Managers Association (MRMA), an organization he helped set up in 2010 to give the Malaysian REIT Managers a single voice in engaging with the Regulators and Ministry of Finance in proposing changes to the industry to promote its growth.

On 11 December 2012, he was conferred the Darjah Kebesaran Dato' – Sultan Sharafuddin Idris Shah (D.S.I.S), which carries the title Dato' by Duli Yang Maha Mulia Sultan Selangor in conjunction with His Royal Highness's 67th birthday. He is a prominent speaker on the subject of conventional and Islamic REITs in the region, having been invited to deliver papers in Singapore, Hong Kong, Istanbul, New York, London, Saudi Arabia, Philippines and Malaysia. He is also invited by various local publications and newspapers to contribute articles on the subject of REITs and industrial development.

Dato' Stewart LaBrooy is a director of a number of private companies involved in property advisory, property development and property investment.

## **Stephen Tew Peng Hwee**

*Non-Independent Non-Executive Director*

Stephen Tew Peng Hwee, age 52 and a Malaysian, is a Non-Independent Non-Executive Director of Axis REIT Managers Berhad. He was appointed to the Board on 25 October 2004.

Stephen 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 member on the Board of Valuers, Appraisers and Estate Agents from 1998 till 2004.

Together with other investors, he has, over the past 20 years, purpose-built many buildings for investment income 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. Stephen currently serves as a member of the Executive Committee and the Remuneration Committee of the Board. He is also a director in a number of private, investment-holding companies.

# Directors' **PROFILE**

## **Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor**

*Independent Non-Executive Director*

Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor, age 45, a Malaysian, has been an Independent Non-Executive Director of Axis REIT Managers Berhad since 20 November 2006. He is also the Chairman of the Remuneration Committee and a member of the Nomination Committee.

Better known as Datuk Seri FD Iskandar, he is the Group Managing Director/ CEO of Glomac Berhad, a main board property company listed on Bursa Malaysia since June 2000.

Datuk Seri FD Iskandar attended the Malay College Kuala Kangsar, obtained a law degree from the University of Queensland, Australia, and went on to obtain his Masters in Business Administration.

He practised 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 subsequently moved up the corporate ladder. In February 1997, he was appointed to the Board of Glomac Berhad.

Apart from sitting on the boards of several private limited companies, Datuk Seri FD Iskandar is also the Deputy Chairman of Media Prima Berhad, the largest incorporated media company in South-East Asia which includes all 4 private TV stations in Malaysia, radio stations, print media, news media, an outdoor advertising agency and many more. He is a Director of New Straits Times Press Berhad, the publisher of 3 main newspapers and a string of magazines. The New Straits Times newspaper is one of the most established in Asia and has been published for more than 160 years. Datuk Seri FD Iskandar is a Board Member of Axis REIT Managers Berhad, the first REIT company to be listed on Bursa Malaysia. Recently, he was appointed as a Director of Telekom Malaysia Berhad, Malaysia's broadband champion and leading integrated information and communications group.

He is currently the Deputy President of the Real Estate & Housing Developers' Association (REHDA) Malaysia and immediate past chairman of the REHDA Selangor Branch. He is now the Deputy Chairman of the Malaysian Australian Business Council (MABC), Chairman of the Selangor branch of the Gagasan Badan Ekonomi Melayu (GABEM), a body that promotes entrepreneurship among Malays in the country. He is the co-chair of the Special Taskforce to Facilitate Business Group (PEMUDAH) on Legal & Services and is also a Member of PEMUDAH Selangor Group. He was one of the founding directors of MPI, a partnership between Government and the private sector that was established to promote property investments and ownership to foreigners all around the world.

With more than 20 years of experience and involvement in the property development industry, his vast experience and expertise has made him a very well-known and respected figure among his peers locally as well as internationally. 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 experience, and over the years has given talks both locally and internationally on the property market in Malaysia. He was awarded the Malaysian Business Award in the Property Sector in 2012 and another award in 2013 from the Asean Business Council for Property Excellence. In mid-2013 he was also given the Entrepreneurship Award – Property & Real Estate by Asia Pacific Entrepreneurship, Malaysia.

## **Alvin Dim Lao**

*Non-Independent Non-Executive Director*

Alvin Dim Lao, age 42, a Filipino national, was appointed as a Non-Independent Non-Executive Director to the Board and a member of the Audit Committee of Axis REIT Managers Berhad on 30 December 2011.

He graduated with a degree in information technology and statistics from the University of Western Australia and holds a Masters in Business Administration from the Sloan School of Management at the Massachusetts Institute of Technology. Prior to being the Chief Financial Officer of D&L Group, he worked for the Singapore National Computer Board and was also subsequently seconded to the Supreme Court.

He is currently Chief Financial Officer and Executive Vice-President at D&L Industries Inc., and Chief Financial Officer at Chemrez Technologies Inc., which are listed companies on the Philippines Stock Exchange. Alvin is also a Chief Financial Officer at LBL Industries Inc. He is in charge of the financing, development and leasing of the property portfolio of LBL Industries. He also oversees currency hedging, investments, administrative, accounting, legal and human resources. He is part of the executive committee of all companies in the D&L Group.

He is a director of several private companies in Manila.

## **Mohd Sharif Bin Hj Yusof**

*Independent Non-Executive Director*

Mohd Sharif Bin Hj Yusof, age 74, a Malaysian, was appointed as an Independent Non-Executive Director to the Board of Axis REIT Managers Berhad on 10 August 2007. He is a member of the Audit Committee and Chairman of the Nomination Committee of Axis REIT Managers Berhad. He is also the Senior Independent Director.

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 the Selangor State Government (1967-1971) 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: Ireka Corporation Bhd, Atlan Holdings Berhad and AYS Ventures Berhad.

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

## **Leong Kit May**

*Chief Financial Officer/Executive Director*

Leong Kit May, 37, a Malaysian, was appointed to the Board of Directors of the Manager as Executive Director on 15 November 2011.

Leong Kit May joined Axis REIT Managers Berhad in 2006 and promoted to be the Chief Financial Officer of the Company on 5 August 2008. Kit May headed the project of converting Axis-REIT into the first Islamic Office/Industrial REIT of the world.

Kit May graduated with a Bachelor of Business (Accountancy) from RMIT University in Australia and is a member of Malaysian Institute of Accountants and Certified Practising Accountants of Australia.

She heads the Finance, Legal & Compliance, and Human Resource functions in the Company, which is the Manager of Axis Real Estate Investment Trust, responsible for areas in treasury, equity and capital management, financial reporting and compliance of the Fund and the Company, and human resource management. With her vast exposure in Islamic Finance and capital management, Kit May has been an invited speaker in related seminars and conferences.

In 2012, Kit May led the setting up of Axis-REIT's first Islamic Medium Term Notes ("Sukuk") issuance programme of RM300.0 million where 2 tranches of Sukuk of RM110.0 million and RM155.0 million in nominal value were successfully launched in 2012 and 2013 which carry maturity tenure of 5,7 and 10 years.

Prior to joining Axis REIT Managers Berhad, she was with the UOA Group of companies from 2001 to 2006, where she specialized in the property sector spanning from property development, construction and investment. In 2005, she was instrumental in the listing of UOA REIT. Preceding that she was with Ernst & Young where she gained her audit and accounting exposure.





# Manager's **REPORT**

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## Letter from the **CEO**

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years"

Warren Buffet



### **Dear Unitholders,**

I have always been a big fan of Warren Buffet and his approach to value investing. He holds the principle of creating shareholder value as his core strategy in his approach to investing. The quote above is one of my favourites and ties well with the theme of this year's annual report – Unlocking Value – as we in Axis-REIT have always done what is right for our investors regardless of what direction the market takes.

Let me explain.

At the start of 2013 I had said that we would be looking at acquiring RM444 million worth of assets during the year. I must apologize that that did not materialize last year and it was not for want of trying. In the first half of 2013, Malaysian REITs (MREITs) had what must be one of their best performances to date. The market saw all the MREITs share prices hit new highs with the Axis-REIT unit price touching a high of RM4.02 on 21 May 2013. With the surge in the share prices in MREITs the yields they offered to investors fell to new lows, with some REITs offering yields even below 5%.

This yield compression led to the sellers we were negotiating to purchase assets from, to raise their asking prices. They were expecting that we would be happy to settle with the low yields that we were trading at which happened to be well below our internal targets.

Rather than risk the integrity of our portfolio and put our returns at risk, we decided to focus instead on controlling costs, capital management, negotiating better rent reversions and focusing on our asset enhancement initiatives (AEIs). So instead of buying new assets, we decided to concentrate on updating our portfolio until prices returned to normality which would be a signal us to return to the acquisition market.

Our core AEI project in 2013 was the turnaround of Wisma Bintang or Axis Business Campus (ABC) as it has since been rebranded. We spent time redesigning this 30-year-old asset and turning it into a contemporary modern design with the features that our clients were looking for. A picture of the transformation of this asset is featured in the inside front cover together with more details in the property report.

Our time has been well spent as ABC is now back on the market after a 1-year refurbishment and looks spectacular! We are optimistic that we will see rents 3 times what was being paid by the previous tenants.

In 2013, we also started planning work on Axis Business Park Block C with a task to refurbish this 15-year-old asset into a modern building with the latest features. Building work is planned to start in the first quarter (1Q) of 2014. Our third project under consideration is the proposed enhancement of the Wisma Academy Parcel and The Annex into a new building, purpose-built for clients wanting a specialist building to cater for their business requirements.

The other area I wish to discuss was the performance of our Unit price in 2013. 2013 was a very volatile year for the unit prices of all MREIT's. We saw our price rise from 3.13 sen at the start of the year to a high of 4.02 sen in May 2013, where our units were trading at a premium of 70% to our net asset value. The high liquidity of the market coupled with investors seeking yields saw the price of our units chased up to these record highs.

When the Federal Reserve announced the tapering of the third Quantitative Easing Program it signaled a flight of capital away from the Asian Markets and REITs were not spared the poor sentiment as investors took profit and exited the markets. All the gains in Axis-REIT's Unit price made for the year were lost as we ended the year below where we started.

We are now trading at the more traditional yield of 6.5%. However it has given us a new base to consolidate our operations at and to look into a new placement in 2014 with a view to growing our portfolio in a market that, thankfully, has adjusted to the more traditional yields that we are demanding for our acquisitions.

Despite a quiet year on the acquisition front, the Management team took the opportunity to focus on several areas that have enabled the Fund to improve its performance once again. Let me share with you some of the highlights of 2013.

## Highlights for 2013

### Financial performance

- Gross revenue grew 6% year-on-year (YoY) to RM141 million from RM133 million.
- Net Property Income (NPI) grew 7% YoY to RM121 million from RM113 million.
- DPU on core portfolio grew 7% YoY to 18.50 sen from 17.30 sen.
- Recognition of net revaluation gain of RM27.2 million. Axis-REIT's total assets stood at RM1.6 billion as at 31 December 2013.
- NAV per unit increased from RM2.17 to RM2.23.
- Gearing declined from 34.55% to 32.66% as at 31 December 2013.
- The stock was trading at a premium of 31.38% as of 31 December 2013.
- Unitholders' funds crossed the RM1 billion mark for the first time.

# Manager's **REPORT**

## Proactive capital management

- Axis-REIT's sources of funding were further diversified and the debt maturity profile lengthened through the issuance of a RM155 million 5 & 7-year Sukuk on 15 August 2013 at a fixed blended rate of 4.13% p.a. and 4.18% p.a. respectively.
- RAM Rating Services Berhad maintained our first Sukuk rating at AAA.
- Completed 2 very successful Income Distribution Reinvestment Plans (IDRPs) for Unitholders to convert their income distributions into Units with an average 85% take-up rate. It raised RM15.6 million.

## Disciplined value-adding enhancements

- Completed the enhancement of Wisma Bintang at a cost of RM23 million. Obtained building approval for an additional 60,000 sq ft block on the property.
- Commenced planning for a major upgrade of Axis Business Park Block C where work will commence in February 2014.
- In the process of completing designs for the Wisma Academy Annex for submission to the local authorities.

## Proactive portfolio management

- Strategic review of portfolio resulting in the signing of Sale and Purchase Agreement for the disposal of Axis Plaza in December 2013 for RM34 million and making a gain of approximately RM11 million which will translate to a special tax-free income distribution of 2.37 sen per Unit to be paid out in the 2Q 2014.
- Achieved positive rental reversion of 8% over preceding contracted rental rates in FY2013.
- Portfolio occupancy of 94.87% as at 31 December 2013. This was with Wisma Bintang being unoccupied for refurbishment for the year.
- Completed the implementation of a new cloud-based property and accounting software, Yardi Voyager, for the daily operations of the Fund. The system is Goods Service Tax (GST) compliant.

## Accolades and compliance

- Axis-REIT was the winner of the Asia Pacific Real Estate Association's Best Practices Award in the Emerging Markets Category for the fourth year running.
- The Manager received its Fund Managers licence for the Securities Commission in compliance with the latest rules under the Capital Markets and Services Act (CMSA).

The coming year will have its challenges – we as a nation are faced with rising costs from increases in electricity, transport and essential items as subsidies are removed. The introduction of GST in 2015, the new Personal Data Protection Act (PDPA) that is currently in effect have placed an additional layer of compliance on our operations but I am glad to report that we are all well prepared to meet these challenges and remain committed to delivering on all our commitments for the coming year.

On behalf of the Manager I am pleased to submit our report and audited financial statements to the Unitholders of Axis Real Estate Investment Trust (Axis-REIT) for the year ended 31 December 2013.

Sincerely

**Dato' George Stewart LaBrooy**

Chief Executive Officer/ Executive Director

## About Axis-REIT

Axis-REIT is a real estate investment trust constituted by the Deed and principally regulated by Securities Laws (as defined in section 2(1) of the Securities Commission Act), the SC's guidelines on REITs, the listing requirements of Bursa Securities, the rules of the repository and taxation laws and rulings (collectively Applicable Laws and Requirements).

The Deed was entered into on 15 June 2005 between Axis REIT Managers, as the Manager of Axis-REIT, and OSK Trustees Berhad (now known as RHB Trustees Berhad), as the Trustee of Axis-REIT, and the Deed was registered and lodged with the SC on 16 June 2005. Following the successful reclassification of Axis-REIT into an Islamic REIT on 11 December 2008, the Manager and the Trustee entered into an amended and restated Deed dated 3 April 2009, which was modified and streamlined to comply with the SC's guidelines on Islamic REITs. The Deed was subsequently supplemented by a Supplemental Deed dated 15 December 2011. On 28 November 2013, the Manager and the Trustee entered into a Third Principal Deed to consolidate all the previous amendments as well as to incorporate the latest provisions in the SC's Guidelines on REITs (updated on 28 December 2012) as well as the listing requirements of Bursa Malaysia Securities Berhad, as updated on 15 November 2013.

The duration of Axis-REIT shall be the earlier of the occurrence of any circumstance as stated in the Deed or 999 years from the establishment of Axis-REIT.

Axis-REIT was formed to own and invest primarily in commercial, office and office/industrial real estate. The primary objectives of the Fund are:

- (a) To provide Unitholders with a stable and growing distribution of income; and
- (b) To achieve long-term growth in the net asset value (NAV) per Unit of the Fund.

### Our competitive advantage

Since Axis-REIT was listed on Bursa Securities on 3 August 2005, the Manager has provided our Unitholders with consistently rising income distributions and a strong Unit price performance. This momentum has been built on a well-defined strategy with a strong focus on innovation and transparency.

Our strength lies with our Management Team who work on the principle of:

**OWN  
+  
MANAGE  
+  
MAINTAIN  
+  
ENHANCE**

We have taken the route of managing the Fund's assets in-house with a team dedicated to a culture of comprehensive financial and capital management, business development, investor relations, asset enhancement initiatives and facilities management, leasing and project management. Over the past three years, we have grown our facilities team and recruited new staff to position us as a world class property manager.

Our focus is on revenue management where we manage our vacancies and rental rates; expense management where we manage building efficiency, energy footprint and third party suppliers; facilities management where we manage the maintenance and site staff of the buildings in our portfolio; tenant care where we manage tenant retention and satisfaction; and lastly project management where we manage all the enhancement projects in the portfolio. This focus has enabled us to increase the Fund's return from our organic growth.

This growth in the portfolio further enhances the income distribution to Unitholders and provides renewed buildings in the property portfolio. The performance for 2013 clearly demonstrates this commitment of the Manager to continue to deliver a superior performance for the Fund.

### Stability

Axis-REIT is the largest Office/Industrial REIT listed on Bursa Securities with 5,464,124 sq ft of space under management spread over 31 properties and 5 asset classes. Our assets remain well located, our tenants are of high quality and are well diversified in terms of origin and businesses. The portfolio has a Weighted Average Lease Expiry (WALE) of 3.99 years (based on revenue), underscoring the low risk of the Fund. We remain a market leader in our sector and have maintained its growth platform for the benefit of all Unitholders.

# Manager's **REPORT**

These were achieved because of the Manager's six core principles of management:

- Prudent capital and risk management;
- Yield accretive asset purchases;
- Excellent investor and media relations;
- High level of corporate governance;
- Proactive asset and tenant management; and
- Development of human capital.

As Malaysia's only Islamic Office/Industrial REIT, we have a very diverse base of investors, most of whom are local institutional and Shariah-compliant funds. Our low foreign participation lends itself to a much more stable and less volatile price performance.

## **Market leadership**

The Manager is proud of its leadership in the following areas:

- Continued and increasing annual income distributions and strong total returns to Unitholders;
- The formation of the Malaysian REIT Managers Association (MRMA), which it initiated, and today boasts 16 members, of which 15 are MREITs managers. Axis-REIT's CEO, Dato' Stewart LaBrooy, was elected Chairman for a third year running;
- Maintaining a very comprehensive and up-to-date website;
- Being the only MREIT to have successfully introduced the innovative Income Distribution Reinvestment Plan (IDRP) for Unitholders' benefit.
- Displaying leadership in corporate governance in winning the Asia Pacific Real Estate Association (APREA) Best Practices Award for the fourth year running;
- Serving on the Executive Board of APREA and participating in their committees and regional events.

## **Our strategic direction**

Axis-REIT celebrated its 8th anniversary on 3 August 2013. Since its formation, we have successfully grown its size and profitability. In order to have a clear direction, we continue to keep the Fund guided by an articulate strategy plan. We feel it absolutely essential that we have to be aware that, given current volatility in the capital markets, we need to be vigilant and be able to anticipate and respond quickly to changes in our markets.

The Management team met in July 2013 year for a 1-day session to review the plan we had formulated in 2012 and make adjustments to accommodate our 5-year goal.

Our Vision and Mission statement remains unchanged:

### **Mission**

To provide consistent distributions to Unitholders through growing the property portfolio, displaying the highest level of corporate governance, excellent capital and risk management, and preserving capital values.

### **Vision**

To successfully benchmark Axis-REIT against the world's most successful REITs in total return to Unitholders and be REIT of choice for Shariah and non-Shariah Investors.

This is how we will achieve this:

### **Define our sector focus**

- The focus will be on properties that house Shariah-compliant business;
- Preference for logistics facilities with long leases from grade A tenants;
- The primary location focus will continue to be Petaling Jaya and Klang Valley, Johor and Penang;
- Examining the possible conversion of our commercial assets to become Multimedia Super Corridor (MSC)-compliant buildings where applicable;
- Looking at the redevelopment potential of our assets in Petaling Jaya;
- Enhancing our buildings to include a Green agenda as a way of attracting premiums.

### **Create new deal flows**

- Establishment of the Origination Department to drive new private equity projects to provide the REIT with a pipeline of properties;
- Continuing work with the SC through the MRMA to enable MREITs to undertake development projects – this is under consideration;
- Retail warehousing;
- Commercial properties with long leaseback terms;
- Focussing on the Iskandar Region in Johor, Batu Kawan In Penang and fringe Klang Valley as the new growth industrial corridors.

### Refreshing the portfolio by having a disposal strategy for mature or underperforming assets

Apart from continuing to grow the fund and the property portfolio, the Manager believes that Unitholders should benefit from capital gains from the portfolio from time to time. As the Fund's portfolio grows larger, the Fund has the flexibility to review the portfolio and dispose those properties that have matured in their capability for organic growth, or are consistently underperforming. One criteria for disposal is that these assets must have achieved a significant capital gain. While the gain on disposal is distributed back to Unitholders, the investment cost recovered can be redeployed in new properties with higher growth potential.

The capital gains are distributed to Unitholders as an added bonus, greatly enhancing their returns and ensuring a refreshed portfolio that is consistently out-performing the markets.

### Capital management

- Continuing with a new Sukuk Programme in 2014 to further reduce the percentage of short-term financing in our debt profile;
- Continuing to maintain an optimum mix of long- and short-term financing funding;
- Targeting an average cost of funds at 4.5% p.a.;
- Continuing to use the model of raising equity to pare down financing and leveraging up for future acquisitions;
- Gearing will be maintained at 35%;
- Stress testing the cash flow in an environment of rising interest rates;
- Monitoring the capital markets – keeping close contact with our financiers;
- Eliminating bad debt through efficient collection of rentals.

### Raise capital and grow the Fund

- For Related Party Transactions (RPT), examining the possibility of exchanging assets for Units in lieu of payment to maintain their equity in the Fund at levels that provide comfort to investors that there is an alignment of interest;
- Requesting faster rights issues programmes for MREITs taking a cue from Singapore;
- Leveraging on our Islamic credentials to attract foreign Islamic capital.

### Corporate governance

- Working with our internal auditors to continuously benchmark our management practices against the revised Corporate Code of Governance and the APREA Best Practices Handbook;

- Being transparent in all our dealings with our stakeholders;
- Continuously educating the Board to ensure that they have the requisite skill sets in a rapidly evolving and sophisticated capital market.

### Risk management

- Focussing on addressing the issues raised in the Risk Register and ensuring that action is taken to resolve all issues to minimize risk.

### Excellence in lease and facilities management

- Filling vacancies will be a core priority for the Manager;
- Focussing on retention of tenants is critical to our success;
- Continuing to reposition our properties through timely upgrades and redesign to qualify for stronger rents and higher valuations;
- Embracing new IT technologies to enhance service delivery and cost control;
- Developing human capital which will be a cornerstone of our success;
- Embracing sustainability programmes in our buildings in order to reduce our carbon footprint.

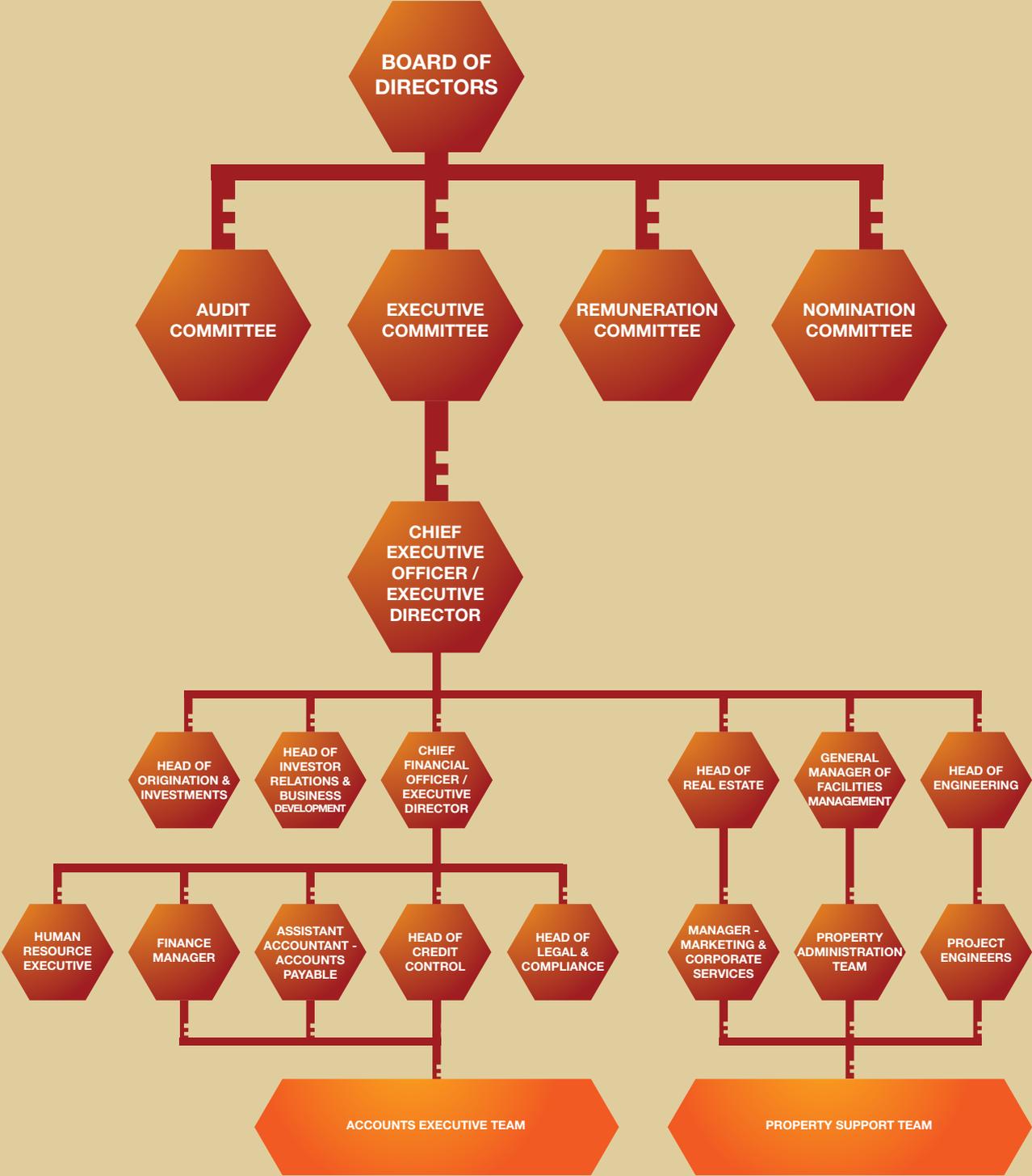
### Development of human capital

- Investing heavily in the training of the Manager's workforce at all levels – it is recognized that developing workforce skills is important;
- Ensuring effective recruitment so that the Manager has the necessary resources to continue to perform;
- Looking to attract the best and brightest when recruiting for new positions;
- Productivity of all members of staff is a key metric that we benchmark our performance as a Manager.

### Sustainability

- Implementing a strategy for sustainability in all building projects;
- Adopting the recommendations contained in the APREA sustainability handbook;
- Focussing on reduction of the carbon footprint in all our assets through energy conservation initiatives.

# Axis REIT Managers Berhad's **COMPANY STRUCTURE**



# The Axis-REIT **TEAM PROFILES**



**Y Bhg Dato' George Stewart LaBrooy**  
Chief Executive Officer/ Executive Director

Dato' Stewart LaBrooy 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.

Dato' 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.

He is the Vice-President on the Executive Board of the Asian Public Real Estate Association (APREA) and is the Chairman of the Malaysian REIT Managers Association (MRMA).



**Leong Kit May**  
Chief Financial Officer/ Executive Director

Leong Kit May, heads the finance, legal and compliance, and human resource functions of Axis Real Estate Investment Trust, responsible for areas in treasury, equity and capital management, financial reporting and compliance. With her vast exposure in Islamic Finance and capital management, Kit May has been an invited speaker in related seminars and conferences.

In 2012, Kit May led the setting up of Axis-REIT's first Islamic Medium Term Notes (Sukuk) issuance programme of RM300 million where 2 tranches of Sukuk of RM110 million and RM155 million in nominal value, which carry maturity tenure of 5,7 and 10 years, were successfully launched in 2012 and 2013.

Prior to joining Axis REIT Managers Berhad, she was with the UOA Group of companies from 2001 to 2006, where she specialized in the property sector spanning from property development, construction and investment. In 2005, she was instrumental in the listing of UOA REIT. Preceding that she was with Ernst & Young where she gained her audit and accounting exposure.

# The Axis-REIT **TEAM PROFILES**



## **Chan Wai Leo**

Head of Origination and Investments

Chan Wai Leo currently heads the development of pipeline assets for the group. Previously, he was the Head of Business Development and Investor Relations. As Head of Business Development, he was in charge of acquisition origination (which involved identification, structuring, negotiating and closing of transactions) and capital raising for the Fund. Together with Kit May, he has executed various successful equity raisings for the Fund. As head of investor relations, he kept an open channel of communication with all stakeholders and the investment community ensuring that they are kept well informed on the developments in the Fund.

Prior to joining the Manager, he was the Senior Finance Manager of Axis Development Sdn Bhd, the private equity arm of the Promoters (of Axis-REIT), which were principally involved in property investments and the holding company of the Manager. He is a Fellow Member of The Association of Chartered Certified Accountants (ACCA), UK, and a member of the Malaysian Institute of Accountants. In 2006, he was with Citibank Malaysia as Assistant Vice-President, Financial Control. Prior to that, he was with the Pacific Star Group, a Singapore-based real estate investment company, as the Group Accountant. He was responsible for all aspects of the finance functions of the Group which includes management reporting, cash flow management and budgeting. Leo started his career with Arthur Andersen, Assurance Division, handling statutory audits and profit forecasts. Subsequently, he was with the Transaction Advisory Division where he was involved in the execution of financial advisory assignments which include valuations, corporate debt restructuring and privatization concept papers.



## **Jackie Law**

Head of Real Estate

Jackie Law is the Head of Real Estate of Axis REIT Managers Berhad. She is responsible for Axis-REIT portfolio's asset management strategies and operations which include leasing, marketing, evaluating potential acquisitions, as well as recommending and analyzing potential asset enhancement initiatives for the portfolio.

In addition, she oversees the property management aspects in the delivery of tenant care and services and has the responsibility to maximize tenant retention, loyalty and satisfaction.

Jackie has extensive experience in various aspects of real estate management and operations spanning marketing, lease management, project management and facilities management. She has served in several administrative roles in the Axis Group since 1994. She holds a Master of Science in Facilities Management from Heriot-Watt University, United Kingdom, and a Certificate in Real Estate Investment and Finance from APREA.



### **Stephanie Ping**

Head of Investor Relations and Business Development

Stephanie Ping was appointed Head of Business Development and Investor Relations on 18 April 2011. Her roles include asset acquisition, investor relations and working with the Manager's Chief Finance Officer, Leong Kit May, on capital raising initiatives for the Fund.

On the asset acquisition side, Stephanie covers the identification and evaluation of opportunities, deal negotiations and the closing of transactions. Her role in investor relations includes liaising with current and potential investors, fund managers and equity analysts to enable open communications with the investing community.

Stephanie graduated summa cum laude from Stanford University with a Bachelor of Arts in Economics and a minor in Mathematics. She went on to enrol in the Stanford University School of Engineering and received her Master of Science in Management Science and Engineering. Upon graduation, she was elected a Phi Beta Kappa member. She later joined United Airlines, Inc., as a Senior Executive Business Analyst in Chicago before becoming a Product Manager at Enova Financial, where she managed the launch of technology-based credit and lending products.

Stephanie has also worked at SEVEN Inc., a Silicon Valley technology company specializing in smart phone application development. Prior to that, she spent a summer interning at JP Morgan Chase's Tokyo office in their equities research department.



### **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. 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 the Head of Real Estate on tenant leasing and care, and with the CEO on valuation matters regarding existing and new properties.

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 23 years where she was an Executive Director.

# The Axis-REIT **TEAM PROFILES**



## **Siva Shankar**

General Manager of Facilities Management

Siva Shankar is the General Manager of Axis Facilities Management Sdn Bhd.

He is responsible for heading the Facilities Management division which manages a range of Axis-REIT portfolio facilities across the country by providing strategic, tactical and operational support activities that will ensure the division operates at optimum efficiency and effectiveness.

Siva has 18 years of working experience in real estate professional services in Malaysia and abroad. Prior joining Axis-REIT, he worked for Jones Lang Wootton and Brunei Investment Arm (BIA), among others. His experience covers all aspect of property and facilities management, project management and property consultancy.

Siva Shankar holds a Bachelor of Business Administration degree, majoring in Real Estate Management and is also a Certified International Project Manager (CIPM).



## **Nikki Ng**

Head of Credit Control

Nikki Ng was appointed as the Accountant on 15 September 2008. She was promoted as Head of Credit Control of Axis REIT Managers Berhad on 1 June 2012 where her responsibilities involve overseeing the accounting department, which includes the management reporting as well as budgeting processes. She also oversees credit control procedures, and develops and implement enhancement. She works closely with the Chief Financial Officer in matters related to corporate finance, regulatory compliance and also the treasury functions to manage the liquidity of the Fund.

Before joining Axis REIT Managers Berhad, she was the Finance Manager of Paxelent Corporation Berhad where, from 2004, she was involved in financial management and corporate planning. Previous to that, she was with IGB Corporation Berhad where she has served for 6 years.

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



### **Francesca Chong**

Finance Manager

Francesca joined Axis REIT Managers Berhad as Finance Manager in November 2013. Her responsibilities include the preparation of monthly and statutory financial statements, and she works closely with the Chief Financial Officer on matters related to corporate finance and regulatory compliance.

After her graduation from Kolej Tunku Abdul Rahman, she worked with BDO Binder for almost 6 years, where she gained experience in auditing. She then joined Kumpulan Jetson Berhad and Pelikan International Corporation Berhad as Group Accountant responsible for group and statutory reporting and compliance. While at Pelikan International Corporation Berhad, she was seconded to the German office for about 2 years where she was involved in projects such as transfer pricing, inventories and sales analysis and group reporting.

She holds a Master of Business Administration in Financial Studies from University of Nottingham in Malaysia and is a Fellow member of the Association of Chartered Certified Accountants (ACCA), United Kingdom.



### **Abdul Aziz Abdul Rasheed**

Head of Engineering

Abdul Aziz joined Axis Facilities Management Sdn. Bhd. in May 2013 as Facilities Maintenance and Special Projects Manager. His responsibilities include undertaking asset enhancement initiatives for all properties under the Axis REIT portfolio. This includes refurbishments, major repairs, façade enhancements, energy efficiency management and modernization of equipment. In addition, he is responsible for technical due diligence on potential asset acquisitions.

He has over 14 years' experience in project management, overseas and in Malaysia. Before joining Axis REIT, Abdul Aziz was in the broadcast and communications industry, followed by work in satellite engineering and aviation. He has wide experience in first point of sales, contract management, project execution, vendor management, conflict resolution, tender preparation and business development activities.

Abdul Aziz received his first degree in electrical and electronic engineering from the University of Hertfordshire, UK. He also holds an MBA from the Imperial Business School, London.

# The Axis-REIT **TEAM PROFILES**



## **Pauline Tan**

Head of Legal and Compliance

Pauline Tan is the Head of Legal and Compliance of Axis REIT Managers Berhad. She is also the Risk Management Officer. Her roles include key areas relating to compliance of the Fund, corporate governance and risk management.

She holds a Bachelor of Laws (Honours) degree from the University of Wolverhampton, United Kingdom, and a Certificate in Legal Practice from the Legal Profession Qualifying Board, Malaysia.

Pauline was called to the Malaysian Bar and admitted as an Advocate and Solicitor of the High Court of Malaya and subsequently gained extensive legal experience in commercial, corporate, litigation, conveyancing and banking areas.

Prior to joining Axis REIT Managers Berhad, Pauline headed the legal and compliance division of Pavilion REIT Management Sdn Bhd for Pavilion REIT. Before that, she was the Vice-President of OSK Trustees Berhad, where she was instrumental in the listing of Sunway REIT and was responsible for the daily operations of corporate trustee services for Axis REIT, UOA REIT and Sunway REIT. She has also been group legal affairs manager in a multinational group of companies involved in retailing, hotels, food and confectionery, financial services, stockbroking, properties and travel and tourism, and has worked in the airline industry.



## **Stacy Cheng**

Assistant Accountant

Stacy was appointed Assistant Accountant on 1 November 2012. Her responsibilities include overseeing the accounts payable procedures and working closely with the Finance Manager on preparation of financial statements and property performance analysis.

Before joining Axis REIT Managers Berhad, she was attached to ServTouch-Wywy (Malaysia) Sdn Bhd and Tenaga Setia Resources Sdn Bhd (a subsidiary of Aapico Hitech Public Company Limited) for 6 years.

She is a graduate of Raffles Education Group, Olympia College, with an Advanced Diploma in Accounting (Institute of Financial Accountants) and she is a member of The Association of Chartered Certified Accountants (ACCA).



**Lalitha Anandarajah**

Manager, Marketing & Corporate Services

Lalitha Anandarajah joined Axis REIT Managers Berhad in May 2013 as the Manager - Marketing and Corporate Services. Her role includes leasing the available spaces within the portfolio, managing tenant relationships and covering all aspects of marketing for Axis-REIT.

Prior to joining the Manager, she worked in the investment promotions team at Malaysia Property Incorporated, an agency under the Economic Planning Unit tasked with promoting Malaysia internationally as a real estate investment destination. She began her real estate career with ZerIn Properties, covering research and commercial leasing.

Lalitha graduated from the University of Queensland as a Bachelor of Business Management, majoring in International Business and has a Certificate in Real Estate Investment Finance from the Asia Pacific Real Estate Association (APREA).



**Rebecca Leong**

External Company Secretary from  
Archer Corporate Services Sdn Bhd

Rebecca Leong is the External Company Secretary of Axis REIT Managers Berhad appointed on 20 April 2006. She handles the corporate secretarial works of Axis REIT Managers Berhad and advises the Board and the senior management on compliance issues applicable to the Manager as well as Axis-REIT.

She is an Associate Member of The Malaysian Institute of Chartered Secretaries and Administrators.

# The Finance **TEAM**



**left to right** : Yvonne Chua, A. Sri Malathi, How Ai Leng, Raymond Kong, Stacy Cheng, Francesca Chong, Leong Kit May, Cheong Souk Chin, Nikki Ng, Tee Mei Pin, Pauline Tan, Wong Huey Ching



# Financial **REVIEW**



**Leong Kit May**

Chief Financial Officer/ Executive Director

In financial year 2013, Axis-REIT once again marked another successful year for its core portfolio performance delivering a DPU of 18.50 sen to Unitholders.

### A record performance of the fund's core portfolio of properties

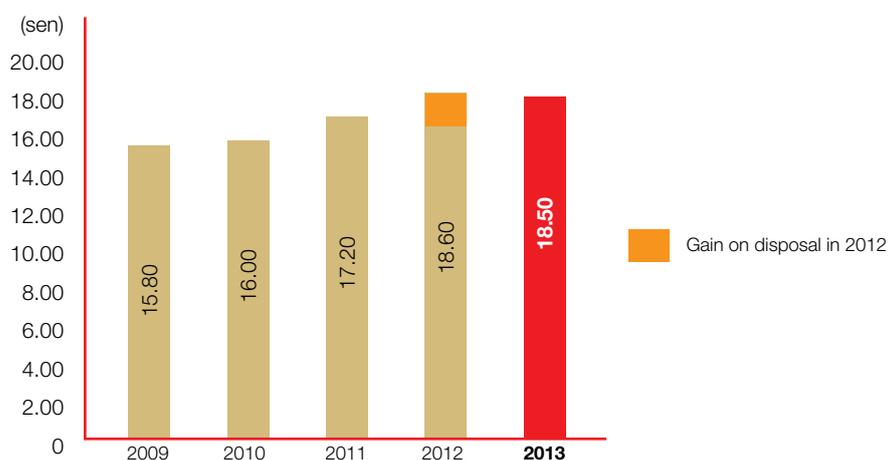
The core portfolio of properties has shown a significant increase in income for 2013 which is shown in its realised income before taxation. The realised net income and DPU on core portfolio performance increased by 7% to RM84,527,000 and 18.50 sen respectively.

	2009 (RM'000)	2010 (RM'000)	2011 (RM'000)	2012 (RM'000)	2013 (RM'000)
Total realised net income before taxation (on core portfolio performance)	42,878	52,598	65,090	78,638	<b>84,527</b>
DPU (on core portfolio performance)	15.80 sen	16.00 sen	17.20 sen	17.30 sen	<b>18.50 sen</b>
(Loss)/Gain from disposal and realization of revaluation gain on disposal	-	-	(258)	1,012	-
Total realised net income taxation	42,878	52,598	64,832	79,650	<b>84,527</b>
DPU for the year	15.80 sen	16.00 sen	17.20 sen	18.60 sen	<b>18.50 sen</b>

In 2012, Axis-REIT had completed the disposal of Kayangan Depot which the Fund had recognised an one-off gain on disposal of RM5,930,000; translated into additional DPU of 1.30 sen to the final 2012 income distribution which, coupled with the DPU on core portfolio performance of 17.30 sen, resulted in a total DPU of 18.60 sen for year 2012.

Since its listing in 2005, Axis-REIT has continued to deliver increased DPU as demonstrated in the chart below:

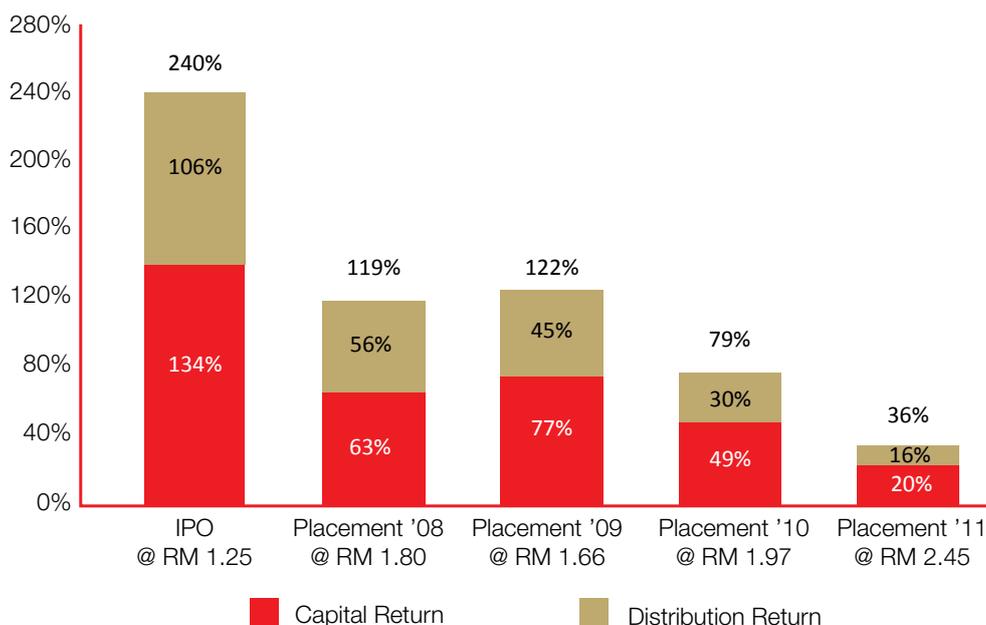
**Distribution Since Listing**



*Good returns on Unitholders' investment*

As at 31 December 2013, Axis-REIT's Unit in circulation had grown from 205,901,000 Units at the time of listing in 2005 to 461,239,089 Units. Although the liquidity and size of the Fund has greatly increased, the Manager has taken great care in ensuring this growth in Units is non-dilutive. Results have shown that we have provided Unitholders with steadily increasing income distributions and capital gains over the years. A Unitholder who invested in Axis-REIT's listing in 2005 would have todate realised a total return of 240%.

Similarly, Unitholders who have participated in our subsequent placements have gained as follows:



### Issuance of RM155 million Sukuk in 2013

Further to Axis-REIT's successful issuance of the RM110 million (10-years) Sukuk in 2012, the Fund successfully issued a Second Sukuk of RM155 million in nominal value pursuant to the Sukuk programme of up to RM300 million in August 2013. This Second Sukuk Issue of five-year and seven-year tenure has low financing rates of 4.13% p.a. and 4.18% p.a., respectively.

The Second Sukuk Issue consists of the following tranches:

Tranche	Nominal Value (RM million)	Rating*	Expected Maturity (no. of years from issuance date)	Legal Maturity (no. of years from issuance date)
1	70.0	AAA	7 years	9.5 years
2	60.0	AAA	5 years	7.5 years
3	15.0	AA1	5 years	7.5 years
4	5.0	AA2	5 years	7.5 years
5	5.0	AA3	5 years	7.5 years
<b>Total</b>	<b>155.0</b>			

\* Long-term ratings assigned by RAM Rating Services Berhad.

The proceeds from the Second Sukuk Issue was largely used to refinance the Fund's existing financing facilities. With this Second Sukuk Issue, Axis-REIT has successfully increased its weighted average debt maturity to 4.2 years matching the Fund's assets portfolio's weighted average lease expiry.

# Financial **REVIEW**

## **2013 IDRPs successfully implemented**

The application of an income distribution reinvestment plan (IDRP) in conjunction with the first and third interim distribution was successfully carried out in 2013, achieving a subscription rate of 90% and 79%, respectively. A total of 2,423,762 and 2,298,106 IDRPs Units were listed on 14 June 2013 and 16 December 2013, respectively.

The IDRPs were offered to Unitholders at an attractive price of RM3.40 and RM3.20 per Unit representing a 6.03% and 5.8% discount, respectively to the 5-days volume weighted average market price. Axis-REIT is the only one among the Malaysian REITs to provide the reinvestment option to Unitholders.

## **Computerization of property management and accounting platforms**

The Manager successfully implemented the Yardi Voyager system to integrate its asset management and accounting functions in the first quarter of 2013.

The new software operates on cloud technology and will greatly enhance the efficiency of financial and asset management. The new platform will also enable the Manager to continue to promote its sustainability agenda with minimal need to print material.

## **Disposal of Axis Plaza**

On 26 December 2013, the Trustees signed a Sales and Purchase Agreement for the disposal of Axis Plaza. For more details on the disposal of Axis Plaza, please refer to the Business Development Report.

Upon the disposal of Axis Plaza, the estimated gain on disposal of RM10,940,000 will be distributed to Unitholders in the 2014 income distribution by way of a tax exempt income. This gain translates into an additional DPU of 2.37 sen to the 2014 income distribution. The capital of RM22,662,000 will be redeployed into new future acquisitions.

Computation of the RM10,940,000 gain is as follows :

	<b>Actual gain on disposal available for distribution</b>	
	<b>RM</b>	
Disposal price	34,000,000	
Less : Incidental disposal cost	398,000	
Less : Book value of Axis Plaza prior to disposal	22,662,000	
Net gain on investment properties	<u>10,940,000</u>	
Translated into additional DPU		<b>2.37 sen per Unit</b>

## Summary Of Performance

	2009	2010	2011	2012	2013
Total Asset Value (RM'000)	907,745	1,208,897	1,298,431	1,589,408	<b>1,616,523</b>
Total Net Asset Value (RM'000)	565,650	755,230	944,097	989,705	<b>1,028,640</b>
Units in Circulation (Units)	307,081,200	375,901,000	453,814,096	456,517,221	<b>461,239,089</b>
<b>Net Asset Value per Unit (RM)</b>					
- As at 31 December	1.84	2.01	2.08	2.17	<b>2.23</b>
- Lowest NAV during the year	1.74	1.79	1.98	2.09	<b>2.14</b>
- Highest NAV during the year	1.84	2.01	2.08	2.17	<b>2.24</b>
Market Value per Unit (RM) as at 31 December	1.93	2.37	2.62	3.13	<b>2.93</b>
Highest Traded Price for the year (RM)	2.07	2.40	2.63	3.22	<b>4.02</b>
Lowest Traded Price for the year (RM)	1.08	1.92	2.30	2.62	<b>2.93</b>

## Summary Of Results

	2009	2010	2011	2012	2013
Total Gross Income (RM'000)	71,598	89,213	114,311	132,673	<b>141,314</b>
Unrealised Rental Income (RM'000)	-	-	3,415	3,568	<b>2,271</b>
Total Property Expenses (RM'000)	(11,661)	(12,961)	(17,359)	(20,125)	<b>(20,812)</b>
Net Rental Income (RM'000)	59,937	76,252	100,367	116,116	<b>122,773</b>
Interest/Profit Income (RM'000)	272	638	421	293	<b>667</b>
Changes in fair value of investment properties (RM'000)	19,098	45,593	16,013	24,064	<b>27,206</b>
Unbilled Lease Income Receivable (RM'000)	-	-	(3,415)	(3,568)	<b>(2,271)</b>
Net gain/(loss) on financial liabilities measured at amortised cost* (RM'000)	-	3,210	154	(598)	<b>(86)</b>
Net gain/(loss) on disposal of investment property*** (RM'000)	-	-	(258)	1,012	-
Fair value change on derivative liability	-	-	-	-	<b>(366)</b>
Total Trust Income (RM'000)	79,307	125,693	113,282	137,319	<b>147,923</b>
Total Non-Property Expenses (RM'000)	(17,331)	(24,292)	(32,283)	(34,203)	<b>(36,642)</b>
Total Net Income before taxation (RM'000)	61,976	101,401	80,999	103,116	<b>111,281</b>
Breakdown of Net Income after taxation:					
- Realised income after taxation (RM'000)	42,878	52,598	64,832	79,650	<b>84,527</b>
- Unrealised Income after taxation (RM'000)	19,098	48,751	16,219	23,466	<b>26,754</b>
Income available for distribution (RM'000)	43,160	52,777	65,906	84,972	<b>84,942</b>
Earnings per Unit (Realised + Unrealised) (sen)	22.81	30.95	21.26	22.68	<b>24.30</b>
Income Distribution (RM'000)	42,981	52,746	65,745	84,677	<b>84,903</b>
Distribution per Unit (DPU) (sen)	15.80	16.00	17.20	18.60	<b>18.50</b>
Distribution yield (based on closing market price) (%)	8.19	6.75	6.56	5.94	<b>6.31</b>
EPU yield (based on closing market price) (%)	11.82	13.06	8.11	7.25	<b>8.29</b>
MER (%)	1.22	1.14	1.16	1.12	<b>1.25</b>
<b>Annual total return** (%)</b>	84.14	35.86	18.66	26.56	<b>-0.5</b>
<b>Average total return (3 years) (%)</b>	31.76	34.34	46.22	27.03	<b>14.91</b>

\* Unrealised gain on discounted tenants' deposit received in compliance with Malaysian Financial Reporting Standard FRS 139.

\*\* Based on movement in Unit price and EPU yield.

\*\*\* The disposal of Kayangan Depot in 2012 is a gain of RM1,012,000 before the realisation of revaluation of the fair value gain of RM4,918,000.

# Financial **REVIEW**

## Increase in total gross income

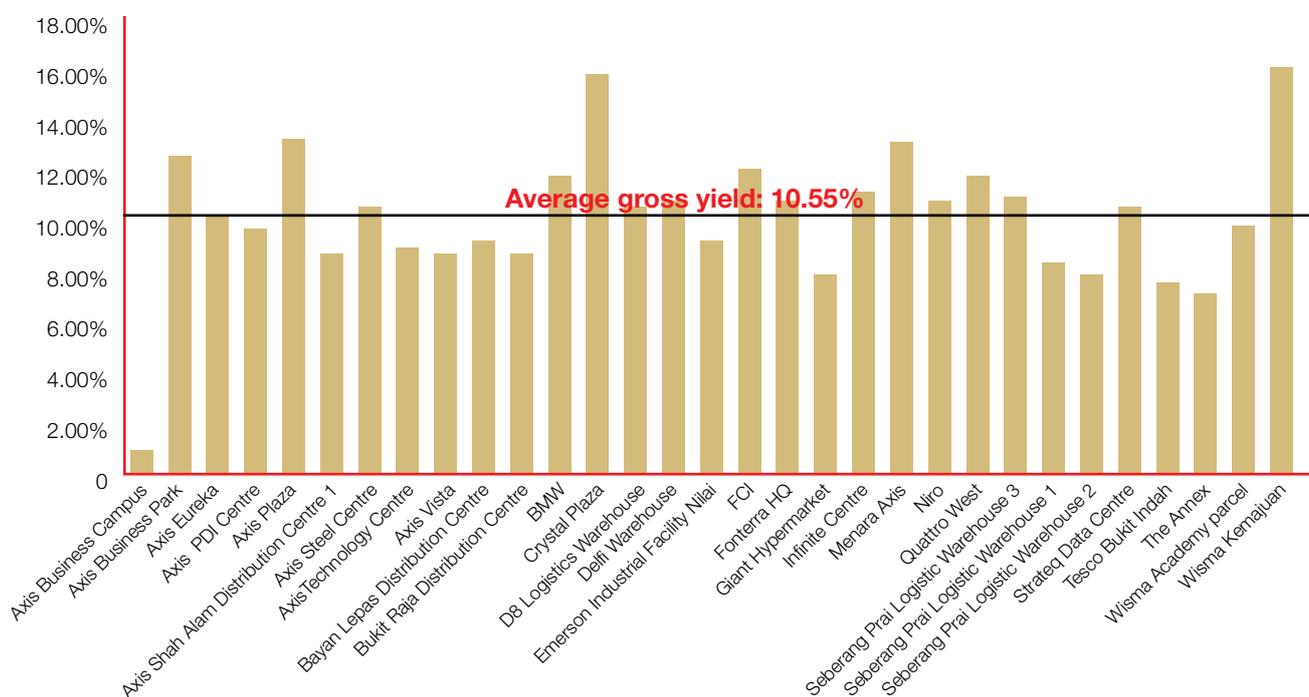
The number of properties during the year remained at 31 and Axis Business Campus was emptied on 1 July 2013 to facilitate its refurbishment into a contemporary modern business campus. Despite 1 property not generating rental for the half year, the Manager has continued to work the Fund's core portfolio in delivering 6.5% increase in gross income from RM132,673,000 in 2012 to RM141,314,000 in 2013.

In 2013, the increase in the total gross income comes mainly from the increase of RM6.6 million in rental income from the 8% rental reversion. Car park income has also increased by RM1.2 million from the revision on car park rates across the portfolio effective 1 August 2013.

The breakdown of total gross income is as follow:

	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Rental income	65,827	82,832	107,237	126,394	<b>133,008</b>
Car park income	2,946	3,272	4,139	4,284	<b>5,572</b>
Other income	2,825	3,109	2,935	1,995	<b>2,734</b>
	71,598	89,213	114,311	132,673	<b>141,314</b>
<b>No. of properties</b>	<b>21</b>	<b>26</b>	<b>27</b>	<b>31</b>	<b>31</b>

The average gross yield on the Fund's portfolio of properties increased to 10.55% in 2013.



### Careful management of property expenses

Notwithstanding the 6.5% increase in total gross income for 2013, the property expenses only increased by 3%. The breakdown is as below:

	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Assessment and quit rent	2,240	2,482	3,431	4,095	4,203
Property manager's fee and on-site personnel cost	2,415	2,721	3,705	4,872	5,531
Security	888	1,065	1,525	1,729	1,854
Takaful insurance	493	642	796	934	1,080
Maintenance and others	5,625	6,051	7,902	8,495	8,144
	11,661	12,961	17,359	20,125	20,812

Therefore the efficiency ratio has improved from 15.17% in 2012 to 14.73% in 2013.

On the concern about the potential increase in assessment for 2013, we are pleased to report that the Fund is unaffected as it has received notices of assessment on all its properties for 2014 and the cost remains unchanged.

### Increase in total gross income and net rental income

A summary of our gross income, property expenses and net rental income per property for the year 2013 is in the table below (excluding the unrealised rental income/unbilled lease income receivable):

Property Description	Gross Income RM	Property Expenses RM	Net Rental Income RM
Axis Plaza	3,096,809	779,971	2,316,838
Axis Business Park	11,505,932	2,103,327	9,402,605
Crystal Plaza	10,422,029	1,483,716	8,938,313
Menara Axis	11,224,071	2,018,876	9,205,195
Infinite Centre	3,719,150	786,035	2,933,115
Wisma Kemajuan	5,812,307	1,426,043	4,386,264
Axis Business Campus	535,659	265,431	270,228
Axis Shah Alam DC 1	1,722,334	198,087	1,524,247
Giant Hypermarket	3,441,364	293,953	3,147,411
FCI Senai	1,641,324	186,825	1,454,499
Fonterra HQ	1,175,839	112,374	1,063,465
Quattro West	5,935,784	1,290,645	4,645,139
Strateq Data Centre	4,629,927	329,748	4,300,179
Niro Warehouse	1,677,000	151,466	1,525,534
BMW Centre PTP	3,416,400	274,510	3,141,890
Delfi Warehouse	1,412,024	182,042	1,229,982
Axis Vista	2,992,042	433,749	2,558,293
Axis Steel Centre	7,068,122	605,467	6,462,655
Bukit Raja Distribution Centre	6,603,441	338,892	6,264,549
Seberang Prai Logistic Warehouse 1	1,569,737	94,798	1,474,939
Seberang Prai Logistic Warehouse 2	619,847	35,024	584,823
Tesco Bukit Indah	6,408,498	479,960	5,928,538
Axis PDI Centre	8,612,319	1,050,223	7,562,096
Axis Technology Centre	4,736,247	1,118,148	3,618,099
D8 Logistics Warehouse	3,284,760	222,791	3,061,969
Axis Eureka	5,515,615	1,801,203	3,714,412
Bayan Lepas Distribution Centre	4,641,522	562,300	4,079,222
Seberang Prai Logistic Warehouse 3	6,887,542	629,144	6,258,398
Emerson Industrial Facility Nilai	2,655,914	262,549	2,393,365
Wisma Academy Parcel	7,410,496	1,089,621	6,320,875
The Annex	939,532	205,191	734,341
<b>Total</b>	141,313,587	20,812,109	120,501,478

Net rental income rose by 7% from RM112,548,000 in 2012 to RM120,502,000 in 2013 resulting in an average net yield of 9.07%.

# Financial **REVIEW**

## Unrealised rental income/unbilled lease income receivable

This is the recognition of unrealised rental income on unbilled lease income receivable. This is pursuant to the requirements of Accounting Standard FRS117, which requires us to recognise income from operating leases on a straight-line basis, including contractual increases in rental rates over the fixed tenure of the agreements.

## Profit income

In 2013, we registered a profit income of RM667,000 from placement of funds under Islamic REPO.

## Changes in the fair value of investment properties

Based on valuations performed by independent registered valuers during the financial year, we are pleased to report that the portfolio registered an increase in the fair value of investment properties.

The summary of the changes in the fair value of all the investment properties during the year is as follows:

No	Property Description	NBV before Revaluation RM	Market Value* RM	Unrealised gain/(loss) RM
1	Axis Shah Alam DC 1	21,500,000	21,500,000	-
2	D8 Logistics Warehouse	31,600,000	32,000,000	400,000
3	Quattro West	53,173,000	53,600,000	427,000
4	Fonterra HQ	13,618,000	14,000,000	382,000
5	Axis PDI Centre	92,000,000	92,000,000	-
6	Axis Technology Centre	52,002,000	52,000,000	(2,000)
7	Bukit Raja Distribution Centre	90,049,000	90,000,000	(49,000)
8	BMW Centre PTP	29,058,000	29,500,000	442,000
9	Seberang Prai Logistic Warehouse 1	19,600,000	20,000,000	400,000
10	Seberang Prai Logistic Warehouse 2	7,700,000	8,000,000	300,000
11	Giant Hypermarket	39,600,000	40,000,000	400,000
12	Menara Axis	108,123,000	113,000,000	4,877,000
13	Infinite Centre	41,875,000	41,500,000	(375,000)
14	Axis Plaza	31,035,000	32,000,000	965,000
15	FCI Senai	15,000,000	15,900,000	900,000
16	Tesco Bukit Indah	87,000,000	90,000,000	3,000,000
17	Axis Business Park	109,479,000	112,000,000	2,521,000
18	Crystal Plaza	103,580,000	106,000,000	2,420,000
19	Strateq Data Centre	52,087,000	52,400,000	313,000
20	Niro Warehouse	16,213,000	17,000,000	787,000
21	Delfi Warehouse	14,049,000	14,500,000	451,000
22	Axis Eureka	54,172,000	54,500,000	328,000
23	Axis Steel Centre	75,610,000	75,800,000	190,000
24	Axis Vista	36,018,000	36,000,000	(18,000)
25	Bayan Lepas Distribution Centre	49,658,000	49,500,000	(158,000)
26	Emerson Industrial Facility Nilai	27,991,000	29,320,000	1,329,000
27	Seberang Prai Logistic Warehouse 3	63,318,000	63,000,000	(318,000)
28	The Annex	15,000,000	16,000,000	1,000,000
29	Wisma Academy Parcel	73,116,000	77,000,000	3,884,000
30	Wisma Kemajuan	55,828,000	56,890,000	1,062,000
31	Axis Business Campus	66,652,000	68,000,000	1,348,000
<b>Total</b>				<b>27,206,000</b>

\* Market value based on valuation conducted by independent registered valuers during the year.

The following table compares the market value per property on a per square foot (psf) basis against the total investment by the Fund on each property on a psf basis.

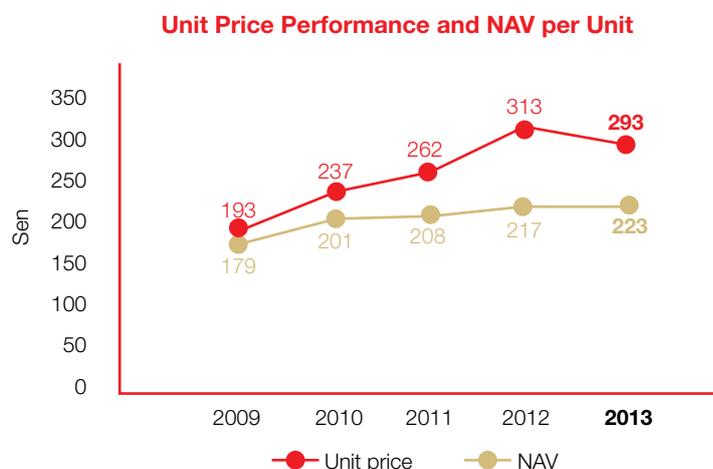
**Valuation analysis - market value / market value psf and total investment outlay / total investment outlay psf**

Property Description	Market Value RM	Market Value RM/psf	Total Investment Outlay (including enhancements) RM	Total Investment Outlay (including enhancements) RM/psf
Axis Shah Alam DC 1	21,500,000	195	19,627,000	178
D8 Logistics Warehouse	32,000,000	187	30,521,000	178
Quattro West	53,600,000	514	50,222,000	482
Fonterra HQ	14,000,000	386	10,871,000	299
Axis PDI Centre	92,000,000	1,586	86,327,000	1,488
Axis Technology Centre	52,000,000	305	50,131,000	294
Bukit Raja Distribution Centre	90,000,000	197	73,231,000	160
BMW Centre PTP	29,500,000	183	27,942,000	173
Seberang Prai Logistic Warehouse 1	20,000,000	189	17,695,000	167
Seberang Prai Logistic Warehouse 2	8,000,000	191	7,285,000	174
Giant Hypermarket	40,000,000	290	38,826,000	281
Menara Axis	113,000,000	618	78,308,000	428
Infinite Centre	41,500,000	289	33,582,000	234
Axis Plaza	32,000,000	272	22,662,000	193
FCI Senai	15,900,000	116	12,614,000	92
Tesco Bukit Indah	90,000,000	385	76,773,000	329
Axis Business Park	112,000,000	328	87,830,000	257
Crystal Plaza	106,000,000	517	64,281,000	313
Strateq Data Centre	52,400,000	500	42,604,000	406
Niro Warehouse	17,000,000	102	15,210,000	91
Delfi Warehouse	14,500,000	111	12,803,000	98
Axis Eureka	54,500,000	463	53,103,000	451
Axis Steel Centre	75,800,000	207	66,192,000	180
Axis Vista	36,000,000	305	33,267,000	282
Bayan Lepas Distribution Centre	49,500,000	241	49,756,000	243
Emerson Industrial Facility Nilai	29,320,000	101	27,196,000	93
Seberang Prai Logistic Warehouse 3	63,000,000	159	61,335,000	155
The Annex	16,000,000	352	12,289,000	271
Wisma Academy Parcel	77,000,000	329	74,385,000	317
Wisma Kemajuan	56,890,000	286	35,324,000	178
Axis Business Campus	68,000,000	393	52,817,000	305

This increase for 2013 amounted to RM27,206,000, contributing an increase of 6 sen to our NAV per Unit to RM2.23 as of 31 December 2013.

# Financial **REVIEW**

Unit price traded at a 31.38% premium to our NAV per Unit on 31 December 2013.



## Total non-property expenses

Details of total non-property expenses are as follows:

	2009 (RM'000)	2010 (RM'000)	2011 (RM'000)	2012 (RM'000)	2013 (RM'000)
Administrative and professional fees*	6,061	7,334	9,321	11,858	<b>12,835</b>
Bad debts (recovered)/written off	-	(108)	3	(97)	-
Impairment/(Reversal) losses of trade receivables	54	213	69	188	<b>(30)</b>
Financing/borrowing cost	739	-	-	-	-
Islamic financing cost	10,477	16,853	22,890	22,254	<b>23,837</b>
<b>Total non-property expenses</b>	<b>17,331</b>	<b>24,292</b>	<b>32,283</b>	<b>34,203</b>	<b>36,642</b>

\* Professional fees include Manager's fees, Trustee's fees, valuation fees, auditor's fees and tax fees.

## Administrative and professional fees

The 8% increase in administrative and professional fees for 2013 is due to the increase in Unitholders' expenses and the Manager's Fee during the year as a result of the increase in the NAV of Axis-REIT. The valuation cost increased in 2013 as 22 properties were subjected to a full comprehensive valuation in 2013 in compliance with Clause 10.03 of the SC's Guidelines on REITs, where each property needs to be subjected to a full comprehensive valuation once every 3 years.

## Impairment losses of trade receivables/bad debts recovered

There was no provision of doubtful debt in 2013 and the Fund had reversed RM30,000 of the previous year's doubtful debt. Collection improved in 2013, as total trade receivables were reduced by 63% on 31 December 2013 as compared to 31 December 2012 with overall collection period of 3 days in December 2013.

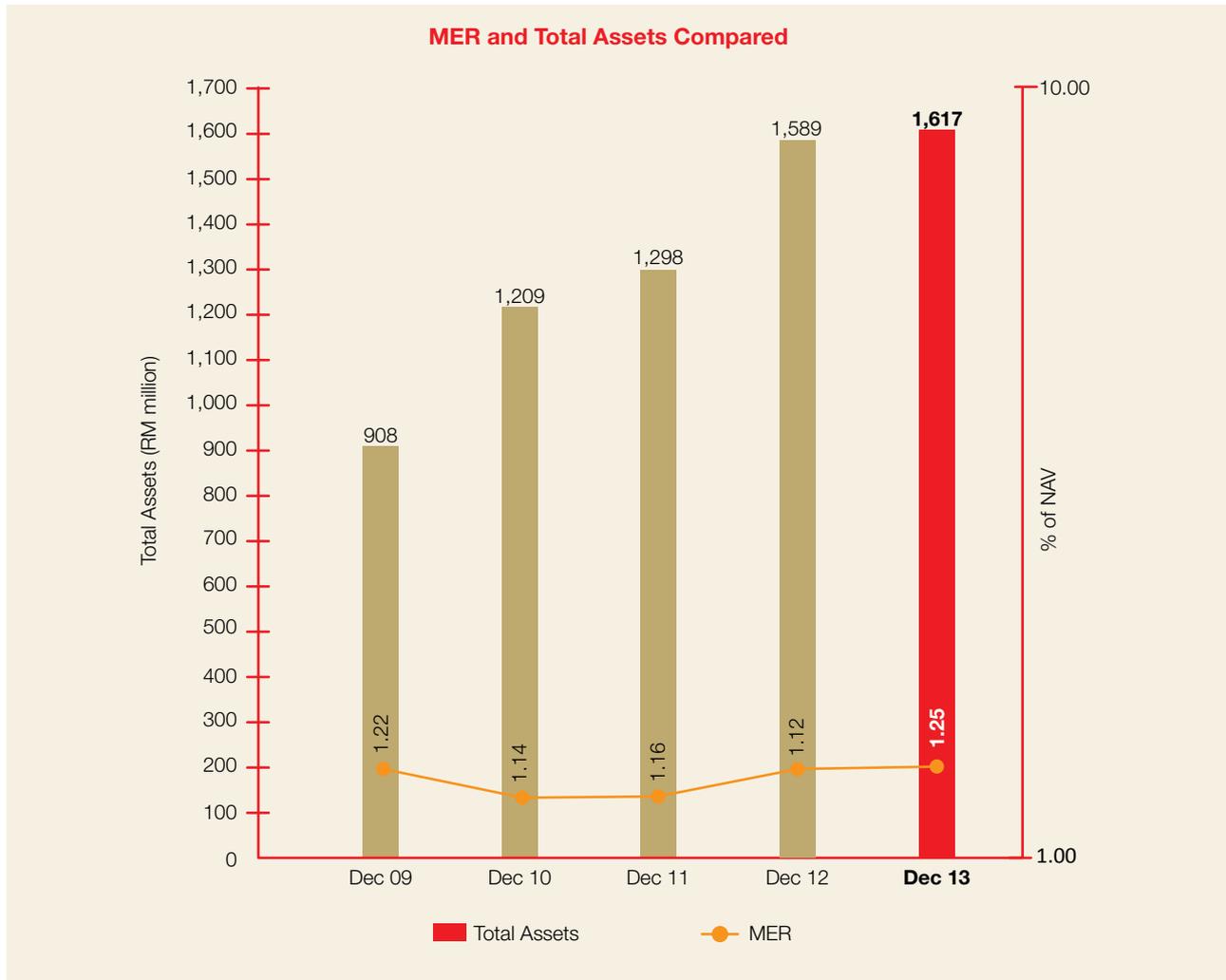
## Islamic financing cost

The increase in Islamic financing cost is due to higher financing facility of the Fund in 2013; as compared to 2012.

For Period Ended	Average Collection Period (in days)
31 Dec. 2009	16
31 Dec. 2010	14
30 Dec. 2011	17
30 Dec. 2012	8
31 Dec. 2013	3

### Management Expense Ratio ("MER")

The MER for 2013 has increased marginally to 1.25% of NAV as compared to 1.12% in year 2012. The chart below shows the movement of MER against the total assets of the Fund since December 2007.

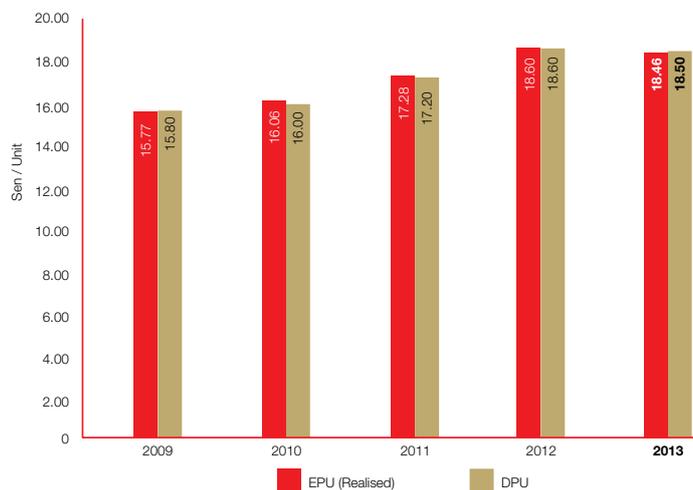


### Earnings Per Unit ("EPU")

The EPU (realised) for 2013 decreased slightly to 18.46 sen from 18.60 sen in 2012. This is based on the weighted average of the number of Units in issue.

### Distribution Per Unit ("DPU")

The DPU for 2013 of 18.50 sen which is slightly lower from 18.60 sen in 2012. Taking out the DPU of gain on disposal of Kayangan Depot of 1.30 sen in 2012, the DPU would have been 17.30 sen in 2012. Axis-REIT had in year 2008, 2009, 2010, 2011 and 2012 placed out 50,000,000, 51,180,200, 68,819,800 and 77,913,096 new Units, respectively. Notwithstanding the increase in the number of Units over the past years, Axis-REIT has not only been able to prove that the placements done were non-dilutive in nature but has provided Unitholders with better DPU returns as shown in the chart to the right.



# Financial **REVIEW**

## Capital management

### 1. Enhancing our capital base

The Manager has always been of the view that an efficient and prudent capital structure is an integral part of a well managed fund.

Axis-REIT maintains a prudent capital management policy in terms of its Gearing level. Although the maximum Gearing level allowable by SC is 50%, the Manager maintains the Gearing of the Fund between a range of 28% to 38%. The Manager will only roll out the new Unit placement exercise when it anticipates that the Gearing of the Fund will exceed 35%.

### 2. Placement planned for 2014

In July 2012, when the Gearing level of Axis-REIT reached 34%, the Manager announced a proposal for the placement of 90,762,819 new Units (new Placement), which at that time represented 20% of the existing issued fund size of the Fund (pursuant to Clause 14.03 of the SC's Guidelines on REITs). However, in September 2012 with the issuance of the 2,703,125 new IDRPs Units, the issued fund size of the Fund increased to 456,517,221, and the proposed new Placement represented 19.88% of the current fund size. On 14 June 2013 and 16 December 2013, 2,423,762 and 2,298,106 new IDRPs Units were issued respectively. The issued fund size of the Fund increased to 461,239,089.

The approval for the new Placement from the SC was obtained in December 2012, and the Manager obtained Unitholders' approval for its implementation at its Unitholders' Meeting on 30 April 2013. The approval of the Unitholders' enables the Fund to have a window of 12 months from the approval date to roll out the placement. The new Placement may be implemented in tranches and will provide a perfect flexible capital raising platform as the Manager can time the placement to coincide with the target completion date for the new acquisitions of the Fund thereby minimizing the negative carry on the new Units.

Axis-REIT did not enter the acquisition market in 2013 as the seller's asking prices of properties and the yields offered were below our target. The issuance of the new Placement in 2013 was therefore delayed.

The Manager intends to obtain the Unitholders' approval at the 2014 Annual General Meeting for a further 12-months extension to roll out the new Placement. As the approval of the SC for the increase in fund size of the Fund to facilitate the new Placement was up to a maximum of 547,280,040 Units and taking into account the 4,721,868 new IDRPs Units which were issued in 2013, the revised number of Units that the Manager can place out under the new Placement would decrease to 86,040,951 Units.

Based on the market price per Unit of RM2.93 as at 31 December 2013, the new Placement will be able to raise gross proceeds of approximately RM252 million. This will enable the Fund to further acquire investment properties by approximately RM388 million before the Gearing level returns to 35%.

### 3. Strengthening the alignment of interest between the Manager and the Fund

At the Unitholders' meeting on 30 April 2013, the Manager obtained the approval from the Unitholders to allow the directors of the Manager to participate in the new Placement and to issue 2,000,000 Units for the payment of the management fee to the Manager instead of cash. This is part of our effort to further strengthen the alignment of interest between the Manager and the Fund.

### 4. Tapping into the Sukuk market

*"Axis-REIT has successfully issued an additional RM155 million in nominal value sukuk via its special purpose entity Axis REIT Sukuk Berhad, a company incorporated by Axis-REIT to facilitate the establishment of a RM300 million in nominal value Sukuk programme."*

*- announcement dated 15 August 2013*

In 2012, Axis-REIT set up a Sukuk programme of up to RM300 million in nominal value ("Sukuk Programme") undertaken by Axis REIT Sukuk Berhad; a special purpose entity of Axis-REIT that was established for the Sukuk Programme. As at 31 December 2013, a total of RM265 million in nominal value Sukuk had been issued under the Sukuk Programme. The breakdown is as follows:

	Year of issuance	Amount	Tenure	Blended fixed profit rate p.a.
1st tranche	2012	RM110.0 million	10 years	4.61%
2nd tranche - 7 years	2013	RM70.0 million	7 years	4.18%
2nd tranche - 5 years	2013	RM85.0 million	5 years	4.13%
<b>RM265.0 million</b>				

The Fund will continue with the issuance of Sukuk as part of its efforts to diversify the lending base. The other rationale for the issuance of the Sukuk Programme is as follows:

- Matches cash-flow profile of the secured properties;
- A standby funding facility during the term of the programme period;
- No stamp duty and commitment fee;
- Leverage on wider investor base; and
- Ability to lock in fixed financing rate on longer tenure sukuk i.e. beyond 5 years.

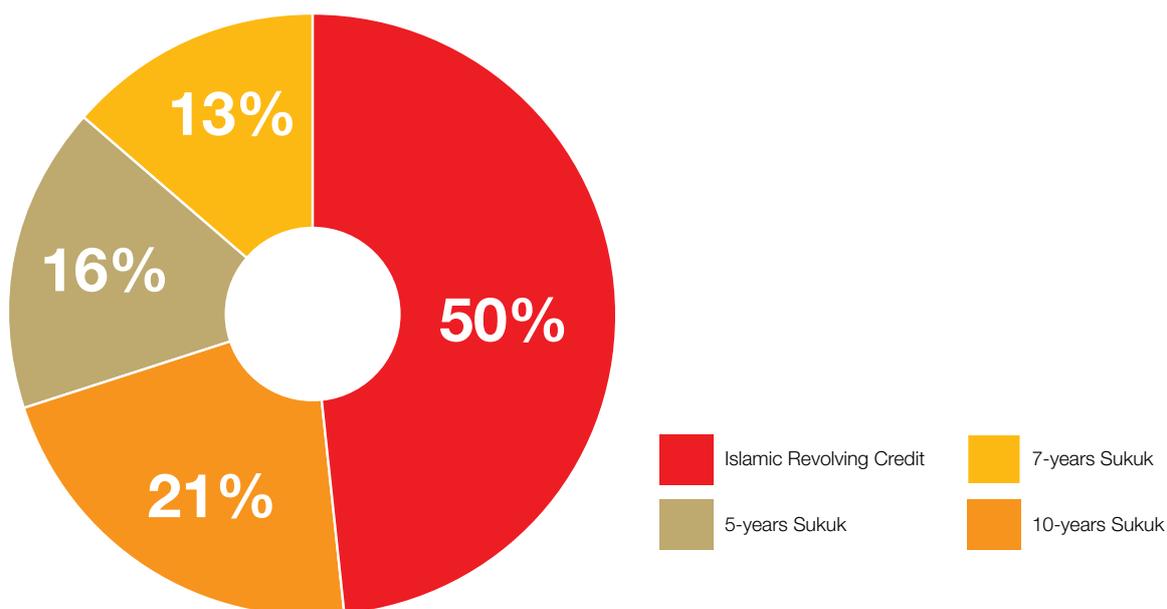
#### Financing Profile Table

	2009	2010	2011	2012	2013
Total Borrowings/financing (RM'000)	308,932	416,009	311,338	549,285	<b>528,004</b>
Total Assets (RM'000)	907,745	1,208,897	1,298,431	1,589,408	<b>1,616,523</b>
Gearing	34.03%	34.46%	23.98%	34.56%	<b>32.66%</b>
Effective interest/profit rate *	4.11%	4.48%	4.66%	4.58%	<b>4.38%</b>
Percentage of short term borrowings/ financing	47%	48%	52%	62%	<b>50%</b>
Percentage of medium or long term borrowings/financing	53%	52%	48%	38%	<b>50%</b>
Total unencumbered assets	12	11	12	6	<b>5</b>
Percentage of unencumbered assets/total assets	52%	42%	44%	19%	<b>16%</b>
Interest/financing cost cover	4.8	4.1	3.8	4.6	<b>4.5</b>

\* For comparison purposes, the effective interest/profit rate excludes the incidental cost of financing.

As at 31 December 2013, the Fund has diversified financing facilities which includes Sukuk and Islamic revolving credit facilities. The Islamic revolving facilities are offered by 5 big Islamic local and foreign Islamic financial institutions.

#### Debt Profile



# Financial **REVIEW**

## Risk management

The Manager recognises that effective risk management is a fundamental part of its business strategy. It ensures that there are no adverse disruptions to the income distribution and mitigates any potential loss, which may impact negatively on all the Unitholders.

### 1. Liquidity risk

The Manager has currently diversified Axis-REIT's financing with five major banks and also the Sukuk market. With this diversity, we have lower concentrations of risk among each of the lending banks and each bank has adequate collateral for the financing they are providing. Furthermore in 2013, Axis-REIT has started to tap the Sukuk market.

### 2. Interest rate risk

As at 31 December 2013, the Fund had a total financing facility of RM645 million of which RM529 million had been drawn down representing 32.66% of total assets.

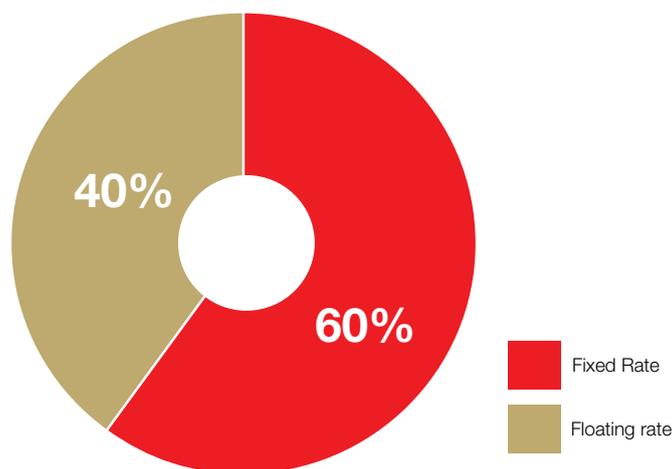
Of this amount, RM265 million is in Sukuk with fixed profit rates. In addition as at 31 December 2013, Axis-REIT had an Islamic profit rate swap of RM50 million in place and therefore the Fund's exposure to floating rate was reduced to 40%.

In January 2014, on the high possibility of an increase in the OPR in mid-2014, Axis-REIT had locked in a further RM50 million floating rate with an Islamic profit rate swap arrangement, thereby reducing the Fund's exposure to floating rate to 31%.

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

*Note: the Interest terminology should refer to Profit at the latter part of the report.*

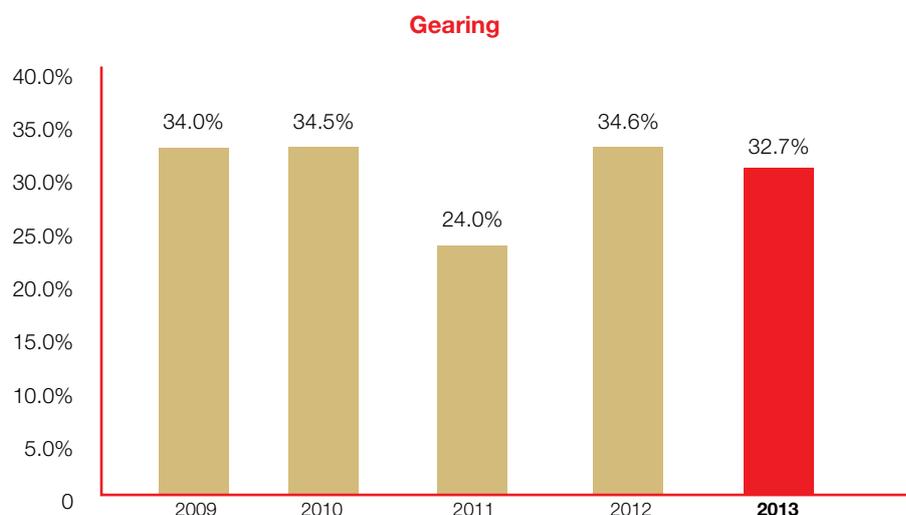
**Debt Profile Fixed and Floating Rate as at 31 December 2013**



### 3. Gearing risk

Having witnessed the global financial crisis and the current crisis in the Eurozone, the Manager will continue to maintain its maximum Gearing threshold of 35% as part of its strategy for prudent capital management.

The chart below shows the historical Gearing levels of Axis-REIT since its listing.



#### 4. Valuation

The Manager recognises the importance of fair valuation of all its investment properties. All the properties are revalued at least once annually to ensure that the value carried in the financial statements reflects the current market value and to be in compliance with the MFRS 140.

All valuations are conducted by independent registered valuers approved by the SC. Axis-REIT currently has a panel of six registered valuers performing valuations for the Fund. The Manager is also looking into expanding this panel to provide the Fund with a transparent valuation model for the benefit of all Unitholders. It is the Fund's policy to ensure that no valuer may conduct more than two consecutive full comprehensive valuations of any particular property, which is consistent with the SC's Guidelines on REITs.

#### 5. Tenant and credit risk

We continuously monitor our tenants' performance closely as this is key to the management of our credit risk. We have in place strict procedures in evaluate our tenants' credit worthiness, and we do not hesitate to take steps to minimise any lapse in payment performance.

The strength of Axis-REIT's performance lies in the diversity of its portfolio, thereby minimising a concentration of tenant risk to the income streams of the Fund.

As of 31 December 2013, Axis-REIT had 31 properties and 130 tenants, many whom are multinationals and local public-listed companies with strong financial credentials.

	2009	2010	2011	2012	2013
Top 10 tenants contribution to gross income	47%	52%	52%	49%	47%

# Financial **REVIEW**

## Doubtful debt provision/impairment losses of trade receivables

The Manager regularly reviews the credit risk profile of its tenants with the aim of minimising potential credit risk. Regular tenant visits as well as keeping vigilance on tenant's activities also helps early identification of problems.

For single-tenanted buildings, resulting typically from a sale and leaseback transaction or a built-to-suit arrangement, a larger security deposit may be obtained depending on the credit-standing of the tenant and commercial negotiation.

As a result of the rigorous management of account receivables, the Manager has attained a low impairment loss of trade receivables as a percentage of total gross income. There is a reversal of impairment loss of trade receivables and bad debts as of 31 December 2013 amounted to RM30,000. The keen focus on receivables and a well-established internal credit control process has resulted in this low value.

RM'000	2009	2010	2011	2012	2013
<b>Impairment losses of trade receivables</b>					
Impairment losses of trade receivables/Bad debt write off/(write back)	54	105	72	91	<b>(30)</b>
Trade Receivables	3,371	3,893	5,417	2,902	<b>1,072</b>
Total Annual Gross Income	71,598	89,213	114,311	132,673	<b>141,314</b>
Impairment losses of trade receivables/Bad debt write off/(write back) as % of Gross Income	0.08	0.12	0.06	0.06	-

The average collection of the Fund has improved from 8 days to 3 days, and this is reflected by the drop in the trade receivables as of 31 December 2013 as compared to the preceding year.

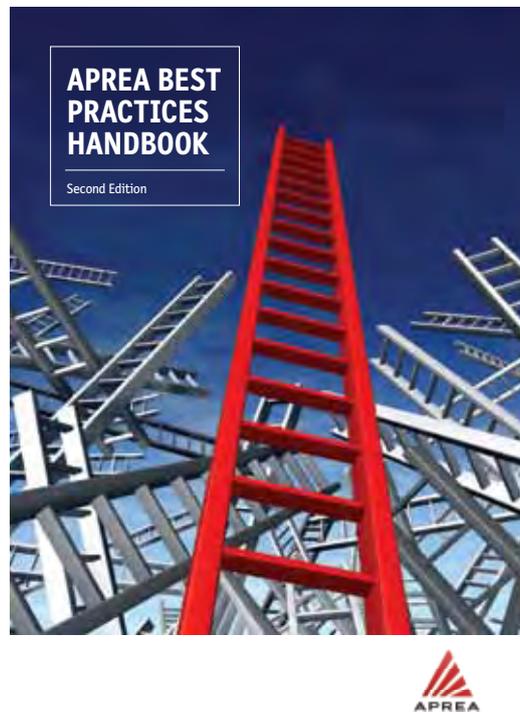
## Risk management framework

The Manager had, in 2009, put in place a risk management framework to address all the possible risks facing the operation of the Fund and Manager.

During 2012 and 2013 our Internal Auditors, Baker Tilly Monteiro Heng conducted a review on compliance with the Corporate Governance Code as well as the APREA Best Practices Codes. The reports are made available to the Audit Committee as well as the Board. The Manager has taken steps to deal with the risks identified.

# Compliance with **BEST PRACTICES**

As part of the initiative to achieve full compliance with the best practices recommendations by APREA, the Manager has presented some of the Axis-REIT's financial highlights in USD and also adopted the use of the direct method statement of cash flow.



## A) A quick snapshot in US Dollars (“USD”)

The presentation of financial highlights in USD allows comparability against other foreign REITs and companies to users of the annual report. The following is an extract from the financial highlights denominated in USD for the financial year ended 31 December 2013.

### Key items from Statement of financial position/unitholders' funds ^#

Assets under Management (USD)	<b>491,150,000</b>
Total Net Asset Value (USD)	<b>312,533,000</b>
Number of Investment Properties	<b>31</b>
Units in Circulation	<b>461,239,089</b>
Total Financing (USD)	<b>160,424,000</b>
Total Financing to Total Assets (%)	<b>32.66%</b>
Market Capitalization (USD)	<b>410,607,000</b>
Net Asset Value Per Unit (cents in USD)	<b>0.68</b>
Unit Price as at 31 December 2013 (USD)	<b>0.89</b>

# Compliance with **BEST PRACTICES**

## Summary of results<sup>^^</sup>#

Gross Realised Income (USD)	42,884,000
Unrealised Income in relation to Unbilled Lease Income Receivable (USD)	689,000
Total Property Expenses (USD)	(6,316,000)
Net Rental Income (USD)	37,257,000
Profit Income (USD)	202,000
Changes in fair value of investment properties (USD)	8,256,000
Unbilled Lease Income Receivable (USD)	(689,000)
Net gain/(loss) on financial liabilities measured at amortised cost* (USD)	(26,000)
Fair value change in derivative liability	(111,000)
Total Income (USD)	44,889,000
Total Non-Property Expenses (USD)	11,119,000
Net Income before tax (USD)	33,770,000
Breakdown of net income after taxation:	
- Realised income after taxation (USD)	25,651,000
- Unrealised income after taxation (USD)	8,119,000
Earnings per Unit (Realised + Unrealised) (cents in USD)	7.37
Distribution per Unit (DPU) (cents in USD)	5.61

\* Unrealised gain on discounted tenants' deposit received in compliance with Malaysian Financial Reporting Standard MFRS 139.

<sup>^</sup> Translated to USD equivalent based on closing rate of USD/MYR of 3.2913 (Source: www.oanda.com).

<sup>^^</sup> Translated to USD equivalent based on average rate of USD/MYR for financial year 2013 of 3.2953 (Source: www.oanda.com).

# Please note that translations were done purely for comparison purposes and were not required to adhere with the provisions of the Malaysian Financial Reporting Standards.

## B) Direct method statement of cash flow

The use of the Direct Method Statement of Cash Flow provides more detailed information on operating cash flows.

### Statement of Cash Flows (Direct Method) For The Year Ended 31 December 2013

	RM'000	RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Gross revenue received	143,179	
Tenant deposit received	1,352	
Operating expenses paid	(28,854)	
Tax refunded	154	
Net cash from operating activities		115,831
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Balance proceed from disposal of investment property	21,240	
Deposit on disposal of investment property	3,400	
Profit income received	667	
Enhancement of investment properties	(28,523)	
Acquisition of equipment	(2,038)	
Net cash used in investing activities		(5,254)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Islamic financing cost paid	(23,837)	
Repayments of financing	(21,505)	
Proceeds from hire purchase	224	
Distribution paid to Unitholder	(88,789)	
Proceed from issue of units	15,594	
Issuing expenses	(57)	
Net cash used in financing activities		(118,370)
Net decrease in cash and cash equivalents		(7,793)
Cash and cash equivalents at beginning of the year		42,316
Cash and cash equivalents at end of the year		34,523

# Report on **SHARIAH COMPLIANCE**



*From left to right: Ustaz Ahmad Zakirullah Mohamed Shaarani, Ustaz Budeeman Mana, Haji Razli Ramli and Ustaz Mohd Nasir Ismail*

On 11 December 2008, Axis-REIT became the world's first Islamic Office/Industrial REIT. In the span of three years since its successful reclassification, we have seen strong participation by Shariah investors from both institutional and retail sectors.

IBFIM, which is listed under the SC's List of Registered Eligible Shariah Advisers, is the appointed Shariah Adviser of the Fund. Below is the list of IBFIM's scope of services:

- Providing expertise and guidance to the Manager in all matters relating to Shariah requirements, including Axis-REIT's structure, investment process, and other operational and administrative matters
- Assessing any new tenant(s) and/or new property to be acquired by Axis-REIT to ensure that all the activities of the new tenant(s) and/or composition/contribution of non-permissible activities stay within the tolerable benchmark set by the Shariah Advisory Council (SAC) of the SC
- Providing certification in the interim (if any) and an annual report on Axis-REIT's ability to stay within the SC's Guidelines on Islamic REITs
- Consulting with the SC's SAC where there is any ambiguity or uncertainty as to an investment, instrument, system, procedure and/(or) process
- Assisting and attending to any ad-hoc meeting called by the Manager, the SC and/or any other relevant authority

The Manager is pleased to report that under the guidance of IBFIM, the level of income from non-permissible activities is kept at a minimal level of 5.1% for 2013.



# The Real Estate **TEAM**



**left to right:** Lucy Yeong, Jackie Law, Dhevendran Thanabalan, Lalitha Anandarajah



"In 2013, the Real Estate team successfully renegotiated 789,795 sq. ft. of space amounting to 14.45% of total net lettable area (NLA) of the portfolio, achieving average positive rental reversions of 8.08% for the year. In addition, we also secured 126,236 sq. ft. of new tenancies."

**Jackie Law**  
Head of Real Estate

## Overview

Portfolio Size	: 31 properties
Total Area Under Management (AUM)	: 5,464,124 sq. ft.
Number of Tenants	: 130
Occupancy	: 94.87%
Gross Income	: RM141,314,000
Net Operating Income (NOI)	: RM120,502,000
Average Rental	: Office properties : RM4.30 per sq. ft.
	Office industrial properties: RM2.46 per sq. ft.
	Across the portfolio: RM2.16 per sq. ft.

Axis-REIT has scaled up significantly since listing in 2005 and delivered strong results in the process. We are committed to delivering consistently high returns from our business and have established a series of key performance indicators to monitor our progress and performance.

### 1. Income growth

The key drivers:

- Income Growth - through yield accretive acquisitions;
- Revenue Management - managing our vacancies, rental rates and collection;
- Occupancy Management - keeping vacancies as low as possible;
- Expense Management - managing building efficiency, energy footprint and service providers;
- Facilities Management - managing our site staff and building maintenance;
- Tenant Care - managing tenant retention and satisfaction.

### 2. Risk management

We focus on:

- Diversification of our tenant base;
- Managing the Weighted Average Lease Expiry (WALE) period for the portfolio;
- Attracting quality tenants;
- Building compliance;
- Occupational health and safety;
- Sustainability initiatives.

### 3. Asset Enhancement Initiatives (AEI)

The Manager continues to focus on AEI to enable higher rental rates and enhance the value of the properties.

# Real Estate **REPORT**

## Portfolio by Value and Date of Acquisition

Name	Acquisition Date	Acquisition Cost (RM'000)	Total Investment Outlay (including enhancements) (RM'000)	Fair Value Adjustments (RM'000)	Book Value (RM'000)	% of Total Portfolio
Axis Plaza	03/08/2005	22,500	22,662	9,338	32,000	2.03
Axis Business Park	03/08/2005	84,600	87,830	24,568	112,398	7.14
Crystal Plaza	03/08/2005	56,400	64,283	41,879	106,162	6.74
Menara Axis	03/08/2005	71,440	78,307	34,790	113,097	7.18
Infinite Centre	03/08/2005	25,450	33,581	8,113	41,694	2.65
Wisma Kemajuan	16/12/2005	29,192	35,324	21,566	56,890	3.61
Axis Business Campus	30/06/2006	32,681	52,817	15,183	68,000	4.32
Axis Shah Alam DC 1	01/08/2007	18,783	19,627	1,887	21,514	1.37
Giant Hypermarket	07/09/2007	38,678	38,825	1,224	40,049	2.54
FCI Senai	15/11/2007	12,538	12,614	3,286	15,900	1.01
Fonterra HQ	16/11/2007	7,352	10,871	3,135	14,006	0.89
Quattro West	30/11/2007	40,376	50,222	3,416	53,638	3.41
Strateq Data Centre	25/01/2008	37,549	42,604	10,094	52,698	3.35
Niro Warehouse	30/04/2008	14,811	15,210	1,790	17,000	1.08
BMW Centre PTP	30/04/2008	27,470	27,942	1,742	29,684	1.88
Delfi Warehouse	04/08/2008	12,743	12,803	1,697	14,500	0.92
Axis Vista	09/12/2008	32,481	33,267	2,733	36,000	2.29
Axis Steel Centre	20/10/2009	65,882	66,192	9,608	75,800	4.81
Bukit Raja Distribution Centre	14/12/2009	72,636	73,231	17,169	90,400	5.74
Seberang Prai Logistic Warehouse 1	05/03/2010	17,695	17,695	2,305	20,000	1.27
Seberang Prai Logistic Warehouse 2	05/03/2010	6,981	7,285	715	8,000	0.51
Tesco Bukit Indah	01/10/2010	76,750	76,773	13,227	90,000	5.71
Axis PDI Centre	15/10/2010	86,146	86,328	5,779	92,107	5.85
Axis Technology Centre	15/11/2010	49,697	50,130	2,261	52,391	3.33
D8 Logistics Warehouse	01/03/2011	30,521	30,521	1,479	32,000	2.03
Axis Eureka	18/04/2011	52,050	53,103	1,397	54,500	3.46
Bayan Lepas Distribution Centre	17/01/2012	49,471	49,756	(256)	49,500	3.14
Seberang Prai Logistic Warehouse 3	15/02/2012	60,139	61,335	1,665	63,000	4.00
Emerson Industrial Facility Nilai	30/08/2012	27,011	27,196	2,124	29,320	1.86
Wisma Academy Parcel	01/10/2012	74,242	74,385	2,615	77,000	4.89
The Annex	01/10/2012	12,289	12,289	3,711	16,000	1.02
<b>TOTAL</b>		<b>1,246,554</b>	<b>1,325,008</b>	<b>250,240</b>	<b>1,575,248</b>	<b>100.00</b>

## Details on Land Tenure

Name	Land Tenure	Years Remaining on Leasehold Expiry
Axis Plaza	Freehold	-
Axis Business Park	Leasehold	47
Crystal Plaza	Leasehold	46
Menara Axis	Leasehold	52
Infinite Centre	Leasehold	52
Wisma Kemajuan	Leasehold	52
Axis Business Campus	Leasehold	54/58
Axis Shah Alam DC 1	Freehold	-
Giant Hypermarket	Freehold	-
FCI Senai	Leasehold	54
Fonterra HQ	Freehold	-
Quattro West	Leasehold	59
Strateq Data Centre	Leasehold	55
Niro Warehouse	Leasehold	38
BMW Centre PTP	Leasehold	42
Delfi Warehouse	Leasehold	54
Axis Vista	Leasehold	53
Axis Steel Centre	Leasehold	89
Bukit Raja Distribution Centre	Freehold	-
Seberang Prai Logistic Warehouse 1	Leasehold	40
Seberang Prai Logistic Warehouse 2	Leasehold	40
Tesco Bukit Indah	Freehold	-
Axis PDI Centre	Leasehold	78
Axis Technology Centre	Leasehold	54
D8 Logistics Warehouse	Leasehold	42
Axis Eureka	Freehold	-
Bayan Lepas Distribution Centre	Leasehold	49
Seberang Prai Logistic Warehouse 3	Leasehold	39/55
Emerson Industrial Facility Nilai	Leasehold	82
Wisma Academy Parcel	Leasehold	49
The Annex	Leasehold	49

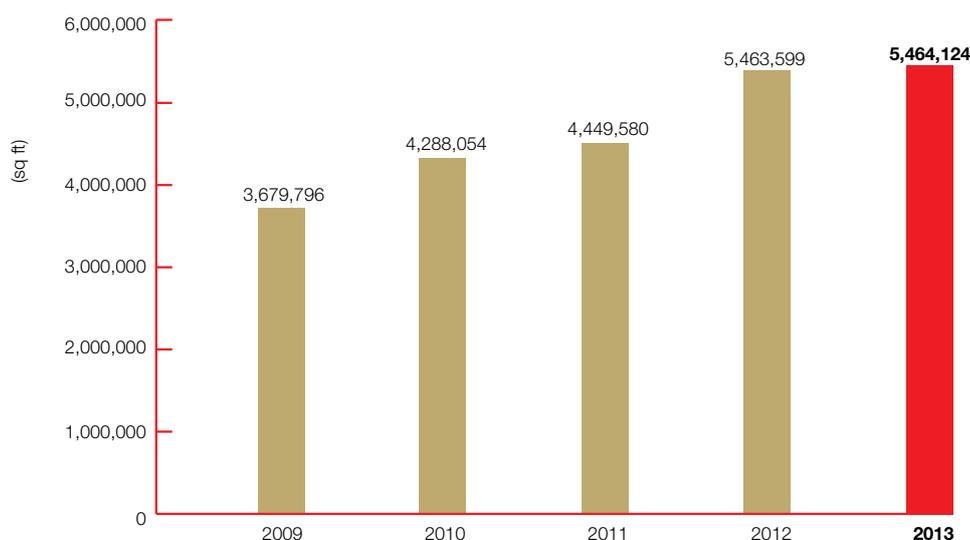
# Real Estate **REPORT**

## 1. Income Growth

### a) Acquisitions

In 2013, the manager did not acquire any assets as the assets we were looking to buy were not offering our targeted yields. However, the acquisition landscape has improved in 2014 and we are confident we will return to growing our portfolio.

**Asset Under Management (sq ft)**



Assets Under Management (AUM) stands at 5,464,124 sq. ft. as at 31 December 2013.

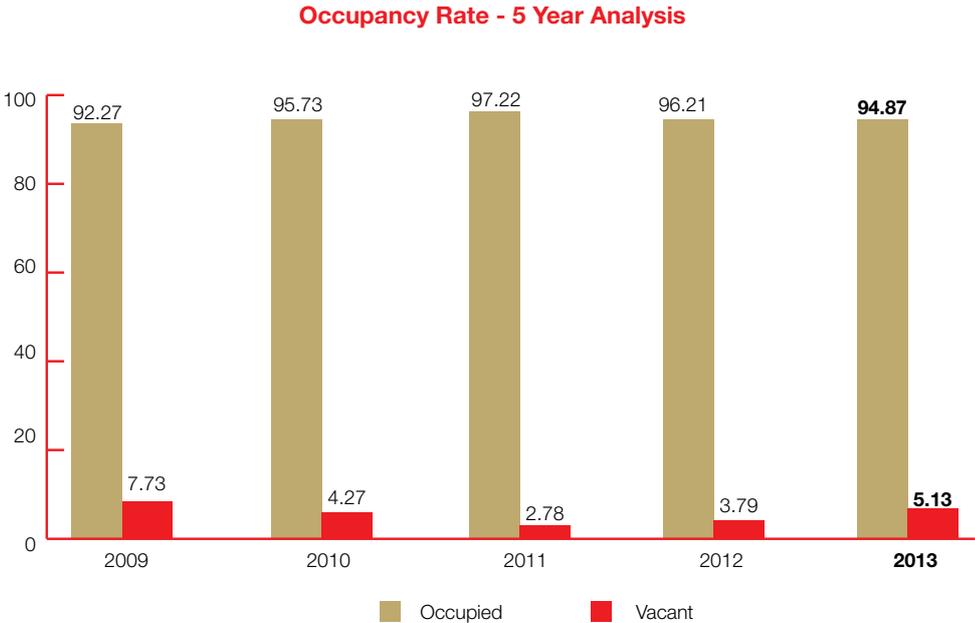
### b) Revenue management

In 2013, the Real Estate team successfully renegotiated 789,795 sq. ft. of space amounting to 14.45% of total net lettable area (NLA) of the portfolio, achieving average positive rental reversions of 8.08% for the year. In addition we also secured new tenancies for 126,236 sq. ft. of space in 2013.

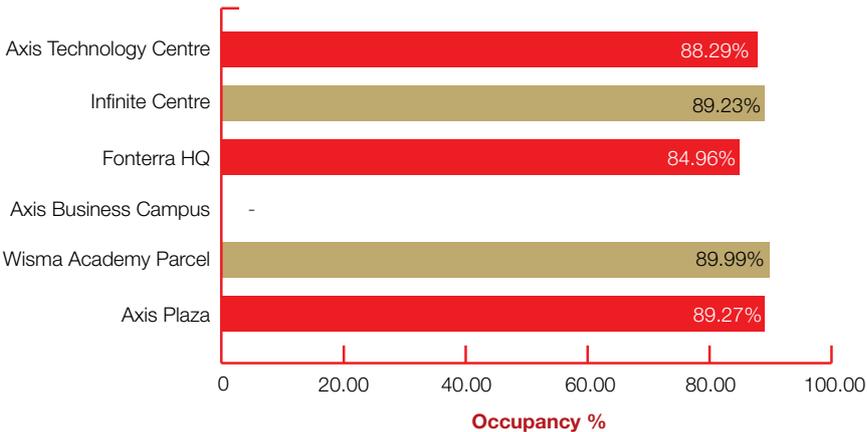
Properties	Space Renegotiated (Sq. Ft.)	% Movement As at 31 Dec 2013
Menara Axis	68,326	+8.78%
Crystal Plaza	120,358	+10.09%
Axis Business Park	86,676	+10.12%
Infinite Centre	87,476	+12.45%
Axis Plaza	104,843	+8.12%
Wisma Kemajuan	80,199	+6.70%
Quattro West	33,300	+13.45%
The Annex	27,400	+0.49%
Axis Technology Centre	54,072	+9.90%
Axis Eureka	14,660	+9.66%
Wisma Academy Parcel	44,318	+5.94%
Axis Vista	40,937	No change
Axis Business Campus	27,230	No change
Tesco Bukit Indah	233,578	+5.00%
Giant Hypermarket	138,000	+9.84%

**c) Occupancy management**

The Real Estate Team also focusses on customer relations and has a good track record of retaining tenants. Ratios of leases renewed have been consistently high and above industry average. Overall portfolio occupancy rate stood at 94.87% as at 31 December 2013. This rate was slightly lower than 2012 as Axis Business Campus was emptied while undergoing major enhancement work. The project will be completed in 1Q 2014 and the space will be put back on the market.



As at 31 December 2013, only 6 of our 31 properties registered a vacancy rate below 90%. These 6 properties are:



Fonterra HQ is a single tenant property with a long term lease. The 15% vacant space is set aside for the tenants' future expansion plans. The other 5 properties are recording close to a 90% occupancy rate.

# Real Estate **REPORT**

## d) Tenant care

The Real Estate team, comprising the leasing, facilities management and project management divisions, works together to provide superior customer care services to our tenants. We are proud that because of this, some tenants have been growing together with our portfolio and have stayed with us for many years. Our customer care services include:

- Regular visits
- Monitoring tenant activity
- Quick response to complaints
- Managing tenants expansion and relocation of space within the buildings in the portfolio
- Publication of quarterly "Axis-Link" newsletters to update tenants on Axis-REIT activities

## 2. Risk management

Our key focus areas in risk management are:

- Diversification of the tenant base;
- Focus on Weighted Average of Lease Expiry (WALE);
- Quality tenants;
- Occupational health, safety and environment;
- Building Code of Compliance.

### a) Diversification of tenants, property types, industry sectors & geographical location

The portfolio tenancy type is dominated by office/industrial and logistics warehouse tenants, and the ratios have been maintained at a consistent level in the past 5 years. These tenants are prominent local and multinational companies as well as government linked companies (GLCs) which provide the Fund a stable income with minimal risk of defaulting. In terms of rental income, the largest contributors are from the logistic warehouse industry. The portfolio's top 10 tenants, of whom 4 are logistic tenants contributed 46.9% of the Fund's total revenue in 2013.

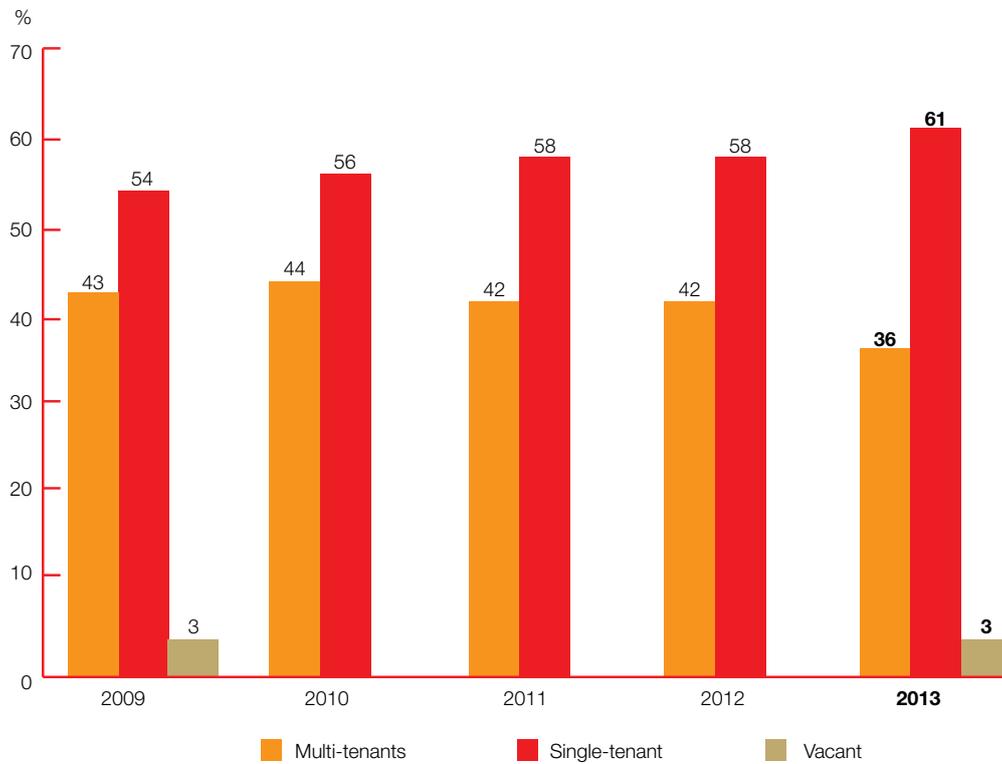
The top 10 rental income contributors by gross rental as at 31 December 2013 are:

1. Konsortium Logistik Bhd
2. LF Logistics Services (M) Sdn Bhd
3. Schenker Logistics (M) Sdn Bhd
4. Tenaga Nasional Berhad
5. Tesco Stores (M) Sdn Bhd
6. Fuji Xerox Asia Pacific Pte Ltd
7. DHL Properties (M) Sdn Bhd
8. Strateq Data Center Sdn Bhd
9. GCH Retail (Malaysia) Sdn Bhd
10. Scope International (M) Sdn Bhd

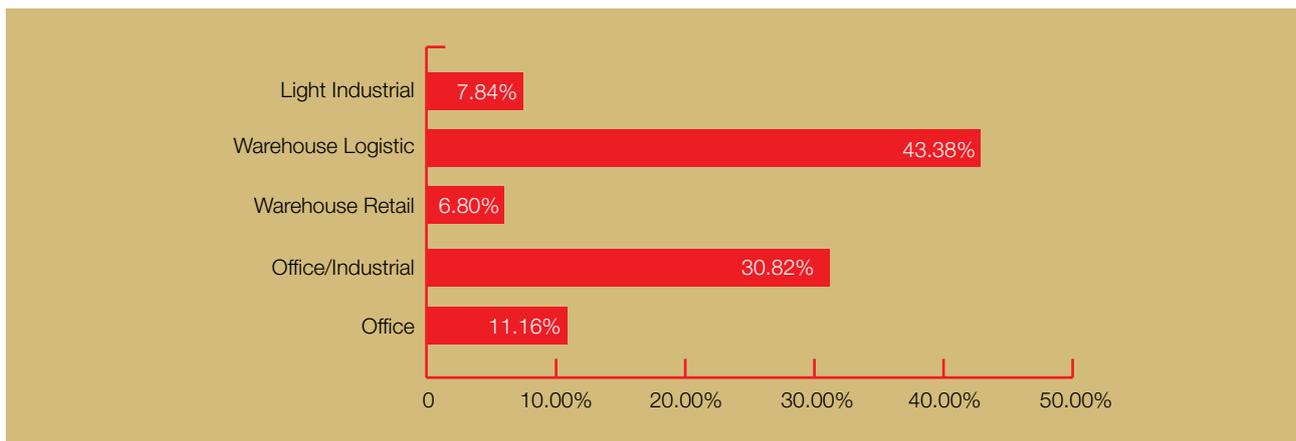
Our portfolio risk is mitigated by maintaining a balanced structure of single-tenanted properties and multi-tenanted properties. The single-tenanted properties provide long-term stable organic rental income growth as these leases have pre-agreed rental increases over the fixed period of the lease. The multi-tenanted properties generally with 3-year leases, provide the Fund with dynamic parity for rental movement in the market, thus achieving positive rental reversions upon renewal. Majority of our multi-tenanted properties are located in the prime location of Petaling Jaya, namely Menara Axis, Crystal Plaza, Quattro West, Axis Business Park, Infinite Centre, Wisma Kemajuan, Wisma Academy Parcel, The Annex, Axis Technology Centre and Axis Vista.

Of the list of top 10 tenants list, 8 are occupying single-tenanted properties. All the single-tenanted properties tend to feature high quality tenants who have signed long-term leases and generally have much lower maintenance costs as a proportion to income.

### Diversification by Tenant Types - Multi-Tenants vs Single-Tenant Properties by NLA 5 Year Analysis

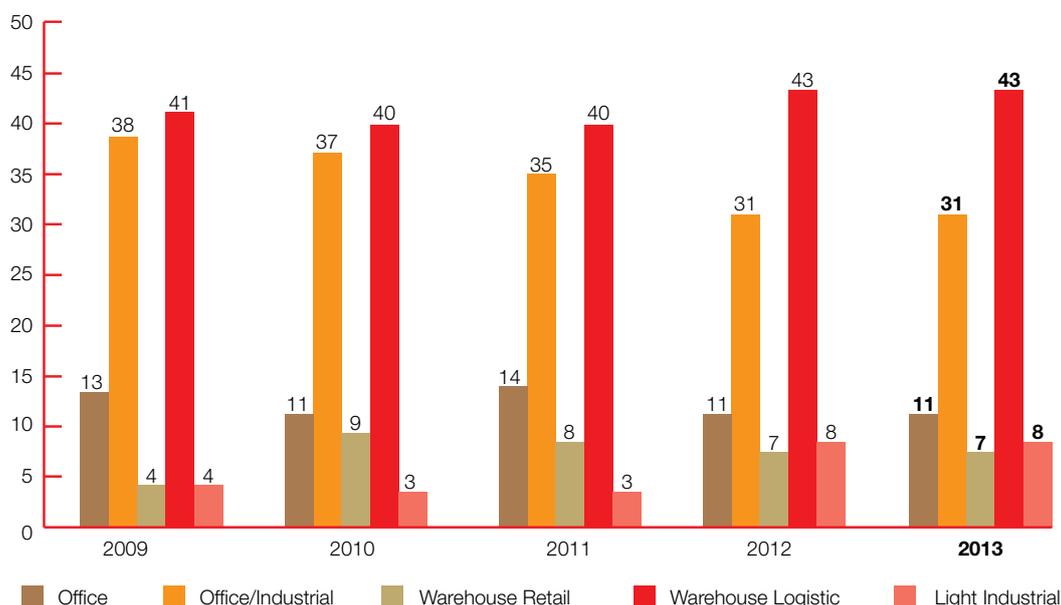


### Diversification by Property Type and Net Lettable Area

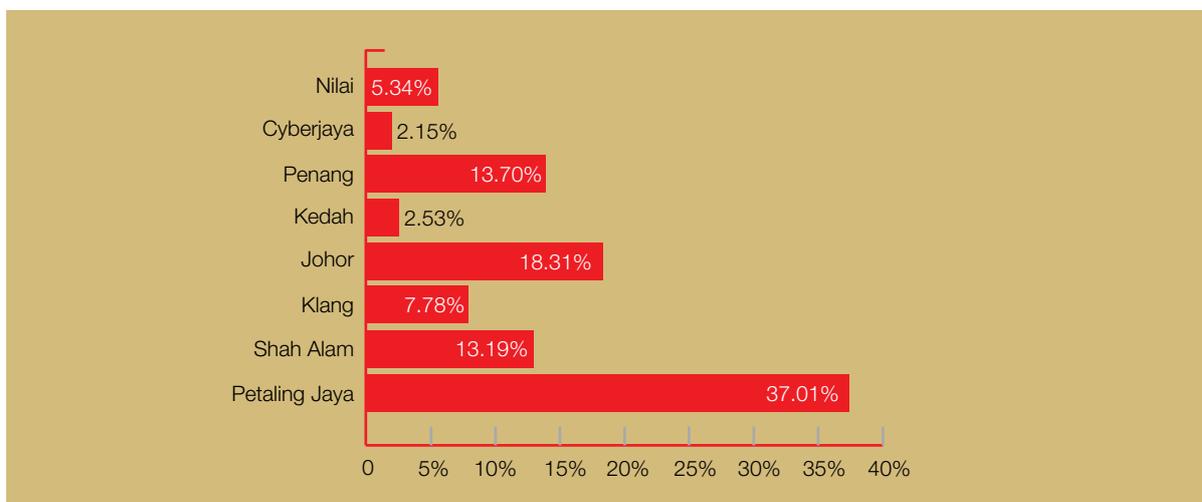


# Real Estate **REPORT**

## Diversification by Property Type and Net Lettable Area - 5 Year Analysis



## Diversification by Geographical Locations and NLA



The Manager regularly reviews the portfolio in order to achieve an optimal level in terms of diversification so that the Fund is not exposed to certain sectors only. This strategy ensures that the Fund enjoys a stable earnings platform to provide our Unitholders with the best possible returns each year.

### b) The Weighted Average Lease Expiry (WALE)

The WALE for the portfolio for the last 3 years is:

By Year	Q4 2013	Q4 2012	Q4 2011
By NLA	3.89	4.43	5.64
By Rental	3.99	4.17	5.19

The reduction in the WALE is a result of long leases shortening year on year.

### c) Proactive lease management - lease expiry profiles 2014-2016

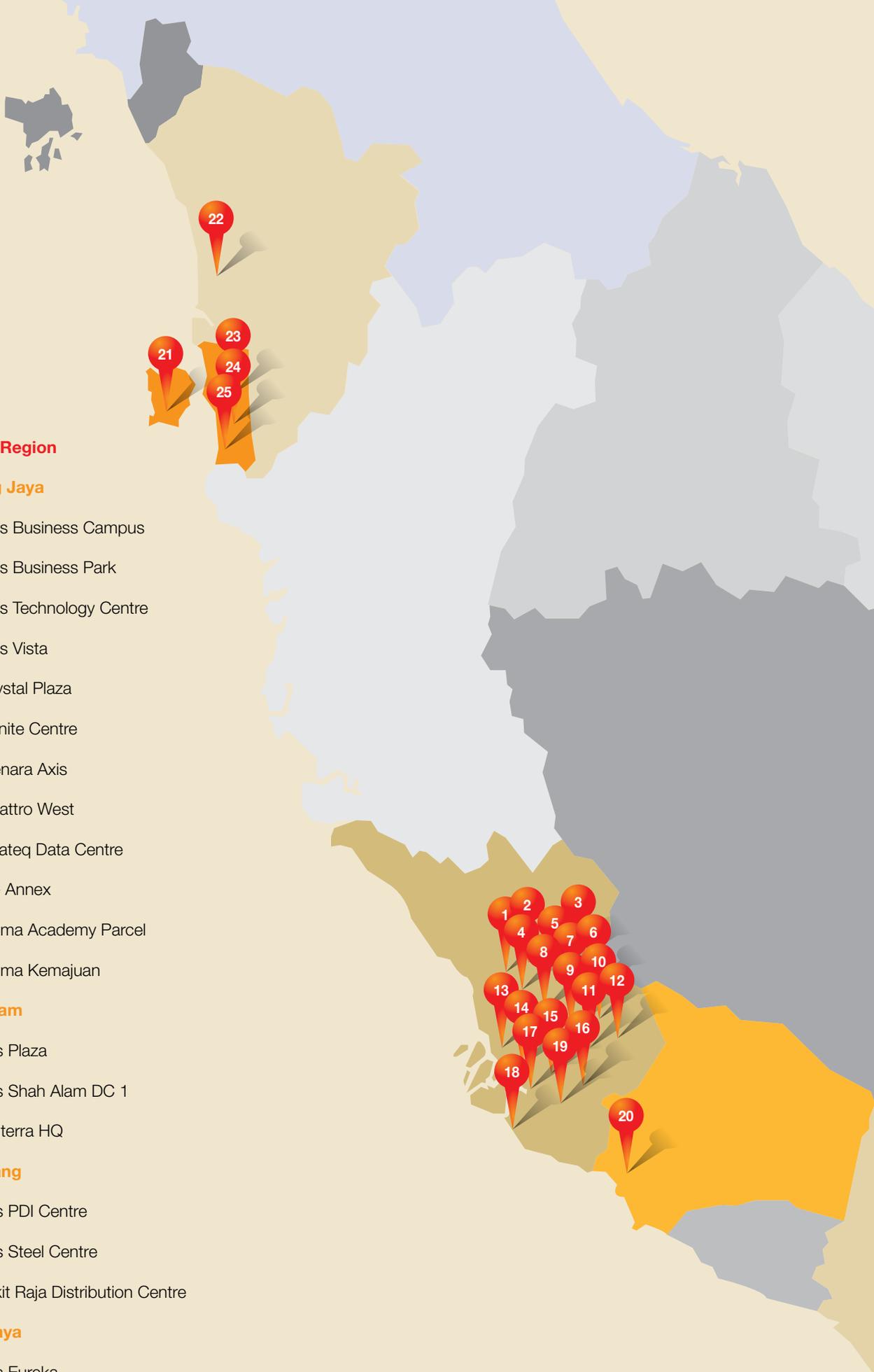
The following table sets out information on the lease expiry profile for the next 3 years. We believe that the percentage of space due for renewal is at a manageable level. In 2014, the percentage will be comparably higher because some single-tenant leases are due for renewal and the Manager has entered into negotiations with the tenants. We are confident we will manage these renewals as these properties are built to suit for tenants' operations.

Property	2014			2015			2016		
	Year Total	% of NLA	% of Rental Income/month	Year Total	% of NLA	% of Rental Income/month	Year Total	% of NLA	% of Rental Income/month
Menara Axis	54,587	1.00	2.23	-	-	0.03	91,514	1.67	3.34
Crystal Plaza	81,339	1.49	2.84	3,407	0.06	0.08	120,358	2.20	4.40
Axis Business Park	284,450	5.21	6.48	15,713	0.29	0.31	41,304	0.76	0.86
Infinite Centre	79,159	1.45	1.50	9,040	0.17	0.18	44,770	0.82	1.04
Axis Plaza	53,730	0.98	0.99	-	-	-	51,113	0.94	1.12
Wisma Kemajuan	9,583	0.18	0.28	66,863	1.22	1.26	108,262	1.98	2.38
Axis Vista	60,400	1.11	0.88	-	-	-	40,937	0.75	0.84
Quattro West	33,911	0.62	1.25	10,991	0.20	0.31	59,294	1.09	2.35
Axis Technology Centre	17,348	0.32	0.45	111,889	2.05	1.82	21,493	0.39	0.43
Axis Eureka	57,727	1.06	2.00	160	0.003	0.01	15,235	0.28	0.60
Wisma Academy Parcel	55,462	1.02	1.27	128,276	2.35	2.32	33,532	0.61	0.82
The Annex	18,000	0.33	0.29	27,400	0.50	0.35	-	-	-
Emerson Industrial Facility Nilai	-	-	-	-	-	-	291,642	5.34	1.92
Axis Steel Centre	366,839	6.71	5.03	-	-	-	-	-	-
Niro Warehouse	167,193	3.06	1.19	-	-	-	-	-	-
Seberang Prai Logistic Warehouse 3	395,225	7.23	4.90	-	-	-	-	-	-
Fonterra HQ	600	0.01	0.01	-	-	-	-	-	-
BMW Centre PTP	161,474	2.96	2.43	-	-	-	-	-	-
Axis PDI Centre	-	-	-	58,009	1.06	6.11	-	-	-
Axis Shah Alam DC1	-	-	-	110,406	2.02	1.23	-	-	-
FCI Senai	-	-	-	136,619	2.50	1.17	-	-	-
Delfi Warehouse	-	-	-	130,743	2.39	1.12	-	-	-
	<b>1,897,027</b>	<b>34.74</b>	<b>34.02</b>	<b>809,516</b>	<b>14.81</b>	<b>16.30</b>	<b>919,454</b>	<b>16.83</b>	<b>20.10</b>

### d) Tenant credit worthiness and risk management

To minimize tenant credit risk, a credit evaluation process has been established to assess the credit worthiness of our potential tenants. Our Credit Control team keeps a close track of our rental collections to ensure that collections are within the prescribed time period.

Based on standard industry practice, one month worth of gross rental is usually held as a security deposit for each year's lease. For longer term leases in single tenanted properties, a larger sum is held as a security deposit. dependent on the length of lease, the credit risks of such tenants and commercial negotiations. Security deposits for Axis-REIT's multi tenanted properties are in general 3 months' rental equivalent and single tenanted properties range from 6 months to 12 months of rental equivalent.



## Central Region

### Petaling Jaya

- 1) Axis Business Campus
- 2) Axis Business Park
- 3) Axis Technology Centre
- 4) Axis Vista
- 5) Crystal Plaza
- 6) Infinite Centre
- 7) Menara Axis
- 8) Quattro West
- 9) Strateq Data Centre
- 10) The Annex
- 11) Wisma Academy Parcel
- 12) Wisma Kemajuan

### Shah Alam

- 13) Axis Plaza
- 14) Axis Shah Alam DC 1
- 15) Fonterra HQ

### Port Klang

- 16) Axis PDI Centre
- 17) Axis Steel Centre
- 18) Bukit Raja Distribution Centre

### Cyberjaya

- 19) Axis Eureka

### Nilai

- 20) Emerson Industrial Facility Nilai

### Northern Region

- 21) Bayan Lepas Distribution Centre
- 22) Giant Hypermarket
- 23) Seberang Prai Logistic Warehouse 1
- 24) Seberang Prai Logistic Warehouse 2
- 25) Seberang Prai Logistic Warehouse 3

### Southern Region

- 26) BMW Centre PTP
- 27) D8 Logistics Warehouse
- 28) Delfi Warehouse
- 29) FCI Senai
- 30) Niro Warehouse
- 31) Tesco Bukit Indah Hypermarket



# The Investment Property **PORTFOLIO**

as at 31 December 2013



**31**  
**PROPERTIES**  
5.4 million sq. ft.

**1. AXIS BUSINESS CAMPUS**

Lot 13A & 13B, Jalan 225,  
Section 51A, 46100 Petaling Jaya,  
Selangor.

**2. AXIS BUSINESS PARK**

No. 10, Jalan Bersatu 13/4,  
46200 Petaling Jaya,  
Selangor.

**3. AXIS TECHNOLOGY CENTRE**

No. 13, Jalan 225, Section 51A,  
46100 Petaling Jaya,  
Selangor.

**4. AXIS VISTA**

No. 11, Jalan 219,  
Section 51A,  
46100 Petaling Jaya,  
Selangor.

**5. CRYSTAL PLAZA**

No. 4, Jalan 51A/223  
46100 Petaling Jaya,  
Selangor.

**6. INFINITE CENTRE**

Lot 1, Jalan 13/6,  
46200 Petaling Jaya,  
Selangor.

**7. MENARA AXIS**

No. 2, Jalan 51A/223,  
46100 Petaling Jaya,  
Selangor.

**8. QUATTRO WEST**

No. 4, Lorong Persiaran Barat,  
46100 Petaling Jaya, Selangor.



**9. STRATEQ DATA CENTRE**

No. 12 Jalan Bersatu 13/4,  
Section 13, 46200 Petaling Jaya,  
Selangor.

**10. THE ANNEX**

No 4, Jalan 19/1,  
46300 Petaling Jaya,  
Selangor.

**11. WISMA ACADEMY PARCEL**

No 4A, Jalan 19/1,  
46300 Petaling Jaya,  
Selangor.

**12. WISMA KEMAJUAN**

No. 2, Jalan 19/1B,  
46300 Petaling Jaya,  
Selangor.

**13. AXIS PLAZA**

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

**14. AXIS SHAH ALAM DC1**

Lot 2-22, 2-24, 2-26, 2-28,  
Jalan SU 6A, Taman Perindustrian  
Subang (Lion Industrial Park),  
Section 22, 40300 Shah Alam,  
Selangor.

**15. FONTERRA HQ**

No.23, Jalan Delima 1/1,  
Subang Hi-Tech Industrial Park,  
Batu Tiga, 40000 Shah Alam,  
Selangor.

**16. AXIS PDI CENTRE**

Lot 7316, Off Jalan Klang/Banting,  
Locality of Sijangkang,  
42500 Telok Panglima Garang,  
Selangor.

# The Investment Property **PORTFOLIO**

as at 31 December 2013



**17. AXIS STEEL CENTRE**

Lot 19, Lebu Hishamuddin 1,  
Kawasan 20, Selat Klang Utara,  
42000 Pelabuhan Klang.

**18. BUKIT RAJA DISTRIBUTION CENTRE**

No. 43 & 44, Lengkok Keluli 1,  
Kawasan Perindustrian,  
Bukit Raja Selatan, Sek 7,  
40000 Shah Alam, Selangor.

**19. AXIS EUREKA**

3539, Jalan Teknokrat 7,  
63000 Cyberjaya, Selangor.

**20. EMERSON INDUSTRIAL FACILITY NILAI**

Lot 13111 & Lot 13112,  
Mukim Labu,  
Kawasan Perindustrian Nilai,  
71800 Nilai,  
Negeri Sembilan.

**21. BAYAN LEPAS DISTRIBUTION CENTRE**

88A, Lintang Bayan Lepas Industrial,  
Park, Phase IV, 11900 Bayan Lepas,  
Penang.

**22. GIANT HYPERMARKET**

Jalan Lencongan Barat,  
08000 Sungai Petani,  
Kedah.

**23. SEBERANG PRAI LOGISTIC WAREHOUSE 1**

Plot 23, Tingkat Perusahaan 6,  
Kawasan Perusahaan Prai Phase 4,  
13600 Seberang Prai Tengah,  
Penang.



**24. SEBERANG PRAI LOGISTIC WAREHOUSE 2**

Plot 24, Tingkat Perusahaan 6, Kawasan Perusahaan Prai Phase 4, 13600 Seberang Prai Tengah, Penang.

**25. SEBERANG PRAI LOGISTIC WAREHOUSE 3**

Plot 74, Lorong Perusahaan Utama, 4, Bukit Tengah Industrial Park, 14000 Bukit Mertajam, Penang.

**26. BMW CENTRE PTP**

Lot D21, Jalan Tanjung A/3, Port of Tanjung Pelepas, 81560 Johor.

**27. D8 LOGISTICS WAREHOUSE**

Lot D8, Jalan Tanjung A/4, Port of Tanjung Pelepas, 81560 Gelang Patah, Johor.

**28. DELFI WAREHOUSE**

PLO 563, Jalan Keluli 8, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor.

**29. FCI SENAI**

PLO 205, Jalan Cyber 14, Senai IV Industrial Area, 81400 Johor.

**30. NIRO WAREHOUSE**

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

**31. TESCO BUKIT INDAH HYPERMARKET**

No. 1, Jalan Bukit Indah, 81200 Johor.

# Portfolio **DETAILS**

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-13 (RM'000)	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
1 Menara Axis	03/08/2005	71,400	78,307	113,097	182,859
2 Crystal Plaza	03/08/2005	56,400	64,283	106,162	205,103
3 Axis Business Park	03/08/2005	84,600	87,830	112,398	341,467
4 Infinite Centre	03/08/2005	25,450	33,581	41,694	143,471
5 Axis Plaza	03/08/2005	22,500	22,662	32,000	117,450
6 Wisma Kemajuan	16/12/2005	29,000	35,324	56,890	199,008
7 Axis Business Campus	30/06/2006	32,500	52,817	68,000	172,967
8 Axis Shah Alam DC1	01/08/2007	18,500	19,627	21,514	110,406
9 Giant Hypermarket	07/09/2007	38,000	38,825	40,049	138,000
10 FCI Senai	15/11/2007	12,300	12,614	15,900	136,619
11 Fonterra HQ	16/11/2007	7,200	10,871	14,006	36,310
12 Quattro West	30/11/2007	39,800	50,222	53,638	104,196
13 Strateq Data Centre	25/01/2008	37,000	42,604	52,698	104,903
14 BMW Centre PTP	30/04/2008	27,000	27,942	29,684	161,474
15 Niro Warehouse	30/04/2008	14,500	15,210	17,000	167,193

<b>Address</b>	<b>Gross Revenue for the period ended 31-12-13 (RM'000)</b>	<b>Occupancy Rate as at 31-12-13</b>	<b>Major Tenants</b>
No. 2, Jalan 51A/223, 46100 Petaling Jaya, Selangor.	11,224	96.55%	Fujifilm (M) Sdn Bhd American International Assurance Berhad Sportathlon (M) Sdn Bhd Philips Malaysia Sdn Bhd DHL Asia Pacific Shared Services Sdn Bhd Opensys (M) Berhad
No. 4, Jalan 51A/223, 46100 Petaling Jaya, Selangor.	10,422	100%	Tenaga Nasional Bhd Scope International (M) Sdn Bhd DHL Asia Pacific Shared Services Sdn Bhd Asiaworks Malaysia Sdn Bhd TNB Fuel Services Sdn Bhd
No. 10, Jalan Bersatu 13/4, 46200 Petaling Jaya, Selangor.	11,498	100%	Fuji Xerox Asia Pacific Pte Ltd Hitachi eBworx Sdn Bhd Honeywell Engineering Sdn Bhd Johnson & Johnson Sdn Bhd Eitek Power (Malaysia) Sdn Bhd
Lot 1, Jalan 13/6, 46200 Petaling Jaya, Selangor.	3,719	89.23%	Konica Minolta Business Solutions (M) Sdn Bhd FJ Benjamin (M) Sdn Bhd C Melchers Gmbh & Co Wo Kee Hong Electronics Sdn Bhd
Lot 5, Jalan Penyair U1/44, Off Jalan Glenmarie, Temasya Industrial Park, Batu Tiga, 40150 Shah Alam, Selangor.	3,097	89.27%	Ricoh (Malaysia) Sdn Bhd CSE Automotive Technologies Sdn Bhd Electrolux Commercial Products Sdn Bhd EMS Asia Group Sdn Bhd
No. 2, Jalan 19/1B, 46300 Petaling Jaya, Selangor.	5,812	92.81%	Goucera Marketing Sdn Bhd HUME Marketing Sdn Bhd Hawley & Hazel Marketing Sdn Bhd Brightstar Distribution Sdn Bhd Sumisho E-commerce (M) Sdn Bhd
Lot 13A & 13B, Jalan 225, Section 51A 46100 Petaling Jaya, Selangor.	536	0%	
Lots 2-22,2-24,2-26,2-28, Jalan SU 6A Taman Perindustrian Subang, (Lion Industrial Park), Section 22, 40300 Shah Alam, Selangor.	1,722	100%	Upeca Aerotech Sdn Bhd
Jalan Lencongan Barat, 08000 Sungai Petani, Kedah.	3,441	100%	GCH Retail (Malaysia) Sdn Bhd
PLO 205, Jalan Cyber 14, Senai IV Industrial Area, 81400 Johor.	1,641	100%	FCI Connectors Malaysia Sdn Bhd
No. 23, Jalan Delima 1/1, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor.	1,176	84.96%	Fonterra Brands (M) Sdn Bhd
No. 4 Lorong Persiaran Barat, 46100 Petaling Jaya, Selangor.	5,936	100%	Zija Products (M) Sdn Bhd Kenanga Investment Bank Bhd VADS Business Process Sdn Bhd TNB Energy Services Sdn Bhd HSS Integrated Sdn Bhd
No. 12 Jalan Bersatu 13/4, Section 13, 46200 Petaling Jaya, Selangor.	4,630	100%	Strateq Data Centre Sdn Bhd
Lot D21, Jalan Tanjung A/3, Port of Tanjung Pelepas, 81560 Johor.	3,416	100%	BMW Asia Technology Centre Sdn Bhd
PLO 419-421, Jalan Emas 2, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor	1,677	100%	Niro Ceramic (M) Sdn Bhd

# Portfolio DETAILS

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-13 (RM'000)	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
16 Delfi Warehouse	04/08/2008	12,500	12,803	14,500	130,743
17 Axis Vista	09/12/2008	32,000	33,267	36,000	118,017
18 Axis Steel Centre	20/10/2009	65,000	66,192	75,800	366,839
19 Bukit Raja Distribution Centre	14/12/2009	71,750	73,231	90,400	456,435
20 Seberang Prai Logistic Warehouse 1	05/03/2010	17,390	17,695	20,000	106,092
21 Seberang Prai Logistic Warehouse 2	05/03/2010	6,860	7,285	8,000	41,893
22 Tesco Bukit Indah	01/10/2010	75,600	76,773	90,000	233,579
23 Axis PDI Centre	15/10/2010	85,000	86,328	92,107	58,009
24 Axis Technology Centre	15/11/2010	49,000	50,130	52,391	170,730
25 D8 Logistics Warehouse	01/03/2011	30,000	30,521	32,000	171,000
26 Axis Eureka	18/04/2011	51,250	53,103	54,500	117,618
27 Bayan Lepas Distribution Centre	17/01/2012	48,500	49,756	49,500	205,151
28 Seberang Prai Logistic Warehouse 3	15/02/2012	59,000	61,335	63,000	395,225
29 Emerson Industrial Facility Nilai	30/08/2012	26,500	27,196	29,320	291,642
30 Wisma Academy Parcel	01/10/2012	73,000	74,385	77,000	234,326
31 The Annex	01/10/2012	12,000	12,289	16,000	45,400

<b>Address</b>	<b>Gross Revenue for the period ended 31-12-13 (RM'000)</b>	<b>Occupancy Rate as at 31-12-13</b>	<b>Major Tenants</b>
PLO 563, Jalan Keluli 8, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor	1,412	100%	Delfi Cocoa (Malaysia) Sdn Bhd
No. 11, Jalan 219, Section 51A 46100 Petaling Jaya Selangor.	2,992	100%	Convergent Strategies Sdn Bhd Melco Sales Malaysia Sdn Bhd
Lot 19, Lebuhr Hishamuddin 1, Kawasan 20, Selat Klang Utara, 42000 Pelabuhan Klang.	7,068	100%	Konsortium Logistik Berhad
No. 43 & 44, Lengkok Keluli 1, Kawasan Perindustrian, Bukit Raja Selatan, Sek 7, 40000 Shah Alam, Selangor.	6,603	100%	LF Logistics (M) Sdn Bhd
Plot 23, Tingkat Perusahaan 6, Kawasan Perusahaan Prai Phase 4, Seberang Prai Tengah, Penang.	1,570	100%	LF Logistics (M) Sdn Bhd
Plot 24, Tingkat Perusahaan 6, Kawasan Perusahaan Prai Phase 4, Seberang Prai Tengah, Penang.	620	100%	LF Logistics (M) Sdn Bhd
No 1, Jalan Bukit Indah, 81200 Johor.	6,408	100%	Tesco Stores (M) Sdn Bhd
Lot 7316, Off Jalan Klang / Banting, Locality of Sijangkang, 42500 Telok Panglima Garang, Selangor.	8,612	100%	Konsortium Logistik Bhd
No 13, Jalan 225, Section 51A, 46100 Petaling Jaya, Selangor.	4,736	88.29%	Fresenius Kabi Malaysia Sdn Bhd Fresenius Medical Care Malaysia Sdn Bhd Sigma Elevator (M) Sdn Bhd NZ New Image Sdn Bhd
Lot D8, Jalan Tanjung A/4 Port of Tanjung Pelepas Gelang Patah, 81560 Johor.	3,285	100%	Nippon Express (M) Sdn Bhd
3539, Jalan Teknokrat 7 63000 Cyberjaya Selangor.	5,516	91.65%	Scicom (MSC) Berhad Multimedia Development Corporation Sdn Bhd Wolters Kluwer Enterprise Services Partners Sdn Bhd
88A, Lintang Bayan Lepas Industrial Park, Phase IV 11900 Bayan Lepas, Penang.	4,642	100%	DHL Properties (M) Sdn Bhd
Plot 74, Lorong Perusahaan Utama 4, Bukit Tengah Industrial Park 14000 Bukit Mertajam, Penang.	6,888	100%	Schenker Logistics (M) Sdn Bhd
Lot 13111 & Lot 13112, Mukim Labu, Kawasan Perindustrian Nilai, Negeri Sembilan.	2,656	100%	Emerson Process Management Manufacturing (M) Sdn Bhd
No 4A, Jalan 19/1, 46300 Petaling Jaya, Selangor.	7,410	89.99%	Dataprep Holdings Sdn Bhd Ban Leong Technologies Sdn Bhd Tenaga Nasional Berhad Ingram Micro (M) Sdn Bhd Noble Temptation Sdn Bhd
No 4, Jalan 19/1, 46300 Petaling Jaya, Selangor.	940	100%	Allrounder Indoor Soccer Sdn Bhd Chong Tin Sam



CBRE Market  
**OVERVIEW 2013**

Malaysia's economy recorded positive growth of 4.7% in 2013, spearheaded by strong performance in the Services and Manufacturing sector. All three segments within the Wholesale & Retail Trade of the Services sector were the impetus for increased growth; Retail (+10.2%), Wholesale (+7.9%) and Motor Vehicles (+3.8%). The Manufacturing sector recorded positive growth on the back of strong domestic demand. Bank Negara forecasts the economy to expand by 5% to 5.5% in 2014. The Overnight Policy Rate (OPR) which has been maintained at 3.0% since May 2011 is expected to rise by the second half of 2014 due to rising inflation which will temper growth.

2013 also witnessed the listing of Malaysia's first ever stapled REIT, which is rated the largest by market value and size. The combined market capitalisation for Malaysian Real Estate Investment Trusts (MREITs) increased to RM32.9 billion as at January 2014 (Nov 2012: RM24.1 billion) while yields have been further compressed to 6.1% from 6.2% in 2012. Looking forward, the US Federal's Quantitative Easing (QE) tapering, coupled with the possibility of increasing interest rates, will have a negative impact on MREITs investor sentiment. This may however play to the advantage of MREITs in the long run, as decent buying opportunities emerge with the rise of property yields. We foresee that the rates of withholding tax on dividend distribution will remain at 10% for all individuals and non-corporate investors as well as 25% for non-resident company.

On a separate note, the Industrial Production Index (IPI) showed a slight decline in December 2013 (-1.1%) but had increased 4.8% y-o-y spurred by continued growth in the major indices (Electricity +6.0% and Manufacturing +6.7%). Growth in domestic-oriented industries was largely contributed by the consumer-related cluster with significant increases in transport equipment and beverages. Export-oriented industries' growth meanwhile was largely due to the increase in electronics, textiles, wearing apparel and footwear and rubber products.

Bank Negara recently announced that Malaysia's total trade for 2013 increased by 4.6% to about RM1,369 billion from the corresponding period in 2012. Exports rose by 2.4% to approximately RM720 billion while imports increased by 7.0% to about RM649 billion, resulting in a trade surplus of around RM60 billion, above market expectation.

Overall, the sales value of the Manufacturing sector saw a marginal increase from RM623.1 billion in 2012 to RM624.4 billion in 2013. The total number of employees in the Manufacturing sector also saw an increase incrementally to 1.03 million, up from 1.02 million during the same period last year.

## 1.0 Klang Valley

### 1.1 Property market overview

The growth of Klang Valley or Greater Kuala Lumpur remains as one of the crucial components within the National Key Economic Areas (NKEA) with the implementation of the Economic Transformation Programme (ETP). A list of nine Entry Point Projects (EPP) has been allocated to the capital, which is projected to create 300,000 new job opportunities, a notable EPP which includes the Integrated Urban Mass Rapid Transit (MRT) System. (Source: PEMANDU)

Overall, the Kuala Lumpur property market reported a total transaction value of RM12.63 billion for 13,369 property units as of 3Q 2013, whilst Selangor recorded RM33.64 billion worth of transactions for 60,805 property units during the same period. This was a decline of 18.1% on volume and 8.4% on value for the Klang Valley (Kuala Lumpur + Selangor) compared with the same period last year. This generally suggests that the cooling measures introduced by Bank Negara earlier in the year have started to kick in amid the strong economic growth. (Source: JPPH)

### 1.2 Purpose built office sector

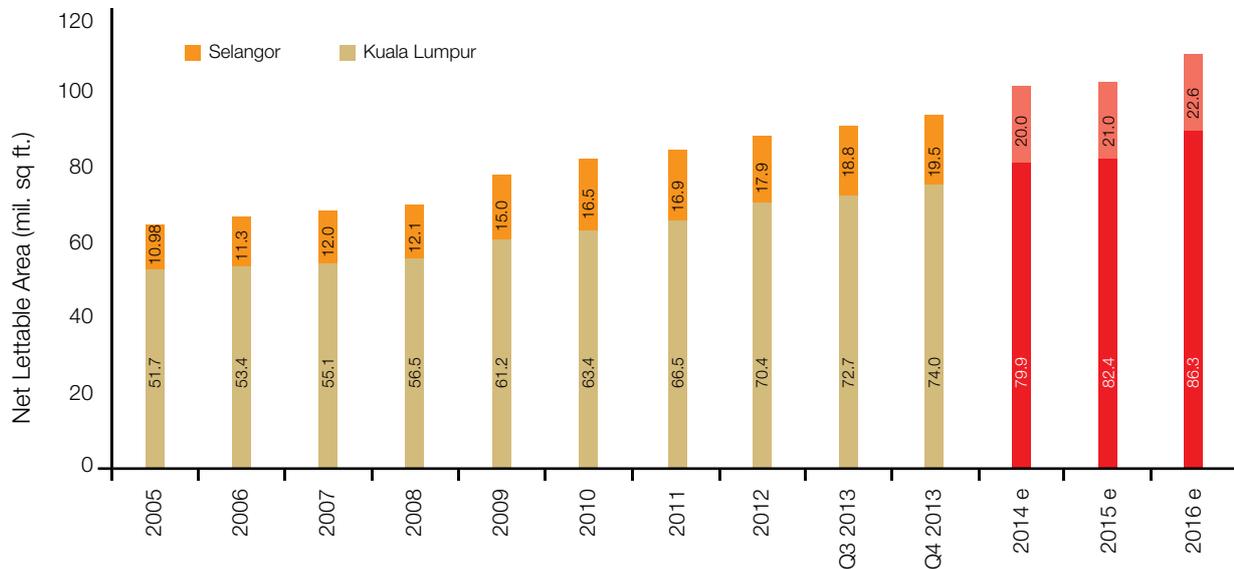
#### 1.2.1 Existing supply

For 2013, the Klang Valley total office space supply stood at 93.5 million sq ft, up from 87.9 million sq ft or 6.4% y-o-y from 2012. Thirteen (13) office developments were completed during 2013 with the majority located within Suburban Kuala Lumpur or decentralised areas within Kuala Lumpur. Notable completions include Nu Tower (758,000 sq ft), Menara Shell (538,000 sq ft), Menara CIMB (609,000 sq ft) and 1 Sentrum (440,000 sq ft), all located within KL Sentral.

KL Sentral continues to provide an alternative supply for office space to the KLCC area, as evidenced by the completion of these four (4) developments in 2013.

# CBRE MARKET OVERVIEW 2013

## Cumulative Supply of Purpose Built Office Space in the Klang Valley



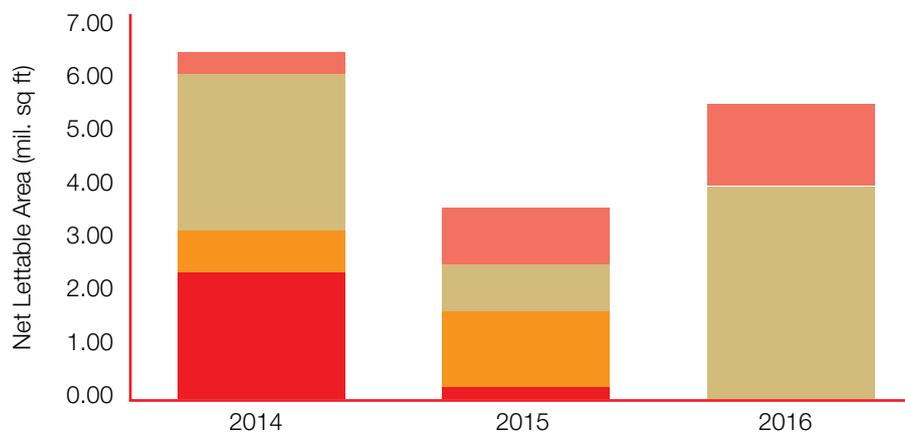
Source: CBRE Research

### 1.2.2 Future Supply

Future supply of office space within the Klang Valley is expected to grow by an additional 15.2 million sq ft, with the majority to be located in Suburban Kuala Lumpur. 49.4% of the upcoming office supply will be located in suburban areas, 31.5% within Kuala Lumpur city centre (17.1% within the Golden Triangle (GT) and 14.4% within the Central Business District (CBD), while the remainder is to be located in Selangor.

Among the significant office developments expected to complete in 2014 include Menara Bank Rakyat and Q Sentral. Both developments boast over 1 million sq ft of net lettable area (NLA) each. It should be noted that the future supply figures have not included potential space from mega projects such as KL Metropolis, Warisan Merdeka and PJ Sentral Garden City, as they are not expected to complete before 2017.

## Future Supply of Purpose Built Office Space in the Klang Valley



Source: CBRE Research

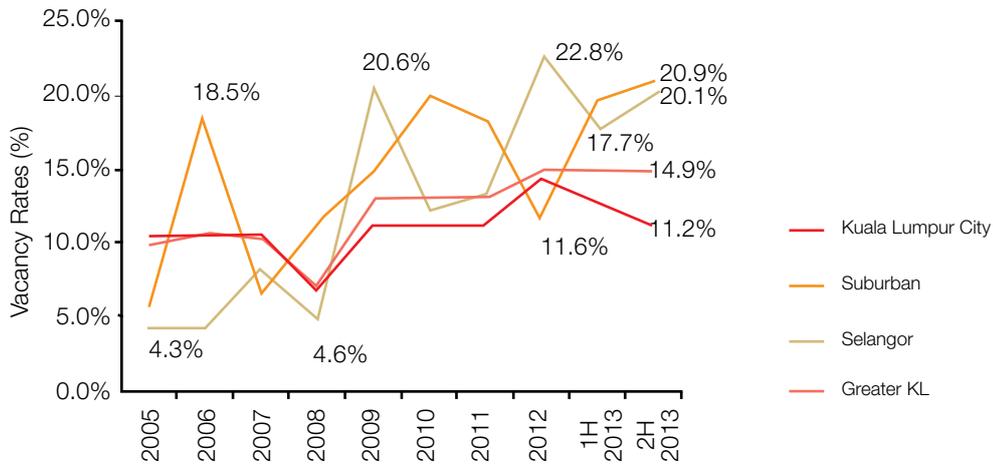
■ GT ■ CDB ■ Suburban ■ Selangor

### 1.2.3 Average vacancy rates

Vacancy rates in Klang Valley improved to 14.9% from 17.8% in 2012 spurred by the strong performance of the Kuala Lumpur city centre office market which saw a decrease in vacancy rates to 11.2% from 14.5% during the same review period. Vacancy rates had a chance to recover due to no new office supply being introduced in 2013 within the GT/ CBD areas.

In Selangor, the vacancy rates improved during the first half of the year to 17.7% before rising to 20.1% (2012: 22.7%) due to new completions in the second half of the year. These completions included The Pinnacle Sunway and Plaza 33 Petaling Jaya, bringing more than 500,000 sq ft in NLA into the office market.

#### Vacancy Rate of High Grade Purpose Built Office Space in Klang Valley



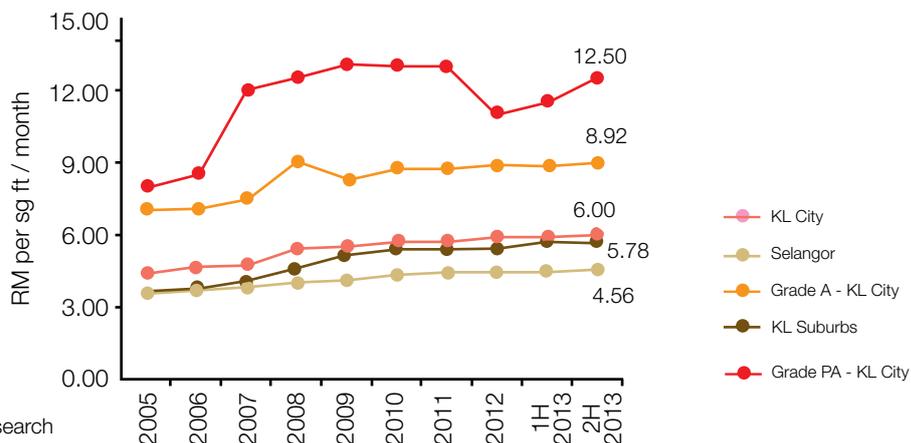
Source: CBRE Research

### 1.2.4 Average asking rental rates

Gross rents in the Kuala Lumpur city centre increased to RM7.61 per sq ft, up from RM7.55 per sq ft in 2013. Asking rents of prime buildings in the city centre range above the RM8.00 per sq ft mark, with three buildings breaking the RM10.00 per sq ft threshold – notably Menara 3 Petronas, Integra Tower and Menara Maxis. Asking gross rents for Selangor also saw an increase to RM4.56 per sq ft from RM4.33 per sq ft from last year.

Despite the strong supply growth in city-centre areas since 2009, landlords of good quality new buildings have remained steadfast and (for the most part) held rents firm or raised them slightly. The continued increased supply in the city-centre will eventually make itself felt; rents at newer, better buildings are generally healthy, but older, less highly-specified buildings may struggle as landlords look to fill space or retain tenants.

#### Asking Gross Rents in Greater Kuala Lumpur



Source: CBRE Research

# CBRE

## MARKET OVERVIEW 2013

### 1.2.5 Major transactions

The office investment market was active during the review period with 10 recorded transactions worth a total of around RM1.35 billion in value. Significant office transactions include the East Wing of The Icon, Jalan Tun Razak (RM226 mil, RM843 per sq ft) and Menara Sapura Kencana, Jalan Dutamas (RM260 mil, RM920 per sq ft) amongst others which are detailed in the table below.

### Major Transactions of Purpose Built Office Buildings in Klang Valley in 2013

Buildings	Location	NLA (sq ft)	Consideration	
			RM mil	RM per sf
Kuala Lumpur				
East Wing, The Icon	Jalan Tun Razak	267,907	226.0	843
Tower 3, Avenue 7, The Horizon	Bangsar South	169,040	undisc.	undisc.
Tower 7, Avenue 3, The Horizon	Bangsar South	71,552	64.0	895
Menara PMI	Jalan Changkat Ceylon	104,011	60.0	577
Menara PJD	Jalan Tun Razak	414,000	220.0	531
Menara 238 (Menara Marinara)	Jalan Tun Razak	238,900	206.0	599
Menara Sapura Kencana	Jalan Dutamas	280,000	260.0	920
Selangor				
Block I, V-Square	Jalan Utara, PJ	163,504	140.0	856
Block H, Oasis Square	Ara Damansara	191,399	124.5	650
Green Packet Building	Jalan Templer, PJ	93,381	49.0	525
Jaya 33	Jalan Semangat, PJ	456,812	324	709
Axis Plaza	Temasya Industrial Park, Shah Alam	117,244	34	290

Source: Annual Reports, Bursa Malaysia, The Star & CBRE Research

### 1.3 Industrial sector

Industrial investment activities in Klang Valley saw a similar distribution of industrial land transactions and factories / warehouses in terms of volume during 2013. Notable transactions included a factory built on two parcels of contiguous industrial land in Taman Sains Selangor sold at RM75.2 million and the Permanis Factory sold by a REIT competitor at RM31.0 million. Most major transactions were located in the Petaling and Klang districts.

#### 1.3.1 Existing supply

The total existing supply of industrial properties in Kuala Lumpur and Selangor stands at about 5,160 and 35,382 units respectively. This is an increase of 1,020 units during 2013 for Selangor, while supply for Kuala Lumpur has remained stagnant since 2011. This is largely due to the high land cost within Kuala Lumpur forcing industrial developments to be located outside the city limits. Terraced factories remain the majority of the existing supply accounting for 75.1%.

#### 1.3.2 Future supply

Terraced factories will again make up the majority of future supply within Klang Valley with most projects located in Selangor. We see this trend changing in the future with most planned developments being semi-detached or detached factories.

### 1.3.3 Supply of Industrial Properties in Klang Valley (2008 to 2013<sup>p</sup>)

State	Type of Property	Existing Supply						Future Supply	
		2008	2009	2010	2011	2012	2013 <sup>p</sup>	Incoming	Planned
Kuala Lumpur	Terraced	2,975	2,975	2,975	2,989	2,989	2,989	35	0
	Semi-Detached	457	471	471	487	487	487	35	6
	Detached	553	554	554	554	554	554	0	0
	Flatted Factory	1,116	1,116	1,116	1,116	1,116	1,116	0	0
	Industrial Complex	14	14	14	14	14	14	0	0
	<b>Total</b>	<b>5,115</b>	<b>5,130</b>	<b>5,130</b>	<b>5,160</b>	<b>5,160</b>	<b>5,160</b>	<b>70</b>	<b>6</b>
Selangor	Terraced	26,277	26,310	26,310	26,357	26,424	26,586	2,130	544
	Semi-Detached	3,313	3,323	3,399	3,531	3,765	4,084	1,038	943
	Detached	4,199	4,218	4,236	4,250	4,289	4,335	198	625
	Flatted Factory	270	270	270	270	271	272	0	5
	Industrial Complex	104	105	106	107	113	115	6	22
	<b>Total</b>	<b>34,163</b>	<b>34,226</b>	<b>34,321</b>	<b>34,515</b>	<b>34,362</b>	<b>35,382</b>	<b>3,372</b>	<b>2,139</b>

Note: P = Preliminary figures

Source: JPPH, Ministry of Finance

The approved manufacturing investment figures for the Klang Valley was at RM6.35 billion in 179 projects as of October 2013 mainly contributed by investments in Selangor, which accounted for 98.9% of the total. Growth was mostly driven by domestic demand as FDIs took up only 27% of total investments. In comparison, RM11.99 billion in 263 projects were approved in 2012 for Klang Valley with FDIs accounting for 37% of the total. (Source: MIDA)

### 1.3.4 Rental

The average rental rates for industrial properties, derived from a basket of major industrial zones saw an increase to RM1.56 per sq ft in 2013 from RM1.36 per sq ft the year before. The increased rental rates underlined the limited availability of prime quality industrial space within the Klang Valley coupled with strong demand for related space. We believe this trend is set to continue on the back of the strong manufacturing data.

The rental increase was apparent in prime traditional industrial areas where asking rents for detached factories / warehouses increased from RM1.70 per sq ft to RM2.50 per sq ft as compared to 2012 rates of RM1.70 per sq ft to RM2.20 per sq ft.

## 2.0 Johor

### 2.1 Property market overview

There are several macro drivers of growth for Iskandar Malaysia (IM) as it draws closer to the end of Phase 2 (2011 - 2015) of the 20 year Comprehensive Development Plan (CDP). Some catalysts of demand have been completed which include Legoland, Puteri Harbour, Johor Premium Outlet and EduCity which are expected to spur growth and investment into IM.

Committed investment reached RM129.42 billion as of October 2013 with 65% or RM84.61 billion contributed by local investors. To date, RM44.82 billion or 34.6% of total committed investment has been realized, with the majority contributed by Manufacturing investments at RM19.44 billion, strengthening Johor's position as a major industrial location within Malaysia. The Manufacturing and Property sector also recorded the highest committed investment at RM45.6 billion and RM49.31 billion respectively, accounting for 73.3% of the total investment and the rising values.

Transactional activities in the state of Johor meanwhile registered 38,944 property transactions as of 3Q 2013, up 0.2% from 38,854 in 3Q 2012. Total value recorded a substantial increase of 25.0% to RM18.5 billion from 14.8 billion during the review period, emphasizing the significant impact of Iskandar Malaysia towards the state.

# CBRE

## MARKET OVERVIEW 2013

### 2.2 Purpose built offices

There has been no new office supply in the Johor office property market since 2004. Cumulative office supply registered at 5.6 million sq ft as of 2013, and 95% of these are located within the Johor Bahru city centre.

There is a lack of demand for quality office space mainly due to Johor's economy significantly weighted on the manufacturing industry. Only a handful of buildings enjoy high occupancy rates (over 95%), such as Menara Ansar, JB City Square Office Tower and Menara MSC Cyberport. The remaining buildings are about 50-80% occupied, bringing the estimated average occupancy rate to approximately 75%. However, the CDP aims to increase the services sector contribution from 50% to 65% by 2025, implying a potential increase in demand for office space in the medium to long-term.

Rental rates for purpose built office space remained stable throughout the review period. Monthly gross rental rates of purpose built office space in the city centre are less than RM3.00 per sq ft per month.

There is currently no central office cluster within Johor which caters to major services south of Malaysia. This is anticipated to change in the future with numerous large-scale integrated developments in the pipeline. A substantial amount of office space is currently at design stage and is expected to change the office landscape in IM. These include the Medini Business District, Tanjung Puteri Waterfront, and Danga Bay. The injection of new and modern corporate office space from these developments will give new impetus for purpose-built office developments within the area.

IRDA has estimated that the Financial Advisory & Consulting, Education and Creative Industries are among the industries that require quality office space for their operations, creating more than 100,000 new jobs by 2025. This may translate to a requirement of more than 10 million sq ft of office space within Iskandar Malaysia.

### 2.3 Industrial properties

State	Type of Property	Existing Supply						Future Supply	
		2008	2009	2010	2011	2012	2013p	Incoming	Planned
Johor	Terraced	7,459	7,459	7,469	7,471	7,509	7,509	378	836
	Semi-Detached	2,745	2,779	2,779	2,825	2,855	2,911	542	1,036
	Detached	2,688	2,712	2,734	2,750	2,855	2,901	213	1,597
	Flatted Factory	0	0	0	0	0	2	0	0
	Industrial Complex	470	470	470	470	470	470	11	23
	<b>Total</b>		<b>13,362</b>	<b>13,420</b>	<b>13,452</b>	<b>13,516</b>	<b>13,689</b>	<b>13,793</b>	<b>1,144</b>

Note: P = Preliminary figures

Source: JPPH, Ministry of Finance

Johor is the second largest supplier of industrial property in the country, ranked after Selangor and followed by Penang. Johor has a total of 13,793 industrial units as of 2013 making up 14.5% of Malaysia's total. The predominance of terraced factories is set to change with the large future supply of semi-detached and detached factories.

Johor emerged as the top investment destination in Malaysia during the first ten months of 2013. Approved manufacturing investment figures were at RM11.53 billion in 149 projects in which FDIs accounted for 77% of the total. This was a significant increase from 2012 total proposed capital investments of RM5.5 billion with FDIs accounting for 75%. (Source: MIDA)

Notable investments into Johor include the new manufacturing facilities of The Hershey Company, the largest chocolate maker in North America and Howco Group, a leading global oil and gas equipment distributor. The RM816 million investment by Hershey includes a 700,000 sq ft state-of-the-art confectionery manufacturing plant to be built in the Senai Free Trade Zone which is expected to create 400 jobs when completed in 2015 (Source: The Star). The Howco Group is reported to have invested in an RM63 million facility with about 80,000 sq ft of manufacturing space, which will be built within the Setia Business Park and is expected to complete by 2015. (Source: Bernama).

## 3.0 Penang

### 3.1 Property market overview

Penang continues to be one of the 3 preferred locations for manufacturing projects within Malaysia, especially within the electrical and electronic sector. The performance of the sector is rising with the worldwide demand for industrial and consumer electronics, as global sentiments may impact the approved manufacturing investments. Going forward, high FDI into the manufacturing industry, the backbone of Penang's economy, is expected to create more high value job opportunities which have a direct correlation to higher consumer spending power globally.

Over the past few years, the Penang state government and Penang Development Corporation (PDC) have played a crucial role in bringing in investors, especially to develop key projects in Batu Kawan which has seen the boom of its real estate with the opening of the second bridge being a key impetus. Real estate development is also driven by the improved infrastructure, inflow of population and workers as well as increasing demand for property from both domestic and international clients.

The Penang property market recorded a total transaction value of RM9.7 billion for 18,013 property units as of 3Q 2013. The number of transactions showed a decrease of 16.5% further underlining the impact of the cooling measures. Total value of transactions however registered an increase of 8.1%, suggesting higher average prices for properties. (Source: JPPH).

### 3.2 Purpose built offices

The supply of purpose-built buildings in Penang increased slightly by 0.3% in 2013 to 11.45 million sf. About 8.71 million sq ft or 76% of the total office supply is located within the Penang Island while the remaining 2.75 million or 24% of the total supply is located within Mainland Penang.

2013 witnessed the completion of the 74,000 sq ft NLA MSC status Bayan Central or One Precinct, located within the Bayan Baru / Sungai Nibong / Gelugor area on Penang Island. Occupancy rates are around 75% with majority of the tenants within the building being MNCs.

The investment market saw two purpose-built office buildings transacted - a three-storey former UOB building located along Lebuhr Pantai (20,000 sq ft) for RM6 million and Wisma Hai Thong (14,000 sq ft) which is located along Lebuhr Pinang for RM5.75 million.

The Penang office market performance remained stable in 2013. Occupancy rates in general showed a slight increase driven by business relocation and expansion within Penang. This is mainly driven by the evolving trend of the knowledge-based and high value added service sector as well as the increasing economic growth spurred by foreign as well as local investors. Rents range around RM3.20 per sq ft, starting from RM2.50 per sq ft reaching up to RM4.50 per sq ft, as seen in Menara Suntech. Rents for selected purpose built office buildings saw no increase across the board during the review period.

The limited incoming supply of office space into the market coupled with the further increase of occupancy rates may have an upward pressure on rental rates.

# CBRE

## MARKET OVERVIEW 2013

### 3.3 Industrial Properties

State	Type of Property	Existing Supply						Future Supply	
		2008	2009	2010	2011	2012	2013 <sup>P</sup>	Incoming	Planned
Pulau Pinang	Terraced	4,794	4,817	4,862	4,862	4,882	4,920	27	135
	Semi-Detached	1,109	1,109	1,109	1,109	1,109	1,121	98	11
	Detached	1,279	1,320	1,333	1,336	1,380	1,415	80	187
	Flatted Factory	333	333	333	333	333	333	59	0
	Industrial Complex	42	42	42	42	42	42	1	0
	<b>Total</b>		<b>7,557</b>	<b>7,621</b>	<b>7,679</b>	<b>7,682</b>	<b>7,746</b>	<b>7,831</b>	<b>265</b>

Note: P = Preliminary figures

Source: JPPH, Ministry of Finance

Existing industrial stock in Penang is at 7,831 units or 8.3% of total industrial properties in Malaysia as of 2013. Majority of current industrial properties are terraced factories but the trend seems to be moving towards detached factories as shown in the table above.

The approved manufacturing investment figures however have seen a decline since its peak in 2010. RM2.47 billion in 115 projects were approved in 2012 with FDIs accounting for 46% of the total. The bulk of approved investments were in the electrical and electronic sector. Total proposed capital investment saw an increase to RM3.08 billion for 92 projects during the first ten months of 2013 driven mainly by domestic demand and MNCs. FDIs accounted for RM1.19 billion or around 39% of the total. (Source: MIDA)

The further expansion of the Batu Kawan Industrial Park is expected to generate new manufacturing activities and employment opportunities driven by the completion of the second Penang Bridge. The upcoming infrastructure within Penang, especially on the Island is expected to act as a catalyst for further industrial growth.

Submitted on behalf of **CB Richard Ellis (Malaysia) Sdn Bhd**

**Christopher Boyd**

Executive Chairman

February 2014

# The Engineering **TEAM**



**left to right:** Tan Choon Yee, Tan Seong Seng, Alvin Bonjour, Abdul Aziz Abdul Rasheed, Mohd Farhan Samsudin

# Asset **ENHANCEMENT INITIATIVES**



**Abdul Aziz Abdul Rasheed**  
Head of Engineering

"Recognising the importance of our technical capabilities, the Managers have established a dedicated engineering team to focus on asset enhancement and special projects."

Creating value is one of our core drivers in managing the Axis-REIT portfolio and from a technical perspective we do this by unlocking the intrinsic values of each property. To this end, the Manager is constantly exploring ways to improve performance and increase future valuation and property income. One way is to enhance assets within the portfolio to cater for current market demands and sometimes specifically for a particular tenant requirement.

Recognising the importance of Asset Enhancement Initiatives (AEIs), the Manager decided that a dedicated team responsible for all AEIs within our portfolio should be established. Beginning in mid-2013, the Manager has now completed the appointments of key team members to this newly established Engineering Team. The team now comprises project managers, engineers, a site-superintendent and support personnel. Aside from AEIs, the team will also be responsible for technical assessments and audits, new acquisition due diligence, major repairs, code compliance works and special projects.

## **Enhancement projects completed in 2013**

### **Axis Business Campus (formerly known as Wisma Bintang)**

The Axis Business Campus (ABC) was our core AEI project in 2013. The objective was to reposition this property through a major refurbishment exercise and achieve a higher yield for the buildings and land. This was based on the high demand for quality office space, showroom, storage facilities and data centres in the downtown Petaling Jaya area.

The Fund acquired this property in 2006 and after the existing lease with Cycle & Carriage Bintang Berhad expired in mid-2012, the AEI was executed. Major building works began in February 2013 and were originally slated for completion in April 2013 for the West Block and May 2013 for the South Block. However, based on market needs and our own client feedback, the Manager decided to incorporate sustainable features and upgrade to a High Tension (HT) power supply.

Car parking facilities are now one of the deciding factors for business relocation. Recognizing this, we developed 450 car parking bays and 100 motorbike parking bays within the property. The contemporary modern design of ABC took into account future tenant needs and comfort with added sustainability features. This enabled the property to be more versatile while minimizing operating costs over the longer term.

The new design incorporates the following features:-

- New cladding for the building envelope;
- Upgrading of all M&E services including new lifts, a new electrical system, upgraded fire-fighting system, new energy saving air-conditioning system and new HT incoming power supply;
- Fibre optics for all telco lines (with copper redundancy);
- Additional car parking bays;
- Upgrading of toilets and lobbies with handicap-friendly features;
- Eco-friendly fixture and fittings.

The Manager has obtained approval to develop a new six-storey East Block, but work on this has been deferred pending future tenant demand and commitment. The said land is currently built to accommodate more car parking facilities.



*Before Refurbishment*

Spread over 5-acres and with plenty of space for future expansion, ABC is poised to become a premier business centre destination in the heart of Petaling Jaya.



*After Refurbishment*



*South Block*



*West Block*



*South Block Drop-off Area*



*West Block Drop-off Area*



*Lift Lobby*



*Open Air Car Park Area*

# Asset **ENHANCEMENT INITIATIVES**

## Infinite Centre

The enhancement of Infinite Centre was completed in February 2013. As a result, the 30-year-old building has a new modern and vibrant feel to it. The AEI included the following elements:-

- New cladding for the building envelope;
- Upgrading of toilets and lobbies;
- Upgrading of M&E systems including upgrading of passenger lifts, electrical fittings, fire fighting system and relocation of air-conditioning units.
- Creating additional car parking bays.

True to Axis-REIT's philosophy, we are continuously enhancing our assets to create value. We have begun upgrading the four cargo lifts within the warehouse area. Two cargo lifts were completed in March 2013 and another two are now in the midst of upgrading and will be completed in 1Q 2014.

## Crystal Plaza

After the completion of Crystal Plaza's AEI in 2011, Axis-REIT embarked on the upgrading of passenger lifts within the property. Work on the first two passenger lifts has been completed and they were commissioned in September 2013 and the remaining two passenger lifts are slated for completion in 2Q 2014.

## Enhancement projects planned for 2014

### Axis Business Park Block C

Capitalising on Fuji Xerox space contraction in Q1 2014 (Fuji Xerox has been a tenant in the building for 15 years), it is timely for the Manager to embark on our next major AEI project, Axis Business Park Block C.

The proposed enhancement entails reconfiguration of the space from a single-tenant occupied building to a multi-tenanted building, major façade enhancement, upgrades of M&E services, refurbishment of toilets and lift lobbies, addition of a new surau and general improvements to the surrounding area. The AEI will incorporate sustainability features with energy-saving and water-efficient systems.



*Artist Impression After Refurbishment*



*Before Refurbishment*



*Artist Impression of Drop-Off Lobby*

## The Annex

The Annex was acquired in 2012 together with neighbouring Wisma Academy Parcel and is currently used as a futsal centre. The new Annex is envisioned as a five-storey office-warehouse complete with two basement-level car parking facilities. Separate cargo and passenger lifts will be provided for tenant convenience. The building will boast sustainable features as part of the Manager's Green agenda. The design of The Annex is sufficiently versatile to be use as a single or multi-tenanted building.

As a seasoned property player, we understood that this strategy will improve the property's marketability, and maximise plot ratio to create additional lettable space which is expected to bring about higher value-add to the portfolio upon completion.



*Before Refurbishment*



*Artist Impression After Refurbishment*

# The Facilities Management **TEAM**



V. Kamalahasan, S. Parmasivam, Baljit Singh, N. Krishnan, Mohd Yusoff Tokachil, Azhari Mohamed, K. Chandra Seharan, Wong Khong Kee, Megat Khairunizam Jaafar, Boo Voon Choy, Liew Lee Tack, Abdul Latif Abdulham, Mohd Azmi Mat Yaacob, Ishak Abu Bakar, Selina Khor, Siva Shankar Palany



Suhimi Abdul Razak, Armee Zabidi, Gunalan Arumugan, Juine Raskah, A. Steven Dass, R. Sivakumar, Mohd Azwan Mohammad Khair, Ong Fook Boon, Chan Chooi Onn, Mohd Fadle Mad Zin, Kathy Lim, Ahmad Kamal Zainudin, Suhaimi Mat Isa, Jackie Law, Loh Wai Yan, Loh Yen Fern, Lucy Yeong

# Property Manager's **REPORT**



**Selina Khor**  
Property Manager  
Axis Property Services



**Siva Shankar**  
General Manager of Facilities Management  
Axis Facilities Management Sdn Bhd

The team continuously strives to improve operating processes through improved productivity and enhanced operational effectiveness to optimise operational costs. The Efficiency Ratio across the Portfolio for 2013 improved from 15.17% to 14.73%.

The daily operations of Axis-REIT's portfolio of properties are undertaken by Axis Property Services (APS or the Property Manager), together with Axis Facilities Management Sdn Bhd (AFMSB), a 100% owned subsidiary of the Axis Group.

Together they have over 40 staff providing proactive and professional services to Axis-REIT's tenants, to enhance the market positioning and attractiveness of Axis-REIT's properties in order to maximize returns to Unitholders. This team provides a full range of high quality facilities management services to ensure uptime and business continuity for the diverse asset type, i.e. office, industrial, warehouse retail, warehouse logistic and light industrial. APS and AFMSB are geared towards maximizing the building life cycle value by providing predictive, preventive and reactive maintenance services, thus ensuring that facilities and buildings continuously perform at peak levels.

The combined scope includes overseeing the following operational matters:

**1. Strategic asset planning**

- Corporate and operations objectives;
- Asset Life cycle management.

**2. Governance and accountability**

- Justifiable budgets based on testing of alternative scenarios;
- Extensive asset life data for analysis and decision-making;
- Improved management of future requirements of asset portfolio, resource planning, labour, equipment and spare parts requirements.

**3. Customer care**

- Planned preventive maintenance;
- Housekeeping and hygiene services;
- Safety and security services;
- Landscape services.

**4. Compliance to local authorities and statutory requirements**

- Defects liability period (DLP) management;
- Fire Certificate (FC);
- M&E equipment certificate;
- Occupational health and safety;
- Strata Title Act advisory to Wisma Academy Management Corporation.

## 5. Continuous property improvement

- Periodic building condition assessment and asset risk analysis;
- Asset life cycle advisory including operating expenditure (Opex) and capital expenditure (Capex) planning;
- Execution of asset replacement, refurbishment and modernization projects.

## 6. End-of-lease management

- Inspection and appraisal;
- Property repair and refurbishment;
- Move management and coordination.

## 7. Car park management

- Season and visitors parking management;
- Automisation and standardization of car park systems across the portfolio.

## 8. Project management

In addition, where required, the team provides expertise in the area of construction and project management related to the upkeep of the assets in the portfolio as directed by the Manager. They liaise closely with the Manager's Head of Engineering and external professionals, such as architects and consultants to ensure each project is carried out in a timely and efficient manner. The team is committed to providing optimal solutions and services to meet the needs of Axis-REIT's customers as well as to enhance the value of Axis-REIT's portfolio.

## 9. Expense management

The key metric used to measure the performance of the portfolio is the efficiency ratio of the property expenditure versus property income levels. By improving the expense management, APS and AFMSB are able to enhance the Net Operating Income (NOI) levels for the properties.

### Efficiency Ratio ("ER")

The team adopts a prudent operational strategy to maximise return without compromising its service level. It continuously strives to improve operating processes through better productivity and enhanced operational effectiveness to optimise operational costs. The Efficiency Ratio across the portfolio for the last 5 years had been maintained at an efficient level.

Year	2009	2010	2011	2012	2013
Efficiency Ratio	15.50%	14.20%	15.19%	15.17%	14.73%

## 10. Sustainability initiatives

Green movements have become a priority agenda in our property management activities. The main objectives of sustainable building design are to avoid resource depletion of energy, water and raw material; prevent environmental degradation caused by facilities and infrastructure throughout their life cycle; and create built environments that are livable, comfortable, safe and protective.

APS and AFMSB have also been examining how to reduce the environmental impact. Initiatives underway is adopting best practices in the operation and maintenance policy, whereby the team conducts energy audit services to identify on a continual basis properties with the potential to save on energy consumption either through a more efficient management policy or a Capex plan.

# Business Development **REPORT**



**Chan Wai Leo**  
Head of Origination and Investments



**Stephanie Ping**  
Head of Investor Relations and  
Business Development

"Given the high market prices of properties, the Manager took the opportunity to sell Axis Plaza. The added contribution from this sale to the 2014 DPU is 2.37 sen."

## Disposal 2013



### Axis Plaza

We believe that in 2013 asset prices peaked and the Manager took the opportunity to dispose of one of its assets. On 26 December 2013, the Trustees signed a Sales and Purchase Agreement with Collective Developers Sdn Bhd for the disposal of a five (5) storey office/warehouse property built on freehold land held under GRN 131735 for Lot 52746, situated in the Town of Glenmarie, District of Petaling, State of Selangor, for a total cash consideration of RM34 million.

The purchaser is a private limited company and an indirect wholly-owned subsidiary of Singapore Post Limited, a company listed on the Singapore Exchange. Originally, the manager had proposed the space to the purchaser as a rental opportunity. However, the purchaser prefers to own it outright and the Manager decided to sell the asset given that the occupancy rate has been unfavourable at approximately 80% for the last five years and about to drop to 47% in 2014. Given the high market prices of properties, the Manager believes that it is time to unlock the value of Axis Plaza given its limited rental upside.

The expected completion date for this disposal will be no later than 26 April 2014. The disposal will not be subject to Real Property Gains Tax. Upon the disposal of Axis Plaza, the estimated gain on disposal of RM10,940,000 will be distributed to Unitholders in the 2014 income distribution. We are pleased to note that this distribution will be tax exempted.

The estimated contribution from this disposal to DPU will be approximately 2.37 sen. The net yield of the property will drop to 5.05% in 2014 and the occupancy rate is estimated to drop from 89% to 47% in 2014.

Axis Plaza	2009	2010	2011	2012	2013	2014
Occupancy Rate	81.75%	76.70%	89.25%	89.27%	89.27%	47.00%

### Acquisitions 2013

The Manager believes in buying and selling assets to maximize returns to our Unitholders. In 2013, the Manager looked at close to RM1.2 billion worth of potential transactions but refrained from making any purchases because we believe that asking prices were high and both valuations and yields were not meeting our required thresholds. However, the acquisition landscape has improved in 2014 and we are confident we will return to growing our portfolio this coming year.

### Moving forward

As part of our ongoing growth strategy, we will continue to seek yield accretive assets for the Fund and continue to focus on the following criteria when we select assets:

- Location
- Yield accretive assets
- Strong tenant covenants and strong lease structures
- Building age and enhancement possibilities
- Valuation
- Capital appreciation potential
- Future redevelopment potential

Our focus still continues to be:

- Logistics facilities with long leases from grade A tenants
- Multi-tenanted office or office/industrial properties in prime areas with future enhancement potential
- Retail warehousing
- Commercial properties

Sources for future acquisitions will continue to come through third party vendors and the Promoters through their private equity vehicles. All future acquisitions will be conducted via a mix of debt and equity.

The Manager will continue to practise a high level of discipline in its approach to real estate investing.

# Investor Relations **REPORT**



**Stephanie Ping**

Head of Investor Relations and Business Development

"The Manager is proud to announce that the Axis-REIT counter has been included into the Thomson Reuters Global Property Research APREA (TR/GPR/ARPEA) Composite Index. It is also proud to announce that Axis-REIT has regained the top spot for the APREA Best Practices Award."

## New research coverage in 2013

In 2013, three new investment banks initiated coverage on Axis-REIT. This brings the total coverage to nine research reports published by:

1. CIMB Investment Bank (New)
2. MIDF Amanah Investment Bank (New)
3. Alliance Investment Bank (New)
4. Maybank Investment Bank
5. RHB Research
6. Hwang DBS Vickers Research
7. Kenanga Research
8. Affin Investment Bank
9. KAF Investment Bank

The collage features three research reports:

- Alliance Investment Bank (4 March 2013):** "Initiating Coverage" for Axis REIT, recommending a "Buy" with a target price of RM3.48. The report highlights Axis REIT as an industrial REIT with a diversified portfolio of properties in Iskandar Malaysia, including office, industrial, and retail assets.
- MIDF Amanah Investment Bank (02 April 2013):** "Equity Beat" report recommending a "NEUTRAL" rating for Axis Real Estate Investment Trust. It notes that Axis REIT is a better alternative to retail-REITs and has a higher yield compared to more popular retail-focused REITs.
- CIMB (18 April 2013):** "Proxy for Iskandar's industrial boom" report, noting that Axis REIT is the first listed Islamic industrial/office REIT globally and offers exposure to the industrial property boom in Iskandar Malaysia.

In 2013, three new investment banks initiated coverage on Axis-REIT.

## Inclusion into the Thomson Reuters, Global Property APREA Composite Index

The Manager is proud to announce that the Axis-REIT counter has been included into the Thomson Reuters, Global Property Research APREA (TR/GPR/ARPEA) Index in 2013. This index tracks income and growth securities in the REITs and property development sectors. The TR/GPR/APREA Composite index series is designed to be the most comprehensive Asia Pacific Listed Real Estate benchmark. This is an important milestone for the Fund because global managers track their portfolios benchmarked to an index. Being included in the TR/GPR/APREA Composite Index will help raise the Fund's profile and investability to new investors. We also hope that this will translate into higher liquidity and better unit price performance.

### Annual General Meeting (AGM) and Unitholders' meeting

In 2010 the Board unanimously resolved that the Manager will hold one Unitholders meeting every financial year, irrespective of whether there are resolutions to be tabled for approval. This is in line with the best practices held by global REITs, which are mandated to hold an AGM every year. Having said that, the Fund has met with their Unitholders every year since then.

The Unitholders' meetings were held for three reasons:

- To seek for specific approvals for certain resolutions as part of holding the Manager to the highest level of corporate governance.
- To provide the Unitholders with a comprehensive briefing of the Fund's activities and performance.
- The Manager uses this as an opportunity to meet the Unitholders face-to-face and to provide a channel for Unitholders to meet key personnel. The Manager also uses this as an opportunity to gather feedback from Unitholders.

We are pleased to note that starting from 2013, the Securities Commission has made it compulsory for REITs to hold AGMs. In line with that, the Manager held its first AGM on 30 April 2013 at the Westin Hotel, Kuala Lumpur. Both the AGM and the Unitholders' meeting were held back-to-back for the convenience of Unitholders.

### Annual General Meeting 2013

The agenda of the AGM was to receive the Audited Financial Statements for FY2012 and to approve the renewal of IDRPA Authority. These were duly approved by Unitholders.

### Unitholders' meeting 2013

The Unitholders' meeting was held to seek approvals for the additional issuance of up to 90,762,819 new units in Axis-REIT and the corresponding increase in fund size; and to allot and issue up to 2 million new units for the purpose of payment of management fee to the manager and the corresponding increase in fund size.

I am pleased to report that all the approvals sought were passed by the Unitholders.



*Unitholders sign in for the AGM and the Unitholders' meeting at the Westin Hotel, Kuala Lumpur.*



*Unitholders listening to a briefing given by the Managers.*



*Key management posing for a photograph after the Unitholders' meeting.*



*Staff of the Manager - after a long day of coordinating the logistics of the AGM/Unitholders' meeting. Well done and thank you!*

# Investor Relations **REPORT**

## **Analysts' briefings**

The Manager held two analyst briefings this year, one in January to update on the fourth quarter results, and one in July to update on the second quarter results. The meetings were held on the following dates:

- 22 January 2013
- 26 July 2013



*Attendees sign in during the analysts' briefing held on 26 July 2013*



*Dato' Stewart LaBrooy, presenting to attendees during the analysts' briefing on 26 July 2013.*



*Lunch with the attendees post-presentation, at the Axis-REIT analysts' briefing held on 22 January 2013.*



*Analysts listening to the briefing given by the Manager.*

## Investor meetings, property visits and conferences

Frequent meetings were held with the investing community upon request. The following is a list of meetings, property visits and conferences participated in 2013. The Manager is dedicated to participating in industry conferences in order to reach out to a wider audience of retail investors and to increase liquidity of the Axis-REIT Units. Additionally, these networking opportunities help build the acquisition pipeline, assist in staff recruitment and help build a strong brand for Axis-REIT.

Date	Conferences, Events and/or Meetings
13-Jan	Wealth Mastery Convention Presentation on "REITs as an Alternative Form of Real Estate Investments"
30-Jan	Nomura Islamic Asset Management company visit
13-Mar	Truventus Industrial Real Estate and Business Parks conference
19-Mar	5th Annual Corporate Governance summit
01-Apr	Forum Securities Fund Manager meeting
01-May	The Edge Real Estate forum
01-May	CIMB Research client visit to iPark
01-Jun	Invest Malaysia
01-Jun	CIMB iPark visit
01-Jun	Truventus Office Building conference
01-Jun	Meeting with Mitsui & Co.
01-Jun	Shariah Financing conference by Halal-U
01-Jul	Meeting with Creador Investments
01-Jul	MIRA Award - Axis REIT nominated for various investor relations awards
01-Jul	Invest Penang meeting
01-Jul	Invest Penang conference
01-Jul	The Edge BRC Project
09-Jul	The Penang Paradigm seminar
19-Jul	The Edge BRC Project
30-Jul	Creador Private Equity Fund company visit
01-Aug	Creador Private Equity Fund iPark visit
01-Aug	Mondrian Emerging Markets Equity Fund meeting
05-Aug	Hwang DBS Research company visit
15-Aug	Hwang DBS Research iPark visit
20-Aug	Kenanga Investment Bank company visit
21-Aug	MICG Conventional & Islamic REITs conference
27-Aug	SIDC 8th Islamic Markets program
28-Aug	ASLI's 16th National Housing and Property summit
14-Sep	Macquarie Securities company visit
26-Sep	MPI Greater KL Office Space Conundrum seminar
02-Oct	Affin Investment Bank company visit
03-Oct	Aberdeen Asset Management company visit
03-Oct	Borsa Istanbul & REIDIN International REIT panel
16-Dec	Malaysia-Asean Corporate Governance Index 2013 and award ceremony

# Investor Relations **REPORT**

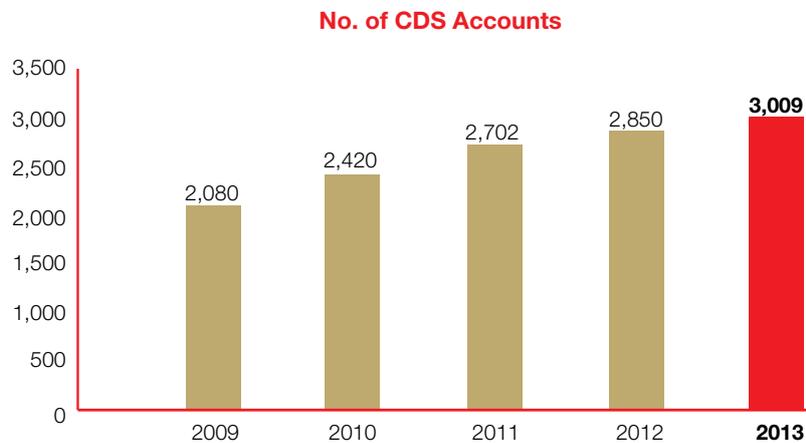
## Increase in volume traded

Total transactions as at December 2013 leaped from 53 million units in 2012 to 104 million units in 2013.



## Increase in the number of CDS accounts

Axis-REIT witnessed an increase in the number of CDS accounts to 3,009 for the year ended 2013 compared to 2,850 for the year ended 2012.



## Media relations

Axis-REIT continues to attract extensive coverage by the mainstream media such as newspapers, radio and TV. Axis-REIT is also attracting new media attention among financial blogs and forums. In addition, our participation in a long list of investor outreach programs has garnered unprecedented press coverage in 2013. These outreach programs help keep our current and future Unitholders well informed about our Fund and its performance.

## Press conferences

In 2013, we held three official press conferences on the following dates:

- 22 January 2013
- 30 April 2013
- 26 July 2013



CEO, Dato' Stewart LaBrooy and Head of Investor Relations, Ms. Stephanie Ping talking to members of the press during a Media Briefing event.



Dato' Stewart LaBrooy presenting to members of the press during a Media Briefing.

## Media coverage at roadshow events

Interviews with the press are also granted during our participation at industry conferences and roadshow events. For example, the Manager's CEO participated in BFM's radio interview on 1 June 2013 in conjunction with Maybank's Invest Malaysia event. The Manager also garnered invaluable press coverage during roadshow participation at the Wealth Mastery Convention conferences.

## Media appreciation night

The Manager holds an annual Media Appreciation Night for members of the press and the media. In 2013, the Media Appreciation Night was held at the Pietro Ristorante Italiano at Bukit Damansara on 6 Dec 2013. A lucky draw was conducted where exciting prizes were given out to thank the members of the media for their continued support throughout the year.



Members of the media mingling with staff of the Manager while enjoying a year-end dinner.



Dato' Stewart LaBrooy, presenting members of the media with their lucky draw prizes.

# Investor Relations **REPORT**

## Media coverage

Axis-REIT enjoys excellent media coverage on print, radio and online. The following are excerpts of some of the media publications of Axis-REIT during 2013.



## Multilingual annual report

Five years ago, the Manager made the decision to feature its annual report in Chinese and this will continue for this year's publication. It is made available as a download on our website. We feel that it is important to have the widest possible reach to the general investing community both in and out of the country.

## New website

In 2013, the Manager launched a brand new Axis-REIT website with an improved look-and-feel and user experience.

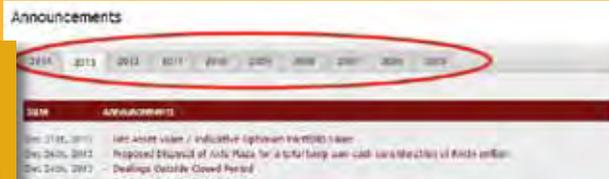


Axis-REIT new website front page.

It has the following features:

Better organization of published reports and announcements.

Web platform which resizes to fit varying sizes of different mobile handsets and a new mobile help section.



New HR recruiting page.

**JOB OPPORTUNITIES**

Axis Group of Companies offers the platform for every individual to grow in their career. If you are interested, please submit your resume to [careers@axis-reit.com.sg](mailto:careers@axis-reit.com.sg). We are currently looking for candidates for the following positions:

NO	POSITIONS	DEPARTMENT	LOCATIONS
1	FACILITY / MAINTENANCE	FACILITIES	RETALING JAYA / CYBERJAYA
2	IT CHARGEMAN (IC)	FACILITIES	RETALING JAYA / CYBERJAYA
3	EXPANDED/MAINT	FACILITIES	RETALING JAYA / CYBERJAYA
4	RESIDING TECHNICIAN	FACILITIES	RETALING JAYA / CYBERJAYA

## New website (continued)

Updated maps of Axis-REIT buildings with new landmarks and roads.



Updated "For Lease" section.



## Awards and recognition

### APREA Best Practices Award

Axis-REIT once again won the best country submission for the Asia Pacific Real Estate Association's (APREA) Best Practices Award under the emerging market category. Axis-REIT also received category merit awards for the four following categories:

- i) Market disclosure
- ii) Corporate governance category
- iii) Portfolio performance reporting category
- iv) Accounting and financial reporting category

The annual APREA Best Practices Award recognises the regional real estate firms who perform the best in governance and disclosure. The awards are based on the APREA Best Practices Handbook and regulation in the firm's local jurisdiction.

All real estate companies and trusts listed on a regional exchange, including Australia and New Zealand, are eligible to qualify for the awards. All eligible entities, whether or not they are members of APREA, are entitled to participate. Real estate organisations will need to make a submission in order to be considered.

This is the fourth year running Axis-REIT has been recognized by APREA for their high level of corporate governance and compliance to best practices as a Fund. Our involvement with APREA continues to bring Axis-REIT and the Manager increased benefits and further exposure to the region.



*The Manager's Chairman YAM Tunku Dato' Seri Shahabuddin and CEO Dato' Stewart LaBrooy, proudly accepting the APREA Best Practices Award 2013.*

### MIRA Award

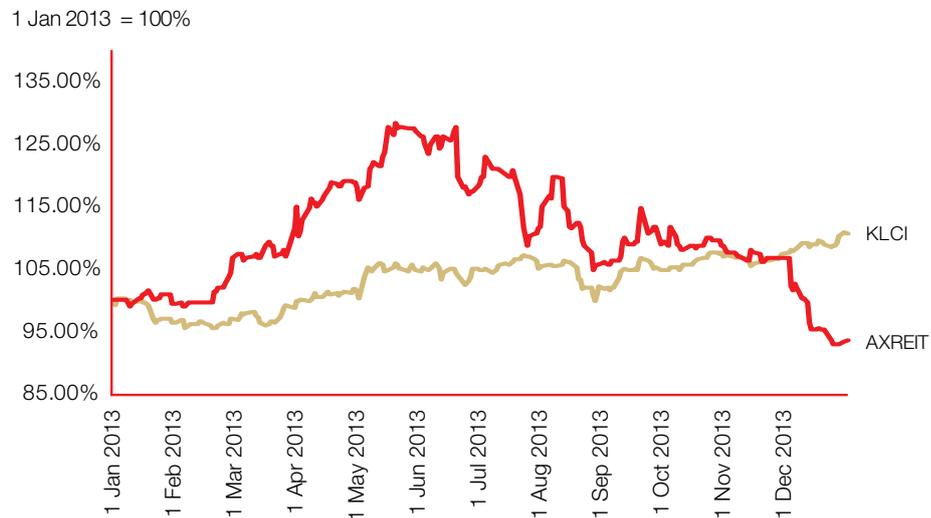
Axis-REIT was also nominated for four categories in the Mid-Cap category at the Malaysian Investor Relations Association Award ceremony, namely:

- Best Company for Investor Relations
- Best Investor Relations Website
- Best CEO for Investor Relations
- Quality of Annual Report / Formal Disclosure

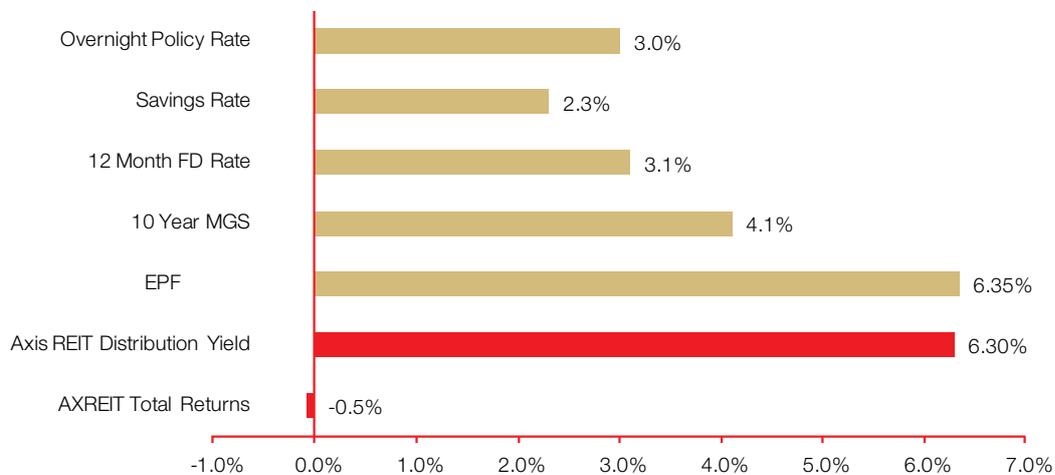
# Investor Relations **REPORT**

## Performance metrics

**AXREIT vs KLCI**



**Return Comparables**



## Price and Volume Metrics

	2009	2010	2011	2012	2013
Closing Price 31 December	1.93	2.37	2.62	3.13	<b>2.93</b>
High	2.07	2.40	2.63	3.22	<b>4.02</b>
Low	1.08	1.92	2.30	2.62	<b>2.93</b>
NAV	1.84	2.01	2.08	2.17	<b>2.23</b>
Market Capitalisation (RM mil)	593	891	1,189	1,429	<b>1,351</b>

Source: Bloomberg & Annual Report

## Malaysian REIT Managers Association REPORT

### Membership

To-date, the Malaysian REIT Manager Association (MRMA) has a total of 15 REIT managers and 1 bank as members.

### Election

The following Executive Committee was elected:

- Dato' Stewart LaBrooy of Axis-REIT as Chairman.
- Zuhairy Md. Isa of AmFirst REIT as Vice Chairman.
- Adenan Md Yusoff of Amanahraya REIT as Vice Chairman.
- Ph. Zalila Binti Mohd Toon of Hektar REIT as Treasurer.
- Dr. James Tee of Tower REIT as Secretary.

### Committees

The Association voted the following heads of our working committees:

- The Regulatory Committee headed by Dato' Stewart LaBrooy of Axis-REIT.
- The Finance Committee headed by Zuhairy Md. Isa of AmFirst REIT.
- The Islamic REITs Committee headed by Shahril Simon of CIMB.

### Website

The website is live and maintained at [www.mrma.my](http://www.mrma.my). A newsfeed bar was added whereby all REIT-related news are displayed on a scroll bar using artificial intelligence aggregation technology.

#### Breaking Industry News



##### Ascott REIT to acquire first Dalian...

20 February 2014, The Edge Singapore  
Ascott Residence Trust (Ascott REIT) has agreed to acquire its first serviced residence in Dalian fo...

##### Highlight: YTL Corp 1H profit rises...

20 February 2014, The Edge Malaysia  
KUALA LUMPUR (Feb 20): YTL Corp Bhd reported a 42% rise in first-half profit from a year earlier, he...

##### Highlight: YTL Corp 1H profit rises...

20 February 2014, The Edge Malaysia  
KUALA LUMPUR (Feb 20): YTL Corp Bhd reported a 42% rise in first-half profit from a year earlier, he...

*News feed on the MRMA website which trends all REIT-related news on the internet using artificial intelligence technology.*

### Members' meetings

The Association has held three breakfast meetings in 2013. At these sessions the Association invites prominent speakers to deliver papers on issues affecting our industry. These events are well attended and are popular with members. In addition, the committees get to report on their progress with the regulators and the Ministry of Finance.

The members met for their first quarter 2013 meeting at the PJ Hilton on 4 April 2013. There were two presentations at the meeting:

- A technical paper on the Claim of Capital Allowance and/or Industrial Building Allowance on the REIT level and the application of S109D withholding tax presented by Mr. Julian Wong and Mr. Chen Keng Haw of Ernst & Young; and
- A presentation on the "Implementation of MFRS 10 Consolidated Financial Statements" by MASB.

The members met again for an MRMA and APREA Malaysia Chapter Joint Meeting on 23 June 2013 at the Sunway Resort Hotel & Spa.

- The meeting was attended by the CEO of APREA, Mr. Peter Mitchell, who gave an overview of APREA and Mr. Kevin Swaddle, Director of IPD's Asia Services who presented the launch of IPD's Pan Asia Returns Index.

The members met for their fourth quarter 2013 meeting and AGM at the PJ Hilton on 5 December 2013.

- The meeting featured a presentation by Mr. Raja Kumaran of PricewaterhouseCoopers on the Impact of GST on REITs.

# Investor Relations **REPORT**

## MRMA meetings



*Members of the Malaysian REIT Managers' Association having a breakfast meeting.*



*A presentation to the members on issues of taxation by Ernst & Young.*



*Dato' Jeffrey Ng of Sunway REIT introducing Peter Mitchell of APREA and Kevin Swaddle of IPD Asia at an MRMA meeting*



*Members of MRMA posing for a picture.*

# Other **STATUTORY INFORMATION**

## **Directors' benefits**

For the year ended 31 December 2013, 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 25 of the Financial Statements.

There were no arrangements during and at the end of the 12-month period which had the object of enabling Directors of the Manager to acquire benefits by means of acquisition of Units or debentures of the Fund or any other body corporate.

## **Manager's fees**

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 RM10,051,289 representing 1.0% per annum of the NAV of Axis-REIT for the period 1 January 2013 to 31 December 2013. The Manager did not receive any soft commissions during the period.

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 no acquisitions and one disposal which will complete in 2Q 2014, which resulted in no fees being received by 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 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.

# Other **STATUTORY INFORMATION**

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 12 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 2013 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

## **Dato' George Stewart LaBrooy**

Chief Executive Officer/Executive Director

Kuala Lumpur

Date: 21 February 2014



Details  
of The Income  
Distribution  
**REINVESTMENT  
PLAN**

# Details of the Income Distribution

## REINVESTMENT PLAN

Axis-REIT has recurrent and optional reinvestment plan that allows Unitholders of Axis-REIT to reinvest their income distribution in new Units through an Income Distribution Reinvestment Plan (IDRP).

In 2013, Axis-REIT had applied the IDRP to the 1st and 3rd interim income distribution that was declared on 22 April 2013 and 21 October 2013 respectively, in which a combined total gross electable portion of 4.40 sen per Unit out of the 1st and 3rd interim income distribution of 9.20 sen per Unit (which is taxable in the hands of Unitholders) ("Electable Portion") could be elected to be reinvested in new Units and the total remaining portion 4.80 sen per Unit (of which 4.70 sen per unit is taxable and 0.10 sen per unit is non-taxable in the hands of Unitholders) would be paid in cash.

Axis-REIT's fund size has increased from 456,517,221 units to 461,239,089 units as a result of the issuance and listing of total 4,721,868 new Units under the IDRP. The summary of the IDRP implemented during the year is as follows:

	1st interim 2013 income distribution	3rd interim 2013 income distribution
Income Distribution (RM/Unit)	RM4.50	RM4.70
Electable Portion held under the Reinvestment Option (RM/Unit)	RM2.20	RM2.20
Issue Price (RM/Unit)	RM3.40	RM3.20
No. of Units	2,423,762	2,298,106
Discount Rate	6.03%	5.80%
Date of Listing	14 June 2013	16 December 2013

The subscription rate was very encouraging, averaging approximately 85%.

The proceeds from the IDRP of RM15,594,000 was utilised to refurbish and/or renovate Axis-REIT's properties. The refurbishment and/or the renovation of the properties is expected to enhance the future income to be generated from the said properties moving forward.

Here are some of the frequently asked questions of the IDRP:

### 1. How does it work?

Whenever a cash income distribution (either an interim or final income distribution) is announced, the Board may, in its absolute discretion, determine that the IDRP will apply to the whole or a portion of the income distribution (called the Electable Portion) and where applicable, any remaining portion of the income distribution will be paid in cash (called the Remaining Portion).

Each Unitholder has the following options in respect of the Electable Portion:

- (i) Choose to receive the Electable Portion in cash; or
- (ii) Choose to reinvest the entire Electable Portion in new Units credited as fully paid-up at an issue price to be determined on a Price-Fixing Date; or
- (iii) Choose to receive part of the Electable Portion in cash, and reinvest the remaining part of the Electable Portion in new Units credited as fully paid-up at an issue price to be determined on the Price-Fixing Date in the proportion determined by the Board in its absolute discretion.

### 2. Will I still have withholding tax deducted?

All gross income distribution with respect to the Electable Portion and the Remaining Portion will still be subject to the usual withholding tax. The net income distribution (net of withholding tax) will either be paid in cash and/or reinvested in new Units at its equivalent amount (as the case may be).

There is no tax advantage to be gained by Unitholders in any of the abovementioned options elected.

### 3. Will the units I receive be at a discount?

Unitholders will be able to receive new Units at an issue price with an implied discount.

For the purpose of computing the number of new Units to be issued under the IDRP, the issue price of such new Units shall not be more than 10% discounted to the 5-day volume weighted average market price (VWAMP) of the Units immediately before the Price-Fixing Date.

#### 4. When will I get my Units?

An announcement on the book closure date will be made after the Price-Fixing Date.

Subsequently, copies of the notice of election in relation to the IDRP and information memorandum (not applicable to subsequent IDRPs) will be despatched to Unitholders. The Expiry Date will be stated in the Notice of Election.

Within 8 market days from Expiry Date or on such date as may be prescribed by Bursa Securities, Axis-REIT will allot and issue the new Units on the Allotment Date. The Remaining Portion and the Electable Portion (where the Unitholders choose to receive the income distribution in cash), as the case may be, will be paid to the respective Unitholders in the usual manner. An announcement will also be made on the listing of and quotation for the new Units to be issued under the IDRP on the Main Market of Bursa Securities.

As the new Units to be issued under the IDRP are prescribed securities, the new Units will be credited directly into the respective Central Depository System accounts of the Unitholders and shall, upon allotment and issue, rank equally in all respects with the existing Units. However the new Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared before the Allotment Date.

The following is a timeline from the announcement date until the listing of new Units under the IDRP:

Description	Timeline
Announcement of Book Closure Date ("BCD") for income distribution for period end (at least 10 market days from the BCD)	T
BCD	T + 10
Despatch of withholding tax confirmation letter	T + 11
Dateline for withholding tax confirmation	T + 16
Despatch of Notice of Election	T + 18
Expiry Date	T + 28
Allotment and Payment	T + 36
Listing of new Units	T + 37

#### 5. The Board's authority

The Board has full authority to determine if the IDRP will apply to a particular income distribution. If the Board has decided not to apply the IDRP to a particular income distribution then the income distribution declared in that quarter concerned will be paid in cash to the Unitholders in the usual manner.

The maximum number of new Units to be issued under the IDRP will depend on the Board's decision on the size of the Electable Portion, the total number of Units held by the Unitholders who elect to reinvest the Electable Portion in new Units and the issue price which will be determined by the Manager on the Price-Fixing Date.

#### 6. What happens if I elect not to participate?

If Unitholders do not expressly elect in writing to participate in the IDRP according to the terms and conditions, they will receive their Electable Portion in cash. As such, Unitholders need not take any action if they wish to receive their Electable Portion entirely in cash.

#### 7. The Board's authority to cancel the availability of the IDRP.

Notwithstanding any provision of the IDRP, if at any time after the Board has determined that the IDRP shall apply to any income distribution and before the Allotment Date in respect of the Electable Portion, the Board shall consider that by reason of any event or circumstance (whether arising before or after such determination) or by reason of any matter whatsoever, it is no longer expedient or appropriate to implement the IDRP in respect of the Electable Portion, the Board may, in its absolute discretion and as it deems fit in the interest of the Fund and without assigning any reason thereof, cancel the application of the IDRP in relation to the Electable Portion. In such an event, the Electable Portion shall be paid entirely in cash to Unitholders in the usual manner.

#### 8. Who is eligible to participate?

All Unitholders are eligible to participate in the IDRP, subject to the restrictions on the Unitholders with registered addresses outside Malaysia as at the relevant book closure date for the income distribution to which the IDRP applies.

This is also subject to the requirement that such participation by the Unitholder will not result in a breach of any other restriction on such Unitholder's unitholding in Axis-REIT which may be imposed by any statute, law or regulation in force in Malaysia or any other relevant jurisdiction, as the case may be, or prescribed in the Third Principal Deed dated 28 November 2013 constituting Axis-REIT.

#### 9. What about odd lots?

A Unitholder who elects to reinvest the Electable Portion in new Units to which his Notice of Election relates, may receive such new Units in odd lots. Unitholders who receive odd lots of new Units and who wish to trade such odd lots on Bursa Securities should do so on the Odd Lot Market, which allows trading of odd lots with a minimum of 1 Unit.

# Details of the Income Distribution

## REINVESTMENT PLAN

### 10. Can the IDRP be terminated?

The IDRP may be modified, suspended (in whole or in part) or terminated at any time by the Board as the Board deems fit or expedient by giving notice in writing to all Unitholders.

### 11. Other issues relating to the proposed IDRP.

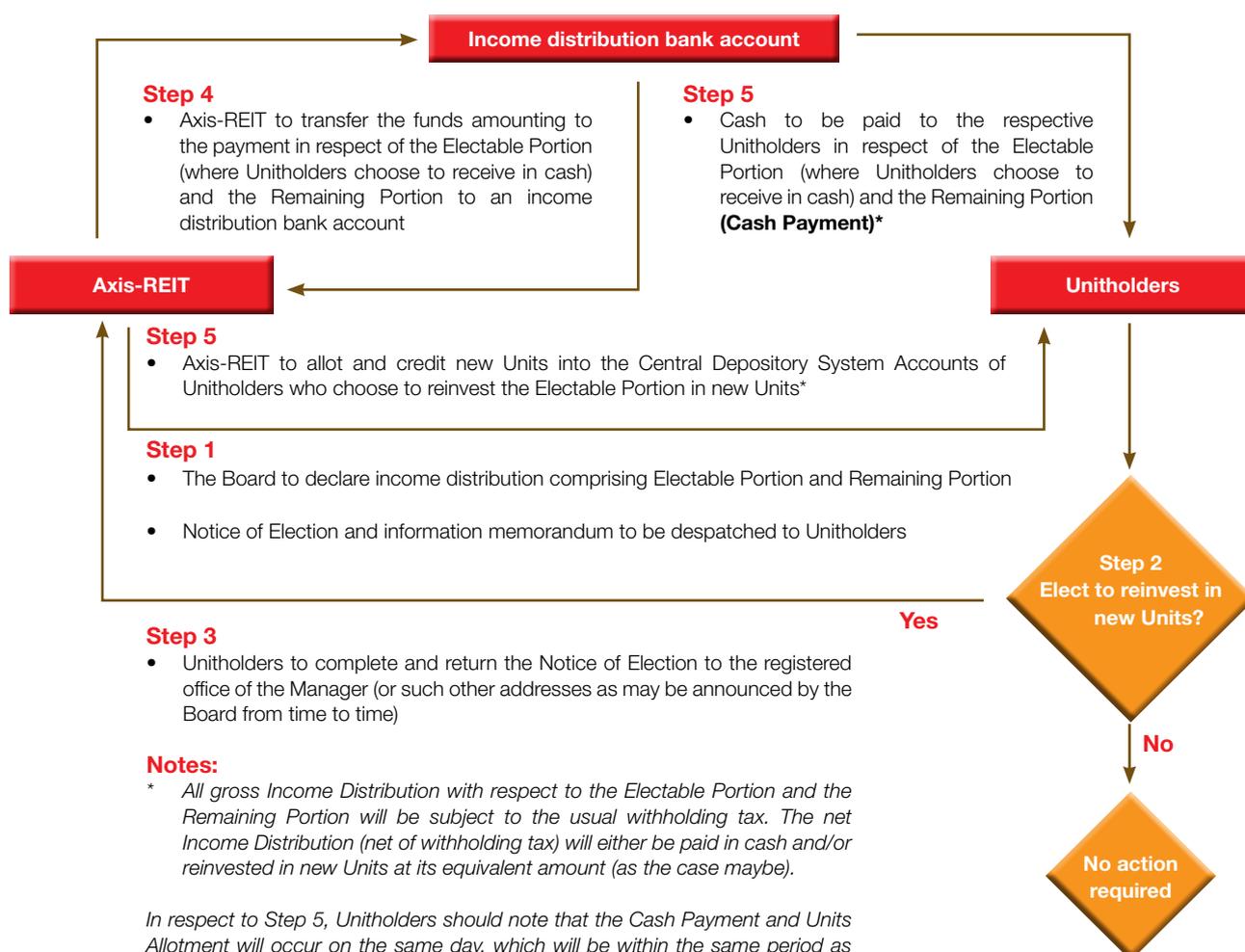
It should be noted that the grant of the right to participate in the IDRP, i.e. to elect to reinvest the Electable Portion in new Units, is made to all Unitholders, including the directors and major shareholder of the Manager, major Unitholders and persons connected to them who hold Units.

The net proceeds from the IDRP (after deducting estimated expenses for the IDRP) will be utilised to refurbish and/or renovate the properties held by the Trustee, and/or for any other purpose that the Manager and the Trustee deem fit and in the best interest of the Unitholders. The refurbishment and/or renovation of the properties held by the Trustee are expected to enhance the future income to be generated from the said properties moving forward.

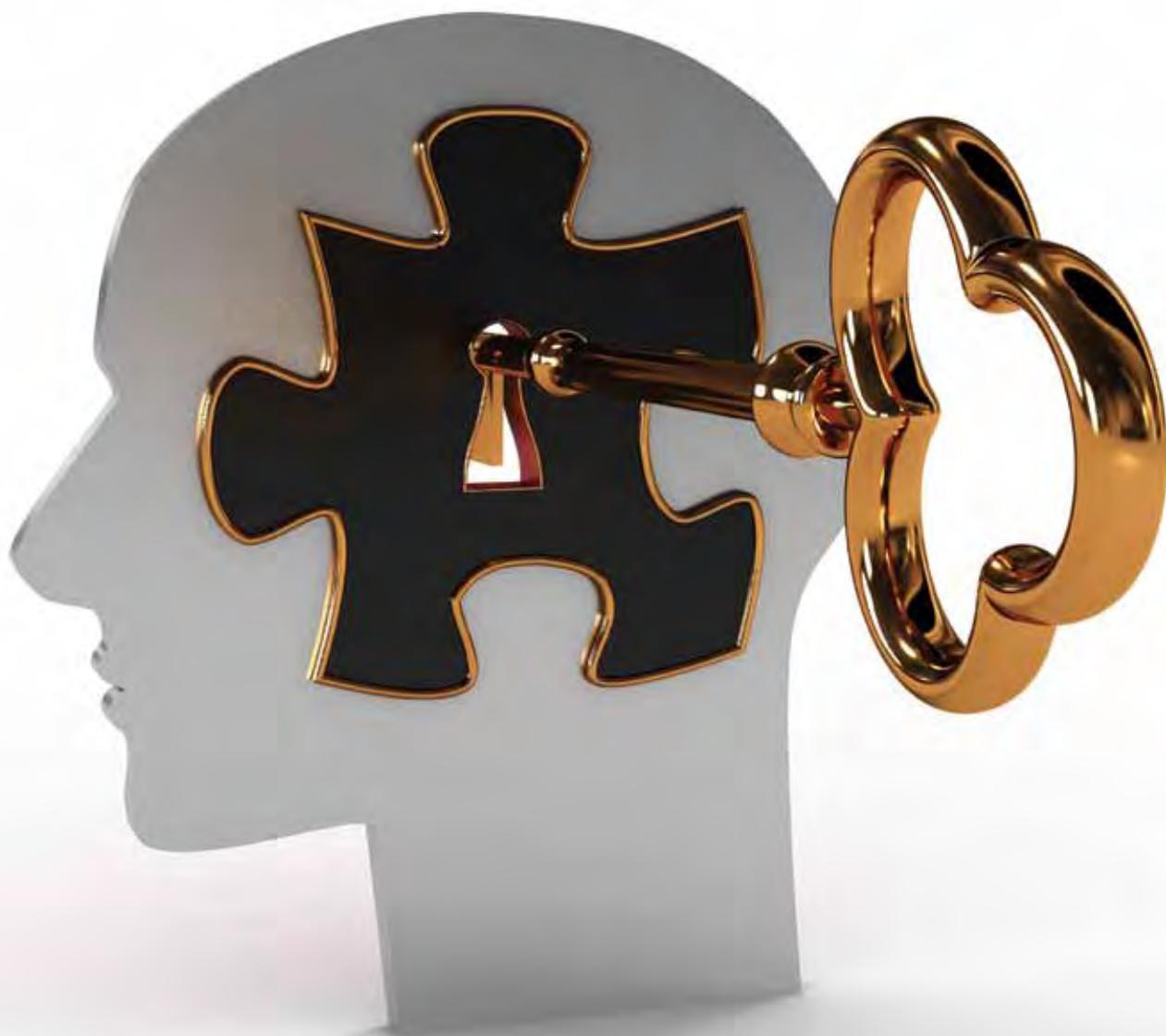
A Unitholder's unitholding in Axis-REIT will be diluted if he/she chooses to receive the Electable Portion in cash. The extent of such dilution will depend on the size of the Electable Portion, the total number of Units held by the Unitholders who elect to reinvest the Electable Portion in new Units and the issue price which will be determined by the Manager on the Price-Fixing Date.

The total amount of income distribution to be declared, the size of the Electable Portion and consequently, the maximum number of new Units to be issued under the IDRP would depend on the financial performance and cash flow position of Axis-REIT, and prevailing economic conditions. The size of the Electable Portion will be determined by the Manager in its sole and absolute discretion from time to time.

The process flow chart in relation to any proposed income distribution and the IDRP is set out below:



Corporate  
Social  
**RESPONSIBILITY**



# Corporate Social **RESPONSIBILITY**

## **Refurbishment of the West Wing of The Selangor And Federal Territory Association for the Mentally Handicapped (SAMH) Sekolah Khas Klang, Taman Selatan.**

In reviewing possible recipients for our CSR allocation for 2013, Axis-REIT identified Sekolah Khas Klang which is located along Jalan Langat in Klang as a worthy candidate for our “makeover” project. Sekolah Khas Klang was established to provide training and living skills to help those who are mentally handicapped to become independent and contribute to society. The school currently has 146 students between the ages of 6 and 40 years .

This particular project was undertaken to carry out repair works to the damaged west wing of the school which

comprises a conference room and four classrooms. The scope of work was to address the issue of soil settlement, improving the existing structure which included hacking, plastering and repainting the existing walls, installing new lights and fans for the classrooms and conference room and also tiling the floor of the conference room.

With the investment made, Axis-REIT hopes to create a more conducive environment for the children to learn and develop in.

The total project cost was RM93,900 including labour and materials. The project commenced in mid-November 2013 and is now completed. Axis-REIT also received support from business partners in the form of furniture and electrical items that have been donated to the school.



## **Axis-REIT participated at The Edge-Bursa Malaysia Kuala Lumpur Rat Race for Charity 2013**

The Edge-Bursa Malaysia Kuala Lumpur Rat Race was held on 17 September 2013, it was the 14th year of the event which is modelled after the Carey Wall Street Rat Race in New York. The Kuala Lumpur Rat Race provides a platform for corporations to fulfill their Corporate Social Responsibility in a fun way.

Bursa Malaysia and The Edge are the co-organisers of the event with Bursa Malaysia’s foundation arm, Yayasan Bursa Malaysia as the returning host. The KL Rat Race debuted in 2000 and more than RM15 million has been raised and channeled to 170 charitable organisations.

This year, Axis-REIT sent in a team of five (5) staff to participate in the race, overall the Axis-REIT team placed 23<sup>rd</sup> out of a list of 66 companies in the mixed category, many of which were considerably larger than Axis-REIT. This was the third time Axis-REIT participated in the Bursa Rat Race.

The 2013 Rat Race raised RM1.83 million for 28 beneficiaries. More than 600 participants representing 126 teams from 67 companies ran through the streets of Kuala Lumpur for a good cause.

The Fund contributed RM18,000 to support this cause.



# Corporate **GOVERNANCE**



# Corporate **GOVERNANCE**

The Manager recognizes that an effective corporate governance culture is critical to its performance and consequently the success of Axis Real Estate Investment Trust ("Axis-REIT" or "the Fund").

The Manager is committed to high standards of corporate governance and 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 of Axis-REIT.

The following sections describe the Manager's main corporate governance practices and policies. They are designed to ensure that applicable securities laws and regulations, the Guidelines on Real Estate Investment Trusts (REITs) issued by the Securities Commission (SC) as well as SC's Guidelines on Islamic REITs, the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities) and the Malaysian Code on Corporate Governance 2012 [Code] are complied with, where applicable, and that the Manager's obligations as described in the Deed constituting Axis-REIT (Deed) are properly and efficiently carried out.

## **The Manager of Axis-REIT**

Axis REIT Managers Berhad is the appointed Manager of Axis-REIT in accordance with the terms of the Deed. The Deed outlines the functions and duties of the Manager as well as the circumstances under which the Manager can be retired.

As Axis-REIT is externally managed by the Manager, it 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.

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 of Axis-REIT on acquisitions, divestments and enhancements in line with the agreed strategy.

The Manager is also responsible for the risk management of the Fund.

## **Board of Directors**

As at 31 December 2013, the Board comprises of 8 members, 3 of whom are independent directors in compliance with the SC's Guidelines on REITs. The Board comprises a mixture of Executive and Non-Executive Directors from diverse professional backgrounds enabling the Management to tap their expertise and broad business experience in deliberating issues presented before the Board. In facilitating the discharge of its responsibilities, the

Board has developed a Board Charter, which it approved and adopted by the Board in end 2012, outlining its roles and responsibilities. The Board has made public its Board Charter on its corporate website and will review and update the charter in accordance with the needs of the Manager and any regulations that may have an impact on the discharge of the Board's responsibilities. The Board Charter has also set out expectation on time commitment for its members and protocols for accepting new directorships.

The Board has formalised and committed to ethical values through its Code of Conduct and a summary of this code is available on its corporate website.

A Whistleblowing Policy was also adopted for the management of reports and claims filed in relation to suspected or presumed violations of the Code of Conduct, financial reporting and other malpractice. The policy reaffirms the Manager's commitment to safeguard those who report in good faith against any form of reprisal.

## **Board meetings and procedures**

The Board met every quarter in the financial year ended 2013 (FYE2013) to discuss and approve the release of the interim and annual financial results, review acquisitions or disposals, the annual budget, capital management proposals, property reports, investor relations reports, performance of the Manager (including its related entities) and Axis-REIT against the previously approved budget and other proposals tabled by the Management.

All meeting dates are determined and fixed annually in advance so that all directors are able to schedule their time effectively. Notices of meetings setting out the agendas of the meetings are issued to all directors no less than 7 days in advance by the Company Secretary and the relevant meeting papers are compiled and distributed to all directors as soon as practicable after the notices of meetings have been issued. In order to keep the investing public aware of the timing of the release of the interim financial results of Axis-REIT, the Manager announces the targeted date for such release within 2 weeks prior to each board meeting.

All members of the Board have access to information in relation to the Manager and Axis-REIT because the Manager has established a panel of financiers and consultants who provide professional advice in the areas of financing, capital markets, legal, property valuation and engineering due diligence, from whom advice can be sought.

The Board is supported by a professionally qualified and competent Company Secretary who the Board regularly consults on procedural and regulatory requirements. The Company Secretary attended every board meeting in FYE2013. The Company Secretary also kept the Board abreast of all relevant regulatory updates to laws and requirements, where applicable.

## Chairman and Chief Executive Officer (CEO)/ Executive Director

The position of Chairman and CEO/Executive Director is held by separate persons in order to maintain an effective segregation of duties. This division of responsibilities is defined in the Board Charter.

The Chairman ensures that members of the Board work together with the Management in a constructive manner to address strategies, business operations, financial performance and risk management 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 in managing Axis-REIT.

## Board remuneration

The remuneration of the directors is paid by the Manager and not from the Fund. Details of the Remuneration Committee, which is responsible for the determination of the remuneration policy framework of the Manager's directors (including the CEO and Chief Financial Officer), is set out in the Remuneration Committee section below.

The Board has, through its Remuneration Committee in consultation with the Executive Committee, established transparent remuneration policies and procedures. The remuneration of the Board is aligned with the business strategy and long-term objectives of the Manager. The remuneration reflects the Board's responsibilities, expertise and complexity of the Manager's activities.

The Remuneration Committee, upon the proposal from the Executive Committee, recommends to the Board the remuneration package of the directors and it is the responsibility of the Board as a whole to approve the remuneration package of the directors.

The remuneration of Executive and Non-Executive Directors for FYE2013 are as follows:					
	Salaries and other Emoluments (RM)	Directors' Fee (RM)	Meeting Attendance Allowance (RM)	Benefits in Kind (RM)	Total (RM)
Executive Directors	1,594,630	198,000	84,750	35,050	1,912,430
Non-Executive Directors	-	358,000	110,250	-	468,250

Range of Remuneration Per Annum	Executive Directors	Non-Executive Directors
RM50,000 - RM200,000	1	5
RM200,001 - RM400,000	-	-
RM400,001 - RM600,000	1	-
RM600,001 and above	1	-

## Board committees and their roles

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

- Executive Committee;
- Audit Committee;
- Remuneration Committee;
- Nomination Committee.

## Executive Committee

The Executive Committee operates under the delegated authority from the Board.

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

- Making recommendations to the Board on all acquisitions, investments and disposals;
- Making recommendations to the Board on any financing offers, capital management proposals and additional banking facilities;

# Corporate **GOVERNANCE**

- Reporting and recommending to the Board any corporate exercise, including the issuance of new Axis-REIT units;
- Making recommendations to the Board on financial budgets; and
- Forwarding summary reports on activities undertaken by the Manager and minutes of Executive Committee meetings to all Audit Committee and/or Board members, where applicable.

## **Audit Committee**

The Board has an overall responsibility in ensuring that a balanced and understandable assessment of Axis-REIT's positions and prospects are presented to the investing public. The Audit Committee plays an important role in assisting the Board in this area. The Audit Committee ensures financial statements comply with applicable reporting standards. It also assists the Board in the area of risk management and internal controls. The Audit Committee Report, which contains the details of activities carried out during the FYE2013, is set out as a separate section of this Annual Report.

Further details on risk management are set out in the Risk Management section below and details on the internal audit function are contained in the Statement on Risk Management and Internal Control.

The assessment of the External Auditors for re-engagement is an annual affair for the Manager. The Audit Committee had evaluated the External Auditors of Axis-REIT during the FYE2013 in order to determine their suitability for re-appointment and independence. The assessment was carried out against criteria adopted by the Audit Committee and the Audit Committee recommended the re-engagement of Messrs KPMG as the External Auditors for Axis-REIT in respect of FYE2013.

## **Remuneration Committee**

The Remuneration Committee is responsible for recommending to the Board the policy framework in determining the remuneration of the Executive and Non-Executive Directors of the Board, key management staff (if any) and reviewing changes to the remuneration policy from time to time, so as to ensure that the Manager attracts and retains individuals of the highest calibre. As the directors of the Manager are remunerated by the Manager itself and not by the Fund, the Executive Committee of the Manager plays an important role in proposing to the Remuneration Committee the respective remuneration packages, including, but not limited to, bonuses, incentives and units option (if applicable), taking into consideration, among others, the level of performance against agreed targets. All proposals presented by the Executive Committee are considered carefully, drawing from outside advice as necessary.

During the year under review, the Remuneration Committee reviewed the remuneration packages of the Directors, including the CEO and Chief Finance Officer (CFO), based on the proposals presented by the Executive Committee, and made recommendations to the Board accordingly.

## **Nomination Committee**

The responsibilities of the Nomination Committee are:

- To recommend to the Board, candidates for directorships proposed by the Executive Committee, any Board members, shareholders of the Manager or Unitholders, where applicable;
- 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 fulfilment of such training, where appropriate.

The Nomination Committee had, during the FYE2013, carried out the performance evaluation on the Board, directors and Board Committees and the results of the evaluation have been properly documented by the Company Secretary of the Manager. The Board also undertook an annual assessment of the independence of its 3 independent directors based on the independence criteria developed by the Nomination Committee. The 3 independent directors of the Manager had confirmed in writing to the Board their independence.

### Board of Directors and meeting attendance

As of 31 December 2013, the Board comprised of eight (8) members, three (3) of whom are independent directors in compliance with the SC's Guidelines on REITs. The Executive Deputy Chairman has an appointed Alternate Director.

Directors	Designation	Attendance (No. of meetings held : 4)	Remarks
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Independent Non-Executive Chairman	4/4	No Change
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Non-Independent Executive Deputy Chairman	4/4	No Change
Stephen Tew Peng Hwee	Non-Independent Non-Executive Director	4/4	No Change
Dato' George Stewart LaBrooy	Chief Executive Officer/ Executive Director	4/4	No Change
Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Independent Non-Executive Director	3/4	No Change
Mohd Sharif Bin Hj Yusof	Senior Independent Non-Executive Director	4/4	No Change
Leong Kit May	Chief Financial Officer/ Executive Director	4/4	No Change
Alvin Dim Lao	Non-Independent Non-Executive Director	3/4	No Change

### Executive Committee and meeting attendance

Members	Designation	Attendance (No. of meetings held : 8)	Remarks
Dato' Abas Carl Gunnar Bin Abdullah	Chairman	8/8	No Change
Stephen Tew Peng Hwee	Member	8/8	No Change
Dato' George Stewart LaBrooy	Member	8/8	No Change

### Audit Committee and meeting attendance

Members	Designation	Attendance (No. of meetings held : 4)	Remarks
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Chairman	4/4	No Change
Mohd Sharif Bin Hj Yusof	Member	4/4	No Change
Alvin Dim Lao	Member	3/4	No Change

### Remuneration Committee and meeting attendance

Members	Designation	Attendance (No. of meetings held : 1)	Remarks
Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Chairman	1/1	No Change
Dato' Abas Carl Gunnar Bin Abdullah	Member	1/1	No Change
Stephen Tew Peng Hwee	Member	1/1	No Change

# Corporate **GOVERNANCE**

## Nomination Committee and meeting attendance

Members	Designation	Attendance (No. of meetings held : 1)	Remarks
Mohd Sharif bin Hj Yusof	Chairman	1/1	No Change
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Member	1/1	No Change
Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Member	1/1	No Change

## Directors' training

The Board ensures its members have access to appropriate continuing education programmes to update their knowledge and enhance their skills to sustain their active participation in Board deliberations. The Board had at every meeting received a list of training available for selection. Details of training attended by directors were also reported to the meetings and recorded accordingly. In-house training was also organized for all the directors on 'Updates of Proposed Companies Bill 2013' in October 2013.

All the directors of the Manager have attended training during FYE2013 in compliance with the Listing Requirements of Bursa Securities. Some of the Directors had been invited to participate as speakers and presented talks at conferences and seminars. The details are as follows:

Directors	Training attended and activities participated
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	<ul style="list-style-type: none"> <li>Nominating Committee Programme by Iclif Leadership and Governance Centre</li> <li>Updates of Proposed Companies Bill 2013</li> <li>Board Chairman Series: The Role of the Board Chairman by Iclif Leadership &amp; Governance Centre</li> </ul>
Dato' Abas Carl Gunnar Bin Abdullah	<ul style="list-style-type: none"> <li>Updates of Proposed Companies Bill 2013</li> </ul>
Stephen Tew Peng Hwee	<ul style="list-style-type: none"> <li>Malaysian Annual Real Estate Convention 2013 - Changing Trends - Managing Future Challenges</li> <li>Updates of Proposed Companies Bill 2013</li> </ul>
Dato' George Stewart LaBrooy	<ul style="list-style-type: none"> <li>Industrial Estate and Business Parks</li> <li>Advocating constructive shareholder engagement for long-term value maximization</li> <li>EPF Private Equity Summit 2013</li> <li>APREA Property Leaders Forum</li> <li>Property Investment Talk 2013 'REITs – One of the Best Alternative Real Estate Investments You Can Make'</li> <li>Invest Malaysia 2013</li> <li>Office Buildings conference 'Maximising the Value of your Office Buildings'</li> <li>'Expanding and growing your REIT's Business with Foreign Investments'</li> <li>'New Product Development in Islamic Finance: Viability and Competitiveness' (Islamic Real Estate Investment Trusts, Other Islamic Products)</li> <li>ASLI: 'Commercial and Industrial Sector Outlook: What's Next? What's Hot?'</li> <li>'International REIT Experience and Islamic REITs'</li> <li>Updates of Proposed Companies Bill 2013</li> </ul>
Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	<ul style="list-style-type: none"> <li>CLSA Access Day 2013</li> <li>MAREC 2013 – 'Affordable Housing : Reality or Myth'</li> <li>Business Times Insight Series – 'Affordable Housing'</li> <li>Invest Malaysia 2013</li> <li>16th ASLI National Housing &amp; Property Summit – 'Sustainability of the Malaysian Property Market – What Are The Key Challenges, Main Issues &amp; Strategic Opportunities'</li> <li>Real Estate CEO Forum – 'Investment Outlook for Real Estate in Singapore &amp; Malaysia'</li> <li>Updates On The Trend of Investment in Real Estate Sector</li> </ul>

Directors	Training attended and activities participated
Mohd Sharif Bin Hj Yusof	<ul style="list-style-type: none"> <li>• Updates of Proposed Companies Bill 2013</li> </ul>
Alvin Dim Lao	<ul style="list-style-type: none"> <li>• Updates of Proposed Companies Bill 2013</li> </ul>
Leong Kit May	<ul style="list-style-type: none"> <li>• Tapping into Bonds and Loans as a Funding Source for Property Ventures</li> <li>• Innovations in Finance Management</li> <li>• Updates of Proposed Companies Bill 2013</li> </ul>
Alex Lee Lao (alternate director)	<ul style="list-style-type: none"> <li>• Legal Aspects of Real Estate Sales in the Philippines</li> </ul>

### Disclosure and communication with Unitholders

The Manager has established a strong culture of continuous disclosure and transparent communication with Unitholders and the investing 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](http://www.axis-reit.com.my) as well as through analyst briefings and retail roadshows.

The Board has taken steps to promote effective communication and proactive engagements with Unitholders at the Unitholders' meetings to provide a better appreciation of the Manager's objectives and quality of its management and challenges, while also making the Manager aware of the expectations and concerns of the Unitholders.

The Board has also encouraged the Manager to leverage on information technology for effective dissemination of information by having in place a dedicated section for corporate governance on its corporate website. This section provides information such as the Board Charter, Code of Conduct, Whistleblowing Policy and Unitholders' voting rights. Further information is on the web site [www.axis-reit.com.my](http://www.axis-reit.com.my).

Further details on communication with Unitholders, analysts and fund managers will be covered under the section on Investor Relations.

### Annual General Meeting (AGM) and Unitholders' Meeting

The Manager had in FYE2013 convened and held its first AGM in compliance with the requirements under the SC's Guidelines on REITs. At the AGM, the Manager updated all Unitholders present with the performance, activities, progress and prospects of Axis-REIT. Immediately after the AGM, the Unitholders also attended the Unitholders' Meeting which was convened and held to seek Unitholders' approval for corporate exercises of Axis-REIT.

The Board encouraged Unitholders' participation at both the meetings and active engagement took place. The Board also demonstrated its commitment to the Unitholders by informing them of their rights to demand for poll at the commencement of each meeting.

### Risk management

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. Risk management has been part of the Manager's day-to-day operations and the Operations Manual provides an overview of the Manager's responsibilities and guidance in relation to the management of Axis-REIT to ensure consistency of operational procedures and practices within the organization. The Operations Manual had been updated during the financial year under review, particularly on the processes and procedures arising from the Yardi Voyager system implemented by the Manager, in order to ensure the relevance of the Operation Manual to the day-to-day operations of the Manager.

The Manager had formulated and developed the Risk Management Framework and put in place a Risk Register where key risk profiles were established and updated periodically for reporting to the Audit Committee.

# Corporate **GOVERNANCE**

## **Dealings with conflict of interest**

The Manager has established the following procedures to deal with potential conflict 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 one-third 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 deliberation and 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 members of the Board. In addition, the Executive and Non-Executive Directors (including the CEO) and the Executive Officers of the Manager are expected to act with honesty and integrity at all times.

Under the Deed, the Related Parties of the Manager (as defined in the Deed) are prohibited from voting their units at, or being part of a quorum for, any meeting of Unitholders convened to approve matter or business in which any of the Related Parties has an interest.

## **Dealings with Related Party transactions**

The Manager will comply with all requirements as laid out in the SC's Guidelines on REITs 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 with the SC's Guidelines on REITs and are carried out on an arm's length basis and under normal commercial terms, and in the best interest of the Unitholders. The Manager would have to demonstrate to the Audit Committee that transactions (whether 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 of quotations from parties unrelated to the Manager, or in the case of purchase of property the obtaining of valuation from an independent valuer.

Related Party transactions shall require the Trustee to ensure that such transactions are at arm's length, based on normal commercial terms and not prejudicial to the interest of the Unitholders. Furthermore, the Trustee 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 and provisions relating to Related Party transactions contained in the SC's Guidelines on REITs and the Deed.

All related party transactions are subject to regular periodic review by the Audit Committee prior to recommendation to the Board. 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.

## **Compliance with the Code**

The Board considers that Axis-REIT and the Manager are substantially in compliance with the best practices set out in the Code throughout FYE2013. The Board is committed and will continue to enhance compliance with the best practices in corporate governance where applicable.

# Audit Committee **REPORT**



# Audit COMMITTEE REPORT

Recognizing that an audit committee plays a crucial role in the corporate governance of an organization, the Board of Directors of Axis REIT Managers Berhad, the management company (Manager) of Axis Real Estate Investment Trust (Axis-REIT), has established an Audit Committee on a voluntary basis and this Committee has the delegated oversight responsibilities from the Board in ensuring that the interests of the Unitholders of Axis-REIT are protected.

## 1. Composition of Audit Committee

The Audit Committee comprises of three Non-Executive members, two of whom (including the Chairman) are Independent Non-Executive Directors of the Board.

The composition of the Committee as at 31 December 2013 is:

- a. YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin  
- Independent Non-Executive Chairman
- b. Mohd Sharif Bin Hj Yusof  
- Independent Non-Executive Director
- c. Alvin Dim Lao  
- Non-Independent Non-Executive Director

## 2. Terms of reference

The Audit Committee has a set of Terms of Reference that guides the discharge of its roles and responsibilities. The details of the Terms of Reference are presented in the next page of this Audit Committee Report.

## 3. Summary of activities carried out by the Committee during the financial year

The primary role of the Audit Committee is to monitor, oversee, review and evaluate the effectiveness and adequacy of the Manager's risk and internal control environment and financial management and reporting. The Audit Committee had during the financial year under review, in the discharge of its duties, carried out the following:

- (i) Reviewed the quarterly financial results and the audited financial statements of Axis-REIT to ensure adherence to legal and regulatory reporting requirements before recommending to the Board of Directors for approval;
- (ii) Reviewed the internal audit plan and internal audit reports with the Internal Auditors and ensured that action plans recommended are agreed upon and implemented by Management on a timely basis. The detailed activities of the internal audit function is contained in the Statement on Risk Management and Internal Control of this Annual Report;

- (iii) Reviewed with External Auditors, their audit planning memorandum, audit approach and reporting requirements prior to the commencement of audit works;
- (iv) Discussed with the External Auditors audit issues arising from the final audit conducted on Axis-REIT;
- (v) Evaluated the suitability and independence of the External Auditors and recommended to the Board their re-appointment as Auditors of Axis-REIT in respect of the financial year ended 31 December 2013 for onward recommendation to the Trustee of Axis-REIT;
- (vi) Ensured that Axis-REIT's appointed External Auditors were duly registered with the Audit Oversight Board of the Securities Commission;
- (vii) Reviewed and recommended for Board's approval the Audit Committee Report and Statement on Risk Management and Internal Control for inclusion into the Annual Report of Axis-REIT;
- (viii) Reviewed the implementation of the income distribution reinvestment plan in conjunction with the 2013 First and Third Interim Income Distributions of Axis-REIT;
- (ix) Met with the External Auditors and Internal Auditors, in the absence of the Management, to discuss issues, problems and reservations (if any) which the External Auditors or Internal Auditors may wish to highlight to the Committee;
- (x) Reviewed list of related party transactions (RPT) involving interests of related parties who are Directors, substantial Unitholders and ultimate major shareholders of the Manager or persons connected to them;
- (xi) Reviewed the audit carried out on the Yardi System which was fully implemented during the financial year ended 31 December 2013 and the updates to the Operations Manual which had incorporated the features of the said Yardi System;
- (xii) Carried out an independent professional review on the accounting treatments and financial reporting practices to ensure a satisfactory level of compliance with applicable accounting standards;

- (xiii) Assessed the performance of the Audit Committee against the Terms of Reference to ensure that the Audit Committee had satisfactorily discharged its duties and functions; and
- (xiv) Evaluated the out-sourced Internal Auditors and recommended to the Board for their re-engagement as the Internal Auditors of for Axis-REIT in respect of the year 2013/2014.

#### 4. Relationship with the external and internal auditors

The Board via the Audit Committee maintains a formal and transparent relationship with the External Auditors as well as the Internal Auditors and the Audit Committee has direct and unrestricted access to both the External and Internal Auditors.

#### Terms of reference of the Audit Committee

##### Constitution

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

##### Membership

- The Committee shall be appointed by the Board of Directors from amongst the directors of the Company and shall comprise of at least three (3) members, all of whom must be non-executive directors, with a majority of them being independent.
- 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) Fulfills such other requirements as prescribed or approved by the Exchange.
- No alternate director shall be appointed as a member of the Committee.

- The members of the Committee shall elect a Chairman from among their number who shall be an Independent Non-Executive Director.
- The Company Secretary or such other person(s) authorised by the Board of Directors shall act as the Secretary to the Committee.
- 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.
- 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.

##### Meetings and minutes

- 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.
- 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.
- Other than in circumstances which the Chairman of the Committee considers inappropriate, the 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 Real Estate Investment Trust ("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.
- 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 Company at the registered office or the principal office of the Company, and shall be open for inspection by any member of the Committee and the Board of Directors.

# Audit COMMITTEE REPORT

- 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.
- 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.

## Authority

- 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 Company (if required) and shall have the resources it requires to perform its duties. All employees of the Company are required to comply with the requests made by the Committee.
- 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 Company and/or Axis-REIT, where applicable.
- The Committee shall have direct communication channels with the external auditors and internal auditors.
- 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 Company (if any), the external auditors or internal auditors may wish to bring up to the attention of the Committee.

## Functions and duties

- The Committee shall, amongst others, discharge the following functions:-
  - (a) Review the following and report the same to the Board of Directors of the Company:-
    - 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 the 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:-
      - i. changes in or implementation of major accounting policies and practices;
      - ii significant and unusual events;
      - iii significant adjustments arising from the audit;
      - iv compliance with accounting standards, other statutory and legal requirements and the going concern assumption;
      - v. the accuracy and adequacy of the disclosure of information essential to a fair and full presentation of the financial affairs of Axis-REIT;
      - vi. any related party transactions and conflict of interest situations that may arise within the Company and/or Axis-REIT including any transaction, procedure or course of conduct that raises questions of management integrity;
      - vii. 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 Company in order to be satisfied that appropriate action is being taken.

- viii. to review the Statement on Risk Management and Internal Control for recommendation to the Board of Directors for approval.
  - ix. 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 Company (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) Consider and approve the non-audit service(s) to be provided by the external auditor subject to the confirmation from the external auditors, that such non-audit service(s) pose no threat to the independence of the external auditors.
  - (d) Promptly report to the Exchange on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Listing Requirements of the Exchange.
  - (e) 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 Company and ensure the effective discharge of the Committee's duties and responsibilities.

# Statement on **RISK MANAGEMENT & INTERNAL CONTROL**

PURSUANT TO PARAGRAPH 15.26(b) OF THE MAIN MARKET LISTING REQUIREMENTS

## **Introduction**

The Board of Directors of Axis REIT Managers Berhad, being the management company (“Manager”) of Axis Real Estate Investment Trust (“Axis-REIT” or “Fund”) has voluntarily adopted the best practices in corporate governance by establishing an Audit Committee and setting up an Internal Audit Function, which had been outsourced to an independent professional firm, although it is not compulsory for Axis-REIT, being a real estate investment trust, to comply with such requirements under the Main Market 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 Manager.

## **Key elements of the internal control system established**

### **Internal control system, processes and risk management**

#### **Operations manual**

The Manager has policies and procedures that are encapsulated in the Operations Manual which provide an overview of the Manager’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 is subject to periodic reviews and updates. The Management team of the Manager is committed to be guided by the Operations Manual and this ensures consistency of operational procedures and practices within the organisation.

The Manager had during the financial year ended 31 December 2013 (“FYE 2013”) updated the Operations Manual to reflect the operational procedures and processes in the Yardi System which is implemented in 2013. This was carried out to ensure the relevance of the Operations Manual to the daily operations of the Manager.

#### **Financial controls**

There is an annual budgeting and target-setting process which includes forecasts being formulated for each operating unit with detailed reviews at all levels of operation. The budget will be presented to the Board for review and approval and the Manager will be guided by the approved budget in managing Axis-REIT.

The Manager also has a policy on financial limits and approving authority for its operating and capital expenditure. All major capital expenditure will be first recommended by the Executive Committee and approved by the Board prior to implementation.

Management meetings are conducted regularly to review financial performance, business development, strategic business planning and deliberate on management issues. There are regular meetings between the Executive Committee with Management to discuss and resolve key operational, financial and other key management issues regularly. Significant issues are highlighted and discussed at Board meetings.

In seeking to improve its processes and to minimize risks, the Manager has successfully implemented the Yardi System which provides for a synchronized platform for the capturing and processing of data which covers tenant and debt management, payment processing and financial reporting.

In managing financial risks, Axis-REIT, via its special purpose entity, Axis REIT Sukuk Berhad, had successfully issued RM155 million in nominal value Islamic Medium Term Notes (“Sukuk”) in FYE 2013 pursuant to an Islamic Medium Term Notes Programme of up to RM300 million in nominal value established by Axis-REIT in 2012. This Sukuk issuance has reduced Axis-REIT exposure to short term financing.

### **Risk management and risk register**

Risk management has been part of the Management's day-to-day operations and the Manager has in place a Risk Register where a key risk profile was established.

The Risk Register is updated periodically by the Manager. The updates captured all the action plans that the Manager had put in place in addressing the various risks facing the business. This process has been in place during the year under review and up to the date of approval of this statement.

### **Internal audit function and its activities**

Based on an agreed internal audit plan, the outsourced Internal Auditors had assisted the Manager and reported the outcome to the Audit Committee of the Manager the following internal audit work carried out during FYE 2013:

1. internal audit review on the function of Billing, Collection, Debts Monitoring and Rental or Lease Procedures of the Manager in managing the properties of Axis-REIT;
2. walkthrough system review on the systems/modules under the new Yardi System where reviews were conducted on Purchasing and Work Receiving Module, Supplier Invoicing and Accounts Payable Module, Cash Book Module on Payment Processing and Reconciliation, Asset & Leasing Module, Tenants' Invoicing and Accounts Receivable Module and Adequacy of Reporting Features for Tenant and Debts Management;
3. internal audit review on compliance with the principles and recommendations stipulated in the Malaysian Code on Corporate Governance 2012 in order to assess the level of compliance by the Manager in terms of its current corporate governance framework and reporting practices;
4. internal audit review on Insurance Controls in order to ensure that the assets of the Fund are covered by adequate insurance; and
5. internal audit review on the property management & maintenance and car park collection where reviews were conducted on the key internal controls in terms of sufficiency and adequacy.

The costs incurred by the Manager for the outsourced Internal Audit Function in respect of the FYE 2013 amounted to RM63,000.

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

### **Conclusion**

The Board has appraised the adequacy, effectiveness and integrity of the system of risk management and internal controls framework which have been in place during the financial year under review. Assurances had been received from the Chief Executive Officer/Executive Director and Chief Financial Officer/Executive Director that the risk management and internal control system of the Manager in relation to managing the operations of Axis-REIT, is operating adequately and effectively, in all material aspects, based on the risk management and internal control system set in place by the Manager.

# 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**. Our responsibility is to ensure that the procedures and processes employed by **Axis REIT Managers Berhad** 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 2013.

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; and
2. Cash placements and liquid assets, which are placed in Shariah-compliant investments and/or instruments.

For **IBFIM**

### **MOHD NASIR ISMAIL**

Shariah Advisor /Designated Person Responsible for Shariah Advisory

Kuala Lumpur

**IBFIM (763075-W)**

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# Statement on **DIRECTORS' RESPONSIBILITY**

For preparing the Annual Audited Financial Statements

In accordance with Paragraph 15.26(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of Axis REIT Managers Berhad, the management company of Axis Real Estate Investment Trust ("Axis-REIT"), is pleased to report that, the financial statements of Axis-REIT for the year ended 31 December 2013, have been drawn up in accordance with the provisions of the Third Principal Deed of Axis-REIT dated 28 November 2013, the Securities Commission's ("SC") Guidelines on Real Estate Investment Trusts ("REITs"), SC's Guidelines for Islamic REITs, applicable securities laws and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of Axis-REIT as at 31 December 2013 and of the results of its operations and cash flows for the year then ended. The Directors have:

- adopted appropriate accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- considered that all relevant approved accounting standards have been followed subject to any material departures being disclosed and explained in the financial statements; and
- prepared the financial statements on a going concern basis.

The Directors have a general responsibility for taking such steps to safeguard the assets of Axis-REIT, and to detect and prevent fraud as well as other irregularities.



# Financial **STATEMENTS**

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and Other Comprehensive Income
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# Statement of **FINANCIAL POSITION**

As at 31 December 2013

	Note	2013 RM'000	2012 RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	4	1,543,248	1,519,519
Equipment	5	2,407	521
		<b>1,545,655</b>	1,520,040
<b>Current assets</b>			
Receivables, deposits and prepayments	6	4,045	26,598
Current tax asset		-	154
Cash and cash equivalents	7	34,823	42,616
		<b>38,868</b>	69,368
Asset classified as held for sale	8	32,000	-
		<b>70,868</b>	69,368
<b>Total current assets</b>		<b>70,868</b>	69,368
<b>Total assets</b>		<b>1,616,523</b>	1,589,408
<b>Financed by:</b>			
<b>Unitholders' funds</b>			
Unitholders' capital	9.1	750,966	735,429
Reserves	9.3	277,674	254,276
		<b>1,028,640</b>	989,705
<b>Non-current liabilities</b>			
Tenants' deposits	10	24,936	26,700
Financing	11	263,857	208,424
		<b>288,793</b>	235,124
<b>Current liabilities</b>			
Payables and accruals	10	34,943	23,718
Financing	11	264,147	340,861
		<b>299,090</b>	364,579
<b>Total current liabilities</b>		<b>299,090</b>	364,579
<b>Total liabilities</b>		<b>587,883</b>	599,703
<b>Total unitholders' funds and liabilities</b>		<b>1,616,523</b>	1,589,408
<b>Net asset value ("NAV")</b>		<b>1,028,640</b>	989,705
<b>Number of units in circulation ('000 units)</b>		<b>461,239</b>	456,517
<b>NAV per unit (RM)</b>			
- Before income distribution		2.2302	2.1679
- After income distribution		2.1832 <sup>#</sup>	2.1119

# NAV after reflecting proposed final 2013 income distribution of 4.70 sen per unit for the period 1 October 2013 to 31 December 2013 payable on 28 February 2014.

The notes on pages 134 to 166 are an integral part of these financial statements.

# Statement of **PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2013

	Note	2013 RM'000	2012 RM'000
<b>Gross revenue</b>			
- realised		141,314	132,673
- unrealised (in relation to unbilled lease income receivable)		2,271	3,568
	12	143,585	136,241
Property operating expenses	13	(20,812)	(20,125)
		122,773	116,116
<b>Net property income</b>			
Profit income		667	293
Net gain on disposal of investment properties		-	1,012
Change in fair value of investment properties			
- as per valuation	4	27,206	24,064
- unbilled lease income receivable		(2,271)	(3,568)
Fair value change on derivative liability		(366)	-
Net loss on financial liabilities measured at amortised cost		(86)	(598)
		147,923	137,319
<b>Net investment income</b>			
Manager's fees	1(b)	10,051	9,606
Trustee's fees	1(c)	515	495
Auditor's fees			
- audit		109	106
- other services		5	5
Tax agent's fees		26	21
Bad debts recovered		-	(97)
Impairment losses on trade receivables being (reversed)/recognised		(30)	188
Depreciation		152	55
Administrative expenses		1,384	1,206
Islamic financing cost		23,837	22,254
Valuation fees		593	364
		36,642	34,203
<b>Total expenses</b>			
		111,281	103,116
<b>Net income before tax</b>			
Income tax benefit	14	-	-
		111,281	103,116
<b>Net income for the year attributable to unitholders</b>			
<b>Other comprehensive income, net of tax</b>			
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Cash flow hedge		407	746
		111,688	103,862
<b>Total comprehensive income for the year attributable to unitholders</b>			

	Note	2013 RM'000	2012 RM'000
<b>Net income for the year is made up as follows:</b>			
Realised		<b>84,527</b>	79,650
Unrealised			
- Unrealised rental income (in relation to unbilled lease income receivable)		<b>2,271</b>	3,568
- Change in fair value of investment properties			
- as per valuation	4	<b>27,206</b>	24,064
- unbilled lease income receivable	4	<b>(2,271)</b>	(3,568)
- Net loss on financial liabilities measured at amortised cost		<b>(86)</b>	(598)
- Fair value change on derivative liability		<b>(366)</b>	-
		<b>26,754</b>	23,466
		<b>111,281</b>	103,116
<b>Earnings per unit (sen)</b>	15	<b>24.30</b>	22.68
<b>Number of units in circulation ('000 units)</b>		<b>461,239</b>	456,517
Earnings per unit (before manager's fee)			
- Gross (sen)		<b>26.49</b>	24.79
- Net (sen)		<b>26.49</b>	24.79
<b>Net income distribution</b>			
Interim income distribution of 13.80 sen per unit paid on 13 June 2013, 30 August 2013, and 13 December 2013 (2012: 13.00 sen per unit paid on 30 May 2012, 11 September 2012 and 29 November 2012)		<b>63,225</b>	59,112
Proposed final income distribution of 4.70 sen per unit payable on 28 February 2014 (2012: 5.60 sen per unit payable on 28 February 2013)		<b>21,678</b>	25,565
	16	<b>84,903</b>	84,677
<b>Distribution per unit</b>			
- Gross (sen) - interim	16	<b>13.80</b>	13.00
- final	16	<b>4.70</b>	5.60
- Net (sen) * - interim	16	<b>13.80</b>	13.00
- final	16	<b>4.70</b>	5.60

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

	Withholding tax rate	
	2013	2012
Resident corporate	Nil <sup>^</sup>	Nil <sup>^</sup>
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	25%	25%
Non-resident institutional	10%	10%

<sup>^</sup> to tax at prevailing rate

The notes on pages 134 to 166 are an integral part of these financial statements.

# Statement of **CHANGES IN NET ASSET VALUE**

For the year ended 31 December 2013

	Total unitholders' capital RM'000	Distributable Realised income RM'000	← Non-distributable → Unrealised income RM'000	Hedging reserves RM'000	Total unitholders' funds RM'000
<b>At 1 January 2012</b>	728,217	6,515	211,017	(1,652)	944,097
Net income for the year	-	79,650	23,466	-	103,116
Cash flow hedge	-	-	-	746	746
Realisation of unrealised income	-	4,918	(4,918)	-	-
<b>Total comprehensive income for the year</b>	-	84,568	18,548	746	103,862
<i>Contributions by and distributions to unitholders</i>					
Placement of units	7,244	-	-	-	7,244
Issuing expenses	(32)	-	-	-	(32)
Distribution to unitholders	-	(65,466)	-	-	(65,466)
<b>Total transactions with unitholders</b>	7,212	(65,466)	-	-	(58,254)
<b>At 31 December 2012/1 January 2013</b>	735,429	25,617	229,565	(906)	989,705
Net income for the year	-	84,527	26,754	-	111,281
Cash flow hedge	-	-	-	407	407
<b>Total comprehensive income for the year</b>	-	84,527	26,754	407	111,688
Cash flow hedge – reclassified to profit or loss upon termination of hedge	-	-	-	499	499
<i>Contributions by and distributions to unitholders</i>					
Placement of units	15,594	-	-	-	15,594
Issuing expenses	(57)	-	-	-	(57)
Distribution to unitholders	-	(88,789)	-	-	(88,789)
<b>Total transactions with unitholders</b>	15,537	(88,789)	-	-	(73,252)
<b>At 31 December 2013</b>	750,966	21,355	256,319	-	1,028,640

Note 9

The notes on pages 134 to 166 are an integral part of these financial statements.

# Statement of **CASH FLOWS**

For the year ended 31 December 2013

	Note	2013 RM'000	2012 RM'000
<b>Cash flows from operating activities</b>			
Net income before taxation		111,281	103,116
<i>Adjustments for:</i>			
Islamic financing cost		23,837	22,254
Profit income		(667)	(293)
Change in fair value of investment properties (net of unbilled lease income receivable)	4	(27,206)	(24,064)
Depreciation of equipment	5	152	55
Net loss on financial liabilities measured at amortised cost		86	598
Net gain on disposal of investment property		-	(1,012)
Fixed assets written off		-	91
Fair value change on derivative liability		366	-
<b>Operating income before changes in working capital</b>		<b>107,849</b>	100,745
Changes in working capital:			
Receivables, deposits and prepayments		22,553	9,263
Payables and accruals		5,163	8,501
Tenants' deposits		1,352	(931)
<b>Cash generated from operating activities</b>		<b>136,917</b>	117,578
Tax refunded		154	-
<b>Net cash generated from operating activities</b>		<b>137,071</b>	117,578
<b>Cash flows from investing activities</b>			
Profit income received		667	293
Acquisition of investment properties		-	(223,152)
Acquisition of equipment		(2,038)	(565)
Enhancement of investment properties	4	(28,523)	(18,123)
Net proceeds from disposal of investment property		3,400	1,772
<b>Net cash used in investing activities</b>		<b>(26,494)</b>	(239,775)
<b>Cash flows from financing activities</b>			
Islamic financing cost paid		(23,837)	(22,254)
(Repayment of)/Proceeds from financing		(21,505)	237,608
Proceeds from hire purchase		224	339
Income distribution paid to unitholders		(88,789)	(65,466)
Proceeds from issue of units		15,594	7,244
Issuing expenses	9	(57)	(32)
<b>Net cash (used in)/generated from financing activities</b>		<b>(118,370)</b>	157,439
Net (decrease)/increase in cash and cash equivalents		(7,793)	35,242
Cash and cash equivalents at 1 January		42,316	7,074
<b>Cash and cash equivalents at 31 December</b>	(i)	<b>34,523</b>	42,316

## (i) Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	Note	2013 RM'000	2012 RM'000
Cash and bank balances	7	10,617	4,372
Islamic deposits placed with licensed banks	7	24,206	38,244
		<b>34,823</b>	42,616
Less: Islamic deposits placed with a licensed bank - pledged	7	(300)	(300)
		<b>34,523</b>	42,316

The notes on pages 134 to 166 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 Third Principal Deed dated 28 November 2013 (“the Deed”) between Axis REIT Managers Berhad (“the Manager”) and RHB Trustees Berhad (formerly known as 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, the Securities Commission’s Guidelines for Islamic Real Estate Investment Trusts, the Listing Requirements 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**

Suite 11.1A, Level 11  
Menara Weld  
76 Jalan Raja Chulan  
50200 Kuala Lumpur

### **Principal place of business**

Penthouse, Menara Axis  
No. 2, Jalan 51A/223  
46100 Petaling Jaya  
Selangor Darul Ehsan

The financial statements as at and for the financial year ended 31 December 2013 comprise the financial statements of Axis-REIT and its special purpose entity (“SPE”), Axis REIT Sukuk Berhad, a company incorporated in Malaysia, whose principal activity is to raise financing on behalf of Axis-REIT.

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 structures of these services are 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 Trusts. 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% (2012: 1%) per annum of the Net Asset Value of Axis-REIT, calculated on a monthly accrual basis and payable monthly in arrears. The Manager’s fees for the year ended 31 December 2013 of RM10,051,289 (2012: RM9,606,059) is 1% (2012: 1%) of the monthly Net Asset Value.

The Manager is also entitled to receive an acquisition fee or a disposal fee of 1% or 0.5% of the purchase 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 financial year ended 31 December 2013 is nil as there was no acquisition made by Axis-REIT in 2013 (2012: RM2,321,400 which was 1% of the purchase price). The acquisition fees are included in the acquisition cost of the investment properties acquired (Note 4).

The disposal fee for the year ended 31 December 2013 is nil as there was no disposal by Axis-REIT which was completed in 2013 (2012: RM118,000 which was 0.5% of the disposal price).

### **(c) Trustee’s fees**

Pursuant to the Deed, the Trustee is entitled to receive a fee of 0.05% (2012: 0.05%) per annum of the Net Asset Value of Axis-REIT calculated on a monthly accrual basis and payable monthly in arrears. The trustee’s fees for the year ended 31 December 2013 is RM514,749 (2012: RM494,879).

The financial statements were approved by the Board of Directors of the Manager on 20 February 2014.

## 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, the Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and generally accepted accounting principles in Malaysia. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by Axis-REIT:

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014**

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies*

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014**

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Properties (Annual Improvements 2011-2013 Cycle)*

#### **MFRSs, Interpretations and amendments effective for a date yet to be confirmed**

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- MFRS 9, *Financial Instruments - Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

Axis-REIT plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2014 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014.
- from the annual period beginning on 1 July 2014 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014.

The initial applications of the accounting standards, amendments or interpretations are not expected to have any material financial impact to the current year and prior year financial statements of Axis-REIT.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 3.

# Notes to **THE FINANCIAL STATEMENTS**

## **2. Basis of preparation (continued)**

### **(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 is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

### **(d) Use of estimates and judgements**

The preparation of the financial statements in conformity with MFRSs 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 period in which the estimates are revised and in any future periods 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 disclosed in the 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, unless otherwise stated.

### **(a) Basis of consolidation**

#### **(i) Special purpose entity**

Axis-REIT has established a special purpose entity (“SPE”) for the purpose of raising financing on behalf of Axis-REIT for the acquisition of investment properties. An SPE is consolidated as if it is a subsidiary, if, based on an evaluation of the substance of its relationship with Axis-REIT and the SPE’s risks and rewards, Axis-REIT concludes that it controls the SPE. The SPE controlled by Axis-REIT was established under terms that impose strict limitations on the decision-making powers of the SPE’s management which result in Axis-REIT receiving the majority of the benefits related to the SPE’s operations and net assets, being exposed to the majority of risks incident to the SPE’s activities and retaining the majority of the residual or ownership risks related to the SPE or its assets.

### **(b) Financial instruments**

#### **(i) Initial recognition and measurement**

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, Axis-REIT becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

### 3. Significant accounting policies (continued)

#### (b) Financial instruments (continued)

##### (ii) Financial instrument categories and subsequent measurement

Axis-REIT categorises financial instruments as follows:

##### **Financial assets**

##### (a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Shariah-compliant derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

##### (b) Financing and receivables

Financing and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as financing and receivables are subsequently measured at amortised cost using the effective profit method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 3(h)(i)).

##### **Financial liabilities**

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Shariah-compliant derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

##### (iii) Hedge accounting

##### **Cash flow hedge**

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

# Notes to **THE FINANCIAL STATEMENTS**

## **3. Significant accounting policies (continued)**

### **(b) Financial instruments (continued)**

#### **(iii) Hedge accounting (continued)**

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

#### **(iv) Derecognition**

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### **(c) Investment properties**

#### **(i) Investment properties carried at fair value**

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

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

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.

### 3. Significant accounting policies (continued)

#### (c) Investment properties (continued)

##### (i) Investment properties carried at fair value (continued)

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.

##### (ii) Determination of fair value

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.

#### (d) Equipment

##### (i) Recognition and measurement

Items of equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

The gain or loss on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

##### (ii) Subsequent costs

The cost of replacing a component of an item of equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to Axis-REIT, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of equipment are recognised in profit or loss as incurred.

##### (iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

# Notes to **THE FINANCIAL STATEMENTS**

## 3. Significant accounting policies (continued)

### (d) Equipment (continued)

#### (iii) Depreciation (continued)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of equipment. The estimated useful lives for the current and comparative periods are per the following principal annual rates:

- Office equipment 10%
- Motor vehicles 20%
- Car park machine 10%
- Software 10%

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

### (e) Leases

#### (i) Finance lease

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.

#### (ii) Operating lease

Leases, where Axis-REIT does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on Axis-REIT's statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment properties and measured using fair value model.

### (f) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets are remeasured in accordance with Axis-REIT's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less costs of disposal.

### (g) Cash and cash equivalents

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

### (h) Impairment

#### (i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

### 3. Significant accounting policies (continued)

#### (h) Impairment (continued)

##### (i) Financial assets (continued)

An impairment loss in respect of financing and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account.

##### (ii) Other assets

The carrying amounts of other assets (except for investment property that is measured at fair value and non-current assets classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at the end of each reporting period 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 since the last impairment loss was recognised.

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 profit or loss in the financial year in which the reversals are recognised.

##### (i) Financing

Financing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective profit method.

##### (j) 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.

# Notes to **THE FINANCIAL STATEMENTS**

## 3. Significant accounting policies (continued)

### (k) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

#### (i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

#### (ii) Units

Units are classified as equity.

### (l) Revenue

#### (i) Rental income

Rental income consists of income from the letting of investment properties including lots and car parks, and other associated income.

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

#### (ii) Profit income

Profit income is recognised as it accrues using the effective profit method in profit or loss.

### (m) 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 Axis-REIT.

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) Islamic financing cost

Islamic financing cost incurred in connection with financing are expensed using the effective profit method, in the period in which they are incurred.

### (n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

### 3. Significant accounting policies (continued)

#### (n) Income tax (continued)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. 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 end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 3(c), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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 the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (o) Fair value measurement

From 1 January 2013, Axis-REIT adopted MFRS 13, Fair Value Measurement which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In accordance with the transitional provision of MFRS 13, Axis-REIT applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Axis-REIT's assets or liabilities other than the additional disclosures.

### 4. Investment properties

	Note	2013 RM'000	2012 RM'000
At 1 January		1,519,519	1,276,180
Acquisitions		-	223,152
Disposal		-	(22,000)
Reclassified as asset held for sale	8	(32,000)	-
Enhancements		28,523	18,123
Change in fair value		27,206	24,064
At 31 December		1,543,248	1,519,519
Included in the above are:			
Land and buildings at fair value		1,543,248	1,519,519

# Notes to THE FINANCIAL STATEMENTS

## 4. Investment properties (continued)

Description of property	Tenure of land	Term of lease (years)	Remaining term of lease (years)	Location	Existing use	Occupancy rates as at 31.12.2013 %	Fair value as at 31.12.2013 RM'000	Initial acquisition cost as at 31.12.2013 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2013 %
Menara Axis * ##	Leasehold	99	52	Petaling Jaya	Commercial	96.5	113,097	71,440	11.0
Crystal Plaza ^ ###	Leasehold	99	46	Petaling Jaya	Commercial	100.0	106,162	56,400	10.3
Axis Business Park ^ ###	Leasehold	99	47	Petaling Jaya	Office & Warehouse	100.0	112,398	84,600	10.9
Infinite Centre ^^ #	Leasehold	99	52	Petaling Jaya	Office & Warehouse	89.2	41,694	25,450	4.1
Axis Plaza ^^^ #	Freehold	-	-	Shah Alam	Office & Warehouse	89.3	32,000	22,500	3.1
Wisma Kemajuan ^^^^ #	Leasehold	99	52	Petaling Jaya	Office & Warehouse	92.8	56,890	29,192	5.5
Axis Business Campus ^ #	Leasehold	99	54/58	Petaling Jaya	Office & Workshop	-	68,000	32,681	6.6
Axis Shah Alam DC 1 * #	Freehold	-	-	Shah Alam	Factory/Warehouse	100.0	21,514	18,783	2.1
Giant Hypermarket ^^ #	Freehold	-	-	Sungai Petani	Warehouse	100.0	40,049	38,678	3.9
FCI Senai ^^^ #	Leasehold	60	54	Senai, Johor	Office & Factory	100.0	15,900	12,538	1.6
Fonterra HQ * #	Freehold	-	-	Shah Alam	Office & Warehouse	85.0	14,006	7,352	1.4
Quattro West ^^ ###	Leasehold	99	59	Petaling Jaya	Office	100.0	53,638	40,376	5.2
Srateq Data Centre ^^^^ #	Leasehold	99	55	Petaling Jaya	Office & Warehouse	100.0	52,698	37,549	5.1
BMW Centre PTP ^^^ #	Leasehold	60	42	Tanjung Pelepas	Office & Warehouse	100.0	29,684	27,470	2.9
Niro Warehouse ** #	Leasehold	60	38	Pasir Gudang	Office & Warehouse	100.0	17,000	14,811	1.7
Delfi Warehouse ** #	Leasehold	60	54	Pasir Gudang	Office & Warehouse	100.0	14,500	12,743	1.4
Axis Vista * ##	Leasehold	99	53	Petaling Jaya	Office & Warehouse	100.0	36,000	32,481	3.5
Axis Steel Centre ^^ #	Leasehold	99	89	Klang	Office & Warehouse	100.0	75,800	65,882	7.4
Bukit Raja Distribution Centre * ##	Freehold	-	-	Klang	Office & Warehouse	100.0	90,400	72,636	8.8
Seberang Prai Logistic Warehouse 1 *** #	Leasehold	60	40	Seberang Prai	Office & Warehouse	100.0	20,000	17,695	1.9
Seberang Prai Logistic Warehouse 2 *** #	Leasehold	60	40	Seberang Prai	Office & Warehouse	100.0	8,000	6,981	0.8
Tesco Bukit Indah ^^^ #	Freehold	-	-	Johor Bahru	Warehouse	100.0	90,000	76,750	8.8
Axis PDI Centre ^^^^	Leasehold	99	78	Kuala Langat	Office & Warehouse	100.0	92,107	86,146	9.0
Axis Technology Centre *	Leasehold	99	54	Petaling Jaya	Office & Warehouse	88.3	52,391	49,697	5.1
D8 Logistics Warehouse ** #	Leasehold	60	42	Johor Bahru	Warehouse	100.0	32,000	30,521	3.1
Axis Eureka ^^^^ #	Freehold	-	-	Cyberjaya	Office	91.6	54,500	52,050	5.3
Bayan Lepas Distribution Centre *** #	Leasehold	60	49	Bayan Lepas	Office & Warehouse	100.0	49,500	49,471	4.8
Seberang Prai Logistic Warehouse 3 *** #	Leasehold	60	39/55	Seberang Prai	Office & Warehouse	100.0	63,000	60,139	6.1
Emerson Industrial Facility Nilai **** #	Leasehold	99	82	Nilai	Office & Warehouse	100.0	29,320	27,011	2.9
Wisma Academy Parcel ^	Leasehold	99	49	Petaling Jaya	Office & Warehouse	90.0	77,000	74,242	7.5
The Annex ^	Leasehold	99	49	Petaling Jaya	Showroom & Warehouse	100.0	16,000	12,289	1.6
							1,575,248	1,246,554	
							(32,000)	(22,500)	
							1,543,248	1,224,054	

Investment property classified as asset held for sale (Note 8)

Investment properties

#### 4. Investment properties (continued)

- \* Menara Axis, Axis Shah Alam DC 1, Fonterra HQ, Axis Vista, Bukit Raja Distribution Centre and Axis Technology Centre, were valued on 2 August 2013, 13 March 2013, 3 May 2013, 2 December 2013, 4 June 2013 and 3 May 2013 respectively, by CB Richard Ellis (Malaysia) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\* Niro Warehouse, Delfi Warehouse and D8 Logistics Warehouse were valued on 13 September 2013, 13 September 2013 and 15 April 2013 respectively, by CB Richard Ellis (Johor) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\*\* Seberang Prai Logistic Warehouse 1, Seberang Prai Logistic Warehouse 2, Bayan Lepas Distribution Centre and Seberang Prai Logistic Warehouse 3 were valued on 5 June 2013, 5 June 2013, 28 February 2013 and 28 February 2013 respectively, by CB Richard Ellis (Penang) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\*\*\* Emerson Industrial Facility Nilai was valued on 3 December 2013 by KGV International Property Consultants (M) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison method of valuation.
- ^ Crystal Plaza, Axis Business Park, Axis Business Campus, Wisma Academy Parcel and The Annex were valued on 1 August 2013, 5 August 2013, 3 December 2013, 3 December 2013 and 3 December 2013 respectively, by PA International Property Consultants (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment and cost methods of valuation.
- ^^ Infinite Centre, Giant Hypermarket, Quattro West and Axis Steel Centre were valued on 1 August 2013, 4 June 2013, 8 May 2013 and 6 December 2013 respectively, by Rahim & Co Chartered Surveyors Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^^ Axis Plaza, FCI Senai, BMW Centre PTP and Tesco Bukit Indah, were valued on 30 July 2013, 3 July 2013, 4 June 2013 and 29 July 2013 respectively, by CH Williams Talhar & Wong Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^^^ Wisma Kemajuan, Strateq Data Centre, Axis PDI Centre and Axis Eureka were valued on 2 December 2013, 11 September 2013, 2 May 2013 and 5 December 2013 respectively, by First Pacific Valuers Property Consultants Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation.
- # These properties are charged to financial institutions for banking facilities granted to Axis-REIT (Note 11).
- ## These properties are charged to the Sukukholders for Islamic Medium Term Notes (“Sukuk”) of RM110.0 million in nominal value (Note 11).
- ### These properties are charged to the Sukukholders for Sukuk of RM155.0 million in nominal value (Note 11).

Included in the acquisition cost of investment properties is nil (2012: RM2,321,400) which relates to acquisition fees paid to the Manager (Note 1(b)).

# Notes to **THE FINANCIAL STATEMENTS**

## 4. Investment properties (continued)

The following are recognised in profit or loss in respect of investment properties:

	Note	2013 RM'000	2012 RM'000
<b>Gross revenue</b>			
- realised		141,314	132,673
- unrealised (in relation to unbilled lease income receivable)		2,271	3,568
	12	143,585	136,241
Property operating expenses	13	(20,812)	(20,125)
Net property income		122,773	116,116

### 4.1 Fair value information

MFRS 13 established a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The three levels are explained below:

#### Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

#### Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can access at the measurement date.

#### Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

#### Transfer between Level 1 and Level 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

#### Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

As at 31 December 2013, fair value of investment properties and investment property classified as asset held for sale amounting to RM1,543,248,000 and RM32,000,000 (Note 8), respectively, are categorised as Level 3 in accordance to MFRS 13, using unobservable inputs.

#### 4. Investment properties (continued)

##### 4.1 Fair value information (continued)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
<p>The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.</p>	<ul style="list-style-type: none"> <li>• Risk-adjusted capitalisation rates ranging from 6.50% - 8.25%.</li> <li>• Risk-adjusted discount rates ranging from 7.00% - 8.50%.</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Risk-adjusted capitalisation rates were lower (higher).</li> <li>• Risk-adjusted discount rates were lower (higher).</li> </ul>
<p>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.</p>	<ul style="list-style-type: none"> <li>• Adjusted land value ranging from RM27.00 per square foot – RM58.59 per square foot (weighted average value: RM34.00 per square foot).</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Adjusted land value per square foot was higher (lower).</li> </ul>
<p>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.</p>	<ul style="list-style-type: none"> <li>• Land value ranging from RM170 per square foot – RM210 per square foot.</li> <li>• Main floor area cost ranging from RM90 per square foot - RM110 per square foot.</li> <li>• Depreciation rates ranging from 0% - 33% per annum</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Land value were higher (lower).</li> <li>• Main floor area cost were higher (lower).</li> <li>• Depreciation rates were lower (higher).</li> </ul>

##### Valuation processes applied by Axis-REIT for Level 3 fair value

The fair value of investment properties is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. A valuation is carried out on each property within Axis-REIT's investment property portfolio once every calendar year.

##### Highest and best use

Axis-REIT's current use of the properties are their highest and best uses as there are no other factors to suggest that a different use would maximise the value of the properties.

# Notes to THE FINANCIAL STATEMENTS

## 4. Investment properties (continued)

Description of property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2012 %	Fair value as at 31.12.2012 RM'000	Initial acquisition cost as at 31.12.2012 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2012 %
Menara Axis * #	Leasehold	99	53	Petaling Jaya	Commercial	100.0	108,000	71,440	10.9
Crystal Plaza ** #	Leasehold	99	47	Petaling Jaya	Commercial	100.0	103,100	56,400	10.4
Axis Business Park *** #	Leasehold	99	48	Petaling Jaya	Office & Warehouse	100.0	109,000	84,600	11.0
Infinite Centre *** #	Leasehold	99	53	Petaling Jaya	Office & Warehouse	95.6	38,000	25,450	3.8
Axis Plaza *** #	Freehold	-	-	Shah Alam	Office & Warehouse	89.3	31,000	22,500	3.1
Wisma Kemajuan ^ #	Leasehold	99	53	Petaling Jaya	Office & Warehouse	88.0	55,330	29,192	5.6
Axis Business Campus * #	Leasehold	99	55/59	Petaling Jaya	Office & Workshop	15.7	48,009	32,681	4.9
Axis Shah Alam DC 1 ^^^ #	Freehold	-	-	Shah Alam	Factory/Warehouse	100.0	21,500	18,783	2.2
Giant Hypermarket ^^ #	Freehold	-	-	Sungai Petani	Warehouse	100.0	39,600	38,678	4.0
FCI Senai **** #	Leasehold	60	55	Senai, Johor	Office & Factory	100.0	15,000	12,538	1.5
Fonterra HQ ^^ #	Freehold	-	-	Shah Alam	Office & Warehouse	84.96	13,500	7,352	1.4
Quattro West *	Leasehold	99	60	Petaling Jaya	Office	100.0	53,000	40,376	5.4
Strateq Data Centre *** #	Leasehold	99	56	Petaling Jaya	Office & Warehouse	100.0	52,000	37,549	5.3
BMW Centre PTP **** #	Leasehold	60	43	Tanjung Pelepas	Office & Warehouse	100.0	29,000	27,470	2.9
Niro Warehouse ^^ #	Leasehold	60	39	Pasir Gudang	Office & Warehouse	100.0	16,200	14,811	1.6
Delfi Warehouse ^^ #	Leasehold	60	55	Pasir Gudang	Office & Warehouse	100.0	14,000	12,743	1.4
Axis Vista *** ##	Leasehold	99	54	Petaling Jaya	Office & Warehouse	100.0	36,000	32,481	3.6
Axis Steel Centre ** ##	Leasehold	99	90	Klang	Office & Warehouse	100.0	75,375	65,882	7.6
Bukit Raja Distribution Centre ^^ #	Freehold	-	-	Klang	Office & Warehouse	100.0	90,000	72,636	9.1
Seberang Prai Logistic Warehouse 1 ^^^ #	Leasehold	60	41	Seberang Prai	Office & Warehouse	100.0	19,600	17,695	2.0
Seberang Prai Logistic Warehouse 2 ^^^ #	Leasehold	60	41	Seberang Prai	Office & Warehouse	100.0	7,700	6,981	0.8
Tesco Bukit Indah **** ##	Freehold	-	-	Johor Bahru	Warehouse	100.0	87,000	76,750	8.8
Axis PDI Centre *	Leasehold	99	79	Kuala Langat	Office & Warehouse	100.0	92,000	86,146	9.3
Axis Technology Centre *	Leasehold	99	55	Petaling Jaya	Office & Warehouse	98.1	52,000	49,697	5.3
D8 Logistics Warehouse ^^^ #	Leasehold	60	43	Johor Bahru	Warehouse	100.0	31,600	30,521	3.2
Axis Eureka ^^ #	Freehold	-	-	Cyberjaya	Office	91.6	53,700	52,050	5.4
Bayan Lepas Distribution Centre *** #	Leasehold	60	50	Bayan Lepas	Office & Warehouse	100.0	49,500	49,471	5.0
Seberang Prai Logistic Warehouse 3 ***	Leasehold	60	40/56	Seberang Prai	Office & Warehouse	100.0	63,000	60,139	6.4
Emerson Industrial Facility Nilai *^ #	Leasehold	99	83	Nilai	Office & Warehouse	100.0	27,805	27,011	2.8
Wisma Academy Parcel*	Leasehold	99	50	Petaling Jaya	Office & Warehouse	100.0	73,000	74,242	7.4
The Annex*	Leasehold	99	50	Petaling Jaya	Showroom & Warehouse	100.0	15,000	12,289	1.5
Investment properties							1,519,519	1,246,554	

#### 4. Investment properties (continued)

- \* Menara Axis, Quattro West, Axis Business Campus, Axis PDI Centre, Axis Technology Centre, Wisma Academy Parcel and The Annex were valued on 28 November 2012, 28 November 2012, 4 May 2012, 7 December 2012, 28 November 2012, 27 April 2012 and 27 April 2012 respectively, by PA International Property Consultant (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the cost and investment methods of valuation.
- \*\* Crystal Plaza and Axis Steel Centre were valued on 6 December 2012 and 30 March 2012 respectively, by Rahim & Co Chartered Surveyors Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\*\* Axis Business Park, Infinite Centre, Axis Plaza, Strateq Data Centre, Axis Vista, Bayan Lepas Distribution Centre and Seberang Prai Warehouse 3 were valued on 30 November 2012, 30 November 2012, 24 July 2012, 30 November 2012, 30 November 2012, 18 July 2012 and 19 July 2012 respectively, by CB Richard Ellis (Malaysia) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\*\*\* FCI Senai, BMW Centre PTP and Tesco Bukit Indah were valued on 5 December 2012, 5 December 2012 and 5 December 2012 respectively, by CB Richard Ellis (Johor) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^ Wisma Kemajuan was valued on 1 December 2012 by First Pacific Valuers Property Consultants Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^ Giant Hypermarket was valued on 10 December 2012 by Cheston International (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^^ Axis Shah Alam DC 1, Fonterra HQ, Niro Warehouse, Delfi Warehouse, Bukit Raja Distribution Centre, Seberang Prai Logistic Warehouse 1, Seberang Prai Logistic Warehouse 2, D8 Logistics Warehouse and Axis Eureka were valued on 20 July 2012, 23 July 2012, 24 July 2012, 24 July 2012, 6 December 2012, 4 December 2012, 7 December 2012, 30 November 2012 and 7 December 2012 respectively, by CH Williams Talhar & Wong Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*^ Emerson Industrial Facility Nilai was valued on 9 January 2012 by KGV International Property Consultants (M) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- # These properties are charged to financial institutions for banking facilities granted to Axis-REIT (Note 11).
- ## These properties are charged to the Sukukholders for Sukuk of RM110.0 million in nominal value (Note 11).

# Notes to **THE FINANCIAL STATEMENTS**

## 5. Equipment

	Office equipment RM'000	Motor vehicle RM'000	Car park machine RM'000	Software RM'000	Total RM'000
<b>Cost</b>					
At 1 January 2012	11	93	-	-	104
Additions	1	-	564	-	565
Written off	-	(93)	-	-	(93)
At 31 December 2012/ 1 January 2013	12	-	564	-	576
Additions	3	-	1,541	494	2,038
At 31 December 2013	<b>15</b>	<b>-</b>	<b>2,105</b>	<b>494</b>	<b>2,614</b>
<b>Accumulated depreciation</b>					
At 1 January 2012	-	2	-	-	2
Depreciation for the year	1	-	54	-	55
Written off	-	(2)	-	-	(2)
At 31 December 2012/ 1 January 2013	1	-	54	-	55
Depreciation for the year	1	-	117	34	152
At 31 December 2013	<b>2</b>	<b>-</b>	<b>171</b>	<b>34</b>	<b>207</b>
<b>Carrying amounts</b>					
At 31 December 2013	<b>13</b>	<b>-</b>	<b>1,934</b>	<b>460</b>	<b>2,407</b>
At 31 December 2012	11	-	510	-	521

## 6. Receivables, deposits and prepayments

	2013 RM'000	2012 RM'000
<b>Trade</b>		
Trade receivables	<b>1,072</b>	2,902
<b>Non-trade</b>		
Other receivables	<b>718</b>	21,963
Prepayments and deposits	<b>2,255</b>	1,733
	<b>2,973</b>	23,696
	<b>4,045</b>	26,598

## 7. Cash and cash equivalents

	2013 RM'000	2012 RM'000
Cash and bank balances	<b>10,617</b>	4,372
Islamic deposits placed with licensed banks	<b>24,206</b>	38,244
	<b>34,823</b>	42,616

Included in Islamic deposits placed with licensed banks is an amount of RM300,000 (2012: RM300,000) which is pledged for banking facilities granted to Axis-REIT (Note 11).

## 8. Asset classified as held for sale

On 26 December 2013, Axis-REIT entered into a sale and purchase agreement for the disposal of an investment property, Axis Plaza (“the Property”) for a total consideration of RM34,000,000. Accordingly, the Property was classified as asset held for sale.

As at 31 December 2013, the Property has a carrying value of RM32,000,000 (Note 4). The carrying value of the Property is the same as its fair value before being reclassified to current asset.

The disposal of the Property is targeted to be completed in April 2014.

## 9. Total unitholders' funds

### 9.1 Unitholders' capital

	<b>2013</b> Number of units '000	<b>2012</b> Number of units '000
Authorised:		
At 1 January	<b>456,517</b>	453,814
Increased during the year	<b>4,722</b>	2,703
At 31 December	<b>461,239</b>	456,517
Issued and fully paid up:		
At 1 January	<b>456,517</b>	453,814
Issued under Income Distribution Reinvestment Plan (“IDRP”)	<b>4,722</b>	2,703
At 31 December	<b>461,239</b>	456,517
	<b>2013</b> RM'000	<b>2012</b> RM'000
At 1 January	<b>735,429</b>	728,217
Issue of new units:		
2,423,762 units @ RM3.40 per unit and 2,298,106 units @ RM3.20 per unit (2012: 2,703,125 units @ RM2.68 per unit)	<b>15,594</b>	7,244
Issuing expenses (Note 17)	<b>(57)</b>	(32)
At 31 December	<b>750,966</b>	735,429

# Notes to **THE FINANCIAL STATEMENTS**

## 9. Total unitholders' funds (continued)

### 9.2 Unitholdings of substantial unitholders, Directors and their related parties

As at 31 December 2013, the Manager did not hold any units in Axis-REIT. However, the Directors of the Manager and their related parties held units in Axis-REIT, details of which are as follows:

	2013		2012	
	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:				
Tew Peng Hwee @ Teoh Peng Hwee	27,000	79,110	27,201	85,139
Alex Lee Lao #	24,723	72,438	24,428	76,460
The Manager's Directors' direct unitholdings in Axis-REIT:				
Dato' Abas Carl Gunnar Bin Abdullah	13,967	40,923	15,701	49,114
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	10	29	10	31
Tew Peng Hwee @ Teoh Peng Hwee	27,000	79,110	27,201	85,139
Dato' George Stewart LaBrooy	171	501	187	585
Alex Lee Lao #	24,723	72,438	24,428	76,460
Leong Kit May	21	62	20	63
The Manager's Directors' indirect unitholdings in Axis-REIT:				
Dato' Abas Carl Gunnar Bin Abdullah*	4,995	14,636	4,901	15,340
Alex Lee Lao**	1,530	4,483	1,422	4,451
Direct unitholdings of close family members of the Manager's Directors:				
Datin Kuyas Emiloglu (also known as Ka Ya-Shih)	4,960	14,533	4,901	15,340
Leon Lee Lao	1,119	3,279	1,016	3,180
Yin-Yong Lee Lao	411	1,204	406	1,271
Tan Siew Geok	344	1,008	340	1,064
Tunku Samira Amelia Binti Tunku Shahabuddin	-	-	407	1,274
Jeanette Ivy Robertson Lomax	407	1,193	-	-
Amanda Tan Myhre	35	103	-	-
John Lee Lao	304	891	300	939
Dean Lee Lao	603	1,767	600	1,878
Datin Janet Mary Kay	20	59	-	-

Notes:

# Alex Lee Lao is an alternate director to Dato' Abas Carl Gunnar Bin Abdullah.

\* Deemed interested in the direct unitholdings of his spouse, Datin Kuyas Emiloglu (also known as Ka Ya-Shih), and his daughter, Amanda Tan Myhre.

\*\* Deemed interested in the direct unitholdings of his brothers, Yin-Yong Lee Lao and Leon Lee Lao.

The market value of the units was determined by multiplying the number of units with the market price as at 31 December 2013 of RM2.93 (2012: RM3.13).

## 9. Total unitholders' funds (continued)

### 9.3 Reserves

	2013 RM'000	2012 RM'000
Undistributed income	277,674	255,182
Hedging reserve	-	(906)
	<b>277,674</b>	254,276

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

### 9.4 Breakdown of realised and unrealised net income

The breakdown of the undistributed income of Axis-REIT as at 31 December 2013, into realised and unrealised net income, pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	2013 RM'000	2012 RM'000
<b>Total undistributed income of Axis-REIT</b>		
- realised	21,355	25,617
- unrealised	256,319	229,565
Total undistributed income	<b>277,674</b>	255,182

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The unrealised income relates to the cumulative fair value adjustment to investment properties (Note 4), net gain on financial liabilities measured at amortised cost and unbilled lease income receivable.

## 10. Payables and accruals

	2013 RM'000	2012 RM'000
<b>Non-Current</b>		
<b>Non-trade</b>		
Tenants' deposits - payable after 12 months	24,936	26,700
<b>Current</b>		
<b>Trade</b>		
Trade payables	4,422	1,878
<b>Non-trade</b>		
Tenants' deposits - payable within 12 months	15,861	12,659
Other payables and accrued expenses	14,294	8,275
Derivative liability	366	906
	<b>34,943</b>	23,718
	<b>59,879</b>	50,418

Included in other payables and accrued expenses are amounts due to the Manager and the Property Manager of RM999,000 (2012: RM919,000) and RM485,000 (2012: RM434,000) respectively, which are unsecured, interest-free, and payable monthly in arrears.

# Notes to **THE FINANCIAL STATEMENTS**

## 11. Financing

	Note	2013 RM'000	2012 RM'000
<b>Non-current</b>			
Secured term financing		-	100,000
Islamic medium term notes ("Sukuk")	11.1	<b>265,000</b>	110,000
Finance lease liability	11.2	<b>416</b>	78
Transaction costs			
- Secured term financing		-	(434)
- Sukuk	11.1	<b>(1,559)</b>	(1,220)
		<b>263,857</b>	208,424
<b>Current</b>			
Secured term financing		-	50,000
Secured revolving credit		<b>264,000</b>	290,600
Finance lease liability	11.2	<b>147</b>	261
		<b>264,147</b>	340,861
		<b>528,004</b>	549,285

The financing is secured over investment properties as disclosed in Note 4.

### 11.1 Islamic Medium Term Notes ("Sukuk")

#### First Sukuk

On 13 July 2012, Axis-REIT, via its special purpose entity, Axis REIT Sukuk Berhad, issued RM110.0 million Sukuk in nominal value pursuant to an Islamic Medium Term Notes Programme ("Sukuk Programme") of up to RM300.0 million in nominal value.

The tenure of the Sukuk Programme is fifteen (15) years from the date of the first Sukuk issuance on 13 July 2012. The Sukuk of RM110.0 million was issued to re-finance Axis-REIT's existing financing facilities. The Sukuk, which comprise of four tranches have obtained long-term ratings of AAA, AA1, AA2 and AA3 respectively by RAM Rating Services Berhad ("RAM"). The expected maturity date is 10 years from the issuance date and the legal maturity date is 12 years from the issuance date.

The transaction costs relating to the first Sukuk issuance of RM110.0 million which amounted to RM1.277 million are amortised and charged to profit or loss over the expected tenure of the Sukuk of 10 years.

The first Sukuk issue is secured inter-alia by the following:

1. A first ranking third party legal charge over the following properties of Axis-REIT:
  - (i) H.S.(D) 77831, Lot Plot 19, Bandar Sultan Sulaiman, Daerah Klang, State of Selangor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Axis Steel Centre");
  - (ii) H.S.(D) 159847, Lot PT 11, Bandar Petaling Jaya, Daerah Petaling, State of Selangor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Axis Vista");
  - (iii) GRN 59001, Lot 26028 and H.S.(D) 99548, PT 48025, both in the Mukim Kapar, Daerah Klang, State of Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Bukit Raja Distribution Centre"); and
  - (iv) GRN 427597, Lot 138207, Mukim Pulai, Daerah Johor Bahru, State of Johor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Tesco Bukit Indah").

## 11. Financing (continued)

### 11.1 Islamic Medium Term Notes (“Sukuk”) (continued)

#### First Sukuk (continued)

- Other securities as advised by the legal counsel of CIMB Investment Bank Berhad (“the Lead Manager”) and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

#### Second Sukuk

On 15 August 2013, Axis-REIT, via its special purpose entity, Axis REIT Sukuk Berhad, issued RM155.0 million Sukuk in nominal value pursuant to the Sukuk Programme.

The Sukuk of RM155.0 million was issued to re-finance Axis-REIT’s existing financing facilities. The Sukuk, which comprise of five tranches have obtained long-term ratings of AAA, AAA, AA1, AA2 and AA3 respectively by RAM. The expected maturity dates are 7 years for RM70.0 million and 5 years for RM85.0 million from the issuance dates and the legal maturity dates are 9.5 years and 7.5 years from the issuance date, respectively.

The transaction costs relating to the second Sukuk issuance of RM155.0 million which amounted to RM525,000 are amortised and charged to profit or loss over the expected tenure of the Sukuk of 7 years and 5 years.

The second Sukuk issue is secured inter-alia by the following:

- A first ranking third party legal charge over the following properties of Axis-REIT:
  - PN 12419, Lot No. 91, Seksyen 13, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof (“Axis Business Park”);
  - PN 50492, Lot No. 1476, Seksyen 14, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof (“Crystal Plaza”);
  - PN 6871, Lot No. 309, Seksyen 14, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof (“Menara Axis”); and
  - H.S.(D) 59450, PT No. 4, Seksyen 26, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof (“Quattro West”).
- Other securities as advised by the legal counsel of the Lead Manager and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

### 11.2 Finance lease liability

Finance lease liability is subject to effective interest at 3.5% (2012: 3.5%) per annum.

Finance lease liability is payable as follows:

	Payments 2013 RM'000	Interest 2013 RM'000	Principal 2013 RM'000	Payments 2012 RM'000	Interest 2012 RM'000	Principal 2012 RM'000
Less than one year	173	26	147	99	21	78
Between one and five years	488	72	416	299	38	261
	661	98	563	398	59	339

# Notes to **THE FINANCIAL STATEMENTS**

## 12. Gross revenue

	2013 RM'000	2012 RM'000
Rental income from investment properties		
- realised	133,008	126,394
- unrealised (in relation to unbilled lease income receivable)	2,271	3,568
Car park income	5,572	4,284
Other income	2,734	1,995
	<b>143,585</b>	136,241

## 13. Property operating expenses

	2013 RM'000	2012 RM'000
Assessment	3,352	3,258
Service contracts and maintenance	5,550	5,284
Property management fees	3,020	2,826
Property management reimbursements	2,511	2,045
Utilities	3,900	4,347
Others	2,479	2,365
	<b>20,812</b>	20,125

## 14. Income tax expense

	2013 RM'000	2012 RM'000
<b>Reconciliation of tax expense</b>		
Net income before taxation	111,281	103,116
Income tax using Malaysian tax rate of 25%	27,820	25,779
Non-deductible expenses	472	227
Effect of fair value change on investment properties which is not subject to tax	(6,801)	(6,016)
Effect of income exempted from tax	(21,491)	(19,990)
	-	-

Pursuant to the amendment to 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 exempted from tax.

## 15. Earnings per unit

The calculation of earnings per unit is based on the net income for the year of RM111,281,000 (2012: RM103,116,000) and on the weighted average number of units in circulation during the year of 457,952,689 (2012: 454,633,896).

## 16. Distribution to unitholders

Distribution to unitholders is from the following sources:

	2013 RM'000	2012 RM'000
Net realised rental income		
- current year	120,500	112,548
- prior year (already subject to tax)	295	161
Realisation of unrealised income	-	4,918
Gain on disposal	-	1,012
Profit income	667	293
	<b>121,462</b>	118,932
Less: Total expenses	<b>(36,642)</b>	(34,203)
	<b>84,820</b>	84,729
Adjustments to earnings available for distribution:		
- depreciation	152	55
- impairment losses on trade receivables	(30)	188
	<b>84,942</b>	84,972
Less: Undistributed income	<b>(39)</b>	(295)
	<b>84,903</b>	84,677
Gross distribution per unit (sen)	<b>18.50</b>	18.60
Net distribution per unit (sen)	<b>18.50</b>	18.60

## 17. Issuing expenses

	2013 RM'000	2012 RM'000
Professional fees	47	23
Miscellaneous expenses	10	9
Total (Note 9.1)	<b>57</b>	32

## 18. Portfolio turnover ratio

	2013	2012
Portfolio Turnover Ratio ("PTR") (times)	-	0.04

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 calculated on a quarterly basis.

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.

# Notes to **THE FINANCIAL STATEMENTS**

## 19. Management expense ratio

	2013	2012
Management expense ratio ("MER") (%)	1.25	1.12

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 calculated on a quarterly basis. 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.

## 20. Financial instruments

### 20.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

	Carrying amounts RM'000	Financing and receivables RM'000
<b>Financial assets</b>		
<b>2013</b>		
Receivables and deposits	3,288	3,288
Cash and cash equivalents	34,823	34,823
	<b>38,111</b>	<b>38,111</b>
<b>2012</b>		
Receivables and deposits	26,077	26,077
Cash and cash equivalents	42,616	42,616
	<b>68,693</b>	<b>68,693</b>

	Carrying amounts RM'000	Financial liabilities measured at amortised cost RM'000	Fair value through profit or loss-held for trading RM'000	Derivatives designated as hedging instruments RM'000
<b>Financial liabilities</b>				
<b>2013</b>				
Payables and accruals	19,082	18,716	366	-
Tenants' deposits	40,797	40,797	-	-
Financing	527,441	527,441	-	-
Finance lease liability	563	563	-	-
	<b>587,883</b>	<b>587,517</b>	<b>366</b>	<b>-</b>
<b>2012</b>				
Payables and accruals	11,059	10,153	-	906
Tenants' deposits	39,359	39,359	-	-
Financing	548,946	548,946	-	-
Finance lease liability	339	339	-	-
	<b>599,703</b>	<b>598,797</b>	<b>-</b>	<b>906</b>

## 20. Financial instruments (continued)

### 20.2 Net gains/(losses) arising from financial instruments

	2013 RM'000	2012 RM'000
Net gains/(losses) on:		
Derivative liability		
- change in fair value	133	-
- reclassified to profit or loss upon termination of hedge	(499)	-
Financing and receivables	30	(188)
Financial liabilities measured at amortised cost	(86)	(598)
<b>Total</b>	<b>(422)</b>	<b>(786)</b>

### 20.3 Financial risk management

Axis-REIT has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

### 20.4 Credit risk

Credit risk is the risk of a financial loss to Axis-REIT if the tenants or counterparty to a financial instrument fails to meet its contractual obligations. Axis-REIT's exposure to credit risk arises principally from its receivables from tenants. Axis-REIT performs ongoing credit evaluation of its tenants and generally does not require collateral other than tenants' deposits.

*Risk management objectives, policies and processes for managing the risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amount in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. Axis-REIT uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables as at the end of the reporting period amounts to RM1,723,000 (2012: RM3,625,000) and are secured by tenants' deposits.

# Notes to **THE FINANCIAL STATEMENTS**

## 20. Financial instruments (continued)

### 20.4 Credit risk (continued)

#### Impairment

Axis-REIT maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
<b>2013</b>			
Past due 1-30 days	(233)	-	(233)
Past due 31-60 days	70	-	70
Past due 61-90 days	(2)	-	(2)
Past due more than 91 days	1,888	(651)	1,237
	<b>1,723</b>	<b>(651)</b>	<b>1,072</b>
<b>2012</b>			
Past due 1-30 days	900	-	900
Past due 31-60 days	511	-	511
Past due 61-90 days	170	(62)	108
Past due more than 91 days	2,044	(661)	1,383
	<b>3,625</b>	<b>(723)</b>	<b>2,902</b>

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	2013 RM'000	2012 RM'000
At 1 January	723	535
Impairment loss recognised	-	188
Impairment loss reversed	(30)	-
Impairment loss written off	(42)	-
At 31 December	<b>651</b>	723

Trade receivables that are individually determined to be impaired relates to tenants who are in significant financial difficulties and have defaulted in payments after taking into consideration the security deposits received from the tenants. For the purpose of quantifying individual impairment, Axis-REIT utilises the security deposits received to first off-set against the longest outstanding receivables. The allowance account in respect of receivables is used to record impairment losses. Unless Axis-REIT is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

### 20.5 Liquidity risk

Liquidity risk is the risk that Axis-REIT will not be able to meet its financial obligations as they fall due. Axis-REIT's exposure to liquidity risk arises principally from its financing.

The Manager monitors and maintains a level of cash and cash equivalents and bank facilities deemed adequate to finance Axis-REIT's operations, to distribute income to unitholders, 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 Trusts concerning limits on total financing.

## 20. Financial instruments (continued)

### 20.5 Liquidity risk (continued)

#### Maturity analysis

The table below summarises the maturity profile of Axis-REIT's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amounts RM'000	Contractual interest rate %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
<b>Financial liabilities 2013</b>							
Payables and accruals	19,082	-	19,082	19,082	-	-	-
Tenants' deposits	40,797	4.19	47,242	15,861	8,765	9,916	12,700
Revolving credit	264,000	4.02 – 4.19	264,897	264,897	-	-	-
Finance lease liability	563	3.50	661	173	173	315	-
Islamic medium term notes ("Sukuk")	263,441	4.13 – 4.61	349,492	11,440	11,440	114,066	212,546
	<b>587,883</b>		<b>681,374</b>	<b>311,453</b>	<b>20,378</b>	<b>124,297</b>	<b>225,246</b>
<b>2012</b>							
Payables and accruals	11,059	-	11,059	11,059	-	-	-
Tenants' deposits	39,359	4.05	45,891	12,659	10,856	8,431	13,945
Term financing							
- 3 years	50,000	4.85	50,864	50,864	-	-	-
- 5 years	99,566	5.63	110,853	5,716	105,137	-	-
Revolving credit	290,600	3.96 - 4.35	291,300	291,300	-	-	-
Finance lease liability	339	3.50	399	99	99	201	-
Sukuk	108,780	4.61	160,710	5,071	5,071	15,213	135,355
	<b>599,703</b>		<b>671,076</b>	<b>376,768</b>	<b>121,163</b>	<b>23,845</b>	<b>149,300</b>

### 20.6 Market risk

Market risk is the risk that changes in market prices such as interest rates will affect Axis-REIT's financial position or cash flows.

#### Interest rate risk

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

#### Risk management objectives, policies and processes for managing the risk

Axis-REIT entered into a profit rate swap with a notional contract amount of RM50,000,000 (2012: RM100,000,000) in order to achieve an approximate mix of fixed and floating rate exposure that is deemed acceptable for Axis-REIT.

# Notes to **THE FINANCIAL STATEMENTS**

## 20. Financial instruments (continued)

### 20.6 Market risk (continued)

#### Interest rate risk (continued)

*Exposure to interest rate risk*

The profit rate profile of Axis-REIT's significant interest-related financial instruments, based on carrying amounts at the end of the reporting period was:

	2013 RM'000	2012 RM'000
<b>Financial asset</b>		
<b>Floating rate instrument</b>		
Islamic deposits with licensed banks	24,206	38,244
<b>Financial liabilities</b>		
<b>Fixed rate instruments</b>		
Term financing	-	53,629
Finance lease liability	563	339
Sukuk	263,441	108,780
	<b>264,004</b>	<b>162,748</b>
<b>Floating rate instruments</b>		
Revolving credit	264,000	290,600
Term financing	-	95,937
	<b>264,000</b>	<b>386,537</b>

*Interest rate risk sensitivity analysis*

(a) *Fair value sensitivity analysis*

Axis-REIT does not account for any fixed rate financial liabilities at fair value through profit or loss, and Axis-REIT does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) *Cash flow sensitivity analysis*

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased/ (decreased) unitholders' funds and post-tax profit or loss by the amounts shown below.

	Unitholders' funds		Profit or loss	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
<b>2013</b>				
Floating rate instruments	-	-	(1,798)	1,798
Profit rate swap	-	-	(375)	375
<b>2012</b>				
Floating rate instruments	-	-	(2,612)	2,612
Profit rate swap	750	(750)	-	-

### 20.7 Cash flow hedge

Axis-REIT previously entered into a profit rate swap to hedge its cash flow risk in relation to the floating profit rate of the secured Islamic financing. Both the secured Islamic financing and the profit rate swap had the same nominal value. The profit income was settled every three monthly, consistent with the profit payment schedule of the financing and full payment of the principal portion was at the end of the tenure.

## 20. Financial instruments (continued)

### 20.7 Cash flow hedge (continued)

During the financial year, the secured Islamic financing was settled in full and the hedge was discontinued. As a result of this, RM499,000 was reclassified from equity to profit or loss.

### 20.8 Fair value information

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

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value RM'000	Carrying amounts RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000		
<b>2013</b>								
<b>Financial liabilities</b>								
Tenants' deposits	-	-	-	-	-	40,797	40,797	40,797
Financing	-	-	-	-	265,195	254,244	519,439	527,441
Finance lease liability	-	-	-	-	-	661	661	563
Derivative liability	-	366	-	366	-	-	-	366
	-	366	-	366	-	265,195	560,897	569,167
<b>2012</b>								
<b>Financial liabilities</b>								
Tenants' deposits	-*	-*	-*	-*	-*	-*	39,359	39,359
Financing	-*	-*	-*	-*	-*	-*	545,237	548,946
Finance lease liability	-*	-*	-*	-*	-*	-*	339	339
Derivative liability	-	906	-	906	-	-	906	906
	-	906	-	906	-	-	584,935	589,550

\* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

# Notes to **THE FINANCIAL STATEMENTS**

## 20. Financial instruments (continued)

### 20.8 Fair value information (continued)

#### Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

#### Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

#### Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

#### Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year.

#### Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

The following table shows the valuation techniques used in the determination of fair values within Level 3.

*Financial instruments not carried at fair value*

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Tenants' deposit	Discounted cash flows	Profit rate of 4.19% (2012: 4.05%)	The estimated fair value would increase (decrease) if discount rate is lower (higher).
Financing	Discounted cash flows	Profit rate of 4.19% (2012: 4.05%)	The estimated fair value would increase (decrease) if discount rate is lower (higher).
Finance lease liability	Discounted cash flows	Profit rate of 3.50% (2012:3.50%)	The estimated fair value would increase (decrease) if discount rate is lower (higher).

## 21. Capital management

Axis-REIT's objectives when managing capital is to maintain a strong capital base and safeguard Axis-REIT's ability to continue as a going concern, so as to maintain unitholder, creditor and market confidence and to sustain future development of the business. The Directors of the Manager monitor and are determined to maintain an optimal gearing ratio that complies with regulatory requirements.

During 2013, Axis-REIT's strategy, which was unchanged from 2012, was to maintain a maximum gearing threshold of 35%, which is below the optimal gearing threshold allowed by the Securities Commission's Guidelines on Real Estate Investment Trusts of 50%. The gearing ratio at 31 December 2013 and at 31 December 2012 was as follows:

	Note	2013 RM'000	2012 RM'000
Total financing	11	528,004	549,285
Total assets		1,616,523	1,589,408
Gearing ratio (%)		32.66	34.56

There was no change in Axis-REIT's approach to capital management during the financial year.

## 22. Operating leases

### Leases as lessor

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

	2013 RM'000	2012 RM'000
Less than one year	104,601	118,186
Between one and five years	200,049	202,277
More than five years	218,718	331,482
	523,368	651,945

## 23. Operating segments

Segment information is presented based on the information reviewed by Axis-REIT's Chief Operating Decision Makers ("CODMs") for performance assessment and resource allocation. For the purpose of the assessment of segment performance, Axis-REIT's CODMs have focused on its investment properties. This forms the basis of identifying the operating segments of Axis-REIT under MFRS 8, *Operating Segments*.

As the investment properties are similar in terms of economic characteristics and nature of services, the CODMs are of the view that Axis-REIT only has one reportable segment – leasing of investment properties.

Accordingly, no operating segment information has been prepared as Axis-REIT only has one reportable segment.

No geographical segment information has been prepared as all the investment properties of Axis-REIT are located in Malaysia.

## 24. Capital commitments

### Capital expenditure commitments

#### Investment properties

Contracted but not provided for and payable:

- Within one year

	2013 RM'000	2012 RM'000
	10,761	23,920

# Notes to **THE FINANCIAL STATEMENTS**

## 25. Related parties

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.

Related parties also include key management personnel 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 the Manager and the Trustee and certain members of senior management of the Manager and the Trustee.

### Significant related party transactions

Related party 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.

	2013 RM'000	2012 RM'000
Acquisition cost of investment properties payable to a related party of the Directors of the Manager	-	85,000
Disposal proceeds of an investment property receivable from a related party of the Directors of the Manager	-	23,600

# Statement by **THE MANAGER**

In the opinion of the Directors of the Manager, the financial statements set out on pages 129 to 166 are drawn up in accordance with the Third Principal Deed dated 28 November 2013, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws and Malaysian 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 2013 and of its financial performance and cash flows for the financial year ended on that date.

In the opinion of the Directors of the Manager, the information set out in the statement of changes in net asset value and Note 9.4 to the financial statements has been compiled in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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**

**Dato' George Stewart LaBrooy**

Kuala Lumpur,

Date: 20 February 2014

# Statutory **DECLARATION**

I, **Leong Kit May**, 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 129 to 166, 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 2014.

**Leong Kit May**

Before me:

# 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 2013. 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 Third Principal Deed dated 28 November 2013 ("the Deed"), the Securities Commission's Guidelines on Real Estate Investment Trusts, the 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 Deed and other regulatory requirements.

We also confirm that the income distributions declared and paid during the financial year ended 31 December 2013 are in line with and are reflective of the objectives of Axis-REIT. Four distributions have been declared for the financial year ended 31 December 2013 as follows:

- 1) 1<sup>st</sup> interim income distribution of 4.50 sen per unit paid on 13 June 2013;
- 2) 2<sup>nd</sup> interim income distribution of 4.60 sen per unit paid on 30 August 2013;
- 3) 3<sup>rd</sup> interim income distribution of 4.70 sen per unit paid on 13 December 2013; and
- 4) Final income distribution of 4.70 sen per unit payable on 28 February 2014.

For and on behalf of the Trustee,  
RHB Trustees Berhad  
(formerly known as OSK Trustees Berhad)

**Dato' Nik Mohamed Din Bin Datuk Nik Yusoff**  
Director

Kuala Lumpur,

Date: 20 February 2014

# 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 statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in net asset value and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 129 to 166.

### *Directors of Axis REIT Managers Berhad's Responsibility for the Financial Statements*

The Directors of Axis REIT Managers Berhad are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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 about 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 judgement, 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 entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Axis-REIT as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

### *Other Reporting Responsibilities*

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information on the breakdown of realised and unrealised income included in the statement of changes in net asset value and Note 9.4 to the financial statements has been compiled by Axis-REIT as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not a required part of the financial statements. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

### *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

Petaling Jaya,  
Date: 20 February 2014

### **Abdullah Abu Samah**

Chartered Accountant  
Approval Number: 2013/06/14(J)

# Unitholders' **STATISTICS**

## ANALYSIS OF UNITHOLDINGS AS AT 31 DECEMBER 2013

Size of Holdings	Number of Unitholders	%	Number of Units Held	%
1 - 99	331	11.00	4,497	0.00
100 - 1000	651	21.64	413,531	0.09
1,001 - 10,000	1,297	43.10	5,528,157	1.20
10,001 - 100,000	542	18.01	16,585,436	3.60
100,001 - 23,061,953 (*)	183	6.08	277,925,541	60.26
23,061,954 and above (**)	5	0.17	160,781,927	34.86
<b>Total</b>	<b>3,009</b>	<b>100.00</b>	<b>461,239,089</b>	<b>100.00</b>

\* less than 5% of total issued holdings

\*\* 5% and above of issued holdings

## TOP 30 UNITHOLDERS AS AT 31 DECEMBER 2013 AS LISTED IN THE RECORD OF DEPOSITORS

No	Unitholders	@ 31 Dec 2013	% of Total Issued Units
1.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	50,020,321	10.84
2.	AMANAHRAYA TRUSTEES BERHAD SKIM AMANAH SAHAM BUMIPUTERA	31,899,580	6.92
3.	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	27,377,223	5.94
4.	TEW PENG HWEE @ TEOH PENG HWEE	27,000,050	5.85
5.	ALEX LEE LAO	24,484,753	5.31
6.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AMERICAN INTERNATIONAL ASSURANCE BERHAD	20,389,268	4.42
7.	AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA	13,435,485	2.91
8.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK	13,156,610	2.85
9.	AMANAHRAYA TRUSTEES BERHAD PUBLIC SMALLCAP FUND	12,526,314	2.72
10.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020	12,050,762	2.61
11.	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	11,132,516	2.41
12.	CARTABAN NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR EASTSPRING INVESTMENTS BERHAD	10,400,715	2.25
13.	ABAS CARL GUNNAR BIN ABDULLAH	9,356,684	2.03
14.	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	8,096,376	1.76
15.	PERMODALAN NASIONAL BERHAD	7,988,272	1.73

# Unitholders' STATISTICS

## TOP 30 UNITHOLDERS AS AT 31 DECEMBER 2013 AS LISTED IN THE RECORD OF DEPOSITORS (CONTINUED)

No	Unitholders	@ 31 Dec 2013	% of Total Issued Units
16.	VALUECAP SDN BHD	7,553,031	1.64
17.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	6,772,666	1.47
18.	HSBC NOMINEES (ASING) SDN BHD BNYM SAVV FOR LIECHTENSTEINISCHE LANDESBANK AKTIENGESELLSCHAFT	6,612,348	1.43
19.	LIM KIAN THIAM	6,555,156	1.42
20.	HSBC NOMINEES (ASING) SDN BHD TNTC FOR MONDRIAN EMERGING MARKETS SMALL CAP EQUITY FUND L.P.	5,730,814	1.24
21.	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 2)	5,394,380	1.17
22.	KA, YA-SHIH ALSO KNOWN AS MYHRE, KUYAS	4,959,838	1.08
23.	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT TREASURES FUND	4,781,799	1.04
24.	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC OPPORTUNITIES FUND	4,684,525	1.02
25.	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT - AMBANK (M) BERHAD FOR ABAS CARL GUNNAR BIN ABDULLAH	4,542,040	0.98
26.	AMSEC NOMINEES (TEMPATAN) SDN BHD AMTRUSTEE BHD FOR AMGENERAL INSURANCE BERHAD – SHAREHOLDERS FUND	4,427,391	0.96
27.	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (DR)	3,521,719	0.76
28.	AMANAHRAYA TRUSTEES BERHAD PB ASIA REAL ESTATE INCOME FUND	3,451,358	0.75
29.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ABERDEEN)	3,069,063	0.67
30.	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)	3,035,236	0.66

# Frequently Asked QUESTIONS (FAQs)

## 1. How often does Axis-REIT makes an income distribution?

Since 1 January 2009, Axis-REIT has changed its current income distribution policy from semi annual payment to quarterly payment payable within 1-month from the book closure date. In the event of IDRPs in conjunction with income distribution, the income distribution will be paid no later than 5 market days after 1-month from book closure date. 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 direct credit / cheques to each Unitholder 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:

Type of Unitholder	Withholding tax rate		
	2014	2013	2012
Resident corporate	Nil <sup>^</sup>	Nil <sup>^</sup>	Nil <sup>^</sup>
Resident non-corporate	10%	10%	10%
Non-resident individual	10%	10%	10%
Non-resident corporate	25%	25%	25%
Non-resident institutional	10%	10%	10%

<sup>^</sup> 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 2013, the total distribution was 18.50 sen per unit of which 0.65 sen derived from utilization of capital allowances and tax exempt profit income arises from placement of short term deposits with financial institution.

Type of Unitholder	Assumption: 10,000 Axis-REIT units	
	Gross distribution	Net distribution to unitholders after deduction of withholding tax
Resident corporate	1,850.00	1,850.00
Resident individual/institutional	1,850.00	1,671.50
Foreign corporate	1,850.00	1,403.75
Foreign institution	1,850.00	1,671.50
Foreign individual	1,850.00	1,671.50

\* 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 2013?

For the financial year ended 31 December 2013, the total distribution was 18.50 sen per unit.

Type of Unitholder	Net Distribution based on IPO price of RM1.25	Net distribution based on closing price of RM2.93 on 31 December 2013
	Resident corporate	14.80%
Resident individual/institutional	13.37%	5.70%
Foreign corporate	11.23%	4.79%
Foreign institution	13.37%	5.70%
Foreign individual	13.37%	5.70%

## 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, RHB Trustees Berhad (formerly known as OSK Trustees Berhad).

# Frequently Asked QUESTIONS (FAQs)

## 8. What are the total numbers of Axis-REIT units currently in issue?

A total of 461,239,089 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; receive 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 2/3 of the Unitholders at a meeting of Unitholders duly convened and held in accordance with the Deed, no amendment may be made to the provisions of the Deed unless the Trustee and the Manager certify, 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. When does the management company require to hold an Annual General Meeting ("AGM") of Axis-REIT?

The management company shall call an AGM once in every calendar year and not more than 15 months after the holding of the last preceding AGM and at the AGM, lay before the Unitholders, the Financial statements of the REIT made up to a date not more than 4 months before the date of the said meeting.

## 13. 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 or majority resolution is to be proposed, at least five persons holding or representing by proxy 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 25% 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;
- (b) it is demanded by the Chairman;
- (c) it is demanded by the Trustee or the Management Company; or
- (d) it is demanded by Unitholders present (or represented by proxy) holding between them not less than 1/10 of the total numbers of Unit Issued.

## 14. 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.

**15. 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.

**16. 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 activities 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;
- v. Not to accept a new tenant(s) whose activities are fully non-permissible.

**17. Is an Islamic REIT permitted to own (purchase) real estate in which the tenant(s) operates mixed activities that are permissible and non-permissible according to the Shariah?**

An Islamic REIT is permitted to own (purchase) real estate in which its tenant(s) operates mixed activities that are permissible and non-permissible, according to the Shariah.

However, the Islamic REIT fund manager must perform some additional compliance assessments before acquiring real estate that has tenant(s) who operates mixed activities.

**18. What are the additional compliance assessments?**

An Islamic REIT must obtain the total rental from non-permissible activities from the property that it wants to acquire, and subsequently compare the total rental from non-permissible activities to the total turnover of the Islamic REIT (latest financial year). This is to obtain the percentage of rental from non-permissible activities. The percentage will be referred to the 20% benchmark as determined by the

Shariah Advisory Council (SAC) of the Securities Commission for the criteria on rental from non-permissible activities. In the event that the percentage exceeds the benchmark, the Shariah Adviser shall advise the Islamic REIT fund manager not to invest in the said real estate.

For example, if the total rental from non-permissible activities is RM210,000 and the total turnover of the Islamic REIT for that financial year is RM1,000,000, then the percentage of rental from non-permissible activities is 21%, which exceeds the 20% benchmark that has been determined by the SAC. In this situation, the Shariah Adviser shall advise the Islamic REIT fund manager not to invest in the said real estate.

**19. What are non-permissible activities?**

Rental activities that are classified as non-permissible as decided by the SAC are:

- (a) financial services based on riba (interest);
- (b) gambling/gaming;
- (c) manufacture or sale of non-halal products or related products;
- (d) conventional insurance;
- (e) entertainment activities that are non-permissible according to the Shariah;
- (f) manufacture or sale of tobacco-based products or related products;
- (g) stockbroking or share trading in Shariah non-compliant securities; and
- (h) hotels and resorts.

Apart from the activities listed above, the Shariah Adviser can apply *ijtihad*\* for other activities that may be deemed non-permissible to be included as a criterion in assessing the rental income for the Islamic REIT.

\* *ijtihad is the process of reasoning by Islamic jurists to obtain legal rulings from sources of Shariah.*

**20. Can an Islamic REIT own real estate in which all the tenants operate non-permissible activities?**

No. An Islamic REIT is not permitted to own real estate, in which all the tenants operate non-permissible activities, for example a casino building in which all the tenants are operating non-permissible activities, even if the percentage of rental from that building to the total turnover of the Islamic REIT is still below the benchmark (20%).

# Frequently Asked QUESTIONS (FAQs)

- 21. What if an Islamic REIT owns real estate that is vacant and plans to rent it out to a new tenant(s)? Is it bound by the application of the 20% benchmark as mentioned in the answer for question 20 above?**

For a new tenant(s) that plans to rent the real estate of the Islamic REIT, the decision made by the Shariah Adviser does not need to be based on the 20% benchmark because the rental contribution from non-permissible activities is still unknown. Therefore, in this case the Shariah Adviser shall advise the Islamic REIT fund manager not to accept a new tenant(s) that operates activities that are fully non-permissible like a gambling operator.

- 22. What is the method of calculating the portion of rental of non-permissible activities from the total rental payment paid by a tenant(s) operating mixed activities. For example, say the Islamic REIT receives a rental of RM3,000 a month from a supermarket. The supermarket sells halal goods and alcoholic beverages. The question is, how do you determine the rental that is considered as non-permissible from the total rental that is paid by the supermarket (RM3,000)?**

The calculation for the rental of non-permissible activities from a tenant(s) operating mixed activities can be based on the ratio of area occupied for non-permissible activities to the total area occupied. The percentage will be used as the basis for determining the ratio of rental of non-permissible activities to total rental paid by the tenant(s).

For example, in a supermarket, if the total area rented out is 1,000 square feet and the area allocated for the sale of alcoholic beverages is 100 square feet, then the ratio of area used for the sale of alcoholic beverages is 10%. Therefore, the rental from non-permissible activities (sale of alcoholic beverages) is 10% of the total rental paid by the supermarket, that is RM300 a month (10% x RM3,000).

In addition, for activities that do not involve the usage of space, such as service-based activities, the calculation method will be based on the *ijtihad* of the Shariah Adviser of the Islamic REIT. An example of a service-based activity is packaging that involves packaging of goods that are non-permissible.

- 23. Is an Islamic REIT required to use instruments that comply with the Shariah principles for purpose of investment, deposit and financing?**

Yes. An Islamic REIT must ensure that all forms of investment, deposit and financing instruments comply with the Shariah principles.

- 24. Is an Islamic REIT required to use insurance schemes that comply with the Shariah principles?**

Yes. An Islamic REIT must use Takaful schemes to insure its real estate. If Takaful schemes are unable to provide the insurance coverage, then the Islamic REIT is permitted to use conventional insurance schemes.

- 25. Is an Islamic REIT permitted to participate in the forward sales or purchases of currency for risk management?**

Yes. An Islamic REIT is permitted to participate in forward sales or purchases of currency, and is encouraged to deal with Islamic financial institutions. If the Islamic REIT deals with Islamic financial institutions, then it will be bound by the concept of *wa'ad*\*\* (only one party is obligated to fulfil his promise/responsibility). The party that is bound is the party that initiates the promise. However, if the Islamic REIT deals with conventional financial institutions, it is permitted to participate in the conventional forward sales or purchases of currency.

\*\* *wa'ad* means promise

- 26. Must Axis-REIT comply with the Guidelines on Islamic REITs and the SC's Guidelines on REITs?**

Yes. The Guidelines on Islamic REIT essentially provide Shariah guidance on the investment and business activities of Islamic REIT and complement the SC's Guidelines on Real Estate Investment Trusts.

# GLOSSARY

<b>AUM</b>	:	Asset Under Management
<b>Axis-REIT / the Trust / the Fund</b>	:	Axis Real Estate Investment Trust
<b>Bursa Securities / the Exchange</b>	:	Bursa Malaysia Securities Berhad (Company No. 635998-W)
<b>CDS</b>	:	Central Depository System
<b>Deed</b>	:	The Third Principal Deed dated 28 November 2013 signed between the Trustee and the Manager constituting Axis-REIT
<b>DPU</b>	:	Distribution per Unit
<b>GAV</b>	:	Gross Asset Value
<b>Gearing</b>	:	Financing to Total Assets
<b>Gross Revenue</b>	:	Gross rental income and other income earned from the properties including license fees, car park income, utilities and miscellaneous income
<b>IDRP</b>	:	Income Distribution Reinvestment Plan
<b>Islamic REIT</b>	:	REIT that complies with SC's Guidelines on Islamic REITs
<b>MER</b>	:	Management Expense Ratio
<b>Manager</b>	:	Axis REIT Managers Berhad (Company No. 649450-W), being the Manager of Axis-REIT
<b>NAV</b>	:	Net Asset Value
<b>NTA</b>	:	Net Tangible Assets
<b>Net Lettable Area</b>	:	Consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
<b>OMV</b>	:	Open Market Value
<b>PTR</b>	:	Portfolio Turnover Ratio
<b>Property Manager</b>	:	Axis Property Services
<b>REIT(s)</b>	:	Real Estate Investment Trust(s)
<b>RM and sen</b>	:	Ringgit Malaysia and sen, respectively
<b>SC</b>	:	Securities Commission
<b>SCA</b>	:	Securities Commission Act, 1993
<b>SC's Guidelines on REITs</b>	:	Guidelines on Real Estate Investment Trusts issued by the SC on 21 August 2008 (updated 28 December 2012), as amended from time to time
<b>SC's Guidelines on Islamic REITs</b>	:	Guidelines on Islamic Real Estate Investment Trusts issued by the SC on 21 Nov 2005
<b>Sq. ft.</b>	:	Square feet
<b>Sqm</b>	:	Square metres
<b>Trustee</b>	:	RHB Trustees Berhad (formerly known as OSK Trustees Berhad (Company No. 573019-U) being the Trustee of Axis-REIT
<b>Unit(s)</b>	:	Undivided interest(s) in Axis-REIT as constituted by the Deed
<b>Unitholder(s)</b>	:	Holder(s) of the Units
<b>VWAMP</b>	:	Volume weighted average market price

# Corporate **DIRECTORY**

## **MANAGER**

Axis REIT Managers Berhad

## **MANAGER'S PRINCIPAL PLACE OF BUSINESS**

Penthouse, Menara Axis  
No. 2, Jalan 51A/223,  
46100 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

### **Y Bhg Dato' George Stewart LaBrooy**

Chief Executive Officer / Executive Director

### **Y Bhg Dato' Abas Carl Gunnar Bin Abdullah**

Non-Independent Executive Deputy Chairman

### **Stephen Tew Peng Hwee**

Non-Independent Non-Executive Director

### **Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor**

Independent Non-Executive Director

### **Mohd Sharif Bin Haji Yusof**

Independent Non-Executive Director

### **Leong Kit May**

Chief Financial Officer/ Executive Director

### **Alvin Dim Lao**

Non-Independent Non-Executive Director

### **Alex Lee Lao**

Alternate to Y Bhg Dato' Abas Carl Gunnar bin Abdullah

## **AUDIT COMMITTEE :**

YAM Tunku Dato' Seri Shahabuddin (Chairman)  
Mohd Sharif bin Haji Yusof  
Alvin Dim Lao

## **EXECUTIVE COMMITTEE :**

Y Bhg Dato' Abas Carl Gunnar Bin Abdullah (Chairman)  
Y Bhg Dato' George Stewart LaBrooy  
Stephen Tew Peng Hwee

## **REMUNERATION COMMITTEE :**

Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor (Chairman)  
Stephen Tew Peng Hwee  
Y Bhg Dato' Abas Carl Gunnar Bin Abdullah

## **NOMINATION COMMITTEE:**

Mohd Sharif Bin Haji Yusof (Chairman)  
YAM Tunku Dato' Seri Shahabuddin  
Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor

## **COMPANY SECRETARY OF THE MANAGER :**

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

## **SHARIAH ADVISER:**

IBFIM  
3rd Floor, Menara Takaful Malaysia  
Jalan Sultan Sulaiman  
50000 Kuala Lumpur  
Tel : 03-2031 1010  
Fax : 03-2078 5250  
Website: www.ibfim.com

## **PROPERTY MANAGER :**

Axis Property Services  
Suite 6.04, Penthouse Wisma Academy  
No. 4A, Jalan 19/1  
46300 Petaling Jaya  
Selangor Darul Ehsan  
Tel : 03-7958 5928  
Fax : 03-7958 3882

## **TRUSTEE :**

RHB Trustees Berhad (formerly known as OSK Trustees Berhad)  
6th Floor Plaza OSK  
Jalan Ampang  
50450 Kuala Lumpur  
Tel : 03-2333 8333  
Fax : 03-2175 3288  
Email : rhbtrustees@rhbgroup.com  
Website : www.rhbgroup.com

## **PRINCIPAL BANKERS OF THE FUND :**

Maybank Islamic Banking Berhad  
37th Floor Menara Maybank  
100 Jalan Tun Perak  
50450 Kuala Lumpur

CIMB Islamic Bank Berhad  
17th Floor Menara CIMB  
Jalan Stesen Sentral 2  
Kuala Lumpur Sentral  
50470 Kuala Lumpur

HSBC Amanah Bank Malaysia Berhad  
Level 15, HSBC Building  
2, Leboh Ampang  
50100 Kuala Lumpur

Public Islamic Bank Berhad  
27th Floor, Menara Public Bank  
146 Jalan Ampang  
50450 Kuala Lumpur

Standard Chartered Saadiq Berhad  
Level 11, Menara Standard Chartered  
30 Jalan Sultan Ismail  
50250 Kuala Lumpur

## **AUDITORS :**

KPMG  
Level 10, KPMG Tower  
8, First Avenue, Bandar Utama  
47800 Petaling Jaya

## **INTERNAL AUDITOR :**

Baker Tilly Monteiro Heng  
Governance Sdn Bhd  
Level 10, MH Tower,  
Avenue 5, Bangsar South City  
59200 Kuala Lumpur

## **TAX AGENT :**

PricewaterhouseCoopers Taxation  
Services Sdn Bhd  
Level 10, 1 Sentral, Jalan Travers  
Kuala Lumpur Sentral, P O Box 10192  
50706 Kuala Lumpur

## **REGISTRAR :**

Symphony Share Registrars Sdn Bhd  
Block D13, Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Tel : 03-7841 8000  
Fax : 03-7841 8008  
Email : ssrs@symphony.com.my  
Website : www.symphony.com.my

## **BURSA SECURITIES NAME AND STOCK CODE :**

AXREIT 5106

# CALENDAR 2014

## JANUARY

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

## FEBRUARY

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	

## MARCH

S	M	T	W	T	F	S
30	31					1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

## APRIL

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

## MAY

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

## JUNE

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

## JULY

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

## AUGUST

S	M	T	W	T	F	S
31						1
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

## SEPTEMBER

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

## OCTOBER

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

## NOVEMBER

S	M	T	W	T	F	S
30						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

## DECEMBER

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

## PROPOSED CALENDAR OF FINANCIAL EVENTS 2014

### January 2014

- Announcement of Unaudited Results for FY 13
- Announcement of the 4Q13 Final Income Distribution

### February 2014

- Book Closure date to determine the entitlement to 4Q13 Final Income Distribution
- Payment of the 4Q13 Final Income Distribution
- Release of the 2013 Annual Report

### April 2014

- Announcement of Unaudited Results for 1Q14
- Announcement of the 1Q14 Interim Income Distribution
- Annual General Meeting

### May 2014

- Book closure date to determine the entitlement to 1Q14 Interim Income Distribution

### June 2014

- Payment of 1Q14 Interim Income Distribution

### July 2014

- Announcement of the Unaudited Results for 2Q14
- Announcement of the 2Q14 Interim Income Distribution

### August 2014

- Book Closure date to determine the entitlement to 2Q14 Interim Income Distribution
- Payment of 2Q14 Interim Income Distribution

### October 2014

- Announcement of the Unaudited Results for 3Q14
- Announcement of the 3Q14 Interim Income Distribution

### November 2014

- Book Closure date to determine the entitlement to 3Q14 Interim Income Distribution

### December 2014

- Payment of 3Q14 Interim Income Distribution

### January 2015

- Announcement of the Unaudited Results for FY14
- Announcement of the 4Q14 Final Income Distribution

# Investor Relations

## **CONTACT INFORMATION**

To find out more about Axis-REIT please contact:

**Dato' George Stewart LaBrooy**

CEO/ Executive Director

Or

**Stephanie Ping**

Head of Business Development  
and Investor Relations

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**Bursa Malaysia Berhad**

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**Registrar**

Symphony Share Registrars Sdn Bhd  
Level 6, Pusat Dagangan Dana 1, Jalan PJU 1A/46  
47301 Petaling Jaya, Selangor

Tel : +603-7841 8000 Fax : +603-7841 8150

Email : [ask\\_us@symphony.com.my](mailto:ask_us@symphony.com.my)

Website : [www.symphony.com.my](http://www.symphony.com.my)

**AXIS REIT MANAGERS BERHAD**

(Company Number 649450-W)

(Incorporated in Malaysia under the Companies Act, 1965)

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