



YOUR
Business Space
PARTNER

ANNUAL REPORT 2018



AXIS-REIT FYE2018 FACTS AT A GLANCE

MARKET CAPITALISATION



RM1,930,165,000

TOTAL ASSETS UNDER MANAGEMENT



RM2,840,463,000

Total Space Under Management

9,349,267

SQ. FT.



Fair Value Gain on Investment Properties for 2018

RM42,558,000



LATEST UPDATES

In the filing to Bursa Malaysia, Axis-REIT recorded a significant increase in income for FYE2018, with realised net income after

taxation recording a 25% increase to RM113.4 million, while DPU increased by 6% to 8.74 sen per unit.

UNITHOLDER BASE



1,237,285,288

total number of units in issue



RM1.56

Unit Price as at
31 Dec 2018

Total Acquisitions for 2018

RM160.1

MILLION



Weighted Average Lease
Expiry (based on rental)

5.57 YEARS

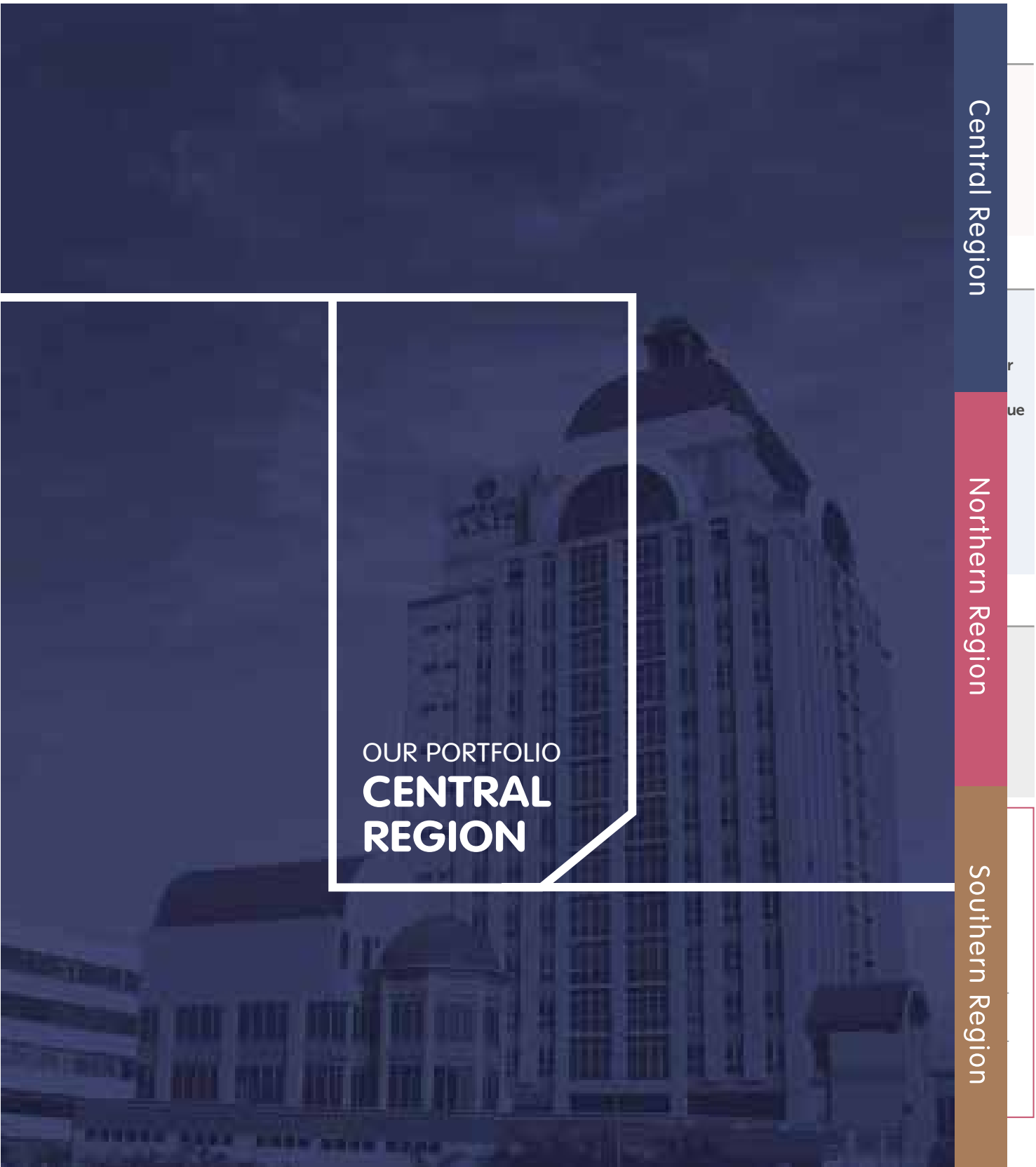


Distribution Per Unit for 2018

8.74 SEN



WHAT'S INSIDE



OUR PORTFOLIO
**CENTRAL
REGION**

Central Region

Northern Region

Southern Region



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CENTRAL REGION IN OUR PORTFOLIO



1

Axis Business Campus ◀
Office/Industrial

RM80million

Carrying value based on latest valuation

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

2

Axis Business Park ▶
Office/Industrial

RM120.6million

Carrying value based on latest valuation

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



3

Axis Technology Centre ◀
Office/Industrial

RM55million

Carrying value based on latest valuation

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



WHAT'S INSIDE

AXIS-REIT ANNUAL REPORT 2018



4 **Axis Vista** ◀
Office/Industrial

RM57.3million

Carrying value based on latest valuation

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

5 **Crystal Plaza** ▶
Office

RM113.5million

Carrying value based on latest valuation

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



6 **Infinite Centre** ◀
Office/Industrial

RM42.5million

Carrying value based on latest valuation

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



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CENTRAL REGION IN OUR PORTFOLIO

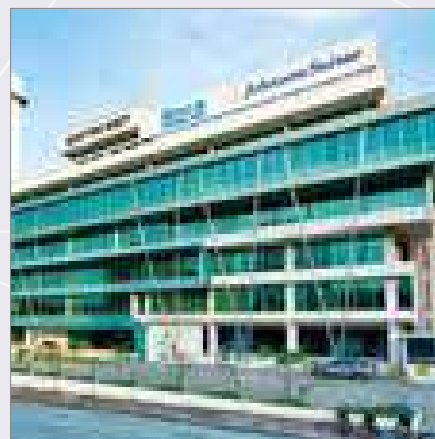


7 Menara Axis ◀
Office

RM110million

Carrying value based on latest valuation

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



8 Quattro West ▶
Office

RM56million

Carrying value based on latest valuation

No. 4 Lorong Persiaran Barat
46100 Petaling Jaya
Selangor



9 Strateq Data Centre ◀
Office/Industrial

RM57million

Carrying value based on latest valuation

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

Total

9

SQ

In the
Axis
increased
with

WHAT'S INSIDE

AXIS-REIT ANNUAL REPORT 2018



10

The Annex ◀
Office/Industrial

RM20million

Carrying value based on latest valuation

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

11

Wisma Academy Parcel ▶
Office/Industrial

RM73million

Carrying value based on latest valuation

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



12

Wisma Kemajuan ◀
Office/Industrial

RM65.4million

Carrying value based on latest valuation

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



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CENTRAL REGION IN OUR PORTFOLIO



13

**Axis Aerotech
Centre @ Subang** ◀
Manufacturing Facility

RM64.7million

Carrying value based on
latest valuation

Jalan Aeroangkasa 4
Seksyen U3
40150 Shah Alam
Selangor

14

**Axis Mega
Distribution Centre** ▶
Warehouse Logistics

RM300million

Carrying value based on
latest valuation

Lot 7316 (PT 3609)
Persiaran Sijangkang Utama
42500 Telok Panglima Garang
Selangor



15

Axis MRO Hub ◀
Manufacturing Facility

RM53.3million

Carrying value based on
latest valuation

No. 3, Jalan Keluli 15/16
Section 15
40200 Shah Alam
Selangor



Totc

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WHAT'S INSIDE

AXIS-REIT ANNUAL REPORT 2018

16 **Axis Shah Alam
Distribution Centre 1 ▶**
Manufacturing Facility

RM32.7million

Carrying value based on latest valuation

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



17 **Axis Shah Alam
Distribution Centre 2 ◀**
Warehouse Logistics

RM47.2million

Carrying value based on latest valuation

Lot No. 10 & 12, Jalan Pahat 16/8A
Lot No. 11 & 13, Jalan Gudang 16/9
Section 16
40200 Shah Alam
Selangor

18 **Axis Shah Alam
Distribution Centre 3 ▶**
Warehouse Logistics

RM185.5million

Carrying value based on latest valuation

Lot No. 22202
Jalan Gambus 33/4
Off Jalan Bukit Kemuning, Batu 8.5
40400 Shah Alam
Selangor



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CENTRAL REGION IN OUR PORTFOLIO



19 **Axis Shah Alam
Distribution Centre 4** ◀
Warehouse Logistics

RM83million

Carrying value based on latest valuation

Lot PT 5038-5041
Jalan Teluk Datuk 28/40
Off Persiaran Sepang
Seksyen 28
40400 Shah Alam
Selangor

20 **Axis Steel Centre** ▶
Warehouse Logistics

RM78million

Carrying value based on latest valuation

Lot 19, Lebuhraya Hishamuddin 1
Selat Klang Utara
42000 Pelabuhan Klang
Selangor



21 **Bukit Raja
Distribution Centre** ◀
Warehouse Logistics

RM105million

Carrying value based on latest valuation

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



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WHAT'S INSIDE

AXIS-REIT ANNUAL REPORT 2018

22 **Fonterra HQ** ▶
Office/Industrial

RM19million

Carrying value based on latest valuation

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



23 **Scomi Facility @ Rawang** ◀
Manufacturing Facility

RM44million

Carrying value based on latest valuation

Lot 795 & 796 Jalan Monorail
Kawasan Industri Sungai Choh
48000 Sungai Choh Rawang
Selangor



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CENTRAL REGION IN OUR PORTFOLIO

24

Emerson Industrial Facility Nilai ▶
Manufacturing Facility

RM32.8million

Carrying value based on latest valuation

Lot 13111 & Lot 13112,
Mukim Labu
Kawasan Perindustrian Nilai 1
71800 Nilai
Negeri Sembilan



25

Senawang Industrial Facility ◀
Warehouse Logistics

RM21million

Carrying value based on latest valuation

Lot 73 & 74, Persiaran Bunga Tanjung 1
Senawang Industrial Park
70400 Seremban
Negeri Sembilan

Total

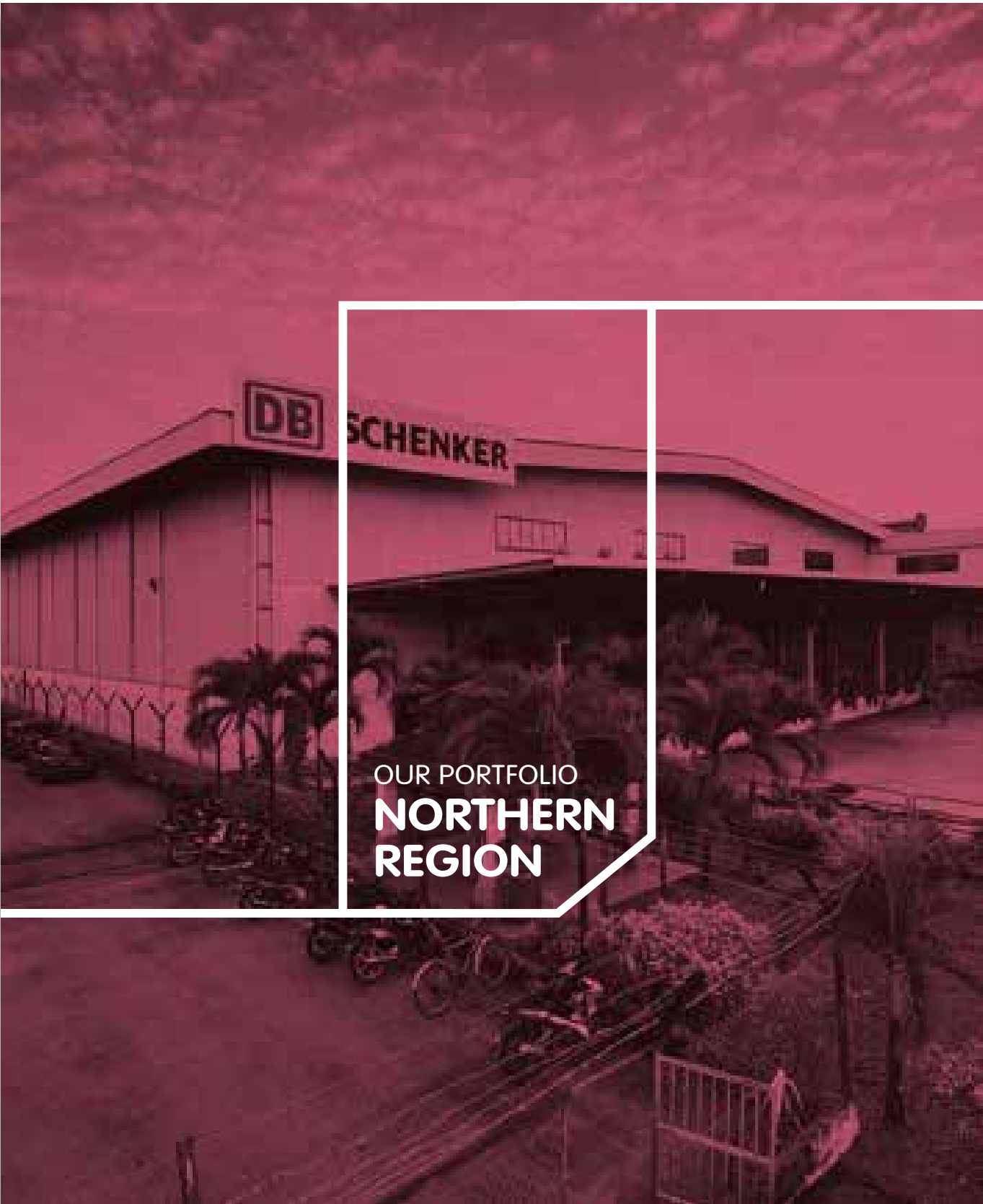
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WHAT'S INSIDE



Northern Region

OUR PORTFOLIO
**NORTHERN
REGION**

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NORTHERN REGION IN OUR PORTFOLIO

26 **Bayan Lepas Distribution Centre** ▶
Warehouse Logistics

RM60million

Carrying value based on latest valuation

88A, Lintang Bayan 9
Lintang Bayan Lepas Industrial Park
Phase IV 11900 Bayan Lepas
Penang



27 **Giant Hypermarket** ◀
Hypermarket

RM49million

Carrying value based on latest valuation

Jalan Lencongan Barat
08000 Sungai Petani
Kedah

28 **Seberang Prai Logistics Warehouse 1** ▶
Warehouse Logistics

RM20.5million

Carrying value based on latest valuation

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



WHAT'S INSIDE

AXIS-REIT ANNUAL REPORT 2018



29 Seberang Prai Logistics Warehouse 2 ◀

Warehouse Logistics

RM8.2million

Carrying value based on latest valuation

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

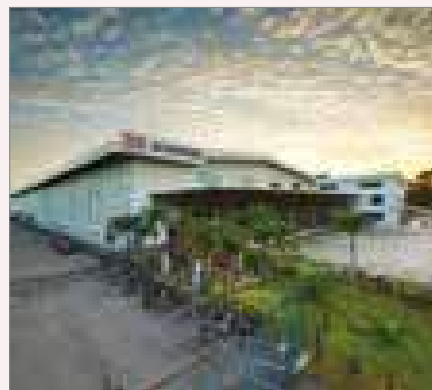
30 Seberang Prai Logistics Warehouse 3 ▶

Warehouse Logistics

RM67million

Carrying value based on latest valuation

No. 74, Lorong Perusahaan Utama 4
Bukit Tengah Industrial Park
14000 Bukit Mertajam
Penang



East Coast Region



31 Wasco Facility @ Kuantan ◀

Manufacturing Facility

RM155million

Carrying value based on latest valuation

Sub Lot 2,
Kawasan Perindustrian MIEL
Gebeng, KM25
Jalan Kuantan-Kemaman
PO Box 240, 25720 Kuantan
Pahang



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OUR PORTFOLIO
**SOUTHERN
REGION**

WHAT'S INSIDE

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32 **Axis Steel Centre @ SiLC ▶**
Manufacturing Facility

RM163million

Carrying value based on latest valuation

No. 27, Jalan SiLC 1/5
Kawasan Perindustrian SiLC
79200 Nusajaya
Johor



33 **Beyonics i-Park
Campus Block A ◀**
Manufacturing Facility

RM16million

Carrying value based on latest valuation

No. 95, Jalan i-Park 1/10
Kawasan Perindustrian i-Park
81000 Bandar Indahpura, Kulaijaya
Johor

34 **Beyonics i-Park
Campus Block B ▶**
Manufacturing Facility

RM14.5million

Carrying value based on latest valuation

No. 96, Jalan i-Park 1/10
Kawasan Perindustrian i-Park
81000 Bandar Indahpura, Kulaijaya
Johor



Southern Region



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SOUTHERN REGION IN OUR PORTFOLIO



35

**Beyonics i-Park
Campus Block C** ◀
Manufacturing Facility

RM13million

Carrying value based on latest valuation

No. 97, Jalan i-Park 1/10
Kawasan Perindustrian i-Park
81000 Bandar Indahpura, Kulajaya
Johor

36

**Beyonics i-Park
Campus Block D** ▶
Manufacturing Facility

RM23.8million

Carrying value based on latest valuation

No. 98, Jalan i-Park 1/10,
Kawasan Perindustrian i-Park
81000 Bandar Indahpura, Kulajaya
Johor



37

**Beyonics i-Park Campus
Block E** ◀
Manufacturing Facility

RM32million

Carrying value based on latest valuation

No. 93, Jalan i-Park 1/10
Kawasan Perindustrian i-Park
81000 Bandar Indahpura, Kulajaya
Johor



WHAT'S INSIDE

AXIS-REIT ANNUAL REPORT 2018

38 **D8 Logistics Warehouse** ▶
Warehouse Logistics

RM33million

Carrying value based on latest valuation

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



39 **D21 Logistics Warehouse** ◀
Warehouse Logistics

RM29million

Carrying value based on latest valuation

Lot D21, Jalan Tanjung A/3
Distripark A, Port of Tanjung
Pelepas
81560 Gelang Patah
Johor



40 **FCI Senai** ▶
Manufacturing Facility

RM22million

Carrying value based on latest valuation

PLO 205, Jalan Cyber 14
Kawasan Perindustrian Senai IV
81400 Johor



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SOUTHERN REGION IN OUR PORTFOLIO



41 Indahpura Facility 1 ◀
Manufacturing Facility

RM8million

Carrying value based on latest valuation

No.69, Jalan i-Park 1/7
Kawasan Perindustrian i-Park
81000 Bandar Indahpura, Kulaijaya
Johor



42 Kerry Warehouse ◀
Warehouse Logistics

RM34million

Carrying value based on latest valuation

PLO 731, Jalan Nikel 2
Kawasan Perindustrian Pasir Gudang
81700 Pasir Gudang
Johor

43 Niro Warehouse ▶
Warehouse Logistics

RM20million

Carrying value based on latest valuation

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



WHAT'S INSIDE

AXIS-REIT ANNUAL REPORT 2018



44 **Pasir Gudang
Logistics Warehouse 1** ◀
Warehouse Logistics

RM17million

Carrying value based on
latest valuation

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

45 **Tesco Bukit Indah** ▶
Hypermarket

RM97million

Carrying value based on
latest valuation

No. 1, Jalan Bukit Indah 15
81200 Johor



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www.axis-reit.com.my

Prepared by:
AXIS REIT MANAGERS BERHAD (649450-W)
As the Manager of Axis-REIT

Penthouse Menara Axis, No. 2 Jalan 51A/223, 46100 Petaling Jaya, Selangor, Malaysia
Tel : +603 7958 4882 Fax : +603 7957 6881
E-mail : info@axis-reit.com.my

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03

SUSTAINABILITY

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7TH ANNUAL GENERAL MEETING

DATE

Tuesday, 30 April 2019

TIME

10.00 a.m.

VENUE

Ballroom 1, Sheraton Petaling Jaya Hotel,
Jalan Utara C, 46200 Petaling Jaya



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ABOUT AXIS-REIT



TO SUCCESSFULLY BENCHMARK
AXIS-REIT AGAINST THE WORLD'S
MOST SUCCESSFUL REITS IN
TERMS OF TOTAL RETURNS TO
UNITHOLDERS, AND BE THE REIT
OF CHOICE FOR SHARIAH AND
NON-SHARIAH INVESTORS.



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.





|| SIX PRINCIPLES OF MANAGEMENT ||

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

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

ABOUT US

Axis Real Estate Investment Trust is Malaysia's first REIT, listed on Bursa Securities on 3 August 2005. It has a diverse portfolio of 45 properties that are located in the Klang Valley, Johor, Penang, Pahang, Negeri Sembilan and Kedah.

The Fund was constituted by a Deed and is principally regulated by applicable securities laws, the SC's Guidelines on Listed REITs, the Listing Requirements of Bursa Securities, the rules of the depository and relevant taxation laws and rulings.

On 15 June 2005, the Deed constituting Axis-REIT was executed between Axis REIT Managers Berhad as the Manager of Axis-REIT, and RHB Trustees Berhad as the Trustee of Axis-REIT. The Deed was registered with the SC on 16 June 2005, which marked the establishment of Axis-REIT in Malaysia. Axis-REIT was thereafter reclassified as an Islamic REIT on 11 December 2008.

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 industrial and office real estate. The primary objectives of the Fund are:

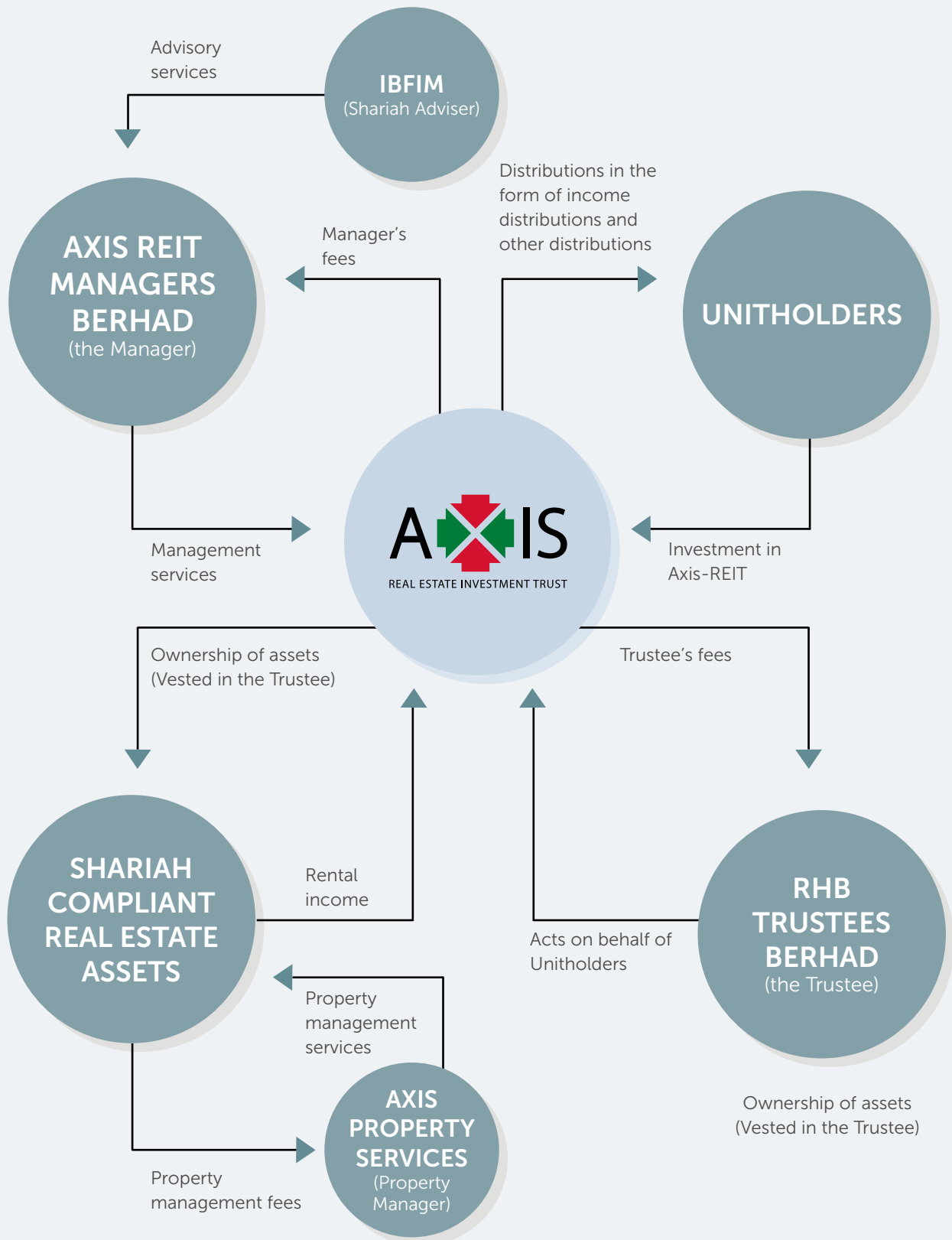
- (a) To provide Unitholders with a stable and growing distribution of income; and
- (b) To achieve long-term growth in the net asset value per Unit of the Fund.

Axis REIT Managers Berhad is the Manager of Axis-REIT and is licensed as an Islamic Fund Manager to manage a REIT.

SALIENT FEATURES OF AXIS-REIT

Fund Category	Real Estate Investment Trust
Fund Type	Income and growth
Vision of the Fund	To successfully benchmark Axis-REIT against the world's most successful REITs in terms of total returns to Unitholders and be the REIT of choice for Shariah and non-Shariah investors
Mission of the Fund	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
Issued Fund Size	1,237,285,288 Units
Market Capitalisation	RM1,930,165,000
Assets Under Management	RM2,840,463,000
Authorised Investments	At least 75% of the Fund's total asset value must be invested in real estate that generates recurrent rental income at all times
Initial Public Offering Retail Price	RM0.625 per Unit (equivalent to RM1.25 per Unit prior to the Unit Split)
Financial Year End	31 December
Distribution Policy	<p>Quarterly income distribution:</p> <p>1st to 3rd quarter – at least 95% of the current year-to-date distributable income</p> <p>4th quarter – at least 99% of the current year-to-date distributable income</p>
Financing Limitations	Not exceeding 50% of the total asset value of the Fund
Revaluation Policy	The investment properties shall be revalued at least once a financial year by independent registered valuers
Minimum Initial Investment	100 Units
Quotation	Main Market of Bursa Securities
Bursa Securities Stock Number	AXREIT 5106

AXIS-REIT STRUCTURE



CORPORATE INFORMATION



BOARD OF DIRECTORS OF THE MANAGER

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

**Dato' Abas Carl
Gunnar Bin Abdullah**
Executive Deputy Chairman

Leong Kit May
*Chief Executive Officer/
Executive Director*

**Stephen Tew Peng Hwee
@ Teoh Peng Hwee**
*Non-Independent
Non-Executive Director*

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

Alex Lee Lao
*Alternate Director to Dato' Abas
Carl Gunnar Bin Abdullah*

Mohd Sharif Bin Hj Yusof
*Senior Independent
Non-Executive Director*

Jancis Anne Que Lao
*Alternate Director to
Alvin Dim Lao*

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

AUDIT COMMITTEE OF THE MANAGER

Mohd Sharif Bin Hj Yusof (Chairman)
YAM Tunku Dato' Seri Shahabuddin
Bin Tunku Besar Burhanuddin
Alvin Dim Lao

EXECUTIVE COMMITTEE OF THE MANAGER

Dato' Abas Carl Gunnar
Bin Abdullah (Chairman)
Stephen Tew Peng Hwee @
Teoh Peng Hwee
Leong Kit May

REMUNERATION COMMITTEE OF THE MANAGER

Datuk Seri Fateh
Iskandar Bin Tan Sri
Dato' Mohamed Mansor
(Chairman)
Dato' Abas Carl Gunnar
Bin Abdullah
Stephen Tew Peng Hwee @
Teoh Peng Hwee

NOMINATION COMMITTEE OF THE MANAGER

Mohd Sharif Bin Hj Yusof (Chairman)
YAM Tunku Dato' Seri
Shahabuddin Bin Tunku
Besar Burhanuddin
Datuk Seri Fateh
Iskandar Bin Tan Sri
Dato' Mohamed Mansor

CORPORATE INFORMATION

MANAGER OF AXIS-REIT
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 No : 603-7958 4882
 Fax No : 603-7957 6881

MANAGER'S REGISTERED OFFICE

Level 7, Menara Milenium
 Jalan Damanlela
 Pusat Bandar Damansara
 Damansara Heights
 50490 Kuala Lumpur
 Tel No : 603-2084 9000
 Fax No : 603-2094 9940

**COMPANY SECRETARY
 OF THE MANAGER**

Rebecca Leong Siew Kwan
 (MAICSA 7045547)

TRUSTEE OF AXIS-REIT

RHB Trustees Berhad
 Level 10 Tower One, RHB Centre
 Jalan Tun Razak
 50400 Kuala Lumpur
 Tel No : 603-9280 5950
 Fax No : 603-9280 5947
 Website: www.rhbgroup.com

SHARIAH ADVISER OF AXIS-REIT
IBFIM

Suite 13.03, 13th Floor
 Menara Tan & Tan
 207 Jalan Tun Razak
 50400 Kuala Lumpur
 Tel No : 603-2164 0206
 Fax No : 603-2164 0207
 Website: www.ibfim.com

REGISTRARS OF AXIS-REIT
Boardroom Share Registrars
Sdn Bhd (formerly known as
Symphony Share Registrars
Sdn Bhd)

Level 6, Symphony House
 Pusat Dagangan Dana 1
 Jalan PJU 1A/46
 47301 Petaling Jaya
 Selangor Darul Ehsan
 Tel No : 603-7849 0777
 Fax No : 603-7841 8151/8152
 Website : www.boardroomlimited.com

**PROPERTY MANAGER
 OF AXIS-REIT**

Axis Property Services
 Suite 6.04, Penthouse
 Wisma Academy
 No. 4A, Jalan 19/1
 46300 Petaling Jaya
 Selangor Darul Ehsan

AUDITORS OF AXIS-REIT
KPMG PLT

Level 10, KPMG Tower
 8, First Avenue Bandar Utama
 47800 Petaling Jaya
 Selangor Darul Ehsan

**INTERNAL AUDITORS
 OF AXIS-REIT**

Baker Tilly Monteiro Heng
Governance Sdn Bhd
 Baker Tilly Tower, Level 10
 Tower 1 Avenue 5
 Bangsar South City
 59200 Kuala Lumpur

TAX AGENTS OF AXIS-REIT
PricewaterhouseCoopers
Taxation Services Sdn Bhd

Level 10, 1 Sentral, Jalan Rakyat
 Kuala Lumpur Sentral
 P.O. Box 10192
 50706 Kuala Lumpur

**PRINCIPAL BANKERS
 OF AXIS-REIT**

Maybank Islamic Berhad
 CIMB Islamic Bank Berhad
 HSBC Amanah Bank Malaysia Berhad
 Public Islamic Bank Berhad

RETAINER SOLICITORS

Lee Hishammuddin Allen & Gledhill

Level 6, Menara 1 Dutamas
 Solaris Dutamas
 No. 1, Jalan Dutamas 1
 50480 Kuala Lumpur

STOCK NAME AND STOCK CODE

AXREIT 5106

INVESTOR RELATIONS

To find out more about
 Axis-REIT, please contact:

Leong Kit May

Chief Executive Officer/
 Executive Director

Or

Chan Tze Wee

Manager, Investments and
 Investor Relations

CONTACT DETAILS

Penthouse, Menara Axis
 No. 2, Jalan 51A/223
 46100 Petaling Jaya
 Selangor Darul Ehsan
 Tel No : 603-7958 4882
 Fax No : 603-7957 6881
 Email : info@axis-reit.com.my

WEBSITE

www.axis-reit.com.my

LETTER FROM THE CHAIRMAN AND THE CEO



Dear Unitholders,

On behalf of the Board of Directors (“Board”) of Axis REIT Managers Berhad (“ARMB” or “Manager”), we are pleased to note that Axis Real Estate Investment Trust (“Axis-REIT” or “Fund”) delivered another solid operational and financial performance during the Financial Year Ended 31 December 2018 (“FYE2018”). The results are the outcome of our continued focus on Axis-REIT’s aim of building a portfolio of high-quality industrial assets that generate sustainable, long-term returns to our Unitholders.

Notwithstanding the cautious business outlook in the run up to Malaysia’s 14th General Election (“GE14”) and the stunning results that followed, there was no let-up in our focus and execution of the Fund’s strategy in 2018. During the year,

we added five properties to Axis-REIT’s portfolio, bringing the total count to 45 properties valued at RM2.8 billion, with a cumulative net lettable area (“NLA”) of over 9.3 million sq. ft.. These, alongside property acquisitions completed in 2017, and

the commencement of the lease term at the Fund’s maiden development project, were the key drivers of the Fund’s bottom line growth in FYE2018.

We recorded strong operating metrics in FYE2018, having successfully raised the occupancy rate of our property portfolio to 94% as at 31 December 2018, while achieving a 5% positive rental reversion during the year. The Leasing Team renewed tenancies for 74% of the 1.4 million sq. ft. of space that was due for renewal in 2018, and in total, secured tenancies (including renewals and new tenancies) for 1.6 million sq. ft. of space during the year. The portfolio’s weighted average lease expiry (“WALE”) remained stable, at 5.57 years as at 31 December 2018.

LETTER FROM THE CHAIRMAN AND THE CEO

Axis-REIT's financial results reflect these operational achievements, with net property income rising 25% to RM182.8 million in FYE2018, bringing income available for distribution to RM107.8 million as at 31 December 2018. The Fund declared a distribution per Unit ("DPU") of 8.74 sen for FYE2018, up 6% from the preceding year. This translates to a commendable distribution yield of 5.6% per unit, based on Axis-REIT's closing unit price of RM1.56 as at 31 December 2018. The Fund also successfully completed its 2018 Income Distribution Reinvestment Plan ("IDRP"), which garnered a 55% reinvestment rate, with the issuance of 4.9 million new Units pursuant to the exercise. The 2018 IDRPs generated net proceeds of RM6.8 million that were deployed towards asset enhancement initiatives of the property portfolio.

Over the years, we have prudently maintained Axis-REIT's gearing level below the regulatory limit of 50% for Malaysian REITs and will continue doing so moving forward. As at

31 December 2018, Axis-REIT's gearing stood at 37%, up from 33%, following the drawdown of financing facilities to fund its asset acquisitions and property development ventures. We are comfortable that at this level, the Fund has sufficient headroom to pursue acquisitive and development opportunities.

During FYE2018, Axis-REIT's 5-year Sukuk, amounting to RM85 million, matured and was fully-redeemed, using existing credit facilities. Following the redemption of the 5-year Sukuk, Axis-REIT had RM180 million in outstanding Sukuk facilities as at 31 December 2018.

In January 2019, the Fund concluded its third Sukuk issuance, which saw the Fund issue RM240.0 million in unrated, 7-year Sukuk. The proceeds were mainly applied to refinance existing short term credit facilities as part of our strategy to further strengthen the Fund's debt maturity profile.

Axis-REIT's operational and financial highlights of FYE2018:

Completed five acquisitions located in Subang, Shah Alam, Senawang and Johor

Successfully implemented the 2018 IDRPs in conjunction with the payment of Axis-REIT's 2018 third interim income distribution

The commencement of Nestlé Products Sdn Bhd's 10-year lease at the newly-completed Axis Mega Distribution Centre (Phase 1)

Secured tenancies for 1.6 million sq. ft. of space, raising the portfolio occupancy rate to 94% as at 31 December 2018, and keeping the WALE stable at 5.57 years

Grew the Fund's net property income by 25% vs the previous financial year

Substantially completed the development of Axis Aerotech Centre @ Subang

Increased the Fund's DPU by 6% to 8.74 sen (from 8.26 sen in FYE2017)

	31 December 2005	31 December 2018	Growth
Assets Under Management	RM340 million	RM2.84 billion	735%
Net Lettable Area	1,186,590 sq. ft.	9,349,267 sq. ft.	688%
Number of Properties	6	45	650%
Market Capitalisation	RM356 million	RM1.93 billion	442%
Distribution per Unit ("DPU") (sen)	5.64*	8.74	55%
Number of Tenants	78	152	95%
Fund Size	RM278 million	RM1.66 billion	497%
Accumulative Revaluation Gain	RM42.6 million	RM373.7 million	777%

* Annualised DPU for FYE2005, restated from 11.28 sen to reflect the Unit Split.

LETTER FROM THE CHAIRMAN AND THE CEO

Macroeconomic Outlook / Prospects

The unprecedented results of GE14 saw a change in Malaysia's political leadership for the first time since the country's independence in 1957. The results of the elections and the orderly, peaceful transition in leadership were widely lauded, demonstrating a matured democracy and the ability of Malaysians to move forward as a nation.

Despite some initial uncertainties over the new government's policies as well as some external macroeconomic headwinds, the country's Gross Domestic Product ("GDP") recorded commendable growth of 4.7% in 2018, driven by resilient private sector spending, an uptick in net exports and continued expansion in the services and manufacturing sectors.

Looking ahead, analysts and economists are expecting stable economic growth for Malaysia in 2019. Government official forecasts, published in November last year, had pegged GDP growth at 4.9% for 2019, while the World Bank estimated the country's GDP growth at 4.7% in 2019.

2019 Outlook: Staying the course as the leading business and industrial space partner

We are confident that Axis-REIT's portfolio is well-positioned for growth in the coming years. Our strategy of building a solid business and industrial space portfolio has and continues to pay off – demand for properties within these segments has been relatively resilient amid growth in the e-commerce and manufacturing sectors. Our properties, which are located in the country's key industrial hubs and in strategic urban locations, offer seamless access to transport networks and are well-positioned to benefit from this demand.

Our recent investments have strengthened our position in the industrial space segment – all five acquisitions completed in FYE2018, including the land lease of Axis Aerotech Centre @ Subang, were in the industrial property

category. With these additions, industrial properties now account for 91% of Axis-REIT's portfolio.

While our portfolio focus remains very much in the industrial property segment, we also continue to grow our portfolio beyond the central / Klang Valley region. Our recent acquisitions included additions to our presence in the rapidly-growing key industrial hubs of Penang and Johor (Iskandar Malaysia). This geographical diversification is aimed at capturing the rapid growth of these burgeoning regional industrial hubs.

Axis-REIT's acquisitions completed in 2018

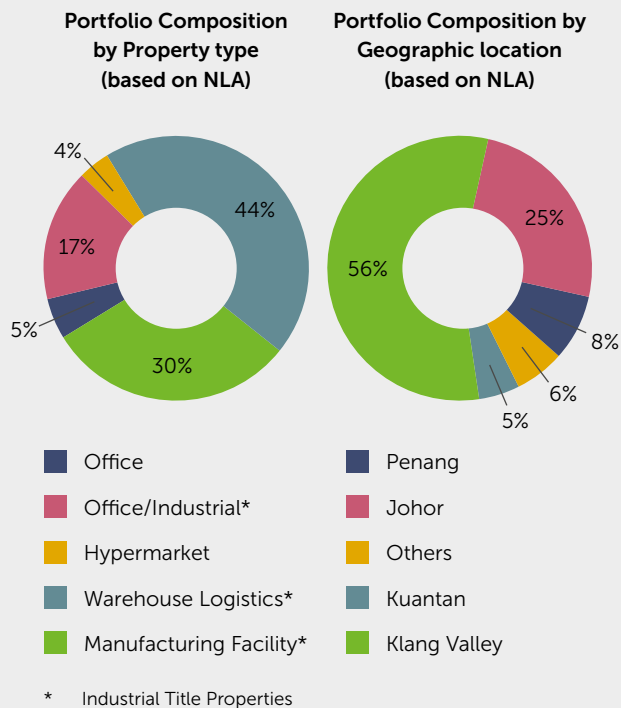
Properties	Purchase Consideration (RM'mil)	Completion Date
Axis Aerotech Centre @ Subang (land lease)	19.9	7 February 2018
Axis Shah Alam Distribution Centre 4	83.0	4 June 2018
Beyonics i-Park Campus Block E	31.5	9 August 2018
Indahpura Facility 1	7.2	9 August 2018
Senawang Industrial Facility	18.5	5 December 2018

Portfolio Outlook

Looking ahead, we have executed a letter of offer to acquire another industrial property, located in Bayan Lepas, Penang, for a total consideration of RM20.5 million. The acquisition is currently underway, and is expected to be completed in FYE2019. Beyond this, we expect a robust pipeline of investment opportunities in 2019.

LETTER FROM THE CHAIRMAN AND THE CEO

Axis-REIT's portfolio composition by type and geographical location (based on NLA)



We continually review our property portfolio, leveraging on our industry insights to re-assess and re-evaluate the portfolio, to ensure it remains well-positioned to meet the future needs of our tenants and the broader market. We believe that industrial properties will continue to generate stable, sustainable returns for our Unitholders, and while we remain cautious over the outlook of the office segment, we note sustained demand for well-located, Grade A office space.

We also continue to work closely with our existing and new tenants to deliver real estate solutions to match their growing needs, as demonstrated in the development of the Nestlé Distribution Centre at Axis Mega Distribution Centre, and Axis Aerotech Centre @ Subang. We believe the success of the Fund's first two property development projects sends a strong message of our capabilities as a property developer and a business space partner.

Risk Management

Navigating and managing Axis-REIT's evolving business risks are embedded in our day to day operations. Management has in place a Risk Register, to help identify, evaluate and mitigate risks and potential risks.

Through consultation with the Audit Committee, Internal Auditors and the Board, we continuously review and update the Risk Register to ensure it remains relevant and current to Axis-REIT's operations. During FYE2018, updates to the Risk Register included revisions to processes and procedures to ensure compliance with the revamped Main Market Listing Requirements of Bursa Malaysia Securities Berhad, as well as the Securities Commission's new Guidelines on Listed Real Estate Investment Trusts, that came into effect on 9 April 2018.

Sustainability and CSR

Axis-REIT is committed to being a responsible corporate citizen, and we remain mindful of the environment in which we operate, as well as the needs of the various stakeholders we serve and the community around us.

We continuously strive to improve our environmental sustainability performance, which includes reducing our carbon footprint through improving energy efficiencies throughout our portfolio of properties, and adopting environmentally sustainable practices throughout our operations.

We also invest in programmes to benefit the communities around us via our Corporate Social Responsibility ("CSR") initiatives, that are aimed at educating and improving the welfare of vulnerable groups, while concurrently fostering good ties with various stakeholders. Our CSR programmes in FYE2018 included donating back-to-school sets to underprivileged students, organising a charity bazaar, collaborating with the Royal Institution of Surveyors Malaysia in organising a charity run, working with the National Blood Bank on two blood donation drives, and sponsorship of the Axis O2FC Football Team.

LETTER FROM THE CHAIRMAN AND THE CEO

Details of these programmes can be found in the Fund's 2018 Sustainability Report, which we are pleased to note, is Axis-REIT's inaugural Integrated Sustainability Report. The report is presented on pages 130 to 158 of this Annual Report.

Awards & Acknowledgements

At the heart of what we do are our people, who continue to take Axis-REIT from strength to strength, with their tireless efforts in conceiving, planning and executing the Fund's strategies and plans effectively and efficiently. On behalf of the Board, we acknowledge and thank the team for their vision, commitment and diligence that has been instrumental in the Fund's success. The results of the Team's efforts are clearly demonstrated in the Fund's solid operational and financial results.

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

14 February 2019

We are also proud to note acknowledgements of the Team's efforts from the broader industry, with Axis-REIT being named as the winner of the 2018 Asia Pacific Best of the Breeds REITs Awards in the Industrial REIT (Malaysia) and Islamic REIT (Malaysia) categories. The Fund was also a Merit Award recipient for the National Annual Corporate Report Awards ("NACRA") for its 2017 Annual Report.

We also express our gratitude to our tenants and business partners for continuing to work with us as your business space partner, our Unitholders and the investment community, for your confidence in our ability to deliver results, and members of the media, real estate agents and members of the community for your continued support. With a strong portfolio, sound financial position and exciting pipeline of opportunities, we are optimistic that Axis-REIT is well-positioned for sustainable growth in the years to come.

Leong Kit May
Chief Executive Officer/Executive Director
14 February 2019



Handover Ceremony of Axis Aerotech Centre @ Subang on 13 February 2019

Industrial properties accounted for 91% of Axis-REIT's NLA as at 31 December 2018



Lease commitments for a total of 1,612,009 sq. ft. of space were secured during the year



Portfolio occupancy improved to 94% as at 31 December 2018



DIRECTORS' PROFILE



Age
83

Date first appointed to the Board

10 August 2007

Board Committee Membership(s)

- Member of the Audit Committee
- Member of the Nomination Committee

Academic/Professional Qualifications

- Bachelor of Science (Economics), Queen's University Belfast

Working Experience/Occupation

Tunku Shahabuddin started his career as an economist with Esso (M) Ltd, before moving into the finance industry as a manager of a finance company within the Malayan Banking Group. Tunku Shahabuddin then started his own businesses, which spanned the manufacturing, production, trading, construction, financial services and information technology sectors, among others.

He currently serves as the Executive Chairman of Strateq Group and Strateq Systems Sdn Bhd.

Present Directorships in public companies and/or listed issuers

None

Other Memberships/Appointments/Involvements

- Former inaugural member of the National Institute of Scientific Industrial Research (now known as SIRIM)
- Former Chairman of the Selangor Turf Club
- Presently the International Relations Chairman of the Selangor Turf Club
- Honorary Life Chairman of the Malaysia Australia Business Council
- Former President of the Asia-Pacific Region of the Alliance Internationale de Tourisme
- Former Honorary Consul General of Austria

Awards received

- Darjah Kerabat Terengganu Yang Amat Mulia Darjah Yang Pertama (D.K.) (Terengganu)
- Darjah Seri Paduka Tuanku Ja'afar Yang Amat Terpuji (S.P.T.J.) (Negeri Sembilan)
- Honorary Officer (AO) in the General Division of the Order of Australia Award
- Austrade International Business Person of the Year Award 2000

DIRECTORS' PROFILE

Age
59**Date first appointed to the Board**

15 March 2005

Board Committee Membership(s)

- Chairman of the Executive Committee
- Member of the Remuneration Committee

Academic/Professional Qualifications

- Diploma in Chemistry, University of Gothenburg, Sweden
- Diploma in Marketing, University of Oslo, Norway

Working Experience/Occupation

Dato' Abas Carl Gunnar was the Managing Director of Jotun Powder Coatings (M) Sdn Bhd from 1985 to 1993. 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 by the development of Axis Business Park, Axis Plaza and Menara Axis, which collectively formed the core property portfolio of Axis-REIT during its initial public offering.

Dato' Abas Carl Gunnar is also a director and shareholder of a number of private companies that are involved in property development and property investment.

Present Directorships in public companies and/or listed issuers

None

Other Memberships/Appointments/Involvements

None

DIRECTORS' PROFILE



LEONG KIT MAY
Chief Executive Officer/
Executive Director



Age
42

Date first appointed to the Board

15 November 2011

Board Committee Membership(s)

Member of the Executive Committee

Academic/Professional Qualifications

- Bachelor of Business (Accountancy), Royal Melbourne Institute of Technology University, Australia
- Certified Practising Accountant, Australia
- Chartered Accountant, Malaysian Institute of Accountants
- Certificate in Real Estate Investment Finance, Asia Pacific Real Estate Association Institute

Working Experience/Occupation

Kit May started her career in the audit industry with Ernst & Young, where she gained audit and accounting experience. In 2001, she joined the UOA group of companies and was involved in various areas of the group's property operations such as development, construction and investment. She was also involved in the successful listing of UOA REIT in 2005.

In 2006, Kit May joined ARMB and was promoted to Chief Financial Officer in 2008. In the same year, she

spearheaded the project of converting Axis-REIT into the first Islamic Office/Industrial REIT in Malaysia. She continued to assume greater management responsibilities, and in November 2011, was appointed to the Board of the Manager as an Executive Director. As part of the Board's succession plans, Kit May was groomed to become Chief Executive Officer ("CEO") of ARMB. In preparation for this, she took on the position of Chief Operating Officer of ARMB in 2015, before assuming the role of CEO on 1 January 2016.

Kit May continues to lead Axis-REIT to new heights. Recent notable milestones include the REIT's successful foray into property development, with the commencement and completion of the Nestlé Distribution Centre at Axis Mega Distribution Centre, as well as the development of Axis Aerotech Centre @ Subang.

Present Directorships in public companies and/or listed issuers

- Axis REIT Sukuk Berhad

Other Memberships/Appointments/Involvements

Vice Chairman of the Malaysian REIT Managers Association

DIRECTORS' PROFILE



Age
57

Date first appointed to the Board

25 October 2004

Board Committee Membership(s)

- Member of the Executive Committee
- Member of the Remuneration Committee

Academic/Professional Qualifications

Diploma from the Institute of Marketing, United Kingdom

Working Experience/Occupation

Stephen started his career as a real estate agent in 1982, and today owns real estate agency, Hectares & Stratas. Over the years, Stephen has been involved in the development of many purpose-built buildings for investment income, and these buildings have housed numerous multinational companies. In 1992, he teamed up with Dato' Abas Carl Gunnar Bin Abdullah and other investors to build Crystal Plaza. This was followed by the development of Axis Business Park, Axis Plaza and Menara Axis, which collectively formed the core property portfolio of Axis-REIT during its initial public offering.

Stephen is also a director and shareholder of a number of private companies that are principally involved in investment holding.

Present Directorships in public companies and/or listed issuers

- Axis REIT Sukuk Berhad

Other Memberships/Appointments/Involvements

- Past President of the Malaysian Institute of Estate Agents ("MIEA")
- Former board member of the Board of Valuers, Appraisers and Estate Agents (1998-2004)

Awards received

- Lifetime Achievement Award by MIEA (2015)

DIRECTORS' PROFILE

Age
50**Date first appointed to the Board**

20 November 2006

Board Committee Membership(s)

- Chairman of the Remuneration Committee
- Member of the Nomination Committee

Academic/Professional Qualifications

- Bachelor of Commerce/LLB (Hons), University of Queensland, Australia
- Master of Business Administration, University of Queensland, Australia

Working Experience/Occupation

Datuk Seri Fateh Iskandar, better known as Datuk Seri FD Iskandar, is the Group Managing Director/Chief Executive Officer of Glomac Berhad ("Glomac"), a property company listed on the Main Market of Bursa Securities. Prior to joining Glomac, he practised law in Australia before returning to Malaysia to join Kumpulan Perangsang Selangor Berhad ("KPS") as its Corporate Manager. He left KPS to join Glomac in 1992 as the General Manager for Business Development, and was subsequently appointed to the Board of Glomac in February 1997, before taking on his current role as Managing Director/Chief Executive Officer in June 2000.

Present Directorships in public companies and/or listed issuers

- Glomac Berhad

Other Memberships/Appointments/Involvements

- City Advisory Board Member for Dewan Bandaraya Kuala Lumpur

- Board Member of the Construction Industry Development Board Malaysia (CIDB)
- Immediate Past President of the Real Estate & Housing Developers' Association ("REHDA") Malaysia
- Committee Member of REHDA's Selangor Branch
- Chairman of GreenRE Sdn Bhd
- Former Deputy Chairman of the Malaysia Australia Business Council
- Co-Chair of the Special Taskforce to Facilitate Business (PEMUDAH) on legal matters and services
- Founding Director of Malaysia Property Incorporated

Awards received

- Malaysian Business Award in Property 2012
- Property Excellence Award by the ASEAN Business Council (2013)
- Entrepreneurship Award – Property & Real Estate by Asia Pacific Entrepreneurship Malaysia (2013)
- Global Leadership Awards 2014 – Commercial Property Development by The Leaders International
- The Brand Laureate Corporate Leader Brand Icon Award by Asia Pacific Brands Foundation
- Global Leadership Awards 2015 – Masterclass Developer of the Year by The Leaders International
- World Leader Business Person and World Business Leader Award by The Bizz 2016
- Asia Pacific Entrepreneurship Awards 2017 Malaysia by APEA
- EdgeProp: Malaysia's Exemplary Real Estate Industry Leader
- Property Insight Awards 2018: Industry Excellence Award
- TEPEA2018 Top Property Developers Awards (by EdgeProp)

DIRECTORS' PROFILE



ALVIN DIM LAO
Non-Independent
Non-Executive Director



Age
47

Date first appointed to the Board

30 December 2011

Board Committee Membership(s)

- Member of the Audit Committee

Academic/Professional Qualifications

- Degree in Information Technology and Statistics, University of Western Australia
- Master of Business Administration, Sloan School of Management at the Massachusetts Institute of Technology

Working Experience/Occupation

Alvin is the President and Chief Executive Officer of D&L Industries Inc. ("D&L"), a Philippine Stock Exchange-listed company that is involved in product customisation and specialisation for the food, plastics and aerosol industries. He previously served as D&L's Chief Financial Officer and Executive Vice-President, before assuming his current roles in August 2016.

Alvin is also the Chief Financial Officer of LBL Prime Properties Incorporated ("LBL"), a multi-faceted property development company with industrial, hospitality and commercial projects in the Philippines.

He also sits on the board of Xurpas, Inc., another public company listed on the Philippine Stock Exchange, as an independent director.

Before joining D&L and its group of companies, Alvin worked for the Singapore National Computer Board, where he was seconded to the Computer Information Services Department of the Supreme Court of Singapore. He helped manage the computer networking requirements of the High Court and also assisted in initiating the implementation of the Technology Court of Singapore.

Present Directorships in public companies and/or listed issuers

None

Other Memberships/Appointments/Involvements

- Former President and current Member of the Philippine Chapter of Entrepreneurs' Organization
- Current Member of the Wallace Business Forum and The Technology Club of the Philippines (Massachusetts Institute of Technology Alumni in the Philippines)

Age
79**Date first appointed to the Board**

10 August 2007

Board Committee Membership(s)

- Chairman of the Audit Committee
- Chairman of the Nomination Committee

Academic/Professional Qualifications

- Fellow of the Institute of Chartered Accountants in England and Wales
- Chartered Accountant, Malaysian Institute of Accountants

Working Experience/Occupation

Mohd Sharif served the Selangor State Government from 1967 to 1971. He then became the Senior Accountant of Anglo Oriental Sdn Bhd from 1972 to 1973, and subsequently moved on to be the Corporate Finance Officer of Bumiputera Merchant Bankers Berhad from 1973 until 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).

Mohd Sharif is currently a Director of Setia Raya Sdn Bhd, a family-owned company. He has held the post since 1989.

Present Directorships in public companies and/or listed issuers

- Ireka Corporation Berhad
- Atlan Holdings Berhad
- AYS Ventures Berhad

Other Memberships/Appointments/Involvements

None

DIRECTORS' PROFILE

**ALEX LEE LAO**

Alternate Director to Dato' Abas
Carl Gunnar Bin Abdullah



Age
73

Date first appointed to the Board

22 March 2005

Board Committee Membership(s)

Not applicable

Academic/Professional Qualifications

Bachelor of Science in Chemical Engineering,
Polytechnic Colleges of the Philippines

Working Experience/Occupation

Alex Lee Lao is currently a Director of D&L Industries Inc., a Philippine Stock Exchange-listed company that is involved in product customisation and specialisation for the food, plastics and aerosol industries. He has had over 40 years of experience in manufacturing, marketing and distribution in industries such as colours, chemicals, adhesive, aerosol, paint, ink, paper, textiles, rubber, powder coating, detergent, plastics, allied products and food and beverages.

Alex is also a director of a number of private companies which are involved in property development and property investment.

Present Directorships in public companies and/or listed issuers

None

Other Memberships/Appointments/Involvements

None

DIRECTORS' PROFILE

Age
42**Date first appointed to the Board**

20 October 2014

Board Committee Membership(s)

Not applicable

Academic/Professional Qualifications

- Bachelor of Commerce, Curtin University of Technology, Perth, Western Australia
- Bachelor of Fine Arts (*Magna cum Laude*), Fashion Institute of Technology, New York, USA
- Postgraduate Diploma in Real Estate Investment Finance, Oxford Brookes University
- Finance for Executives Programme, INSEAD, Singapore

Working Experience/Occupation

Jancis is currently the Project Development Director of LBL Prime Properties Incorporated ("LBL"), a multi-faceted property development company with industrial, hospitality and commercial projects in the Philippines.

Prior to joining LBL, Jancis was based in New York and worked with Davis Brody Bond, an architectural firm specialising in institutional and commercial projects. She then moved to Saks Fifth Avenue where she was involved in the leasing and project management for luxury retail brands.

Present Directorships in public companies and/or listed issuers

None

Other Memberships/Appointments/Involvements

Current Member of the Philippine Chapter of Entrepreneurs' Organization

Other Disclosures

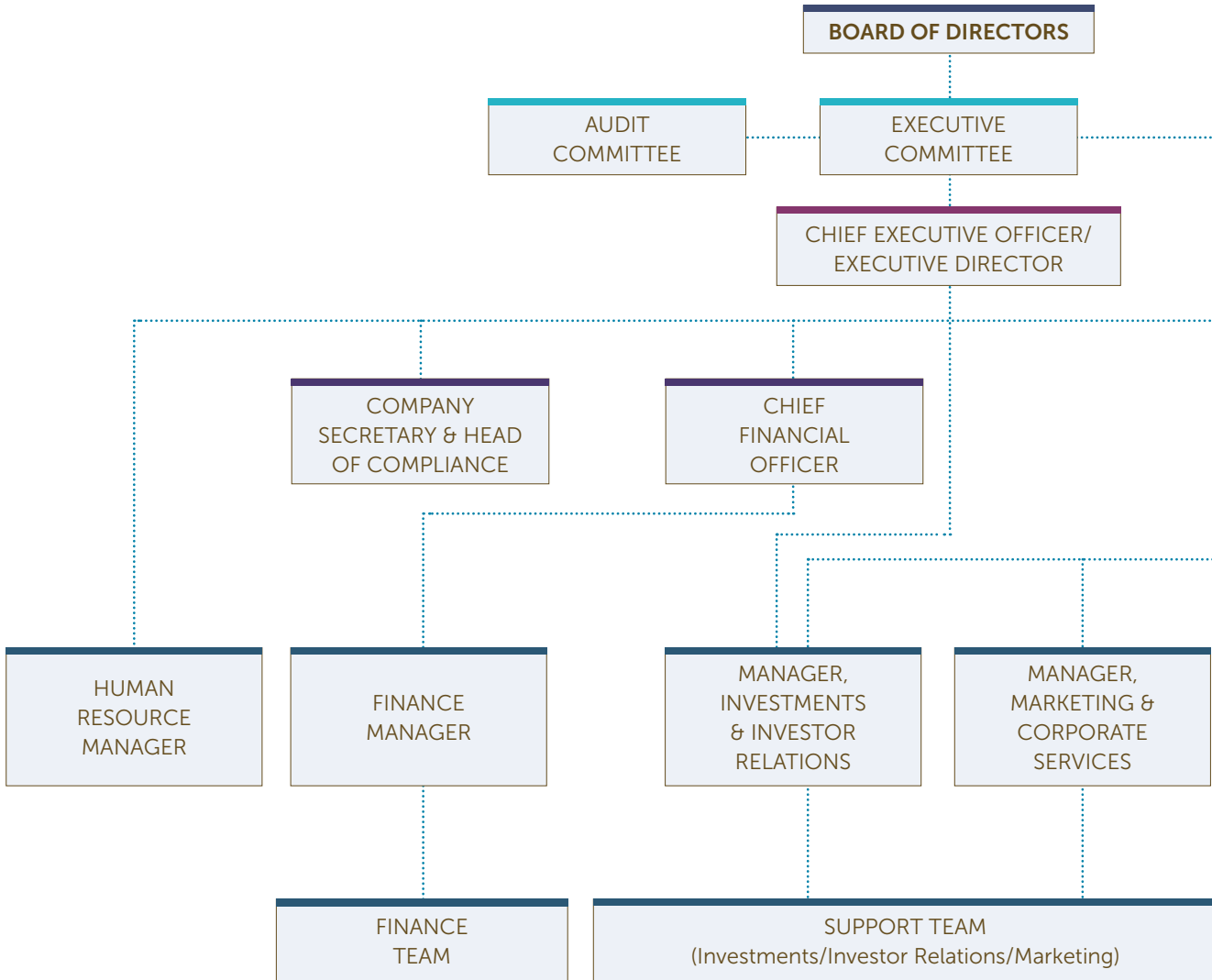
1. Alvin Dim Lao is the representative of Alex Lee Lao, who is an ultimate major shareholder of ARMB, on the board of ARMB. He is a nephew of Alex Lee Lao. Alvin's alternate director is Jancis Anne Que Lao, who is a daughter of Alex Lee Lao.

Except as disclosed above, none of the Directors of ARMB has any family relationship with any Director of ARMB and/or major shareholder of ARMB, and/or major unitholder of Axis-REIT.

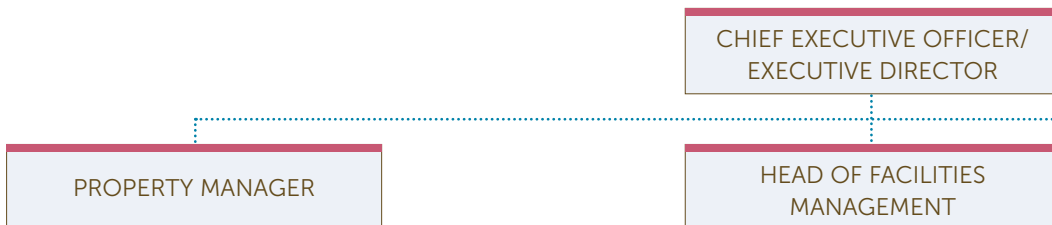
2. None of the Directors of ARMB has any conflict of interest with ARMB and/or Axis-REIT.
3. None of the Directors of ARMB has been convicted of any offence (other than traffic offences) within the past 5 years.
4. None of the Directors of ARMB has any public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2018.
5. The details of the attendance of each Director of ARMB at Board meetings held in the financial year 2018 are contained in the Corporate Governance Overview Statement of this Annual Report.
6. The details of the unitholdings held by each Director of ARMB in Axis-REIT are contained in the Unitholders' Statistics of this Annual Report.

THE AXIS TEAM'S ORGANISATIONAL STRUCTURE

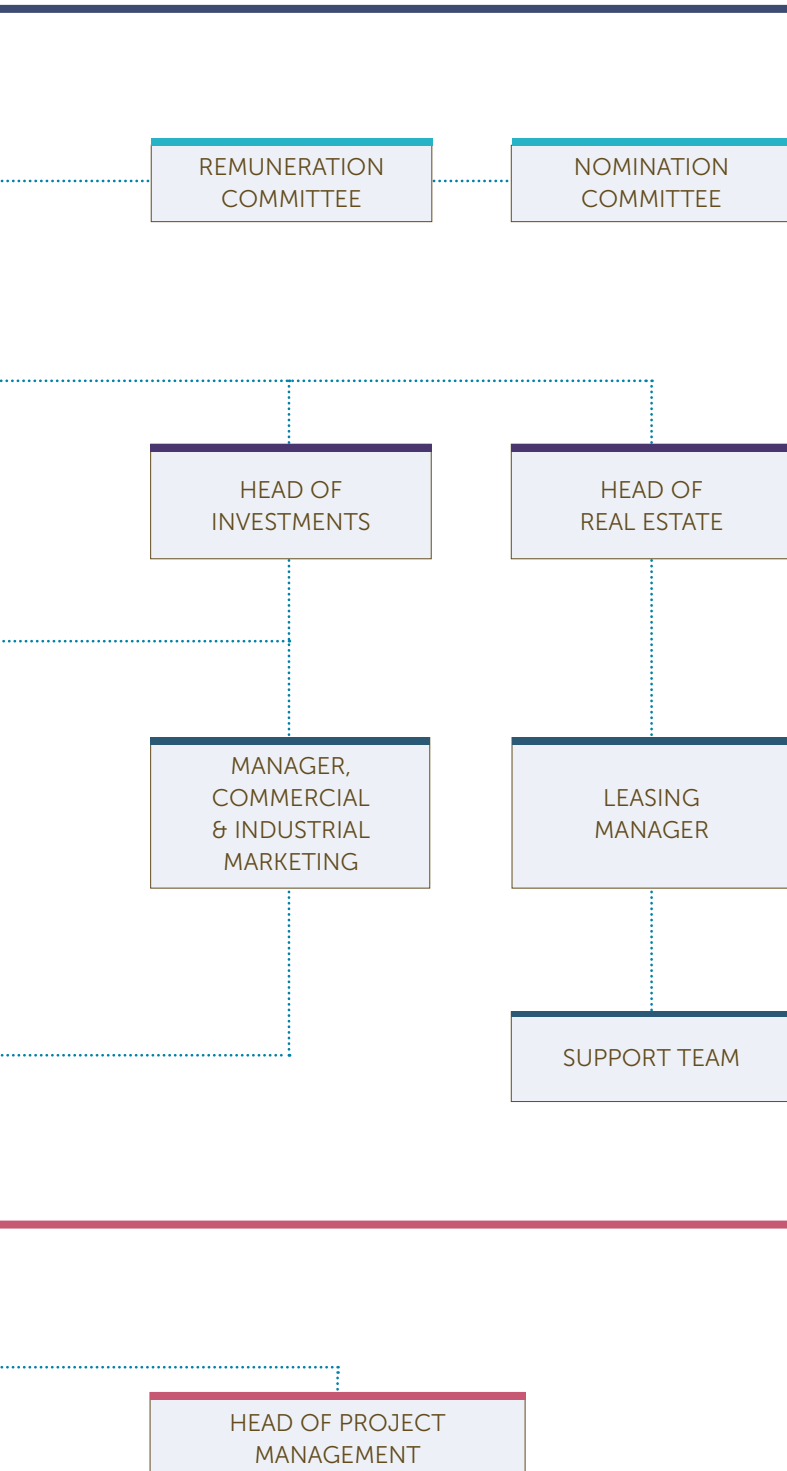
CORPORATE DIVISION



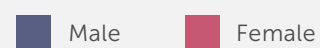
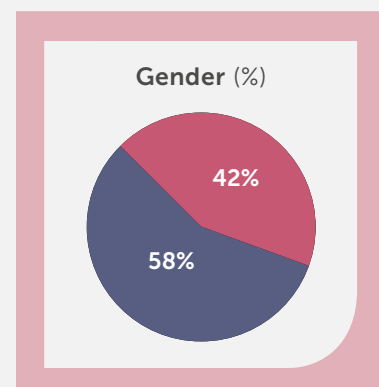
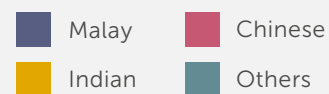
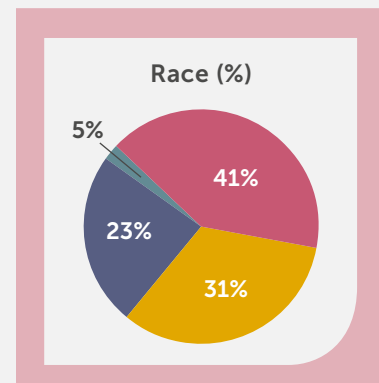
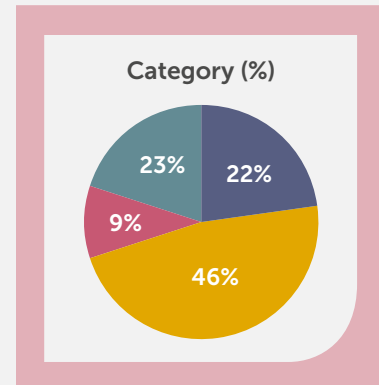
PROPERTY MANAGEMENT DIVISION



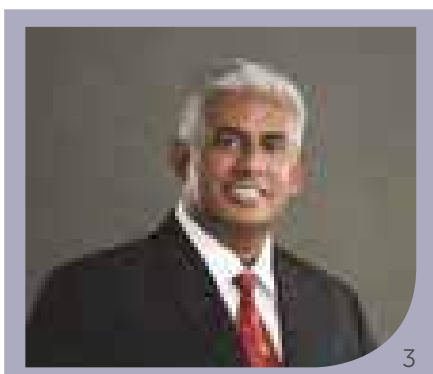
THE AXIS TEAM'S ORGANISATIONAL STRUCTURE



ORGANISATION CHARACTERISTICS



THE AXIS TEAM PROFILE



1. LEONG KIT MAY

2. NIKKI NG

3. SIVA SHANKER

4. REBECCA LEONG

5. JACKIE LAW

6. CHAN TZE WEE

7. LOW AY KEEAN

8. SELINA KHOR

9. SIVA SHANKAR PALANY

10. LOH YEN FERN

THE AXIS TEAM PROFILE

1 LEONG KIT MAY

Chief Executive Officer/
Executive Director

Age: 42
Gender: Female
Nationality: Malaysian
Date first appointed to the Board:
15 November 2011

Academic/Professional Qualifications

- Bachelor of Business (Accountancy), Royal Melbourne Institute of Technology University, Australia
- Certified Practising Accountant, Australia
- Chartered Accountant, Malaysian Institute of Accountants
- Certificate in Real Estate Investment Finance, Asia Pacific Real Estate Association Institute

Working Experience

Kit May is the Chief Executive Officer/ Executive Director of ARMB. Details of her work experience are available in the Directors' Profile section of this report.

Present Directorships in other public companies and/or listed issuers

Axis REIT Sukuk Berhad

Other Memberships/Appointments/ Involvements

Vice Chairman of the Malaysian REIT Managers Association

2 NIKKI NG

Chief Financial Officer

Age: 41
Gender: Female
Nationality: Malaysian
Date first appointed as key senior management personnel: 1 June 2012

Academic/Professional Qualifications

- Certificate in Real Estate Investment Finance, Asia Pacific Real Estate Association Institute
- Bachelor of Accountancy (Hons), Oxford Brookes University, United Kingdom
- MIA Qualifying Examination (QE)
- Member of the Malaysian Institute of Accountants

Working Experience

Nikki joined ARMB as an Accountant, and was subsequently re-designated as the Head of Credit Control in 2012. She was promoted to the position of Acting Financial Controller in 2015, and thereafter to Financial Controller in the following year. She assumed her current position as the Chief Financial Officer of ARMB on 18 January 2017.

Nikki oversees all the day-to-day operations in the finance department of ARMB, including financial analysis, management reporting, credit control, as well as budgetary control. She works closely with the Chief Executive Officer on matters related to corporate finance, capital management, regulatory compliance and treasury functions.

Before joining ARMB, Nikki was the Finance Manager at Paxelent Corporation Berhad, where she gained exposure in financial management and corporate planning. Prior to that, she was attached to IGB Corporation Berhad for 6 years.

Present Directorships in public companies and/or listed issuers

None

3 SIVA SHANKER

Head of Investments

Age: 56
Gender: Male
Nationality: Malaysian
Date first appointed as key senior management personnel: 1 January 2016

Academic/Professional Qualifications

- Diploma in Estate Agency, Board of Valuers, Appraisers, Estate Agents and Property Managers Malaysia
- Registered Estate Agent and Property Manager with the Board of Valuers, Appraisers, Estate Agents and Property Managers Malaysia
- Fellow of the Malaysian Institute of Estate Agents Malaysia
- Member of the Royal Institution of Surveyors Malaysia
- Member of the International Real Estate Federation (FIABCI) Malaysian Chapter
- Member of the Association of Valuers, Property Managers, Estate Agents & Property Consultants in the Private Sector (PEPS)

Working Experience

Siva is responsible for the investment strategies and property portfolio planning of Axis-REIT. He also oversees the marketing activities of ARMB.

He has over 35 years of experience in the property industry, having worked in both large international property consultancies as well as small local outfits. Siva continues to play an active role in the Malaysian Institute of Estate Agents, having served as its President for the 2013/2015 term.

Siva is also an accomplished speaker and real estate trainer who speaks at many property seminars and conventions. He contributed a weekly column to the New Straits Times during the years 2017 to 2018, and is regularly sought after by the press for his views, opinions and analysis of the real estate market.

Present Directorships in public companies and/or listed issuers

None

THE AXIS TEAM PROFILE

4 REBECCA LEONG

Company Secretary & Head of Compliance

Age: 40
 Gender: Female
 Nationality: Malaysian
 Date first appointed as key senior management personnel: 1 November 2016

Academic/Professional Qualifications

- Associate of The Institute of Chartered Secretaries & Administrators
- Practising Certificate Holder of the Malaysian Institute of Chartered Secretaries & Administrators

Working Experience

Rebecca joined ARMB in 2016 as its Company Secretary and Head of Compliance. She is responsible for the corporate compliance matters of ARMB and Axis-REIT. Prior to this, she had already served as ARMB's external Company Secretary since 20 April 2006, when she was employed by corporate secretarial firm, Archer Corporate Services Sdn Bhd ("Archer"). During her 12-year tenure with Archer, she handled the corporate secretarial matters for a portfolio of public and private companies where her scope of work ranged from corporate advisory, corporate governance and administration, to corporate compliance with statutory and regulatory requirements, as well as listing obligations.

Prior to joining Archer, Rebecca was attached to Signet & Co Sdn Bhd, also a corporate secretarial firm, where she gained her initial exposure and experience in corporate secretarial practice.

Present Directorships in public companies and/or listed issuers

None

5 JACKIE LAW

Head of Real Estate

Age: 54
 Gender: Female
 Nationality: Malaysian
 Date first appointed as key senior management personnel: 1 December 2012

Academic/Professional Qualifications

- Master of Science in Facilities Management, Heriot-Watt University, United Kingdom
- Certificate in Real Estate Investment Finance, Asia Pacific Real Estate Association Institute

Working Experience

Jackie is responsible for the real estate management strategies and operations of Axis-REIT's property portfolio. As the Head of Real Estate, she leads the REIT's portfolio management and leasing functions, including overseeing the REIT's property management functions, covering tenant care, retention, loyalty and satisfaction. She also assists the Chief Executive Officer in the evaluation of potential acquisitions.

Jackie has extensive experience in various areas of real estate management and operations, including marketing, lease management, project management and facilities management. She has served in several administrative roles within the Axis group of companies since 1994, in the areas of property development and management.

Present Directorships in public companies and/or listed issuers

None

6 CHAN TZE WEE

Manager, Investments & Investor Relations

Age: 39
 Gender: Female
 Nationality: Malaysian
 Date first appointed as key senior management personnel: 1 January 2016

Academic/Professional Qualifications

- Law (LLB), University of Manchester
- Master's Degree in Marketing, University of Manchester, United Kingdom

Working Experience

Tze Wee joined ARMB in July 2014. As part of the Investments team that sources for potential asset acquisitions for Axis-REIT, her key responsibilities include the identification, evaluation and completion of asset acquisitions through engagement with prospective parties such as real estate consultants, property developers, business councils, as well as industry associations. She also heads the Investor Relations department of ARMB, where she is responsible for the investor relations activities of Axis-REIT.

Tze Wee began her career in the advertising industry, working at Saatchi & Saatchi and the Ogilvy Group. Subsequently, she joined Malaysia Property Incorporated as Vice President of Investment Promotions, where she led the formation of the market intelligence division and headed the business development agenda for China and new markets. Before joining ARMB, she spent two years setting up and running the Shanghai office of Workflow International Limited - a cloud computing software start-up.

Present Directorships in public companies and/or listed issuers

None

THE AXIS TEAM PROFILE

7 LOW AY KEEAN

Human Resource Manager

Age: 44

Gender: Female

Nationality: Malaysian

Date first appointed as key senior management personnel: 1 December 2015

Academic/Professional Qualifications

- Bachelor's Degree in Economics, Universiti Putra Malaysia
- Professional Diploma in Human Resource Management, Malaysian Institute of Human Resource Management

Working Experience

Ay Kean is responsible for the full spectrum of human resource and administrative functions in ARMB, which encompass manpower, recruitment and selection, compensation and benefits, training, employee welfare, industrial relations matters and general office administration.

Prior to her employment with ARMB, she had served in the human resource departments of several organisations, including Malaysian Bulk Carriers Berhad, Zelan Berhad, Kurihara and Cybervision Sdn Bhd.

Present Directorships in public companies and/or listed issuers

None

8 SELINA KHOR

Property Manager of Axis Real Estate Investment Trust

Age: 60

Gender: Female

Nationality: Malaysian

Academic/Professional Qualifications

- Associate Diploma in Valuation, Royal Melbourne Institute of Technology, Australia
- Registered Valuer, Estate Agent and Property Manager with the Board of Valuers, Appraisers, Estate Agents and Property Managers Malaysia

Working Experience

Selina is 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 properties in Axis-REIT's portfolio, and works closely with Axis Facilities Management Sdn Bhd in the provision of property management services to Axis-REIT. These range from property maintenance and management, fit-out projects and enhancement initiatives.

Selina has more than 25 years' experience in the property industry, having been attached to Rahim & Co Chartered Surveyors Sdn Bhd, where she held various roles including registered valuer, estate agent and property manager.

Present Directorships in public companies and/or listed issuers

None

9 SIVA SHANKAR PALANY

Head of Facilities Management, Axis Facilities Management Sdn Bhd

Age: 46

Gender: Male

Nationality: Malaysian

Academic/Professional Qualifications

- Bachelor of Real Estate Management, Kuala Lumpur Infrastructure University College
- Graduate Member, Royal Institution of Surveyors Malaysia
- Certified International Project Manager, International Academy of Project Management
- Registered Property Manager with the Board of Valuers, Appraisers, Estate Agents and Property Managers Malaysia

Working Experience

Siva Shankar is the Head of Facilities Management at Axis Facilities Management Sdn Bhd ("AFM"), where he is responsible for the facilities management and operations of all properties in Axis-REIT's portfolio. He has had over 20 years' experience in real estate professional services in Malaysia and Brunei, including property management, project management, property due diligence and building code compliance.

Prior to joining AFM in 2011, Siva Shankar was attached to Jones Lang Wootton Malaysia as a Senior Property Manager, and with Jerudong Park Medical Centre, Brunei, as a Real Estate Manager.

Present Directorships in public companies and/or listed issuers

None

THE AXIS TEAM PROFILE

10

LOH YEN FERN

Head of Project Management, Axis
Facilities Management Sdn Bhd

Age: 47

Gender: Female

Nationality: Malaysian

Academic/Professional Qualifications

- Bachelor of Construction Economics, Royal Melbourne Institute of Technology University, Australia
- Certificate in Real Estate Investment Finance, Asia Pacific Real Estate Association Institute

Working Experience

Yen Fern is responsible for project management, planning, costing and enhancement work for the properties in Axis-REIT's portfolio. She has more than 20 years' experience in the construction and building industry in Malaysia, where she has specialised in project planning, management, and facilities management.

Prior to joining Axis Facilities Management Sdn Bhd, Yen Fern was attached to Syarikat Pembinaan Woh Heng Sdn Bhd as a Quantity Surveyor, and FSBM Holdings Berhad, where she progressed from being a Business Analyst to become the Head of Business Unit (Properties).

Present Directorships in public companies and/or listed issuers

None

Other Disclosures

None of the key senior management personnel of ARMB has:

1. any family relationship with any Director of ARMB and/or major shareholder of ARMB, and/or major unitholder of Axis-REIT
2. any conflict of interest with ARMB and/or Axis-REIT
3. been convicted of any offence (other than traffic offences) within the past 5 years
4. any public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2018



**MANAGER'S
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AXIS BUSINESS CAMPUS



Axis-REIT continued to deliver steady growth in 2018 through the prudent and professional management of its portfolio. The Fund's total DPU amounted to 8.74 sen for FYE2018, based on a 99.8% payout ratio. This translated to a distribution yield of 5.6% based on Axis-REIT's closing price of RM1.56 as at 31 December 2018.

NIKKI NG

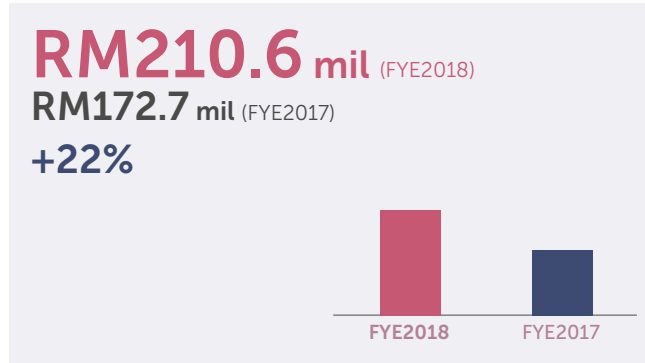
Chief Financial Officer

MANAGER'S DISCUSSION AND ANALYSIS

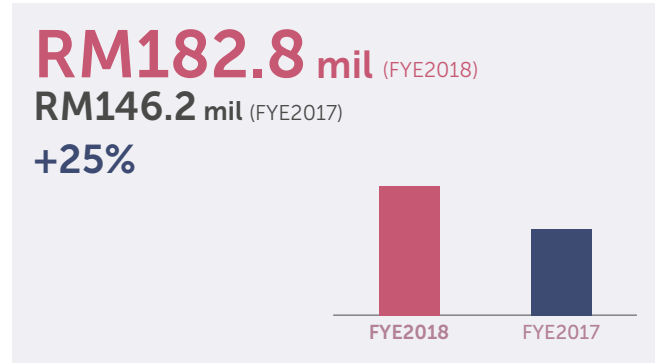
FINANCIAL REVIEW

As at 31 December 2018

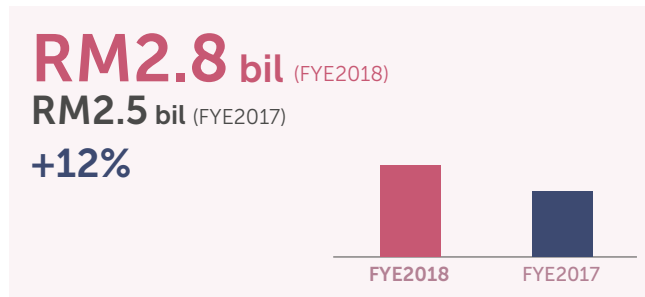
REVENUE



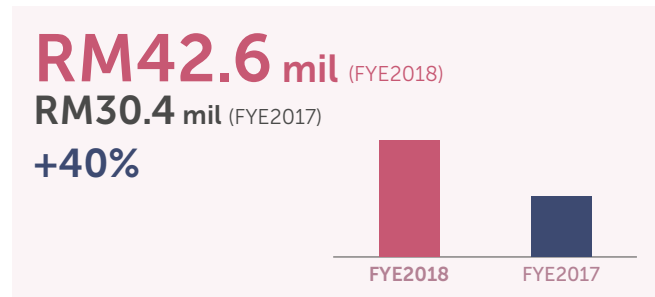
NET PROPERTY INCOME



ASSETS UNDER MANAGEMENT



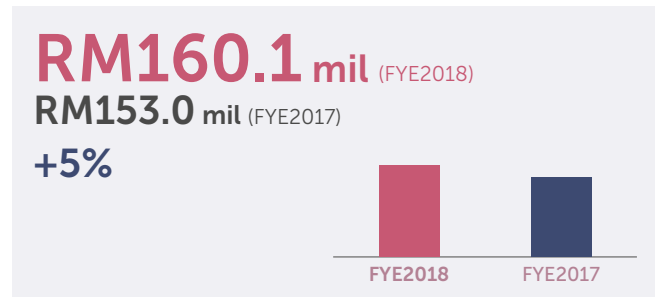
FAIR VALUE GAIN ON INVESTMENT PROPERTIES



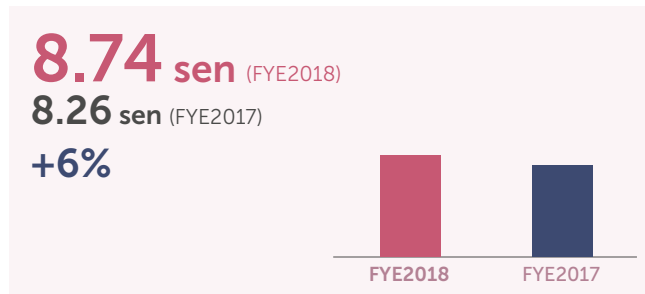
DISTRIBUTABLE INCOME



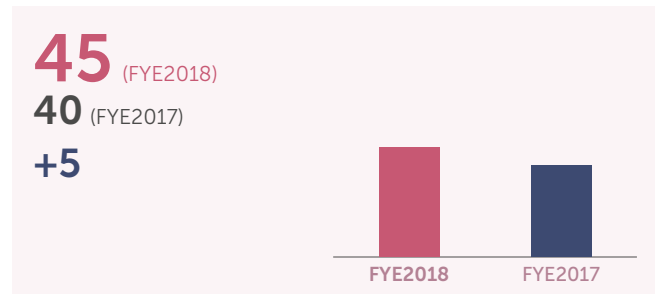
TOTAL ACQUISITIONS



DISTRIBUTION PER UNIT



NO. OF PROPERTIES



MANAGER'S DISCUSSION AND ANALYSIS

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Highlights

Throughout FYE2018, Axis REIT Managers Berhad ("ARMB" or "Manager") had actively sought investment opportunities for the Fund, and successfully completed five acquisitions for a total consideration of RM160.1 million. The Fund's property portfolio increased from 40 to 45 properties as at 31 December 2018.

The portfolio also recorded a significant increase in income for FYE2018, with realised net income after taxation recording a 25% increase to RM113.4 million, while DPU increased by 6% to 8.74 sen per unit.

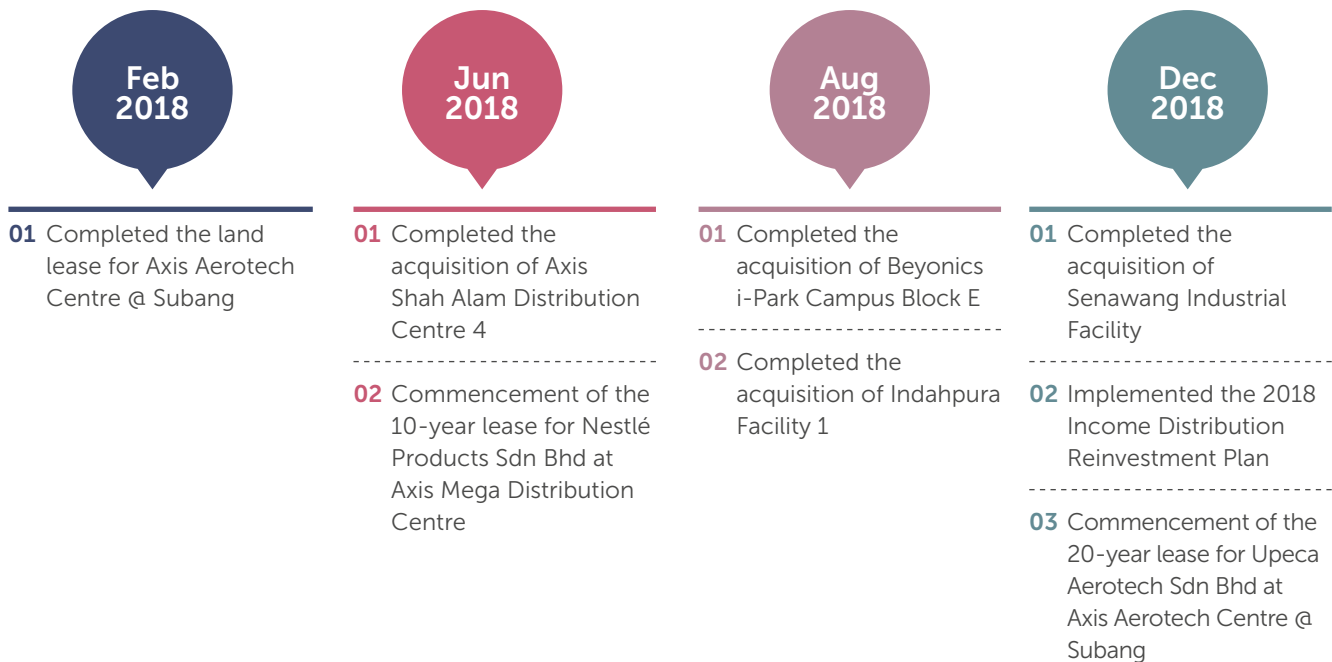
	FYE2017	FYE2018
Total realised net income after taxation (RM'000)	90,796	113,442
DPU (sen)	8.26 sen *	8.74 sen

* Includes distributed proceeds from the gain on disposal of Axis Eureka of 0.12 sen

Axis-REIT's maiden development project, the Nestlé Distribution Centre at Axis Mega Distribution Centre, was completed on schedule on 29 January 2018, and the facility was handed over to Nestlé Products Sdn Bhd on time. The lease of the Nestlé Distribution Centre commenced on 1 June 2018, and the Fund derived a starting rental of RM11.2 million for FYE2018 with an agreed step-up every three years.

The 20-year fixed lease of the newly-completed Axis Aerotech Centre @ Subang, the Fund's second "built-to-suit" development, commenced on 16 December 2018. Following the completion of the development of Axis Aerotech Centre @ Subang, the Fund recognised a fair value gain of RM1.3 million for FYE2018. The Fund is expected to derive RM5.6 million in rental revenue from Axis Aerotech Centre in 2019. Further details regarding the development are set out in the Project Management Report.

The Fund's significant events during 2018 are summarised below:



MANAGER'S DISCUSSION AND ANALYSIS

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Income Distribution

The Fund's income available for distribution rose by 16% to RM107.8 million in FYE2018. It declared a final income distribution of 2.45 sen per unit to Unitholders for the period from 1 October 2018 to 31 December 2018. Together with the interim income distributions totaling 6.29 sen per unit for the nine-month period from 1 January 2018 to 30 September 2018, the Fund's total DPU for FYE2018 amounted to 8.74 sen – a 6% increase over FYE2017's DPU of 8.26 sen.

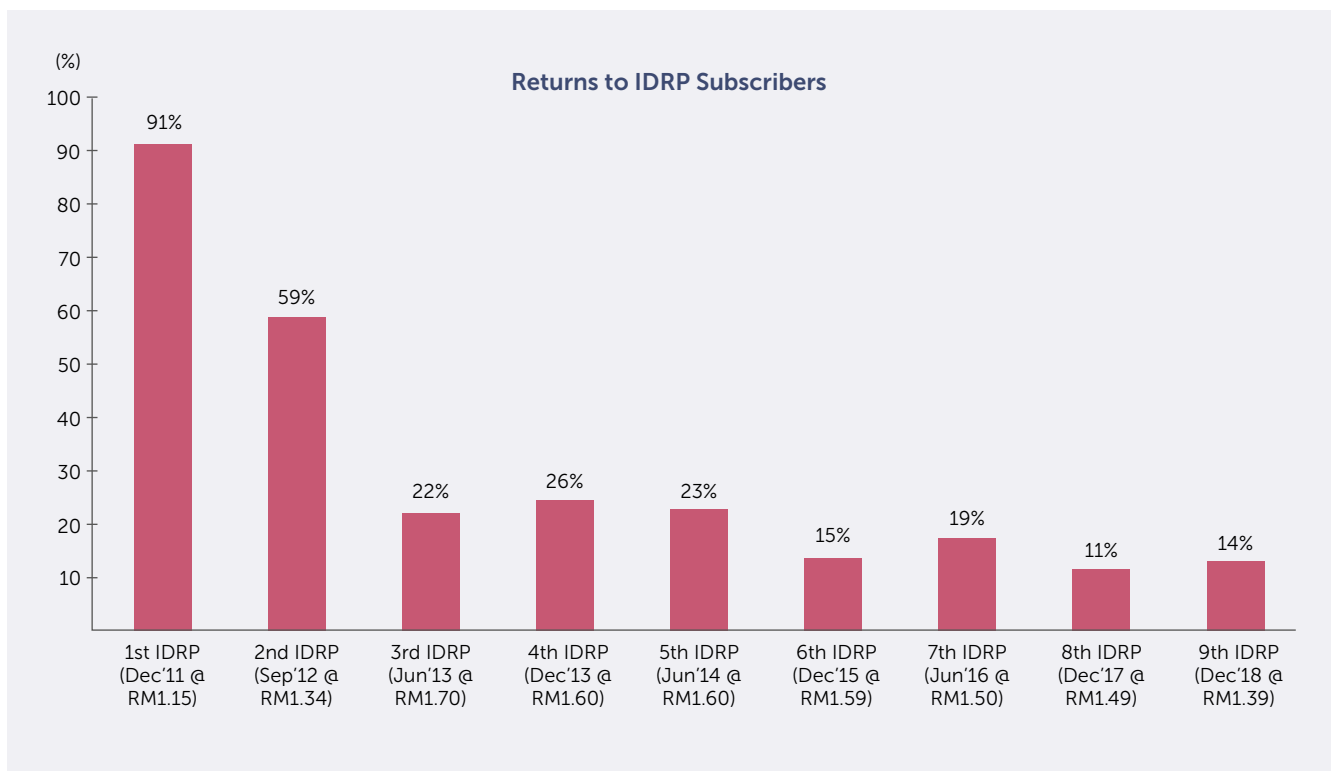
The aggregate DPU translated to a distribution yield of 5.6%, based on the Fund's closing unit price of RM1.56 as at 31 December 2018.

2018 IDRPs Successfully Implemented

The application of the IDRPs in conjunction with the payment of the Third Interim Income Distribution was successfully completed in December 2018. Pursuant to the IDRPs, a total of 4,958,485 IDRPs units were issued and listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 11 December 2018. Consequently, the total number of Axis-REIT units in issue increased from 1,232,326,803 to 1,237,285,288 as at 31 December 2018.

The IDRPs were offered to Unitholders at an attractive price of RM1.39 per unit, effectively pricing it at a 7% discount to the five-day volume weighted average market price. Unitholders who participated in the 2018 IDRPs would have realised a total return of 14% within a month of its issuance, i.e. from the IDRPs issuance date to 31 December 2018. The Fund retained RM6.8 million in capital from the IDRPs, which was deployed towards Asset Enhancement Initiatives ("AEIs") of its property portfolio.

For securities account holders with fewer than 16,000 Axis-REIT units, the exemption of the RM10 revenue stamp (setem hasil), which is payable upon the execution of each notice of election of IDRPs, remains in effect.



MANAGER'S DISCUSSION AND ANALYSIS

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Acquisition of Yield-Accretive Properties

The Fund completed five acquisitions for a total purchase consideration of RM160.1 million during FYE2018. These acquisitions were fully debt-funded utilising existing banking facilities, and immediately contributed to Axis-REIT's FYE2018 income upon their completion. Such acquisitions, which feature immediate and sustainable income streams, enhance the Fund's portfolio quality and ensure sustainable DPU growth of the Fund. The Manager continues to focus on seeking yield-accretive investment opportunities with high growth potential, to expand the scale of Axis-REIT's portfolio and to generate strong investment returns to Unitholders. During the year, the Fund also effected a RM35.0 million payment that was part of the deferred payment structure for the acquisition of Wasco Facility @ Kuantan, which had been completed in FYE2017.

The Manager also closely monitors and evaluates the Fund's portfolio to ascertain if any properties have reached the optimal stage in their life cycle and should be divested to realise their value. The proceeds from such divestments would then be redeployed and reinvested into higher-yielding properties that would provide stable income growth as well as capital appreciation in the long term.

As at 31 December 2018, the value of the portfolio increased by 12% to RM2.8 billion, from RM2.5 billion as at end-2017.

Summary of Performance

	2014	2015	2016	2017	2018
Total Asset Value (RM'000)	2,085,883	2,141,493	2,244,274	2,549,609	2,840,463
Net Asset Value (RM'000)	1,326,369	1,352,485	1,392,971	1,591,136	1,664,081
Units in Circulation ('000 units)	547,522	1,099,793*	1,105,174*	1,232,327*	1,237,285*
Net Asset Value ("NAV") per Unit (RM)					
- As at 31 December	2.42	1.22*	1.26*	1.29*	1.34*
- Lowest NAV during the year	2.22	1.22*	1.23*	1.25*	1.29*
- Highest NAV during the year	2.42	1.25*	1.26*	1.29*	1.34*
Market Value per Unit as at 31 December (RM)	3.62	1.64*	1.61*	1.50*	1.56*
Highest Closing Price for the year (RM)	3.70	1.85*	1.81*	1.72*	1.59*
Lowest Closing Price for the year (RM)	2.80	1.55*	1.50*	1.45*	1.19*

* Adjusted to reflect the effect of Unit Split

Summary of Results

	2014	2015	2016	2017	2018
Total Revenue (RM'000) #	140,049	165,675	171,340	172,715	210,588
Property Operating Expenses (RM'000)	(21,553)	(23,746)	(27,048)	(26,512)	(27,827)
Net Property Income (RM'000)	118,496	141,929	144,292	146,203	182,761
Profit Income (RM'000)	1,210	744	678	984	725
Changes in Fair Value of Investment Properties (RM'000) ##	23,546	3,193	25,206	25,441	35,607
Net Gain/(Loss) on Financial Liabilities measured at amortised cost (RM'000)###	2,744	(683)	2,446	1,163	3,687
Net Gain/(Loss) on Disposal of Investment Properties (RM'000)	1,614	-	-	(419)	-

MANAGER'S DISCUSSION AND ANALYSIS

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	2014	2015	2016	2017	2018
Fair Value Change on Derivatives (RM'000)	455	(81)	(201)	206	(306)
Net Property and Investment Income (RM'000)	148,065	145,102	172,421	173,578	222,474
Non-Property Expenses (RM'000)	(37,610)	48,465	50,129	51,018	63,026
Net Income before Taxation (RM'000)	110,455	96,637	122,292	122,560	159,448
Breakdown of Net Income after Taxation:					
- Realised Income after Taxation (RM'000)	81,286	91,537	90,186	90,796	113,442
- Unrealised Income after Taxation (RM'000)	29,169	5,027	32,106	31,764	41,537
Income Available for Distribution (RM'000)	92,720	92,154	91,122	92,668	107,995
Earnings per Unit (Realised + Unrealised) ("EPU") (sen)	23.64	8.81*	11.09*	10.97*	12.57*
Income Distribution (RM'000)	92,684	92,114	91,067	92,457	107,825
Distribution Per Unit ("DPU") (sen)	19.75	8.40*	8.25*	8.26*	8.74*
Distribution Yield (based on closing market price on 31 December) (%)	5.46	5.12	5.12	5.51	5.60
EPU Yield (based on closing market price on 31 December) (%)	6.53	5.37	6.89	7.31	8.06
Management Expense Ratio ("MER") (%)	1.29	1.36	1.25	1.31	1.30
Annual Total Return ** (%)	30.29	-4.75	3.20	-1.70	9.83
Average Total Return (3 years) (%)	18.78	8.35	9.58	-1.08	3.78

Including unbilled lease income receivable and rent free pursuant to requirements of the Malaysian Financial Reporting Standard ("MFRS") 117 to recognise income on a straight line basis.

After offsetting unbilled lease income receivable.

Unrealised gain/(loss) on discounted tenants' deposits received in compliance with the MFRS 9.

* EPU and DPU adjusted to reflect the effect of Unit Split.

** Based on movement in Unit price and DPU yield.

Increase in Gross Revenue with Recent Acquisitions

Axis-REIT successfully completed five acquisitions in FYE2018, raising the number of properties in its portfolio from 40 to 45 as at 31 December 2018.

During FYE2018, the Fund's revenue rose 22% year-on-year to RM210.6 million. The strong growth was attributable to additional income from the Fund's two property development projects, i.e. Axis Mega Distribution Centre and Axis Aerotech Centre @ Subang, which accounted for one-third of this increase, along with healthy rental reversions from new and renewed leases during the year, and additional income contributions from the new properties acquired during FYE2018.

From FYE2019 onwards, the Fund will benefit from full-year income contributions from property acquisitions that were completed in FYE2018.

MANAGER'S DISCUSSION AND ANALYSIS

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Total revenue included income from property rental, car park operations and other recoverable income. The Fund's revenue analysis is presented in the following table:

	2014 (RM'000)	2015 (RM'000)	2016 (RM'000)	2017 (RM'000)	2018 (RM'000)
Rental income*	130,393	156,459	161,201	159,491	199,527
Car park income	6,283	5,800	6,475	7,817	5,890
Other income	3,373	3,416	3,664	5,407	5,171
Total	140,049	165,675	171,340	172,715	210,588
No. of properties	33	34	39	40	45

* Including unbilled lease income receivable in compliance with the MFRS 117

Property Yields

Axis-REIT's property portfolio generated average gross and net yields of 9.5% and 8.2% respectively during FYE2018. The property yield by asset type is presented in the following table:

Asset type	Gross Yield (%)	Net Yield (%)
Office	10.9	8.5
Office/Industrial	9.6	7.4
Warehouse Logistics	9.6	8.7
Manufacturing Facility	8.9	8.1
Hypermarket	9.3	8.6
Average	9.5	8.2

Management of Property Operating Expenses

Total property operating expenses for FYE2018 amounted to RM27.8 million, a 5% increase over FYE2017's RM26.5 million. The increase was mainly attributed to the newly-acquired properties added to the portfolio during the year. An analysis of property operating expenses is presented in the following table:

	2014 (RM'000)	2015 (RM'000)	2016 (RM'000)	2017 (RM'000)	2018 (RM'000)
Assessment and quit rent	3,977	4,698	4,898	5,072	5,407
Property manager's fee and on-site personnel costs	5,515	6,062	6,249	5,905	6,900
Security	1,916	1,948	1,855	1,981	2,305
Takaful	995	1,348	1,544	1,168	1,521
Maintenance and others	9,150	9,690	12,502	12,386	11,694
Total	21,553	23,746	27,048	26,512	27,827

MANAGER'S DISCUSSION AND ANALYSIS**FINANCIAL REVIEW****Overall Financial Results**

Axis-REIT's financial performance reached another record high in FYE2018, with stable rental income growth across all properties, and with the inclusion of newly-acquired properties and the newly-completed built-to-lease developments, Axis Mega Distribution Centre and Axis Aerotech Centre @ Subang.

Total revenue rose 22% to RM210.6 million in FYE2018, lifted by a positive rental reversion of 5% across the portfolio, an uptick in occupancy, as well as from incremental rental income from new additions to the portfolio. These included the 10-year fixed lease with Nestlé Products Sdn Bhd at Axis Mega Distribution Centre, and the 20-year fixed lease with Upeca Aerotech Sdn Bhd at Axis Aerotech Centre @ Subang, which commenced on 1 June 2018 and 16 December 2018 respectively and contributed RM19.8 million to the Fund's FYE2018 revenue.

The higher revenue, which outpaced the increase in property operating expenses, resulted in a 25% year-on-year increase in net property income, which rose to RM182.8 million in FYE2018, compared with RM146.2 million in FYE2017.

The following table sets out revenue, property operating expenses and net property income per property for FYE2018 (including unbilled lease income receivables):

Properties	Revenue (RM'000)	Property Operating Expenses (RM'000)	Net Property Income (RM'000)
1 Axis Business Park	7,889	2,180	5,709
2 Crystal Plaza	10,577	1,714	8,863
3 Menara Axis	9,700	2,183	7,517
4 Infinite Centre	3,790	1,016	2,774
5 Wisma Kemajuan	5,507	1,705	3,802
6 Axis Business Campus	2,974	1,163	1,811
7 Axis Shah Alam Distribution Centre 1	2,501	185	2,316
8 Giant Hypermarket	3,822	302	3,520
9 FCI Senai	1,885	166	1,719
10 Fonterra HQ	1,318	182	1,136
11 Quattro West	3,140	1,134	2,006
12 Strateq Data Centre	5,203	308	4,895
13 Niro Warehouse	1,773	176	1,597
14 D21 Logistics Warehouse	4,327	763	3,564
15 Pasir Gudang Logistics Warehouse 1	1,586	302	1,284
16 Axis Vista	3,328	473	2,855
17 Axis Steel Centre	5,275	674	4,601
18 Bukit Raja Distribution Centre	6,860	334	6,526
19 Seberang Prai Logistics Warehouse 1	1,771	94	1,677
20 Seberang Prai Logistics Warehouse 2	699	67	632
21 Tesco Bukit Indah	7,791	457	7,334
22 Axis Mega Distribution Centre	19,509	1,377	18,132

MANAGER'S DISCUSSION AND ANALYSIS

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Properties	Revenue (RM'000)	Property Operating Expenses (RM'000)	Net Property Income (RM'000)
23 Axis Technology Centre	3,543	1,027	2,516
24 D8 Logistics Warehouse	3,684	291	3,393
25 Bayan Lepas Distribution Centre	4,975	600	4,375
26 Seberang Prai Logistics Warehouse 3	6,687	599	6,088
27 Emerson Industrial Facility Nilai	2,908	237	2,671
28 Wisma Academy Parcel	7,564	2,169	5,395
29 The Annex	692	238	454
30 Axis MRO Hub	4,164	461	3,703
31 Axis Shah Alam Distribution Centre 3	15,418	1,907	13,511
32 Axis Steel Centre @ SiLC	14,265	547	13,718
33 Axis Shah Alam Distribution Centre 2	3,559	368	3,191
34 Beyonics i-Park Campus Block A	1,346	147	1,199
35 Beyonics i-Park Campus Block B	1,220	133	1,087
36 Beyonics i-Park Campus Block C	1,114	126	988
37 Beyonics i-Park Campus Block D	2,094	219	1,875
38 Scomi Facility @ Rawang	4,290	195	4,095
39 Kerry Warehouse	2,740	281	2,459
40 Wasco Facility @ Kuantan	13,709	1,037	12,672
41 Axis Aerotech Centre @ Subang *	298	11	287
42 Axis Shah Alam Distribution Centre 4 **	3,633	184	3,449
43 Indahpura Facility 1***	213	23	190
44 Beyonics i-Park Campus Block E ***	1,060	68	992
45 Senawang Industrial Facility ^	187	4	183
Total	210,588	27,827	182,761

* Land lease completed on 7 February 2018

** Acquisition completed on 4 June 2018

*** Acquisition completed on 9 August 2018

^ Acquisition completed on 5 December 2018

Unbilled Lease Income Receivables

The recognition of rental income on unbilled lease income receivables is pursuant to the requirements of the MFRS 117, which requires the Fund to recognise income from operating leases on a straight-line basis, including contractual increases in rental rates and rent free period over the fixed tenure of the agreements.

Profit Income

In FYE2018, the Fund recorded a profit income of RM725,000 from the placement of funds under Islamic REPO and Islamic fixed deposits.

MANAGER'S DISCUSSION AND ANALYSIS**FINANCIAL REVIEW****Portfolio Valuation**

As at 31 December 2018, the Fund's portfolio of properties comprised 45 properties with a total net lettable area ("NLA") of 9.3 million sq. ft.. A revaluation of the Fund's properties, carried out by independent registered valuers, valued the portfolio at RM2,798,500,000 as at 31 December 2018 – an increase of 13% from the independent valuation of RM2,482,200,000 as at 31 December 2017.

Total Investment Properties of RM2,798,500,000 also includes capital expenditure amounting to RM74,955,000 (including development costs for Axis Mega Distribution Centre and Axis Aerotech Centre @ Subang) which had been capitalised during FYE2018.

The carrying value of Axis-REIT's portfolio as at 31 December 2018 included investment property revaluation gains of RM42,558,000, based on the professional valuation performed by the independent registered valuers.

A summary of unrealised gains/(losses) of each investment property during FYE2018 is as follows:

Properties	Carrying Value before Revaluation (RM'000)	Carrying Value after Revaluation* (RM'000)	Unrealised gain/(loss) (RM'000)
1 Axis Business Park	120,568	120,600	32
2 Crystal Plaza	113,298	113,500	202
3 Menara Axis	124,630	110,000	(14,630)
4 Infinite Centre	42,232	42,500	268
5 Wisma Kemajuan	64,322	65,400	1,078
6 Axis Business Campus	74,537	80,000	5,463
7 Axis Shah Alam Distribution Centre 1	31,535	32,700	1,165
8 Giant Hypermarket	46,000	49,000	3,000
9 FCI Senai	20,000	22,000	2,000
10 Fonterra HQ	16,827	19,000	2,173
11 Quattro West	55,800	56,000	200
12 Strateq Data Centre	57,000	57,000	-
13 Niro Warehouse	19,000	20,000	1,000
14 D21 Logistics Warehouse	29,000	29,000	-
15 Pasir Gudang Logistics Warehouse 1	16,000	17,000	1,000
16 Axis Vista	56,446	57,300	854
17 Axis Steel Centre	70,691	78,000	7,309
18 Bukit Raja Distribution Centre	104,878	105,000	122
19 Seberang Prai Logistics Warehouse 1	20,500	20,500	-
20 Seberang Prai Logistics Warehouse 2	8,200	8,200	-
21 Tesco Bukit Indah	97,000	97,000	-
22 Axis Mega Distribution Centre	285,629	300,000	14,371
23 Axis Technology Centre	54,984	55,000	16

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Properties	Carrying Value before Revaluation (RM'000)	Carrying Value after Revaluation* (RM'000)	Unrealised gain/(loss) (RM'000)
24 D8 Logistics Warehouse	33,000	33,000	-
25 Bayan Lepas Distribution Centre	60,060	60,000	(60)
26 Seberang Prai Logistics Warehouse 3	66,433	67,000	567
27 Emerson Industrial Facility Nilai	30,626	32,800	2,174
28 Wisma Academy Parcel	72,600	73,000	400
29 The Annex	19,686	20,000	314
30 Axis MRO Hub	53,164	53,300	136
31 Axis Shah Alam Distribution Centre 3	185,003	185,500	497
32 Axis Steel Centre @ SiLC	157,000	163,000	6,000
33 Axis Shah Alam Distribution Centre 2	46,600	47,200	600
34 Beyonics i-Park Campus Block A	14,700	16,000	1,300
35 Beyonics i-Park Campus Block B	13,400	14,500	1,100
36 Beyonics i-Park Campus Block C	12,200	13,000	800
37 Beyonics i-Park Campus Block D	22,800	23,800	1,000
38 Scomi Facility @ Rawang	44,000	44,000	-
39 Kerry Warehouse	34,000	34,000	-
40 Wasco Facility @ Kuantan	155,591	155,000	(591)
41 Axis Aerotech Centre @ Subang	63,357	64,700	1,343
42 Axis Shah Alam Distribution Centre 4	84,270	83,000	(1,270)
43 Indahpura Facility 1	7,343	8,000	657
44 Beyonics i-Park Campus Block E	32,099	32,000	(99)
45 Senawang Industrial Facility	18,933	21,000	2,067
Total	2,755,942	2,798,500	42,558**

Note:

* Carrying value based on valuations conducted by independent registered valuers

** This revaluation gain of RM42,558,000 raised the Fund's NAV per unit by 3.4 sen to RM1.34 as at 31 December 2018

The revaluations on the above properties were conducted to comply with clause 10.02 (b)(i) of the Securities Commission Malaysia's ("SC") Guidelines on Listed REITs.

MANAGER'S DISCUSSION AND ANALYSIS**FINANCIAL REVIEW****Valuation Analysis**

The following table summarises the market value, total investment outlay and the accumulated revaluation gain on the Fund's properties.

Properties	Market Value (RM'000)	Total Investment Outlay (including enhancements) (RM'000)	Accumulated Revaluation Gain (RM'000)
1 Axis Business Park	120,600	101,692	18,908
2 Crystal Plaza	113,500	67,734	45,766
3 Menara Axis	110,000	87,898	22,102
4 Infinite Centre	42,500	35,825	6,675
5 Wisma Kemajuan	65,400	37,744	27,656
6 Axis Business Campus	80,000	62,804	17,196
7 Axis Shah Alam Distribution Centre 1	32,700	22,507	10,193
8 Giant Hypermarket	49,000	38,973	10,027
9 FCI Senai	22,000	12,693	9,307
10 Fonterra HQ	19,000	11,196	7,804
11 Quattro West	56,000	51,126	4,874
12 Strateq Data Centre	57,000	42,729	14,271
13 Niro Warehouse	20,000	15,234	4,766
14 D21 Logistics Warehouse	29,000	28,413	587
15 Pasir Gudang Logistics Warehouse 1	17,000	13,731	3,269
16 Axis Vista	57,300	34,256	23,044
17 Axis Steel Centre	78,000	66,877	11,123
18 Bukit Raja Distribution Centre	105,000	78,203	26,797
19 Seberang Prai Logistics Warehouse 1	20,500	17,821	2,679
20 Seberang Prai Logistics Warehouse 2	8,200	7,384	816
21 Tesco Bukit Indah	97,000	76,924	20,076
22 Axis Mega Distribution Centre	300,000	258,373	41,627
23 Axis Technology Centre	55,000	50,464	4,536
24 D8 Logistics Warehouse	33,000	30,689	2,311
25 Bayan Lepas Distribution Centre	60,000	50,142	9,858
26 Seberang Prai Logistics Warehouse 3	67,000	62,353	4,647
27 Emerson Industrial Facility Nilai	32,800	27,443	5,357
28 Wisma Academy Parcel	73,000	75,869	(2,869)
29 The Annex	20,000	13,439	6,561

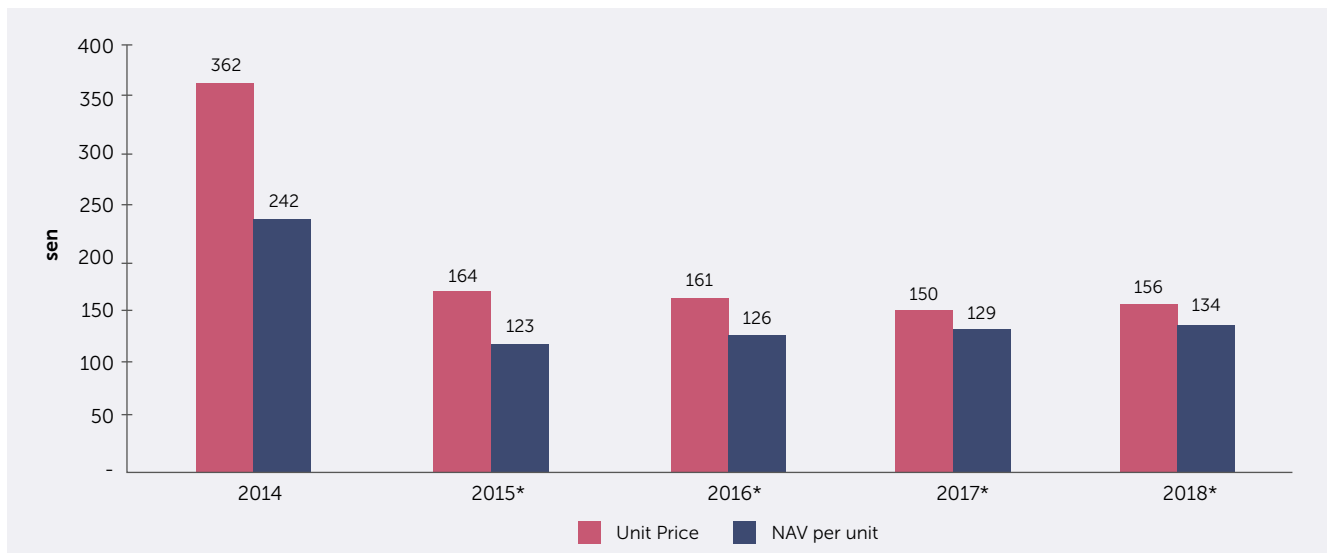
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Properties	Market Value (RM'000)	Total Investment Outlay (including enhancements) (RM'000)	Accumulated Revaluation Gain (RM'000)
30 Axis MRO Hub	53,300	53,539	(239)
31 Axis Shah Alam Distribution Centre 3	185,500	187,011	(1,511)
32 Axis Steel Centre @ SILC	163,000	155,949	7,051
33 Axis Shah Alam Distribution Centre 2	47,200	45,782	1,418
34 Beyonics i-Park Campus Block A	16,000	14,469	1,531
35 Beyonics i-Park Campus Block B	14,500	13,115	1,385
36 Beyonics i-Park Campus Block C	13,000	11,934	1,066
37 Beyonics i-Park Campus Block D	23,800	22,504	1,296
38 Scomi Facility @ Rawang	44,000	42,696	1,304
39 Kerry Warehouse	34,000	33,633	367
40 Wasco Facility @ Kuantan	155,000	157,619	(2,619)
41 Axis Aerotech Centre @ Subang	64,700	63,357	1,343
42 Axis Shah Alam Distribution Centre 4	83,000	84,270	(1,270)
43 Indahpura Facility 1	8,000	7,343	657
44 Beyonics i-Park Campus Block E	32,000	32,099	(99)
45 Senawang Industrial Facility	21,000	18,933	2,067
Total	2,798,500	2,424,789	373,711

Premium to Net Asset Value ("NAV") Recorded for 2018

Axis-REIT's unit price traded at a 16% premium to the Fund's NAV per unit as at 31 December 2018. The chart below shows the premium to NAV that the Fund has maintained over the past five years.



* unit prices adjusted to reflect the effect of Unit Split

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Non-Property Expenses

Details of the Fund's total non-property expenses are as follows:

	2014	2015	2016	2017	2018
Administrative and professional fees *	13,725	18,342	17,651	18,934	21,057
Bad debts written off	-	-	319	-	-
Impairment/(Reversal of) losses on trade receivables	37	188	155	(369)	215
Islamic financing costs	23,848	29,935	32,004	32,453	41,754
Total non-property expenses	37,610	48,465	50,129	51,018	63,026

* Professional fees include the Manager's fees, Trustee's fees, valuation fees, auditors' fees and tax agent's fees.

Administrative and Professional Fees

There was an 11% increase in the administrative and professional fees during FYE2018. This was largely due to an increase in management costs arising from the increase in the Fund's size and the apportionment adjustment on GST input tax credit (due to exempt supplies arising from the 2017 Placement and IDRPs exercises).

Islamic Financing Costs

The increase in Islamic financing costs in FYE2018 was due to additional financing facilities drawn down to fund the five acquisitions that were completed during the year. The capitalisation of financing costs for Axis Mega Distribution Centre and Axis Aerotech Centre @ Subang ceased upon completion of the project in February 2018 and mid-December 2018 respectively. Financing of these acquisitions and the property development projects resulted in the Fund's gearing rising to 37%, as at 31 December 2018.

Alignment of Interests Between the Manager and the Fund

The Manager had obtained approval from the Fund's Unitholders at the Unitholders' meeting in 2013, for the authority to allot and issue up to 2,000,000 units as payment of management fees to the Manager in lieu of cash ("Payment of Management Fee Authority"). This is part of our effort to further strengthen the alignment of interests between the Manager and the Fund.

Following the completion of Axis-REIT's Unit Split exercise and the partial implementation of the Payment of Management Fee Authority, the number of new units permitted to be issued pursuant to the Payment of Management Fee Authority currently stands at a maximum of 3,044,000 new units.

On 1 October 2015, Axis-REIT obtained approval from Bursa Securities for an extension of time to complete the Payment of Management Fee Authority, from 4 October 2015 to the time when full issuance of the 3,044,000 new units permitted to be issued pursuant to the Payment of Management Fee Authority is completed.

There was no issuance of new units pursuant to the Payment of Management Fee Authority during FYE2018.

General Mandate to Issue New Units in Axis-REIT

At the 6th Annual General Meeting ("AGM") of Axis-REIT held on 26 April 2018, the Manager obtained, among others, approval from Unitholders for the allotment and issuance of new Units in Axis-REIT of up to 20% of the issued fund size of Axis-REIT to facilitate fund raising via a placement exercise ("General Mandate"). As the placement exercise is yet to be implemented as at the date of this report, Axis-REIT will seek a renewal of the General Mandate from Unitholders at the upcoming 7th AGM, to be convened in accordance with the provisions of the Main Market Listing Requirements.

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Sukuk Programme

Axis-REIT had set up a Sukuk Programme of up to RM300 million in nominal value during FYE2012, which was undertaken by Axis REIT Sukuk Berhad, a special-purpose vehicle specifically established for the Sukuk Programme. A total of RM265 million Sukuk issuances, comprising RM110.0 million in 10-year tenure, RM70.0 million in 7-year tenure and RM85.0 million in 5-year tenure Sukuk, were issued in FYE2012 and FYE2013 under the Sukuk Programme (earlier issuances).

On 19 January 2015, the Manager obtained approval from the SC to upsize the Sukuk Programme from RM300 million to RM3 billion in nominal value, as the initial programme had been almost fully utilised. The size of the Sukuk Programme was successfully increased to RM3 billion in nominal value and the tenure of the Sukuk Programme was extended from a 15-year programme to a perpetual programme, following the execution of the relevant supplemental documents in connection to the Proposed Upsizing on 10 April 2015. The plan of extending and upsizing the Sukuk Programme for subsequent issuances is economically and administratively more efficient compared with setting up a separate programme for each issuance, provided that the terms and conditions of the future issuances remain unchanged from the earlier issuances.

On 15 August 2018, the 5-year Sukuk amounting to RM85.0 million matured, and the Fund had used its existing credit facilities to fully redeem the Sukuk. Following the redemption of the 5-year Sukuk, Axis-REIT's remaining Sukuk issuances amounted to RM180.0 million as at 31 December 2018.

On 7 January 2019, Axis-REIT concluded the issuance of RM240.0 million unrated Sukuk with a 7-year tenure ("Third Sukuk Issue"). This Issue was arranged mainly for the purpose of refinancing the Fund's existing short-term credit facilities, as part of its strategy to further strengthen the Fund's debt maturity profile. With this Third Sukuk Issue, the weighted average debt maturity of the Fund improved from 1.6 years (as at 31 December 2018) to 3 years.

The Fund will continue to closely monitor interest rate movements and issue Sukuk as part of its efforts to diversify its financing. The Sukuk Programme also provides:

- The ability to match the cashflow profile of secured properties;
- A standby funding facility during the term of the programme period;
- Lower administrative charges due to the absence of stamp duty and commitment fees;
- The ability to leverage on a wider investor base; and
- The ability to lock-in fixed financing rates on longer tenure Sukuk, i.e. beyond five years.

MANAGER'S DISCUSSION AND ANALYSIS**FINANCIAL REVIEW****Financing Profile**

	2014	2015	2016	2017	2018
Total financing (RM'000)	683,769	731,814	780,665	842,594	1,059,367
Total assets (RM'000)	2,085,883	2,141,493	2,244,274	2,549,609	2,840,463
Gearing	32.78%	34.17%	34.78%	33.05%	37.30%
Effective profit rate *	4.24%	4.28%	4.25%	4.21%	4.32%
Percentage of short term financing	61%	55%	58%	71%	77%
Percentage of medium or long term financing	39%	45%	42%	29%	23%
Total unencumbered assets	5	10	15	15	19
Percentage of unencumbered assets/total assets	21%	26%	30%	27%	28%

* For comparison purposes, the effective profit rate excludes incidental costs of financing.

The Manager continues to adopt a prudent and proactive capital management strategy to support the Fund's operational requirements. As part of this approach, the Fund had diversified its funding sources which include the Sukuk market, extending and upsizing existing Islamic revolving credit facilities and Islamic term financing facilities, as well as entering into new facilities. Both the Islamic revolving facilities and Islamic term financing facilities are offered by four big local and foreign Islamic financial institutions.

In FYE2018, the Fund had committed financing facilities of RM1.06 billion (including the incidental costs of financing) with total fixed-rate financing facilities amounting to RM330 million. The total committed financing facilities of RM1.06 billion comprised of:

- i) revolving credit facilities for an aggregate amount of RM813 million;
- ii) term financing facilities (including finance leases) for an aggregate amount of RM67 million; and
- iii) Sukuk (7-year and 10-year tenures) for an aggregate amount of RM180 million.

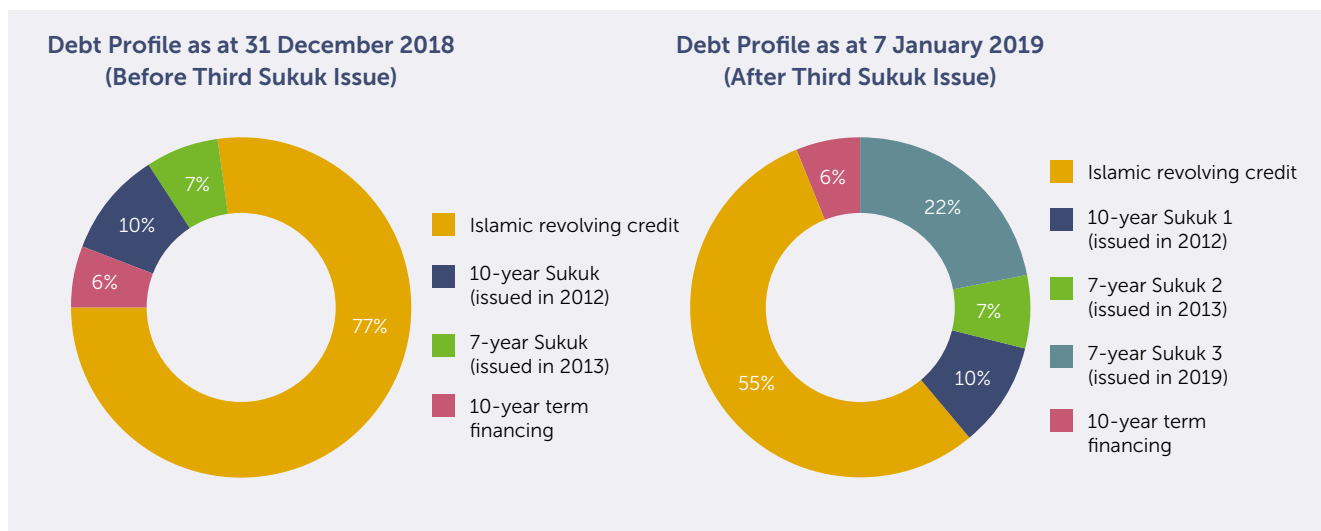
The financing cost for approximately 14% of the Fund's outstanding financing, to an aggregate amount of RM150.0 million, was hedged through Islamic Profit Rate Swaps ("IPRS").

As at 31 December 2018, the Fund's total financing increased 26% to RM1.06 billion. The increase was mainly due to an increase in bank financing, arising from property acquisitions, property enhancement projects and property development projects. The Fund's gearing remained low, at 37%, allowing comfortable debt headroom for potential acquisitions. The Fund's average all-in cost of financing (after taking into account the IPRS) stood at 4.32% per annum, and all financing facilities are secured by properties.

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Post-FYE2018, on 7 January 2019, Axis-REIT successfully completed the Third Sukuk Issue of RM240.0 million. Following this refinancing exercise, the average maturity of the Fund's financing facilities improved from 1.6 years (as at 31 December 2018) to 3 years.



Risk Management

The Manager recognises that effective risk management practices and strong internal controls are critical components of the Fund's business. Therefore, the Manager constantly reviews the risks faced by the Fund and proactively carries out initiatives to mitigate these risks. The Manager maintains a sound system of risk management and internal controls to safeguard Unitholders' interests and the Fund's assets. This ensures that there are no adverse disruptions to the Fund's income distribution, and mitigates any potential loss that may negatively impact Unitholders.

Liquidity Risk

The Manager adopts a prudent capital management strategy that aims to provide financial stability and flexibility by mitigating exposure to interest rate risk and diversifying sources of funding.

The Manager has diversified Axis-REIT's financing with four major Islamic banks and by tapping the Sukuk market. With this diversification, the Fund has achieved a lower concentration of risk among each lending bank, with each bank having adequate collateral for the financing they provide. Axis-REIT had started to tap into the Sukuk market since FYE2012 for long-term fixed rate financing, and subsequently upsized its Sukuk Programme to RM3 billion.

As at 31 December 2018, Axis-REIT's gearing ratio stood at 37%, being the Fund's aggregated gross outstanding financing of RM1.06 billion (comprising RM880 million in bank financing and RM180 million in Sukuk issuances), compared to its total assets of RM2.84 billion. The gearing ratio is below the maximum 50% permitted by the SC's Listed REIT Guidelines.

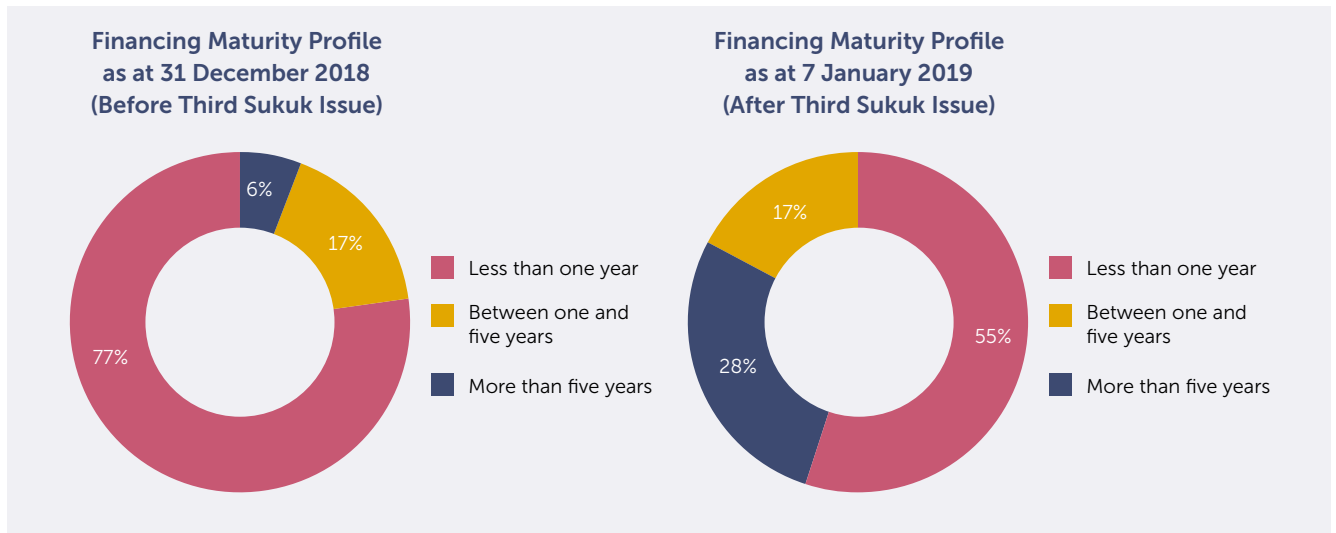
The Fund had a total of RM18 million in cash balances and short-term Islamic deposits, as well as committed but undrawn revolving credit facilities of RM113 million as at 31 December 2018.

Axis-REIT has sufficient financial resources and revolving credit facilities and receives timely payments of rental income to satisfy its financial commitments as well as working capital requirements on an on-going basis.

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The Manager regularly assesses and forecasts the Fund's expense requirements and potential funding needs, and continues to ensure that it has ample available liquidity for both risk management and potential growth.

The chart below summarises the maturity profile of the Fund's financing facilities as at 31 December 2018 and 7 January 2019 (after the completion of the Third Sukuk Issue), based on contractual repayment obligations. The Fund successfully reduced its exposure to short-term financing, having lowered the proportion of financing facilities due within one year from 77% to 55% following the completion of the Third Sukuk Issue on 7 January 2019.

**Interest Rate Risk**

Interest rate risk is managed by the Manager on an on-going basis with the primary objective of limiting the extent to which the Fund's profit income and financing cost might be affected by adverse movements in interest rates.

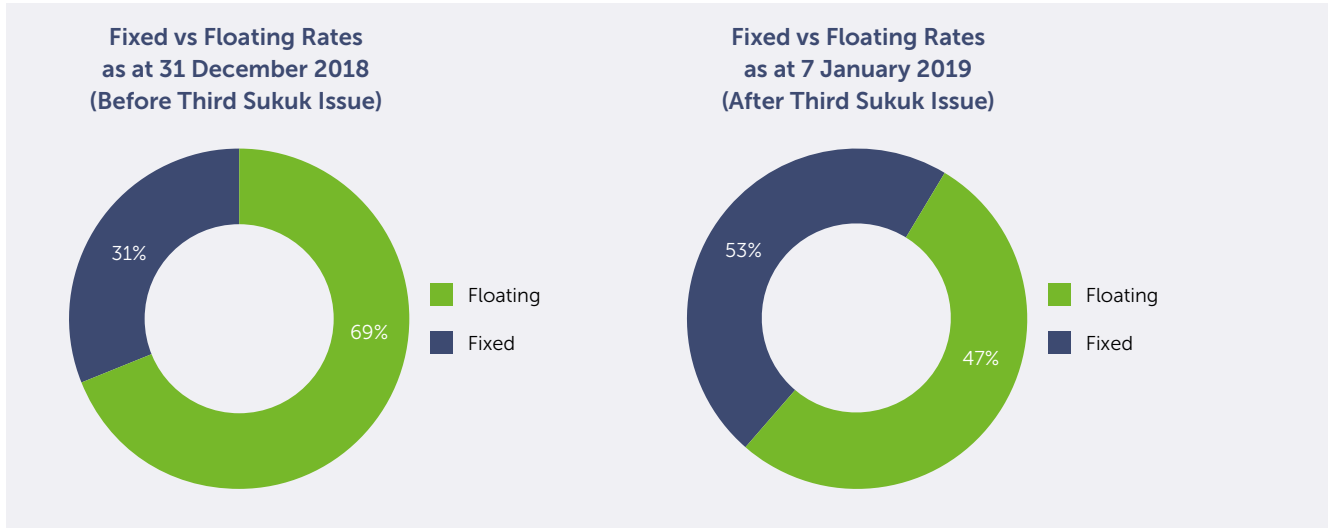
The Fund's gearing ratio was 37% as at 31 December 2018. Of its total financing facilities, RM180 million are in Sukuk with fixed rates. Some financing facilities carry floating rates and are subject to fluctuations in profit rates.

As part of its capital management strategy, Axis-REIT adopted appropriate hedging strategies to manage its profit rate to ensure stability of distributions to Unitholders. During the financial year, Axis-REIT had further entered into another IPRS with the notional contract amount of RM100 million to achieve an optimal mix of fixed and floating rate exposure. As at 31 December 2018, approximately 14% of Axis-REIT's total financing was hedged through the use of IPRS.

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Subsequent to the year under review, Axis-REIT significantly mitigated its exposure to potential profit rate risks by increasing the proportion of its fixed rate debt to 53% (31% as at 31 December 2018) following the completion of the RM240 million Sukuk Issuance on 7 January 2019.

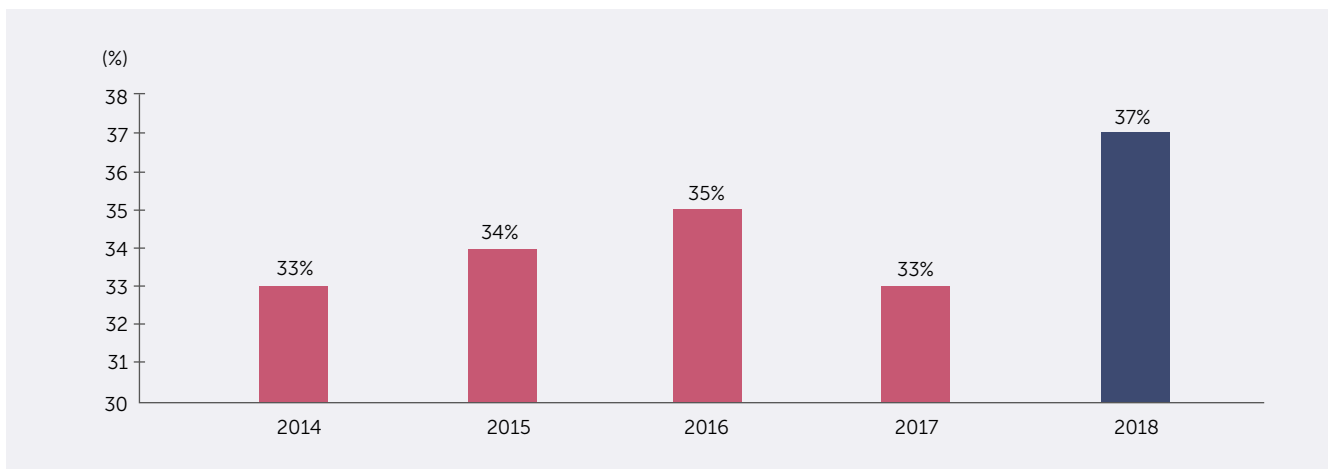


The Fund will continue to monitor the market, watching closely for opportunities to further increase the fixed rate portion of its outstanding financing.

Gearing Risk

As at 31 December 2018, Axis-REIT's gearing stood at 37% - below the 50% limit permitted by the SC's Guidelines on Listed REITs. The Manager continuously monitors the gearing level of the Fund, and will undertake a new placement exercise to raise capital as and when it anticipates the need for funding for new acquisitions, taking into consideration the timing and investor appetite in the capital market for such exercises.

The following chart shows the historical gearing levels of Axis-REIT over the past five years.



MANAGER'S DISCUSSION AND ANALYSIS**FINANCIAL REVIEW****Valuation**

The Manager recognises the importance of fair valuation of all its investment properties. The entire portfolio is revalued annually to ensure that the property values incorporated in the Fund's financial statements reflect current market values, and are in compliance with MFRS140.

Revaluation gains/losses are unrealised, and do not have an impact on income available for distribution to Unitholders. All valuations are conducted by independent registered valuers.

In 2018, Axis-REIT had 11 registered valuers on its panel. The Manager is looking to expand this panel further to provide the Fund with a transparent valuation model for the benefit of Unitholders. It is the Fund's policy to ensure that no valuer conducts more than two consecutive full comprehensive valuations on any particular property, and this policy is consistent with the SC's Guidelines on Listed REITs.

Tenant and Credit Risk

Credit risk pertains to potential financial losses resulting from the failure of a tenant to settle its financial and contractual obligations to the Fund as and when they fall due. The Manager continuously monitors tenants' payments closely as this is key to the management of the Fund's credit risk.

We have in place strict procedures to evaluate credit-worthiness of prospective tenants. For new leases, a credit evaluation is performed, and on an ongoing basis, tenant credit and arrears are closely monitored by the Manager. Credit risks are further mitigated through the collection of security deposits. The security deposits are collected from tenants, and the composition of tenants by trade sector is actively managed to avoid excessive exposure to any one trade sector.

As at 31 December 2018, Axis-REIT had 45 properties and 152 tenants, many of whom are multinationals and local public-listed companies with strong financial credentials.

	2014	2015	2016	2017	2018
Top 10 tenants' contribution to total revenue	46%	53%	52%	52%	34%

Doubtful Debt Provision and Impairment Losses on Trade Receivables

The Manager actively monitors the credit risk profile of its tenants with the aim of minimising potential credit risk. Regular tenant visits, along with close monitoring of tenants' activities, facilitate early identification of problems. The Manager also monitors the amount owing by its tenants on an ongoing basis.

For single-tenanted buildings, which are typically the result of sale and leaseback transactions or built-to-suit arrangements, a larger security deposit may be obtained, depending on the credit standing of the tenant and commercial negotiations.

As a result of the rigorous management of account receivables, the Manager has attained a low impairment loss on trade receivables as a percentage of total gross income. As at 31 December 2018, the trade receivables of the Fund stood at RM4.6 million and the impairment loss on trade receivables amounted to RM215,000, which represents just 0.1% of the total annual gross revenue of the Fund. The keen focus on receivables and a well-established internal credit control process has led to this excellent result.

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Impairment Losses on Trade Receivables	2014 (RM'000)	2015 (RM'000)	2016 (RM'000)	2017 (RM'000)	2018 (RM'000)
Impairment losses on trade receivables/bad debts written off /(written back)	37	188	474	(369)	215
Trade receivables	574	4,016	1,469	2,628	4,630
Total revenue*	140,049	165,675	171,340	172,715	210,588
Impairment losses on trade receivables/bad debts written off /(written back) as a % of gross revenue	0.03	0.12	0.28	-	0.10

* Including unbilled lease income receivable

The Fund's average collection period improved from 6 days to 4 days, as at FYE2018.

Period	Average Collection Period (in days)
FYE2016	3
FYE2017	6
FYE2018	4

Risk Management Framework

The Manager had, in 2009, put in place a risk management framework to address all potential risks faced by the Manager in operating the Fund i.e. the Risk Register.

During the year, the Risk Register was monitored and updated by Management and in each quarter, the Risk Management Report comprising the Executive Summary on actions carried out by Management in addressing risks and the detailed Risk Register, was prepared for reporting to the Audit Committee and the Board. Further details on risk management are contained in the Statement on Risk Management and Internal Control of this Annual Report.

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As part of the initiatives to further enhance the Fund's reporting, the Manager has presented some of Axis-REIT's financial highlights in US Dollars ("USD"), and also adopted the use of the direct method statement of cash flows.

A Snapshot in USD

The presentation of financial highlights in USD allows for comparison against other foreign REITs and companies. The following is an extract of Axis-REIT's financial highlights for the financial year ended 31 December 2018, presented in USD.

Key Items from the Statement of Financial Position/Unitholders' Funds – in USD

Assets Under Management (USD'000)	684,284
Total Net Asset Value (USD'000)	400,887
Number of Investment Properties	45
Units in Circulation	1,237,285,288
Total Financing (USD'000)	255,208
Total Financing to Total Assets	37%
Market Capitalisation (USD'000)	464,988
Net Asset Value per Unit (USD)	0.32
Unit Price as at 31 December 2018 (USD)	0.38

Notes: Translated to USD equivalent based on the closing USD/MYR rate of 4.151 (Source: www.oanda.com).

Translations are done purely for comparison purposes, and are not required in accordance to the provisions of the Malaysian Financial Reporting Standards.

Summary of Results – in USD

Revenue (USD'000)	52,216
Property Operating Expenses (USD'000)	(6,900)
Net Property Income (USD'000)	45,316
Profit Income (USD'000)	180
Changes in Fair Value of Investment Properties (USD'000)	8,829
Net gain on Financial Liabilities Measured at Amortised Cost* (USD'000)	914
Fair Value Change on Derivatives (USD'000)	(76)
Net Property and Investment Income (USD'000)	55,163
Non-Property Expenses (USD'000)	(15,627)
Net Income before Tax Expense (USD'000)	39,536
Tax Expense (USD'000)	(1,108)
Net Income after Tax Expense (USD'000)	38,428
Breakdown of Net Income after Tax Expense:	
- Realised Income (USD'000)	28,128
- Unrealised Income (USD'000)	10,300
Earnings per Unit (Realised + Unrealised) (USD cents)	3.12
Distribution per Unit (DPU) (USD cents)	2.17

* Unrealised gain on discounted tenants' deposit received in compliance with MFRS 9.

Notes: Translated to USD equivalent based on the average rate USD/MYR of 4.033 (Source: www.oanda.com). Translations are done purely for comparison purposes and are not required in accordance to the provisions of the MFRS.

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Direct Method Statement of Cash Flows

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

Statement of Cash Flows (Direct Method) for the financial year ended 31 December 2018

	RM'000	RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Gross Revenue Received	212,557	
Tenant Deposits Received	10,227	
Operating Expenses Paid	(58,524)	
Tax Paid	(67)	
Net cash from operating activities		164,193
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of equipment	(1,016)	-
Profit Income Received	725	
Enhancement of Investment Properties	(74,955)	
Acquisition of Investment Properties	(198,787)	
Pledged Deposits	3,437	
Net cash used in investing activities		(270,596)
CASH FLOW FROM FINANCING ACTIVITIES		
Islamic Financing Costs Paid	(41,526)	
Net Proceeds from Financing	301,851	
Redemption of Islamic Medium Term Notes ("Sukuk")	(85,000)	
Repayment of Finance Lease Liabilities	(306)	
Income Distribution Paid to Unitholders	(88,850)	
Proceeds from Issue of Units	6,892	
Issuing Expenses	(76)	
Net cash from financing activities		92,985
Net Decrease in cash and cash Equivalents		(13,418)
Cash and cash equivalents at 1 January		23,037
Cash and cash equivalents at 31 December		9,619

MANAGER'S DISCUSSION AND ANALYSIS

REPORT ON SHARIAH COMPLIANCE



On 11 December 2008, Axis-REIT became the first Malaysian REIT to be reclassified as an Islamic REIT. Since its successful reclassification, Axis-REIT has seen strong participation by investors who are seeking Shariah-compliant investment avenues from both the institutional and retail sectors.

IBFIM, which is a Registered Eligible Shariah Adviser with the Securities Commission Malaysia ("SC"), is the appointed Shariah Adviser of the Fund.

IBFIM's services include:

- 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 annual report on Axis-REIT's ability to remain as an Islamic REIT in accordance with the provisions prescribed by the SC's Guidelines on Listed Real Estate Investment Trusts;

- Consulting with the SAC in the event of any ambiguity or uncertainty as to an investment, instrument, system, procedure and/or process; and
- Assisting and attending to any ad-hoc meeting called by the Manager, the SC and/or any other relevant authorities.

Nazmi Ashraf, who is the designated person responsible for the Shariah matters of Axis-REIT, is currently a Shariah Consultant at IBFIM which he joined since January 2015. He graduated from Muktah University of Jordan, with a Bachelor's Degree in Islamic Jurisprudence (Majoring in Fiqh and Usul al-Fiqh) (Hons). After completing his degree, he pursued his studies in Master of Arts in Islamic Finance at Markfield Institute of Higher Education, United Kingdom and Master in Islamic Finance Practice (MIFP) at INCEIF. Currently, he is responsible for providing Shariah input on the advisory, consultancy and research functions with regard to Islamic banking, takaful, Islamic capital market and Islamic unit trust funds, including but not limited to conducting surveillance on non-financial institution activities. He is experienced in conversion of conventional product to Islamic as well as audit and review for several financial institutions.

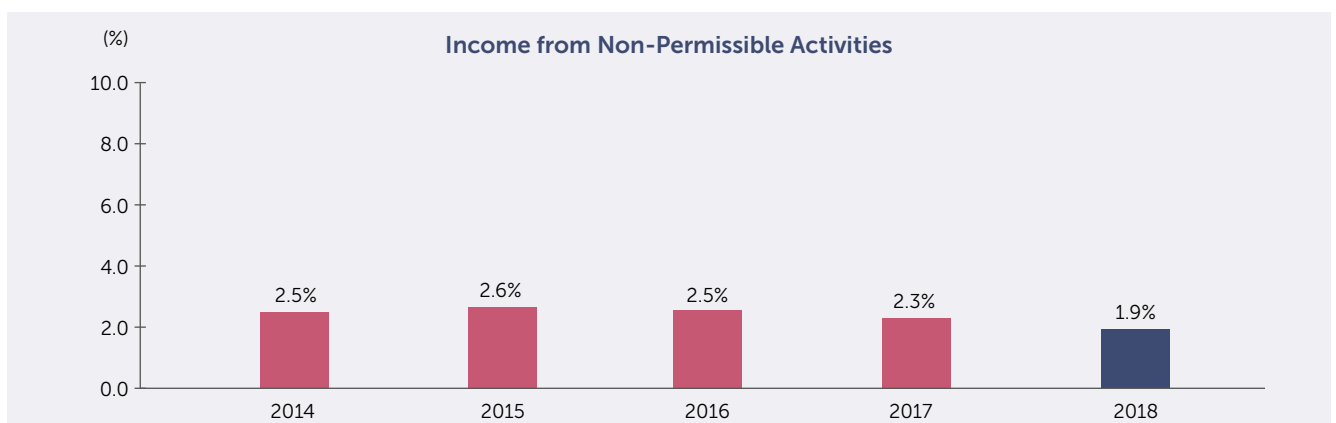
The Manager is pleased to report that:

- Under the guidance of IBFIM, the level of income from non-permissible activities of Axis-REIT has been reduced to 1.9% in the FYE2018; and
- The Islamic fund management business of Axis-REIT in respect of the financial year under review has been carried out in accordance with Shariah principles.

Based on confirmation obtained from the Shariah Adviser:

- IBFIM does not have any conflict of interest with Axis-REIT; and
- IBFIM has not been convicted of any offence within the past 5 years and does not have any public sanction or penalty imposed by the relevant regulatory bodies during FYE2018.

The diagram below shows the level of income from non-permissible activities for the past 5 years:



MANAGER'S DISCUSSION AND ANALYSIS

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 operated and managed **AXIS-REIT** in compliance with Shariah and in accordance with applicable guidelines pertaining to Shariah matters, and principles, concepts and rulings endorsed by the Shariah Advisory Council of the Securities Commission ("SACSC") for the financial year ended 31 December 2018 ("FYE2018").

In addition, we wish to notify that, in respect of FYE2018:

1. The investment portfolios of **AXIS-REIT** do not include non-real estate assets;
2. The percentage ratio of Shariah non-compliant rental is 1.9%, which is less than the tolerable benchmark of 20% threshold of Shariah non-compliant rental; and
3. There was no acquisition of property that is Shariah non-compliant.

For and on behalf of the Shariah Adviser

IBFIM

NAZMI ASHRAF BIN MOHD NAZIM

Consultant (Shariah)/Designated Person Responsible for Shariah Advisory

Kuala Lumpur

Date: 14 February 2019

ANIS

**MANAGER'S
DISCUSSION
AND ANALYSIS**

REAL ESTATE REPORT

WISMA ACADEMY



During 2018, Axis-REIT's portfolio occupancy rate reached 94%, up from 91% last year. The Real Estate Team successfully achieved a 74% tenant retention rate and also successfully secured tenancies for 1,612,009 sq. ft. of space.

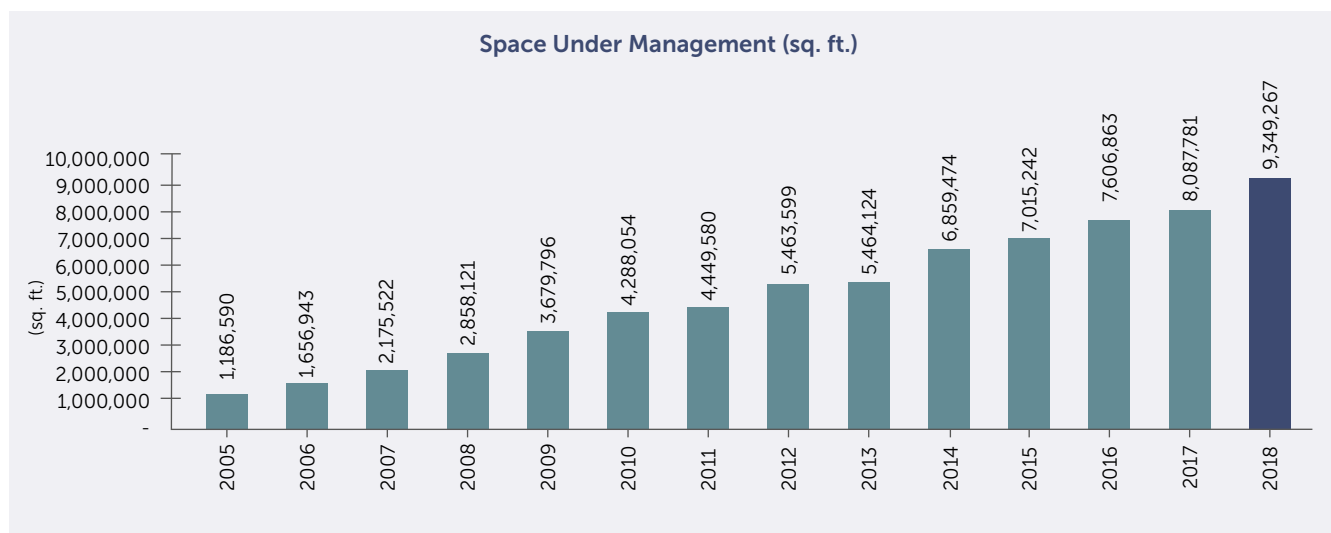
JACKIE LAW
Head of Real Estate

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

PORTFOLIO OVERVIEW

Portfolio Size	:	45 properties
Total Space Under Management	:	9,349,267 sq. ft.
Number of Tenants	:	152
Occupancy	:	94%
Total Revenue	:	RM210,588,000
Net Property Income	:	RM182,761,000



During 2018, space under management in Axis-REIT's portfolio grew 16% to reach 9,349,267 sq. ft. as at 31 December 2018. The growth stemmed from the recognition of space at the Fund's two development projects, i.e. the Nestlé Distribution Centre at Axis Mega Distribution Centre and Axis Aerotech Centre @ Subang, as well as from the acquisitions that were completed during the year.

The Manager continues to actively manage Axis-REIT's properties, positioning the portfolio to capitalise on long-term growth opportunities. The Real Estate Team leverages on industry insights and tenant partnerships to build and develop a portfolio of desirable and highly-lettable properties that meets the needs of tenants, while concurrently fulfilling the Fund's aim of maximising returns to Unitholders.

The Real Estate Team works proactively in securing new tenancies to fill up vacant spaces in the portfolio by collaborating with real estate agents to bring in prospective tenants, and by engaging existing tenants to manage their space expansion and relocation within the Fund's portfolio.

We are pleased to report that these efforts generated positive operating metrics for the Fund during FYE2018, namely:

- **Positive Revenue Contribution from Newly-Added Space**

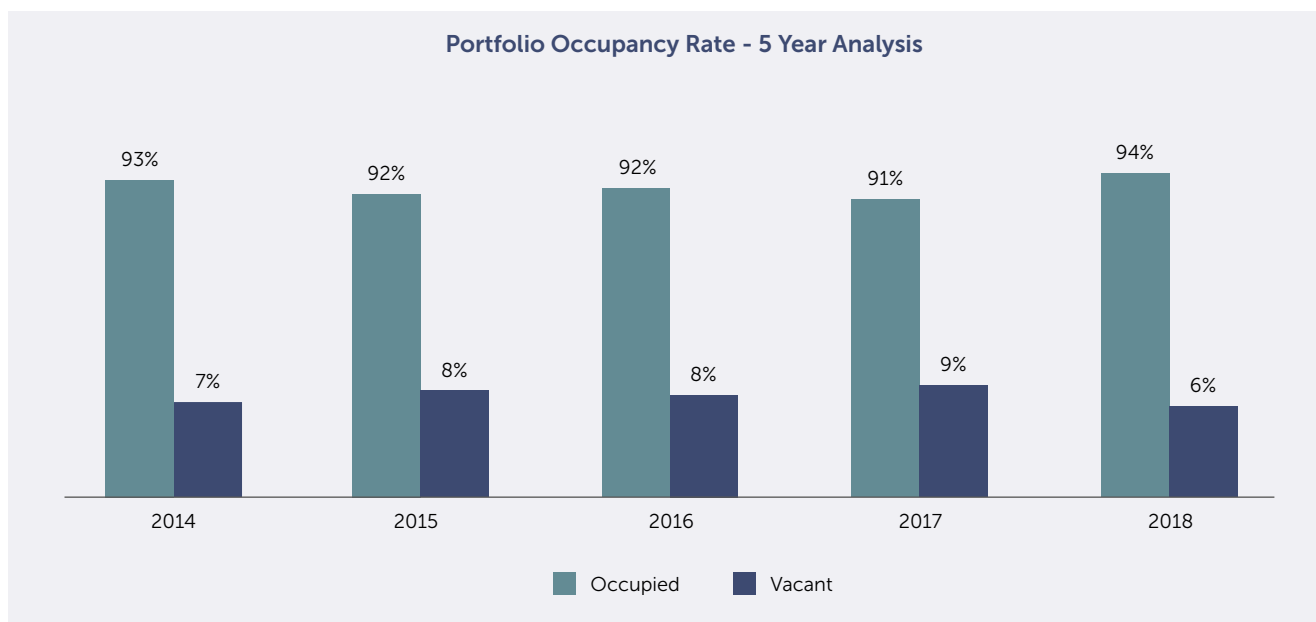
The 1,262,377 sq. ft. of space that was added to the portfolio in 2018 generated an additional RM2.9 million in monthly rental revenue for the Fund. The positive earnings contribution was achievable as Axis-REIT's asset acquisitions and built-to-lease developments typically come with 100% occupancy rates and long-term leases that have pre-negotiated rental step-ups.

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

- #### Improved Portfolio Occupancy

The occupancy rate of Axis-REIT's property portfolio improved to 94% as at 31 December 2018, following the success of the Real Estate Team's efforts in securing tenancies for 1,612,009 sq. ft. of space during 2018. These tenancies comprised new tenancies, as well as tenancy renewals, where the team successfully achieved a 74% tenant retention rate in 2018.



- #### Positive Rental Reversion and Improvement in WALE

The portfolio recorded an average positive rental reversion of 5% for 2018, largely from tenancy renewals and pre-negotiated rental step-ups. The portfolio Weighted Average Lease Expiry ("WALE") remained stable, details of which are presented in the Risks section of this report.

Looking ahead, the Manager will continue to adopt appropriate marketing and leasing strategies in 2019 to further improve the Fund's operating metrics and deliver sustainable returns to Unitholders.

RISK MANAGEMENT

As one of the largest business and industrial space REITs in the country, Axis-REIT is exposed to factors that impact Malaysia's manufacturing and supply chain logistics sectors, as well as the vagaries of the real estate market as a property owner. Managing these risks are part and parcel of the Manager's responsibilities in its pursuit of the Fund's goals. At the property level, the Manager looks at the following risks that affect the Fund's performance, and takes steps to mitigate them:

- #### Tenant Credit Worthiness

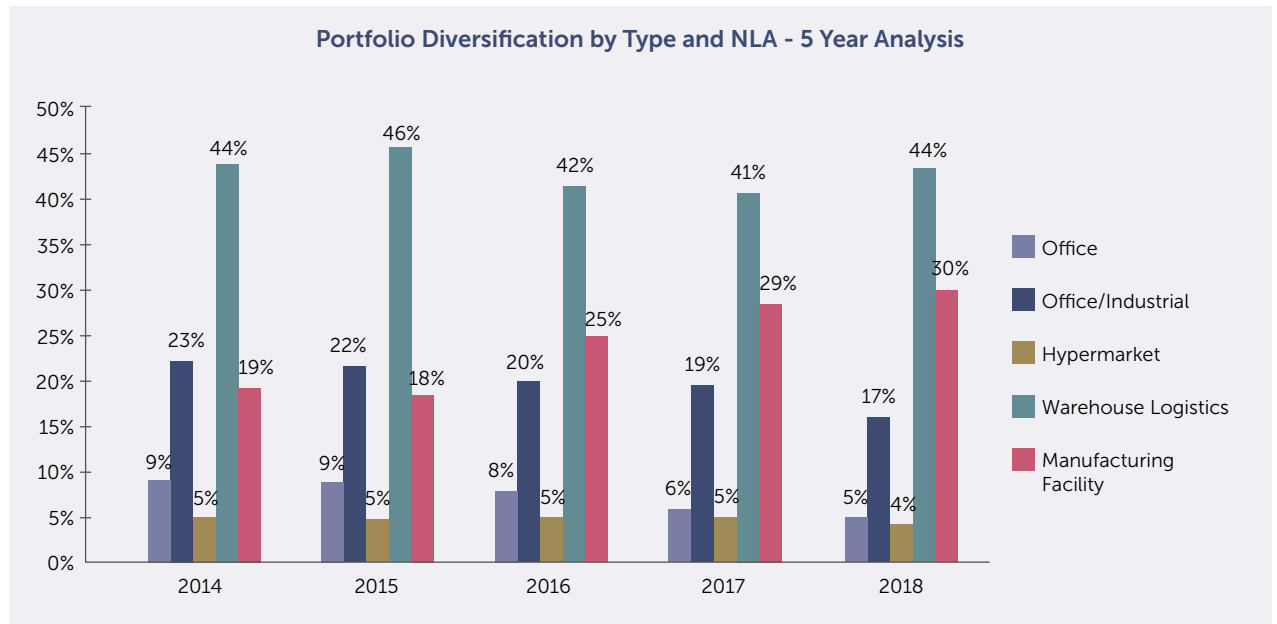
To minimise tenant credit risk, a stringent credit evaluation process is conducted before a prospective tenant is offered tenancy within the Fund's portfolio. The evaluation process is repeated annually to monitor each tenant's credit worthiness. The Finance Team also vigilantly tracks rental collections to ensure that all collections are concluded within the prescribed time period.

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

- **Maintaining a Diverse Tenant Base**

As at 31 December 2018, Axis-REIT's tenant base comprised 152 local and international companies from a diverse range of industries and geographical locations, thereby minimising industry concentration risk.



As an industrial space provider, the Fund's portfolio is dominated by office/industrial buildings, warehouse logistics properties and manufacturing facilities. The proportions of these three types of properties in Axis-REIT's portfolio has increased over the past eight years. Tenants of these properties are mainly local and multinational companies, as well as government-linked companies ("GLCs") who have been loyal, long-term tenants of the Fund, providing a stable income stream and minimal risk of default. In terms of rental income, the largest contributors are from the logistics and manufacturing industries. The portfolio's ten biggest tenants (by revenue contribution) are involved in third-party logistics services, manufacturing electrical and electronic products, and providing multi-disciplinary engineering and construction services. These top ten tenants contributed 34% to the Fund's total revenue in FYE2018.

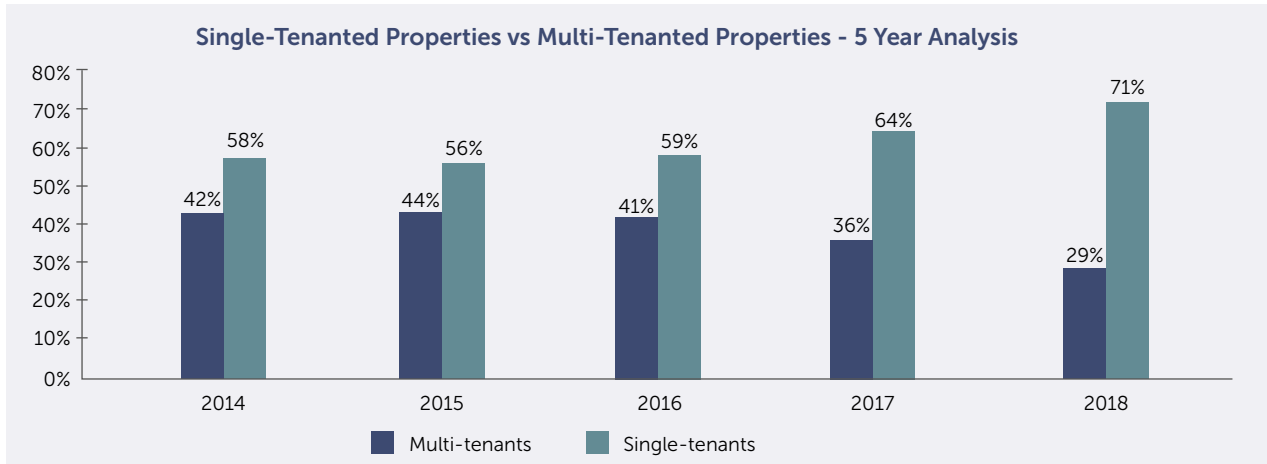
Nine of the Fund's top 10 tenants occupy single-tenanted properties. All single-tenanted properties feature high-quality tenants that have signed long-term lease agreements. These properties also generally have much lower maintenance costs as a proportion of income. Two of the tenants in this group, namely Nestlé Products Sdn Bhd and Upeca Aerotech Sdn Bhd, are occupying facilities that were purpose-built by Axis-REIT according to the tenants' specifications.

Axis-REIT's top ten tenants (by revenue contribution) are:

1. Nestlé Products Sdn Bhd
2. LF Logistics Services (M) Sdn Bhd
3. Yongnam Engineering Sdn Bhd
4. Wasco Coatings Malaysia Sdn Bhd
5. Upeca Aerotech Sdn Bhd
6. Tesco Stores (Malaysia) Sdn. Bhd
7. POS Logistics Berhad
8. Schenker Logistics (Malaysia) Sdn Bhd
9. Teraju Sinar Sdn Bhd
10. Tenaga Nasional Berhad

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT



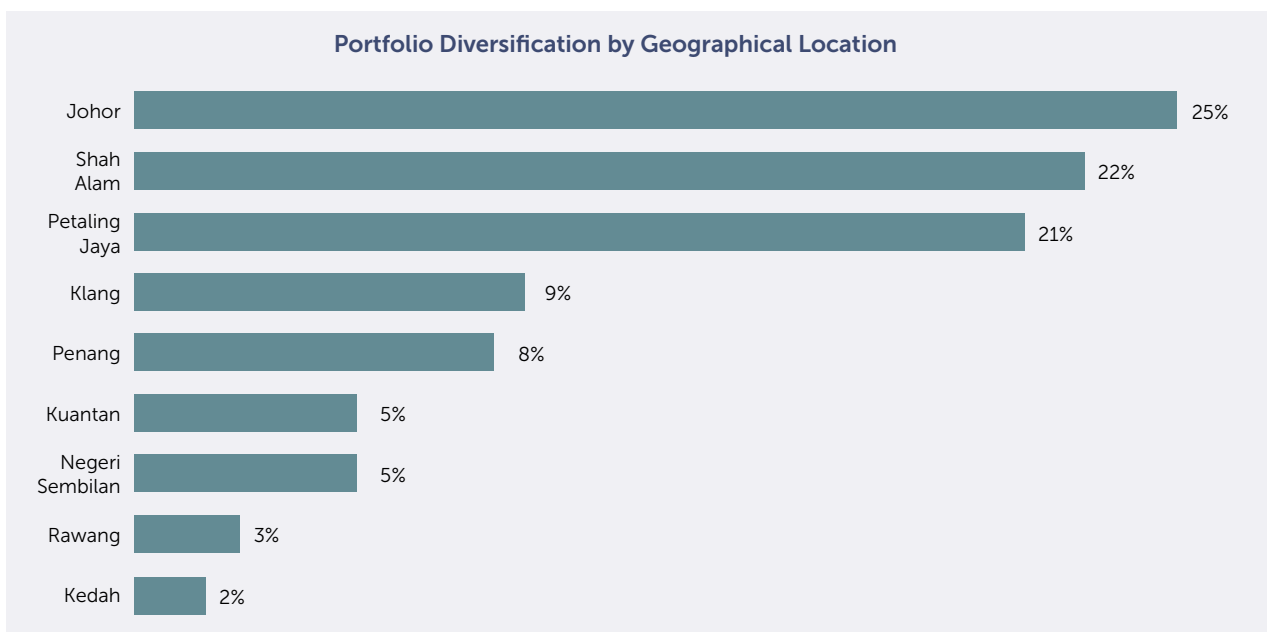
With the addition of industrial properties and two built-to-specification facilities in 2018, the proportion of single-tenanted properties grew to make up 71% of Axis-REIT's property portfolio as at 31 December 2018. These single-tenanted properties provide stable, long-term, organic rental income growth as their leases are generally long-term leases with pre-agreed rental increases over the fixed period of the lease. In addition, the maintenance costs are much lower as the general upkeep and security services are managed by the tenants.

Tenancies of multi-tenanted properties generally have three-year lease terms, which are renewed at the end of each lease term at prevailing market rates, thus providing the opportunity for positive rental reversions upon renewal. These multi-tenanted properties also give the flexibility for existing tenants to expand their space within the same property without having to relocate.

- **Keeping the Portfolio Geographically Diversified**

The Fund's portfolio is diversified across prime industrial locations with high growth potential throughout Peninsula Malaysia. 55% of the Fund's properties are located in Selangor, 25% in Johor, 8% in Penang and the remaining 12% are located in Negeri Sembilan, Kedah and Pahang. In 2018, 948,212 sq. ft. of space was added in Selangor, 166,154 sq. ft. was added in Johor and 148,011 sq. ft. was added in Negeri Sembilan.

In evaluating potential acquisitions, the Manager assesses the growth potential of each location to ascertain an optimal level of diversification, and minimise geographical and tenant concentration risk to the Fund.



MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

- Managing Lease Expiry Profiles**

The Manager monitors and proactively manages the portfolio's leases to ensure the early renewal and/or procurement of new tenants for expiring leases. This is aimed at minimising any adverse impact to Axis-REIT's earnings arising from expiring leases.

During FYE2018, 1,365,640 sq. ft. of the portfolio's Net Lettable Area ("NLA") became due for renewal. The Real Estate Team successfully renegotiated renewals for 1,012,937 sq. ft., achieving a 74% tenant retention rate. In addition, the team also successfully secured new tenants to take up 599,072 sq. ft. of space during the year.

The following tables set out information on the property portfolio's lease expiry profile by location and type for the next three years.

Portfolio Lease Expiry Profile by Location, 2019-2021

Property Location	2019			2020			2021		
	NLA of Expiring Leases (sq. ft.)	% of Total NLA	% of Rental Income/month	NLA of Expiring Leases (sq. ft.)	% of Total NLA	% of Rental Income/month	NLA of Expiring Leases (sq. ft.)	% of Total NLA	% of Rental Income/month
Petaling Jaya	555,759	5.94	8.09	641,201	6.86	6.95	349,701	3.74	4.83
Klang	-	-	-	339,194	3.63	2.07	-	-	-
Shah Alam	526,567	5.63	3.49	322,915	3.45	2.49	161,280	1.73	1.45
Johor	171,000	1.83	1.32	167,193	1.79	0.63	474,539	5.07	2.88
Nilai	291,642	3.12	1.03	-	-	-	-	-	-
Penang	395,225	4.23	2.36	205,151	2.19	1.90	-	-	-
Kedah	138,000	1.48	1.37	-	-	-	-	-	-
TOTAL	2,078,193	22.23	17.66	1,675,654	17.92	14.04	985,520	10.54	9.16

Portfolio Lease Expiry Profile by Property Type, 2019-2021

Property Type	2019			2020			2021		
	NLA of Expiring Leases (sq. ft.)	% of Total NLA	% of Rental Income/month	NLA of Expiring Leases (sq. ft.)	% of Total NLA	% of Rental Income/month	NLA of Expiring Leases (sq. ft.)	% of Total NLA	% of Rental Income/month
Office	178,463	1.90	4.02	109,039	1.17	1.90	35,287	0.38	0.67
Office/Industrial	377,296	4.04	4.07	532,162	5.69	5.04	314,414	3.36	4.16
Warehouse Logistics	1,092,792	11.69	7.16	1,034,453	11.06	7.10	337,920	3.61	2.16
Manufacturing Facility	291,642	3.12	1.04	-	-	-	297,899	3.19	2.17
Hypermarket	138,000	1.48	1.37	-	-	-	-	-	-
TOTAL	2,078,193	22.23	17.66	1,675,654	17.92	14.04	985,520	10.54	9.16

- Weighted Average Lease Expiry ("WALE")**

Axis-REIT's portfolio comprises a mix of short-term and long-term leases. The WALE measures the average number of years in which the Fund has secured contractual lettable area and income. Thus a higher WALE indicates a reduction of risk for the Fund. The WALE for the portfolio for the last five years is as follows:

Portfolio WALE – 5 Year Analysis

	2014	2015	2016	2017	2018
By NLA	4.22	3.89	4.33	5.25	5.53
By Rental	4.33	3.99	4.45	5.87	5.57

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

- Land Tenure Management**

Axis-REIT's portfolio comprises a mix of freehold and leasehold properties. The Manager constantly monitors the remaining lease periods on its leasehold properties to ensure renewals are done in a timely manner to minimise risk to the valuation of the Fund's assets. The land tenure and remaining lease terms of all leasehold properties in the Fund's portfolio are provided in the table below.

Property Name	Land Tenure	Remaining Lease Period (years)	Age of Building (years)
1 Axis Business Park	Leasehold	42	16-20
2 Crystal Plaza	Leasehold	41	23
3 Menara Axis	Leasehold	47	14
4 Infinite Centre	Leasehold	47	32
5 Wisma Kemajuan	Leasehold	47	25
6 Axis Business Campus	Leasehold	49	24-33
7 Axis Shah Alam Distribution Centre 1	Freehold	-	24
8 Giant Hypermarket	Freehold	-	11
9 FCI Senai	Leasehold	49	11
10 Fonterra HQ	Freehold	-	19
11 Quattro West	Leasehold	54	36
12 Strateq Data Centre	Leasehold	50	19
13 Niro Warehouse	Leasehold	33	15
14 D21 Logistics Warehouse	Leasehold	37	14
15 Pasir Gudang Logistics Warehouse 1	Leasehold	49	13
16 Axis Vista	Leasehold	48	45
17 Axis Steel Centre	Leasehold	84	27
18 Bukit Raja Distribution Centre	Freehold	-	12-24
19 Seberang Prai Logistics Warehouse 1	Leasehold	35	17
20 Seberang Prai Logistics Warehouse 2	Leasehold	35	22
21 Tesco Bukit Indah	Freehold	-	8
22 Axis Mega Distribution Centre	Leasehold	73	1
23 Axis Technology Centre	Leasehold	49	8-28
24 D8 Logistics Warehouse	Leasehold	37	10
25 Bayan Lepas Distribution Centre	Leasehold	44	18
26 Seberang Prai Logistics Warehouse 3	Leasehold	34/50	13-15
27 Emerson Industrial Facility Nilai	Leasehold	77	11-20
28 Wisma Academy Parcel	Leasehold	44	22

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

Property Name	Land Tenure	Remaining Lease Period (years)	Age of Building (years)
29 The Annex	Leasehold	44	36
30 Axis MRO Hub	Leasehold	67	26
31 Axis Shah Alam Distribution Centre 3	Freehold	-	4-11
32 Axis Steel Centre @ SiLC	Freehold	-	8
33 Axis Shah Alam Distribution Centre 2	Leasehold	48	34
34 Beyonics i-Park Campus Block A	Freehold	-	3
35 Beyonics i-Park Campus Block B	Freehold	-	3
36 Beyonics i-Park Campus Block C	Freehold	-	3
37 Beyonics i-Park Campus Block D	Freehold	-	3
38 Scomi Facility @ Rawang	Freehold	-	8-17
39 Kerry Warehouse	Leasehold	55	5
40 Wasco Facility @ Kuantan	Leasehold	91	4-16
41 Axis Shah Alam Distribution Centre 4	Freehold	-	6-27
42 Beyonics i-Park Campus Block E	Freehold	-	1
43 Indahpura Facility 1	Freehold	-	2
44 Senawang Industrial Facility	Freehold	-	19
45 Axis Aerotech Centre @ Subang	Leasehold	48	N/A

MANAGER'S DISCUSSION AND ANALYSIS**REAL ESTATE REPORT****CENTRAL REGION - SELANGOR**

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/18 (RM'000)	Carrying Value based on latest valuation (RM'000)
1 Axis Business Campus	30/06/2006	32,500	62,804	80,000
2 Axis Business Park	03/08/2005	84,600	101,692	120,600
3 Axis Technology Centre	15/11/2010	49,000	50,464	55,000
4 Axis Vista	09/12/2008	32,000	34,256	57,300
5 Crystal Plaza	03/08/2005	56,400	67,734	113,500
6 Infinite Centre	03/08/2005	25,450	35,825	42,500
7 Menara Axis	03/08/2005	71,400	87,898	110,000
8 Quattro West	30/11/2007	39,800	51,126	56,000
9 Strateq Data Centre	25/01/2008	37,000	42,729	57,000
10 The Annex	01/10/2012	12,000	13,439	20,000

* These are single-tenant properties whereby the carparks are managed by tenant

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

	Net Lettable Area (sq. ft.)	Number of Car Park (bays)	Occupancy Rate as at 31/12/18	Major Tenants
	155,113	441	69%	Krohne (M) Sdn Bhd MIG Network & Consultancy Sdn Bhd Grab Car Sdn Bhd
	330,725	432	68%	Fuji Xerox Asia Pacific Pte Ltd Hitachi eBworx Sdn Bhd Alcon Laboratories (M) Sdn Bhd
	170,730	318	48%	Fresenius Kabi Malaysia Sdn Bhd Fresenius Medical Care Malaysia Sdn Bhd NZ New Image Sdn Bhd Helukabel Malaysia Sdn Bhd
	118,557	*	100%	Mitsubishi Electric Sales Malaysia Sdn Bhd Extrovest Communications Sdn Bhd Sports Direct MST Sdn Bhd
	205,103	250	71%	Tenaga Nasional Bhd DHL Asia Pacific Shared Services Sdn Bhd Asiaworks Malaysia Sdn Bhd
	140,417	182	87%	Procurri Malaysia Sdn Bhd Konica Minolta Business Solutions (M) Sdn Bhd C Melchers Gmbh & Co
	183,406	250	68%	Fujifilm (M) Sdn Bhd Orient Overseas Container Line (M) Sdn Bhd Philips Malaysia Sdn Bhd DHL Asia Pacific Shared Services Sdn Bhd
	104,196	130	50%	Jeunesse Global Sdn Bhd Kenanga Investment Bank Bhd MIMS Medica Sdn Bhd Roca Malaysia Sdn Bhd
	104,903	*	100%	Strateq Data Centre Sdn Bhd
	45,400	31	60%	Sports Garage Sdn Bhd

■ Services
 ■ Logistics
 ■ Consumer products
 ■ Manufacturing

MANAGER'S DISCUSSION AND ANALYSIS**REAL ESTATE REPORT****CENTRAL REGION - SELANGOR**

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/18 (RM'000)	Carrying Value based on latest valuation (RM'000)
11 Wisma Academy Parcel	01/10/2012	73,000	75,869	73,000
12 Wisma Kemajuan	16/12/2005	29,000	37,744	65,400
13 Axis Aerotech Centre @ Subang	07/02/2018	19,876#	63,357	64,700
14 Axis Mega Distribution Centre	15/10/2010	85,000	258,373	300,000
15 Axis MRO Hub	18/12/2014	52,500	53,539	53,300
16 Axis Shah Alam Distribution Centre 1	31/07/2007	18,500	22,507	32,700
17 Axis Shah Alam Distribution Centre 2	31/03/2015	45,000	45,782	47,200
18 Axis Shah Alam Distribution Centre 3	18/12/2014	183,000	187,011	185,500
19 Axis Shah Alam Distribution Centre 4	04/06/2018	83,000	84,270	83,000
20 Axis Steel Centre	20/10/2009	65,000	66,877	78,000
21 Bukit Raja Distribution Centre	14/12/2009	71,750	78,203	105,000
22 Fonterra HQ	16/11/2007	7,200	11,196	19,000
23 Scomi Facility @ Rawang	15/11/2016	42,696	42,696	44,000

Land lease

* These are single-tenant properties whereby the carparks are managed by tenant

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

	Net Lettable Area (sq. ft.)	Number of Car Park (bays)	Occupancy Rate as at 31/12/18	Major Tenants
	236,075	407	77%	Dataprep (Malaysia) Sdn Bhd Ban Leong Technologies Sdn Bhd Tenaga Nasional Berhad Ingram Micro (Malaysia) Sdn Bhd
	199,008	254	72%	Total Oil Malaysia Sdn Bhd Fossil Time Malaysia Sdn Bhd Hawley & Hazel Marketing Sdn Bhd Brightstar Distribution Sdn Bhd
	178,978.60	*	100%	Upeca Aerotech Sdn Bhd
	515,000 (Phase 1)	*	100% (Phase 1)	Nestlé Products Sdn Bhd
	161,280	*	100%	SR Technics Malaysia Sdn Bhd
	110,406	*	100%	Upeca Aerotech Sdn Bhd
	164,400	*	100%	Total Logistics Services (M) Sdn Bhd Borneo Technical Co (M) Sdn Bhd
	685,082	*	100%	POS Logistics Berhad LF Logistics Services (M) Sdn Bhd
	254,233	*	100%	Teraju Sinar Sdn Bhd
	339,194	*	100%	Northport (Malaysia) Berhad
	456,435	*	100%	LF Logistics Services (M) Sdn Bhd
	35,710	*	85%	Fonterra Brands (M) Sdn Bhd
	302,621	*	100%	Scomi Engineering Berhad

■ Services
 ■ Logistics
 ■ Consumer products
 ■ Manufacturing

MANAGER'S DISCUSSION AND ANALYSIS**REAL ESTATE REPORT****CENTRAL REGION - NEGERI SEMBILAN**

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/18 (RM'000)	Carrying Value based on latest valuation (RM'000)
24 Emerson Industrial Facility Nilai	30/08/2012	26,500	27,443	32,800

25 Senawang Industrial Facility	05/12/2018	18,500	18,933	21,000
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NORTHERN REGION

26 Bayan Lepas Distribution Centre	17/01/2012	48,500	50,142	60,000
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27 Giant Hypermarket	07/09/2007	38,000	38,973	49,000
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28 Seberang Prai Logistics Warehouse 1	05/03/2010	17,390	17,821	20,500
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29 Seberang Prai Logistics Warehouse 2	05/03/2010	6,860	7,384	8,200
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30 Seberang Prai Logistics Warehouse 3	15/02/2012	59,000	62,353	67,000
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EAST COAST REGION

31 Wasco Facility @ Kuantan	5/12/2017	120,000	157,619	155,000
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SOUTHERN REGION

32 Axis Steel Centre @ SiLC	30/12/2014	153,500	155,949	163,000
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33 Beyonics i-Park Campus Block A	28/01/2016	14,231	14,469	16,000
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34 Beyonics i-Park Campus Block B	28/01/2016	12,899	13,115	14,500
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35 Beyonics i-Park Campus Block C	28/01/2016	11,737	11,934	13,000
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36 Beyonics i-Park Campus Block D	28/01/2016	22,133	22,504	23,800
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37 Beyonics i-Park Campus Block E	09/08/2018	31,500	32,099	32,000
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* These are single-tenant properties whereby the carpark are managed by tenant

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

	Net Lettable Area (sq. ft.)	Number of Car Park (bays)	Occupancy Rate as at 31/12/18	Major Tenants
	291,642	*	100%	Emerson Process Management Manufacturing (M) Sdn Bhd
	148,011	*	100%	Nippon Wiper Blade (M) Sdn Bhd
	205,151	*	100%	DHL Properties (M) Sdn Bhd
	138,000	*	100%	GCH Retail (Malaysia) Sdn Bhd
	106,092	*	100%	LF Logistics Services (M) Sdn Bhd
	41,893	*	100%	LF Logistics Services (M) Sdn Bhd
	395,225	*	100%	Schenker Logistics (M) Sdn Bhd
	506,753	*	100%	Wasco Coatings Malaysia Sdn Bhd
	688,011	*	100%	Yongnam Engineering Sdn Bhd
	67,260	*	100%	Beyonics Technology (Senai) Sdn Bhd
	60,967	*	100%	Beyonics Technology (Senai) Sdn Bhd
	55,476	*	100%	Beyonics Precision Machining Sdn Bhd
	104,606	*	100%	Beyonics Precision Machining Sdn Bhd
	132,706	*	100%	Beyonics Precision Malaysia Sdn Bhd

■ Services
 ■ Logistics
 ■ Consumer products
 ■ Manufacturing

MANAGER'S DISCUSSION AND ANALYSIS**REAL ESTATE REPORT****SOUTHERN REGION**

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/18 (RM'000)	Carrying Value based on latest valuation (RM'000)
38 D8 Logistics Warehouse	01/03/2011	30,000	30,689	33,000
39 D21 Logistics Warehouse	30/04/2008	27,000	28,413	29,000
40 FCI Senai	15/11/2007	12,300	12,693	22,000
41 Indahpura Facility 1	09/08/2018	7,200	7,343	8,000
42 Kerry Warehouse	24/07/2017	33,000	33,633	34,000
43 Niro Warehouse	30/04/2008	14,500	15,234	20,000
44 Pasir Gudang Logistics Warehouse 1	04/08/2008	12,500	13,731	17,000
45 Tesco Bukit Indah	01/10/2010	75,600	76,924	97,000

* These are single-tenant properties whereby the carparks are managed by tenant

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

	Net Lettable Area (sq. ft.)	Number of Car Park (bays)	Occupancy Rate as at 31/12/18	Major Tenants
	171,000	*	100%	Nippon Express (M) Sdn Bhd
	174,920	*	100%	Damco Logistics Malaysia Sdn Bhd
	136,619	*	100%	FCI Connectors Malaysia Sdn Bhd
	33,448	*	100%	Oerlikon Balzers Coating Malaysia Sdn Bhd
	163,000	*	100%	Kerry Ingredients (Malaysia) Sdn Bhd
	167,193	*	100%	Niro Ceramic (M) Sdn Bhd
	130,743	*	100%	Guan Chong Cocoa Manufacturer Sdn Bhd
	233,579	*	100%	Tesco Stores (M) Sdn Bhd



MANAGER'S DISCUSSION AND ANALYSIS

PROJECT
MANAGEMENT
REPORT



Project management is integral in ensuring that our projects are well planned, built according to specifications and completed on schedule and on budget. The Project Management Team works closely with the Facilities Management and Real Estate Team in ensuring our properties remain relevant, competitive, and deliver on the Axis-REIT brand promise.

LOH YEN FERN
Head of Project Mangement

MANAGER'S DISCUSSION AND ANALYSIS

PROJECT MANAGEMENT REPORT

Development of a 'built-to-lease' facility for Upeca Aerotech Sdn Bhd

The development of Upeca Aerotech Sdn Bhd's ("Upeca") 'built-to-lease' manufacturing facility is a showcase of the long-term partnership between Axis-REIT and Upeca. Upeca is a long-term tenant of Axis-REIT, having occupied Axis Shah Alam Distribution Centre 1, a 110,406 sq. ft. facility in Taman Perindustrian Subang, since 2010.

Cognizant of Upeca's growing business needs, Axis-REIT engaged them to understand their expansion plans and business space requirements, and worked with them to identify a suitable solution. As a result of these efforts, Axis-REIT entered into an agreement to develop a 'built-to-lease' industrial manufacturing facility for Upeca in November 2017. The project is located on a 7.02-acre site within the proposed Malaysia International Aerospace Centre ("MIAC") Technology Park in Subang, Selangor, that is sub-leased from Malaysia Airports Holdings Bhd for RM19.9 million. The lease from MAHB will run for 49 years, and will expire on 30 December 2066.

Construction of the facility commenced in the first half of 2018 and took approximately seven months to complete. The property, which has been named the Axis Aerotech Centre @ Subang, has obtained Certificate of Completion and Compliance and has been handed over to Upeca in February 2019.

The development has enabled the Fund to increase investment returns to its Unitholders, increasing the Fund's revenue, net property income and income to distribution to Unitholders, while enlarging the size of its asset under management.



Groundbreaking Ceremony for development of Axis Aerotech Centre @ Subang on 13 March 2018

Details of the project are as follows:

Features	:	<ul style="list-style-type: none"> • Customised facility designed and built according to Upeca's specifications • Fully air-conditioned manufacturing plant
Land area	:	7.02 acres
Land tenure	:	Initial sub-lease period of 30 years, with an automatic renewal and/or extension for a further 19 years up to 30 December 2066
Net lettable area	:	Approximately 178,978.6 sq. ft.
Tenure	:	20 years with a renewal option of two further terms of six years each
Estimated development cost	:	Approximately RM74.2 million (including the land)
Completion date	:	Certificate of Completion and Compliance dated 24 January 2019

MANAGER'S DISCUSSION AND ANALYSIS

PROJECT MANAGEMENT REPORT



Aerial view of the completed Axis Aerotech Centre @ Subang

ASSET ENHANCEMENT INITIATIVES ("AEIs") IN 2018

Asset enhancements are a critical component in the Manager's strategy to ensure Axis-REIT's continued and sustainable business growth over the years. We consistently monitor tenants' activities, and engage them to better understand their changing business space requirements. This input, alongside our observation of industry developments and our outlook for the industry, form the foundation for planning and implementing AEIs across Axis-REIT's portfolio of properties. This approach helps foster long-term relationships with our tenants, which in turn, enhances the stability of our tenant base through tenant retention. The AEIs in themselves also ensure the sustainability of our portfolio by keeping our properties relevant and competitive.

AEIs ensure our properties remain relevant and competitive



The AEIs implemented in FYE2018 are as follows:

Axis Business Campus

A new cargo hoist was installed at Block B to improve vertical transportation.



MANAGER'S DISCUSSION AND ANALYSIS

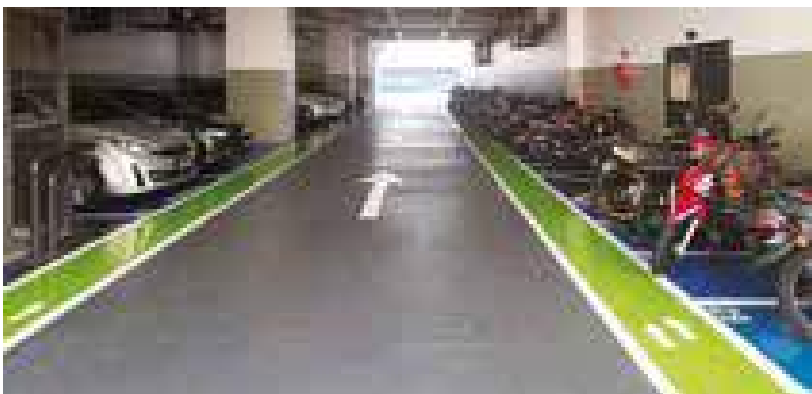
PROJECT MANAGEMENT REPORT



Crystal Plaza

Enhancement works were carried out to waterproof and reconfigure existing mechanical & electrical services on the building's roof top.

In the third quarter of 2018, we completed repair works to the building's facade and compound along with painting work and enhancement to the toilets in Lobby 3.



MANAGER'S DISCUSSION AND ANALYSIS

PROJECT MANAGEMENT REPORT



Building Signage

As part of Axis-REIT's rebranding exercise, the Project Management Team is coordinating the installation of new signage on the external facade of our buildings. The aim of the exercise is to increase the prominence of the Axis-REIT brand, and to strengthen the awareness and identity of the Fund's portfolio of properties.

This exercise is currently underway, with signage already installed at nine multi-tenanted buildings and two single-tenanted buildings. Work to install the Axis-REIT signage on the remaining buildings in Axis-REIT's portfolio will be carried out progressively over the next year.

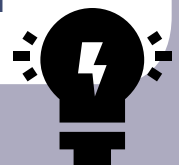
Engineering Due Diligence on New Acquisitions

The Project Management Team also supports the Investments Team in the acquisition of all new properties. In 2018, the team conducted engineering due diligence for the acquisition of Axis Shah Alam Distribution Centre 4 in Seksyen 28, Shah Alam, Beyonics i-Park Campus Block E and Indahpura Facility 1 in Johor, and Senawang Industrial Facility in Negeri Sembilan. The team's scope of work is to ensure that these acquisition targets comply with local regulatory requirements, and to conduct engineering due diligence on the equipment and building structures.

Future Development

The Fund's capacity to develop stems from the experience and expertise of the Manager's promoters in property development over the last 25 years. The remaining land of Axis Mega Distribution Centre will be developed over separate phases in the future.

The aim of the exercise is to increase the prominence of the Axis-REIT brand





MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY
MANAGER'S
REPORT



Wisma Kemajuan



On top of the quality and location of our properties, we strongly believe property and facilities management are critical in fulfilling our role as the preferred business space partner to our tenants. The day-to-day tasks of managing our property portfolio, which is undertaken by Axis Property Services together with Axis Facilities Management Sdn Bhd as Property Manager to Axis-REIT, are key in maintaining a high tenant satisfaction level and retaining our tenants.

SIVA SHANKAR PALANY
Head of Facilities Management

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MANAGER'S REPORT

Maintaining a Superior Built Environment

The Facilities Management Team, under the guidance of the Property Manager, ensures the functionality of the portfolio's built environment by integrating people, places, processes and technology. The team is strategically grouped in geographical locations, namely the Central (Selangor, Pahang and Negeri Sembilan), Northern (Penang and Kedah) and Southern (Johor) Regions. Being on the ground and on hand to see to tenant needs, the team understands the dynamic needs of the Fund's tenant base, and is able to deliver superior real estate solutions and services to our tenants effectively and efficiently.

Towards our goal of serving our tenants better, some recent initiatives undertaken include:

- Embracing digitalisation, with the introduction of helloaxis.com.my, the Fund's proprietary Tenant Management Portal. Launched in 2017, the platform was further enhanced in 2018, with the introduction of an emergency evacuation plan.
- Introducing Park Easy - an online carpark reservation for visitors at Menara Axis.
- Standardization of the car park management system for all multi-tenant buildings within the Fund's portfolio of properties.
- Implementing a centralized air-conditioning control and monitoring system for Menara Axis as a pilot project.
- Appointing a qualified and competent in-house Health, Safety, Security & Environment ("HSSE") Manager, as part of the Fund's strict code compliance and sustainability initiatives. The sustainability initiatives are described in greater detail in the Sustainability Report contained within this annual report.

These initiatives have improved the Manager's productivity by capturing real-time, accurate asset data, improving field decision making, managing resources, as well as ensuring efficient and effective administration processes.

Cumulatively, our efforts have yielded positive results, as demonstrated by tenant ratings on facilities management from helloaxis.com.my, which is shown below:

Type of Property	Facilities Management Score
Single-Tenant	3.75/5
Multi-Tenant	3.86/5
TOTAL / AVERAGE	3.80/5

Note: Tenant Satisfaction Rating: 1 (Very Poor) - 5 (Very Good)

Expense Management

At the back-end of its processes, the Property Manager is also tasked with maintaining a prudent operating strategy in line with the Fund's objective of maximising returns to Unitholders, without compromising service standards and agreed deliverables to tenants.

The Property Manager strives to continuously improve operating processes to optimise operational costs, and a key metric that is monitored is the Efficiency Ratio, which plots the property operating expenses for the portfolio over its total revenue. We are pleased to note that this has been well controlled over the years, as shown in the table below:

	2013	2014	2015	2016	2017	2018
Efficiency Ratio (ER)*	15%	16%	15%	16%	16%	14%

* excluding unbilled lease income receivable

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MANAGER'S REPORT****Valuation**

The Property Manager also coordinates valuation exercises by independent registered valuers for new and existing properties in the Fund's portfolio. It is responsible for ensuring the Fund's compliance with Clause 10.02(b)(i) of the SC's Guidelines on Listed REITs, wherein all investment properties shall be revalued at least once a financial year by independent registered valuers. The Fund must also ensure that the valuer conduct valuations on an investment property for up to 3 consecutive years only.

Code Compliance

The Property Manager is responsible for ensuring that all properties within the Fund's portfolio comply with all requirements from the relevant authorities, such as the Fire and Rescue Department of Malaysia ("BOMBA"), the Department of Occupational Safety and Health ("DOSH"), the Energy Commission, local councils and the General Insurance Association of Malaysia ("GIAM").

Our stringent code compliance has generated a positive impact to the Fund, its tenants and staff, as well as improved relationships with the local authorities. The code compliance includes adherence to rules and regulations that take into consideration the safety and well-being of members of the community, with reference to Malaysia's Uniform Building By-Laws ("UBBL"), fire codes, building codes and general property standards.

FACILITIES MANAGEMENT TEAM

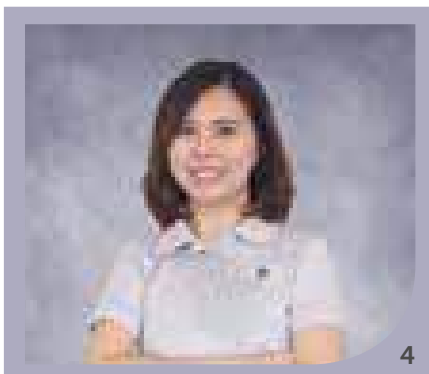
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2



3



4



5

- 1. SIVA SHANKAR**
Head of Facilities Management
- 2. SARAVANAKUMARAN**
Senior Facility Manager
- 3. NAQUIDDIN BIN YAHYA**
HSSE Manager
- 4. LOH WAI YAN**
Senior Property Executive
- 5. KATHERINE LIM**
Administrative Assistant

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MANAGER'S REPORT



6



7



8



9



10

PETALING JAYA

6. V. KAMALAHASAN

Facility Manager

- Menara Axis
- Crystal Plaza
- Quattro West

8. LIEW LEE TACK

Facility Manager

- Infinite Centre

10. ISHAK ABU BAKAR

Facility Manager

- Axis Technology Centre
- Axis Business Campus
- Axis Vista

7. JAMALUDDIN ATAN

Facility Manager

- Axis Business Park
- Strateq Data Centre

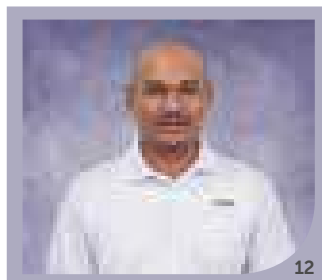
9. SIVAKUMAR

Facility Manager

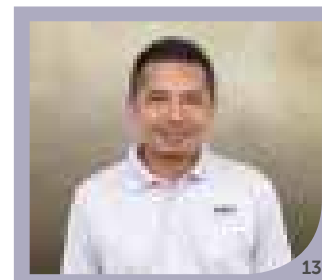
- Wisma Kemajuan
- Wisma Academy Parcel
- The Annex



11



12



13

11. NORHIDAYAH SALLEH

Facility Manager

SHAH ALAM/ KLANG/NILAI

- Emerson Industrial Facility
- Fonterra HQ
- Axis Shah Alam Distribution Centre 1
- Axis Shah Alam Distribution Centre 2
- Axis Shah Alam Distribution Centre 3
- Axis Shah Alam Distribution Centre 4
- Senawang Industrial Facility
- Axis MRO Hub
- Axis Steel Centre
- Bukit Raja Distribution Centre
- Axis Mega Distribution Centre
- Scomi Facility @ Rawang
- Wasco Facility @ Kuantan

12. MOHD AZMI YAACOB

Facility Manager

JOHOR

- D21 Logistics Warehouse
- D8 Logistics Warehouse
- Niro Warehouse
- FCI Senai
- Tesco Bukit Indah
- Pasir Gudang Logistics Warehouse 1
- Axis Steel Centre @ SILC
- Beyonics i-Park Campus (Blocks A-E)
- Kerry Warehouse
- Indahpura Facility 1

13. SUHAIMI MAT ISA

Facility Manager

PENANG & KEDAH

- Giant Hypermarket
- Seberang Prai Logistics Warehouse 1
- Seberang Prai Logistics Warehouse 2
- Seberang Prai Logistics Warehouse 3
- Bayan Lepas Distribution Centre

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018



MARKET INDICATIONS

Malaysia's economy recorded sustained growth of 4.4% during 3Q2018 (2Q2018:4.5%), mainly driven by expansion in domestic demand and higher private investment. The country's gross domestic product (GDP) for the whole year of 2018 is expected to be in the region of 4.8%.

The Business Conditions Index (BCI) slipped 7.5 points to 108.8 points in 3Q2018, from 116.3 points registered in the second quarter. This suggests that business trends continued to expand albeit at slower pace.

The labour market conditions continued to remain favourable with unemployment rate at 3.4% in 3Q2018 (2Q2018: 3.3%).

Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 3.25% to remain accommodative and supportive of current economic activity.

The country's total trade for the period from January to October 2018 was valued at RM1.56 trillion. For the first time, exports breached the RM90 billion mark in October to hit a record high of RM96.38 billion with China remaining as the top export destination. On a y-o-y basis, exports and imports grew 7.5% and 5.4% to RM829.89 billion and RM727.88 billion respectively.

Malaysia's industrial production index (IPI) was 4.2% higher year-on-year (y-o-y) in October 2018, supported mainly by higher output in the manufacturing and electricity sectors.

The Nikkei Malaysia Manufacturing Purchasing Managers Index (PMI), a measure of business conditions in the country's manufacturing sector, hit 46.8 in December, down from 48.2 in November, the lowest level since July 2012 as a result of general market slowdown due to lower orders and higher operating expenses. Readings above 50 indicate an expansion while those below 50 indicate a contraction.

INDUSTRIAL SECTOR OVERVIEW

The services and manufacturing sectors have consistently remained as the key engine to the country's growth. From 2016 to September 2018, contribution from the manufacturing sector has been fairly consistent at circa 23.0% of the country's total GDP (at current prices).

Malaysia: Manufacturing Sector - Percentage Contribution to Total GDP (at constant 2010 prices), 2016 to Jan-Sept 2018

	2016	2017	Jan-Sept 2018
Manufacturing (RM Million)	254,468	269,745	211,534
GDP (RM Million)	1,108,311	1,173,177	916,368
Percent of Total	23.0%	23.0%	23.1%

Source: Department of Statistics, Malaysia

The manufacturing sector continues to be an important part of Malaysia's industrialisation efforts, attracting both local and foreign investments. From January to September of 2018, the sector saw the approval of 468 projects with total investment of RM59,070.4 million (circa 42.4% of the country's total investments) and the creation of some 41,033 job opportunities.

Foreign investments formed the bulk of total investments with about 82.6% share (or RM48,764.4 million) with the remaining RM10,306.0 million or 17.4% coming from domestic investments. Some 59.8% of the foreign investments in the manufacturing sector were from Asian countries such as China, Indonesia, Republic of Korea and Japan whilst investments from the Netherlands, the United States and British Virgin Islands collectively made up circa 29.0% share.

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

Manufacturing Sector: Investment Overview, 2016 to Jan-Sept 2018

Malaysia	2016	2017	Jan–Sept 2018
Number of Approved Projects	733	687	468
Domestic Investment (RM Million)	31,075.3	42,136.4	10,306.0
Foreign Investment (RM Million)	27,417.5	21,544.7	48,764.4
Total Capital Investment (RM Million)	58,492.8	63,681.1	59,070.4

Source: Malaysian Investment Development Authority (MIDA)

Three industries accounted for about 62.8% of the total approved investments, with petroleum products (including petrochemicals) topping the list with investments of RM20,413.5 million, followed by electrical and electronic products (RM10,652.3 million) and basic metal products (RM6,056.4 million).

By state, Johor topped the list with RM26,526.6 million or 44.9% share of total investments in the manufacturing sector, followed by Pahang with RM8,975.5 million (15.2%), Selangor (RM8,246.9 million or 14.0%), Terengganu (RM4,283.5 million or 7.3%) and Penang (RM3,825.2 million or 6.5%).

INDUSTRIAL MARKET

1.0 GREATER KUALA LUMPUR

1.1 Industrial Sector

For the January to September 2018 period, WP Kuala Lumpur and Selangor recorded a combined total of 151 approved manufacturing projects with corresponding total capital investment of RM8,377.2 million.

Greater Kuala Lumpur: Approved Manufacturing Projects, 2016 to Jan-Sept 2018

Federal Territory / State	2016		2017		Jan–Sept 2018	
	No. of Projects	Total Capital Investment (RM Million)	No. of Projects	Total Capital Investment (RM Million)	No. of Projects	Total Capital Investment (RM Million)
WP Kuala Lumpur	12	189.0	7	159.9	8	130.3
Selangor	242	7,881.0	202	5,592.5	143	8,246.9
Greater Kuala Lumpur	254	8,070.0	209	5,752.4	151	8,377.2

Source: Malaysia Investment Development Authority (MIDA)

Close to 95% of the manufacturing projects approved for Greater Kuala Lumpur comes from Selangor with RM5,839.1 million in foreign direct investment (FDI) or circa 70.9% of the state's total capital investment.

Notable manufacturing related announcements in Selangor during 2018 include the following.

- Worldwide Holdings Bhd and GS Paperboard & Packaging Group have signed an agreement which will allow for a RM1.26 billion expansion of the latter's current paper mill business in Kota Langat, Selangor. Oji Holdings Corp, the largest paper manufacturer in Japan, owns GS Paperboard.
- South Korea's home appliance maker, Cuckoo Electronics Co Ltd, is set to build a RM100 million factory in Malaysia to produce water purifier products. The expansion of its manufacturing plant will be located in Port Klang, Selangor and the plant is expected to be ready in 2019.
- Western Digital will be closing its hard-disk drive (HDD) factory in Petaling Jaya by the end of 2019, due to declining demand for the product. The closure is part of the company's move to rationalise its HDD manufacturing operations globally.

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MARKET OVERVIEW 2018****1.2 Industrial Property Market****1.2.1 Overview****WP Kuala Lumpur and Selangor: Volume & Value of Industrial Property Transactions, 2016 to Jan-Sept 2018**

Federal Territory / State	Industrial Property Type	2016		2017		Jan-Sept 2018	
		Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)
WP Kuala Lumpur	Terraced	21	73.83	33	98.13	43	66.45
	Semi-detached	6	42.50	7	72.13	9	51.70
	Detached	10	151.10	7	94.28	5	33.93
	Others ⁽¹⁾	81	130.47	30	14.37	49	52.93
	Total	118	397.90	77	278.91	106	205.01
Selangor	Terraced	782	654.68	771	682.92	628	600.89
	Semi-detached	298	1,016.66	404	1,481.35	273	1,008.37
	Detached	192	2,163.97	211	2,445.29	136	2,855.79
	Others ⁽¹⁾	366	2,056.08	571	1,559.34	334	1,948.58
	Total	1,638	5,891.39	1,957	6,168.90	1,371	6,413.63
Greater Kuala Lumpur	Terraced	803	728.51	804	781.05	671	667.34
	Semi-detached	304	1,059.16	411	1,553.48	282	1,060.07
	Detached	202	2,315.07	218	2,539.57	141	2,889.72
	Others ⁽¹⁾	447	2186.55	601	1,573.71	383	2,001.51
	Total	1,756	6,289.29	2,034	6,447.81	1,477	6,618.64

Source: National Property Information Centre (NAPIC)

Note: (1) Others include industrial vacant plot, industrial complex unit and other types of industrial property.

In 2017, Selangor recorded a total of 1,957 industrial property transactions valued at RM6,168.90 million, 19.5% and 4.7% higher in terms of volume and value of transactions respectively when compared to the preceding year (2016: 1,638 transactions valued at RM5,891.39 million).

For the first nine months of 2018, there were 1,371 industrial property transactions with combined value of RM6,413.63 million in the state. The terraced factory category remained the most actively transacted, accounting for 45.8% share of total transacted volume in the industrial sub-sector; followed by others (24.4%), semi-detached (19.9%) and detached (9.9%) categories. In terms of value, the detached factory category topped with circa 44.5% share or RM2,855.79 million, followed by others (30.4%), semi-detached (15.7%) and terraced (9.4%) categories.

In contrast, there were only 77 recorded industrial property transactions valued at RM278.91 million in WP Kuala Lumpur in 2017 (2016: 118 transactions valued at RM397.90 million). The Federal Territory registered only 106 industrial property transactions in the first nine months of the year with corresponding value RM205.01 million

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

1.2.2 Supply: Existing and Future

As of 3Q2018, the cumulative existing supply of industrial properties in WP Kuala Lumpur and Selangor stood at 45,359 units with the highest concentration of supply dominated by terraced factory category with 30,939 units or 68.2% market share.

WP Kuala Lumpur and Selangor: Supply of Industrial Properties by Type, 2016 to 3Q2018

Federal Territory / State	Industrial Property Type	Existing Supply (No. of Units)			Future Supply (No. of Units)	
		2016	2017	3Q2018 ^(p)	Incoming	Planned
WP Kuala Lumpur	Terraced	2,545	2,545	2,545	0	37
	Semi-detached	412	412	412	0	0
	Detached	511	511	511	0	0
	Flatted Factory	1,670	1,670	1,670	0	0
	Industrial Complex	0	0	0	0	0
	Cluster	0	0	0	0	0
	Total	5,138	5,138	5,138	0	37
Selangor	Terraced	27,993	28,251	28,394	400	378
	Semi-detached	5,582	5,972	6,395	395	811
	Detached	4,912	5,000	5,062	236	325
	Flatted Factory	263	263	263	0	0
	Industrial Complex	107	107	107	1	4
	Cluster	0	0	0	0	185
	Total	38,857	39,593	40,221	1,032	1,703
Greater Kuala Lumpur	Terraced	30,538	30,796	30,939	400	415
	Semi-detached	5,994	6,384	6,807	395	811
	Detached	5,423	5,511	5,573	236	325
	Flatted Factory	1,933	1,933	1,933	0	0
	Industrial Complex	107	107	107	1	4
	Cluster	0	0	0	0	185
	Total	43,995	44,731	45,359	1,032	1,740

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

The cumulative existing supply of industrial properties in Selangor stood at 40,221 units as of 3Q2018. There was an increase of 628 units from 2017, made up of 423 semi-detached units, 143 terraced units and 62 detached units.

The terraced category continued to dominate the existing supply with circa 70.6% market share, followed by the semi-detached and detached categories with 15.9% and 12.6% share respectively. The majority of terraced factories in Selangor are located in Petaling District (36.7% share or 10,415 units).

As for incoming supply, the terraced and semi-detached categories dominate with 400 units (38.8%) and 395 units (38.3%) respectively. The majority of the incoming terraced units will come from Klang District (298 units) and there will be 178 units of semi-detached factories from Gombak District.

The cumulative existing supply of industrial properties in WP Kuala Lumpur has remained unchanged at 5,138 units since 2016. The terraced category dominates the existing supply with circa 49.5% market share, followed by the flatted factory category with 32.5% share.

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

There is no incoming supply of industrial properties in the federal territory although there are some 37 units of terraced factories under planning stage in the districts of Kuala Lumpur and Setapak.

WP Kuala Lumpur and Selangor: Supply of Industrial Properties by District, 2016 to 3Q2018

Federal Territory / State	District	Existing Supply (No. of Units)			Future Supply (No. of Units)	
		2016	2017	3Q2018 ^(p)	Incoming	Planned
WP Kuala Lumpur	Bandar Kuala Lumpur	227	227	227	0	0
	Petaling Jaya	0	0	0	0	0
	Ampang	0	0	0	0	0
	Batu	3,046	3,046	3,046	0	0
	Cheras	0	0	0	0	0
	Hulu Kelang	0	0	0	0	0
	Kuala Lumpur	488	488	488	0	22
	Petaling	1,295	1,295	1,295	0	0
	Setapak	82	82	82	0	15
	Total	5,138	5,138	5,138	0	37
Selangor	Petaling	14,286	14,286	14,286	61	0
	Klang	7,616	7,904	8,153	474	773
	Kuala Langat	474	492	492	122	177
	Kuala Selangor	191	231	234	11	357
	Sabak Bernam	35	35	35	42	2
	Gombak	4,486	4,486	4,549	199	97
	Hulu Selangor	4,113	4,324	4,324	10	131
	Hulu Langat	6,894	7,073	7,236	100	108
	Sepang	762	762	912	13	58
	Total	38,857	39,593	40,221	1,032	1,703

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

A total of 1,703 industrial units are under planning stage in Selangor, with some 47.6% comprising semi-detached units and followed by terraced (22.2%) and detached categories (19.1%). The planned supply will come from Klang District (45.4%), Kuala Selangor District (21.0%) and Kuala Langat District (10.4%).

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1.2.3 Capital Values

Selected notable transactions of industrial land and detached factories / warehouses in Selangor in 2018 are tabulated below.

Selangor: Selected Industrial Property Transactions, 2018

No.	Location	Property Details	Land Area (sq ft)	Tenure	Date of Transaction	Consideration (RM)
1	HS(D) 158423, PT 76949, Mukim and District Klang, Selangor	Detached factory with a mezzanine level (store) and a 2-storey office	84,033	Freehold	April 2018	18,880,000
2	GM 80, Lot 755, Mukim Damansara, District Petaling, Selangor	A parcel of industrial land erected with an industrial complex comprising a 2-storey office building, a 2-storey detached factory, two units of single-storey detached factories and a guard house	136,120	Freehold	April 2018	25,000,000
3	HS(D) 281156, PT 674, Pekan Hicom, District Petaling, Selangor ⁽¹⁾	Industrial land with 4 warehouse blocks, a double-storey detached office building, a double-storey canteen building and 2 guard houses	417,769	Freehold	April 2018	87,000,000
	HS(D) 29664, PT 5042, Mukim Damansara, District Petaling, Selangor ⁽¹⁾	Car Park	22,499			
4	Geran 212321, Lot 21238, Mukim Rawang, District Gombak, Selangor	A factory unit on a parcel of freehold land	108,328	Freehold	April 2018	12,000,000
5	Lot 6462, Mukim Kapar, District Klang, State of Selangor	Vacant industrial land	222,705	Freehold	May 2018	19,598,065
6	HS(M) 42054, PT 65651, Mukim Kapar, District Klang, Selangor	Vacant industrial land	167,981	Leasehold	August 2018	9,070,000

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MARKET OVERVIEW 2018**

No.	Location	Property Details	Land Area (sq ft)	Tenure	Date of Transaction	Consideration (RM)
7	Lot 64213, Mukim Damansara, District Petaling, Selangor	Industrial land with a single-storey warehouse, a single-storey storage building, a multi-level factory and double storey office building	330,163	Freehold	August 2018	127,900,000
8	Vacant industrial land, Mukim Tanjung Duabelas, District Kuala Langat, Selangor (Locality: Kota Seri Langat)	Vacant industrial land	9,258,242 (212.54 acres)	Freehold	August 2018	320,000,000
9	HS(D) 67801, PT 64539, Mukim Klang, District Klang, Selangor	Vacant industrial land	333,838	Leasehold	September 2018	25,000,000
10	H.S.(D) 153042, PT 72788, Mukim Kapar, District Klang, Selangor	Vacant industrial land	128,564	Freehold	November 2018	9,642,390
11	H.S.(D) 153043, PT 72789, Mukim Kapar, District Klang, Selangor	Vacant industrial land	108,177	Freehold	November 2018	8,113,365
12	H.S. (D) 153044, PT 72790 Mukim Kapar, District Klang Selangor	Vacant industrial land	97,165	Freehold	November 2018	7,287,497
13	H.S.(D) 287237, PT 50414, Mukim Sungai Buloh, District Petaling, Selangor	Vacant industrial land	176,244	Freehold	December 2018	19,000,000

Source: Bursa Malaysia / Knight Frank Research, Dec 2018

Note: (1) RHB Trustees Berhad, the trustee for Axis-REIT, has entered into a sale and purchase agreement with Teraju Sinar Sdn Bhd in relation to the Proposed Acquisition of the Property, for and on behalf of Axis-REIT. The two parcels of freehold land together with the buildings erected thereon bear postal address, Lot PT 5038 – 5041, Jalan Teluk Datuk 28/40, Off Persiaran Sepang, Seksyen 28, 40000 Shah Alam, Selangor.

MANAGER'S DISCUSSION AND ANALYSIS

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1.2.4 Rental Values

The asking rentals for established industrial premises in Kepong range from RM1.40 per sq ft to RM2.20 per sq ft per month while in the locality of Sungai Besi – Chan Sow Lin, they range from RM1.50 per sq ft to RM2.50 per sq ft per month.

The asking rents for industrial premises in selected established areas such as Sections 51, 13 and 19 of Petaling Jaya remained stable, ranging from RM1.70 per sq ft to RM2.50 per sq ft per month for warehouse space and from about RM2.20 per sq ft to RM2.80 per sq ft per month for the office component.

Detached factories / warehouses in Temasya Glenmarie and Hicom Glenmarie Industrial Park command monthly rental rates in the region of RM1.70 per sq ft and RM2.40 per sq ft per month respectively while asking rents in the established industrial areas of Sections 15, 21 and 26 (Hicom Industrial Estate) in Shah Alam, range from RM1.30 per sq ft to RM2.20 per sq ft per month.

Asking rents in Subang Hi-Tech Industrial Park are observed to be between RM1.50 per sq ft and RM2.00 per sq ft per month while in Bukit Jelutong, asking rents are quoted between RM1.40 per sq ft and RM1.80 per sq ft per month. In Bukit Raja Industrial Park, rentals range from RM1.20 per sq ft to RM1.60 per sq ft per month.

In the traditional industrial areas of Klang (including Port Klang, Telok Panglima Garang, Pandamaran and Meru), asking rents range from RM0.80 per sq. ft. to RM1.60 per sq. ft. per month.

Industrial cum warehouse space that come with state-of-the-art facilities / higher specifications (built-to-suit) are able to command significant premium in rental yields.

2.0 JOHOR

2.1 Industrial Sector

During the first three quarters of 2018, statistics from Malaysia Investment Development Authority (MIDA) showed that Johor approved 91 manufacturing projects with total capital investment of RM26,526.6 million.

Johor: Approved Manufacturing Projects, 2016 to Jan-Sept 2018

Johor	2016	2017	Jan–Sept 2018
Number of Approved Projects	165	146	91
Total Capital Investment (RM Million)	26,410.6	21,927.8	26,526.6

Source: Malaysia Investment Development Authority (MIDA)

A number of new manufacturing plants and expansion plans were unveiled in the state during the year.

- Knauf Insulation is to build a RM569 million plant in Malaysia to meet soaring demand for its Mineral Wool insulation solutions across the Asia Pacific region. The new plant, which will be located in Johor Bahru, will have a capacity of 75,000 tonnes a year. The plant is scheduled to be completed in early 2020 and will create 180 jobs in Malaysia as well as 60 new positions across the region.
- Technology-based LEAF group, through Leaf Malaysia OpCo Sdn Bhd, is set to invest up to RM600 million in a factory on 8.09 hectares of land in Pelabuhan Darat, Segamat. The factory that will cater towards the biotechnology procession and green technology segments will be fully completed in 2021. The investment is expected to create 60 new employment opportunities.

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MARKET OVERVIEW 2018**

- Norman Process Oils Malaysia Plant Sdn Bhd, a subsidiary of Orgkhim Biochemical Holding from Russia, is building a US\$50 million (RM197.84 million) facility at Tanjung Langsat, Pasir Gudang to manufacture petroleum-based extender oils used in tires, synthetic rubbers and rubber compounds. The Malaysian facility will supply markets in the Asia Pacific region with a particular focus on China as well as other established markets including Malaysia and Singapore.
- Synthomer, a world leader in the manufacture and supply of nitrile latex, has opened its latest phase of nitrite latex expansion at its facility in Pasir Gudang. The company has had a presence in Malaysia approaching 100 years and now employs more than 700 people across four manufacturing facilities in Johor and at its Asia Pacific Regional Headquarters in Kuala Lumpur. Synthomer has invested more than RM1 billion in the last 15 years and the latest expansion sees a further investment of RM270 million.
- Chemical Company of Malaysia Bhd is investing RM68.5 million to increase the output of chlor-alkali products at its plant in Pasir Gudang, Johor.

2.2 Industrial Property Market**2.2.1 Overview**

The industrial property sub-sector in Johor was more active in 2017, recording higher volume of transactions compared to the previous year. A total of 799 transactions valued at RM1,895.63 million changed hands in 2017 (2016: 730 transactions worth RM2,026.79 million). The value of transactions was, however, 6.5% lower despite higher transacted volume (9.5%) in the sub-sector and this indicates that lower valued industrial properties were transacted during the period.

Johor: Industrial Property Volume and Value Transactions, 2016 to Jan-Sept 2018

Industrial Property Type	2016		2017		Jan-Sept 2018	
	Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)
Terraced	168	99.68	232	144.14	157	104.74
Semi-detached	206	429.44	187	378.57	149	297.20
Detached	139	792.68	144	643.05	107	617.94
Others ⁽¹⁾	217	704.99	236	729.87	172	425.42
Total	730	2,026.79	799	1,895.63	585	1,445.30

Source: National Property Information Centre (NAPIC)

Note: (1) Others include industrial vacant plot, industrial complex unit and other types of industrial property.

For the January to September 2018 period, there were 585 property transactions in the industrial sub-sector with corresponding value of RM1,445.30 million. The composition of transactions were made up of 172 units categorised under 'others' (29.4% share), followed by the terraced (26.8%), semi-detached (25.5%) and detached (18.3%) categories. In terms of transacted value, the detached category topped with RM617.94 million (42.8%), followed by others (29.4%), and the semi-detached (20.6%) and terraced (7.2%) categories respectively.

2.2.2 Supply: Existing and Future

The cumulative existing supply of industrial properties in Johor stood at 16,644 units as of 3Q2018. There was an increase of 401 units from 2017, made up of 212 cluster units, 88 terraced units, 70 semi-detached units, 30 detached units and an industrial complex respectively.

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

Johor: Supply of Industrial Properties by Type, 2016 to 3Q2018

Type	Existing Supply (No. of Units)			Future Supply (No. of Units)	
	2016	2017	3Q2018 ^(p)	Incoming	Planned
Terraced	7,687	7,697	7,785	359	215
Semi-detached	3,583	4,067	4,137	706	364
Detached	3,665	3,714	3,744	250	306
Flatted Factory	0	0	0	0	0
Industrial Complex	409	409	410	0	9
Cluster	260	356	568	560	80
Total	15,604	16,243	16,644	1,875	974

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

The terraced category continues to dominate existing supply with circa 46.8% market share, followed by the semi-detached and detached categories with 24.9% and 22.5% share respectively. The majority of terraced factories in Johor are located in Johor Bahru District (4,976 units).

As for incoming supply, the semi-detached and cluster categories dominate with 706 units (37.7%) and 560 units (29.9%) respectively. The bulk of these supply (semi-detached and cluster categories) come from Johor Bahru District with 486 units and 528 units respectively.

Johor: Supply of Industrial Properties by District, 2016 to 3Q2018

District	Existing Supply (No. of Units)			Future Supply (No. of Units)	
	2016	2017	3Q2018 ^(p)	Incoming	Planned
Johor Bahru	9,611	10,056	10,325	1,287	596
Kota Tinggi	395	395	395	0	18
Pontian	298	298	342	160	63
Kluang	958	968	968	47	10
Mersing	40	40	66	7	21
Muar	173	173	173	12	21
Batu Pahat	1,464	1,464	1,464	37	157
Segamat	442	441	503	0	70
Kulai	2,015	2,200	2,200	325	18
Tangkak	208	208	208	0	0
Total	15,604	16,243	16,644	1,875	974

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

Meanwhile, there are a total of 974 industrial units currently under planning stage, with some 37.4% comprising semi-detached units. Future supply of detached and terraced factories, account for 31.4% and 22.1% share respectively.

The bulk of planned supply will come from Johor Bahru District (61.2%), followed by Batu Pahat District (16.1%), Segamat District (7.2%) and Pontian District (6.5%).

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MARKET OVERVIEW 2018****2.2.3 Capital Values**

There were several notable transactions of industrial premises in 2018.

Johor: Selected Industrial Property Transactions, 2018

No.	Location	Property Details	Land Area (sq ft)	Tenure	Date of Transaction	Consideration (RM)
1	Property 1 GRN 560956, Lot 31730, Mukim Tanjung Sembrong, District Batu Pahat, Johor Property 2 GRN 560957 Lot 31732, Mukim Tanjung Sembrong, District Batu Pahat, Johor	Two parcels of vacant industrial land	Property 1 82,711 Property 2 106,400	Freehold	April 2018	4,760,000
2	PLO 859 Zone 12B Phase 3, Mukim Plentong, District Johor Bahru, Johor	A parcel of industrial land	931,487	Leasehold	April 2018	12,135,470
3	PLO 860 Zone 12B Phase 3, Mukim Plentong, District Johor Bahru, Johor	A parcel of industrial land	987,418	Leasehold	April 2018	12,864,110
4	Geran 83778 Lot 1618 Mukim Tebrau, District Johor Bahru, Johor	A single-storey warehouse with a 2½-storey office building annex and a guard house	40,396	Freehold	May 2018	5,700,000
5	Geran 83780 Lot 1619 Mukim Tebrau, District Johor Bahru, Johor	Single-storey open sided structure with a single-storey office building annex	51,357	Freehold	May 2018	5,600,000

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No.	Location	Property Details	Land Area (sq ft)	Tenure	Date of Transaction	Consideration (RM)
6	<p>Property 1 H.S.(D) 69702 No. PTD 110365, Mukim & District Kulai, Johor⁽¹⁾</p> <p>Property 2 H.S.(D) 64282 No. PTD 107782, Mukim & District Kulai, Johor⁽¹⁾</p>	<p>Property 1 A single-storey detached factory with mezzanine office, a bin centre, a guard house, a TNB sub-station and a switch gear room</p> <p>Property 2 A single-storey detached factory with mezzanine office, a bin centre and a TNB sub-station</p>	<p>Property 1 197,453</p> <p>Property 2 53,174</p>	Freehold	June 2018	38,700,000
7	<p>Property 1 HS(D) 238650 PTD 115794, Mukim Plentong, District Johor Bahru, Johor</p> <p>Property 2 HS(D) 238651 PTD 115795, Mukim Plentong, District Johor Bahru, Johor</p> <p>Property 3 GN 49112 Lot 56753 PTD 115794, Mukim Plentong, District Johor Bahru, Johor</p>	<p>Property 1 A single-storey detached factory annexed with a 3-storey office building</p> <p>Property 2 A single-storey detached factory annexed with a 3-storey office building</p> <p>Property 3 A single-storey detached factory annexed with a 2-storey office building</p>	<p>Property 1 39,200</p> <p>Property 2 39,200</p> <p>Property 3 39,202</p>	NA	August 2018	19,000,000
8	H.S.(M) 5317 & 5326, PTD 222217 & 222226 Mukim Plentong, District Johor Bahru, Johor	Two units of 1½-storey link detached factory	22,120 (each)	Freehold	December 2018	4,420,000 (each)

Source: Bursa Malaysia / Knight Frank Research

Note: (1) RHB Trustees Berhad, the trustee for Axis-REIT, has entered into a sale and purchase agreement with Axis AMEIP Sdn Bhd in relation to the Proposed Acquisition of the Property, for and on behalf of Axis-REIT. The two parcels of freehold land together with the buildings erected thereon bear postal address, No. 93, Jalan I-Park 1/10 and No. 69, Jalan I-Park 1/7, both located within Kawasan Perindustrian I-Park, Bandar Indahpura, 81000 Kulai, Johor

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MARKET OVERVIEW 2018****2.2.4 Rental Values**

In Johor, the average asking rentals for industrial premises in selected established industrial areas generally stable compared to the preceding year.

Industrial premises in Senai command higher asking rents in the region of RM1.20 per sq. ft. to RM1.60 per sq. ft. per month when compared to those located in the Pasir Gudang, which range from RM0.80 per sq. ft. to RM1.30 per sq. ft. per month.

In the Port of Tanjung Pelepas, asking monthly rentals for warehouses are in the region of RM2.20 per sq. ft.

3.0 PENANG**3.1 Industrial Sector**

There were only 80 approved manufacturing projects in Penang with total capital investment of RM3,825.2 million in the first three quarters of 2018 compared to the full year of 2017 where 120 manufacturing projects with total capital investment of RM10,813.7 million were approved in the state.

Penang: Approved Manufacturing Projects, 2016 to Jan-Sept 2018

Penang	2016	2017	Jan–Sept 2018
Number of Approved Projects	106	120	80
Total Capital Investment (RM Million)	4,293.9	10,813.7	3,825.2

Source: Malaysia Investment Development Authority (MIDA)

Significant announcements on investment and acquisition of manufacturing plants in the state include the following.

- JLL Malaysia Sdn Bhd, a subsidiary of Japan Lifeline Co Ltd, is investing RM70 million in Penang over the next two years. The investment includes the manufacturing equipment and acquisition of a 1.6-hectare plot at Penang Science Park, Bukit Minyak, for the construction of a factory, which is expected to begin operations in early 2020 and create 50 high-income jobs initially.
- Micron Technology Inc, a US manufacturer of solid-state drives (SSDs), will spend RM1.5 billion in mainland of Penang over the next five years and open a factory in the first half of 2019, which is expected to create about 1,000 jobs for locals.
- EMS provider, Plexus, is increasing its presence in Malaysia with the acquisition of a new 432,000 square-foot manufacturing facility in Penang. The facility is adjacent to Plexus' existing Riverside manufacturing facility in Penang, and when combined will result in a 37-acre Riverside campus.
- Sheet metal fabrication manufacturer UWC Group of Companies has opened its new plant in Batu Kawan Industrial Park in Bandar Cassia, Penang, with a RM150 million investment. The 5-hectare (12.5-acre) plant boasts a built-up area of 32,516 sq m (350,000 sq ft) and is equipped with state-of-the-art machinery and assembly lines for the production of diffusion pumps, semiconductor test equipment and heavy-duty.

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3.2 Industrial Property Market

3.2.1 Overview

During 2017, Penang recorded a total of 452 industrial property transactions, a marginal increase of 2.0% when compared to 443 transactions recorded in year 2016. Despite sustained transaction activity, the value of transaction was significantly lower by 25.4% at RM678.17 million (2016: RM908.54 million).

Penang: Industrial Property Volume and Value Transactions, 2016 to Jan-Sept 2018

Industrial Property Type	2016		2017		Jan-Sept 2018	
	Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)
Terraced	124	79.89	132	89.47	128	104.95
Semi-detached	83	145.99	93	172.94	58	114.84
Detached	56	484.40	44	239.90	32	383.97
Others ⁽¹⁾	180	198.26	183	175.86	88	150.70
Total	443	908.54	452	678.17	306	754.46

Source: National Property Information Centre (NAPIC)

Note: (1) Others include industrial vacant plot, industrial complex unit and other types of industrial property.

For the first nine months of 2018, there were a total of 306 transactions in the industrial sub-sector with total value of RM754.46 million. The terraced category is most actively transacted (41.8% share), followed by others (28.8%), semi-detached (18.9%) and detached (10.5%) categories. In terms of value, the detached category topped with RM383.97 million (50.9% share), followed by others (20.0%), semi-detached (15.2%) and terraced (13.9%) categories.

3.2.2 Supply: Existing and Future

The cumulative existing supply of industrial properties in Penang stood at 9,169 units as of 3Q2018. There was an increase of just 12 units from 2017, made up of eight semi-detached units and four detached units respectively.

Penang: Supply of Industrial Properties by Type, 2016 to 3Q2018

District	Existing Supply (No. of Units)			Future Supply (No. of Units)	
	2016	2017	3Q2018 ^(p)	Incoming	Planned
Terraced	5,044	5,083	5,083	22	54
Semi-detached	1,556	1,618	1,626	126	328
Detached	1,792	1,896	1,900	28	47
Flatted Factory	489	489	489	0	8
Industrial Complex	71	71	71	0	1
Cluster	0	0	0	0	0
Total	8,952	9,157	9,169	176	438

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

The terraced category continues to dominate the existing supply with circa 55.4% market share, followed by the detached and semi-detached categories at 20.7% and 17.7% share respectively. The majority of terraced factories in Penang are located in Seberang Perai Tengah District (3,085 units).

As for incoming supply, the semi-detached category dominates with 126 units (71.6%), followed by the detached and terraced categories with 15.9% and 12.5% share respectively. There is an upcoming supply of 68 units of semi-detached factories from Seberang Perai Tengah District.

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Penang: Supply of Industrial Properties by District, 2016 to 3Q2018

District	Existing Supply (No. of Units)			Future Supply (No. of Units)	
	2016	2017	3Q2018 ^(p)	Incoming	Planned
Timur Laut	807	808	808	2	2
Barat Daya	854	854	854	10	33
Seberang Perai Utara	1,377	1,401	1,401	0	156
Seberang Perai Tengah	5,090	5,219	5,231	106	131
Seberang Perai Selatan	824	875	875	58	116
Total	8,952	9,157	9,169	176	438

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

Meanwhile, a total of 438 industrial units are under planning stage, with some 74.9% comprising semi-detached units, followed by terraced (12.3%) and detached (10.7%) factories. The planned supply will come mainly from Seberang Perai Utara District (35.6%), Seberang Perai Tengah District (29.9%) and Seberang Perai Selatan District (26.5%).

3.2.3 Capital Values

There were several notable transactions of industrial land / premises reported in 2018.

Penang: Selected Industrial Property Transactions, 2018

No.	Location	Property Details	Land Area (sq ft)	Tenure	Date of Transaction	Consideration (RM)
1	<p>Property 1 Geran Mukim 261, Lot No. 679, Mukim 16, District Seberang Perai Utara, Pulau Pinang</p> <p>Property 2 Geran Mukim 262, Lot No. 681, Mukim 16, District Seberang Perai Utara, Pulau Pinang</p>	<p>Property 1 Single-storey warehouse building</p> <p>Property 2 Three units of 2½-storey terraced shop offices annexed to a single-storey warehouse</p>	<p>Property 1 47,088</p> <p>Property 2 38,115</p>	Freehold	February 2018	10,800,000
2	PN 3277, Lot 5023, Mukim 01, District Seberang Perai Tengah, Pulau Pinang	A parcel of vacant industrial land	87,058	Leasehold	July 2018	2,180,000

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No.	Location	Property Details	Land Area (sq ft)	Tenure	Date of Transaction	Consideration (RM)
3	PN 3278, Lot 5024, Mukim 01, District Seberang Perai Tengah, Pulau Pinang	A parcel of industrial land together with a single-storey detached factory annexed to a double-storey office building	129,264	Leasehold	July 2018	6,220,000
4	Pajakan Negeri 2850 and H.S.(D) 14852, Mukim 12, District Barat Daya, Pulau Pinang	A parcel of leasehold land together with the factory and all buildings	332,214	Leasehold	November 2018	50,000,000
5	Pajakan Negeri 9036, Mukim 12, District Barat Daya, Pulau Pinang	A parcel of leasehold land together with the factory and all buildings	514,730	Leasehold	November 2018	130,000,000

Source: Bursa Malaysia / Knight Frank Research

3.2.4 Rental Values

Detached factory and warehouse premises located within Bayan Lepas Industrial Park, a premier industrial area command high asking rents ranging from RM1.60 per sq ft to RM2.50 per sq ft per month.

Asking rentals in Bukit Tengah Industrial Park and Prai Industrial Estate are between RM1.10 per sq ft and RM1.80 per sq ft per month.

Meanwhile, rental rates in Bukit Minyak Industrial Park and Penang Science Park range from RM1.20 per sq ft to RM1.60 per sq ft per month.

4.0 PAHANG

4.1 Industrial Sector

Statistics from Malaysia Investment Development Authority (MIDA) showed that Pahang approved 11 manufacturing projects with high capital investment of RM8,975.5 million in the first three quarters of 2018.

In contrast, the 19 manufacturing projects approved in 2017 only have total capital investment of RM2,962.0 million.

Pahang: Approved Manufacturing Projects, 2016 to Jan-Sept 2018

Pahang	2016	2017	Jan–Sept 2018
Number of Approved Projects	19	19	11
Total Capital Investment (RM Million)	883.1	2,962.0	8,975.5

Source: Malaysia Investment Development Authority (MIDA)

- BASF Petronas Chemicals Sdn Bhd, a subsidiary of Petronas Chemical Group Bhd (PetChem), has recently concluded the start-up of a new plant in Gebeng, Kuantan. The plant, the first of its kind in South-East Asia, has successfully produced its first batch of highly reactive polyisobutene (HR-PIB). It has a total annual capacity of 50,000 metric tonnes.

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- Strategic Swiss Partners (SSP), a Switzerland company, aims to build a massive integrated ethylene and polymer production plant in Gebeng, Pahang. The company has already received the necessary approvals and has signed memorandums of understanding (MoU) with contract partners. The plant, to be built on about 200 acres of land in the Gebeng Industrial Estate, will include an integrated steam cracker with downstream facilities that will produce polyethylene, polypropylene, butadiene, benzene and other products.

4.2 Industrial Property Market

4.2.1 Overview

Pahang recorded a total of 168 transactions in the industrial sub-sector in 2017 with corresponding value of RM79.87 million. When compared to 2016, there was a 6.7% decline in the volume of transaction and a significant contraction of 27.0% in transacted value.

Pahang: Industrial Property Volume and Value Transactions, 2016 to Jan-Sept 2018

Industrial Property Type	2016		2017		Jan-Sept 2018	
	Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)
Terraced	50	21.26	24	7.60	31	13.27
Semi-detached	7	4.79	18	11.98	10	6.63
Detached	10	28.18	7	19.89	9	29.60
Others ⁽¹⁾	113	55.21	119	40.40	78	249.15
Total	180	109.44	168	79.87	128	298.65

Source: National Property Information Centre (NAPIC)

Note: (1) Others include industrial vacant plot, industrial complex unit and other types of industrial property.

From January to September 2018, 128 industrial properties valued at RM298.65 million changed hands in the state. Industrial properties categorised under 'others' recorded 78 transactions (60.9% share of transacted volume) with corresponding value of RM249.15 million (83.4% share).

4.2.2 Supply: Existing and Future

The cumulative existing supply of industrial properties in Pahang stood at 3,541 units as of 3Q2018. There was an increase of 51 units from 2017, made up of 40 terraced units, eight detached units and three industrial complexes respectively.

Pahang: Supply of Industrial Properties by Type, 2016 to 3Q2018

District	Existing Supply (No. of Units)			Future Supply (No. of Units)	
	2016	2017	3Q2018 ^(p)	Incoming	Planned
Terraced	2,243	2,243	2,283	79	192
Semi-detached	406	406	406	4	18
Detached	763	772	780	5	31
Flatted Factory	0	0	0	0	0
Industrial Complex	68	69	72	0	2
Cluster	0	0	0	0	0
Total	3,480	3,490	3,541	88	243

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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The terraced category continues to dominate the existing supply with circa 64.5% market share, followed by the detached and semi-detached categories with 22.0% and 11.5% share respectively. The bulk of terraced factories in Pahang are located in Kuantan District (1,182 units).

The incoming supply is made up of 79 units or 89.8% share in the terraced category. There are 41 units coming on-stream from Rompin District.

Pahang: Supply of Industrial Properties by District, 2016 to 3Q2018

District	Existing Supply (No. of Units)			Future Supply (No. of Units)	
	2016	2017	3Q2018 ^(p)	Incoming	Planned
Kuantan	1,847	1,857	1,867	29	117
Pekan	61	61	61	1	9
Rompin	213	213	213	41	17
Maran	66	66	67	0	1
Temerloh	755	755	755	1	3
Bentong	118	118	118	0	0
Jerantut	195	195	195	16	47
Bera	19	19	59	0	30
Raub	63	63	63	0	19
Lipis	105	105	105	0	0
Cameron Highlands	38	38	38	0	0
Total	3,480	3,490	3,541	88	243

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

Under planning are a total 243 industrial units, made up of 79.0% in the terraced category, followed by the detached and semi-detached categories with 12.8% and 7.4% share respectively. The planned supply will come from Kuantan District (48.1%), Jerantut District (19.3%) and Bera District (12.3%).

4.2.3 Capital Values

There was no significant transaction in Pahang during 2018.

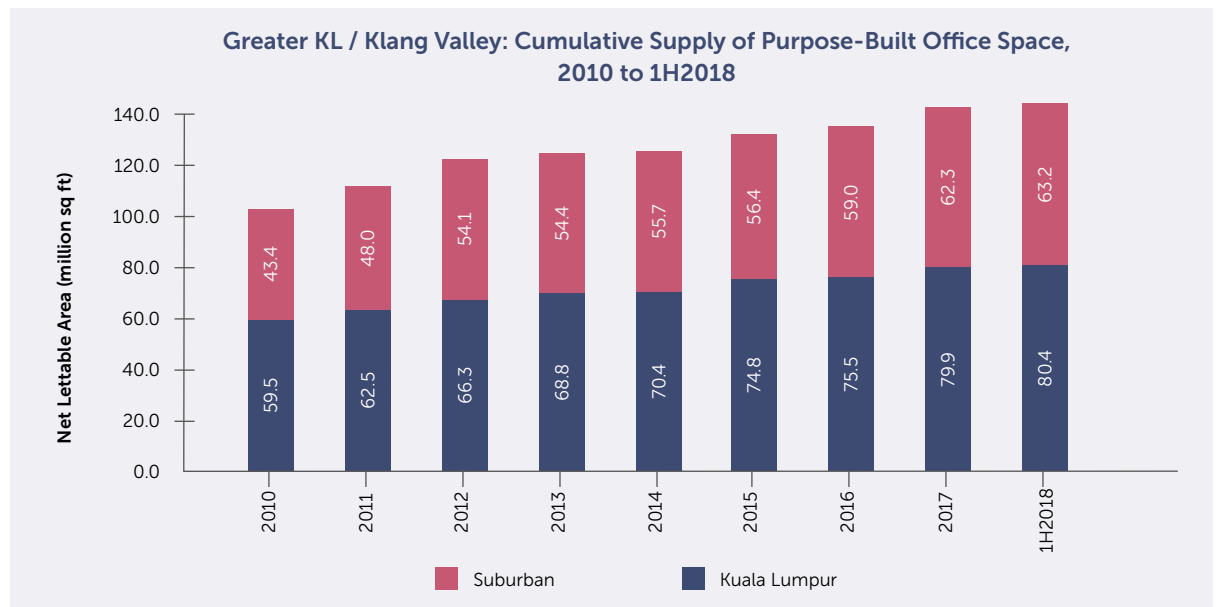
4.2.4 Rental Values

The majority of industrial premises in Pahang are located in Kuantan district, and they command asking rentals of RM0.40 per sq ft to RM0.80 per sq ft per month.

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MARKET OVERVIEW 2018****OFFICE MARKET****5.0 GREATER KUALA LUMPUR / KLANG VALLEY****5.1 Supply: Existing and Future**

As of first half 2018, the cumulative existing supply of purpose-built office space in Greater KL / Klang Valley was recorded at 143.6 million sq ft, an increase of 0.5 million sq ft from 2017.

Notable office completions during 1H2018 include Mercu 2 (530,000 sq ft NLA) in KL Eco City, Celcom Tower (450,000 sq ft NLA) in Petaling Jaya and Star Central (Phase 1C: 225,000 sq ft NLA) in Cyberjaya.



Source: National Property Information Centre (NAPIC) / Knight Frank Research

There has been steady growth in the supply of office space in Greater KL / Klang Valley with both the Kuala Lumpur and Suburban office markets growing at circa 5% annually on average.

There is a high impending supply currently under construction and in the planning pipeline. An estimated 19.0 million sq ft of new space is expected to enter the market between 2H2018 and 2020 - some 9.8 million sq ft will come from Kuala Lumpur with the remaining new stock of 9.2 million sq ft from Suburban locations.

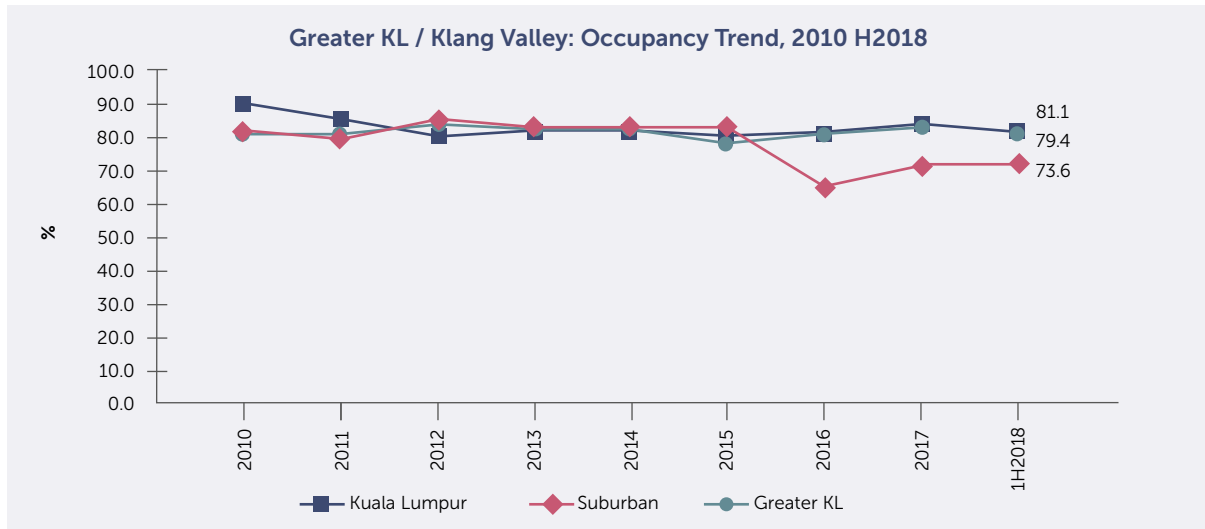
Notable office buildings slated for completion in 2019 include The Exchange 106, Menara Prudential and Equatorial Plaza in KL City; and Menara Star 1, 1Powerhouse and Symphony Square in Suburban locations.

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5.2 Occupancy Rates

As of 1H2018, the average occupancy rate of purpose-built office space in Kuala Lumpur was recorded at 81.1%, a marginal decline from 82.0% in 2017. This is largely attributed to the high incoming office supply from newly completed buildings which have yet to achieve significant occupancy levels.



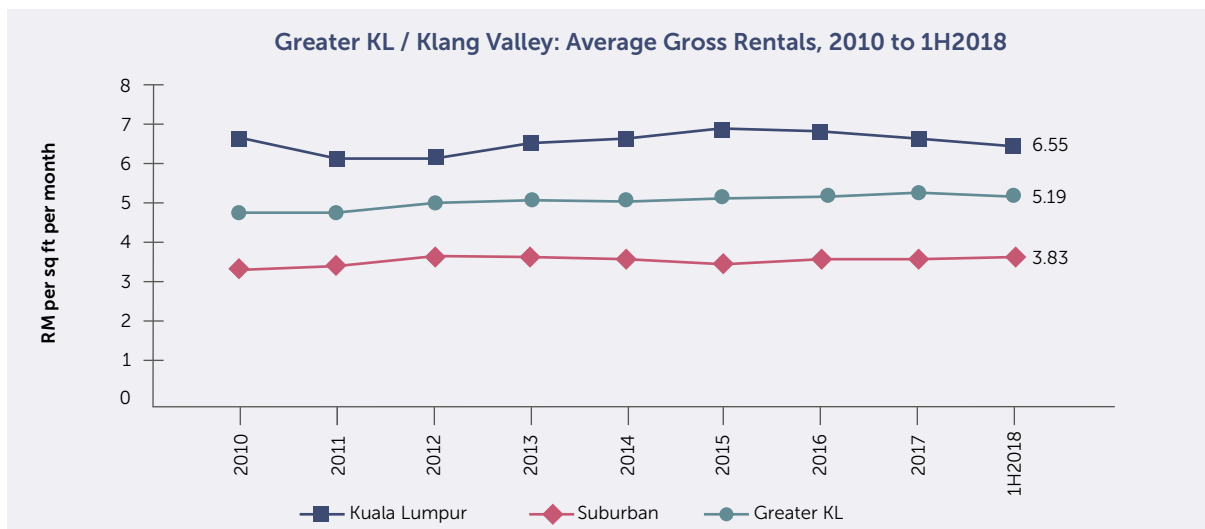
Source: National Property Information Centre (NAPIC) / Knight Frank Research

The average occupancy rate in Suburban areas has remained fairly stable in recent years. It continues to hover above the 80% mark since 2012 due to improved occupancies in selected locations such as Petaling Jaya and Subang Jaya.

5.3 Rental Rates

The average gross rental was recorded at circa RM6.55 per sq ft per month as of 1H2018, a slight decline from RM6.62 per sq ft per month recorded in 2017. Prime A+ and Grade A category offices in both KL City and KL Fringe, command higher asking rentals ranging between RM6.50 per sq ft and RM12.50 per sq ft per month.

As for the Suburban locations, average gross rentals have remained fairly flat since 2010 averaging at RM3.66 per sq ft per month. The average gross rentals in Putrajaya are in the region of RM5.61 per sq ft; RM4.41 per sq ft in Cyberjaya; RM4.17 per sq ft in Petaling Jaya; RM3.21 per sq ft in Shah Alam and about RM2.90 per sq ft in Kelana Jaya.



Source: National Property Information Centre (NAPIC) / Knight Frank Research

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MARKET OVERVIEW 2018****5.4 Capital Values**

The investment market was fairly active during 2018 recording three notable transactions with a combined value of circa RM270.8 million.

Greater KL / Klang Valley: Notable Office Transactions, 2018

Transaction Date	Building Name	Locality	Tenure	Estimated NLA (sq ft)	Consideration (RM)	Analysis (RM per sq ft)
Feb 2018	Wisma Mont Kiara ⁽¹⁾	Mont Kiara	Freehold	181,992	122,000,000	670
June 2018	Wisma UOA Pantai ⁽²⁾	Pantai	Freehold	157,083	120,000,000	764
Dec 2018	Fujitsu Building ⁽³⁾	Cyberjaya	Freehold	52,473	28,800,000	549

Source: Knight Frank Research

Notes:

- (1) Al Rajhi family of Saudi Arabia via R J Seven Sdn Bhd has acquired Wisma Mont Kiara, a 20-storey office building, from Singapore-based ARA Asset Management Ltd, at a consideration of RM122 million. The office building forms part of 1 Mont Kiara integrated development that also comprises 1 Mont Kiara Mall and Menara 1 Mont Kiara Office Suites.
- (2) UOA Real Estate Investment Trust has disposed Wisma UOA Pantai, a 5-storey office building with 2 mezzanine floors and 3 levels of basement carpark, to CIMB Bank Berhad for a total consideration of RM120 million.
- (3) Michaelian Holdings Sdn Bhd has disposed Fujitsu Building, a three-storey office building with two levels of basement car park for a total consideration of RM28.8 million. The freehold building is the first MSC status-granted standalone building in Cyberjaya.

Despite improving sentiment in the general market condition, the office market continues to be under pressure due to growing mismatch between supply and demand. Between 4Q2018 and 2020, approximately 5.9 million sq ft of office space is expected to come on-stream. With no immediate catalyst to boost demand, the office market will remain firmly tenant-led in the short to mid-term. Both rental and occupancy levels are expected to hover around the current range.

The trend of co-working and shared services is a sweet spot in the challenging office market environment. Labelled "space as a service", the rising popularity of this market segment is demand driven by freelancers, start-ups and small and medium sized entrepreneurs (SMEs). Meanwhile, developers and owners are taking stock of their upcoming projects and assets amid the gloomy outlook in the office segment.

Malaysia moved up nine places to rank number 15 in the World Bank Doing Business 2019 Report. Among the ASEAN countries, Malaysia is ranked second with 80.60 points after Singapore with 85.24 points.

In 2018, Malaysia also elevated six spots to 22nd place among 63 countries in the World Talent Ranking of International Institute for Management Development's (IMD), overtaking developed nations such as the UK, France and Japan (2017: 41st place among 63 countries).

The ranking was based on three main performance categories: investment and development, appeal and readiness. The assessment covers a wide range of areas including education, apprenticeships, workplace training, language skills, cost of living, quality of life, remuneration and tax rates.

MANAGER'S DISCUSSION AND ANALYSIS

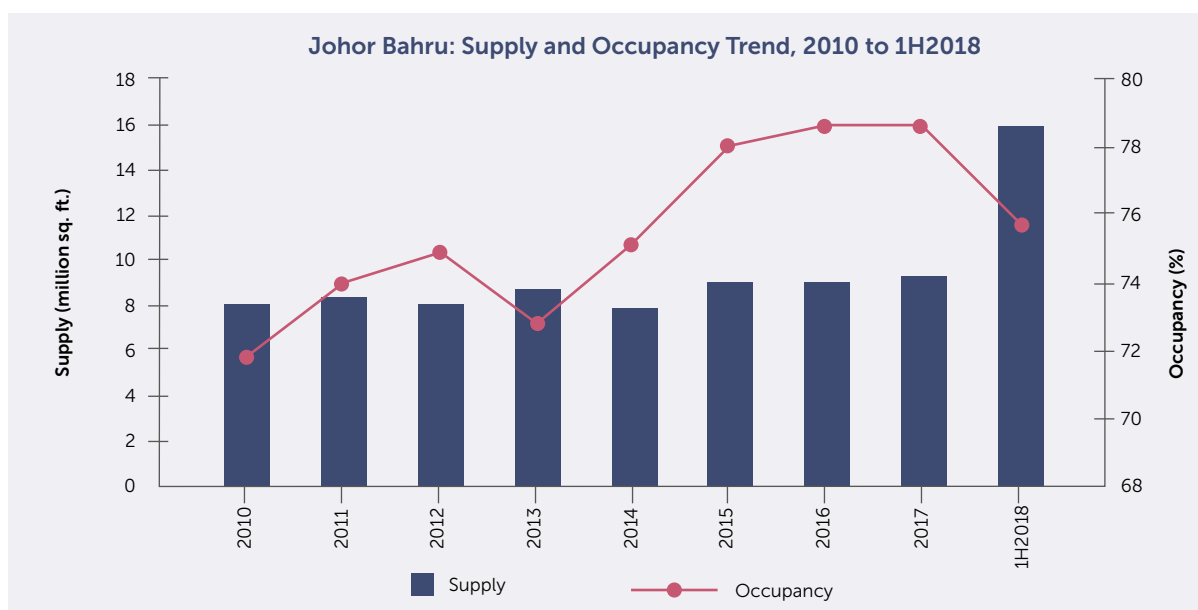
PROPERTY MARKET OVERVIEW 2018

6.0 JOHOR

6.1 Supply & Occupancy

As at the first half of 2018, the total net lettable area (NLA) of purpose-built office space which includes private buildings and government buildings in Johor Bahru stood at approximately 15.8 million sq ft with an overall average occupancy rate of about 75.6%.

Private buildings currently account for approximately 74.8% (6.28 million sq ft) of total purpose-built office space in Johor Bharu as of 1H2018.



Source: National Property Information Centre (NAPIC)

During the review period, two new purpose-built office buildings were completed with a combined NLA of approximately 680,000 sq ft. Medini 9 is a 21-storey office tower with retail space on the ground level and a 5-storey car park in Medini City.

Meanwhile, Menara JLand, which is located in Johor Bahru City Centre, is a 37-storey Grade A office tower with circa 260,000 sq ft NLA. It offers office suites sized from 5,000 sq ft to 12,000 sq ft, rise above the existing mid to upscale retail podium of Komtar JBCC. Menara JLand is currently in the process of applying for MSC status.

There are currently only three office towers with MSC status in Johor Bahru district, namely MSC Cyberport, Medini 9 Office Tower and Medini 7 Office. Those in the pipeline include Medini 10, UM Medini Lakeside and Menara MBBJ @ One Bukit Senyum.

MANAGER'S DISCUSSION AND ANALYSIS**PROPERTY MARKET OVERVIEW 2018****6.2 Rental Rates**

Rentals for prime and non-prime Central Business District (CBD) office space remained stable with asking gross rental for prime space ranging from RM2.40 per sq ft to RM3.50 per sq ft per month while non-prime office space command average gross rental of RM2.80 per sq. ft. per month. These rates are generally inclusive of the provision of shared services comprising centralized air conditioning, security and cleaning services for the common areas.

Johor: Rental Range and Occupancy of Selected Office Buildings, 1H2018

Building Name / Location	Estimated NLA (sq ft)	Estimated Occupancy Rate	Rental Range (per sq ft / month)
Johor Bahru City Square Jalan Wong Ah Fook	579,650	85%	RM3.00 - RM3.50
Public Bank Tower Jalan Wong Ah Fook	171,000	75%	RM2.30
Menara MSC Cyberport Jalan Bukit Meldrum	370,000	70%	RM2.40 – RM3.00
Menara Ansar Jalan Trus	241,000	95%	RM3.50
Bangunan KWSP Jalan Dato Dalam / Jalan Syed Mohd Mufti	145,000	75%	RM2.80
Menara Tabung Haji Jalan Air Molek	248,900	95%	Other Levels: RM2.40
Menara Pelangi Taman Pelangi	228,647	85%	RM2.60 - RM2.80
Menara Zurich Jalan Dato' Abdullah Tahir	350,000	65%	RM2.80

Source: Knight Frank Research

Notable offices that have occupancies exceeding 80% are City Square Office Towers, Menara Komtar, Menara Ansar and Medini 6.

7.0 PENANG**7.1 Supply & Occupancy**

The cumulative supply of purpose-built office space in Penang stood at about 12.08 million sq ft as at 1H2018.

The overall occupancy rate of office space in Penang improved marginally to record at 82.7% in 1H of 2018 (2H2017: 82.2%) (source: JPPH).

VOS Lifestyle Suites is a proposed 32-storey office block located at Bukit Dumbar. Construction works will start in January 2019. Expected to complete by 2022, this development will have 439 units sized from 364 sq ft to 521 sq ft for sale on strata basis and at prices ranging from RM1,225 per sq ft to RM1,300 per sq ft.

The occupancy rates for the four prime office buildings in Georgetown remain at 1H2018's level, ranging from 92% to 100%.

7.2 Rental Rates

Overall, the office rental market in Penang state remained stable with the exception of a few newer buildings which experienced rental growth. Older buildings in George Town have lower monthly rent rates averaging RM2.80 per sq ft to RM3.10 per sq ft while newer buildings, in particular those with MSC status accreditation, command rentals from RM3.60 per sq ft to RM4.80 per sq ft.

Following their Tier 1 MSC status accreditation in 1H2018, asking rents at Albukhary Building (Wawasan Open University) in George Town, jumped from RM2.80 per sq ft to RM3.60 per sq ft per month.



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Total space under management in Axis-REIT's portfolio reached 9.3 million sq. ft. as at 31 December 2018. With the Fund's robust pipeline of strategic asset acquisitions and venturing into two built-to-lease facilities, the portfolio is poised for further growth.

SIVA SHANKER
Head of Investments

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We are happy to announce the successful acquisition of four properties for a total consideration of RM140.2 million and the lease of a land of RM19.9 million during 2018. The year presented an interesting environment for our investment efforts. The first half of 2018 saw a cautious wait-and-see attitude from asset owners ahead of the 14th General Election, which was held on 9 May 2018. Towards the second half of 2018, the business environment bounced back with optimism and gained more traction as the new administration eased into government. New initiatives by the government and continued engagements with various private sector stakeholders were warmly welcomed on both the local and foreign front. Within the commercial property sector, industrial property transactions dominated the market as other commercial asset deals slowed. While we maintained an aggressive and proactive stance in pursuing potential acquisitions, the industrial property market continued to present a climate of competitive buying amid ample opportunities in more than just the usual prime industrial areas in Selangor, Johor and Penang.

Enhanced Asset Evaluation Process

With increasing focus on meeting sustainability standards in the acquisitions process, the Manager identified several areas for improvement in terms of asset quality – one of the seven shortlisted material Economic, Environmental, Social and Governance (“EESG”) matters for Axis-REIT. Consequently, the acquisition due diligence process that sets the foundation for the successful purchase of high-quality, yield-accretive assets was enhanced, with improvements in the financial and legal due diligence, as well as the property valuation processes.

- Increased financial due diligence: The viability of all incoming tenants/lessors' ability to service rental must undergo and pass a stringent check that includes a review of their current and past financials, with focus on historically consistent and prompt rental payments.
- Negotiation of sale & purchase and lease/tenancy contracts: The strength of covenants and conditions precedent are negotiated to protect Axis-REIT as the asset owner through various mechanisms, such as fulfilment of conditions for requisite repairs, and delivery of local authority approval documents prior to the completion of each acquisition.
- Site selection and industry monitoring: Identifying properties situated within growth and high-demand areas remains a high priority. Above and beyond selecting potential acquisition targets with realistic market valuations and yield-accretive tenancies/leases, we also scrutinise the prospects of the asset operators in their respective industries, as well as the location of the asset in relation to serving the needs of their specific industries.

Acquisitions of Properties

With the four acquisitions completed in FYE2018, the Fund's space under management increased by approximately 568,398 sq. ft., taking the total portfolio area to 9,349,267 sq. ft. at the close of the financial year. These acquisitions contributed to an increase in the Fund's total AUM.

Land Lease

The Fund obtained the SC's waiver in December 2017 for the lease of a 7.02 acre land from Malaysia Airports Holdings Berhad for the development of Axis Aerotech Centre @ Subang. The land tenure is an initial sub-lease of 30 years of automatic renewal and/or extension for a further 19 years up to 30 December 2066. Further details on the completed development is discussed in the Project Management Report.

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SALIENT DETAILS OF ACQUISITIONS COMPLETED IN 2018:

Property Name	:	Axis Shah Alam Distribution Centre 4
Address	:	Lot PT 5038-5041, Jalan Teluk Datuk 28/40, Off Persiaran Sepang, Seksyen 28, Shah Alam, 40400 Selangor Darul Ehsan
Property Description	:	4 warehouse blocks, a double-storey detached office building, a double-storey canteen building and 2 guardhouses
Property Type	:	Manufacturing Facility
Property Age	:	6 – 27 years
Title Details	:	H.S.(D) 281156, No. PT 674, Pekan Hicom Daerah Petaling, Negeri Selangor H.S.(D) 29664, No. PT 5042, Mukim Damansara, Daerah Petaling, Negeri Selangor
Land Tenure	:	Freehold
Nett Lettable Area	:	254,233 sq. ft.
Existing Use	:	Warehousing and assembly of electrical goods
Occupancy Rate	:	100%
Major Tenant	:	Teraju Sinar Sdn. Bhd.
Tenancy/Lease Period	:	Fixed period of 6 years
WALE	:	6 years
Date of Acquisition	:	4 June 2018
Purchase Price	:	RM87,000,000*
Date of Valuation	:	12 April 2018
Valuation	:	RM87,000,000
Independent Valuer	:	PPC International Sdn. Bhd.
Vendor	:	Teraju Sinar Sdn. Bhd.

* RM4,000,000 has been held back from the purchase price pending the fulfilment of a condition precedent.



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Property Name	:	Beyonics i-Park Campus Block E
Address	:	No. 93, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, Bandar Indahpura, 81000 Kulai, Johor
Property Description	:	Single-storey detached factory with mezzanine office
Property Type	:	Manufacturing Facility
Property Age	:	1 year
Title Details	:	H.S.(D) 69702, No. PT 110365, Mukim Kulai, Daerah Kulai, Johor
Land Tenure	:	Freehold
Nett Lettable Area	:	132,706 sq. ft.
Existing Use	:	Manufacturing and warehouse for electronics manufacturing services
Occupancy Rate	:	100%
Major Tenant	:	Beyonics Precision Malaysia Sdn. Bhd.
Tenancy/Lease Period	:	Fixed period of 10 years
WALE	:	9 years
Date of Acquisition	:	9 August 2018
Purchase Price	:	RM31,500,000
Date of Valuation	:	1 June 2018
Valuation	:	RM32,000,000
Independent Valuer	:	C H Williams Talhar & Wong Sdn. Bhd.
Vendor	:	Axis AME IP Sdn. Bhd. ("AAIP")*

* This is a related party transaction by virtue of the Manager's Directors' interests. Mr Stephen Tew Peng Hwee @ Teoh Peng Hwee, who is a Non-Independent Non-Executive Director of the Manager, is also a director of AAIP and he has indirect shareholdings in AAIP vide Axis IE Sdn. Bhd.. Dato' Abas Carl Gunnar Bin Abdullah, the Executive Deputy Chairman of the Manager, also has indirect shareholdings in AAIP vide Axis IE Sdn. Bhd.



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Property Name	:	Indahpura Facility 1
Address	:	No. 69, Jalan i-Park 1/7, Kawasan Perindustrian i-Park, Bandar Indahpura, 81000 Kulai, Johor
Property Description	:	Single-storey detached factory with mezzanine office
Property Type	:	Manufacturing Facility
Property Age	:	2 years
Title Details	:	H.S.(D) 64282, No. PT 107782, Mukim Kulai, Daerah Kulai, Johor
Land Tenure	:	Freehold
Nett Lettable Area	:	33,448 sq. ft.
Existing Use	:	Manufacturing and warehouse for physical vapour deposition coating services
Occupancy Rate	:	100%
Major Tenant	:	Oerlikon Balzers Coating Malaysia Sdn. Bhd.
Tenancy/Lease Period	:	Fixed period of 7 years
WALE	:	6 years
Date of Acquisition	:	9 August 2018
Purchase Price	:	RM7,200,000
Date of Valuation	:	1 June 2018
Valuation	:	RM8,000,000
Independent Valuer	:	C H Williams Talhar & Wong Sdn. Bhd.
Vendor	:	Axis AME IP Sdn. Bhd.*

* This is a related party transaction by virtue of the Manager's Directors' interests. Mr Stephen Tew Peng Hwee @ Teoh Peng Hwee, who is a Non-Independent Non-Executive Director of the Manager, is also a director of AAIP and he has indirect shareholdings in AAIP vide Axis IE Sdn. Bhd. Dato' Abas Carl Gunnar Bin Abdullah, the Executive Deputy Chairman of the Manager, also has indirect shareholdings in AAIP vide Axis IE Sdn. Bhd.



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Property Name	:	Senawang Industrial Facility
Address	:	Lot 73 & 74, Persiaran Bunga Tanjung 1, Senawang Industrial Park, 70400 Seremban, Negeri Sembilan
Property Description	:	3-storey office annexed with a 1.5-storey warehouse factory and other ancillary buildings
Property Type	:	Manufacturing Facility
Property Age	:	19 years
Title Details	:	Geran 114864, Lot 32553, Pekan Senawang, Daerah Seremban, Negeri Sembilan
Land Tenure	:	Freehold
Nett Lettable Area	:	148,011 sq. ft.
Existing Use	:	Manufacturing and warehouse for wiper blades
Occupancy Rate	:	100%
Major Tenant	:	Nippon Wiper Blade (M) Sdn. Bhd.
Tenancy/Lease Period	:	Fixed period of 10 years
WALE	:	8 years
Date of Acquisition	:	5 December 2018
Purchase Price	:	RM18,500,000
Date of Valuation	:	8 June 2018
Valuation	:	RM21,000,000
Independent Valuer	:	First Pacific Valuers Property Consultants Sdn. Bhd.
Vendor	:	Gandour (Malaysia) Sdn. Bhd.



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Disposals

There were no property disposals in FYE2018.

Looking Ahead

With any real estate investment trust, the growth of its portfolio lies in its pipeline of future acquisitions and developments. We expect an exciting investment agenda in the 2019 market.

The selection of assets remains focused on:

- Grade A logistics facilities and generic manufacturing facilities with long leases from tenants with strong covenants;
- Well-located retail warehousing in areas that are ideal for last-mile distribution; and
- Office, business parks and industrial properties with potential for future enhancement

The acquisition strategy continues to be anchored by the following stringent requirements:

- Strategic key market locations;
- Yield-accretive assets;
- Strong tenant covenants and lease structures;
- Land title security;
- Valuation;
- Capital appreciation potential; and
- Future redevelopment potential.

The Manager is currently in talks for several potential acquisitions worth approximately RM200 million. We are constantly in various stages of discussions with potential sellers, as well as in the process of initial talks for built-to-suit development projects. We continue to focus on industrial warehouses and manufacturing facilities as our preferred asset class. In the last two years, our efforts have also been equally invested in prospecting built-to-suit deals that will culminate in the construction of Grade-A industrial facilities with yield-accretive leaseback agreements to the Fund.

As we expand into regional industrial areas in Kuantan, Pahang and Senawang, Negeri Sembilan, we are excited to note that more industrial areas in Malaysia are maturing at a healthy rate, and are opening up new geographical opportunities for both operators and asset owners. We are also seeing companies and operations maturing to a level where there is sufficient scale to consolidate in strategic locations and to operate in facilities optimised to the operator's requirements.

Supportive government policies, such as the 3+2 catalytic sectors in the 11th Malaysia Plan, are expected to drive continued investment interest and create robust employment opportunities. These focus sectors are chemical and chemical products, electrical and electronics and the machinery and equipment sectors, with the aerospace and medical devices subsectors having been identified as the two additional areas with high growth potential. Axis-REIT is strategically positioned as a niche business space provider for these sectors – both in its capacity as a property owner, as well as a built-to-suit developer.



AXIS

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Across all fronts, stakeholders are more cognizant of the impact that businesses have on the economy. Proactive stakeholder engagements with existing institutional and retail investors as well as prospective investors ensure that we reach and cater to all parties with timely information.

CHAN TZE WEE

Manager, Investments and Investor Relations

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Bi-annual Results Briefings

Every year, we organise two comprehensive results briefings and Q&A sessions with analysts, fund managers and members of the media. This year's results briefings were held on 24 January 2018 and 7 August 2018 for the announcement of Axis-REIT's fourth quarter 2017 and second quarter 2018 results respectively. These briefings typically cover Axis-REIT's latest quarterly financial and operational performance, as well as its business outlook in detail. More importantly, these sessions are led by our CEO as the primary spokesperson alongside members of the Management Team, and this presents a platform for direct interaction between investors and with key representatives from the Manager.



Briefing and presentation of results

Foreign Investors Outreach Programme

We completed foreign roadshows in the first and third quarter of 2018 as part of our continued engagement with the regional investment community and to further enhance Axis-REIT's foreign unitholder base.

One-on-one Meetings / Site Visits

We receive requests for one-on-one meetings from both local and foreign analysts and fund managers throughout the year, and accommodate such requests, where possible. We also organise site visits for investors who are keen to follow-up on the latest acquisitions or the progress of ongoing built-to-suit projects in the Fund's portfolio.

Annual General Meeting 2018

Axis-REIT's Sixth Annual General Meeting ("AGM") was held on 26 April 2018 at the Sime Darby Convention Centre, Kuala Lumpur. At the meeting, the Fund's Audited Financial Statements for FYE2017 were tabled to and approved by Unitholders. Unitholders also voted on resolutions for a Proposed Authority and a Proposed Renewal of IDR Authority. The AGM is an annual event which allows all Unitholders to raise questions and seek clarification pertaining to Axis-REIT from the Board of Directors and senior management.



Presentation during the AGM

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Channels of Communication

A host of other non-direct communication methods are utilised to support the usual events mentioned above, to promote effective engagement and to provide balanced, timely and understandable information about the business and financial performance of Axis-REIT. The Axis-REIT website and Bursa Securities listed company announcements page are the key publication channels of these materials. In utilising these two platforms, we aim to keep unitholders and stakeholders of Axis-REIT informed of all material information and developments, whether financial or non-financial. The key publications can be categorised as follows:

- Quarterly Financial Reports, which are released to Bursa Securities on the day of approval by the Board, and concurrently posted on Axis-REIT's website.
- Annual Reports, which are published and distributed to all unitholders of Axis-REIT. These are also released to Bursa Securities and made available on Axis-REIT's website.
- Disclosure Announcements comprising announcements of material information and other announcements which are procedural and administrative in nature are released to Bursa Securities on a timely basis. All disclosure announcements are posted on Axis-REIT's website within 24 hours of the source announcement being posted on Bursa Securities.

Media Coverage

A selection of news clippings below illustrate the press coverage we received on our reported financial results and strategic direction in 2018.



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Selected Research Coverage

The collage displays several research reports and analyst briefings. Key sections include:

- Axis REIT (axisreit):** Reports on growth track, upgrades to BUY, and analysis of FY18 results.
- Axis REIT (axisreit) More industrial assets ahead:** Discusses the acquisition of industrial assets and the company's strategy.
- Axis REIT (axisreit) Industrial asset still in focus:** Focuses on the company's performance in the industrial sector.
- Axis REIT (axisreit) Resilient in a Challenging Environment:** Analyzes the company's resilience in a challenging market environment.
- Axis REIT (axisreit) Maintaining NEUTRAL:** Provides a neutral rating and analysis of the company's financials and prospects.

Investor Outreach

Axis-REIT is an active industry participant across relevant industry-themed events such as finance and regulatory, real estate and manufacturing-related events. These investor outreach programmes expand the scope of stakeholder engagement beyond that which is covered by the Results Briefings and Annual General Meeting.

These programmes include the management team's participation in the following public and private events during 2018:

Date	Events
24 January	Invest Malaysia Conference 2018
23 February	Investor Meeting: EPF Private Markets Department
6 March	Investor Meeting & Site Visit: Asset Management One (Japan)
29-30 March	Investor Meeting: Tokyo Non-Deal Roadshow
14 May	Hong Leong Investment Bank REIT Day
18 May	Investor Meeting: Martin Currie (Australia)
11 July	Investor Meeting: KAF Securities
17 July	Maybank IB REIT Corporate Day
2 August	5th Edition REIT Asia Pacific 2018, Singapore
4 September	Investor Meeting: UOB Kay Han
18 September	Investor Meeting: Sumitomo Mitsui Asset Management (Singapore)
24 September	REHDA Annual Property Developers Conference
4 October	Investor Meeting: NH Securities (Korea)
12-14 October	Securities Commission Malaysia's InvestSmart Fest 2018
6 November	Investor Meeting: Hong Kong Non-Deal Roadshow
17 December	MIDA Sabah Industrial Park & Investment Forum

MANAGER'S DISCUSSION AND ANALYSIS

INVESTOR RELATIONS REPORT

Awards and Recognition

Axis-REIT is proud to be the recipient of the following accolades in 2018:

- The Asia Pacific Best of the Breeds REITs Awards 2018, Islamic REIT (Malaysia)
- The Asia Pacific Best of the Breeds REITs Awards 2018, Industrial REIT (Malaysia)
- National Annual Corporate Report Awards (NACRA) 2018: Merit Award Recipient

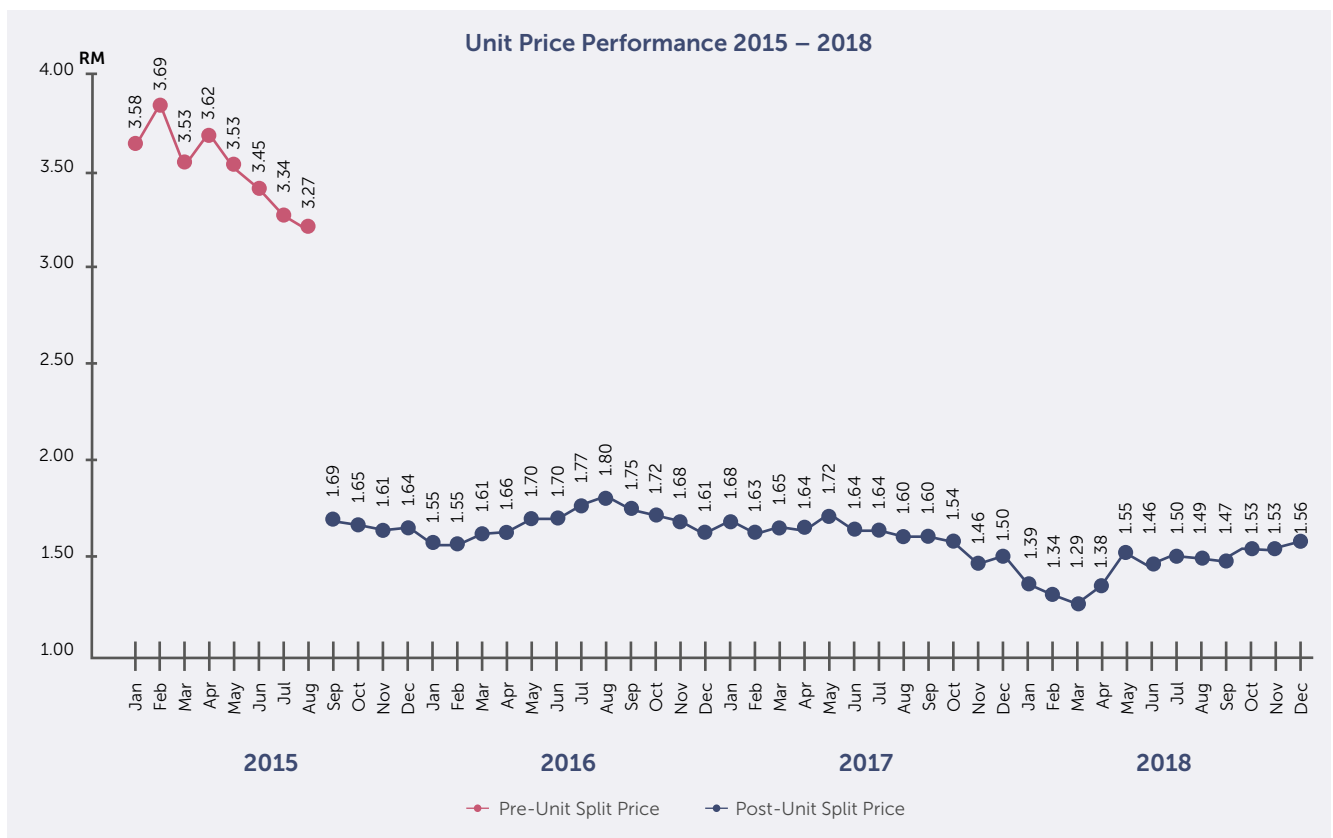
Unit Price and Volume Overview

- Axis-REIT's unit price opened on 2 January 2018 at RM1.50;
- The closing price on 31 December 2018 was recorded at RM1.56;
- The highest closing price achieved in 2018 was RM1.59 in December, whereas the lowest closing price was RM1.19 in March;
- The number of Unitholders increased by 10% year-on-year, from 4,184 as at 31 December 2017 to 4,585 Unitholders as at 31 December 2018;
- The number of unitholdings increased to 1,237,285,288 units, following the issuance of additional units from the IDRP.

5-Year Unit Price Performance Highlights

	2014	2015*	2016*	2017*	2018*
Closing Unit Price as at 31 December	3.62	1.64	1.61	1.50	1.56
High	3.70	1.85	1.81	1.72	1.59
Low	2.80	1.55	1.50	1.45	1.19
NAV	2.42	1.23	1.26	1.29	1.34
Market Capitalisation (RM'000)	1,982	1,803	1,803	1,849	1,930

* Unit prices adjusted to reflect the Unit Split



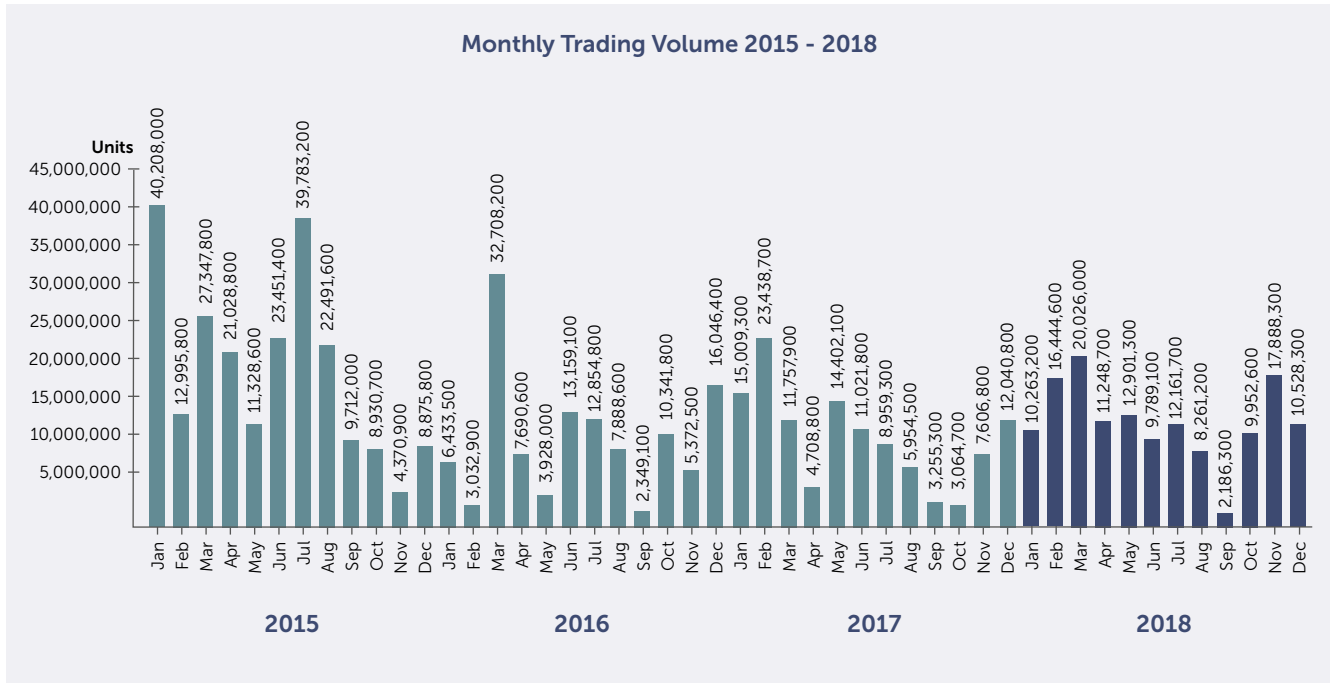
MANAGER'S DISCUSSION AND ANALYSIS

INVESTOR RELATIONS REPORT

Transaction Volume Highlights

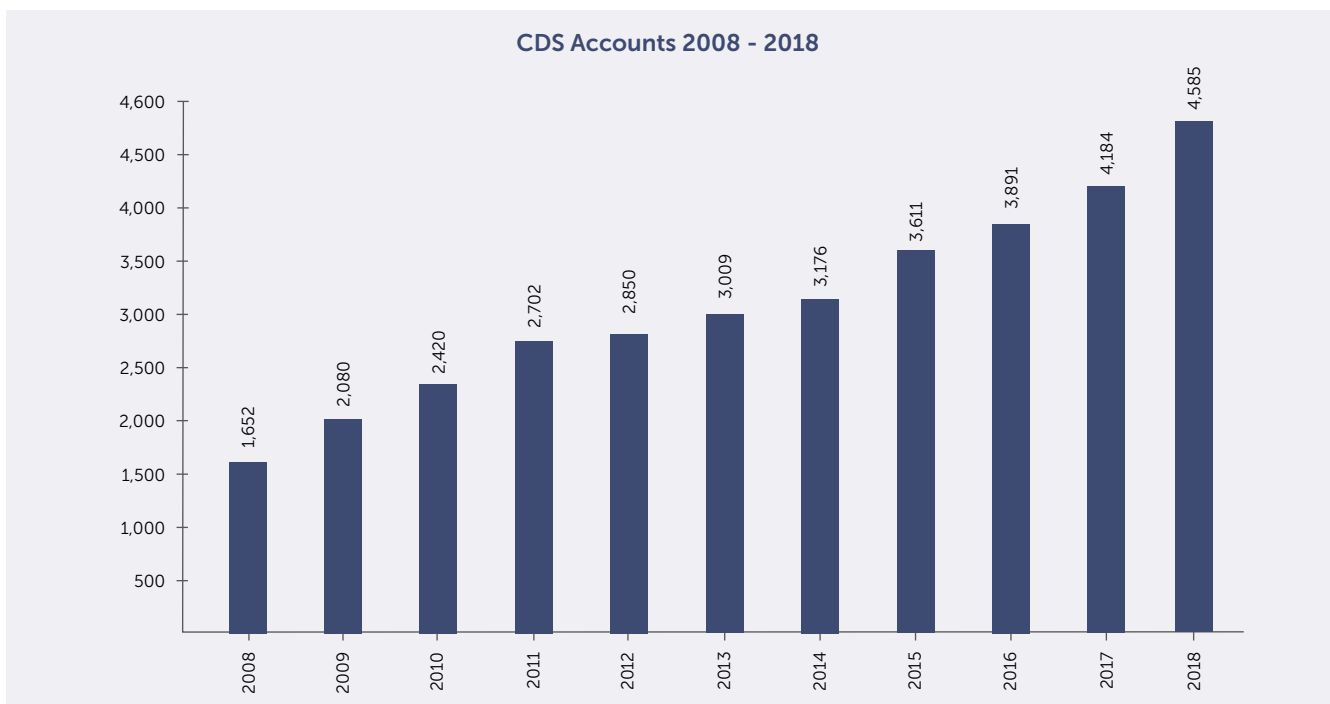
Axis-REIT's trading volume saw a total of 141,751,300 units traded in 2018.

- Average monthly volume: 11,812,608 (1 January 2018 – 31 December 2018)
- Highest monthly volume: 20,026,000 (March 2018)
- Lowest monthly volume: 2,186,300 (September 2018)



CDS Account Highlights

The number of Central Depository System ("CDS") accounts in which Axis-REIT units traded on increased from 4,184 accounts in 2017 to 4,585 accounts in 2018.

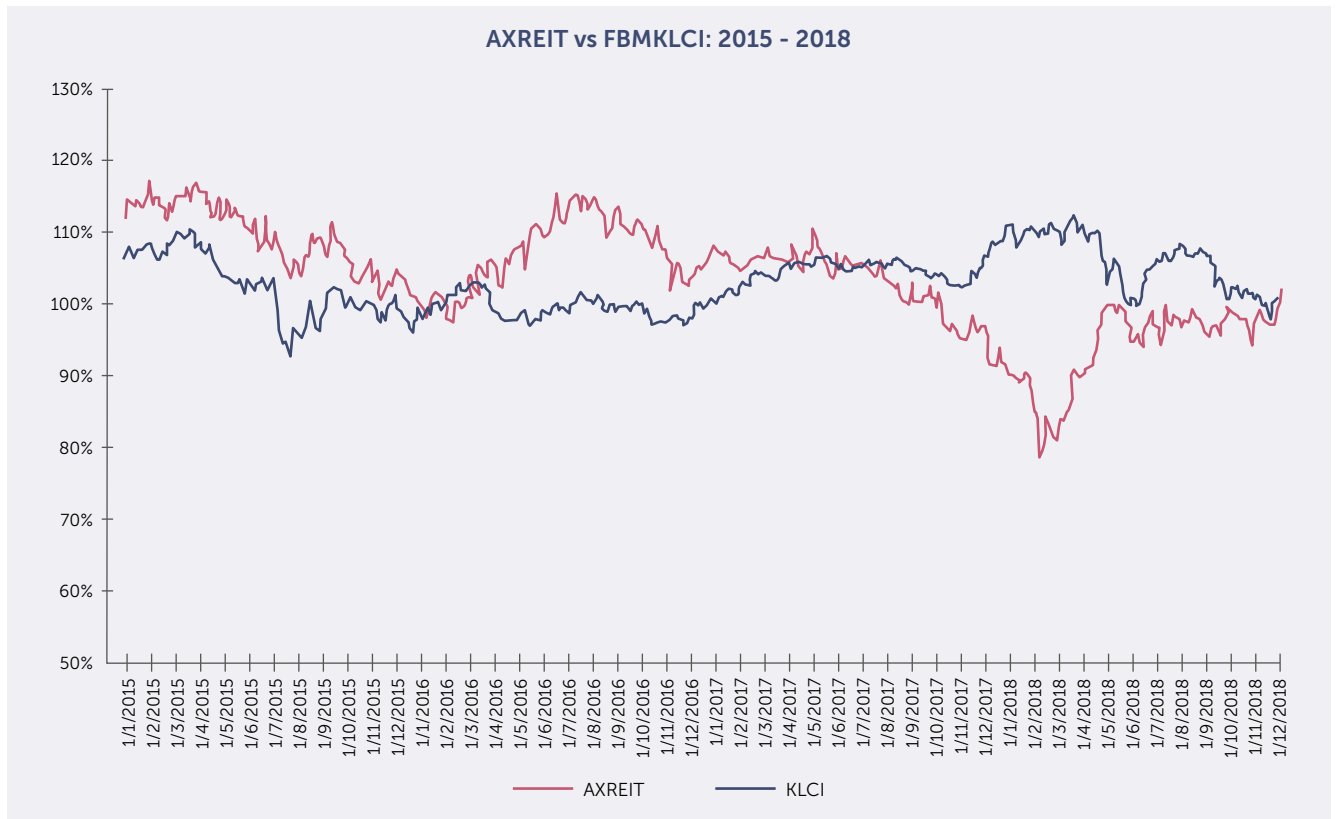


MANAGER'S DISCUSSION AND ANALYSIS

INVESTOR RELATIONS REPORT

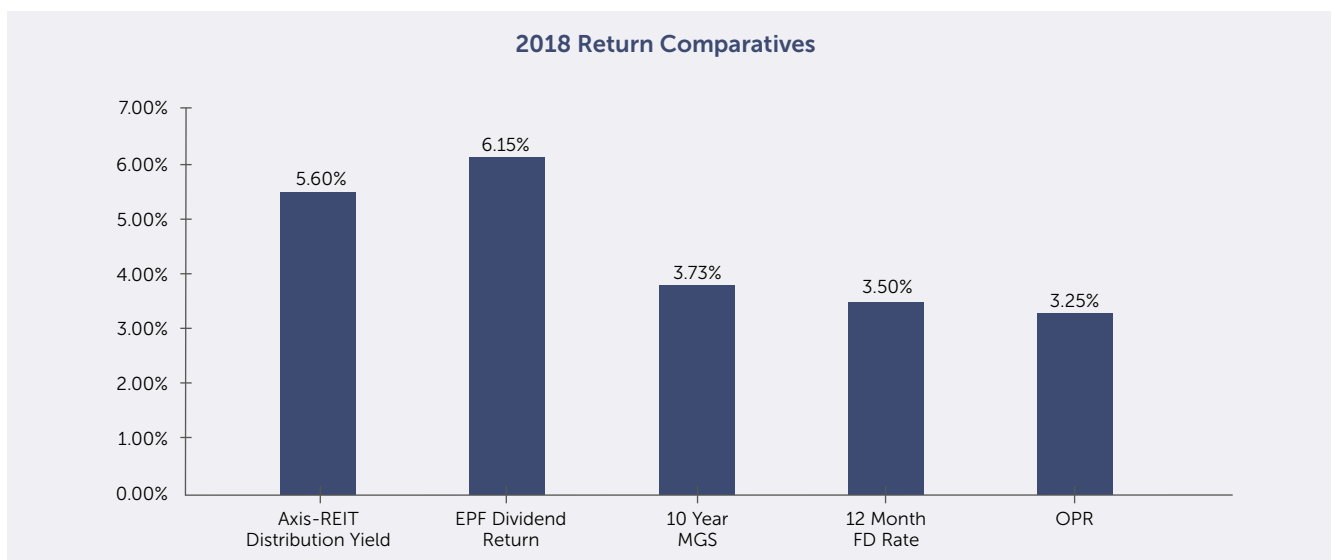
Price Performance vs FBMKLCI

Indexed against the FTSE Bursa Malaysia-Kuala Lumpur Composite Index ("FBMKLCI"), Axis-REIT's unit price recorded a softer performance against a bullish stock market in the first half of 2018, but thereafter outperformed the key index in the second half of the year, as investors turned to defensive stocks amid the market rout. Taking the whole year's performance into consideration, Axis-REIT's unit price rose 4% during 2018, against the FBMKLCI's 6% decline.



Annual Returns Highlights

Axis-REIT continues to provide investors with competitive returns against other investment instruments in the Malaysian capital markets.





**MANAGER'S
DISCUSSION
AND ANALYSIS**

MARKETING
REPORT



For 2018, we built on the initiatives that we started in 2017, with key outputs being a brand toolkit and a ramp-up of digital marketing campaigns covering social media and direct digital broadcasting.

SIVA SHANKER
Head of Investments

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

As Axis-REIT's brand custodian, the Marketing Department plays a key role in shaping and maintaining public perception of the Axis-REIT brand. This involves managing the 360-degree perception of the Fund in the eyes of all stakeholders, from employees to our tenants, investors to estate agents, members of the press and the general public.

IMPACT ON EFFECTIVE BRANDING ON OUR BUSINESS SPACE PARTNERS

We believe an effective brand should convey to the various stakeholders the value proposition of the company, and the expected experience associated with its products and services. We are leveraging on Axis-REIT's reputation as a leading industrial business space provider to entrench the brand to be synonymous with a portfolio of Grade A properties at choice locations with top notch facilities.

As a real estate solutions provider, we recognise that the benefits of a strong brand transcend the organisation: For our tenants, we believe having a "branded", recognisable address reinforces their own respective brand positioning and complements their image as reputable businesses.

For our real estate agents, we believe their clients gain assurance and confidence in the strength of the Axis-REIT brand, which helps them drive and close deals. A strong brand will help set the tone and facilitate their marketing efforts in promoting the Fund's properties as the preferred choice for business space requirements.

Activities and Initiatives 2018

The Marketing Team's initiatives specifically target seven main stakeholders, intersecting with various categories of work and liaising with key departments in ARMB. The various initiatives and activities undertaken in 2018 are as below:

Stakeholders	Key Department(s)	Events/Initiatives
Employees	Human Resource	<ul style="list-style-type: none"> - Volunteer engagement for CSR initiatives - Annual Dinner
Tenants	Leasing	<ul style="list-style-type: none"> - helloaxis.com.my (tenant management portal) - Axis Link Newsletter - Festive Greetings - Tenant survey
Investors	Investor Relations/Finance/Investments	<ul style="list-style-type: none"> - Annual General Meeting (AGM) - Analyst Briefings - Investment Fairs, Exhibitions and Roadshows
Media	Investor Relations/CEO's office	<ul style="list-style-type: none"> - Handover of Axis Mega Distribution Centre to Nestlé Products Sdn Bhd - Ground breaking ceremony for Axis Aerotech Centre - Media Night - Press Briefings
Communities (CSR)	CEO's office	<ul style="list-style-type: none"> - RISM Charity Run - Back to School Programme - Charity Bazaar
Estate Agents	Leasing/Investments	<ul style="list-style-type: none"> - Agents Briefings (Penang, Klang Valley, Johor) - Agent's Night
Prospects	Leasing/Investments	<ul style="list-style-type: none"> - Networking Events - Advertising (newspaper, Facebook, property portals, Google Ads, banners, billboards) - Cold calls

MANAGER'S DISCUSSION AND ANALYSIS MARKETING REPORT

Branding

In continuation of the brand initiatives undertaken in 2017, we rolled out a brand toolkit for Axis-REIT which was approved by the Board of the Manager in April 2018. This toolkit is a stylistic guide that helps to create a strong and consistent application of the Fund's unique brand identity. It defines the tagline, official fonts, logos, colour palette, graphic devices, image type and tone. The application of a brand toolkit is an important part of any successful marketing strategy as it strengthens brand awareness among stakeholders and conveys a strong sense of professionalism.

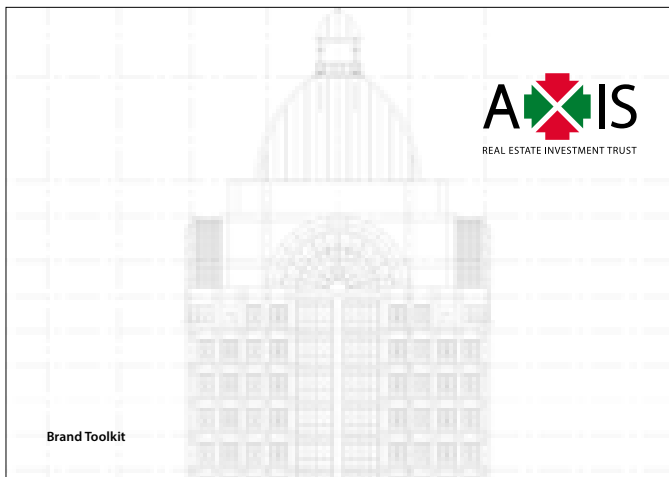
Following the launch of the brand toolkit, the team developed and refreshed a range of marketing collaterals for the year. These include diaries, pens, envelopes, letterheads powerpoint presentations and folders.



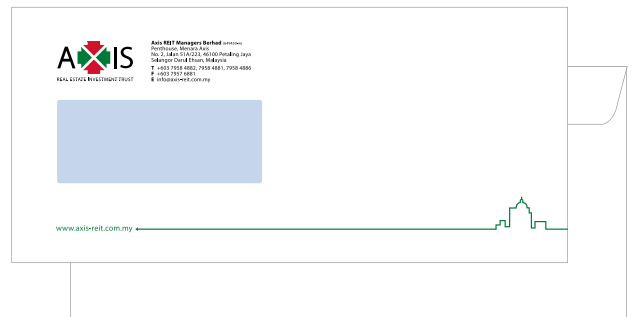
Axis-REIT 2019 diary



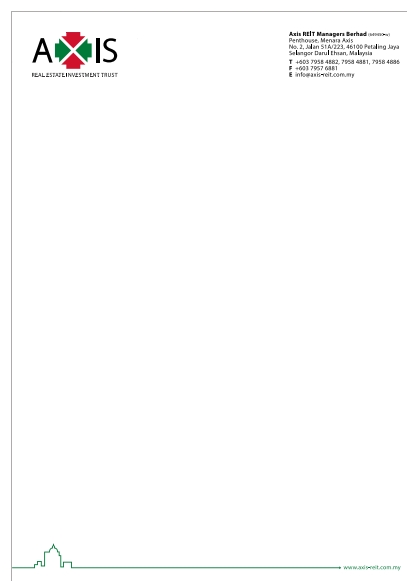
Axis-REIT folder



Axis-REIT brand toolkit



Axis-REIT envelope



Axis-REIT letterhead

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

Marketing

The constant evolution and application of technology in our daily lives has an enormous impact on the marketing function as it creates new avenues for companies to interact with audiences and stakeholders. Our marketing efforts are focused on leveraging on digital channels as a direct and effective way to reach our target audience.

Digital Marketing

In 2018, the team ramped up Axis-REIT's online advertising presence on a variety of platforms. With more and more potential tenants looking for space online, digital advertising has become a vital component of ARMB's marketing strategy. We identified key properties to feature, and advertised them on platforms such as:

- Google
- Facebook
- Property Guru
- Propwall

Direct Marketing via the WhatsApp platform

From January to September 2018, Axis-REIT ran direct marketing campaigns, targeted at real estate agents, via the WhatsApp messaging platform. Up-to-date listings in the form of interactive direct marketing collaterals and property features help keep ARMB's real estate agent partners updated on key spaces for lease in the portfolio.

Communications

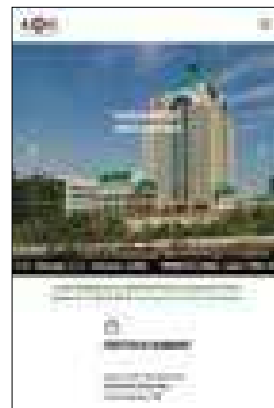
Website revamp

Axis-REIT's website is often the first port of call for stakeholders and the public wanting to find information about the Fund and its portfolio. As such, the Marketing Team maintains the website with up-to-date information which includes information and updates that are required by the regulatory authorities.

During the year, the team also launched a revamped website in alignment with the new brand guidelines, adding new leasing pages and improving the user friendliness and user experience on both mobile and desktop devices.

Axis Link

We continue to publish Axis Link, our community newsletter. The newsletter contains news on the activities taking place in the various buildings in Axis-REIT's property portfolio, the activities of the Manager and also tips and articles on occupational health and safety. We believe the newsletter raises awareness and updates existing tenants of developments in Axis-REIT's portfolio.



Mobile view of website



Desktop view of website

helloaxis.com.my

Launched in March 2017, helloaxis.com.my is Axis-REIT's tenant management portal to streamline communication between tenants and the Manager.

The key module in the platform is the facility management feedback (for raising and tracking maintenance issues), where tenants are able to provide feedback and rate the services rendered via the system. This input, in turn, is then used to improve our property and facilities management delivery and fine tune our responses and overall performance.

The system is constantly being improved with feedback from stakeholders, and in 2018, we introduced an emergency evacuation module. This module holds key information on all tenants' emergency contact persons and evacuation procedures in the event of an emergency.

The tenant management platform is also now available for download on iOS and Android devices.

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

Axis-REIT Events

MAREC, 2-3 March 2018

The Malaysian Annual Real Estate Convention ("MAREC"), organised by the Malaysian Institute of Estate Agents ("MIEA"), was held at the Sime Darby Convention Centre on 2-3 March 2018. Axis-REIT participated as a sponsor to help build brand awareness and network with real estate agents.



Axis-REIT's booth at MAREC

InvestSmart Fest, 12 -14 October 2018

Axis-REIT participated as an exhibitor in InvestSmart Fest 2018 that was held on 12-14 October 2018. InvestSmart Fest is an annual flagship investor education event organised for the public by the Securities Commission Malaysia. This event drew a crowd of 14,000 participants, helping the Fund reach out to both current and potential investors.



Axis-REIT's booth at Invest Smart Fest

Real Estate Agent Events

Real estate agents are one of Axis-REIT's key partners, who play a vital role in introducing leads for leasing and investment opportunities. Sustained engagement with real estate agent partners is critical in building relationships and to apprise them of new developments. This year, the team focused on reaching out to new agents and educating them on the leasing requirements and acquisition strategy of the Fund.

With assistance from MIEA, Axis-REIT hosted six events for real estate agents in 2018:

- Agents' briefing, Klang Valley, held on 16 April 2018
- Agents' briefing, Johor, held on 25 May 2018
- Agents' briefing, Klang Valley, held on 29 June 2018
- Agents' briefing, Penang, held on 27 September 2018
- Agents' briefing, Klang Valley, held on 23 October 2018
- Agents' Night, Kuala Lumpur, held on 5 December 2018



Agent's Night, Kuala Lumpur

Media Night, 30 November 2018

As part of our yearly show of appreciation for members of the media, Axis-REIT hosted a Media Night bash in Kuala Lumpur on 30 November 2018.

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

Upeca Aerotech Ground Breaking Ceremony, 13 March 2018

Axis-REIT signaled its commencement of development work with a Ground Breaking Ceremony for its second built-to-lease project at Subang Aerotech Park @ Subang. This project was purpose built for Upeca Aerotech Sdn Bhd, a subsidiary of Senior Plc.

The Guests of Honour at the event were Yang Berhormat Dato' Sri Mustapa Mohamed, the then Minister of International Trade and Industry Malaysia, and Yang Berbahagia Datuk Seri J. Jayasiri, Secretary General, Ministry of International Trade and Industry Malaysia.

Also in attendance were Yang Amat Mulia Tan Sri Dato' Seri Syed Anwar Jamalullail, Chairman of Malaysia Airports, Mr. Charles Berry, Chairman of Senior Plc, Mr. David Squires, Group Chief Executive of Senior Plc and Yang Berbahagia Datuk Badlisham Ghazali, Managing Director of Malaysia Airports.



Groundbreaking Ceremony for development of Axis Aerotech Centre @ Subang

Handover of Axis Mega Distribution Centre to Nestlé Malaysia, 12 February 2018

Axis-REIT's official launch and handover ceremony of Phase 1 of Axis Mega Distribution Centre was held on 12 February 2018. Phase 1 of Axis Mega Distribution Centre was completed with the receipt of the Certificate of Completion and Compliance ("CCC") at the end of December 2017, on time and within budget, to the specifications of Nestlé Products Sdn Bhd.



Handover ceremony for Phase 1 of Axis Mega Distribution Centre to Nestlé Products Sdn Bhd

MANAGER'S DISCUSSION AND ANALYSIS**DETAILS OF THE 2018 IDRП**

Axis-REIT has a recurrent and optional Income Distribution Reinvestment Plan ("IDRP") that allows Axis-REIT Unitholders to reinvest their income distribution in new Units. Following the renewal of the authority to allot and issue new Units for the purpose of the IDRП obtained at the Unitholders' Meeting held on 21 August 2015 and the completion of the Unit Split on 9 September 2015, Axis-REIT may allot and issue up to 155,194,684 new Units pursuant to the IDRП.

In 2018, Axis-REIT had applied the IDRП to the third interim income distribution, for the period from 1 July 2018 to 30 September 2018, that was announced on 22 October 2018. A gross electable portion of 1.10 sen per Unit (which is taxable in the hands of Unitholders) out of the third interim income distribution of 2.35 sen per Unit ("electable portion") could be elected to be reinvested in new Units, while the remaining portion of 1.25 sen per Unit (of which 0.79 sen per Unit is taxable and 0.46 sen per Unit is non-taxable in the hands of Unitholders) would be paid in cash ("2018 IDRП").

The new Units were issued at an issue price of RM1.39 per Unit, as determined on 22 October 2018 ("price-fixing date"). The issue price of RM1.39 per Unit was based on the five-day Volume Weighted Average Market Price ("VWAMP") of RM1.4969 per Unit, computed up to and including 19 October 2018, being the last trading day immediately prior to the price-fixing date, and after adjusting for a discount of RM0.1069 per Unit, which was approximately a 7.14% discount to the five-day VWAMP of RM1.4969 per Unit.

Pursuant to the 2018 IDRП, Axis-REIT allotted 4,958,485 new Units on 10 December 2018 and these Units were listed on the Main Market of Bursa Securities on 11 December 2018. The 4,958,485 new Units represented approximately 55% of 9,055,343 Units, being the total number of new Units that would have been issued pursuant to the IDRП, had all entitled Unitholders opted to reinvest their respective electable portions in new Units. As at 31 December 2018, Axis-REIT had an untapped allotment of 138,425,476 new Units that can be issued pursuant to the IDRП.

Axis-REIT's fund size increased from 1,232,326,803 Units to 1,237,285,288 Units as a result of the issuance and listing of the 4,958,485 new Units under the 2018 IDRП.

The net proceeds from the 2018 IDRП of RM6,816,000 (after deducting expenses for the IDRП) were utilised to refurbish and/or renovate Axis-REIT's properties. The refurbishment and/or renovation of the properties is expected to enhance the income-generating potential of the said properties moving forward.

In an effort to further enhance the attractiveness of the IDRП, securities account holders holding less than 16,000 Units in Axis-REIT (after the Unit Split) are exempted from the RM10 stamp revenue (setem hasil) that is payable upon execution of each notice of election of the IDRП.

Please refer to Axis-REIT's website at www.axis-reit.com.my for the frequently asked questions pertaining to the IDRП.

INTEGRATED SUSTAINABILITY REPORT



OUR COMMITMENT TO SUSTAINABILITY

VALUE CREATION FOR SUSTAINABLE GROWTH

Axis-REIT aims to be at the forefront of adopting the industry's best practices. We believe that our business operations must be sustainable not just in terms of business performance, but also in its relationships with the various stakeholders it serves.



CEO's Message on Sustainability

We are pleased to present Axis-REIT's inaugural Integrated Sustainability Report 2018, having published two Sustainability Reports since 2016.

In this report, we have conducted a reassessment of our material matters with the help of independent sustainability consultants and have increased our number of material matters from seven to ten matters.

We have adopted elements under the International Integrated Reporting Council's ("IIRC") Integrated Reporting Framework in this report, such as articulating how the Manager creates value for its key stakeholder groups through the six capitals in the form of a value creation model presented on page 132 of this report. We have also made the transition from Global Reporting Initiative ("GRI") G4 guidelines to GRI Standards as we had aimed for and stated in last year's sustainability report.

We remain committed to sustainability as an organisation, and will continue to further enhance our sustainability practices and reporting processes where feasible.

About this Report

This is Axis-REIT's third Sustainability Report, and our first that has been prepared in accordance with the GRI Standards - "Core" option. This report fulfills the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad (Part E of Appendix 9C sub-paragraph (15) supplemented by Practice Note 9 of the MMLR). It also incorporates elements of the International Integrated Reporting Council ("IIRC") Integrated Reporting Framework.

This report covers the period from 1 January 2018 to 31 December 2018 ("FYE2018"), with 1 January 2017 to 31 December 2017 ("FYE2017") being the year of comparison, where applicable. Unless stated otherwise, the scope of the report covers governance, economic, and social performance data for all of Axis-REIT's properties. Environmental-related metrics included are limited to data of multi-tenanted properties, and only include the non-lettable areas which are the areas under Axis-REIT's operational control. Axis REIT Managers Berhad ("Manager" or "ARMB") is working towards engaging tenants of its single-tenanted assets for inclusion in future sustainability reports.

The Manager will continue reporting its sustainability performance on an annual basis. External assurance has not been sought for this reporting period, but will be considered in the coming years as our reporting matures.

For any queries or clarifications in relation to this report, please contact Ms. Leong Kit May (CEO/Executive Director) at +603 7958 4882 or info@axis-reit.com.my.

Operating Context

Axis-REIT is Malaysia's first REIT listed on Bursa Securities on 3 August 2005. The REIT was formed to own and invest primarily in industrial and office real estate, with the objective of providing Unitholders with a stable and growing distribution of income, and achieving sustainable long-term growth.

The Manager is a licensed Islamic Fund Manager. Details of the trust structure can be found on page 5 of this Annual Report.

Five acquisitions and one property development were completed during FYE2018. More information on these acquisitions can be found in the Project Management and Investments Reports of the Annual Report.

Axis-REIT's properties are spread throughout Peninsular Malaysia, as shown in the inner back cover of this annual report, distributing the geographical concentration risk despite only operating within Malaysia. Additionally, the proximity to port facilities in the eastern (i.e. Kuantan), western (i.e. Klang) and southern (i.e. Johor) ends of the peninsula make for excellent growth potential.

INTEGRATED SUSTAINABILITY REPORT

Value Creation Story

Axis-REIT's business model, shown below, details how the Manager creates value for its key stakeholder groups.




OUTCOMES

Value of six capitals are enhanced through our business activities to fulfil **key stakeholders goals**.

Stakeholders Goals



Tenants

- Forge strong relationships
- Satisfy business space needs



Unitholders

- Proactive engagement and transparency



Investment Community

- Timely and transparent disclosure



Local Communities

- Fulfil role as a good corporate citizen



Employees

- Provide an equal opportunity work environment
- Recognise deserving talent



Professional and Regulatory Bodies

- Take industry lead
- Compliance with all rules and regulations

Our sustainable business model is achieved through our five strategies outlined in our 2021 Strategy Plan that aims to create continuous value for our stakeholders while considering sustainability matters material to our operations. The implementation of these strategies are overseen by the management and Board of Directors of the Manager.

INTEGRATED SUSTAINABILITY REPORT

Stakeholder Engagement

Axis-REIT's stakeholder engagement table

Stakeholder Group	Axis-REIT's goal	Mode	Frequency	Stakeholder's key concerns	Axis-REIT's response
Tenants	Forge strong relationships; satisfy business space needs of tenants	• One-on-one meetings	• Quarterly	<ul style="list-style-type: none"> • Maintenance of properties • Quick responses to queries/ complaints 	<ul style="list-style-type: none"> • Ensuring scheduled maintenance • Notify tenants of potential disruption(s) to tenant services and amenities • Equip and make all facility managers available at all times
		• helloaxis.com.my a new tenant management portal	• When required		
		• Axis Link, the REIT's community newsletter	• Bi-annually		
Unitholders	Proactively engage with Unitholders and provide up-to-date and transparent information	• Annual General Meeting	• Annually	<ul style="list-style-type: none"> • Transparency of dealings • Financial performance of the Fund • Being provided real-time information on material disclosures 	<ul style="list-style-type: none"> • Adhering to the regulatory rules, corporate governance and international reporting standards • Providing up-to-date information to Bursa Securities and on Axis-REIT's corporate website
		• Unitholders' Meeting	• As required		
		• Timely announcements on Bursa Securities website	• Ongoing		
Investment Community	Proactively engage the investment community through multiple channels of communication to ensure timely and transparent disclosure	• One-on-one meetings with investors locally and overseas	• Throughout the year	<ul style="list-style-type: none"> • Transparency of dealings • Being provided real-time information on material disclosures 	<ul style="list-style-type: none"> • Adhering to the regulatory rules, corporate governance and international reporting standards • Providing up-to-date information to Bursa Securities and on Axis-REIT's corporate website
		• Local and overseas conferences	• Throughout the year		
		• Briefings for analysts	• Bi-annually		
Employees	Provide an equal opportunity work environment that recognises the talents of individuals, supports their professional growth, and increases employee retention, commitment and loyalty	• Team building	• Annually	<ul style="list-style-type: none"> • Opportunities for career advancement • Competitive remuneration and benefits 	<ul style="list-style-type: none"> • Keeping up-to-date with market remuneration rates • Management looks internally to fill vacancies and provide opportunities for employee advancement • Provide sufficient training for all employees • Ensuring employee appraisals are done in a fair manner
		• Team activities	• Quarterly		
		• Employee appraisals	• Annually		

INTEGRATED SUSTAINABILITY REPORT

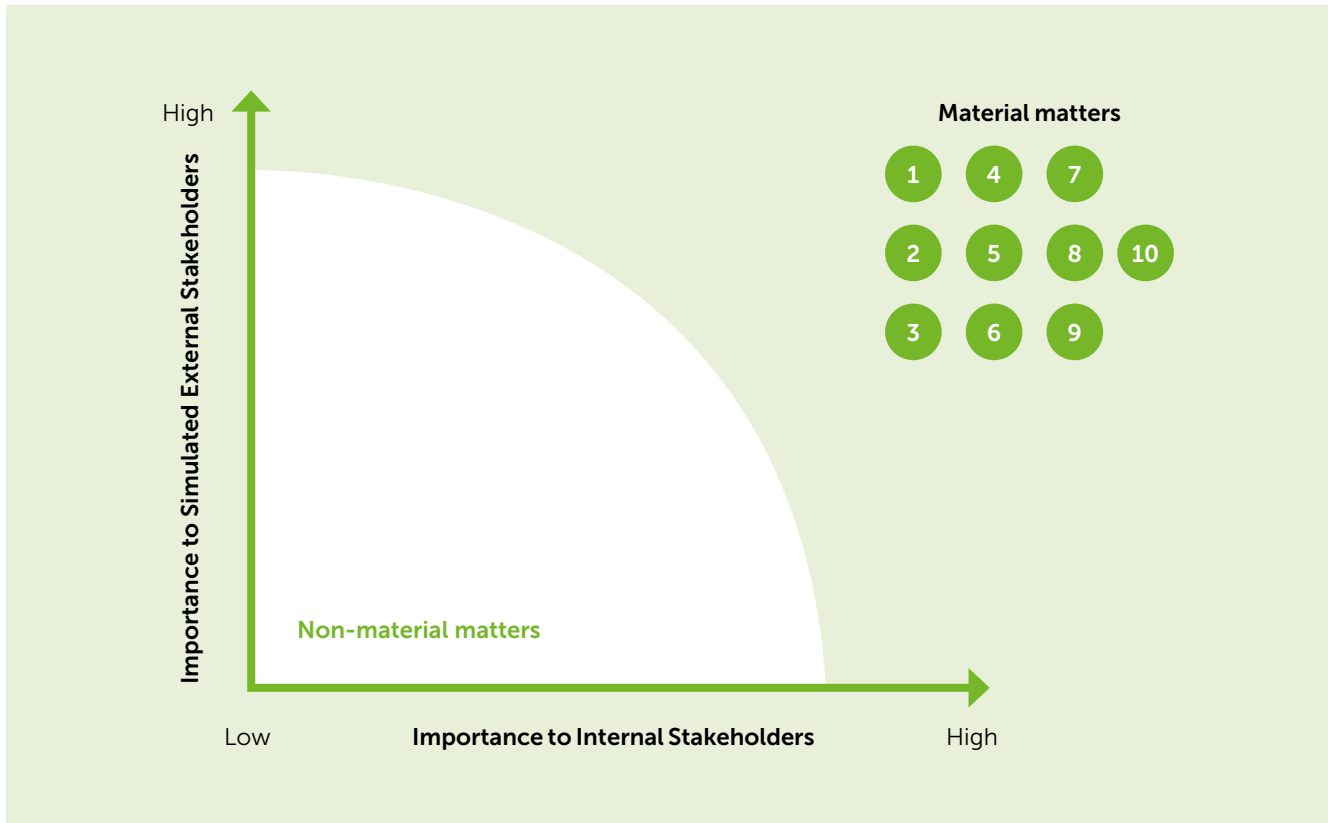
Stakeholder Group	Axis-REIT's goal	Mode	Frequency	Stakeholder's key concerns	Axis-REIT's response
Local Communities	Fulfil the role of a good corporate citizen by partnering with local NGOs and charities	• Promote employee volunteer programmes	• As appropriate	• Long-term support from the business community to help address issues faced or support causes championed	• Engaging with various community organisations to keep abreast with issues faced by local communities • Supporting projects that are relevant to the Manager's mission and within its financial means
		• Cash compensation for emergency situations	• As appropriate		
Industry Associations and Professional Bodies	Keep abreast with changes and updates in the market. Where possible, Axis-REIT also takes the lead in lobbying new amendments that could take the industry forward	• Attending regular meetings and events organised	• When required	• Providing updates on changes in laws and regulations • Fair representation of the industry's needs and demands to regulators	• Attending meetings and events to stay abreast on industry developments and to understand new practices in the industry • Providing feedback when necessary
Regulatory Bodies	Engage with regulatory bodies to ensure that the Manager complies with rules and regulations, and is up to date with new amendments	• One-on-one meetings	• When required	• Regulatory compliance	• Attending meetings and events to stay abreast on regulatory developments and to understand new regulations
		• Attending talks and conferences organised by regulators	• When required		
Media	To provide timely and accurate information to members of the media	• One-on-one meetings	• When required	• Receiving the latest updates and news from Axis-REIT	• Engaged a public relations consultant to manage engagement with the press, and to ensure press releases are shared in a timely manner and to field requests for interviews
		• Press briefings	• When required		
		• Annual gathering	• Annually		
Suppliers	To engage with credible and reliable suppliers	• Tenders	• When required	• To have a clear understanding of the scope of work expected • To adhere to timelines • To ensure payments are received on time	• Work closely with suppliers to ensure clear understanding of the scope of works and timelines • Progress meetings with suppliers
		• One-on-one meetings	• When required		

INTEGRATED SUSTAINABILITY REPORT

Materiality Assessment

Through focus group discussions facilitated by independent sustainability consultants, the Manager's senior management identified ten material Economic, Environmental and Social ("EES") matters that were deemed to be of significance to Axis-REIT's operations. Senior management took into consideration both an internal and external perspective during the materiality assessment. The material matters are listed below, in no particular order of importance.

Axis-REIT's materiality matrix



No.	Material ESG Matters [GRI Disclosure(s)]
1.	Economic Performance [GRI 201-1]
2.	Quality of Assets & Services [CRE-8]
3.	Responsible Supply Chain Management [GRI 308-1, 414-1]
4.	Community Activity & Partnership ¹
5.	Employee Wellness & Engagement [GRI 401-1, 401-2, 401-3, 405-2, 406-1]
6.	Occupational Health & Safety [GRI 403-2]
7.	Tenant Satisfaction ¹
8.	Talent Development [GRI 401-1, 404-3]
9.	Embracing Innovation & Technology ¹
10.	Energy & Carbon Footprint [GRI 302-1, 302-3, 305-2, 305-4]

¹ Not mapped to any GRI Topic-specific Standard Disclosures

INTEGRATED SUSTAINABILITY REPORT

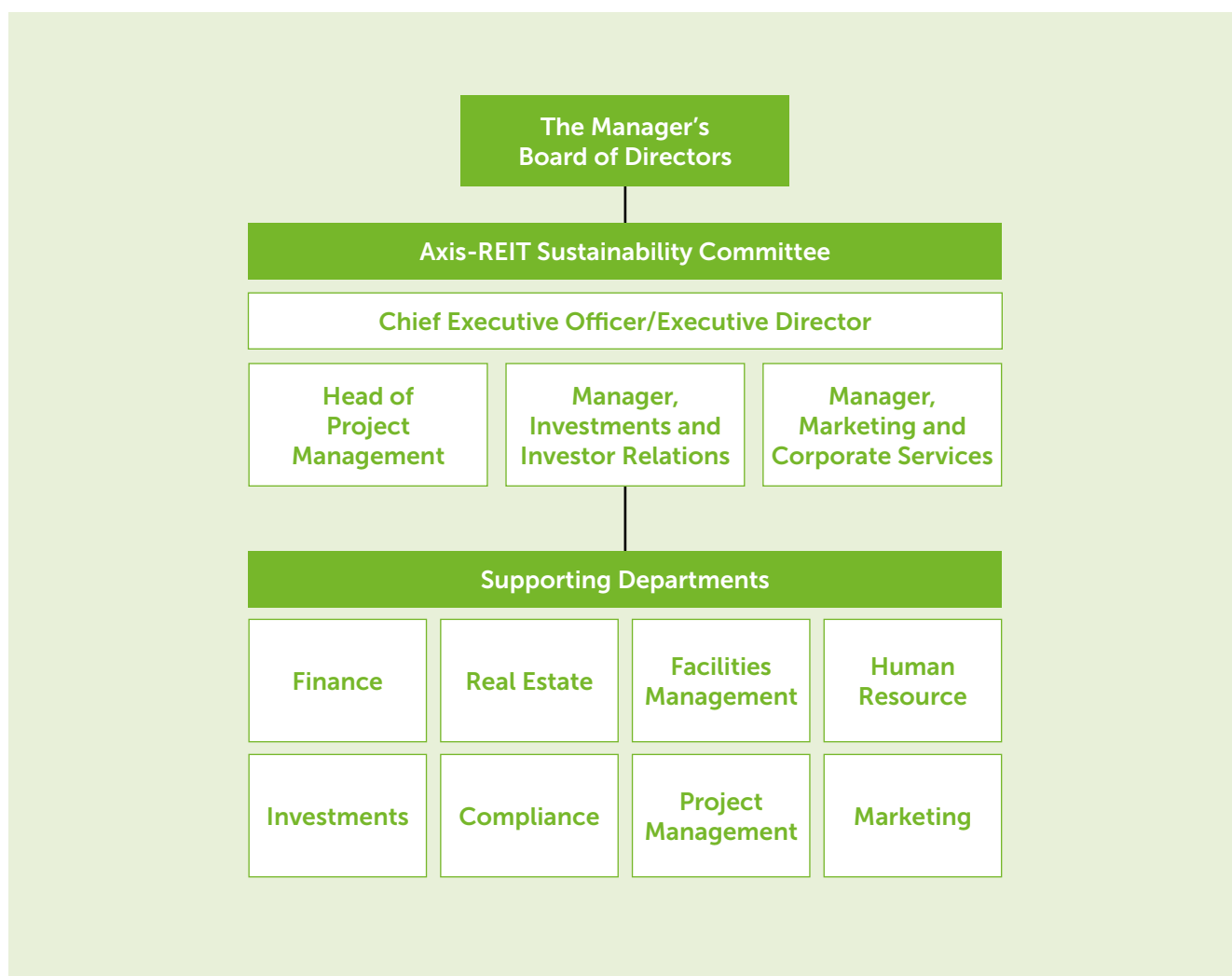
Governance and Culture**Governance, ethics and integrity**

Good corporate governance is fundamental to the Manager's ability to manage the risks and opportunities of EES matters. The Manager's commitment towards upholding business ethics is articulated in the Manager's Code of Conduct which is available on www.axis-reit.com.my. The Manager has a competent Board of Directors that oversees its operations and ensures that high standards of corporate governance are maintained. The Board has four committees to oversee specific aspects of governance, namely the Executive

Committee, Audit Committee, Remuneration Committee and Nomination Committee. More information on the roles and responsibilities of these committees can be found in the Corporate Governance Overview Report of this Annual Report.

Additionally, a Sustainability Committee, led by senior management representatives, was also formed in 2016 to oversee sustainability-related matters at Axis-REIT. Issues relating to sustainability are part of the agenda discussed at weekly management meetings. The Board is also updated with reports relating to sustainability on a quarterly basis.

Axis-REIT's Sustainability Committee



INTEGRATED SUSTAINABILITY REPORT

Enterprise Risk Management

The Manager has an Enterprise Risk Management (“ERM”) framework that guides it in identifying and mitigating its business risks which may disrupt its operations or impair Management’s ability to achieve its business goals and objectives, which will in turn affect Unitholders.

The Manager regularly reviews the risks that are significant to its operations. The Manager takes the necessary actions to mitigate these risks and these are captured in the risk register. They are reported every quarter to the Audit Committee and the Board.

The table below presents the significant risks identified for 2018, and the Manager’s responses to the risk.

Axis-REIT’s significant risks and responses:

Risk type	Actions taken
Financial Risks	Refer to the Finance Review within the Annual Report (page 29)
Compliance Risks	<ul style="list-style-type: none"> Revised operational procedures to comply with the new Sales and Service Tax (“SST”) which replaced the Goods and Service Tax (“GST”), and raised awareness of the new procedures by conducting an in-house training session to brief Directors and Management on SST, as well as by updating parking signage at buildings
IT Risks	<ul style="list-style-type: none"> Formulated of improved IT policies and procedures following the recommendations of the internal audit review conducted on its IT controls, such as: <ol style="list-style-type: none"> improved password mechanism updated the administrative access rights configured frequent push update notifications during the anti-virus annual license renewal updated the IT asset list (to include both hardware and software) installed a firewall preventive maintenance system to plan for an awareness briefing among Directors and employees on cyber risk management
Human Resource Risks	<ul style="list-style-type: none"> Held the Strategy Planning Session in September 2018. The management team refocused on the agreed initiatives formulated under the 2021 Strategy Plan
Marketing and Branding Risks	<ul style="list-style-type: none"> Formalised and implemented the Axis-REIT Brand Toolkit from May 2018 which was the product of the corporate branding exercise implemented in FYE2017 Embarked on second trademark exercise, for the names “Axis-REIT” and “Axis Real Estate Investment Trust” for broader protection of the brand
Development Risks	<ul style="list-style-type: none"> Improved the documentation system for every project Introduced a mandatory computation of the Fund’s aggregate investments prior to embarking on any development project to ensure compliance with the property development threshold of 15% under the SC’s Guidelines on Listed REITs
Real Estate Management Risks	<ul style="list-style-type: none"> Fully deployed ‘helloaxis.com.my’, the Fund’s tenant management portal, throughout the entire property portfolio Improved the vendor evaluation process to include CTOS screening to ensure business dealings are only conducted with credible vendors Employed a Health, Safety, Security & Environment Officer (in-charge of health, safety, security and environment requirements, including fire safety), who commenced work in July 2018 Conducted internal audit review on the Manager’s tenant assessment and termination procedures, which included its due diligence process on potential tenants

INTEGRATED SUSTAINABILITY REPORT

Whistle-blowing Channel

The Manager has a whistle-blowing channel to encourage both internal and external stakeholders to raise their concerns about any suspected improprieties by the Manager and its employees. The mechanism of the whistle-blowing channel is detailed below.



INTEGRATED SUSTAINABILITY REPORT

Financial Capital



Economic performance

The Manager remains committed to deliver long-term sustainable distributions and capital stability through its six principles of management (which are listed on page 3 of this Annual Report). Axis-REIT recorded a steady revenue growth of 22% for FYE2018, and is projected to continue growing in FYE2019. More information on the Fund's financial performance and outlook can be found in the Letter from the Chairman and the CEO on page 8 of this Annual Report. The direct economic value generated and distributed by Axis-REIT in FYE2018 and FYE2017 are presented in table below.

Axis-REIT's direct economic value generated and distributed [GRI 201-1]

	FYE2017 (RM'000)	FYE2018 (RM'000)
Economic value generated (Revenue)	172,715	210,588
Operating costs	26,512	27,827
Employee wages and benefits ²	0	0
Payments to capital providers	92,456	107,825
Payments to government ³	9,778	7,168
Community investment	98	47
Economic value distributed	119,066	135,699
Economic value retained	52,649	74,889

Manufactured Capital



Quality of assets and services

The quality of assets and the accompanying services offered in the Fund's portfolio is core to its success as a REIT. The approach undertaken by the Manager to oversee the selection and acquisition of new assets and developments, as well as in maintaining the quality of existing assets and services are detailed below.

New asset acquisitions and development

Every aspect of the acquisition process is driven by stringent quality control and assurance procedures. When an asset has been identified, extensive due diligence work is performed before shortlisting the properties. The due diligence process involves the following:

1. Financial due diligence of tenants/occupiers
2. Legal due diligence of the building, vendor, and tenant/occupier
3. Physical due diligence of the building, including civil/structural/mechanical assessments
4. Valuation of the property
5. Land survey of the property

The due diligence process is carried out by external parties that include technical consultants, land surveyors, solicitors and valuers. These external consultants are subject to an annual quality review by Management to assess their competence.

The Manager will only proceed to propose an acquisition or development for the approval of the Executive Committee and finally the Board of Directors if the property satisfactorily passes this stringent due diligence process. Final recommendation will be made to the Trustee of Axis-REIT for the acquisition to proceed.

² Axis-REIT does not incur any employee wages and benefits as all employees are employees of the Manager, and not the Fund.

³ Payments to government mainly comprise of quit rent, assessment, GST, SST and withholding tax.

INTEGRATED SUSTAINABILITY REPORT

Existing assets and services

In order to ensure tenant satisfaction and retention, the Manager has a Preventive Maintenance Programme in place to ensure that all multi-tenanted properties receive maintenance on a timely basis based on their asset life cycle. On top of regular maintenance, the Manager also strives to undertake Asset Enhancement Initiatives ("AEI") regularly to ensure that these multi-tenanted assets are compliant to Health, Safety, Security and Environment ("HSSE") standards, and also to enhance the aesthetics and functionality of the properties.

Details on the AEIs completed during FYE2018 can be found in table below:

FYE2018 Targets	Work done in 2018
Enhancement of drain and road infrastructure at Bukit Raja Distribution Centre	Completed in 2018
Painting and repair of the external façades of Crystal Plaza and Menara Axis	Completed for Crystal Plaza in October 2018. In progress for Menara Axis, with targeted completion in April 2019
Refurbishment of toilets at Wisma Academy Parcel	In progress, targeted for completion in May 2019
New logo placements on all Axis-REIT owned buildings to increase brand visibility and prominence	In 2018, new signages were installed in 9 multi-tenanted buildings and 2 single-tenanted buildings. Installation for the rest of the portfolio will be carried out in stages.

The accompanying services provided by the Manager are aimed at optimising its tenants' operations. These services cover a range both support services, such as finance and administration, as well as technical management, such as facility management. To ensure the quality of services provided, the Manager has in place a rigorous in-house vendor selection process to ensure that only reputable and competent vendors and suppliers are selected to provide services for Axis-REIT's properties.

The Manager's Facilities Management Team is also sent for regular training to ensure that the team is well-equipped and up-to-date on technical and regulatory developments. During the year, the team attended three training sessions – one on insurance and claim procedures, one on the Strata Management Act and one on mechanical and electrical plumbing. The Manager intends for the team to complete four training courses in the upcoming year.

Target for FYE2019

To conduct a feasibility evaluation during the year and develop a 2025 roadmap on green certifications for its buildings.



INTEGRATED SUSTAINABILITY REPORT

Responsible supply chain management

To ensure that Axis-REIT is adhering to the industry's leading practices across its value chain, the Manager has in place a stringent three-step process to select and monitor its suppliers. The process is reviewed regularly by the Facilities Management Team and updated as and when necessary. In FYE2018, the Manager implemented an annual Credit Tip Off Service ("CTOS") screening on suppliers to assess their creditworthiness.

Details of three-step supplier selection and monitoring process can be found in diagram below:



INTEGRATED SUSTAINABILITY REPORT

Social and Relationship Capital



Tenant satisfaction

In 2017, the Manager rolled out a web-based tenant management portal, known as helloaxis.com.my. In its initial deployment, the application had nine modules. During FYE2018, helloaxis.com.my was upgraded to include a new emergency and evacuation module that provides tenants with the emergency and evacuation procedures. The portal, which was previously only web-based, is now also available as a mobile application as well. The Manager hopes that these improvements will help strengthen and enhance its tenant relationships, and allow it to continue to achieve its target of acknowledging and responding to all feedback and complaints raised by tenants within 24-hours.

Axis-REIT's helloaxis.com.my mobile application



Perpetual Target	Performance for FYE2018
The Manager aims to acknowledge and respond to all feedback raised by tenants within 24-hours	Achieved.
The Manager aims to achieve a target score of 3.5 and above for satisfaction on maintenance services provided in the tenant management portal	Achieved.

Through its tenant management portal, the Manager is able to streamline communications with tenants, track response times and receive ratings for the services rendered.

A summary of online service requests received and ratings by tenants is presented below:

helloaxis.com.my – Facility Management Portal – As at 31 December 2018

Building Type	Online Service Requests by Tenants			Satisfaction Rating by Tenants
	Tickets Raised	Resolved	Outstanding	
Single-Tenant	114	108	6	3.75
Multi-Tenant	461	454	7	3.86
TOTAL / AVERAGE	575	562	13	3.80

Note: Tenant Satisfaction Rating ranges from 1 (Very Poor) to 5 (Very Good)

In FYE2018, the Manager also engaged an external consultant to conduct its inaugural tenant satisfaction survey. Results from the survey are shown below. Moving forward, the Manager aims to improve its scoring in both categories.

Results of Axis-REIT's tenant satisfaction survey:

How would you rate Axis-REIT's services?

Scale of 1 (very unhappy) to 10 (extremely happy)

●●●●●●●●●● **6.87**

Would you recommend Axis-REIT's portfolio of properties and services to your friends and business partners?

Scale of 1 (very unlikely) to 10 (definitely)

●●●●●●●●●● **6.91**

INTEGRATED SUSTAINABILITY REPORT

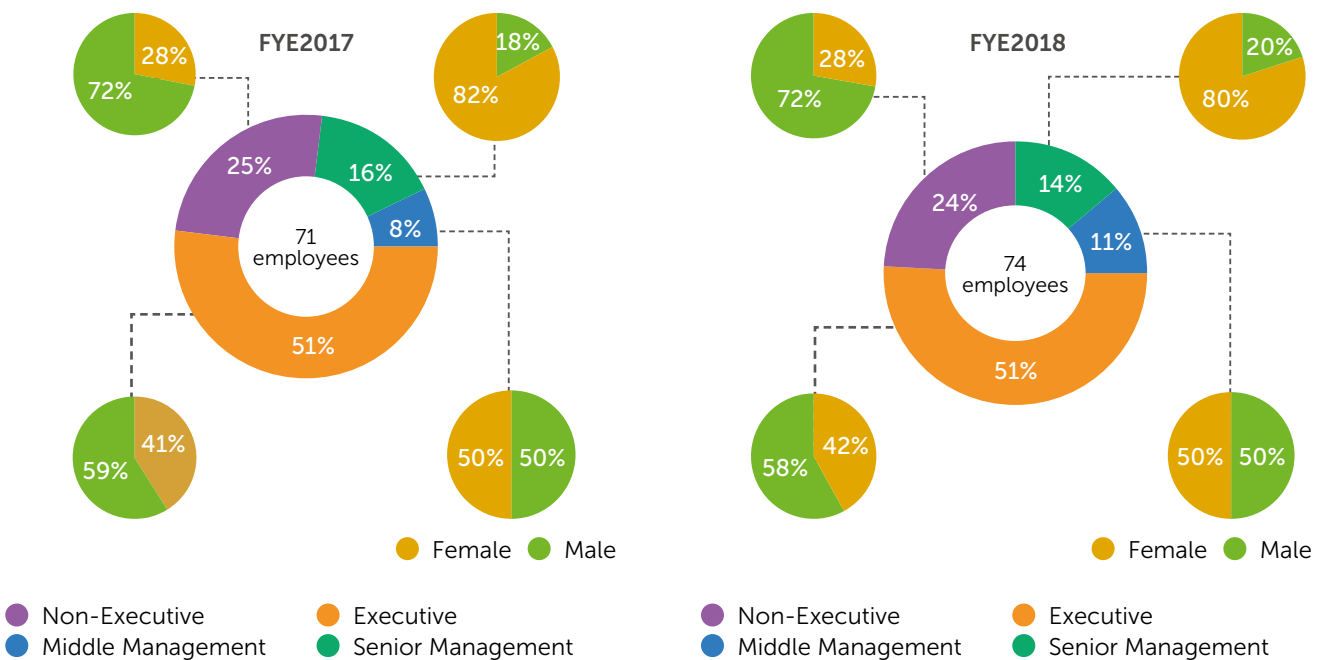
In FYE2018, the Manager achieved a 74% tenant retention rate based on the portfolio’s Net Lettable Area (“NLA”), a significant improvement from FYE2017’s tenant retention rate of 45%. The Manager hopes to maintain this rate through active engagement with its tenants. The Manager is also proactive in responding to feedback from its tenants.

Workforce profile

The Manager’s number of employees remained relatively stable throughout FYE2018, with a total net increase of three employees during the year. All of its employees are permanent, full-time employees based in Malaysia.

The Manager’s composition of employees by category [GRI 102-8]

BREAKDOWN BY EMPLOYMENT CATEGORY & BY GENDER



The Manager also engages third-party workers to perform cleaning, security and landscaping services. During FYE2018, the Manager engaged a total of 124 workers for such services.

Occupational health and safety

It remains a top priority to the Manager to provide a safe working environment for all its employees as well as workers. During the year, the Manager employed a Health, Safety, Security and Environment (“HSSE”) officer to oversee all HSSE-related matters. Details on how the Manager manages HSSE matters are presented below.

People

- Prevention of occupational injuries to employees and contractors’ employees

Environment

- Preservation of environment from pollution and spillage

ZERO HARM

Assets

- Prevention of asset damage due to occupational accidents

Reputation

- Sustaining good HSSE performance throughout operations

INTEGRATED SUSTAINABILITY REPORT

Target for FYE2017	Performance for FYE2018
To employ a HSSE officer	Achieved. The Manager appointed a competent Health, Safety, Security and Environment ("HSSE") Manager who oversees and executes necessary actions with regard to the HSSE aspects of the Manager.
Perpetual Target	Performance for FYE2018
To fulfill compliance obligations throughout its operations, including adherence to the Occupational Safety & Health Act 1994, Factories and Machineries Act 1967, Environmental Quality Act 1974, Construction Industrial Development Board Act 1994 and Electricity Supply Act 1990	Achieved.
Work Safe, Home Safe – Towards 'Zero Harm'	Achieved.

Target for FYE2019

To finalise Axis-REIT's HSSE policy which will apply to all the Manager's employees, workers and tenants. To provide a HSSE induction training for employees and contractors to improve awareness on HSSE-related matters.



During FYE2018, the Manager carried out the following HSSE initiatives:

- Provided basic Personal Protective Equipment ("PPE") to all operations employees and additional PPE based on work requirements.
- Promoted toolbox talks, which is a brief scheduled meeting between the Facilities Management Team and the service providers for cleaning and security services to discuss matters arising.
- Conducted HSSE training for the Facilities Management Team on Basic First Aid training, CPR training, fire safety training, as well as risk assessment training.
- Assigned dedicated chageman and supervising engineer, who are registered with the Energy Commission (Suruhanjaya Tenaga), to conduct regular checks to ensure all electrical and auxiliary equipment are in good working condition.
- Engaged competent servicing contractors to undertake routine preventive maintenance to ensure compliance to each building's Operations & Maintenance manual.
- Introduced a HSSE induction programme for employees and external service providers' employees prior to commencing building maintenance, servicing and refurbishment works.
- Collaborated with the Fire & Rescue Department of Malaysia (BOMBA) to conduct emergency response drills for multi-tenanted buildings and a demonstration by BOMBA on the safe use of fire extinguishers. All drills were completed with an assessment by BOMBA.

INTEGRATED SUSTAINABILITY REPORT

The Manager is pleased to report that there were no workplace-related injuries recorded in FYE2017 and FYE2018, and aims to maintain this track record moving forward. However, two of its employees were involved in separate motor accidents on their commute home from the workplace in FYE2017.

The employee absentee rates for both years are reported in the table below.

Axis-REIT's workplace absentee rate [GRI 403-2]⁴

Category	FYE2017			FYE2018		
	Male	Female	Total	Male	Female	Total
Absentee rate ("AR")	3.59%	3.64%	3.60%	2.00%	2.53%	2.22%

Employee wellness and engagement

The Manager seeks to promote employee well-being by encouraging work-life balance, health and safety, equal opportunities and human rights. The Manager provides all employees with health care benefits, disability and invalidity coverage, retirement provisions, as well as parental leave. The Manager also conducts appraisals for all its employees on an annual basis. In FYE2018, the Manager is pleased to report that there were zero reported incidents of discrimination.

Perpetual Target	Performance for FYE2018
To conduct at least one team building event annually	Achieved. During the year, the Manager organised several events for its employees, including a Chinese New Year, Deepavali and Hari Raya gatherings, an annual dinner and talent show, and team building.
To ensure all positions are filled	Not achieved in FYE2018. The Manager is still in the process of filling its chieftain and leasing manager roles.

Community activity and partnership

The Manager's Corporate Social Responsibility ("CSR") efforts continue to be focused on educating and improving the lives of vulnerable groups. The Manager is also targeting to increase employee participation rates in its CSR activities, and to ensure that the budget allocated for CSR programmes is fully utilised.

Perpetual Target	Performance for FYE2018
To increase employee participation	Achieved. In FYE2018, the Manager clocked a total of 416 employee volunteer hours, an increase from 225 hours recorded during FYE2017.
To fully utilise the budget allocation during the financial year	Not achieved. The 2018 budget was not fully utilised as certain projects planned for the year did not materialise.

To achieve our target in 2019, the Manager started planning in 2018 by identifying potential beneficiaries.

⁴ The Absentee Rate is the total absentee days lost, relative to the total days scheduled to be worked by the employees in the reporting period, expressed as a percentage, as defined by the GRI Standards.

INTEGRATED SUSTAINABILITY REPORT

Details on the CSR initiatives undertaken by the Manager during FYE2018 can be found below.

MAY 2018 - ROYAL INSTITUTE OF SURVEYORS MALAYSIA ("RISM") CHARITY RUN 2018

In 2018, Axis-REIT partnered with RISM for the first time, to organise a charity run. The run was flagged off from Taman Jaya. Participants chose to join either the 5km or 10km categories. The run attracted over 200 runners from the local and business communities, with 12 participants from Axis-REIT.

The proceeds from the event were donated to three beneficiaries, namely:

- 1) Kiwanis Down Syndrome Foundation (Klang Centre)
- 2) Ti-Ratana Welfare Society
- 3) Yayasan Raja Muda Selangor



Amount
Contributed

RM25,000



No. of Staff
Involved

13
employees



Employee
Volunteer Hours

53
hours



INTEGRATED SUSTAINABILITY REPORT

NOVEMBER 2018 – BACK TO SCHOOL PROGRAMME

Feedback from several employees' visits to selected schools in the Klang Valley found that families in the bottom 40% income group in Malaysia face financial difficulties in purchasing back to school necessities for their children. As such, Axis-REIT partnered with Volunteers Unite, a group of volunteers who have been running back to school aid programmes for the past five years via donations from friends and families. Axis-REIT sponsored complete back to school sets for 145 students. Each child received two sets of school uniforms, a school bag, a pair of shoes, three pairs of socks and a stationery box.

The recipients of this year's back to school sets included 72 students from four homes:

- 1) Pertubuhan Kebajikan Lindungan Ikhlas Kuala Lumpur
- 2) Pertubuhan Kebajikan Kanak Kanak Heavenly
- 3) Pusat Jagaan St Barnabas Home
- 4) Stepping Stones Living Center

The other sets were provided to 73 students from underprivileged families living in Port Klang, Selangor, Rantau, Negeri Sembilan, and in the Orang Asli Community at Bukit Bandaraya Shah Alam, Selangor.



Amount
Contributed

RM22,410



No. of Staff
Involved

20
employees



Employee
Volunteer Hours

70
hours



INTEGRATED SUSTAINABILITY REPORT

JUNE AND NOVEMBER 2018 - BLOOD DONATION DRIVES

Axis-REIT continues to support the efforts of the National Blood Bank by providing the space for blood donation drives, and promoting the importance of blood donation to its tenants and visitors. In 2018, Axis-REIT provided space at two of its buildings for the National Blood Bank to conduct blood donation drives, which were held on:

- 6 June 2018 at Menara Axis
- 26 November 2018 at Axis Business Park



No. of Staff
Involved

20
employees



Employee
Volunteer Hours

25
hours

**NOVEMBER 2018 - TALK AT THE UNIVERSITY OF READING, JOHOR CAMPUS**

On 27 November 2018, the Manager's CEO, Ms. Leong Kit May, was invited to speak at the University of Reading, Johor campus. She presented a talk on the portfolio management of a real estate investment trust to real estate undergraduate students.



No. of Staff
Involved

1
employee



Employee
Volunteer Hours

8
hours



INTEGRATED SUSTAINABILITY REPORT

DECEMBER 2018 - CHARITY BAZAAR

In December 2018, the Manager’s employees got together to organise Axis-REIT’s second charity bazaar, which aimed to raise funds for the purchase of school books for underprivileged students at SJK (C) St Teresa, Brickfields, Kuala Lumpur and SJK (C) Vivekananda, Jalan Templer, Petaling Jaya.

Proceeds from the bazaar were used to purchase school books for 10 students of SJK (C) St Teresa and 100 students of SJK (C) Vivekananda. Based on the students’ backgrounds provided by each school’s administration, these students are from either single parent families with low incomes, or families with multiple children with a combined household income of below RM1,500 per month.



Amount Raised

RM5,600

No. of Staff Involved

42
employees

Employee Volunteer Hours

260
Hours

INTEGRATED SUSTAINABILITY REPORT

Intellectual Capital



Embracing innovation and technology

The Manager seeks to leverage on technological developments and to integrate innovation into its business operations whenever feasible. One example of this is the rolling out of the tenant management portal helloaxis.com.my, which is discussed in the tenant satisfaction section of the report.

Axis-REIT also works closely with its tenants to innovate and employ technology in its buildings, to tailor the space to meet their needs. In early 2018, the Manager completed its first built-to-suit development – a distribution centre for Nestlé Products Sdn Bhd. The Manager had worked with SSI SCHAEFER to install more than 56,000 pallet locations of the Schaefer Orbiter System (“SOS”), close to 29,000 pallet locations of Selective Pallet Racking, and over 600 sq. m. of structural mezzanine space in the 515,000 sq. ft. distribution centre. This provided a storage solution that allowed Nestlé to improve productivity as the battery-operated SOS features higher picking accuracy, as well as faster transfer and retrieval works, translating to significant operating cost savings for Nestlé.



INTEGRATED SUSTAINABILITY REPORT

Human Capital

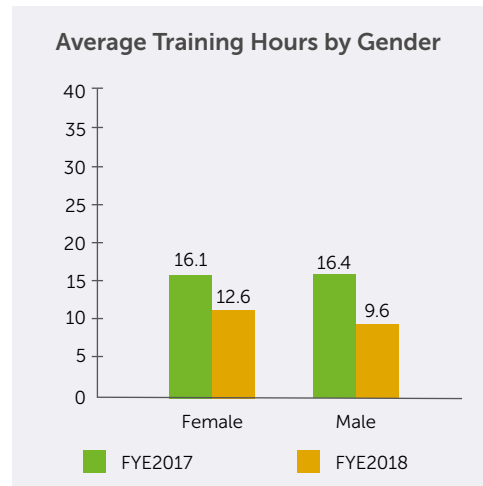
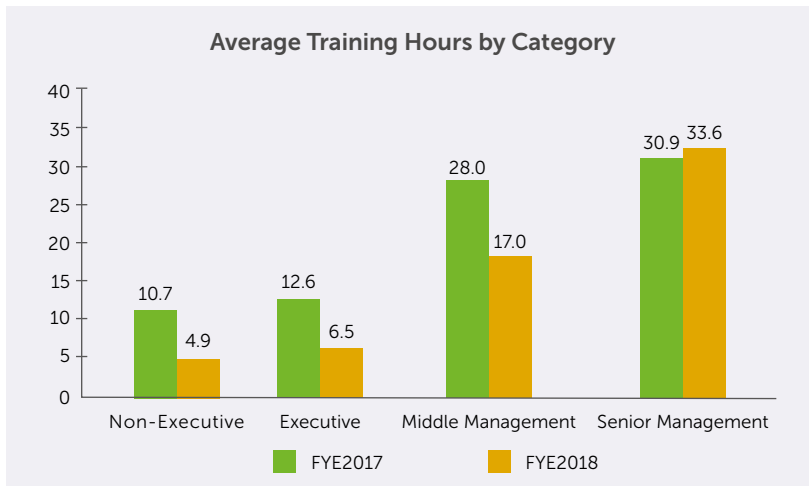
Training and Education

Talent development is a key component of Axis-REIT’s strategy to succeed as an organisation. All new employees of the Manager are assigned a buddy to teach them the skills, knowledge and competencies needed to perform their role. All employees will also be sent regularly for courses, seminars and conferences to keep abreast with the latest developments, and to gain the necessary knowledge and skills required for their roles. The Manager also aims to provide equal opportunities for training to all employees. In FYE2018, the Manager invested RM72,000 in talent development. The hours of training clocked during the year are shown below.

Target for FYE2019
All employees to undergo at least one training annually



The Manager’s average training hours by category and gender [GRI 404-1]



Natural Capital

Energy and carbon footprint

The Manager actively seeks ways to lower its energy consumption and reduce its greenhouse gas (“GHG”) emissions. Besides conserving the environment and being in alignment with national interests, it also translates to lower operating costs. The Manager’s goal is to constantly seek ways to reduce GHG emissions and improve energy efficiency. Details of the energy consumption and GHG emissions can be found in the next page⁵.

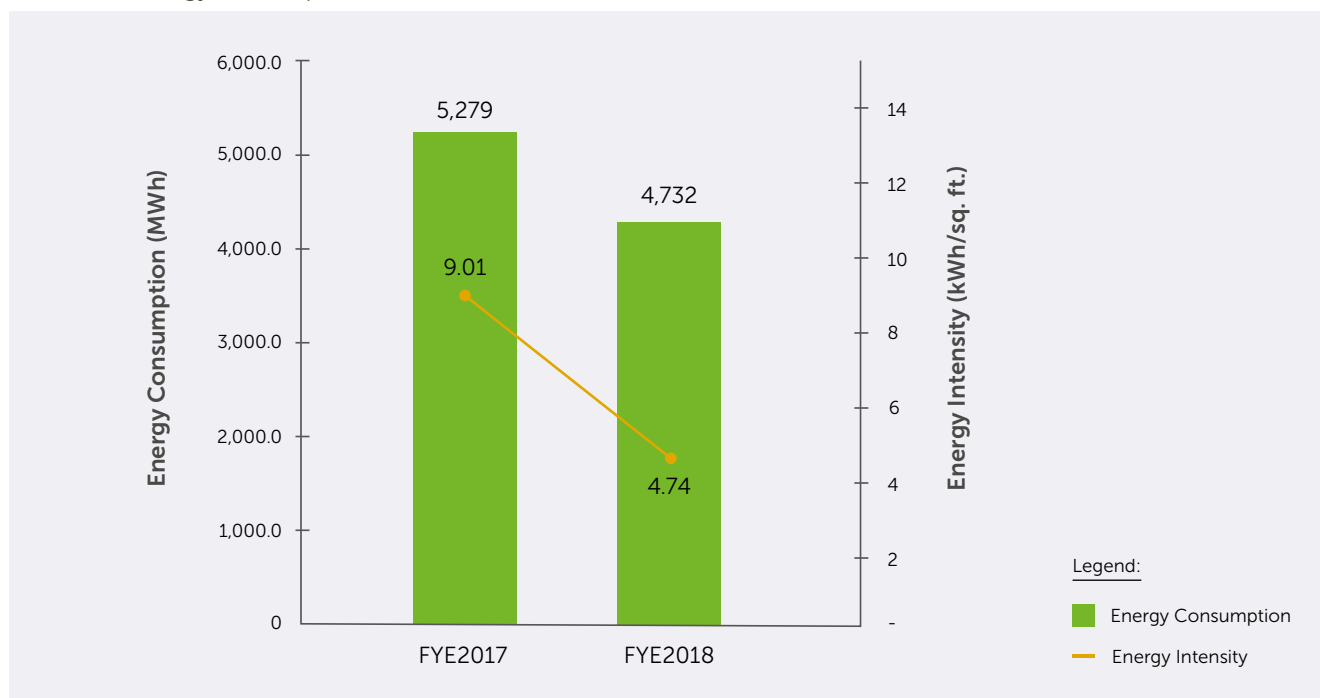
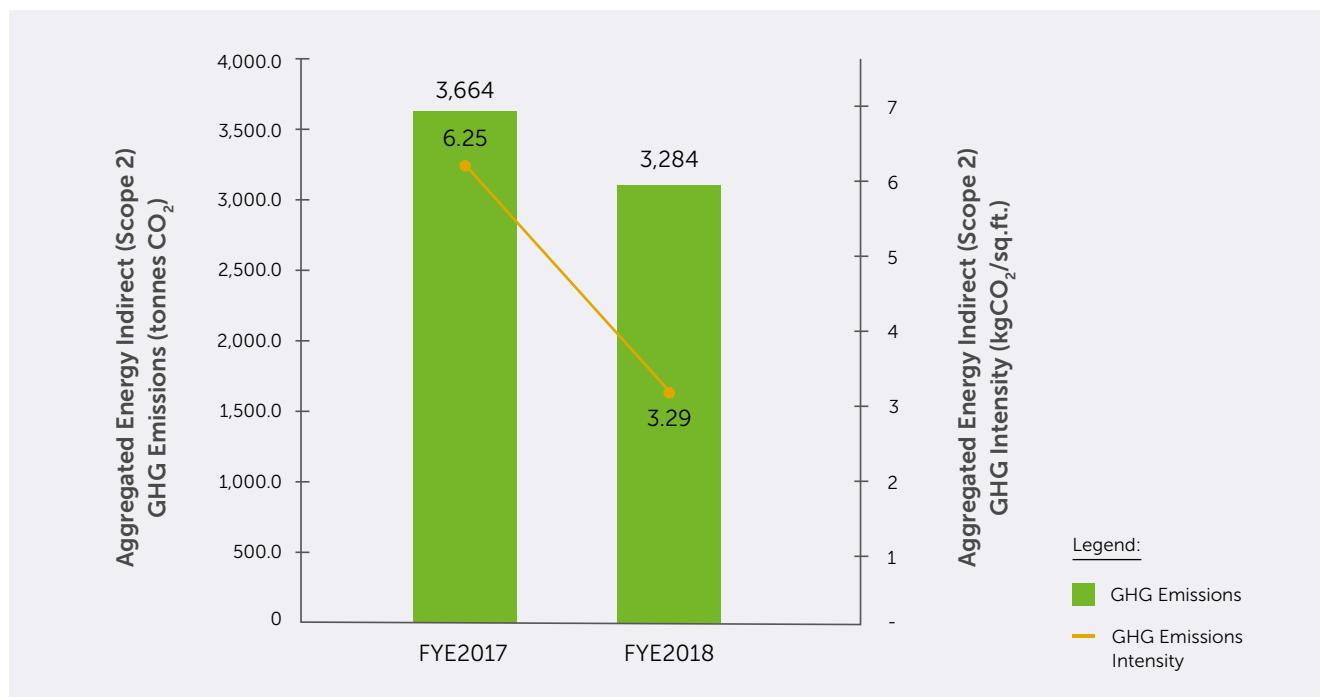
Perpetual Target	Performance for FYE2018
The Manager’s goal is to constantly seek ways to reduce GHG emissions and improve energy efficiency throughout its premises	Achieved To refer below for explanation

Axis-REIT is constantly working to improve energy efficiency in our buildings. The reduction in energy consumption for 2018 is mainly attributed to the following exercises :

- Changing of conventional lighting to LED lighting in common areas
- Installation of sensors for lighting in toilets and lobbies
- Joint inspection with TNB for housekeeping of electric meters in our multi tenanted properties. This is to check on double billings between tenant spaces and common areas.

⁵ Environmental scope of reporting is restricted to Axis-REIT’s energy consumption in common non-lettable areas that are under the Manager’s operational control

INTEGRATED SUSTAINABILITY REPORT

Axis-REIT's energy consumption and GHG emissions [GRI 302-1, 302-4]⁶Axis-REIT's energy consumption and GHG emissions [GRI 305-2, 305-4]^{7,8}

⁶ The energy intensity for FYE2017 has been restated

⁷ The emission factor used is taken from the emission factor of Peninsular Malaysia Grid from Malaysian Green Technology Corporation (GreenTech Malaysia) Study on Grid Connected Electricity Baselines in Malaysia (Year: 2014) dated April 2016 which is the latest version at the time of reporting

⁸ The GHG emissions and GHG emissions intensity for FYE2017 has been restated

INTEGRATED SUSTAINABILITY REPORT

GRI Content Index

GRI Standard	Disclosure	Section of Report/Reason(s) for Omission	Page Reference	
General Disclosures				
GRI 102: General Disclosures 2016	Organisational profile			
	102-1	Name of the organisation	About Axis-REIT	3
	102-2	Activities, brands, products, and services	Real Estate Report, Project Management Report and Property Manager's Report	55-82
	102-3	Location of headquarters	Corporate Information	7
	102-4	Location of operations	About Axis-REIT	3
	102-5	Ownership and legal form	About Axis-REIT	3
	102-6	Markets served	About Axis-REIT	3
	102-7	Scale of the organisation	Real Estate Report and Project Management Report Workforce Profile Statement of Financial Position	55-77 144 190
	102-8	Information on employees and other workers	Workforce profile	144
	102-9	Supply chain	Responsible supply chain management	142
	102-10	Significant changes to the organisation and its supply chain	Letter from the Chairman and the CEO	8
	102-11	Precautionary Principle or approach	Enterprise Risk Management	138
	102-12	External initiatives	Axis-REIT does not adopt the Tripartite Alliance for Fair and Progressive Employment Practices	
102-13	Membership of associations	Founding member of: <ul style="list-style-type: none"> Malaysian REIT Managers Association Corporate member of: <ul style="list-style-type: none"> The Malaysian Investor Relations Association Malaysia Australia Business Council British Malaysia Chamber of Commerce Malaysian German Chamber of Commerce & Industry Malaysian Dutch Business Council Malaysian Norway Business Council 		

INTEGRATED SUSTAINABILITY REPORT

GRI Standard	Disclosure	Section of Report/Reason(s) for Omission	Page Reference
GRI 102: General Disclosures 2016	Strategy		
	102-14	Statement from senior decision-maker	CEO's Message on Sustainability 130
	Ethics and integrity		
	102-16	Values, principles, standards, and norms of behavior	Governance, ethics and integrity 137
	Governance		
	102-18	Governance structure	Governance, ethics and integrity Corporate Governance 137 159-172
	Stakeholder engagement		
	102-40	List of stakeholder groups	Stakeholder Engagement 134-135
	102-41	Collective bargaining agreements	None of the employees are covered by collective bargaining agreements.
	102-42	Identifying and selecting stakeholders	Stakeholder Engagement 134-135
	102-43	Approach to stakeholder engagement	Stakeholder Engagement 134-135
	102-44	Key topics and concerns raised	Stakeholder Engagement 134-135
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	102-45	Entities included in the consolidated financial statements	Notes to Financial Statements 197
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	102-47	List of material topics	Materiality Assessment 136
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	102-50	Reporting period	About this Report 131
	102-51	Date of most recent report	Annual Report FYE2017
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	103-2	The management approach and its components	Economic performance	140
	103-3	Evaluation of the management approach	Economic performance	140
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	Economic performance	140
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	103-3	Evaluation of the management approach	Quality of assets and services	140-141
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GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Responsible supply chain management	142
	103-3	Evaluation of the management approach	Responsible supply chain management	142
GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria	Responsible supply chain management	142
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	Responsible supply chain management	142

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GRI Standard	Disclosure		Section of Report/Reason(s) for Omission	Page Reference
TENANT SATISFACTION				
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GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Occupational health and safety	144-146
	103-3	Evaluation of the management approach	Occupational health and safety	144-146
GRI 403: Occupational Health and Safety 2016	403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	Occupational health and safety	144-146
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	103-3	Evaluation of the management approach	Employee wellness and engagement	146
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	Workforce profile	144
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employee wellness and engagement	146
	401-3	Parental leave	Employee wellness and engagement	146
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	Employee wellness and engagement	146

INTEGRATED SUSTAINABILITY REPORT

GRI Standard	Disclosure		Section of Report/Reason(s) for Omission	Page Reference
COMMUNITY ACTIVITY & PARTNERSHIP				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Community activity and partnership	146-150
	103-3	Evaluation of the management approach	Community activity and partnership	146-150
EMBRACING INNOVATION AND TECHNOLOGY				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Embracing innovation and technology	151
	103-3	Evaluation of the management approach	Embracing innovation and technology	151
TRAINING AND EDUCATION				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Training and Education	152
	103-3	Evaluation of the management approach	Training and Education	152
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	Training and Education	152
	404-3	Percentage of employees receiving regular performance and career development reviews	Employee wellness and engagement	146
ENERGY AND CARBON FOOTPRINT				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Energy and carbon footprint	152-153
	103-3	Evaluation of the management approach	Energy and carbon footprint	152-153
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	Energy and carbon footprint	152-153
	302-3	Energy intensity	Energy and carbon footprint	152-153
GRI 305: Emissions 2016	305-2	Energy indirect (Scope 2) GHG emissions	Energy and carbon footprint	152-153
	305-4	GHG Emissions intensity	Energy and carbon footprint	152-153



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**CORPORATE
GOVERNANCE**



The Manager recognises that an effective corporate governance culture is critical to its performance and consequently the success and sustainability of Axis-REIT. The Manager is committed to high standards of corporate governance and has adopted a comprehensive corporate governance framework that meets best practice principles.

REBECCA LEONG

Company Secretary & Head of Compliance

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Axis REIT Managers Berhad (“ARMB” or “Manager”), being the management company of Axis Real Estate Investment Trust (“Axis-REIT” or “Fund”), is pleased to present this Corporate Governance Overview Statement, approved by the Board of Directors (“Board”), which provides insights into the best practices adopted by the Manager in managing Axis-REIT.

The Manager recognises that an effective corporate governance culture is critical to its performance and consequently the success and sustainability of Axis-REIT. The Manager is committed to high standards of corporate governance and has adopted a comprehensive corporate governance framework that meets best practice principles.

The following sections describe the Manager’s corporate governance framework, practices and policies, which are substantially in accordance with the Malaysian Code on Corporate Governance that came into effect on 26 April 2017 (“CG Code”)

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

The Manager of Axis-REIT and the Board of Directors

ARMB is the appointed Manager of Axis-REIT in accordance with the terms of the trust deed constituting Axis-REIT (“Deed”), restated as the Third Principal Deed on 28 November 2013. Pursuant to the Deed, the Manager has the duty to act honestly, with due care and diligence, and in the best interest of the Unitholders of Axis-REIT.

The Manager, being licensed under the Capital Markets and Services Act, 2007, is also required to observe and meet the minimum standards of conduct in the capital market as regulated by the Securities Commission Malaysia (“SC”).

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 of Axis-REIT. The primary role of the Manager, as led by the Board, is to set the strategic direction of the Fund and make recommendations to the Trustee of Axis-REIT on acquisitions, divestments, enhancements and developments that are in line with the agreed strategy. The Manager is also responsible for business planning, capital management and risk management of the Fund.

The overview of the Board’s responsibilities in carrying out the duties of the Manager in accordance with the Deed, is as follows:

Board’s Responsibilities	• Strategic planning, which supports long-term value creation
	• Corporate governance, which reinforces ethical, prudent and professional behaviour
	• Supervision and oversight of Management towards the accomplishment of the Fund’s objectives and mission
	• Business plans and the results of their implementation
	• Asset management of Axis-REIT’s property portfolio
	• Risk management and internal controls, including setting the risk appetite and tolerance in the decision-making process
	• Financial and non-financial reporting systems
	• Business development and growth strategies
	• Succession planning at Board and senior management levels
	• Stakeholder communication and engagements

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Composition

As at 31 December 2018, the Board of Directors comprised the following:

- Three Independent Non-Executive Directors
- Two Executive Directors
- Two Non-Independent Non-Executive Directors
- Two Alternate Directors

The composition of the Board was reduced from ten directors to nine during the financial year ended 31 December 2018 ("FYE2018") with the resignation of Mr Yeoh Chong Keat as a Non-Independent Non-Executive Director on 30 April 2018.

The Board consists of a mixture of Executive and Non-Executive Directors from diverse professional backgrounds such as real estate and facility management, property development, entrepreneurship, accounting and finance. This enables Management to tap their expertise and broad business experience when deliberating issues with the Board. The roles and responsibilities of the Board in discharging its fiduciary leadership functions are elaborated in the Board Charter, which can be accessed at Axis-REIT's corporate website, www.axis-reit.com.my.

Independent Directors made up one-third of the Board and this complies with the requirement prescribed under the SC's new Guidelines on Listed Real Estate Investment Trusts ("Listed REIT Guidelines") that came into effect on 9 April 2018. The Board considers the current composition to be satisfactory, and any proposed change to the composition will require a careful and in-depth review based on the size, requisite mix of skill and competency of the Board.

Chairman of the Board and Chief Executive Officer ("CEO")

The positions of Chairman and CEO are 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 provides leadership to the Board in relation to all aspects of the Board's roles and responsibilities. He also ensures that members of the Board work together with Management in a constructive manner to address strategies, business operations, financial performance and risk management issues. The Chairman plays a role in the Manager's external relationship with stakeholders as well.

The CEO has full executive responsibilities over the execution of the agreed business policies and directions set by the Board, and over all operational decisions in managing Axis-REIT. The CEO works closely with all the heads of department through weekly cross-departmental meetings in reviewing matters relating to operational issues, capital management, investment proposals, leasing activities, facilities and project management.

Axis-REIT continued to pursue its property development strategy, and in April 2018, embarked on its second project, developing a facility in Subang known as the Axis Aerotech Centre. The CEO is actively leading and monitoring this project with a team of contractors, project managers and consultants.

Strategic Planning and Target Setting

At the beginning of FYE2018, the Board reviewed and approved the budget of Axis-REIT, which provided the financial roadmap and targets for each department in executing the business plans of the Manager and Axis-REIT. The Manager is also guided by Axis-REIT's 2021 Strategy Plan, which was approved by the Board in August 2016. This 2021 Strategy Plan, which sets out the long-term, five-year initiatives towards growing the Fund's Assets Under Management to RM5 billion by 2021, was reassessed at the Strategy Planning Session of the Manager conducted in September 2018. Management under the leadership of the CEO was refocused on the agreed initiatives formulated under the 2021 Strategy Plan.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Meetings and Procedures

The Board met every quarter in FYE2018 to review, discuss and approve the release of Axis-REIT's quarterly and annual financial results. It also reviewed proposed acquisitions and disposals, corporate plans and the annual budget, capital management proposals, property reports, investor relations reports, as well as the performance of the Manager and Axis-REIT against the previously approved budget, together with other proposals tabled by Management. The CEO led the business performance reporting at each Board meeting. The Chief Financial Officer, Head of Real Estate, Head of Investments and the Investments & Investor Relations Manager, who are heads of departments of the Manager, were also present at the Board meetings to present their reports and to facilitate the review and deliberation of issues and matters presented to the Directors at such meetings. Via such conduct at Board meetings, the Board is able to oversee, assess and monitor Management's performance in administering the business of the Manager and Axis-REIT.

Prior to each Board meeting, the Executive Committee of the Board would meet to review all reports and proposals from Management before a comprehensive executive committee report is compiled and presented to the Directors at Board meetings. Such executive committee reports contain financial and operational updates, as well as proposals and recommendations for the Board's consideration, deliberation and decision.

All meeting dates are determined and fixed in advance so that all Directors are able to schedule and commit their time effectively. This is governed under the Board Charter where expectations on time commitment are set. Directors who are travelling will have the option of participating in meetings via telephone and video conference arrangements.

Notices of meetings and their agendas are issued to all Directors no less than seven 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 Axis-REIT's quarterly financial results, the Manager announces the targeted date for such releases within two weeks prior to each Board meeting.

Access to Information and Advice

All members of the Board have access to all information in relation to the Manager and Axis-REIT at Board meetings, as well as through enquiries made via established channels. Emails are the most commonly used method to disseminate information to the Directors on a timely basis. The Board is also kept up-to-date via monthly financial updates circulated by the Finance department of the Manager, and this enables the Board to monitor and assess the performance and prospects of the Fund. All Directors have access to the rules and regulations governing the Fund and the Manager, as well as other policies approved by the Board via the Company Secretary, who maintains such corporate documents. The Manager also has 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. By having access to expert advice, the Board is able to ensure its decision-making mechanism is effective and result-oriented.

Company Secretary and Head of Compliance

The Board is supported by a professionally-qualified and competent Company Secretary who is also the Head of Compliance of the Manager. She is responsible for ensuring that the Board, Board Committees and shareholder/unitholder meeting procedures, corporate policies and procedures, and applicable rules and regulations are adhered to. The Company Secretary attended every Board meeting and Board Committee meeting held in FYE2018, and thereafter prepared the minutes of proceedings for approval by the respective Chairmen. The Company Secretary also kept the Board abreast of all relevant regulatory updates to laws and requirements at physical meetings, as well as via email. As the Head of Compliance of the Manager, she also assists the CEO in legal and corporate compliance matters by liaising and working closely with the appointed external solicitors and professional advisers.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

In FYE2018, the most notable regulatory changes were the SC's new Listed REIT Guidelines and the revamped Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Company Secretary ensured that she briefed both Management and the Board on the key changes arising from the Listed REIT Guidelines and the revamped MMLR on a timely basis. The Company Secretary had, among others, carried out/facilitated the following action plans to comply with the latest prescribed rules:

- Advising the Board and Management on the liberalised rules relating to development activities, acquisition of real estate via lease arrangements, capital raising, and other pertinent matters;
- Reviewing existing procedures relating to related party transactions ("RPT") and recurrent RPT ("RRPT"), and formulating the standard operating procedures for RPT and RRPT in the Manager's Operations Manual;
- Working closely with the Finance team to identify and compile information on all RPT and RRPT of Axis-REIT, and advising the Finance team on the computation of percentage ratios and transaction thresholds prescribed under the revamped MMLR;
- Advising the Property Manager on the change in the frequency of required property revaluations, from once every three years to an annual revaluation;
- Assessing the compliance level of the Audit Committee to ensure that the Audit Committee complies with the relevant provisions contained in the revamped MMLR;
- Facilitating the Internal Auditors' review of the Manager's compliance with the SC's new Listed REIT Guidelines and Bursa Securities' revamped MMLR;
- Updating the internal checklist for contents of the Annual Report and advising Management on the relevant changes to the said contents.

Board Charter, Code of Conduct and Whistle-Blowing Policy

Policies	Scope
Board Charter	Provides a clear description of the responsibilities of the Board, its Directors and the Board Committees
Code of Conduct	Outlines the rules of professional conduct, proper practices and ethical behaviour expected of the Manager and its personnel
Whistle-Blowing Policy	Facilitates the management of reports and claims filed in relation to possible improprieties in matters relating to financial reporting, compliance, misconduct and other malpractices

The Board Charter, Code of Conduct and Whistle-Blowing Policy are some of the main corporate policies that reinforce the standards of corporate governance within the Manager. These policies are essential in safeguarding the organisation and its employees from implications which may arise from non-compliance. These policies were reviewed by the Board and no revisions were recommended in FYE2018. These policies can be accessed on Axis-REIT's corporate website.

Board Remuneration and Remuneration Policy

As Axis-REIT is externally managed by ARMB, it has no employees, and the Directors sit on the Board of ARMB. The Manager, strategically led by the Board, ensures that it 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 is a privately-owned company.

Details of the Remuneration Committee, which is responsible for the determination of the remuneration policy framework of the Manager's Directors, is set out in the Remuneration Committee section below.

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT

In line with the Board's remuneration policy, the Remuneration Committee, at its meeting, reviews the annual remuneration proposals presented by the Executive Committee. The Chairman of the Remuneration Committee, who is an Independent Non-Executive Director, brings his experience and exposure to facilitate the review of the proposals presented by the Executive Committee. The Board perceives that the Chairman of the Remuneration Committee contributes to the independent element of the review process. All recommendations relating to fees and remuneration packages of the CEO and Directors shall then be made by the Remuneration Committee to the Board. The Board as a whole will then consider and make the final decision on the remuneration packages recommended by the Remuneration Committee.

There was no change in the Board's remuneration policy in FYE2018, and this policy is documented in the Board Charter of the Manager.

All remuneration matters at senior management level are reviewed and determined by the Executive Committee and where required, on a case-to-case basis, the Board's guidance and/or approval is sought.

A brief overview of the Directors' remuneration (comprising salaries, other emoluments, fees, meeting allowances and benefits-in-kind) in respect of FYE2018 is presented below:

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

Note: Details of Directors' and senior management's individual remunerations are not disclosed as the Directors and senior management are remunerated by the Manager, which is a privately-owned company. The Manager believes that the overview presented above is sufficient for public disclosure, and that the non-disclosure of individual remunerations is essential to protect the interests of the Manager and its officers.

Board Committees and their Roles

The following Board Committees have the delegated functions to assist the Board in discharging its duties:

<p>EXECUTIVE COMMITTEE</p> <ul style="list-style-type: none"> Manages the business of the Manager and Axis-REIT in accordance with the vision and mission established and approved by the Board Oversees and monitors the day-to-day business activities of the Manager and Axis-REIT Oversees the internal talent and senior leadership/key management team and its succession planning 	<p>AUDIT COMMITTEE</p> <ul style="list-style-type: none"> Assists the Board in ensuring that a balanced and understandable assessment of Axis-REIT's financial position and prospects is presented to the investing public Assists the Board in the areas of internal controls, risk management and governance processes of Axis-REIT and the Manager
<p>REMUNERATION COMMITTEE</p> <ul style="list-style-type: none"> Recommends to the Board the policy framework for the remuneration of the Executive and Non-Executive Directors of the Board, as well as key management officers (if any) Reviews the remuneration framework from time to time, to ensure that the Manager attracts and retains individuals of the highest calibre 	<p>NOMINATION COMMITTEE</p> <ul style="list-style-type: none"> Ensures that the Manager recruits, retains and develops the best available executive and non-executive directors Reviews succession at Board level Assesses the Board's structure, size and composition Evaluates the Directors' mix of skills, expertise and level of competencies

All the above Board Committees are guided by their respective Terms of Reference. The Terms of Reference of the Audit Committee, Nomination Committee and Remuneration Committee are available for reference on Axis-REIT's corporate website.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Audit Committee

The Audit Committee has the oversight duty to ensure that the financial reporting systems, internal controls and risk management systems of the Manager are robust.

The Audit Committee Report, which contains the summary of activities carried out by this Committee during FYE2018, is set out as a separate section in this Annual Report.

**Remuneration Committee**

As the Directors of the Manager are remunerated by the Manager and not by the Fund, the Executive Committee of the Manager plays an important role in presenting proposals to the Remuneration Committee. In this regard, Dato' Abas Carl Gunnar Bin Abdullah and Mr Stephen Tew Peng Hwee @ Teoh Peng Hwee have the task of representing the Executive Committee in the Remuneration Committee, given that they are members of both these Board Committees. The Executive Committee proposes to the Remuneration Committee the remuneration package of the Directors and senior management personnel (where applicable), taking into consideration, among others, the level of performance against agreed targets. All proposals presented by the Executive Committee are considered carefully by the Remuneration Committee, drawing from outside advice as necessary, in accordance with the Board's remuneration policy described above.

During FYE2018, the Remuneration Committee reviewed the remuneration package of the CEO based on the proposal presented by the Executive Committee, and made recommendations to the Board accordingly. Directors' fees were also reviewed, taking into consideration market factors. The Board ultimately made the final decisions in respect of the remunerations of the Executive and Non-Executive Directors. Each Director had accordingly abstained from deliberation and voting on their own respective remuneration.

Nomination Committee

The chair of the Nomination Committee is the Senior Independent Director of the Board. He plays an important support role to the Chairman in fostering strong relationships and balance across the Board.

The Nomination Committee undertook the following activities in FYE2018, which were the annual affairs of this Committee:

- Reviewed the performance evaluation carried out on the Board, Directors and Board Committees. The performance evaluation was facilitated by the Company Secretary and the results were reported to the Nomination Committee for its onward review. The Nomination Committee had expressed satisfaction as to the level of corporate governance values/practices which are embedded in the functions of the Board, operations and management processes of the Manager;
- Enhanced the existing recruitment criteria of the Manager to be aligned with the SC's new Listed REIT Guidelines;
- Considered and made no recommendation to revise the criteria for the annual assessment of Directors (including the assessment of independence and the assessment of Directors whose tenures had exceeded nine years) in view that the existing criteria remain relevant to the Directors of the Manager;
- Reviewed the existing composition of the Board, as well as the effectiveness of the Board and Board Committees. No change to the Board's composition was recommended by the Committee;
- Considered the gender diversity of the Manager, bearing in mind the recommendation to have 30% female board representation pursuant to the CG Code. The Board is of the opinion that the selection of suitable candidates for appointment to the Board must be based on merit;
- Assessed the training needs of the Directors. The Manager is committed to arranging annual in-house training sessions for the Directors and senior management of the Manager;
- Reviewed the term of office and performance of the Audit Committee in accordance with Paragraph 15.20 of the MMLR. No exception was noted from the assessment results;

CORPORATE GOVERNANCE OVERVIEW STATEMENT

- Assessed the retiring Directors in accordance with the Constitution of the Manager and recommended to the Board their respective re-elections.

Assessment of Independent Directors

The Board had undertaken an annual assessment of its three Independent Directors, namely YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin, Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor and Encik Mohd Sharif Bin Hj Yusof, based on the criteria approved by the Nomination Committee. The three Independent Directors of the Manager had confirmed their independence in writing to the Board. All three Independent Directors of the Manager were also subject to additional evaluation, given that they had served on the Board as Independent Directors for more than nine years. Accordingly, the Board assessed the three Independent Directors and considered them still independent based on their respective written assessments submitted.

The Board was of the opinion that their independence would not be materially compromised by the length of their service as Independent Directors of the Board. The mechanism provided under the CG Code in relation to the two-tier voting process for the re-appointment of Independent Directors is not applicable to the Manager because the Manager is a wholly-owned subsidiary of a private company. In accordance with best practices, the Board will be seeking the approval from the sole shareholder of the Manager at the Manager's 2019 annual general meeting for the retention of all three Independent Directors.

Attendances at Board and Board Committee Meetings

The attendance of the Directors at the Board and Board Committee meetings held during FYE2018 is presented below:

Board of Directors	Designation	Attendance (No. of meetings held: 4)
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Independent Non-Executive Chairman	4/4
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Executive Deputy Chairman	4/4
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Non-Independent Non-Executive Director	4/4
Leong Kit May	Chief Executive Officer/ Executive Director	4/4
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Independent Non-Executive Director	4/4
Mohd Sharif Bin Hj Yusof	Senior Independent Non-Executive Director	4/4
Alvin Dim Lao (Alternate Director: Jancis Anne Que Lao)	Non-Independent Non-Executive Director	3/4
Yeoh Chong Keat (Resigned w.e.f. 30 April 2018)	Non-Independent Non-Executive Director	1/2

Executive Committee Members	Designation	Attendance (No. of meetings held: 5)
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Chairman	4/5
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Member	5/5
Leong Kit May	Member	5/5

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Audit Committee Members	Designation	Attendance (No. of meetings held: 4)
Mohd Sharif Bin Hj Yusof	Chairman	4/4
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Member	4/4
Alvin Dim Lao (Alternate Director: Jancis Anne Que Lao)	Member	3/4

Remuneration Committee Members	Designation	Attendance (No. of meeting held: 1)
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Chairman	1/1
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Member	1/1
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Member	1/1

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

Directors' Training

The Board ensures that its members have access to appropriate continuing education programmes to stay updated on relevant developments, and to enhance their skills and strengthen their participation in Board deliberations.

Details of training programmes attended by Directors in FYE2018 were compiled by the Company Secretary for reporting to the Nomination Committee and Board accordingly. An in-house training session on the implementation of the Sales and Service Tax, conducted by PWC, was also organised for all the Directors in October 2018.

All the Directors of the Manager have attended training programmes during FYE2018 in compliance with the MMLR. Some of the Directors remain actively involved in speaking engagements and presented talks at conferences and seminars. The details are as follows:

Director	Date	Events
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	22 October 2018	Sales and Service Tax by PWC
Dato' Abas Carl Gunnar bin Abdullah	22 October 2018	Sales and Service Tax by PWC
Stephen Tew Peng Hwee @ Teoh Peng Hwee	2 – 3 March 2018	Malaysian Annual Real Estate Convention 2018 – Embracing Changes with Innovation
	30 April 2018	Strata Management Act 2013 (Act 757) and SM Regulations 2015

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Director	Date	Events
Leong Kit May	24 January 2018	Invest Malaysia Conference 2018
	30 April 2018	Strata Management Act 2013 (Act 757) and SM Regulations 2015
	14 May 2018	Hong Leong Investment Bank REIT Day
	17 July 2018	Maybank IB REITs Corporate Day
	26 July 2018	Sharpen Your Skills on Listing Requirement Compliance
	2 August 2018	5th Edition REITS Asia Pacific 2018, Singapore
	24 September 2018	REHDA Annual Property Developers Conference
	22 October 2018	Sales and Service Tax by PWC
	27 November 2018	Property Portfolio Management of a REIT
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	9–21 January 2018	CES 2018, Las Vegas, USA
	24 January 2018	EdgeProp Malaysia's Best Managed Property Awards 2018 Supporters and Partners Official Handshake Ceremony
	1 February 2018	JUDANREN Delegation Meeting
	2 March 2018	ASEAN Real Estate Network Alliance (ARENA) Meeting
	29 March 2018	Strata Handbook Launching
	27 April 2018	MAPEX APRIL 2018
	7 May 2018	Malaysia's Best Managed Property Award 2018
	1 June 2018	Property Insight Awards 2018
	12 July 2018	Majlis Konsultasi Bajet 2019
	14 July 2018	REHDA : Annual Delegates' Conference
	16 August 2018	Sustainable Housing Futures Conference, The New Urban Agenda
	28 August 2018	Directors Duties and Obligations
	12 October 2018	MAPEX OCTOBER 2018
	29 October 2018	TEPEA2018-Top Property Developers Awards
22 November 2018	GreenRE's Sustainable Design Awards 2018	
Mohd Sharif bin Hj Yusof	5 July 2018	Sustainability Engagement Series for Directors / Chief Executive Officers
	22 October 2018	Sales and Service Tax by PWC
Alvin Dim Lao	15–18 January 2018	D&L Industries Lao Family Workshop
	22–23 January 2018	JP Morgan Manila Conference, Philippines
	6–7 February 2018	DB Corporate Day, Hong Kong
	28 February–1 March 2018	UBS Manila Conference
	21–22 August 2018	Nomura Conference, Japan
	23–24 August 2018	Nomura Conference, Hong Kong
	3–4 September 2018	DB Philippine Corporate Day, London
	25 September 2018	JP Morgan Rising Dragon Conference, Singapore
	27 September 2018	JP Morgan Rising Dragon Conference, Hong Kong
	3–4 October 2018	Deutsche's Corporate Day, Philippines
	22 October 2018	Sales and Service Tax by PWC
	8 November 2018	Corporate Governance

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Director	Date	Events
Alex Lee Lao	15–18 January 2018	D&L Industries Lao Family Workshop
	8 November 2018	Corporate Governance
Jancis Anne Que Lao	15–18 January 2018	D&L Industries Lao Family Workshop
	22 October 2018	Sales and Service Tax by PWC

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT**An Effective Audit Committee**

The Audit Committee plays an important role in the governance structure of the Manager and this Committee had discharged its duties in accordance with its Terms of Reference throughout FYE2018.

More details on how the Audit Committee had discharged its duties in FYE2018 are presented in the Audit Committee Report.

**Assessment of the External Auditors**

The assessment of the External Auditors of Axis-REIT for re-engagement is an annual affair for the Manager. The Audit Committee had evaluated the External Auditors of Axis-REIT in April 2018 in order to determine their independence, as well as their suitability for re-appointment. The assessment on suitability, objectivity and independence was carried out against criteria adopted by the Audit Committee, such as the adequacy and experience of the firm, its resources and the experience of the professional staff assigned to the audit of Axis-REIT.

Upon due assessment, the Audit Committee recommended to the Board the re-engagement of Messrs KPMG PLT as the External Auditors for Axis-REIT in respect of FYE2018 for onward recommendation to the Trustee of Axis-REIT for approval. The re-appointment of the External Auditors of Axis-REIT is not subject to the approval of the Unitholders of Axis-REIT.

The private engagements held between the Audit Committee and the External Auditors without the presence of Management also provided a platform for the Audit Committee to gauge the working relationship between the External Auditors and Management, as well as the level of independence demonstrated by the External Auditors.

Risk Management and Internal Control Systems

Effective risk management is a fundamental part of the Manager's business strategy. It ensures that there are no adverse disruptions to the Manager's pursuit and accomplishment of Axis-REIT's business goals and objectives, and mitigates any potential loss that may negatively impact the Unitholders of Axis-REIT so as to preserve their investments. Risk management has been part of the Manager's day-to-day operations and is embedded in the operational functions of the Manager. The barometer for risk management is the Risk Register, which was formulated by the Manager to capture and periodically monitor key risk areas. The Risk Register is reviewed by the Audit Committee on a quarterly basis for reporting to the Board.



Further details on the risk management framework of the Manager are contained in the Statement on Risk Management and Internal Control.



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The internal audit function is outsourced to an independent consultancy firm, Baker Tilly Monteiro Heng Governance Sdn Bhd, that carries out the audit review based on an approved internal audit plan. The Internal Auditors report directly to the Audit Committee and attend the quarterly Audit Committee meetings where internal audit reports are presented and discussed. The Audit Committee has the delegated function of monitoring the performance of the internal audit function and its effectiveness for reporting to the Board on a quarterly basis.

Further details on the internal audit activities are also contained in the Statement on Risk Management and Internal Control.



Assessment of the effectiveness and independence of the Internal Audit Function

The Audit Committee conducted its annual assessment on the effectiveness and independence of the internal audit function, and was satisfied that:

- The internal audit team members are free from any relationships or conflict of interest, which could impair their objectivity and independence;
- The assigned number of staff to handle the internal audit work is adequate, and the internal audit assignment is led by experienced employees of the outsourced internal audit firm, who are at least Assistant Managers and above in designation;
- The internal audit function of the Manager is carried out in accordance with the industry's best practices, benchmarked against the applicable practices in the International Standards for the Professional Practice of Internal Auditing;
- The team leader from Baker Tilly Monteiro Heng Governance Sdn Bhd who is in-charge of the internal audit function of the Manager, is independent, experienced, and possesses the qualifications required to render his internal audit services.

The engagement of the Internal Auditors, including their professional fees, are also reviewed and renewed annually where the Audit Committee, in its review, would take into account the performance of the Internal Auditors' past services, their level of independence in carrying out their internal audit work and their working relationship with Management.

PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Disclosure and Communication with Unitholders and the Investing Community

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 Bursa Securities' website, through the Fund's corporate website at www.axis-reit.com.my, as well as through press releases, analyst briefings and retail roadshows. The Manager also has in place a dedicated section for corporate governance on its corporate website, which provides information such as the Board Charter, Code of Conduct, Whistle-blowing Policy and Terms of Reference. The Manager has dedicated personnel responsible for updating the Fund's corporate website with pertinent and relevant information in a regular and timely manner.

Management has also implemented improvements to Axis-REIT's corporate website based on the guidance provided by Bursa Securities via the Issuers Communication – Corporate Website for Listed Issuers (ICN 1/2018) issued on 31 October 2018.

The Board is committed to promoting effective communication and proactive engagements with Unitholders and the investing community, through the Investor Relations department of the Manager. This department is guided by the Investor Relations and Corporate Disclosure Policy ("IR & CD Policy") which is also accessible on Axis-REIT's corporate website. The IR & CD Policy, which was reviewed and updated in October 2018, sets the guidelines for effective communication channels, and sets the boundaries for the handling and management of confidential information. Pursuant to the updated IR & CD Policy, the CEO and the Chief Financial Officer are the designated primary spokespersons with all audiences, including Unitholders, press, analysts and potential investors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Further details on communication with Unitholders, the investing community, analysts and fund managers are covered in the Investor Relations Report contained in this Annual Report.



Other Stakeholder Engagements and Relationship Management

The Manager also places emphasis on engaging other stakeholders such as its employees, the tenants of Axis-REIT, and local communities. These engagements contribute to the business decision-making process as they provide insights and ideas to meet stakeholders' expectations and sustainable goals. The Marketing team of the Manager is tasked with undertaking the various marketing initiatives and activities.

More details on ARMB's efforts in engaging the various stakeholders are contained in the Marketing Report.



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

AGMs and Unitholders' meetings are the primary forums where Unitholders are presented with quality information that enables them to have a better appreciation of the goals and objectives of Axis-REIT, the milestones achieved during the year, the challenges faced, as well as the prospects of the Fund. Concurrently, these sessions also serve as a platform for Unitholders to bring their expectations and concerns to the attention of the Manager.

The Sixth AGM of Axis-REIT was convened and held on 26 April 2018 with the AGM Notice being issued together with the 2017 Annual Report on 28 February 2018. Ample time was allocated to the Unitholders to read through the 2017 Annual Report and consider the resolutions that would be tabled at the AGM. Sufficient explanatory notes were also given in the AGM Notice to facilitate Unitholders' consideration of the resolutions for which their approval was sought.

At the AGM, the Manager presented an update on Axis-REIT's financial performance for the financial year ended 31 December 2017, as well as its activities, progress and prospects. The Board provided opportunities for Unitholders present at the meeting to raise questions pertaining to the business activities of Axis-REIT. The Chairman, CEO and other Directors of the Manager were present at the AGM to answer queries posed. The senior management team including the Company Secretary, played an important part in facilitating the smooth running of the AGM.

Two Ordinary Resolutions were tabled to Unitholders for approval at the Sixth AGM. The first was the Proposed Authority to allot and issue new units in Axis-REIT, and the second was the Proposed Renewal of the Income Distribution Reinvestment Plan Authority. Both Ordinary Resolutions were passed by Unitholders via a systemised polling exercise conducted at the AGM. Symphony Share Registrars Sdn Bhd was appointed as the poll administrator to conduct the polling process and Deloitte Enterprise Risk Services Sdn Bhd was the appointed independent scrutineer to verify the poll results. The voting results, which had been verified by the independent scrutineer, are contained in the summary of minutes of the Sixth AGM, which is available on Axis-REIT's corporate website.

Save for the AGM, there were no other Unitholders' meetings held in FYE2018.

Compliance Statement

The Board is satisfied that the Manager has substantially applied the principles and best practice recommendations prescribed under the CG Code in its management of Axis-REIT during FYE2018. This Statement has been tabled and approved by the Board of Directors on 22 January 2019.

AUDIT COMMITTEE REPORT

Recognising the critical role of an audit committee in the corporate governance process of an organisation, the Board of Directors (“Board”) of Axis REIT Managers Berhad (“ARMB” or “Manager”) voluntarily established an Audit Committee since its listing in 2005. With the revamped Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) that came into effect on 9 April 2018, the establishment of an audit committee in a management company of a REIT is now mandatory.

The Audit Committee has the delegated oversight responsibilities from the Board to ensure that the interests of the Unitholders of Axis Real Estate Investment Trust (“Axis-REIT” or “Fund”) are safeguarded.

1. Composition of the Audit Committee

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

The composition of the Audit Committee in respect of the financial year ended 31 December 2018 (“FYE2018”) was as follows:

Chairman:

- (a) Mohd Sharif Bin Hj Yusof
- Senior Independent Non-Executive Director

Members:

- (b) YAM Tunku Dato’ Seri Shahabuddin Bin Tunku Besar Burhanuddin
- Independent Non-Executive Chairman
- (c) Alvin Dim Lao
- Non-Independent Non-Executive Director
(Alternate Director: Ms Jancis Anne Que Lao)

On 1 January 2018, YAM Tunku Dato’ Seri Shahabuddin Bin Tunku Besar Burhanuddin, who is also the Chairman of the Board, relinquished his chairmanship of the Audit Committee to Encik Mohd Sharif Bin Hj Yusof, but remained on the Audit Committee as a member. The change is in compliance with the Malaysian Code on Corporate Governance issued on 26 April 2017 (“CG Code”), that recommends that the Chairman of the Board should not also hold the position of Chairman of the Audit Committee.

2. Audit Committee Meetings

The Audit Committee held four meetings during FYE2018. Details of the attendance of the Audit Committee members are set out in the Corporate Governance Overview Statement of this Annual Report. The meeting dates were pre-determined in advance in order to ensure availability of each member. Meeting papers were circulated to all the Audit Committee members prior to the meetings by way of electronic means and hard copy.

AUDIT COMMITTEE REPORT

3. Terms of Reference

The Audit Committee has a set of Terms of Reference that guides the discharge of its roles and responsibilities.

Following the revamped MMLR, a review of the existing Terms of Reference was conducted in October 2018 to ensure compliance with the relevant provisions governing audit committees.

Details of the Terms of Reference are available on the corporate website of Axis-REIT at www.axis-reit.com.my



4. Summary of Activities carried out by the Audit 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 financial management and reporting system, as well as the risk management and internal control environment in which the Manager operates in managing Axis-REIT. The Audit Committee also has the delegated responsibilities to assist the Board in overseeing the external and internal audit functions, conflict of interest situations and related party transactions ("RPT").

The Audit Committee had, in the discharge of its duties and responsibilities during the financial year under review, carried out the following activities:

Financial Reporting:

- (a) Reviewed at every quarterly meeting held in FYE2018, the quarterly financial results for public release to ensure adherence to legal and regulatory reporting requirements before recommending the same to the Board for approval.
- (b) Reviewed the audited financial statements of Axis-REIT for the financial year ended 31 December 2017 ("FYE2017"), which were prepared in accordance with the Deed of Axis-REIT, the applicable Securities Commission Malaysia ("SC") rules and guidelines, Malaysian Financial Reporting Standards and International Financial Reporting Standards, prior to recommending the same to the Board for approval. The audited financial statements of Axis-REIT for FYE2017 were issued and circulated to the Unitholders in February 2018 in line with the prescribed requirements.

At the meeting held on 23 January 2018, the External Auditors presented to the Audit Committee the results of the FYE2017 audit conducted on Axis-REIT, where significant audit matters such as valuation of investment properties, revenue recognition and compliance with the Sukuk covenants, were discussed.

- (c) Reviewed the key audit matter and other audit focus areas in respect of FYE2017. There was no change to the key audit matter in the audited financial statements for FYE2017 as compared to the previous year. Valuation of investment properties was the most significant audit area for Axis-REIT given that investment properties represented the single largest category of assets on the Fund's statement of financial position as at 31 December 2017. The Auditors had, in their audit review procedures, among others, tested the valuation processes adopted by the Manager and reviewed the valuation methodologies used.
- (d) Kept abreast on the application of the new accounting standards, i.e. Malaysian Financial Reporting Standard ("MFRS") 15 (Revenue from Contracts with Customers), MFRS 9 (Financial Instruments) and MFRS 16 (Leases). The Audit Committee was satisfied that adequate impact assessment had been carried out by Management and the accounting policies (MFRS 9 and MFRS 15) had been appropriately updated in the financial statements of Axis-REIT for FYE2018. MFRS 16 will become applicable in the financial year 2019.

AUDIT COMMITTEE REPORT

External Audit:

- (a) Evaluated the suitability and independence of the External Auditors at the meeting held on 25 April 2018 against evaluation criteria established. Following a satisfactory assessment, the Audit Committee recommended to the Board their re-appointment as Auditors of Axis-REIT in respect of FYE2018 for onward recommendation to the Trustee of Axis-REIT. The evaluation criteria included, among others, the adequacy and experience of the firm, its resources, and the experience of the professional staff assigned to the audit of Axis-REIT.
- (b) Noted the External Auditors' confirmation of their firm's independence in accordance with the terms of all relevant professional and regulatory requirements.
- (c) Ensured that Axis-REIT's appointed External Auditors were duly registered with the Audit Oversight Board ("AOB") of the SC based on the verification carried out by the Company Secretary on the AOB's Register of Auditors as at 28 February 2018 available on the SC's website.
- (d) Reviewed with the External Auditors, at the meeting held on 22 October 2018, their audit plan for FYE2018, audit approach, and reporting requirements prior to the commencement of audit works for the year under review. The valuation of investment properties is the potential key audit matter in the audit process for FYE2018.

The SC's new Guidelines on Listed REITs, which came into effect on 9 April 2018 replacing the previous SC's Guidelines on REITs, had changed the property revaluation frequency requirement from every three years to an annual revaluation. Management has revised its revaluation practices accordingly to comply with the annual revaluation requirement prescribed by the SC, and this change was reported to and endorsed by the Audit Committee and the Board on 25 April 2018 at their respective meetings.

Given that there were 44 properties in the portfolio of Axis-REIT as at 22 October 2018, i.e. the meeting where the aforesaid audit plan was reviewed, Management had given assurance to the Audit Committee that adequate assistance would be extended to the External Auditors to facilitate their audit review of all the valuation reports.

- (e) Reviewed the FYE2018 audit fees of Axis-REIT and its wholly-owned subsidiary, Axis REIT Sukuk Berhad (a special-purpose vehicle established for issuance of Sukuk, an Islamic financing instrument), for recommendation to the Board, prior to seeking the approval from the Trustee of Axis-REIT.

The Audit Committee also considered the non-audit fees applicable to Axis-REIT and Axis REIT Sukuk Berhad for FYE2018, and was satisfied that the non-audit fees were not of significant nature and were necessary compliance costs in order for Axis-REIT and Axis REIT Sukuk Berhad to comply with the relevant requirements.

The details of the audit and non-audit fees for FYE2018 are disclosed below:

Fees applicable to Axis-REIT		Fees applicable to Axis REIT Sukuk Berhad	
Audit	Non-Audit	Audit	Non-Audit
RM111,000	RM7,000	RM10,000	RM10,000 [^]

[^] Fee for the review of the Financial Service Coverage Ratio in relation to the Sukuk Programme established under Axis REIT Sukuk Berhad

Internal Audit:

- (a) Reviewed on a quarterly basis, the internal audit reports with the Internal Auditors, and ensured that action plans recommended are agreed upon and implemented by Management on a timely basis.

A summary of the activities of the internal audit function (out-sourced) carried out in FYE2018 are contained in the Statement on Risk Management and Internal Control of this Annual Report



AUDIT COMMITTEE REPORT

- (b) Evaluated the Internal Auditors and recommended to the Board their re-engagement to carry out the internal audit function in respect of the year 2018/2019, at the meeting held on 25 April 2018. The Audit Committee also reviewed the internal audit fees applicable for the audit cycles under engagement for the year 2018/2019 before the same was approved by the Board.
- (c) Reviewed with the Internal Auditors, the internal audit plan for the year 2018/2019 which covers four audit cycles, and agreed with the methodologies (risk-driven approach) employed by the Internal Auditors.

Areas to be covered under the 2018/2019 internal audit cycles include reviews of the Fund's compliance with the SC's new Guidelines on Listed REITs and the revamped MMLR, a review of tenant procedures in the leasing department, a review of assessment procedures involving vendors/contractors, and a review of building security and safety controls.

Risk Management and Others:

- (a) Reviewed the Risk Management Report containing the Risk Register, prepared by Management, on a quarterly basis.

Details of the risk management processes of the Manager are contained in the Statement on Risk Management and Internal Control of this Annual Report



- (b) Reviewed on a quarterly basis, the list of RPTs and recurrent RPTs ("RRPTs") involving interests of related parties who are Directors of the Manager, substantial Unitholders of Axis-REIT and ultimate major shareholders of the Manager or persons connected to them (more details relating to this responsibility are presented in section 5 below).
- (c) Reviewed and recommended for the Board's approval, at the meeting held on 23 January 2018, the Audit Committee Report and Statement on Risk Management and Internal Control for inclusion in the 2017 Annual Report of Axis-REIT, issued in February 2018, ensuring that these reports contained informative and meaningful disclosures in line with prescribed regulatory requirements.
- (d) Reviewed, at each quarterly meeting, the income distributions of Axis-REIT which were made in accordance with the distribution policy of Axis-REIT, in order to ensure the adequacy of the realised income for each distribution prior to recommending the proposal to the Board. At the last quarterly meeting held in FYE2018, i.e. on 22 October 2018, the Audit Committee also reviewed the implementation of the income distribution reinvestment plan in conjunction with the 2018 third interim income distribution of Axis-REIT. The said 2018 third interim income distribution was implemented and completed on 11 December 2018 with the issuance and listing of 4,958,485 new units of Axis-REIT on the Main Market of Bursa Securities.

5. Review of Related Party Transactions

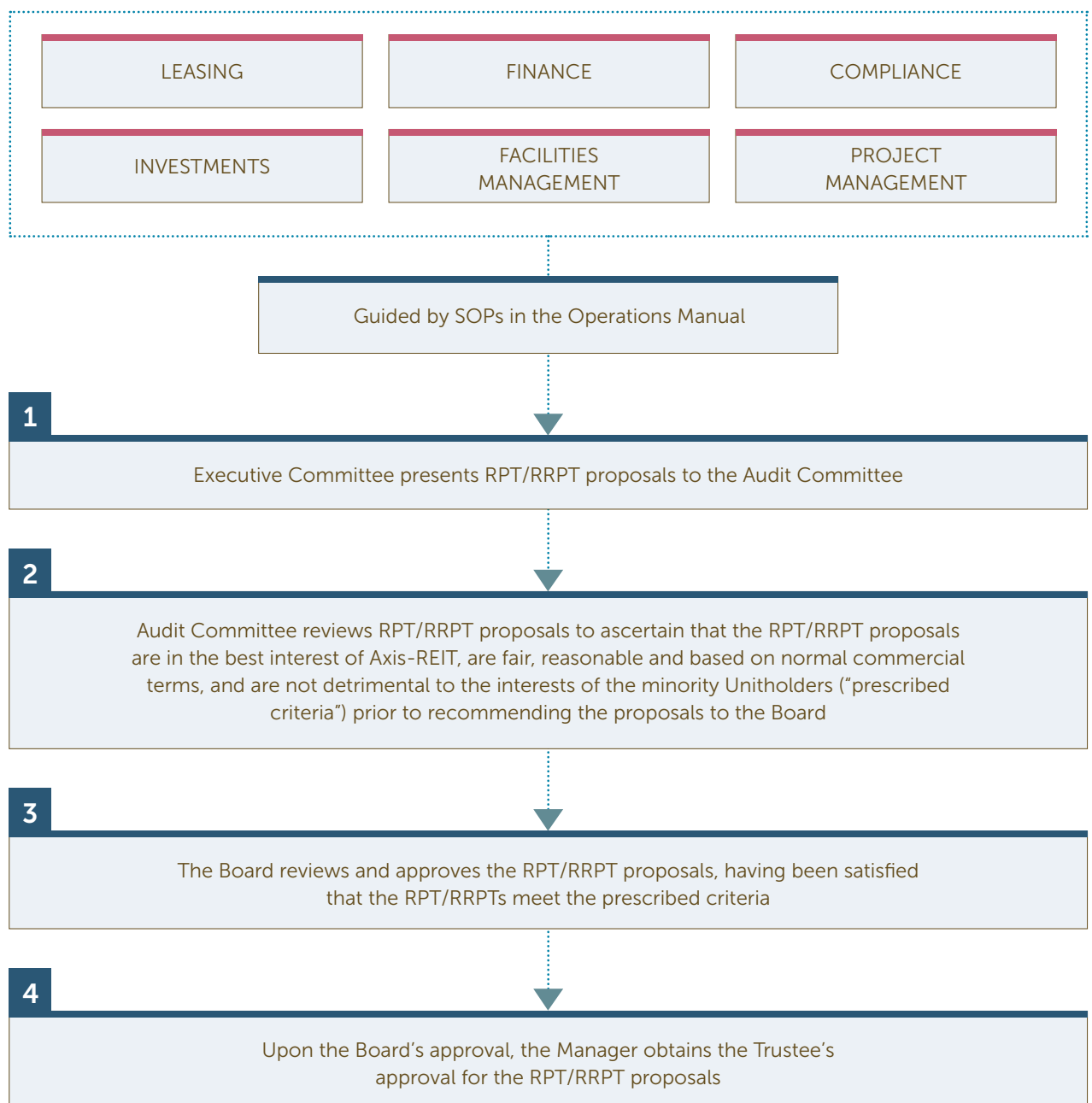
The Audit Committee considers RPTs to be the most affected area following the implementation of the SC's new Guidelines on Listed REITs and the revamped MMLR, which became effective and applicable to REITs since 9 April 2018. The revamped MMLR imposes additional obligations on the Manager to monitor the compliance of RRPTs and the adherence to the applicable percentage ratios. Transaction rules prescribed under the revamped MMLR, which were previously not applicable to REITs, became applicable from 9 April 2018. This change in regulatory requirements called for a review of the existing procedures and disclosures by Management. In addition, a compliance review on the updated procedures put in place by Management was carried out by the Internal Auditors during the August 2018 audit cycle in order to ensure that the updated internal procedures and reporting obligations comply with the prescribed requirements governing RPTs and RRPTs.

AUDIT COMMITTEE REPORT

The Manager's Operations Manual was updated to incorporate the standard operating procedures ("SOPs") governing RPTs and RRPTs. These SOPs were reviewed by the Audit Committee at its meeting on 22 October 2018, and were recommended to the Board for approval and adoption on the same date.

Principally and pursuant to the SC's Guidelines on Listed REITs, the Manager has the duty to ensure that all RPTs, dealings, investments and appointments are made on terms which are the best available for the REIT and which are no less favourable to the REIT than an arm's length transaction between independent parties. The Manager must also manage any and all situations where a conflict of interest arises.

The diagram below depicts the control mechanism that is governed by the SOPs contained in the Manager's Operations Manual:



AUDIT COMMITTEE REPORT

Each department of the Manager has the duty to identify the existence of RPTs/RRPTs (as guided by the SOPs contained in the Operations Manual) and RPT/RRPT proposals will be discussed at the Executive Committee level first. The Executive Committee will present the RPT/RRPT proposals to the Audit Committee for review. The Audit Committee then reviews the terms of the transactions and makes enquiries with Management in order for the Audit Committee to be satisfied that the proposed RPT/RRPT meets the prescribed criteria. If any Audit Committee member is an interested party, such member will abstain from deliberation and voting on the proposed RPT/RRPT under review. Once satisfied that the proposed RPT/RRPT meets the prescribed criteria, a recommendation will then be made to the Board for consideration and approval.

Following the recommendation of the Audit Committee, the Board will deliberate on the proposed RPT/RRPT. The Board is also obliged to ensure that the proposed RPT/RRPT satisfies the prescribed criteria. The nature of interest will be fully disclosed by the interested Director and such declaration will be recorded in the minutes of meeting by the Company Secretary. Such interested Directors will also abstain from deliberation and voting at Board level. With the Board's approval, Management will seek approval from the Trustee of Axis-REIT prior to execution/implementation of the duly reviewed RPT/RRPT proposals.

All Directors are required to provide declaration letters of their interest(s) and disclosures of conflict of interest situation(s) on a quarterly basis, and all declarations are documented and kept in the statutory records of the Manager.

On 7 June 2018, the Manager announced to Bursa Securities, for and on behalf of Axis-REIT, an RPT for the acquisition of properties known as Beyonics i-Park Campus Block E and Indahpura Facility 1, which was disclosed in accordance with the transaction requirements prescribed under the revamped MMLR.

6. Relationship with the External Auditors 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. The Audit Committee has direct and unrestricted access to both the External and Internal Auditors. The Audit Committee had, during the year, met twice, on 23 January 2018 and 22 October 2018, with the External Auditors without the presence of Management, to discuss issues, problems and reservations (if any) that the External Auditors wished to highlight to the Committee. A private session was also held between the Audit Committee and the Internal Auditors on 22 October 2018 for the same purpose.

Both the External and Internal Auditors had been extended good cooperation from Management and they were able to access information to carry out their functions effectively.



AUDIT COMMITTEE REPORT

7. Annual Assessment of the Audit Committee

The Audit Committee assessed its own performance against the Terms of Reference of the Audit Committee by completing the assessment form prepared by the Company Secretary prior to the assessment by the Nomination Committee of the Board. The assessment results were satisfactory to the Nomination Committee and the same was subsequently reviewed by the Board. The Board, upon due assessment, was satisfied that each member of the Audit Committee and the Audit Committee as a whole had carried out their duties diligently and effectively in accordance with the Audit Committee's Terms of Reference.

This annual assessment process was carried out on 22 October 2018 by the Audit Committee, the Nomination Committee and the Board, in compliance with Paragraph 15.20 of the MMLR.

8. Internal Audit Function

The internal audit function of the Manager is outsourced to an independent consultancy firm, Baker Tilly Monteiro Heng Governance Sdn Bhd. The outsourced Internal Auditors have the professional duty to assist the Board to review the system of internal control, risk management and governance practices of the Manager in managing Axis-REIT. Where necessary, the Internal Auditors, upon completion of the audit cycle, may make recommendations for improvements to the existing processes and procedures. Their internal audit scope (risk driven approach) encompasses a financial control review, compliance review, risk assessment and governance review on the identified auditable areas. The annual internal audit plan is tabled to the Audit Committee for approval prior to commencement of audit work.

- **Details of the internal audit activities are contained in the Statement on Risk Management and Internal Control**
- **Details relating to the assessment of the effectiveness and independence of the internal audit function are disclosed in the Corporate Governance Overview Statement**



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Pursuant To Paragraph 15.26(b) Of The Main Market Listing Requirements

Introduction

The Board of Directors ("Board") of Axis REIT Managers Berhad, being the management company ("Manager") of Axis Real Estate Investment Trust ("Axis-REIT" or "Fund") is committed to maintaining a sound and effective system of internal control to safeguard the interests of the Unitholders of Axis-REIT and the investments and assets of Axis-REIT. The Board is ultimately responsible for the risk management and internal control systems of the Manager in managing Axis-REIT and it is assisted by the Audit Committee of the Manager who has the delegated function to oversee these areas.

Key Elements of the Risk Management and Internal Control System

Operations Manual

The Manager has policies and procedures encapsulated in the Operations Manual that are tailored to the needs of the respective departments, which provide an overview of the Manager's responsibilities in relation to the management of Axis-REIT. The Management team of the Manager ("the Management") is committed to being guided by the Operations Manual to ensure consistency of operational procedures and practices within the organisation.

The Manager had, during the financial year ended 31 December 2018 ("FYE2018"), updated the Operations Manual. The major updates pertained to the realignment of the current processes and procedures to the new Guidelines on Listed Real Estate Investment Trusts ("REITs") issued by the Securities Commission Malaysia ("SC") and the revamped Listing Requirements of Bursa Malaysia Securities Berhad, both of which became effective from 9 April 2018 onwards. The Operations Manual now includes, among others, development activities, project management and treatment of related party transactions.

Financial Controls and Business Management

The Board of the Manager had, at its meeting held in January 2018, approved the annual budget for FYE2018 which underwent a target-setting process carried out by each department with detailed reviews at all levels of operations. The Manager had been guided by the approved budget in managing Axis-REIT throughout FYE2018. Monthly financial updates had also been provided to the Directors in order to give timely assessments of the Fund's performance and prospects. Management closely monitored actual financial performance at all levels on a monthly basis. The Manager is still committed to the implementation of the 2021 Strategy Plan encompassing the Manager's long term 5-year initiatives for Axis-REIT in the pursuit of its corporate objectives. A strategic planning session was conducted in September 2018 where the 2021 Strategy Plan was revisited and Management refocused its action plans.

The Manager also has a policy on financial limits and approving authority for its operating and capital expenditure. All major operating and capital expenditure in respect of FYE2018 had been recommended by the Executive Committee of the Manager and approved by the Board of the Manager prior to implementation. There has been no change in the authority limits established by the Manager in respect of FYE2018.

Management meetings chaired by the Chief Executive Officer ("CEO") and attended by all heads of departments ("HODs") were held to review operational activities, management issues, financial performance and business development proposals, including the deliberation of relevant strengths, weaknesses, opportunities and threats faced by the Manager in managing Axis-REIT. Separate operations meetings, attended by the facilities, project and leasing teams were held as and when needed to review and discuss the facilities and project management issues in relation to all the properties within the Fund's portfolio.

The Executive Committee of the Manager met with the Management on a quarterly basis to review, assess and discuss business updates, investment proposals, financial performance and to resolve key operational, financial and other key management issues faced by the Management during FYE2018. Significant issues were highlighted and discussed at Board meetings for the Board's ultimate decisions.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Yardi Voyager system is a synchronised platform for capturing and processing data covering tenant and debt management, payment processing, financial reporting, advanced budgeting and finance as well as job costing. The Management has carried out tests on improvements made to the system to ensure that the processes are effective in generating timely and accurate information for Management's action and decision making, operationally and financially.

During the year, the Manager had successfully updated the accounting system to be Sales and Services Tax ("SST")-compliant pursuant to the Government's decision to implement the SST following the repeal of the Goods and Services Tax. The SST-compliant system ensures that accurate accounting information is captured, processed and produced for tax reporting purposes.

In accordance with the Manager's capital management strategy, a total of RM265 million in nominal value Islamic Medium Term Notes ("Sukuk"), pursuant to an Islamic Medium Term Notes Programme ("Sukuk Programme") of up to RM3 billion in nominal value with perpetual tenure, had been issued in 2012 and 2013 via Axis-REIT's wholly-owned subsidiary, Axis REIT Sukuk Berhad. The RM265 million Sukuk issuances comprises RM110 million (10 years tenure), RM 70 million (7 years tenure) and RM85 million (5 years tenure). Out of the total of RM265 million Sukuk, the 5-year Sukuk amounting to RM85 million had matured and was redeemed at full face value with existing short term financing facilities during the financial year. Following the redemption of 5-year Sukuk, the remaining RM180 million Sukuk provided Axis-REIT a blended financing rate of 4.18% (7 years) to 4.61% (10 years) per annum.

Investment Controls

The Board of the Manager reviews, evaluates and decides on strategic investment proposals covering acquisitions and disposals as recommended by the Executive Committee of the Manager. Management has in place systematic procedures to identify potential acquisitions and assess the viability of the proposed acquisitions prior to recommending such proposals to the Board for consideration and decision. Due diligence processes are also in place to ensure that Axis-REIT acquires yield-accretive assets that will enhance the property portfolio of the Fund. Disposal processes are also in place to ensure that the interests of the Unitholders of Axis-REIT are safeguarded at all times. Management also monitors the performance of each property in the portfolio of Axis-REIT, on a quarterly basis, in terms of property yield, portfolio efficiency and occupancy levels.

In the previous financial year, Axis-REIT embarked on its second built-to-suit project, which is located within the proposed Malaysia International Aerospace Centre Technology Park, Sultan Abdul Aziz Shah Airport. As of the date of this Statement, the development of Axis Aerotech Centre @ Subang ("the Project") had been substantially completed. The rental commencement date was on 16 December 2018. However, the handover date has been changed to 31 March 2019 due to variations in technical specifications of the Project as requested by the tenant.

Tenant Relationship Management

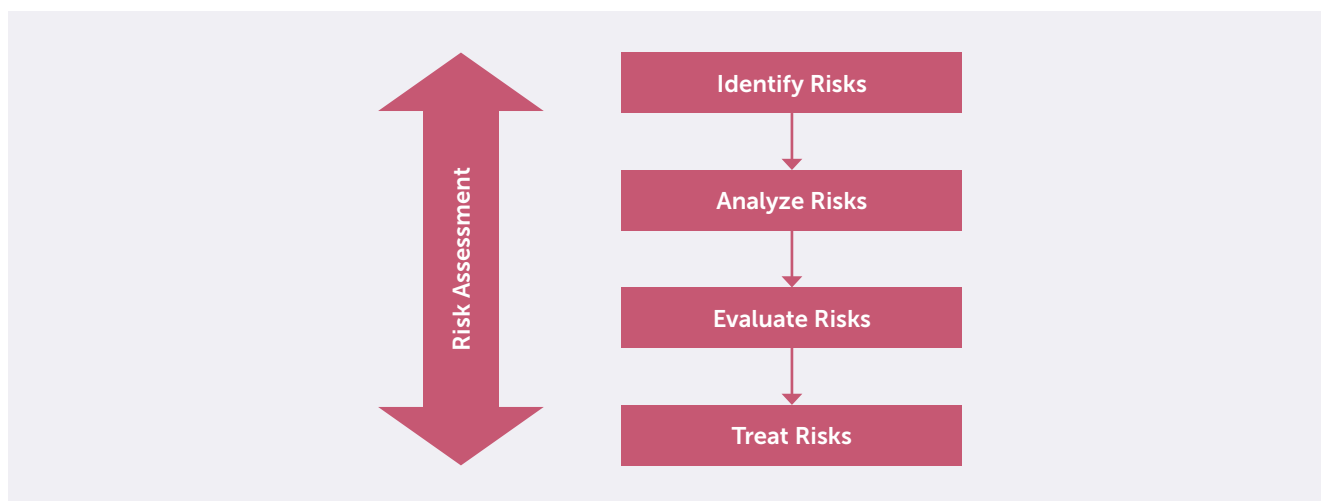
In the previous financial year, the Manager introduced "helloaxis.com.my", an online customised customer relationship portal that facilitates announcements, general feedback, property maintenance and form downloads by tenants. This tenant portal reduces the manual paper flow between landlord and tenant and is a green initiative towards environmental sustainability. It provides a platform for the facilities and leasing teams to track feedback and complaints from tenants, to address and rectify issues raised by tenants, and to ensure action plans and follow up measures are carried out to a satisfactory level and in a timely manner. During the year under review, Axis-REIT had embarked on a tenant satisfaction survey via a third party service provider, to understand tenants' awareness of its efforts to continuously improve tenant relationships. These initiatives were taken by the Manager to improve the facility management services rendered to tenants as well as to strengthen tenant relationships as it recognises the importance of strong tenant relationships as a factor in safeguarding the future rental income of Axis-REIT.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Risk Register

Risk management is part of Management's day-to-day operations that facilitates the timely response to evolving business risks, whether arising from factors within Axis-REIT or from changes in the business environment in which Axis-REIT operates. The Manager has in place a Risk Register that assists Management in its risk management processes to identify risks, consider the likelihood of a risk occurring and the impact if a particular risk materialises and the action plans to mitigate the identified risks.

The Risk Register which is the result of the Manager's execution of the risk management processes adopted by the Manager, follows the relevant guidance from the International Standards Organization (ISO) 31000 – Risk Management-Principles & Guidelines. The diagram below shows the risk management processes as encapsulated in the underlying procedures Risk Register:



The Manager carried out a quarterly update of the Risk Register which focuses on business, real estate management, financial, compliance, information technology and risk management systems. The Risk Register segregates risk areas based on departmental components. All HODs are responsible for their respective risk components and report directly to the CEO on risk issues and mitigating factors. Updates were made to the Risk Register on a quarterly basis capturing data arising from management analysis, management action plans and monitoring activities undertaken by each HOD on an on-going basis. All updates were compiled by the Head of Compliance, who assists the CEO in this area, for reporting purposes. The Risk Management Report, comprising an executive summary and the detailed Risk Register were presented to the Audit Committee and the Board at their quarterly meetings. The Audit Committee reviewed the Risk Management Report at each of its meetings held in FYE2018 and the same was tabled to the Board. There was no significant issue arising from the risk management review in respect of FYE2018.

The following descriptions provide some insights into how the Manager monitored and managed identified key risks affecting Axis-REIT, on an on-going basis during FYE2018:

- The general mandate to issue new units of up to 20% of the issued units in Axis-REIT is part of the capital management strategy to address gearing risks. With the new Guidelines on Listed REITs and the revamped Listing Requirements, the SC's approval is no longer required for the issuance of new units, hence, time-to-market has been shortened making it more time effective for capital raising. This enables the Manager to implement capital raising within a shorter timeframe when such needs arise;
- One of the action plans to address health and safety risks includes the appointment of a Health, Safety, Security and Environment Officer who will be responsible for health, safety and environment matters relating to the property portfolio of Axis-REIT;
- CTOS checks were incorporated in the vendor/contractor evaluation process with the aim of achieving cost effectiveness in asset enhancement initiatives and project management; CTOS check were also incorporated in the financial due diligence processes of the Manager's leasing and investment activities. These action plans are put in place to address credit, tenant and investment risks;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- A review was conducted on the existing processes and procedures relating to related party transactions and the outcome of the review resulted in the updating of such processes and procedures to comply with the transaction rules prescribed by the revamped Listing Requirements. The review was essential to ensure compliance risks are properly addressed; and
- The Manager had implemented certain information technology controls i.e. strengthening system login mechanisms, firewall preventive maintenance and anti-virus protection, to address information technology risks.

The key risks and their corresponding monitoring action plans are documented in the Risk Register maintained by the Manager.

Internal Audit Function and its Activities

Based on the agreed internal audit plan, the outsourced Internal Auditors had assisted the Manager in reviewing the internal control systems relating to Axis-REIT's operations, procedures and processes. The Internal Auditors had reviewed and reported the results of the audit to the Audit Committee on the following internal audit work carried out during FYE2018:

1. Internal audit review on Asset Enhancements and Refurbishment and Financial Controls on Payment Process where certain administrative procedures under project management were improved;
2. Internal audit review on Billing & Collection Procedures, Debts Monitoring & Controls and Car Park Management & Collection, in which the Internal Auditors were of the opinion that the overall internal control systems of the reviewed areas were satisfactory, without any findings raised to the Audit Committee;
3. Internal audit review on compliance with the SC's Listed REIT Guidelines which became effective on 9 April 2018. The Internal Auditors were of the opinion that the overall procedures and reporting practices set in place were consistent with the requirements stipulated in the said Guidelines;
4. Internal audit review on transactions with related parties under the revamped Listing Requirements which also became effective on 9 April 2018. The Internal Auditors were of the view that the overall procedures and reporting practices set in place by the Manager were consistent with the requirements stipulated in the revamped Listing Requirements in all major aspects; and
5. Internal audit review on Tenant Assessment and Termination Process where certain administrative procedures required Management's attention for improvement.

The costs incurred by the Manager for the outsourced Internal Audit Function in respect of FYE2018 amounted to RM63,000. The Audit Committee, in its review of this Statement, was satisfied that there were no significant control deficiencies noted during the financial year under review that had a material impact on Axis-REIT's financial performance or business operations.

Appraisal of the System of Risk Management and Internal Controls

The Board of the Manager had appraised the adequacy, effectiveness and integrity of the system of risk management and internal controls framework that was in place during the financial year under review up to the date of approval of this Statement. The Board of the Manager has received assurance from the CEO and Chief Financial Officer that the risk management and internal control systems set in place by the Manager, in relation to managing the operations of Axis-REIT, is operating adequately and effectively, in all material aspects.

Review of This Statement

The Board of the Manager has ensured that this Statement is reviewed in accordance with Paragraph 15.23 of the Main Market Listing Requirements for inclusion in the annual report of Axis-REIT for FYE2018.

This Statement has been tabled and approved by the Board on 22 January 2019.

DIRECTORS' RESPONSIBILITY STATEMENT

In 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 financial year ended 31 December 2018 have been drawn up in accordance with the provisions of the Third Principal Deed constituting Axis-REIT dated 28 November 2013, the Securities Commission Malaysia's Guidelines on Listed Real Estate Investment Trusts which came into effect on 9 April 2018, 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 2018 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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THE MANAGER'S REPORT

Axis REIT Managers Berhad, the management company ("Manager") of Axis Real Estate Investment Trust ("Axis-REIT" or "Fund"), has the pleasure of presenting this report together with the audited financial statements of Axis-REIT for the financial year ended 31 December 2018 ("FYE2018").

Axis-REIT was formed to own and invest primarily in industrial and office real estate. The primary investment objectives of Axis-REIT are:

- a) To provide unitholders of Axis-REIT ("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.

The Manager is pleased to report that the Fund has been successful in achieving its investment objectives as set out above and there was no change in the investment objectives of Axis-REIT in respect of FYE2018. There was also no significant change in the state of affairs of Axis-REIT during the financial year under review up to the date of this report.

The Manager is committed in its pursuit of the Fund's investment objectives via the following management strategies:

- a) Facilities management strategy
- b) Real estate strategy
- c) Development strategy
- d) Capital management strategy
- e) Investment strategy

There was no change in the strategies and policies employed during the financial year under review as compared to that of the preceding year.

Directors

The Directors of the Manager who have held office during FYE2018 until the date of this report are as follows:

YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin
 Dato' Abas Carl Gunnar Bin Abdullah
 Tew Peng Hwee @ Teoh Peng Hwee
 Leong Kit May
 Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor
 Mohd Sharif Bin Hj Yusof
 Alvin Dim Lao
 Alex Lee Lao (Alternate Director to Dato' Abas Carl Gunnar Bin Abdullah)
 Jancis Anne Que Lao (Alternate Director to Alvin Dim Lao)
 Yeoh Chong Keat (resigned with effect from 30 April 2018)

Directors' Benefits

As at the end of FYE2018, there did not subsist any arrangement to which the Manager is a party, where the arrangement enables any Director or all Directors of the Manager to acquire benefits by way of the acquisition of units in, or debentures of Axis-REIT, nor did such arrangement subsist at any time during the financial year.

Since the end of the previous financial year, 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 in which the Director is a member, or with a company in which the Director has a substantial financial interest, except as disclosed in Note 24 of the audited financial statements of Axis-REIT.

THE MANAGER'S REPORT

Directors' Interests

The interests of the Directors of the Manager in the units of Axis-REIT in respect of the FYE2018 are as follows:

	Number of units			
	As at 1.1.2018 '000 Units	Acquired '000 Units	Sold '000 Units	As at 31.12.2018 '000 Units
Direct Interest:				
- Dato' Abas Carl Gunnar Bin Abdullah	25,280	174	1,200	24,254
- YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	20	-	-	20
- Tew Peng Hwee @ Teoh Peng Hwee	55,684	866	-	56,550
- Alex Lee Lao	55,151	1,236	-	56,387
- Leong Kit May	42	1	-	43
- Jancis Anne Que Lao	839	5	-	844
- Yeoh Chong Keat [^]	19	N/A	N/A	N/A
Indirect Interest:				
- Dato' Abas Carl Gunnar Bin Abdullah*	10,231	73	-	10,304
- Alex Lee Lao [#]	3,112	41	-	3,153

Notes:

- (i) The information above was prepared based on the Directors' disclosures made pursuant to the provisions of the Third Principal Deed dated 28 November 2013 constituting Axis-REIT ("Deed")
- (ii) Save as disclosed above, the other Directors of the Manager did not have any interest, whether direct or indirect, in the units of Axis-REIT
- (iii) * Deemed interested in the direct unitholdings of his spouse, Datin Kuyas Emiloglu (also known as Ka Ya-Shih), and daughter, Amanda Tan Myhre
- (iv) # Deemed interested in the direct unitholdings of his brothers, Lao, Yin Yong Lee and Leon Lee Lao
- (v) ^ Resigned with effect from 30 April 2018

Manager's Fees

The Manager receives a fee of 1.0% 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 units in Axis-REIT or upon any distribution of income and capital.

Any increase in the Manager's fee above 1.0% per annum must be approved by the Trustee of Axis-REIT and Unitholders by way of a majority resolution (consisting of not less than 2/3 of Unitholders voting thereat) passed at a Unitholders' meeting convened in accordance with the Deed.

For the financial year under review, the total Manager's fee was RM16,188,142, representing 1.0% per annum of the NAV of Axis-REIT for the period from 1 January 2018 to 31 December 2018.

The Manager is also entitled to an acquisition and disposal fee of 1.0% and 0.5% respectively based on the purchase and disposal considerations of real estate assets upon the completion of such transactions. For the financial year under review, there were five acquisitions completed by Axis-REIT resulting in a total acquisition fee of RM1,951,000 being paid to the Manager.

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

THE MANAGER'S REPORT

Soft Commission

The Manager did not receive any soft commissions from any dealer or broker by virtue of transactions conducted for the Fund during the financial year under review.

Other Information

Before the financial statements of Axis-REIT were prepared, the Manager took reasonable steps:

- i) to ascertain that appropriate action had been taken in relation to writing off bad debts and making provisions for doubtful debts and was satisfied that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- ii) to ensure that all current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of Axis-REIT, had been stated at the lower of cost and net realisable value.

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

- i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to a substantial extent; and
- ii) that would render the values attributed to the current assets in Axis-REIT's financial statements misleading; and
- iii) which have arisen that would render adherence to the existing method of valuation of assets or liabilities of Axis-REIT misleading or inappropriate; and
- iv) 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.

As 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 year and which secures the liabilities of any other person; and
- ii) any contingent liability in respect of Axis-REIT that has arisen since the end of the financial year.

In the opinion of the Manager:

- i) no contingent liability or other liability of Axis-REIT has become enforceable, or is likely to become enforceable within the 12-month period after the end of FYE2018 which, in the opinion of the Manager, will or may affect the ability of Axis-REIT to meet its obligations as and when they fall due; and
- ii) the results of the operations of Axis-REIT for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature; and
- iii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report, that is likely to substantially affect the results of the operations of Axis-REIT for the financial year in which this report is made.

THE MANAGER'S REPORT

Auditors

The auditors, KPMG PLT, have indicated their willingness to continue in office.

Signed for and on behalf of the Manager of Axis-REIT, Axis REIT Managers Berhad in accordance with a resolution of the Board of Directors.

Tew Peng Hwee @ Teoh Peng Hwee

Director

Leong Kit May

Chief Executive Officer/Executive Director

Date: 14 February 2019

STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Non-current assets			
Investment properties	4	2,798,500	2,482,200
Equipment	5	3,021	2,477
		2,801,521	2,484,677
Current assets			
Receivables, deposits and prepayments	6	20,928	30,063
Cash and cash equivalents	7	18,014	34,869
Total current assets		38,942	64,932
Total assets		2,840,463	2,549,609
Financed by:			
Unitholders' funds			
Unitholders' capital	8	1,247,069	1,240,253
Reserves		417,012	350,883
Total unitholders' funds		1,664,081	1,591,136
Non-current liabilities			
Tenants' deposits	9	57,706	43,998
Deferred tax liability	10	4,402	-
Financing	11	245,867	245,830
		307,975	289,828
Current liabilities			
Payables and accruals	9	54,907	71,881
Financing	11	813,500	596,764
Total current liabilities		868,407	668,645
Total liabilities		1,176,382	958,473
Total unitholders' funds and liabilities		2,840,463	2,549,609
Net asset value ("NAV")		1,664,081	1,591,136
Number of units in circulation ('000 units)		1,237,285	1,232,327
NAV per unit (RM)			
- Before income distribution		1.3449	1.2912
- After income distribution		1.3204 [#]	1.2820

NAV per unit after reflecting realised income to be distributed as final 2018 income distribution of 2.45 sen per unit payable on 28 February 2019.

The notes on pages 197 to 247 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Revenue	12	210,588	172,715
Property operating expenses	13	(27,827)	(26,512)
Net property income		182,761	146,203
Profit income		725	984
Net loss on disposal of investment property		-	(419)
Change in fair value of investment properties	4.1.1	35,607	25,441
Fair value change on Islamic derivatives		(306)	206
Net gain on financial liabilities measured at amortised cost		3,687	1,163
Net property and investment income		222,474	173,578
Manager's fees	1(b)	16,188	14,278
Trustee's fees	1(c)	857	755
Auditor's fees			
- audit		121	121
- other services		17	15
Tax agent's fees		17	15
Net impairment losses/(reversal of impairment losses) on trade receivables		215	(369)
Depreciation of equipment	5	472	422
Administrative expenses		2,498	2,518
Islamic financing costs		41,754	32,453
Valuation fees		887	810
Non-property expenses		63,026	51,018
Net income before tax		159,448	122,560
Tax expense	14	(4,469)	-
Net income for the year and total comprehensive income for the year attributable to unitholders		154,979	122,560

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Net income for the year is made up as follows:			
Realised		113,442	90,796
Unrealised			
- Change in fair value of investment properties, as per valuation	4.1	42,558	30,395
- Net gain on financial liabilities measured at amortised cost		3,687	1,163
- Provision for deferred tax on change in fair value of investment properties		(4,402)	-
Fair value change on Islamic derivatives		(306)	206
		41,537	31,764
		154,979	122,560
Earnings per unit (sen)	15	12.57	10.97
Number of units in circulation ('000 units)		1,237,285	1,232,327
Earnings per unit (before Manager's fees)			
- Gross (sen)		13.89	12.25
- Net (sen)		13.89	12.25
Net income distribution			
First, Second and Third interim income distributions totalling 6.29 sen per unit paid on 4 June 2018, 7 September 2018 and 10 December 2018 (2017: First, Second, Third and Fourth income distributions totalling 7.34 sen per unit paid on 31 May 2017, 30 August 2017, 13 December 2017 and 22 December 2017), respectively.		77,512	81,119
Final income distribution of 2.45 sen per unit payable on 28 February 2019 (2017: Final income distribution of 0.92 sen per unit paid on 28 February 2018).		30,313	11,338
	16	107,825	92,457

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018	2017
Distribution per unit			
- Gross (sen) - interim		6.29	7.34
- final		2.45	0.92
	16	8.74	8.26
- Net (sen) * - interim		6.29	7.34
- final		2.45	0.92
	16	8.74	8.26

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

	Withholding tax rate	
	2018	2017
Resident corporate	N/A [^]	N/A [^]
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	24%	24%
Non-resident institutional	10%	10%

[^] to tax at prevailing rate

The notes on pages 197 to 247 are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSET VALUE

for the year ended 31 December 2018

	Total unitholders' capital RM'000	Distributable Realised income RM'000	Non- distributable Unrealised income RM'000	Total unitholders' funds RM'000
At 1 January 2017	1,060,320	19,368	313,283	1,392,971
Net income for the year	-	90,796	31,764	122,560
Realisation of unrealised income	-	1,764	(1,764)	-
Total comprehensive income for the year	-	92,560	30,000	122,560
<i>Contributions by and distributions to unitholders</i>				
Issuance and placement of units	181,958	-	-	181,958
Issuing expenses	(2,025)	-	-	(2,025)
Distributions to unitholders	-	(104,328)	-	(104,328)
Total transactions with unitholders	179,933	(104,328)	-	75,605
At 31 December 2017/1 January 2018	1,240,253	7,600	343,283	1,591,136
Net income for the year	-	113,442	41,537	154,979
Total comprehensive income for the year	-	113,442	41,537	154,979
<i>Contributions by and distributions to unitholders</i>				
Issuance of units	6,892	-	-	6,892
Issuing expenses	(76)	-	-	(76)
Distributions to unitholders	-	(88,850)	-	(88,850)
Total transactions with unitholders	6,816	(88,850)	-	(82,034)
At 31 December 2018	1,247,069	32,192	384,820	1,664,081

Note 8

The notes on pages 197 to 247 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
Net income before tax		159,448	122,560
<i>Adjustments for:</i>			
Islamic financing costs		41,526	32,453
Amortisation of transaction costs		228	247
Profit income		(725)	(984)
Net loss on disposal of investment property		-	419
Change in fair value of investment properties	4.1	(42,558)	(30,395)
Depreciation of equipment	5	472	422
Net gain on financial liabilities measured at amortised cost		(3,687)	(1,163)
Net impairment losses/(reversal of impairment losses) on trade receivables		215	(369)
Fair value change on Islamic derivatives		306	(206)
Operating income before changes in working capital		155,225	122,984
Changes in working capital:			
Receivables, deposits and prepayments		10,228	(19,760)
Payables and accruals		8,920	39,850
Tenants' deposits		(10,113)	6,760
Cash generated from operations		164,260	149,834
Tax paid		(67)	-
Net cash from operating activities		164,193	149,834
Cash flows from investing activities			
Profit income received		725	984
Acquisition of investment properties	4	(198,787)	(155,660)
Enhancement of investment properties	4	(74,955)	(152,996)
Net proceeds from disposal of investment property		-	54,581
Acquisition of equipment	5	(1,016)	-
Decrease in pledged Islamic deposits		3,437	1,462
Net cash used in investing activities		(270,596)	(251,629)
Cash flows from financing activities			
Islamic financing cost paid		(41,526)	(32,453)
Net proceeds from financing		301,851	61,993
Redemption of Islamic Medium Term Notes ("Sukuk")		(85,000)	-
Payment of finance lease liabilities		(306)	(311)
Income distribution paid to unitholders		(88,850)	(104,328)
Proceeds from issue of units		6,892	181,958
Issuing expenses		(76)	(2,025)
Net cash from financing activities		92,985	104,834

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Net (decrease)/increase in cash and cash equivalents		(13,418)	3,039
Cash and cash equivalents at 1 January		23,037	19,998
Cash and cash equivalents at 31 December	(i)	9,619	23,037

(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	2018 RM'000	2017 RM'000
Cash and bank balances	7	8,314	10,028
Islamic deposits placed with licensed banks	7	9,700	24,841
		18,014	34,869
Less: Islamic deposits placed with licensed banks			
- pledged	7	(8,395)	(11,832)
		9,619	23,037

The notes on pages 197 to 247 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 ("the Trustee"). The Deed is regulated by the Securities Commission Act, 1993, the Securities Commission's Guidelines on Listed 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

Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 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 2018 comprise the financial statements of Axis-REIT and its wholly owned subsidiary, 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 fee in respect of the management of the investment properties owned by Axis-REIT as provided for in the Deed. The fee is based on a certain graduated scale as provided for in the provisions of the revised Valuers, Appraisers and Estate Agents Act, 1981 as required by the Securities Commission's Guidelines on Listed 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% (2017: 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 2018 of RM16,188,142 (2017: RM14,278,494) is 1% (2017: 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% (2017: 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 2018 is RM1,951,000 (2017: RM1,530,000) which was 1% of the purchase price. The acquisition fees are included in the acquisition cost of the investment properties acquired (Note 4).

There was no disposal fee for the year ended 31 December 2018 (2017: RM280,660).

NOTES TO THE FINANCIAL STATEMENTS

1. General (continued)**(c) Trustee's fees**

Pursuant to the Deed, the Trustee is entitled to receive a fee of 0.05% (2017: 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 2018 is RM857,000 (2017: RM755,000).

These financial statements were approved by the Board of Directors of the Manager on 14 February 2019.

2. Basis of preparation**(a) Statement of compliance**

The financial statements of Axis-REIT have been prepared in accordance with the Deed, the Securities Commission's Guidelines on Listed Real Estate Investments Trusts, applicable securities laws, Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards. 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 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)**(a) Statement of compliance (continued)**

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

- from the annual period beginning on 1 January 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for amendments and interpretations which are not applicable to Axis-REIT.
- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020, except for amendments which are not applicable to Axis-REIT.

MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 is not applicable to Axis-REIT.

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impact to the current period and prior period financial statements of Axis-REIT, except as mentioned below:

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

Axis-REIT has preliminary assessed the impact that the initial application of MFRS 16 will have on its financial statements for the year ended 31 December 2018 and the beginning of the earliest period presented, 1 January 2018, and does not expect the impact to be material.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except as otherwise stated in the financial statements.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

(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 a significant effect on the amounts recognised in the financial statements other than as disclosed in Note 4 – 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.

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

- i) financial instruments;
- ii) revenue recognition; and
- iii) impairment losses of financial instruments

as compared to those adopted in the previous financial statements. The impacts arising from the changes are disclosed in Note 26.

(a) Basis of consolidation

(i) Subsidiaries

Axis-REIT has established a special purpose company, Axis REIT Sukuk Berhad, for the purpose of raising financing on behalf of Axis-REIT. Axis REIT Sukuk Berhad is consolidated as if it is a subsidiary of Axis-REIT.

Subsidiaries are entities, including structured entities, controlled by Axis-REIT. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Axis-REIT controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive.

Axis-REIT also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the financial statements of Axis-REIT.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments**

Unless specifically disclosed below, Axis-REIT generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, Axis-REIT has elected not to restate the comparatives. The financial effect of the change in accounting policies are disclosed in Note 26 to the financial statements.

(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.

Current financial year

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a financing component is initially measured at the transaction price.

Previous financial year

A financial instrument was 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 were directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement**Financial assets****Current financial year**

Axis-REIT categorises financial instruments as follows:

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless Axis-REIT changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment losses. Profit income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial assets (continued)*****Current financial year (continued)****(a) Amortised cost (continued)**

Profit income is recognised by applying the effective profit rate to the gross carrying amount except for credit impaired financial assets (see note 3(g)(i)) where the effective profit rate is applied to the amortised cost.

(b) Fair value through profit or loss

All financial assets not measured at amortised cost as described above are measured at fair value through profit or loss. This includes Islamic derivative financial assets. On initial recognition, Axis-REIT may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values. Net gains or losses, including any profit or dividend income, are recognised in the profit or loss.

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

Previous financial year

In the previous financial year, financial assets of Axis-REIT were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

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

Fair value through profit or loss category comprised financial assets that were held for trading, including Islamic derivatives or financial assets that were specifically designated into this category upon initial recognition.

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial assets (continued)*****Previous financial year (continued)****(b) Loans and receivables**

Loans and receivables category comprised debt instruments that were not quoted in an active market.

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

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

Financial liabilities**Current financial year**

The categories of financial liabilities at initial recognition are as follows:

(a) Fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are Islamic derivatives and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, Axis-REIT may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

- (i) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
- (ii) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about Axis-REIT is provided internally on that basis to Axis-REIT's key management personnel; or
- (iii) if a contract contains one or more embedded Islamic derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded Islamic derivatives significantly modifies the cash flows and separation is not prohibited.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial liabilities (continued)*****Current financial year (continued)****(a) Fair value through profit or loss (continued)**

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any Islamic financing costs, recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, Axis-REIT recognises the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

(b) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective profit method.

Islamic financing costs and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

Previous financial year

In the previous financial year, financial liabilities of Axis-REIT were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were Islamic derivatives or financial liabilities that were specifically designated into this category upon initial recognition.

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

(iii) Derecognition

A financial asset or a part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(iii) Derecognition (continued)**

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. 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**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, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

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.

(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.

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 and 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 profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(d) Equipment (continued)****(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.

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 as follows:

• Office equipment, furniture and fittings	10 years
• Car park machines	10 years
• Software	10 years

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.

Leasehold land which in substance is a finance lease is classified as investment property if held to earn rental income or for capital appreciation or for both.

(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 property and measured using fair value model.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and Islamic deposits placed 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, if any.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(g) Impairment****(i) Financial assets**

Unless specifically disclosed below, Axis-REIT generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, Axis-REIT elected not to restate the comparatives.

Current financial year

Axis-REIT recognises loss allowances for expected credit losses on financial assets measured at amortised cost and tenancy contracts assets. Expected credit losses are a probability-weighted estimate of credit losses.

Axis-REIT measures loss allowances at an amount equal to lifetime expected credit loss, except for cash and bank balance for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables and tenancy contracts assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, Axis-REIT considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Axis-REIT's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which Axis-REIT is exposed to credit risk.

Axis-REIT estimates the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, Axis-REIT assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when Axis-REIT determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Axis-REIT's procedures for recovery of amounts due.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(g) Impairment (continued)****(i) Financial assets (continued)****Previous financial year**

All financial assets (except for financial assets categorised as fair value through profit or loss) were assessed at each reporting date whether there was 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, were not recognised. If any such objective evidence exists, then the impairment loss of the financial asset was estimated.

An impairment loss in respect of loans and receivables was recognised in profit or loss and was 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 was reduced through the use of an allowance account.

(ii) Other assets

The carrying amounts of other assets (except for investment properties that are measured at fair value) 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(h) 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.

(i) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issuing 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.

(j) Revenue**(i) Rental income**

Rental income consists of income from the leasing of investment properties.

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. Lease incentives are recognised as an integral part of the total rental income, over the term of the lease.

(ii) Car Park income

Car park income is recognised upon collection for daily parking and over time when services are delivered for season parking.

(iii) Other income

Other income consists of income from services, signage rental, compensation charges and other associated income. Other income is recognised over time when services are delivered.

(iv) Profit income

Profit income is recognised as it accrues using the effective profit method in profit or loss.

(k) 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, as stipulated in Note 1(a).

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(k) Expenses (continued)****(ii) Manager's fees**

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

(iii) Trustee's fees

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

(l) Islamic financing costs

Islamic 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.

Islamic financing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of Islamic financing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, Islamic financing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of Islamic financing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific Islamic financing pending their expenditure on qualifying assets is deducted from the Islamic financing costs eligible for capitalisation.

(m) 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(m) Income tax (continued)**

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.

(n) Earnings per unit

Axis-REIT presents basic and diluted earnings per unit ("EPU").

Basic EPU is calculated by dividing the net income for the year attributable to unitholders of Axis-REIT by the weighted average number of units in circulation during the year.

Diluted EPU is determined by adjusting the net income for the year attributable to unitholders and the weighted average number of units in circulation, for the effects of all dilutive potential units.

(o) Fair value measurement

Fair value of an asset or a liability 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.

When measuring the fair value of an asset or a liability, Axis-REIT uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that Axis-REIT can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

Axis-REIT recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties

	2018 RM'000	2017 RM'000
Land and buildings at fair value:		
At 1 January	2,482,200	2,143,149
Acquisitions	198,787	155,660
Enhancements	74,955	152,996
Change in fair value	42,558	30,395
At 31 December	2,798,500	2,482,200

Included in the acquisitions during the year is RM1,951,000 (2017: RM1,530,000) which relates to acquisition fees paid to the Manager (Note 1(b)).

Included in enhancements are development costs amounting to RM24,629,000 (2017: RM143,623,000) incurred on Nestlé Distribution Centre at Axis Mega Distribution Centre, of which RM422,000 (2017: RM2,098,000) is related to capitalisation of financing costs and RM42,806,000 (2017: Nil) incurred on Axis Aerotech Centre @ Subang, of which RM457,000 (2017: Nil) is related to capitalisation of financing costs, respectively.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2018

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2018		Fair value as at 31.12.2018 RM'000	Cost of investment as at 31.12.2018 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2018 %
						as at 31.12.2018 %	as at 31.12.2018 %			
Menara Axis (e) ^^	Leasehold	99	47	Petaling Jaya	Commercial office	68.4	110,000	87,898	6.6	
Crystal Plaza (a) ^^	Leasehold	99	41	Petaling Jaya	Commercial office	70.8	113,500	67,734	6.8	
Axis Business Park (c) ^^	Leasehold	99	42	Petaling Jaya	Office/Industrial	68.4	120,600	101,692	7.2	
Infinite Centre (a) ^	Leasehold	99	47	Petaling Jaya	Office/Industrial	87.0	42,500	35,825	2.6	
Wisma Kemajuan (e) ^	Leasehold	99	47	Petaling Jaya	Office/Industrial	71.7	65,400	37,744	3.9	
Axis Business Campus (i) ^	Leasehold	99	49	Petaling Jaya	Office/Industrial	68.5	80,000	62,804	4.8	
Axis Shah Alam DC 1 (f)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	32,700	22,507	2.0	
Giant Hypermarket (g) ^	Freehold	-	-	Sungai Petani	Hypermarket	100.0	49,000	38,973	2.9	
FCI Senai (f) ^	Leasehold	60	49	Senai, Johor	Manufacturing facilities	100.0	22,000	12,693	1.3	
Fonterra HQ (c)	Freehold	-	-	Shah Alam	Office/Industrial	84.7	19,000	11,196	1.1	
Quattro West (a) ^^	Leasehold	99	54	Petaling Jaya	Commercial office	50.2	56,000	51,126	3.4	
Strateq Data Centre (f) ^	Leasehold	99	50	Petaling Jaya	Office/Industrial	100.0	57,000	42,729	3.4	
D21 Logistics Warehouse (h) y	Leasehold	60	37	Tanjung Pelepas	Warehouse/Logistics	100.0	29,000	28,413	1.7	
Niro Warehouse (d)	Leasehold	60	33	Pasir Gudang	Warehouse/Logistics	100.0	20,000	15,234	1.2	
Pasir Gudang Logistic Warehouse 1 (d)	Leasehold	60	49	Pasir Gudang	Warehouse/Logistics	100.0	17,000	13,731	1.0	
Axis Vista (e) ^^	Leasehold	99	48	Petaling Jaya	Office/Industrial	100.0	57,300	34,256	3.4	
Axis Steel Centre (h) ^^	Leasehold	99	84	Klang	Warehouse/Logistics	100.0	78,000	66,877	4.7	
Bukit Raja Distribution Centre (a) ^^	Freehold	-	-	Klang	Warehouse/Logistics	100.0	105,000	78,203	6.3	

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2018

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2018 %	Fair value as at 31.12.2018 RM'000	Cost of investment as at 31.12.2018 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2018 %
Seberang Prai Logistic Warehouse 1 (c) ^	Leasehold	60	35	Seberang Prai	Warehouse/Logistics	100.0	20,500	17,821	1.2
Seberang Prai Logistic Warehouse 2 (c) ^	Leasehold	60	35	Seberang Prai	Warehouse/Logistics	100.0	8,200	7,384	0.5
Tesco Bukit Indah (k) ^^	Freehold	-	-	Johor Bahru	Hypermarket	100.0	97,000	76,924	5.8
Axis Mega Distribution Centre (a) ^ ^^	Leasehold	99	73	Kuala Langat	Warehouse/Logistics	100.0	300,000	258,373	18.0
Axis Technology Centre (e) ^	Leasehold	99	49	Petaling Jaya	Office/Industrial Warehouse/Logistics	48.0	55,000	50,464	3.3
D8 Logistics Warehouse (d) ^	Leasehold	60	37	Johor Bahru	Warehouse/Logistics	100.0	33,000	30,689	2.0
Bayan Lepas Distribution Centre (e) ^	Leasehold	60	44	Bayan Lepas	Warehouse/Logistics	100.0	60,000	50,142	3.6
Seberang Prai Logistic Warehouse 3 (g)	Leasehold	60	34/50	Seberang Prai	Warehouse/Logistics	100.0	67,000	62,353	4.0
Emerson Industrial Facility Nilai (j) ^	Leasehold	99	77	Nilai	Manufacturing facilities	100.0	32,800	27,443	2.0
Wisma Academy Parcel (a) ^	Leasehold	99	44	Petaling Jaya	Office/Industrial	77.2	73,000	75,869	4.4
The Annex (a) ^	Leasehold	99	44	Petaling Jaya	Office/Industrial	60.4	20,000	13,439	1.2
Axis MRO Hub (e)	Leasehold	99	67	Shah Alam	Manufacturing facilities	100.0	53,300	53,539	3.2
Axis Shah Alam DC 3 (a)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	185,500	187,011	11.1
Axis Steel Centre @ SILC (k) ^	Freehold	-	-	Nusajaya	Manufacturing facilities	100.0	163,000	155,949	9.8
Axis Shah Alam DC 2 (e)	Leasehold	99	48	Shah Alam	Warehouse/Logistics	100.0	47,200	45,782	2.8

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2018

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2018 %	Fair value as at 31.12.2018 RM'000	Cost of investment as at 31.12.2018 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2018 %
Beyonics i-Park Campus Block A (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	16,000	14,469	1.0
Beyonics i-Park Campus Block B (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	14,500	13,115	0.9
Beyonics i-Park Campus Block C (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	13,000	11,934	0.8
Beyonics i-Park Campus Block D (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	23,800	22,504	1.4
Scomi Facility @ Rawang (b)	Freehold	-	-	Rawang	Manufacturing facilities	100.0	44,000	42,696	2.6
Kerry Warehouse (b)	Leasehold	60	55	Johor Bahru	Warehouse/Logistics	100.0	34,000	33,633	2.0
Wasco Facility @ Kuantan (c)	Leasehold	99	91	Kuantan	Manufacturing facilities	100.0	155,000	157,619	9.3
Axis Aeratech Centre @ Subang (h) *	Leasehold	49	48	Subang	Manufacturing facilities	100.0	64,700	63,357	3.9
Axis Shah Alam DC 4 (h)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	83,000	84,270	5.0
Indahpura Facility 1 (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	8,000	7,343	0.5
Beyonics i-Park Campus Block E (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	32,000	32,099	1.9
Senawang Industrial Facility (e)	Freehold	-	-	Senawang	Warehouse/Logistics	100.0	21,000	18,933	1.3
Total							2,798,500	2,424,789	

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

- (a) Crystal Plaza, Infinite Centre, Quattro West, Bukit Raja Distribution Centre, Axis Mega Distribution Centre, Wisma Academy Parcel, The Annex and Axis Shah Alam DC 3 were valued on 27 August 2018, 20 August 2018, 11 October 2018, 11 October 2018, 7 November 2018, 5 July 2018, 5 July 2018 and 13 November 2018, respectively by Savills (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 except The Annex which use comparison method of valuation.
- (b) Scomi Facility @ Rawang and Kerry Warehouse were valued on 28 August 2018 and 3 December 2018, respectively by PA International 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.
- (c) Axis Business Park, Fonterra HQ, Seberang Prai Logistics Warehouse 1, Seberang Prai Logistics Warehouse 2 and Wasco Facility @ Kuantan were valued on 30 August 2018, 12 October 2018, 16 October 2018, 16 October 2018 and 4 December 2018, respectively by Rahim & Co. International Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation except for Seberang Prai Logistic Warehouse 1 and 2 which use the cost method of valuation.
- (d) Niro Warehouse, Pasir Gudang Logistic Warehouse 1, D8 Logistics Warehouse, Beyonics i-Park Campus Block A, B, C, D and E and Indahpura Facility 1 were valued on 10 July 2018, 10 July 2018, 20 August 2018, 13 July 2018, 4 December 2018 and 4 December 2018, respectively by C H 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.
- (e) Wisma Kemajuan, Axis Vista, Axis Technology Centre, Bayan Lepas Distribution Centre, Axis MRO Hub, Axis Shah Alam DC 2, Menara Axis and Senawang Industrial Facility were valued on 30 August 2018, 11 October 2018, 9 November 2018, 9 November 2018, 5 November 2018, 5 November 2018, 19 December 2018 and 17 December 2018, respectively 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.
- (f) Axis Shah Alam DC 1, FCI Senai and Strateq Data Centre were valued on 28 August 2018, 6 July 2018 and 11 October 2018, respectively 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.
- (g) Giant Hypermarket and Seberang Prai Logistic Warehouse 3 were valued on 29 August 2018 and 31 October 2018, respectively by Henry Butcher Malaysia (Penang) 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.
- (h) D21 Logistics Warehouse, Axis Steel Centre, Axis Shah Alam DC 4 and Axis Aerotech Centre @ Subang were valued on 16 July 2018, 14 December 2018, 24 December 2018 and 21 December 2018, respectively by PPC International Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation except Axis Aerotech Centre @ Subang and Axis Shah Alam DC 4 which use cost method of valuation and comparison method of valuation.
- (i) Axis Business Campus was valued on 21 August 2018, by Nawawi Tie Leung Property Consultants Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the cost method of valuation.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

- (j) Emerson Industrial Facility Nilai was valued on 14 December 2018, by Knight Frank 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.
- (k) Tesco Bukit Indah and Axis Steel Centre @ SiLC were valued on 2 November 2018 and 18 December 2018, respectively by Savills (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.
- ^ These properties are charged to financial institutions for revolving credit and term financing facilities granted to Axis-REIT (Note 11).
- ^^ These properties are charged to the Sukukholders for Islamic Medium Term Notes ("Sukuk") (Note 11 and Note 25).
- γ Fixed land lease of 30 years until 23 March 2025 with an option to renew for a further term of 30 years.
- * Fixed land lease of 30 years with an automatic renewal and/or extension for a further 19 years up to 31 December 2066.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2017

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2017 %	Fair value as at 31.12.2017 RM'000	Cost of investment as at 31.12.2017 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2017 %
Menara Axis (b) ^^	Leasehold	99	48	Petaling Jaya	Commercial office	86.4	123,600	86,868	7.8
Crystal Plaza (a) ^^	Leasehold	99	42	Petaling Jaya	Commercial office	81.4	112,000	66,436	7.0
Axis Business Park (c) ^^	Leasehold	99	43	Petaling Jaya	Office/Industrial	59.2	120,000	101,124	7.5
Infinite Centre (a) ^	Leasehold	99	48	Petaling Jaya	Office/Industrial	62.8	42,000	35,593	2.6
Wisma Kemajuan (e) ^	Leasehold	99	48	Petaling Jaya	Office/Industrial	83.67	64,100	37,521	4.0
Axis Business Campus (i) ^	Leasehold	99	50	Petaling Jaya	Office/Industrial	26.2	73,700	61,967	4.6
Axis Shah Alam DC 1 (f)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	31,500	22,472	2.0
Giant Hypermarket (g) ^	Freehold	-	-	Sungai Petani	Hypermarket	100.0	46,000	38,973	2.9
FCI Senai (f) ^	Leasehold	60	50	Senai, Johor	Manufacturing facilities	100.0	20,000	12,693	1.3
Fonterra HQ (c)	Freehold	-	-	Shah Alam	Office/Industrial	84.9	16,700	11,069	1.0
Quattro West (a) ^^	Leasehold	99	55	Petaling Jaya	Commercial office	50.2	55,800	51,126	3.5
Strateq Data Centre (f) ^	Leasehold	99	51	Petaling Jaya	Office/Industrial	100.0	57,000	42,729	3.6
D21 Logistics Warehouse (h) (formerly known as BMW Centre PTP) y	Leasehold	60	38	Tanjung Pelepas	Warehouse/Logistics	-	29,000	28,413	1.8
Niro Warehouse (d)	Leasehold	60	34	Pasir Gudang	Warehouse/Logistics	100.0	19,000	15,234	1.2
Pasir Gudang Logistic Warehouse 1 (d) (formerly known as Delfi Warehouse)	Leasehold	60	50	Pasir Gudang	Warehouse/Logistics	100.0	16,000	13,731	1.0
Axis Vista (e) ^^	Leasehold	99	49	Petaling Jaya	Office/Industrial	100.0	56,300	34,111	3.5
Axis Steel Centre (d) ^^	Leasehold	99	85	Klang	Warehouse/Logistics	100.0	70,500	66,686	4.4

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2017

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2017 %	Fair value as at 31.12.2017 RM'000	Cost of investment as at 31.12.2017 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2017 %
Bukit Raja Distribution Centre (a) ^ ^	Freehold	-	-	Klang	Warehouse/ Logistics	100.0	103,000	76,325	6.5
Seberang Prai Logistic Warehouse 1 (c) ^	Leasehold	60	36	Seberang Prai	Warehouse/ Logistics	100.0	20,500	17,821	1.3
Seberang Prai Logistic Warehouse 2 (c) ^	Leasehold	60	36	Seberang Prai	Warehouse/ Logistics	100.0	8,200	7,384	0.5
Tesco Bukit Indah (j) ^ ^	Freehold	-	-	Johor Bahru	Hypermarket	100.0	97,000	76,924	6.1
Axis Mega Distribution Centre (a) ^ (formerly known as Axis PDI Centre)	Leasehold	99	74	Kuala Langat	Warehouse/ Logistics	-	261,000	233,744	16.4
Axis Technology Centre (e) ^	Leasehold	99	50	Petaling Jaya	Office/Industrial	73.8	54,900	50,380	3.5
D8 Logistics Warehouse (d) ^	Leasehold	60	38	Johor Bahru	Warehouse/ Logistics	100.0	33,000	30,689	2.1
Bayan Lepas Distribution Centre (e) ^	Leasehold	60	45	Bayan Lepas	Warehouse/ Logistics	100.0	60,000	50,082	3.8
Seberang Prai Logistic Warehouse 3 (g)	Leasehold	60	35/51	Seberang Prai	Warehouse/ Logistics	100.0	66,000	61,920	4.1
Emerson Industrial Facility Nilai (a) ^	Leasehold	99	78	Nilai	Manufacturing facilities	100.0	30,500	27,317	1.9
Wisma Academy Parcel (b) ^	Leasehold	99	45	Petaling Jaya	Office/Industrial	81.0	72,600	75,869	4.6
The Annex (b) ^	Leasehold	99	45	Petaling Jaya	Office/Industrial	100.0	19,600	13,352	1.2
Axis MRO Hub (e)	Leasehold	99	68	Shah Alam	Manufacturing facilities	100.0	53,000	53,375	3.3
Axis Shah Alam DC 3 (a)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	185,000	187,008	11.6
Axis Steel Centre @ SILC (j) ^	Freehold	-	-	Nusajaya	Manufacturing facilities	100.0	157,000	155,949	9.9

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2017

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2017 %	Fair value as at 31.12.2017 RM'000	Cost of investment as at 31.12.2017 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2017 %
Axis Shah Alam DC 2 (e)	Leasehold	99	49	Shah Alam	Warehouse/Logistics	100.0	46,600	45,782	2.9
Beyonics i-Park Campus Block A (j)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	14,700	14,470	0.9
Beyonics i-Park Campus Block B (j)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	13,400	13,115	0.8
Beyonics i-Park Campus Block C (j)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	12,200	11,934	0.8
Beyonics i-Park Campus Block D (j)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	22,800	22,504	1.4
Scomi Facility @ Rawang (b)	Freehold	-	-	Rawang	Manufacturing facilities	100.0	44,000	42,696	2.8
Kerry Warehouse (b)	Leasehold	60	56	Johor Bahru	Warehouse/Logistics	100.0	34,000	33,633	2.1
Wasco Facility @ Kuantan (c)	Leasehold	99	92	Kuantan	Manufacturing facilities	100.0	120,000	122,027	7.5
Total							2,482,200	2,151,046	

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

- (a) Crystal Plaza, Infinite Centre, Quattro West, Bukit Raja Distribution Centre, Axis Mega Distribution Centre (formerly known as Axis PDI Centre), Emerson Industrial Facility Nilai and Axis Shah Alam DC 3 were valued on 5 December 2017, 4 December 2017, 5 December 2017, 30 November 2017, 29 December 2017, 29 November 2017 and 3 July 2017, respectively by Savills (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.
- (b) Menara Axis, Wisma Academy Parcel, The Annex, Scomi Facility @ Rawang and Kerry Warehouse were valued on 7 December 2017, 4 December 2017, 27 November 2017, 4 December 2017 and 29 November 2017, 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 method of valuation except for The Annex which uses the cost method of valuation.
- (c) Axis Business Park, Fonterra HQ, Seberang Prai Logistics Warehouse 1, Seberang Prai Logistics Warehouse 2 and Wasco Facility @ Kuantan were valued on 5 December 2017, 13 December 2017, 5 December 2017, 5 December 2017 and 4 May 2017, 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.
- (d) Niro Warehouse, Pasir Gudang Logistic Warehouse 1 (formerly known as Delfi Warehouse), Axis Steel Centre and D8 Logistics Warehouse were valued on 5 December 2017, 6 December 2017, 12 December 2017 and 4 December 2017, respectively by C H 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.
- (e) Wisma Kemajuan, Axis Vista, Axis Technology Centre, Bayan Lepas Distribution Centre, Axis MRO Hub and Axis Shah Alam DC 2 were valued on 20 November 2017, 5 July 2017, 11 December 2017, 17 August 2017, 30 June 2017 and 6 July 2017, respectively 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.
- (f) Axis Shah Alam DC 1, FCI Senai and Strateq Data Centre were valued on 7 December 2017, 2 December 2017 and 29 November 2017, respectively 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.
- (g) Giant Hypermarket and Seberang Prai Logistic Warehouse 3 were valued on 6 December 2017 and 4 July 2017, respectively by Henry Butcher Malaysia (Penang) 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.
- (h) D21 Logistics Warehouse (formerly known as BMW Centre PTP) was valued on 28 December 2017 by PPC International Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (i) Axis Business Campus was valued on 7 December 2017, by W.M. Malik & Kamaruzaman, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the cost method of valuation.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

(j) Tesco Bukit Indah, Axis Steel Centre @ SiLC and Beyonics i-Park Campus Block A, B, C and D were valued on 29 November 2017, 28 August 2017 and 30 November 2017, respectively by Savills (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.

^ These properties are charged to financial institutions for revolving credit and term financing facilities granted to Axis-REIT (Note 11).

^^ These properties are charged to the Sukukholders for Islamic Medium Term Notes ("Sukuk") (Note 11).

y Fixed land lease of 30 years until 23 March 2025 with an option to renew for a further term of 30 years.

The following are recognised in profit or loss in respect of investment properties:

	Note	2018 RM'000	2017 RM'000
Revenue	12	210,588	172,715
Property operating expenses	13	(27,827)	(26,512)
Net loss on disposal of investment property		-	(419)
Change in fair value of investment properties	4.1.1	35,607	25,441

4.1 Fair value information

As at 31 December 2018, the fair value of investment properties amounting to RM2,798,500,000 (2017: RM2,482,200,000) is categorised as Level 3 in accordance with MFRS 13, using unobservable inputs.

Level 3 fair value

The following table shows a reconciliation of Level 3 fair value:

	Note	2018 RM'000	2017 RM'000
At 1 January		2,482,200	2,143,149
Acquisitions		198,787	155,660
Enhancements		74,955	152,996
		2,755,942	2,451,805
Gains and losses recognised in profit or loss Change in fair value - unrealised	4.1.1	42,558	30,395
At 31 December		2,798,500	2,482,200

4.1.1 The change in fair value as presented in the profit or loss of RM35,607,000 (2017 : RM25,441,000) is after offsetting unbilled lease income receivable amounting to RM6,951,000 (2017: RM4,954,000).

NOTES TO THE FINANCIAL STATEMENTS

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
a) The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates to 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.	<ul style="list-style-type: none"> • Risk-adjusted capitalisation rates ranging from 6.00% - 7.50% (2017: 6.50% - 7.50%). • Risk-adjusted discount rate of 6.50% - 8.00% (2017: 6.70% - 8.00%). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Risk-adjusted capitalisation rates were lower (higher). • Risk-adjusted discount rates were lower (higher).
b) 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.	<ul style="list-style-type: none"> • Adjusted land value ranging from RM145 per sq. ft. to RM300 per sq. ft. (2017: There was no investment property valued using the comparison method). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Adjusted land value per sq. ft. was higher (lower).
c) 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, reconstruction cost less depreciation or replacement cost less depreciation, obsolescence and existing physical condition of the building. The reconstruction 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.	<ul style="list-style-type: none"> • Land value ranging from RM45 per sq. ft. to RM243 per sq. ft. (2017: RM41 per sq. ft. to RM250 per sq. ft.). • Main floor area cost ranging from RM70 per sq. ft. to RM320 per sq. ft. (2017: RM70 per sq. ft. to RM160 per sq. ft.). • Depreciation rates ranging from 2% to 5% (2017: 2% to 50%). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Land value were higher (lower). • Main floor area cost were higher (lower). • Depreciation rates were lower (higher).

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

4.1 Fair value information (continued)

Valuation processes applied by Axis-REIT for Level 3 fair value

The fair value of investment properties is determined by external, independent registered valuers approved by the Securities Commission, 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 investment 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 investment properties.

5. Equipment

	Office equipment, furniture and fittings RM'000	Car park machines RM'000	Software RM'000	Total RM'000
Cost				
At 1 January 2017/ 31 December 2017/				
1 January 2018	30	3,394	795	4,219
Additions	913	103	-	1,016
At 31 December 2018	943	3,497	795	5,235
Accumulated depreciation				
At 1 January 2017	12	1,050	258	1,320
Depreciation for the year	3	339	80	422
At 31 December 2017/1 January 2018	15	1,389	338	1,742
Depreciation for the year	44	348	80	472
At 31 December 2018	59	1,737	418	2,214
Carrying amounts				
At 31 December 2018	884	1,760	377	3,021
At 31 December 2017	15	2,005	457	2,477

Leased equipment

At 31 December 2018, the net carrying amount of leased equipment was RM1,760,000 (2017: RM2,005,000).

NOTES TO THE FINANCIAL STATEMENTS

6. Receivables, deposits and prepayments

	Note	2018 RM'000	2017 RM'000
Trade			
Trade receivables		4,630	2,628
Tenancy contract assets	6.1	6,396	-
		11,026	2,628
Non-trade			
Other receivables		5,130	14,486
Deposits		2,524	10,551
Prepayments		2,248	2,384
Islamic derivative asset		-	14
		9,902	27,435
		20,928	30,063

6.1 Tenancy contract assets relate to Axis-REIT's rights to rental income for premises that have been occupied by tenants but not yet billed at the reporting date. Rental income is recognised on a straight line basis including rent free period. Rental will be billed in accordance with the billing terms as set out in the tenancy agreements.

7. Cash and cash equivalents

	2018 RM'000	2017 RM'000
Cash and bank balances	8,314	10,028
Islamic deposits placed with licensed banks	9,700	24,841
	18,014	34,869

Included in Islamic deposits placed with licensed banks is an amount of RM300,000 (2017: RM300,000) which is pledged for banking facilities granted to Axis-REIT (Note 11) and RM8,095,000 (2017: RM11,532,067) which is maintained in a Finance Service Reserve Account with a licensed bank to cover a minimum of 12 months' financing costs for Sukuk issued by Axis-REIT's special purpose company, Axis REIT Sukuk Berhad (Note 11).

NOTES TO THE FINANCIAL STATEMENTS

8. Total unitholders' funds

8.1 Unitholders' capital

	2018 Number of units '000	2017 Number of units '000
Issued and fully paid up:		
At 1 January	1,232,327	1,105,174
Issued for cash	-	125,000
Issued under Income Distribution Reinvestment Plan ("IDRP")	4,958	2,153
At 31 December	1,237,285	1,232,327
	2018 RM'000	2017 RM'000
Issued and fully paid up:		
At 1 January	1,240,253	1,060,320
Issues of new units:		
4,958,485 units @ RM1.39 per unit (2017: 125,000,000 units @ RM1.43 per unit and 2,153,212 units @ RM1.49 per unit)	6,892	181,958
Issuing expenses	(76)	(2,025)
At 31 December	1,247,069	1,240,253

NOTES TO THE FINANCIAL STATEMENTS

8. Total unitholders' funds (continued)

8.2 Unitholdings of substantial unitholders, Directors of the Manager and their related parties

The following are the details of the units and value held by the substantial unitholders, the Directors of the Manager and the related parties of the Manager.

	2018		2017	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
Axis-REIT's substantial unitholders' direct unitholding:				
Lembaga Tabung Haji	71,996	112,314	67,047	100,571
Kumpulan Wang Persaraan (Diperbadankan)	97,580	152,225	98,671	148,007
Employees Provident Fund Board	198,262	309,289	172,890	259,335
Amanahraya Trustees Berhad				
- Amanah Saham Bumiputera	110,000	171,600	100,000	150,000
Axis-REIT's substantial unitholders' indirect unitholding:				
Kumpulan Wang Persaraan (Diperbadankan) (i)	35,077	54,720	29,962	44,943
Directors of the Manager - direct unitholding:				
Dato' Abas Carl Gunnar Bin Abdullah	24,254	37,836	25,280	37,920
YAM Tunku Dato' Seri Shahabuddin				
Bin Tunku Besar Burhanuddin	20	31	20	30
Tew Peng Hwee @ Teoh Peng Hwee	56,550	88,218	55,684	83,526
Alex Lee Lao (ii)	56,387	87,964	55,151	82,727
Leong Kit May	43	67	42	63
Jancis Anne Que Lao (iii)	844	1,317	839	1,259
Directors of the Manager - indirect unitholding:				
Dato' Abas Carl Gunnar Bin Abdullah (iv)	10,304	16,074	10,231	15,347
Alex Lee Lao (v)	3,153	4,919	3,112	4,668
Direct unitholdings of close family members of the Manager's Directors:				
Datin Kuyas Emiloglu (also known as Ka Ya-Shih)	10,231	15,960	10,159	15,239
Leon Lee Lao	2,307	3,599	2,277	3,416
Lao, Yin Yong Lee	846	1,320	835	1,252
Tan Siew Geok	925	1,443	919	1,379
Jeanette Ivy Robertson Lomax	515	803	515	773
Amanda Tan Myhre	73	114	72	108
John Lee Lao	1,187	1,852	1,172	1,758
Dean Lee Lao	2,403	3,749	2,372	3,558
Edward Teoh Eu Shang	6	9	-	-
Maxine Teoh Sui Vern	7	11	-	-
Adrian Teoh Eu Min	12	19	-	-

NOTES TO THE FINANCIAL STATEMENTS

8. Total unitholders' funds (continued)**8.2 Unitholdings of substantial unitholders, Directors and their related parties (continued)**

Notes:

- (i) Held by fund managers of Kumpulan Wang Persaraan (Diperbadankan).
- (ii) Alex Lee Lao is an alternate director to Dato' Abas Carl Gunnar Bin Abdullah.
- (iii) Jancis Anne Que Lao is an alternate director to Alvin Dim Lao.
- (iv) Deemed interested in the direct unitholdings of his spouse, Datin Kuyas Emiloglu (also known as Ka Ya-Shih) and his daughter, Amanda Tan Myhre.
- (v) Deemed interested in the direct unitholdings of his brothers, Lao, Yin Yong Lee 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 2018 of RM1.56 (2017: RM1.50).

9. Payables and accruals

	2018 RM'000	2017 RM'000
Non-current		
Non-trade		
Tenants' deposits - payable after 12 months	57,706	43,998
Current		
Trade		
Trade payables	9,657	34,375
Non-trade		
Tenants' deposits - payable within 12 months	4,704	11,872
Other payables and accrued expenses	40,254	25,634
	44,958	37,506
Islamic derivative liability	292	-
	45,250	37,506
	54,907	71,881
	112,613	115,879

Included in other payables and accrued expenses are amounts due to the Manager and the Property Manager of RM1,608,000 (2017: RM2,884,000) and RM652,000 (2017: RM527,000), respectively. These amounts are unsecured, interest-free and payable monthly in arrears.

NOTES TO THE FINANCIAL STATEMENTS

10. Deferred tax liability

Under the Finance Act 2018, the Real Property Gain Tax ("RPGT") rate for disposal of real property which have been held for more than 5 years for entities other than company, non-citizen and non-permanent resident individual has been changed from 0% to 5%.

It is the business model of Axis-REIT to hold investment properties to earn rental income and for long-term capital growth. Hence, there are no expected disposals of investment properties held for less than 5 years.

As a result of this, Axis-REIT has recognised RM4,402,000, as disclosed in Note 14 to the financial statements, being the deferred tax liability for the RPGT exposure on the cumulative fair value gain of investment properties that are expected to be realised through sale.

11. Financing

	Note	2018 RM'000	2017 RM'000
Non-current			
Islamic Medium Term Notes ("Sukuk")	11.1	180,000	180,000
Finance lease liabilities	11.2	55	211
Term financing	11.3	66,500	66,500
Transaction costs			
- Sukuk	11.1	(500)	(661)
- Term financing	11.3	(188)	(220)
		245,867	245,830
Current			
Secured revolving credit	11.4	813,344	511,493
Finance lease liabilities	11.2	156	306
Islamic Medium Term Notes ("Sukuk")	11.1	-	85,000
Transaction costs			
- Sukuk	11.1	-	(35)
		813,500	596,764
		1,059,367	842,594

11.1 Islamic Medium Term Notes ("Sukuk")

Axis-REIT's wholly owned subsidiary, Axis REIT Sukuk Berhad, has an Islamic Medium Term Note Programme ("Sukuk Programme") of up to RM3.0 billion in nominal value. It is a perpetual programme that commenced on 13 July 2012. Details of the Sukuk issued are set out below.

First Sukuk

On 13 July 2012, Axis REIT Sukuk Berhad issued RM110.0 million Sukuk in nominal value pursuant to the Sukuk Programme.

The First Sukuk of RM110.0 million was issued to re-finance Axis-REIT's existing financing facilities. The First Sukuk, which comprises four tranches have obtained long-term ratings of AAA, AA1, AA2 and AA3, respectively from RAM Rating Services Berhad ("RAM") on 4 July 2012. The expected maturity date is 10 years from the issuance date and the legal maturity date is 12 years from the issuance date.

NOTES TO THE FINANCIAL STATEMENTS

11. Financing (continued)**11.1 Islamic Medium Term Notes ("Sukuk") (continued)**

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 First Sukuk of 10 years.

The First Sukuk is secured over the investment properties as indicated in Note 4 to the financial statements and 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 Sukuk Berhad, issued RM155.0 million Sukuk in nominal value pursuant to the Sukuk Programme.

The Second Sukuk of RM155.0 million was issued to re-finance Axis-REIT's existing financing facilities. The Second Sukuk, which comprises five tranches have obtained long-term ratings of AAA, AAA, AA1, AA2 and AA3, respectively from RAM on 25 July 2013. The expected maturity dates are 7 years for RM70.0 million and 5 years for RM85.0 million from the issuance date and the legal maturity dates are 9.5 years and 7.5 years, respectively from the issuance date.

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 tenures of the Second Sukuk of 7 years and 5 years.

During the financial year, Axis-REIT had redeemed the 5 year Second Sukuk amounting to RM85.0 million using its existing revolving credit facilities.

The Second Sukuk is secured over the investment properties as indicated in Note 4 to the financial and 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 liabilities

Finance lease liabilities are subject to financing costs at 3.5% (2017: 3.5%) per annum.

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2018 RM'000	Finance costs 2018 RM'000	Present value of minimum lease payments 2018 RM'000	Future minimum lease payments 2017 RM'000	Finance costs 2017 RM'000	Present value of minimum lease payments 2017 RM'000
Less than one year	177	21	156	359	53	306
Between one and five years	71	16	55	248	37	211
	248	37	211	607	90	517

NOTES TO THE FINANCIAL STATEMENTS

11. Financing (continued)**11.3 Term financing**

The term financing is secured over investment properties as indicated in Note 4 to the financial statements and is payable on 28 January 2025. The transaction costs related to the term financing amounted to RM314,000 is amortised and charged to profit and loss over the expected tenure of 10 years.

11.4 Secured revolving credit

The secured revolving credit is secured over the investment properties as indicated in Note 4 to the financial statements.

11.5 Reconciliation of movement of liabilities to cash flows arising from financing activities

	At 1.1.2017 RM'000	Net changes from financing cash flows RM'000	Others RM'000	At 31.12.2017/ 1.1.2018 RM'000	Net changes from financing cash flows RM'000	Others RM'000	At 31.12.2018 RM'000
Sukuk	264,088	-	216	264,304	(85,000)	196	179,500
Finance lease liabilities	828	(311)	-	517	(306)	-	211
Term financing	66,249	-	31	66,280	-	32	66,312
Secured revolving credit	449,500	61,993	-	511,493	301,851	-	813,344
Total liabilities from financing activities	780,665	61,682	247	842,594	216,545	228	1,059,367

12. Revenue

	Note	2018 RM'000	2017 RM'000
Rental income from investment properties	12.1	199,527	159,491
Car park income		5,890	7,817
Other income		5,171	5,407
		210,588	172,715

12.1 Included in the rental income from investment properties is unbilled lease income receivable amounting to RM6,951,000 (2017: RM4,954,000).

NOTES TO THE FINANCIAL STATEMENTS

13. Property operating expenses

	Note	2018 RM'000	2017 RM'000
Assessment		4,169	3,950
Service contracts and maintenance		7,295	7,865
Property management fees	1(a)	3,960	3,355
Property management reimbursements		2,940	2,550
Utilities		3,630	3,773
Others		5,833	5,019
		27,827	26,512

14. Tax expense

	2018 RM'000	2017 RM'000
Current tax expense		
- Under provision in prior year	67	-
Deferred tax expense		
- Effect of changes in real property gain tax rate	4,402	-
Total tax expense	4,469	-

Reconciliation of tax expense

	Note	2018 RM'000	2017 RM'000
Net income before tax		159,448	122,560
Income tax using Malaysian tax rate of 24%		38,268	29,414
Non-deductible expenses		983	713
Effect of fair value change on investment properties which is not subject to tax		(10,205)	(7,295)
Effect of exemption from income tax	14.1	(29,046)	(22,832)
Under provision in prior year		67	-
		67	-
Cumulative fair value gain on investment properties subject to Real Property Gains Tax	10	4,402	-
		4,469	-

NOTES TO THE FINANCIAL STATEMENTS

14. Tax expense (continued)

14.1 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 a real estate investment trust or property trust fund is distributed to its unitholders, the total income of the real estate investment trust or property trust fund 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 RM154,979,000 (2017: RM122,560,000) and the weighted average number of units in circulation during the year of 1,232,612,086 (2017: 1,116,923,612).

16. Distribution to unitholders

Distribution to unitholders is from the following sources:

	2018 RM'000	2017 RM'000
Net property income		
- current year	182,761	146,203
- prior year (already subject to tax)	211	55
Realisation of unrealised income	-	1,764
Net loss on disposal of investment property	-	(419)
Profit income	725	984
	183,697	148,587
Less: Non-property expenses	(63,026)	(51,018)
	120,671	97,569
Adjustments to earnings available for distribution:		
- depreciation of equipment	472	422
- net impairment losses/(reversal of impairment losses) on trade receivables	215	(369)
- other non-cash items	(13,347)	(4,954)
	108,011	92,668
Less: Undistributed income	(186)	(211)
	107,825	92,457
Gross distribution per unit (sen)	8.74	8.26
Net distribution per unit (sen)	8.74	8.26

17. Portfolio Turnover Ratio

	2018	2017
Portfolio Turnover Ratio ("PTR") (times)	0.01	0.02

The calculation of PTR is based on the average of total acquisitions and total disposals of investment properties 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

18. Management Expense Ratio

	2018	2017
Management Expense Ratio ("MER") (%)	1.30	1.31

The calculation of MER is based on the total fees incurred by Axis-REIT, including Manager's fees, Trustee's fees, auditor's 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 use different bases of calculation may not be an appropriate comparison.

19. Operating segments

Segment information is presented based on the information reviewed by Axis-REIT's Board of Directors of the Manager for performance assessment and resource allocation. For the purpose of the assessment of segment performance, the Board of Directors of the Manager 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 Board of Directors of the Manager are of the view that Axis-REIT only has one reportable segment – leasing of investment properties as already presented in the statement of financial position and statement of profit or loss and other comprehensive income.

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.

20. Financial instruments**20.1 Categories of financial instruments**

The table below provides an analysis of financial instruments categorised under MFRS 9 as follows:

- Financial assets measured at amortised cost ("FAAC");
- Financial liabilities measured at amortised cost ("FLAC"); and
- Fair value through profit or loss ("FVTPL").

2018	Carrying amount RM'000	FAAC/FLAC RM'000	FVTPL RM'000
Financial assets			
Receivables and deposits	12,284	12,284	-
Cash and cash equivalents	18,014	18,014	-
	30,298	30,298	-
Financial liabilities			
Payables and accruals	112,613	112,312	292
Financing	1,059,367	1,059,367	-
	1,171,980	1,171,679	292

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)**20.1 Categories of financial instruments (continued)**

The table below provides an analysis of financial instruments categorised under MFRS 139 as follows:

- (a) Loans and receivables ("L&R"); and
 (b) Financial liabilities measured at amortised cost ("FL").

2017	Carrying amount RM'000	L&R/FL RM'000
Financial assets		
Receivables and deposits	13,796	13,796
Cash and cash equivalents	34,869	34,869
	48,665	48,665
Financial liabilities		
Payables and accruals	115,879	115,879
Financing	842,594	842,594
	958,473	958,473

20.2 Net gains and losses arising from financial instruments

	2018 RM'000	2017 RM'000
Net gains/(losses) on:		
Fair value through profit or loss	(306)	206
Loans and receivables	-	1,353
Financial assets measured at amortised cost	510	-
Financial liabilities measured at amortised cost	(38,067)	(31,290)
Total	(37,875)	(29,731)

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 annual credit evaluation of its tenants and generally does not require collateral other than tenants' deposits.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.4 Credit risk (continued)

Receivables*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.

At each reporting date, Axis-REIT assesses whether any of the trade receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or in full after taking into consideration tenants' deposits) when there is no realistic prospect of recovery. This is generally the case when Axis-REIT determines the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

There are no significant changes as compared to the previous year.

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 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 RM4,630,000 (2017: RM2,628,000) which are collateralised by tenants' deposits.

Recognition and measurement of impairment losses

The following table provides information about the exposure to credit risk and expected credit losses ("ECLs") for receivables as at 31 December 2018.

	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2018			
Past due 1 - 30 days	2,825	-	2,825
Past due 31 - 60 days	359	-	359
Past due 61 - 90 days	306	-	306
	3,490	-	3,490
Credit impaired			
Past due more than 90 days	1,815	(675)	1,140
	5,305	(675)	4,630

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.4 Credit risk (continued)

Receivables (continued)

Recognition and measurement of impairment losses (continued)

There are trade receivables where Axis-REIT has not recognised any loss allowance as they are collateralised by tenants' deposits.

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	2018	
	Credit impaired RM'000	Total RM'000
Balance at 1 January as per MFRS 139/9	460	460
Net remeasurement of loss allowance	215	215
Balance at 31 December	675	675

Trade receivables that are individually determined to be impaired relate to tenants who are in significant financial difficulties and have defaulted in payments. For the purpose of quantifying individual impairment, Axis-REIT utilises the deposits received to first off-set against the longest outstanding receivables then the remaining balance is impaired in full. 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.

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement

The ageing of trade receivables as at 31 December 2017 was as follows:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Past due 1 - 30 days	1,119	-	1,119
Past due 31 - 60 days	454	-	454
Past due 61 - 90 days	305	-	305
Past due more than 90 days	1,210	(460)	750
	3,088	(460)	2,628

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)**20.4 Credit risk (continued)****Receivables (continued)**

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement (continued)

The movements in the allowance for impairment losses of receivables during the financial year ended 2017 were:

	2017
	RM'000
At 1 January	829
Impairment loss recognised	59
Impairment loss reversed	(428)
At 31 December	460

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

These banks and financial institutions have low credit risks. Consequently, Axis-REIT are of the view that the loss allowance is not material and hence, it is not provided for.

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 payables and accruals, tenants' deposits and financing.

The Manager of Axis-REIT 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 Listed Real Estate Investment Trusts concerning limits on total financing.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE FINANCIAL STATEMENTS

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 amount RM'000	Contractual profit 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
Financial liabilities							
2018							
Payables and accruals	49,911	-	49,911	49,911	-	-	-
Tenants' deposits*	62,410	-	78,214	4,704	25,810	12,423	35,277
Islamic derivative liability	292	-	292	292	-	-	-
Revolving credit	813,344	4.14 - 4.46	816,263	816,263	-	-	-
Term financing	66,312	4.15	82,116	2,567	2,567	7,701	69,281
Finance lease liabilities	211	3.50	248	177	71	-	-
Sukuk	179,500	4.18 - 4.61	201,563	7,974	76,454	117,135	-
	1,171,980		1,228,607	881,888	104,902	137,259	104,558
2017							
Payables and accruals	60,009	-	60,009	60,009	-	-	-
Tenants' deposits*	55,870	-	67,985	11,872	11,295	18,911	25,907
Revolving credit	511,493	3.86 - 4.26	513,228	513,228	-	-	-
Term financing	66,280	3.86	84,682	2,567	2,567	7,700	71,848
Finance lease liabilities	517	3.50	607	359	173	75	-
Sukuk	264,304	4.13 - 4.61	301,113	94,662	7,968	86,509	111,974
	958,473		1,027,624	682,697	22,003	113,195	209,729

* The carrying amount of tenants' deposits has been discounted using the imputed profit rate of 4.24% (2017: 4.18%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.6 Market risk

Market risk is the risk that changes in market prices such as interest rates that will affect Axis-REIT's financial position or cash flows.

The interest rate is a general economic indicator that will have an impact on Axis-REIT's financial position or cash flows regardless whether it is an Islamic real estate investment trust or otherwise.

Interest rate risk

Axis-REIT's exposure to changes in interest rates relates primarily to its financial assets which have an exposure to interest rates, such as Islamic deposits and interest related financial liabilities such as Sukuk, term financing, revolving credit and finance lease liabilities. Interest rate risk is managed by the Manager on an on-going basis with the primary objective of limiting the extent to which the profit income and financing costs could be affected by adverse movements in interest rates.

Risk management objectives, policies and processes for managing the risk

Axis-REIT has profit rate swaps with notional contract amounts of RM50,000,000 and RM100,000,000, respectively (2017: a profit rate swap with notional contract amount of RM50,000,000) in order to achieve an approximate mix of fixed and floating rates exposure that is deemed acceptable for Axis-REIT. The swaps mature in May 2020 and April 2021, respectively.

Exposure to interest rate risk

The interest rate profile of Axis-REIT's financial instruments which have an exposure to interest rates, based on carrying amounts as at the end of the reporting period was:

	2018 RM'000	2017 RM'000
Financial assets		
<i>Fixed rate instrument</i>		
Islamic deposits placed with licensed banks	9,700	24,841
Financial liabilities		
<i>Fixed rate instruments</i>		
Finance lease liabilities	211	517
Sukuk	179,500	264,304
	179,711	264,821
<i>Floating rate instruments</i>		
Term financing	66,312	66,280
Revolving credit	813,344	511,493
	879,656	577,773

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)**20.6 Market risk (continued)****Interest rate risk (continued)***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 Islamic 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 profit or loss by the amounts shown below.

	Unitholders' funds		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	RM'000	RM'000	RM'000	RM'000
2018				
Floating rate instruments	-	-	(8,797)	8,797
Profit rate swaps	-	-	1,500	(1,500)
2017				
Floating rate instruments	-	-	(5,778)	5,778
Profit rate swap	-	-	500	(500)

20.7 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.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.7 Fair value information (continued)

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	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
2018										
Financial liabilities										
Tenants' deposits	-	-	-	-	-	-	62,410	62,410	62,410	62,410
Islamic derivative liability	-	292	-	292	-	-	-	-	292	292
Financing	-	-	-	-	-	177,400	843,498	1,020,898	1,020,898	1,059,156
Finance lease liabilities	-	-	-	-	-	-	250	250	250	211
	-	292	-	292	-	177,400	906,158	1,083,558	1,083,850	1,122,069
2017										
Financial liabilities										
Tenants' deposits	-	-	-	-	-	-	55,870	55,870	55,870	55,870
Financing	-	-	-	-	-	261,765	554,353	816,118	816,118	842,077
Finance lease liabilities	-	-	-	-	-	-	600	600	600	517
	-	-	-	-	-	261,765	610,823	872,588	872,588	898,464

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)**20.7 Fair value information (continued)****Level 2 fair value*****Islamic derivative***

The fair value of profit rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market profit rates for similar instruments at the measurement date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the market profit rate at the end of the reporting period.

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2017: no transfer in either directions).

Level 3 fair value

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

Financial instruments not carried at fair value

Type	Description of valuation technique and inputs used
Tenants' deposits, financing and finance lease liabilities	Discounted cash flows using a rate based on the current market rate of Islamic financing facilities of Axis-REIT at the reporting date.

The discount rates used above have incorporated credit risk of Axis-REIT and liquidity risk of the instruments. The inputs for these risks are unobservable because there are no identical or similar instruments to benchmark to.

NOTES TO THE FINANCIAL STATEMENTS

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 the confidence of unitholders, creditors and the market; and to sustain future development of the business. The Directors of the Manager monitor and maintain an optimal gearing ratio that complies with regulatory requirements.

During the year 2018, Axis-REIT's strategy was unchanged from 2017. The Directors of the Manager continuously monitors the gearing level and considers undertaking a new placement exercise to raise capital and when it anticipates the need for funding, taking into consideration the investor appetite in the capital market. This internal gearing threshold is below that allowed by the Securities Commission's Guidelines on Listed Real Estate Investment Trusts of 50%. The gearing ratio at the end of the reporting period were as follows:

	Note	2018 RM'000	2017 RM'000
Total financing	11	1,059,367	842,594
Total assets		2,840,463	2,549,609
Gearing ratio (%)		37.30	33.05

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 receivable under non-cancellable leases is as follows:

	2018 RM'000	2017 RM'000
Less than one year	188,045	172,481
Between one and five years	438,717	405,421
More than five years	684,616	624,185
	1,311,378	1,202,087

NOTES TO THE FINANCIAL STATEMENTS

23. Capital commitments

	2018 RM'000	2017 RM'000
Capital expenditure commitments		
Investment properties		
<i>Contracted but not provided for and payable:</i>		
- Within one year	26,831	231,876

24. 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 or jointly 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. 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 Trustees, and certain members of senior management of the Manager and the Trustees.

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.

Significant related party transactions other than those disclosed elsewhere in the financial statements are as follows:

	Note	2018 RM'000	2017 RM'000
Acquisition of investment properties from related parties of the Directors of the Manager	24.1	(38,700)	-
Rental income received and receivable from companies controlled by the Directors of the Manager		5,526	9,308

24.1 During the financial year ended 31 December 2017, letters of offer were accepted for the proposed acquisition of 3 properties for a total purchase price of RM45,150,000. Axis-REIT subsequently pursued the acquisition of 2 properties. These were completed during the current financial year, for a total purchase price of RM38,700,000.

NOTES TO THE FINANCIAL STATEMENTS

25. Subsequent event

On 7 January 2019, Axis REIT Sukuk Berhad issued RM240.0 million Sukuk in nominal value ("Third Sukuk") pursuant to the Sukuk Programme.

The Third Sukuk of RM240.0 million was issued to re-finance Axis-REIT's existing financing facilities. The expected maturity date is 7 years from the issuance date and the legal maturity date is 9 years from the issuance date.

The transaction costs relating to the Third Sukuk issuance of RM240.0 million which amounted to RM598,000 will be amortised and charged to profit or loss over the expected tenure of the Third Sukuk of 7 years.

The Third Sukuk is secured over the investment property as indicated in Note 4 to the financial statements and other securities are as advised by the legal counsel of the Lead Manager and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

26. Significant changes in accounting policies

During the year, Axis-REIT adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on their financial statements. Axis-REIT generally applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, Axis-REIT has elected not to restate the comparatives.

26.1 Impacts on financial statements

There was no material impact arising from the adoption of MFRS 15 and MFRS 9 on Axis-REIT's financial statements.

26.2 Accounting for financial instruments

(a) Transition

In the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

- (i) Axis-REIT has not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.
- (ii) The assessment on the determination of the business model within which a financial asset is held has been made based on the facts and circumstances that existed at the date of initial application.
- (iii) Loss allowance for receivables (other than trade receivables) is recognised at the amount equal to lifetime expected credit losses until the receivable is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

26. Significant changes in accounting policies (continued)

26.2 Accounting for financial instruments (continued)

(b) Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

The following table shows the measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of Axis-REIT's financial assets and financial liabilities as at 1 January 2018:

		31 December 2017 RM'000	1 January 2018 Reclassification to new MFRS 9 category Amortised cost ("AC") RM'000
	Note		
Category under MFRS 139			
Financial assets			
Loans and receivables			
Receivables and deposits	20.1	13,796	13,796
Cash and cash equivalents	20.1	34,869	34,869
		48,665	48,665
Financial liabilities			
Financial liabilities measured at amortised cost			
Payables and accruals	20.1	115,879	115,879
Financing	20.1	842,594	842,594
		958,473	958,473

Reclassification from loans and receivables to amortised cost

Receivables and deposits that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.

26.3 Accounting for revenue

The revenue of Axis-REIT consists of income from leasing of investment properties, including car parks, and other associated income.

There were no significant changes in revenue recognition from the adoption of MFRS 15 and no practical expedients relating to MFRS 15 were applied.

STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 190 to 247 are drawn up in accordance with the Third Principal Deed dated 28 November 2013, the Securities Commission's Guidelines on Listed Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of Axis Real Estate Investment Trust at 31 December 2018 and of its financial performance and cash flows for the financial year ended on that date.

For and on behalf of the Manager,
Axis REIT Managers Berhad,

Signed on behalf of the Board of Directors of the Manager in accordance with a resolution of the Directors of the Manager:

Tew Peng Hwee @ Teoh Peng Hwee

Director

Leong Kit May

Director

Kuala Lumpur,

Date: 14 February 2019

STATUTORY DECLARATION

I, **Ng Choy Tip**, the Officer 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 190 to 247, 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 Ng Choy Tip (MIA Number: 40667), at Petaling Jaya in the state of Selangor Darul Ehsan on 14 February 2019.

Ng Choy Tip

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 2018. 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 ("the Deed") dated 28 November 2013, the Securities Commission's Guidelines on Listed Real Estate Investment Trusts and applicable securities laws during the financial year then ended.

We have ensured that valuation has been carried out on all the properties of Axis-REIT 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 2018 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 2018 as follows:

- 1) 1st interim income distribution of 1.94 sen per unit paid on 4 June 2018;
- 2) 2nd interim income distribution of 2.00 sen per unit paid on 7 September 2018;
- 3) 3rd interim income distribution of 2.35 sen per unit paid on 10 December 2018; and
- 4) Final income distribution of 2.45 sen per unit payable on 28 February 2019.

For and on behalf of the Trustee,
RHB Trustees Berhad
(Company No.: 573019-U)

Tony Chieng Siong Ung

Director

Kuala Lumpur,

Date: 14 February 2019

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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 2018, and the statement of profit or loss and other comprehensive income, statement of changes in net asset value and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 190 to 247.

In our opinion, the financial statements give a true and fair view of the financial position of Axis-REIT as of 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of Axis-REIT in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

Key audit matter

Key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements of Axis-REIT for the current financial year. This matter was addressed in the context of our audit of the financial statements of Axis-REIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of investment properties

Refer to Note 4 to the financial statements.

The key audit matter

Axis-REIT owns a portfolio of 45 investment properties comprising office/industrial buildings and logistics warehouses located in Malaysia. Investment properties represent the single largest category of assets on the statement of financial position at RM2,798,500,000 as at 31 December 2018.

These investment properties are stated at their fair values based on independent external valuations.

The valuation process involves judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied i.e. a small change in the assumptions can have a significant impact to the valuation. This is a key audit matter as some of the key assumptions are based on unobservable inputs and hence, significant judgement is required to evaluate the unobservable inputs.

INDEPENDENT AUDITORS' REPORT

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

How the matter was addressed in our audit:

We assessed the processes of Axis-REIT Managers Berhad ("the Manager") for the selection of the external valuers, the determination of the scope of work of the valuers, and the review and acceptance of the valuations reported by the external valuers.

We evaluated the qualifications and competence of the external valuers based on their membership of recognised professional body. We also examined the terms of engagement the valuers entered into with the Manager to determine whether there were any matters that might have affected the valuers' objectivity or placed limitations on their scope of work.

We assessed the appropriateness of the valuation methodologies used by considering their respective merits based on the occupancy status and/or condition of each property. We checked the data applied in the projected cash flows used in the valuation by agreeing them to the lease agreements and title deeds. We challenged the capitalisation rates used in the valuation by comparing them against historical rates and available industry data. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the valuers.

We also considered the adequacy of disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Information Other than the Financial Statements and Auditors' Report Thereon

The Manager is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditors' report thereon) which we obtained prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the Financial Statements of Axis-REIT

The Manager is responsible for the preparation of the financial statements of Axis-REIT so as to give a true and fair view in accordance with the Third Principal Deed dated 28 November 2013, the Securities Commission's Guidelines on Listed Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of Axis-REIT that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of Axis-REIT, the Manager is responsible for assessing Axis-REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate Axis-REIT or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT

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

Auditors' Responsibilities for the Audit of the Financial Statements of Axis-REIT

Our objectives are to obtain reasonable assurance about whether the financial statements of Axis-REIT as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of Axis-REIT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Axis-REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of Axis-REIT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Axis-REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of Axis-REIT, including the disclosures, and whether the financial statements of Axis-REIT represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Axis-REIT to express an opinion on the financial statements of Axis-REIT. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT

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

From the matters communicated with the Manager, we determine those matters that were of most significance in the audit of the financial statements of Axis-REIT of the current year and is therefore the key audit matter. We describe this matter in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Chan Chee Keong
Approval Number: 03175/04/2019 J
Chartered Accountant

Petaling Jaya,

Date: 14 February 2019

UNITHOLDERS' STATISTICS

BREAKDOWN OF UNITHOLDINGS AS PER RECORD OF DEPOSITORS

As at 31 January 2019

Issued and fully paid up

1,237,285,288 Units (voting right: 1 vote per Unit)

DISTRIBUTION OF UNITHOLDINGS

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units Held	% of Unitholdings
Less than 100	531	11.70%	9,931	Neg
100 - 1,000	790	17.41%	383,116	0.03%
1,001 - 10,000	1,912	42.12%	8,285,188	0.67%
10,001 - 100,000	981	21.61%	28,156,527	2.28%
100,001 to less than 5% of issued units	322	7.09%	839,817,540	67.88%
5% and above of issued units	3	0.07%	360,632,986	29.15%
	4,539	100.00%	1,237,285,288	100.00%

30 LARGEST UNITHOLDERS

Name of Unitholders	No. of Units	%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD	142,312,991	11.50%
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA	120,000,000	9.70%
KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	98,319,995	7.95%
LEMBAGA TABUNG HAJI	60,038,100	4.85%
TEW PENG HWEE @ TEOH PENG HWEE	56,550,010	4.57%
ALEX LEE LAO	52,645,267	4.25%
PERMODALAN NASIONAL BERHAD	42,500,000	3.43%
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM MALAYSIA 3	26,515,914	2.14%
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA 2	25,067,800	2.03%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC SMALLCAP FUND	23,477,412	1.90%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ITTIKAL SEQUEL FUND	20,611,710	1.67%
MAYBANK NOMINEES (TEMPATAN) SDN BHD - MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	20,263,300	1.64%
AMANAHRAYA TRUSTEES BERHAD - ASN UMBRELLA FOR ASN EQUITY 3	18,369,662	1.48%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD (ABERDEEN)	17,472,731	1.41%
ABAS CARL GUNNAR BIN ABDULLAH	14,332,650	1.16%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EXEMPT AN FOR AIA BHD.	12,737,222	1.03%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC STRATEGIC SMALLCAP FUND	12,605,995	1.02%
CARTABAN NOMINEES (TEMPATAN) SDN BHD - RHB TRUSTEES BERHAD FOR MANULIFE INVESTMENT SHARIAH PROGRESS FUND	12,074,432	0.98%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ISLAMIC SELECT TREASURES FUND	12,033,598	0.97%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD (ASIANISLAMIC)	10,670,400	0.86%
AMANAH RAYA BERHAD - KUMPULAN WANG BERSAMA SYARIAH	10,666,294	0.86%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ABERDEEN)	10,411,725	0.84%

UNITHOLDERS' STATISTICS

Name of Unitholders	No. of Units	%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD (ABERISLAMIC)	10,345,112	0.84%
AMANAHRAYA TRUSTEES BERHAD - ASN UMBRELLA FOR ASN IMBANG (MIXED ASSET BALANCED) 2	10,287,989	0.83%
KA, YA-SHIH ALSO KNOWN AS MYHRE, KUYAS	10,231,119	0.83%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ISLAMIC OPPORTUNITIES FUND	10,229,050	0.83%
AMANAHRAYA TRUSTEES BERHAD - ASN IMBANG (MIXED ASSET BALANCED) 1	9,863,570	0.80%
HSBC NOMINEES (TEMPATAN) SDN BHD - HSBC (M) TRUSTEE BHD FOR ZURICH LIFE INSURANCE MALAYSIA BERHAD (LIFE PAR)	9,636,831	0.78%
MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD - GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (DR)	9,561,891	0.77%
AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITY ACCOUNT - AMBANK (M) BERHAD FOR ABAS CARL GUNNAR BIN ABDULLAH	9,369,288	0.76%
	899,202,058	72.68%

SUBSTANTIAL UNITHOLDERS (5% and above)

Name of Substantial Unitholders	Direct Interest		Indirect Interest*	
	No. of Units	%	No. of Units	%
EMPLOYEES PROVIDENT FUND BOARD	201,277,312	16.27	-	-
KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	98,576,725	7.97%	35,500,262 [^]	2.87%
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA	120,000,000	9.70%	-	-
LEMBAGA TABUNG HAJI	72,692,606	5.88%	-	-

[^] Held by Fund Managers of Kumpulan Wang Persaraan (Diperbadankan)

DIRECTORS' INTERESTS

Name of Directors/Alternate Directors	Direct Interest		Indirect Interest	
	No. of Units	%	No. of Units	%
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin (Director)	20,000	Neg	-	-
Dato' Abas Carl Gunnar Bin Abdullah (Director)	24,254,426	1.96	10,303,759*	0.83
Tew Peng Hwee @ Teoh Peng Hwee (Director)	56,550,010	4.57	-	-
Leong Kit May (Director)	42,614	Neg	-	-
Mohd Sharif Bin Hj Yusof (Director)	-	-	-	-
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor (Director)	-	-	-	-
Alvin Dim Lao (Director)	-	-	-	-
Alex Lee Lao (Alternate Director)	56,386,865	4.56	3,153,025**	0.25
Jancis Anne Que Lao (Alternate Director)	844,012	0.07	-	-

Notes:

* Deemed interested in the direct unitholdings of his spouse and daughter, Datin Kuyas Emiloglu (also known as Ka Ya-Shih) and Amanda Tan Myhre in Axis-REIT

** Deemed interested in the direct unitholdings of his brothers, Lao, Yin Yong Lee and Leon Lee Lao in Axis-REIT

Remarks:

This Unitholders' Statistics have been prepared as at 31 January 2019 in line with the requirement of Bursa Securities where such information is to be made up to a date not earlier than 6 weeks from the date of the AGM notice

FREQUENTLY ASKED QUESTIONS (FAQ)

1. How often does Axis-REIT make an income distribution?

Effective 1 January 2009, Axis-REIT changed its income distribution policy from semi-annual payment to quarterly payments payable within one month of the book closure date. In the event of IDRPs being applied in conjunction with an income distribution, the income distribution will be paid no later than five market days after one month of the book closure date. However, in certain circumstances such as the issuance of new Units by Axis-REIT during the year, it may be necessary for a special income distribution to be declared and paid at different periods in order to attribute the income distribution to existing Unitholders. This is to avoid any dilution as a result of 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 the entitlement and gross/net amounts payable.

3. Are there different types of income distributions?

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

- a. Current year's realised income before taxation;
- b. Current year's tax exempt income, if any;
- c. Portion of 'Accumulated Retained Earnings' that have been taxed;
- d. 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 any 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		
	2018	2017	2016
Resident corporate	Nil [^]	Nil [^]	Nil [^]
Resident non-corporate	10%	10%	10%
Non-resident individual	10%	10%	10%
Non-resident corporate	24%	24%	24%
Non-resident institution	10%	10%	10%

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

FREQUENTLY ASKED QUESTIONS (FAQ)

5. How do I calculate my distribution?

For the financial year ended 31 December 2018, the total income distribution was 8.74 sen per Unit. Of this amount, 3.41 sen was derived from the utilisation of capital allowances, industrial building allowances, and tax exempt profit income, and is therefore not subject to tax.

Type of Unitholder	Assumption: 10,000 Axis-REIT Units	
	Gross distribution	Net distribution to Unitholders after deduction of withholding tax
Resident corporate*	874.00	874.00
Resident individual/institution	874.00	820.70
Foreign corporate	874.00	746.08
Foreign institution	874.00	820.70
Foreign individual	874.00	820.70

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

6. What is my net distribution yield for 2018?

For the financial year ended 31 December 2018, the total distribution was 8.74 sen per Unit.

Type of Unitholder	Net Distribution based on IPO price of RM0.625*	Net distribution based on closing price of RM1.56 on 31 December 2018
Resident corporate	13.98%	5.60%
Resident individual/institution	13.13%	5.26%
Foreign corporate	11.94%	4.78%
Foreign institution	13.13%	5.26%
Foreign individual	13.13%	5.26%

* Restated from RM1.25 to reflect the Unit Split

7. Where can a Unitholder view the Deed of Axis-REIT?

The Deed is available for inspection during ordinary business hours at the principal place of business of the Manager and at the principal place of business of the Trustee

8. What is the total number of Axis-REIT Units currently in issue?

A total of 1,237,285,288 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 permitted under the SC's Guidelines on Listed REITs.

Issuance of new Units in Axis-REIT will be subject to the prior approval of the Trustee, Bursa Securities and Unitholders in the manner as stipulated in the Deed and subject to the applicable laws and requirements.

FREQUENTLY ASKED QUESTIONS (FAQ)

10. What are my rights as a Unitholder?

The key rights of Unitholders include the rights to receive income and other distributions attributable to the Units held; to 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 realisation of the assets of Axis-REIT less any liabilities, in accordance with their proportionate interests in Axis-REIT.

11. How can the Deed be amended?

Any amendment to the Deed involving material change to the investment objectives of Axis-REIT; or any amendment may materially or adversely affect the rights of the Unitholders, may only be approved by way of a resolution of not less than 2/3 of the Unitholders passed at a meeting of Unitholders duly convened and held in accordance with the Deed. In cases where the amendment to the Deed does not require Unitholders' approval, the amendment may only be made if the Trustee and the Manager certify, in their 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 Axis-REIT need to hold its AGM?

The AGM of Axis-REIT shall be held once in every calendar year and not more than 15 months after the last preceding AGM. At the AGM, the Manager shall lay before the Unitholders, the annual audited financial statements of Axis-REIT made up to a date that is not more than four months before the date of the AGM.

13. Who may convene a meeting of Unitholders?

Either the Trustee or the Manager may convene a meeting of Unitholders at any time, subject to the provisions of the Deed. Unitholders may request for a meeting of Unitholders by submitting to the Manager an application to be made by not fewer than 50, or one tenth, whichever is lesser, of all the Unitholders. Subject to the provisions of the Deed, the Manager will have to convene a meeting of Unitholders within 21 days after such requisition is submitted to the Manager at its registered office.

14. Can the Manager vote at Unitholders' meetings of Axis-REIT?

No. However related parties (as defined in the Deed) of the Manager may vote provided that they have no interest in the outcome of the transaction laid before the meeting for approval.

15. Why was Axis-REIT reclassified into an Islamic REIT?

Axis-REIT was reclassified into an Islamic REIT:

- a. To widen its investor base to include local Islamic funds and also to develop investors interest from Islamic foreign funds;
- b. To expedite its asset growth with new strategic partners;
- c. To become the first Office/Industrial REIT on a global platform which complies with the applicable Shariah principles, concepts and rulings endorsed by the Shariah Advisory Council.

FREQUENTLY ASKED QUESTIONS (FAQ)

16. What are the salient compliance requirements of an Islamic REIT pursuant to the SC's Guidelines on Listed REITs?

The salient compliance requirements are:

- a. An Islamic REIT is permitted to own real estate where:
 - i. all the tenants operate fully Shariah compliant activities; or
 - ii. some of the tenants operate Shariah non-compliant activities, provided the percentage of rental received from all Shariah non-compliant activities ("Shariah Non-Compliant Rental") is less than 20% of the total turnover of the Islamic REIT ("20% Threshold").
- b. An Islamic REIT must reduce the 20% Threshold to less than 5% of the Islamic REIT's total turnover by the end of the 10th financial year. For the purpose of computation of the 10th financial year, the first financial year commences the next financial year subsequent to the SC's Guidelines on Listed REITs taking effect i.e. 9 April 2018.
- c. An Islamic REIT is not permitted to own real estate where all the tenants operate fully Shariah non-compliant activities, even if the percentage of the Shariah Non-Compliant Rental after the acquisition is less than the 20% Threshold.
- d. All forms of investments, deposits, money market instruments and financing facilities of an Islamic REIT must comply with the Shariah principles.
- e. An Islamic REIT must use Takaful schemes to insure its real estate.

17. Is an Islamic REIT permitted to own (purchase) real estate in which the tenant(s) operate(s) mixed activities that are permissible and non-permissible according to the Shariah rules?

An Islamic REIT is permitted to own (purchase) real estate in which its tenant(s) operate(s) mixed activities that are permissible and non-permissible, according to the Shariah rules. However, the management company of the Islamic REIT must perform additional compliance assessments before acquiring real estate that has tenant(s) who operate(s) mixed activities.

18. What are non-permissible activities?

Rental activities that are classified as non-permissible as decided by the SAC are:

- a. Conventional banking;
- b. Conventional insurance;
- c. Gambling;
- d. Liquor and liquor-related activities;
- e. Pork and pork-related activities;
- f. Non-halal food and beverages;
- g. Tobacco and tobacco-related activities;
- h. Stockbroking or share trading in Shariah non-compliant securities;
- i. Shariah non-compliant entertainment; and
- j. Other activities deemed non-compliant according to Shariah.

GLOSSARY

AGM	:	Annual General Meeting
AUM	:	Assets Under Management
Axis-REIT / the Trust / the Fund	:	Axis Real Estate Investment Trust
Bursa Securities / the Exchange	:	Bursa Malaysia Securities Berhad
CDS	:	Central Depository System
Deed	:	The Third Principal Deed dated 28 November 2013 executed between the Trustee and the Manager constituting Axis-REIT
DPU	:	Distribution per Unit
FYE	:	Financial Year Ended/Ending
GST	:	Goods and Services Tax
Gearing	:	Financing to Total Assets
Gross Revenue	:	Gross rental income and other income earned from the properties including car park income, utilities and miscellaneous income
IDRP	:	Income Distribution Reinvestment Plan
Islamic REITs	:	REITs that comply with the applicable Shariah principles, concepts and rulings endorsed by the SAC
MER	:	Management Expense Ratio
Manager	:	Axis REIT Managers Berhad, being the Manager of Axis-REIT
NAV	:	Net Asset Value
NLA	:	Net Lettable Area, which consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
PTR	:	Portfolio Turnover Ratio
Property Manager	:	Axis Property Services
REIT(s)	:	Real Estate Investment Trust(s)
RM and sen	:	Ringgit Malaysia and sen, respectively
SAC	:	Shariah Advisory Council
SC	:	Securities Commission Malaysia
SC's Guidelines on Listed REITs	:	Guidelines on Listed Real Estate Investment Trusts issued by the SC on 15 March 2018 and effective on 9 April 2018, as amended from time to time
Sq. ft.	:	Square feet
Sqm	:	Square meters
Trustee of Axis-REIT/Trustee	:	RHB Trustees Berhad, being the Trustee of Axis-REIT
Unit(s)	:	Undivided interest(s) in Axis-REIT as constituted by the Deed
Unitholder(s)	:	Holder(s) of the Units
Unit Split	:	Subdivision of every one existing Unit into two Units that was completed on 9 September 2015
VWAMP	:	Volume weighted average market price
WALE	:	Weighted Average Lease Expiry

NOTICE OF SEVENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Seventh Annual General Meeting (“AGM”) of Axis Real Estate Investment Trust (“Axis-REIT”) will be convened and held at Ballroom 1, Sheraton Petaling Jaya Hotel, Jalan Utara C, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 30 April 2019 at 10.00 a.m. or at any adjournment thereof, for the following purposes:

ORDINARY BUSINESS

To receive the Audited Financial Statements for the financial year ended 31 December 2018 of Axis-REIT together with the Reports attached thereon.

SPECIAL BUSINESS

To consider and if thought fit, to pass, with or without modifications, the following resolutions as Ordinary Resolutions of Axis-REIT:

ORDINARY RESOLUTION NO. 1

PROPOSED RENEWAL OF THE AUTHORITY TO ALLOT AND ISSUE NEW UNITS IN AXIS-REIT (“UNITS”) OF UP TO 20% OF THE ISSUED FUND SIZE OF AXIS-REIT, TO FACILITATE A PLACEMENT EXERCISE (“PROPOSED RENEWAL OF AUTHORITY”)

“THAT pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), and subject to requisite approvals being obtained, approval be hereby given to the Directors of Axis REIT Managers Berhad (“Manager”) to allot and issue new Units, to facilitate Axis-REIT in raising funds via a placement exercise (“Proposed Placement”), at any time to any such persons, upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of new Units to be issued pursuant to this resolution, when aggregated with the number of Units issued during the preceding 12 months, does not exceed 20% of the issued fund size of Axis-REIT;

THAT such authority, once renewed, shall continue to be in force until:

- (i) the conclusion of the next AGM of Axis-REIT following this AGM where the Proposed Renewal of Authority is passed, at which time the authority will lapse, unless by a resolution passed by the Unitholders at that AGM, such authority is renewed; or
- (ii) the Proposed Renewal of Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders’ meeting,

whichever is the earliest;

THAT such new Units to be issued under the Proposed Placement (“Placement Units”) shall, upon allotment and issue, rank equally in all respects with the Units already in existence except that the Placement Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared, made or paid before the date of allotment and issue of the Placement Units;

AND THAT authority be and is hereby given to the Directors of the Manager and RHB Trustees Berhad (“Trustee”) (acting for and on behalf of Axis-REIT), to give effect to the Proposed Renewal of Authority including but not limited to the creation of the requisite new Units and with full powers to assent to any condition, modification, variation, arrangement and/or amendment in relation to the Proposed Renewal of Authority as they may deem fit in the best interest of Axis-REIT and/or as may be imposed by the relevant authorities **AND FURTHER THAT** the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), are to implement, finalise, complete and do all such acts and things (including executing such documents as may be required) in relation to the Proposed Renewal of Authority.”

NOTICE OF SEVENTH ANNUAL GENERAL MEETING

ORDINARY RESOLUTION NO. 2**PROPOSED RENEWAL OF THE AUTHORITY TO ALLOT AND ISSUE UP TO 138,425,476 NEW UNITS IN AXIS-REIT FOR THE PURPOSE OF THE INCOME DISTRIBUTION REINVESTMENT PLAN ("IDRP") THAT PROVIDES THE UNITHOLDERS OF AXIS-REIT THE OPTION TO REINVEST THEIR INCOME DISTRIBUTION IN NEW UNITS ("PROPOSED RENEWAL OF IDRPA AUTHORITY")**

THAT pursuant to the approval from the Unitholders obtained on 21 August 2015 for, among others, the renewal of the authority to allot and issue new Units for the purpose of the IDRPA, approval be and is hereby given to the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), to renew the authority in order to empower the Board to allot and issue new Units from time to time pursuant to the IDRPA upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of the new Units to be issued pursuant to this resolution does not exceed 138,425,476 new Units;

THAT such authority, once renewed, shall continue to be in force until:

- (i) the conclusion of the next AGM of Axis-REIT following this AGM where the Proposed Renewal of IDRPA Authority is passed, at which time the authority will lapse, unless by a resolution passed by the Unitholders at that AGM, such authority is renewed; or
- (ii) the Proposed Renewal of IDRPA Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders' meeting,

whichever is the earliest;

THAT such new Units to be issued under the Proposed Renewal of IDRPA Authority shall, upon allotment and issue, rank equally in all respects with the Units already in existence except that the Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared, made or paid before the date of allotment and issue of such Units;

AND THAT authority be and is hereby given to the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), to give effect to the Proposed Renewal of IDRPA Authority including but not limited to the creation of the requisite new Units and with full powers to assent to any condition, modification, variation, arrangement and/or amendment in relation to the Proposed Renewal of IDRPA Authority as they may deem fit in the best interest of Axis-REIT and/or as may be imposed by the relevant authorities **AND FURTHER THAT** the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), are to implement, finalise, complete and do all such acts and things (including executing such documents as may be required) in relation to the Proposed Renewal of IDRPA Authority."

By Order of the Board of

AXIS REIT MANAGERS BERHAD (649450-W)

Management company of Axis Real Estate Investment Trust

Rebecca Leong Siew Kwan (MAICSA 7045547)

Company Secretary

Kuala Lumpur

28 February 2019

NOTICE OF SEVENTH ANNUAL GENERAL MEETING

Notes:

- (1) *A Unitholder shall be entitled to attend and vote at any meeting of Unitholders and shall be entitled to appoint up to two (2) persons, whether a Unitholder or not, as its proxy to attend and vote.*
- (2) *Where a Unitholder is a corporation, its duly authorised representative shall be entitled to attend and vote at the meeting and shall be entitled to appoint up to two (2) persons (whether a Unitholder or not) as its proxy to attend and vote.*
- (3) *Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.*
- (4) *If the Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Authorised Nominee"), it may appoint at least one (1) proxy (but no more than two (2)) in respect of each securities account it holds with Units of Axis-REIT standing to the credit of the said securities account.*
- (5) *If the Unitholder is an exempt Authorised Nominee which holds Units for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.*
- (6) *Only a depositor whose name appears in the Record of Depositors of Axis-REIT as at 23 April 2019 shall be regarded as a Unitholder and entitled to attend, speak and vote at this AGM of Axis-REIT or appoint proxy(ies) to attend and vote on his/her behalf.*
- (7) *The Instrument of Proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation, the Instrument of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.*
- (8) *To be valid, the original Instrument of Proxy duly completed and signed must be deposited at the registered office of the Manager at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting (facsimile copy of Instrument of Proxy would be disregarded).*

EXPLANATORY NOTES ON:

Ordinary Business

There shall be no voting on the Ordinary Business of this AGM given that the laying of the Audited Financial Statements for the financial year ended 31 December 2018 of Axis-REIT together with the Reports attached thereon, before the Unitholders at this AGM is meant for discussion only. This is in accordance with Paragraph 13.18(b) of the Guidelines on Listed Real Estate Investment Trusts ("Listed REIT Guidelines") issued by the Securities Commission Malaysia.

Other than the aforesaid Ordinary Business, there is no other ordinary business to be transacted at this AGM.

Special Business – Ordinary Resolution No. 1 : Proposed Renewal of Authority

- (a) The Manager proposes to renew the authority to allot and issue up to 20% of the issued fund size of Axis-REIT, to facilitate Axis-REIT in raising funds via the Proposed Placement. The Proposed Renewal of Authority will empower the Directors with the flexibility to allot and issue new Units at any time via the Proposed Placement to any such persons, upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of new Units to be issued pursuant to the Proposed Renewal of Authority, when aggregated with the number of Units issued during the preceding 12 months, does not exceed 20% of the issued fund size of Axis-REIT.
- (b) As of the date of this notice of AGM, the Directors of the Manager have not issued any new Units pursuant to the general mandate which was procured and approved by the Unitholders in the preceding year 2018.

NOTICE OF SEVENTH ANNUAL GENERAL MEETING

- (c) With the Proposed Renewal of Authority, delays and further costs involved in convening separate Unitholders' meetings to approve such issue of new Units to raise funds can be avoided. The Manager will have the flexibility to raise funds via the Proposed Placement for Axis-REIT, as and when such need arises. The proceeds, after deducting the estimated expenses, to be raised from the issuance of the Placement Units, may be used, at the Directors' absolute discretion, for:
- (i) repayment of Axis-REIT's existing bank financing (including finance cost payable), which are taken up to finance acquisitions of real estate;
 - (ii) future investments;
 - (iii) capital expenditure, including development costs; and
 - (iv) working capital purposes.

Special Business – Ordinary Resolution No. 2 : Proposed Renewal of IDRP Authority

- (a) The Manager proposes to renew the authority to allot and issue up to 138,425,476 new Units, representing approximately 11.19% of the existing issued fund size of Axis-REIT of 1,237,285,288 Units, for the purpose of the IDRP. The Proposed Renewal of IDRP Authority will empower the Directors with the flexibility to allot and issue new Units at any time under the IDRP, provided that the aggregate number of Units to be issued pursuant to the Proposed Renewal of IDRP Authority does not exceed 138,425,476 new Units.
- (b) The Unitholders had, at the Sixth AGM of Axis-REIT convened and held on 26 April 2018 approved, among others, the authority to allot and issue up to 143,383,961 new Units pursuant to the IDRP. Axis-REIT had applied the IDRP to the third interim income distribution for the period from 1 July 2018 to 30 September 2018 ("2018 Third Interim Income Distribution") which was declared on 22 October 2018 where a total of 4,958,485 new Units were issued under the IDRP on 10 December 2018. The new Units issued pursuant to the 2018 Third Interim Income Distribution were listed on the Main Market of Bursa Securities on 11 December 2018.
- (c) Taking into account the 4,958,485 Units which had been issued under the IDRP in conjunction with the 2018 Third Interim Income Distribution, the remaining number of new Units that can be allotted and issued pursuant to the Proposed Renewal of IDRP Authority will be up to 138,425,476 new Units, subject to the Unitholders' approval being obtained at the forthcoming AGM for the Proposed Renewal of IDRP Authority.
- (d) The net proceeds of a total RM6.82 million were raised from the 4,958,485 Units which had been issued under the IDRP in conjunction with the 2018 Third Interim Income Distribution (after deducting the related issuing expenses). The proceeds raised were utilized to refurbish and/or renovate the properties of Axis-REIT.
- (e) Any proceeds to be raised from the issuance(s) of new Units pursuant to the Proposed Renewal of IDRP Authority, if such authority is renewed at the forthcoming AGM, shall be utilized to refurbish and/or renovate the properties of Axis-REIT.

Personal Data Notice

In view of the enforcement of **Personal Data Protection Act 2010** ("Act") which regulates the processing of personal data in commercial transactions, the Act applies to us, **Axis REIT Managers Berhad**, being the management company of Axis-REIT.

The personal data processed by us may include your name, contact details, and mailing address and any other personal data derived from any documentation. We may use or disclose your personal data to any person we may engage for the purpose of the issuance of the Notice of AGM, despatch of the 2018 Annual Report and the convening of the AGM of Axis-REIT. As such, it is necessary for us to obtain your personal data in order to carry out the said purposes.

Subject to the requirements under the Act, if you would like to make any enquiries of your personal data, please contact us using any of the following modes:

Mailing address : Axis REIT Managers Berhad
Penthouse, Menara Axis, No. 2, Jalan 51A/223,
46100 Petaling Jaya, Selangor Darul Ehsan

Telephone / Fax No : 603-7958 4882 / 603-7957 6881

E-mail Address : pdpa@axis-reit.com.my

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REAL ESTATE INVESTMENT TRUST

(A real estate investment trust constituted under the laws of Malaysia)

INSTRUMENT OF PROXY

*I/We..... (*NRIC No. / Passport No. / Company No.)
of
being a Unitholder of Axis Real Estate Investment Trust ("Axis-REIT") hereby appoints
..... (*NRIC No. / Passport No.)
of

or failing him/her, *the Chairman of the meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Seventh Annual General Meeting of Axis-REIT to be held at Ballroom 1, Sheraton Petaling Jaya Hotel, Jalan Utara C, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 30 April 2019 at 10.00 a.m. or at any adjournment thereof.

Table with 4 columns: RESOLUTION, FOR, AGAINST. Rows include Ordinary Resolution No. 1 (Proposed Renewal of Authority) and Ordinary Resolution No. 2 (Proposed Renewal of IDRP Authority).

Please indicate with an "X" in the appropriate spaces provided above on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy may vote as he/she thinks fit.

Dated this day of 2019

Table with 2 columns: Central Depository System Account No., No. of Units held in Axis-REIT

.....
Signature of Unitholder or Common Seal

* Strike out whichever is not desired.

Notes:

- (1) A Unitholder shall be entitled to attend and vote at any meeting of Unitholders and shall be entitled to appoint up to two (2) persons, whether a Unitholder or not, as its proxy to attend and vote.
(2) Where a Unitholder is a corporation, its duly authorised representative shall be entitled to attend and vote at the meeting and shall be entitled to appoint up to two (2) persons (whether a Unitholder or not) as its proxy to attend and vote.
(3) Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
(4) If the Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Authorised Nominee"), it may appoint at least one (1) proxy (but no more than two (2)) in respect of each securities account it holds with Units of Axis-REIT standing to the credit of the said securities account.
(5) If the Unitholder is an exempt Authorised Nominee which holds Units for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
(6) Only a depositor whose name appears in the Record of Depositors of Axis-REIT as at 23 April 2019 shall be regarded as a Unitholder and entitled to attend, speak and vote at this AGM of Axis-REIT or appoint proxy(ies) to attend and vote on his/her behalf.
(7) The Instrument of Proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation, the Instrument of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.
(8) To be valid, the original Instrument of Proxy duly completed and signed must be deposited at the registered office of the Manager at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting (facsimile copy of Instrument of Proxy would be disregarded).

Fold this flap for sealing

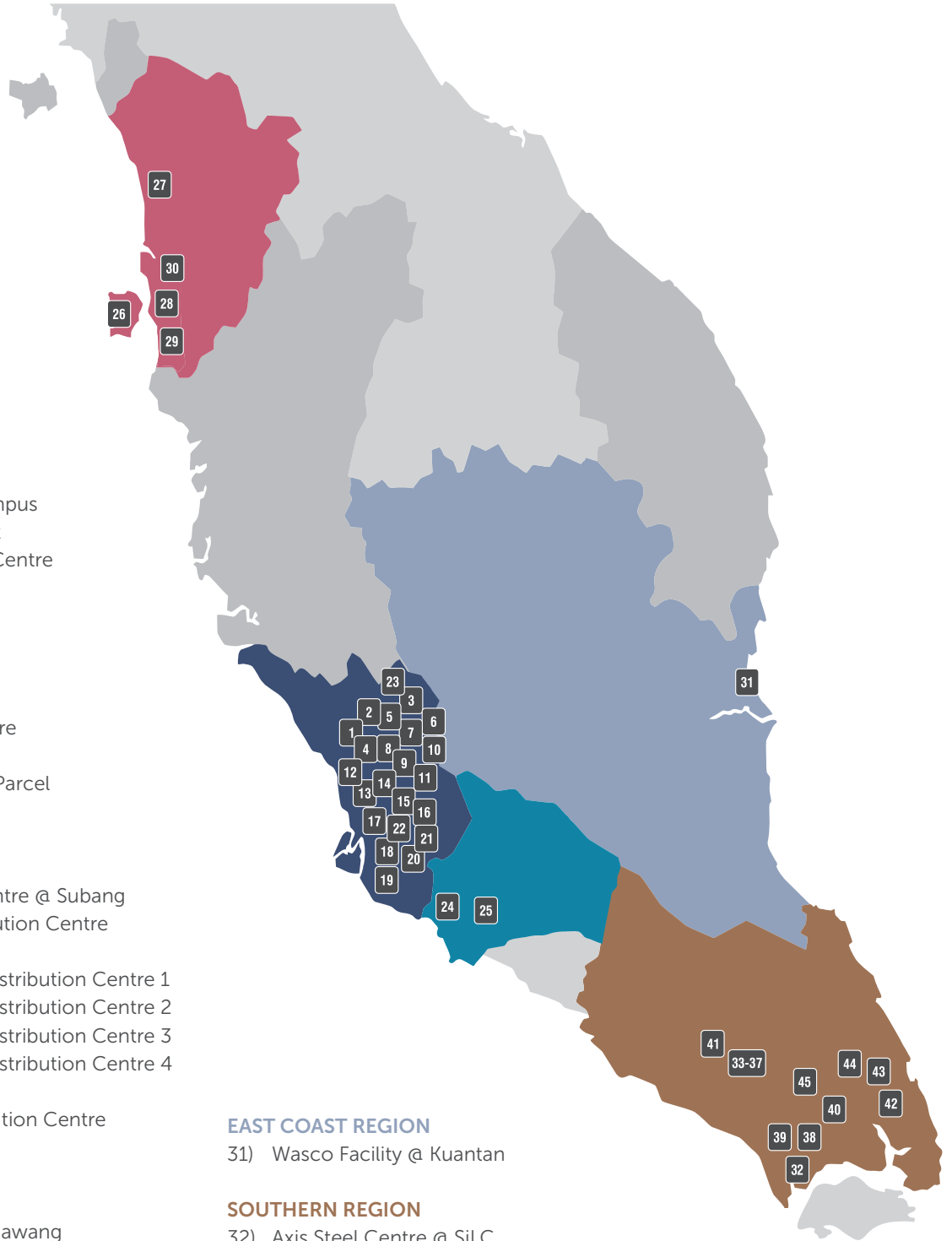
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**AFFIX
STAMP**

Management Company of Axis Real Estate Investment Trust
Axis REIT Managers Berhad
c/o Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur

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LOCATIONS OF INVESTMENT PROPERTIES



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/Klang

- 13) Axis Aerotech Centre @ Subang
- 14) Axis Mega Distribution Centre
- 15) Axis MRO Hub
- 16) Axis Shah Alam Distribution Centre 1
- 17) Axis Shah Alam Distribution Centre 2
- 18) Axis Shah Alam Distribution Centre 3
- 19) Axis Shah Alam Distribution Centre 4
- 20) Axis Steel Centre
- 21) Bukit Raja Distribution Centre
- 22) Fonterra HQ

Rawang

- 23) Scomi Facility @ Rawang

Nilai

- 24) Emerson Industrial Facility Nilai

Senawang

- 25) Senawang Industrial Facility

NORTHERN REGION

- 26) Bayan Lepas Distribution Centre
- 27) Giant Hypermarket
- 28) Seberang Prai Logistics Warehouse 1
- 29) Seberang Prai Logistics Warehouse 2
- 30) Seberang Prai Logistics Warehouse 3

EAST COAST REGION

- 31) Wasco Facility @ Kuantan

SOUTHERN REGION

- 32) Axis Steel Centre @ SiLC
- 33) Beyonics i-Park Campus Block A
- 34) Beyonics i-Park Campus Block B
- 35) Beyonics i-Park Campus Block C
- 36) Beyonics i-Park Campus Block D
- 37) Beyonics i-Park Campus Block E
- 38) D8 Logistics Warehouse
- 39) D21 Logistics Warehouse
- 40) FCI Senai
- 41) Indahpura Facility 1
- 42) Kerry Warehouse
- 43) Niro Warehouse
- 44) Pasir Gudang Logistics Warehouse 1
- 45) Tesco Bukit Indah

www.axis-reit.com.my

Prepared by:

AXIS REIT MANAGERS BERHAD (649450-W)

As the Manager of Axis-REIT

Penthouse Menara Axis,

No. 2 Jalan 51A/223,

46100 Petaling Jaya,

Selangor, Malaysia

Tel : +603 7958 4882

Fax : +603 7957 6881

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