



# Delivering Growth

# Contents

Financial Highlights .....	01
Board of Directors .....	03
Chairman's Message .....	06
Manager's Report .....	08
Property Portfolio .....	19
Portfolio Details .....	24
Enhancements .....	28
The Axis-REIT Team.....	31
Corporate Governance .....	33
Investor Relations .....	39
FAQ's .....	40
Property Report .....	43
Financial Statements .....	48
Unitholders' Statistics .....	75
Corporate Directory .....	77
Glossary .....	78

## Axis Real Estate Investment Trust ("Axis-REIT")

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

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

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

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

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

The Manager is committed to deliver long term sustainable distributions and capital stability through a focused business plan to:

- Optimise its capital structure
- Have professional asset management
- Buy accretive investments with capital growth

## OUR LOGO, VISION & BUSINESS PHILOSOPHY

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

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

Our Business Philosophy is to provide our customers with the best solutions in the supply of office/commercial and industrial space. We practice an open, transparent and creative management of our real estate portfolio, whilst being 'hands on' with our tenants. Our principal objective is to translate our business philosophy into best management practises thereby maximising returns to Axis-REIT Unitholders.

This annual report for the period ended 31 December 2007 has been prepared by Axis REIT Managers Berhad (649450-W) as the Manager of Axis-REIT. Whilst every care has been taken in relation to the accuracy, no warranty is given or implied. The information provided is not investment advice and recipients should consider obtaining independent advice before making any decision that relies on this information. All currencies are expressed in Malaysian currency unless otherwise stated. This Annual Report is dated February 2008.

# Financial Highlights

	Actual Audited 1 Jan 07 to 31 Dec 07	Actual Audited 1 Jan 06 to 31 Dec 06
Total Net Income (RM '000)	68,607 <sup>#2</sup>	42,922 <sup>#1</sup>
Income available for Distribution (RM '000) (Realised)	27,991	26,665
Earnings per Unit ("EPU") - (sen) (Realised)	13.59	12.82
Income Distribution (RM '000)	28,064	26,664
Distribution per Unit ("DPU") (sen)	13.63	12.95
(of which the tax-exempt portion is)	0	0.168
<p>#1 – includes unrealised income (not available for distribution) of RM16,517,000 for the whole of 2006                      #2 – includes unrealised income (not available for distribution) of RM40,613,346 for the whole of 2007</p>		
Number of investment properties	14	9
Total Assets (RM '000)	581,857	411,781
Total Borrowings (RM '000)	209,816	88,089
Total Unitholders' Fund (RM '000)	334,652	294,109
Market Capitalisation (RM '000)	380,917	345,913
Total borrowings to total assets (%)	36.06	21.39
Net asset value per Unit – (RM)	1.63	1.43
Unit Price (RM) – IPO – retail price	1.25	1.25
Market Price per unit – (RM)	1.85	1.68
No. of units in circulation ('000)	205,901	205,901
No. of Unitholders	1,166	941

## MONTHLY TRADING PERFORMANCE



# Financial Highlights (continued)

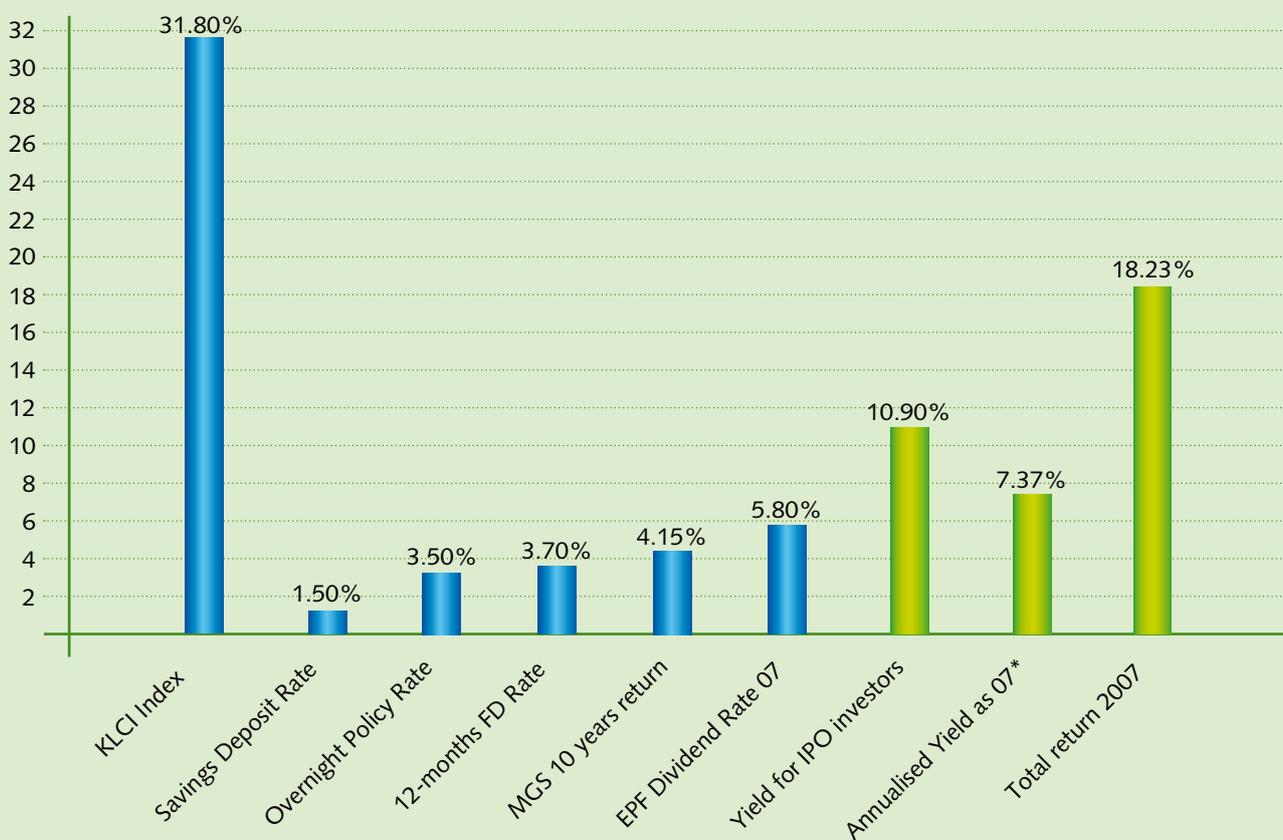
## TRADING STATISTICS FOR 2007

Opening Price – 1 Jan 2007	RM 1.68
Closing Price – 31 Dec 2007	RM 1.85
High (30 July 2007)	RM 2.28
Low (14 Mar 2007)	RM 1.60

## DISTRIBUTIONS SINCE LISTING

	Distribution per Unit
Period ended 31 Dec 2005	4.70 sen
Total for 2006	12.95 sen
Total for 2007	13.63 sen
Interim – 1 Jan 2008 till 18 Jan 2008	0.75 sen

## COMPARABLE RETURNS



\* based on closing price of RM1.85 on 31-12-2007

# Board of Directors



1	2	3	4
	5	6	7

## 1 | YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin *Chairman*

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

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

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

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

# Board of Directors (continued)

## 2 | Dato' Abas Carl Gunnar Bin Abdullah

*Non-Independent Executive Deputy Chairman*

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

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

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

## 3 | Stephen Tew Peng Hwee

*Non-Independent Executive Director*

Stephen Tew Peng Hwee, a Malaysian, has been a Non-Independent Non-Executive Director of Axis REIT Managers Berhad since 25 October 2004. On 18 September 2007 he was redesignated from the position of a Non-Independent Non-Executive Director to Executive Director in charge of Business Development. He graduated with a Diploma from the Institute of Marketing, United Kingdom in 1982, following which he started his career as a Real Estate Agent and today owns the real estate agency, Hectares & Stratas. He is the Immediate Past President of the Malaysian Institute of Estate Agents and has served as a board member on the Board of Valuers, Appraisers and Estate Agents from 1998 till 2004.

Together with Lim Kian Thiam and other investors, he has over the past 15 years, purpose built for investment income many buildings which have housed multinationals. In 1992 he teamed up with Lim Kian Thiam and Dato' Abas Carl Gunnar Bin Abdullah to build Crystal Plaza. This was followed with the building of Axis Business Park, Axis Plaza and Menara Axis, all of which formed the core portfolio of Axis-REIT upon listing. He currently serves as a member of the

Executive and Remuneration and Nomination Committees of the Board. He is also a director of a number of private companies, which are investment holding companies.

## 4 | Yin-Yong Lee Lao

*Non-Independent Non-Executive Director*

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

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

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

# Board of Directors (continued)

## 5 | Dato' Fateh Iskandar Bin

### Dato' Mohamed Mansor

*Independent Non-Executive Director*

Dato' Fateh Iskandar Fateh Iskandar Bin Dato' Mohamed Mansor, a Malaysian, was appointed Independent Non-Executive Director of Axis REIT Managers Berhad since 20 November 2006. He is also the Chairman of the Remuneration and Nomination Committee.

He graduated with a Degree in Law from the University of Queensland, Australia and holds an MBA.

In 1992 he joined Glomac Sdn Bhd as General Manager (Business Development) and two years later was appointed as Group General Manager. In 1997 he was promoted to Group Executive Director overseeing the day-to-day operations of the Group as well as the Group's policies. Currently, he is the Group Managing Director of Glomac Berhad.

Dato' Fateh is a Member of the National Council of REDHA Malaysia and Chairman of REDHA Selangor. He is also involved in politics where he serves as the Vice Head of the Kelana Jaya UMNO Division and sits on the Economic Bureau of UMNO Selangor and UMNO Malaysia. Apart from serving as a Director on the Board of several private companies he also serves as a Board Member, Audit Committee and EXCO member of Kumpulan Hartanah Selangor Berhad (a Selangor State Investment Company).

Recently he was appointed as a Board Member of Lembaga Perumahan and Hartanah Selangor, a body that governs property development and investment in the State of Selangor.

## 6 | Mohd Sharif Bin Hj Yusof

*Independent Non-Executive Director*

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

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

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

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

## 7 | George Stewart LaBrooy

*Chief Operating Officer/Executive Director*

George Stewart LaBrooy, a Malaysian, has been the Director of Axis REIT Managers Berhad since 25 October 2004 and was appointed by the Board of Directors of the Manager as Executive Director on 22 March 2005. On 18 September 2007, he was redesignated to Chief Operating Officer/Executive Director. He graduated with a Bachelor of Engineering (Hons) and a Post Graduate Diploma in Business Studies from the University of Sheffield in 1973 and 1974, respectively. Currently, he is a member of the Institute of Engineers, Malaysia.

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

In November 2003, he spearheaded a project to identify suitable properties owned by common shareholders of Axis Development Sdn Bhd to be injected into Malaysia's first REIT. This was successfully concluded on 3 August 2005 when Axis-REIT was listed on the main Board of Bursa Securities. He is a prominent speaker on the subject of REITs and has been invited to present papers at seminars in Malaysia, Singapore and Hong Kong. In addition to his duties of Executive Director, he also handles the Investor Relations, and is a Member of the Executive Committee. He is also a Member of the Technical Committee of the FMUTM and is also a Director of a number of private companies, which is involved in property development and property investment.

# Chairman's Message



“ Dear Unitholders

On behalf of the Board, I am pleased to present Axis-REIT's annual report for the financial year ended 31 December 2007. ”

## DELIVERING GROWTH

In our last Annual Report we declared our mission for 2007 was "Let's Grow" and in it we made a commitment to our Unitholders to grow our Fund through the acquisition of new properties, by improving the liquidity of the size of our Fund, our Distribution per Unit ("DPU") and our management expertise.

I am pleased to say that we have had an impressive year by fulfilling those promises.

## STRENGTHENING AXIS-REIT'S PROPERTY PORTFOLIO

Our portfolio rose from nine (9) properties at the beginning of the year to fourteen (14) as of 31 December 2007. In addition we will be completing two (2) more acquisitions which were contracted in 2007 in the 1st quarter 2008 bringing the total portfolio to sixteen (16) properties; a growth of 77%. In 2007, the Manager continued to improve the occupancy levels in the buildings coupled with strong rent reversions.

## IMPROVING OUR LIQUIDITY

The Manager has successfully placed 50 million New Units on the 14 January 2008 and these were listed on Bursa Securities on the 30 January 2008 resulting in an increase of our fund size to 255,901,000 units. The New Units were priced at RM 1.80 representing a discount of 3.22% to the five (5) day volume weighted market average price ("VWMAP") up to 11 January 2008. The proceeds from the proposed placement are to be used to pare down borrowings as well as provide Axis-REIT with sufficient headroom to make further acquisitions in the new year.

## IMPROVING OUR DPU

With the inclusion of these new yield accretive acquisitions, the Manager is pleased to announce a total DPU of 13.63 sen in 2007 up from 12.95 sen in 2006 representing an increase of 5.25%.

# Chairman's Message (continued)

## IMPROVING OUR MANAGEMENT EXPERTISE

In 2007 we welcomed Mr. T. Subramaniam to our management team and he now heads up the Asset Management and Leasing Division of the Manager. Mr. Subramaniam brings with him a wealth of experience in asset and lease management having headed a similar division at KLCC Properties Berhad for a period of ten years.

## MALAYSIAN ECONOMY TO REMAIN RESILIENT IN 2008

Despite weak export growth, the economy is likely to record a GDP growth of 6% in 2007 led by strong local demand. The Ninth Malaysia Plan being rolled out, the surprise stimulus for the property sector with the waiver of Real Property Gains Tax ("RPGT") and the Government's tourism promotions have provided support for the construction and real estate markets as well as the accommodation and restaurant sectors as anticipated. The domestic economy also benefitted from unexpected fiscal stimulus and supportive administrative measures such as wage hikes for civil servants and tax breaks.

Looking forward, Government measures remain a key to growth in 2008. Growth in construction will be supported by public investment projects in the Iskandar Development Region ("IDR"), the Northern Corridor Economic Region ("NCER") and other similar projects. Furthermore, we expect the construction and real estate sectors to benefit from tax breaks and foreign ownership liberalization.

The Government will also support private consumption by eliminating dividend income tax and allowing households to withdraw from their Employees Provident Fund (EPF) to pay their housing loans. This should inject RM 9.6 billion into the economy.

However manufacturing will be soft in 2008 but this could be offset with the boom in commodities which we have witnessed in the last quarter of 2007.

Against this backdrop is the consensus that the rates set by Bank Negara will not change in 2008 despite a probable spike in inflation.

## AXIS-REIT PRODUCES A STRONG SET OF RESULTS FOR 2007

Despite making provisions for an aborted acquisition, additional borrowing costs relating to debt raising and accruing for revaluation expenses, the Fund recorded an excellent set of results for 2007 and I am therefore pleased to announce a Final Dividend payment of 7.53 sen for the period 1 July to 31 December 2007. This represents an increase of 23.4 % over the 1<sup>st</sup> half of 2007 income distribution of 6.1 sen. Much of this increase is a result of rent reversions,

new tenants moving into the newly refurbished Wisma Kemajuan and income from the five (5) new acquisitions completed in the third and fourth quarters of 2007.

## PLANNED ENHANCEMENTS ARE COMPLETED

The work on Wisma Kemajuan was completed in August 2007 and is attracting much attention as an office destination of choice. More of this will be expanded upon in the Manager's Report.

## CHANGES TO THE BOARD

In June the Manager witnessed the departure of Chairman Dato' Mohamad Salleh Bajuri and Tuan Haji Mohd Shah bin Tan Sri Kadir from the Board. In addition our Non Independent Director Mr. Lim Kian Thiam left the board of Axis REIT Managers Berhad on 10 August 2007 to focus on his business activities in Australia. On behalf of the Board, I wish to thank them personally for their contributions over the past year.

I am also honoured to be nominated to the Board and appointed as Non Executive Independent Chairman for Axis REIT Managers Berhad. In addition I would like to welcome Encik Mohd Sharif and Mr. Yin-Yong Lee Lao to the Board. They bring with them a wealth of experience in the financial and property industries.

## IN APPRECIATION

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

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

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



YAM Tunku Dato' Seri Shahabuddin  
Bin Tunku Besar Burhanuddin  
Chairman  
21 February 2008

# Manager's Report



## THE HIGHLIGHTS FOR 2007 ARE:

- ❖ Recorded a total net income of RM 68,607,000; a rise of 59.8% year-on-year ("y-o-y") of which RM40,613,000 was unrealised gains resulting from "Fair Value" adjustments to the properties that were revalued in 2007.
- ❖ Recorded a net income distribution of RM28,064,000 representing a 5.25% increase y-o-y.
- ❖ DPU rose from 6.1 sen in the first half to 7.53 sen in the second half of the year representing an increase of 23.5%.
- ❖ Achieved a DPU of 13.63 sen for the whole year ; a 5.25% increase y-o-y.
- ❖ The Net Asset Value rose from 1.428 sen to 1.625 sen ; an increase of 13.7%.
- ❖ Added seven (7) properties to the portfolio with a market value of RM 183 Million of which five (5) were successfully completed in 2007 and one (1) in January 2008.
- ❖ Completed the first two (2) of five (5) planned enhancements of properties in the portfolio.
- ❖ Increased the total assets under management to RM 581,857,000 from RM 411,781,000 ; an increase of 41.3% y-o-y.
- ❖ Market capitalization rose to RM 380,917,000 from RM 345,913,000 ; an increase of 10.2%.
- ❖ Held the second Unitholders meeting on 7 December 2007 where approval to place out 50,000,000 New Units of Axis-REIT was obtained. The placement which was fully subscribed to in January 2008, was listed on Bursa Malaysia on 30 January 2008.

# Manager's Report (continued)

The Directors of Axis REIT Managers Berhad; the Manager of Axis Real Estate Investment Trust ("Axis-REIT" or "the Fund") have pleasure in submitting their report to the Unitholders of the Axis-REIT together with the audited financial statements for the year ended 31 December 2007.

Since the beginning of the year, the Manager successfully acquired seven (7) new properties of which five (5) were completed by 31 December 2007. The balance two (2) properties are expected to complete by the First Quarter 2008. The completion of these seven (7) acquisitions will see a significant contribution to the income of the Fund in 2008.

## PRINCIPAL ACTIVITY

Axis-REIT was established on 15 June 2005 and listed on Bursa Malaysia Securities Berhad ("Bursa Securities") on 3 August 2005. The principal activity of the Axis-REIT is to invest in a diverse portfolio of properties with the primary objective of achieving an attractive level of return from rental income and for long-term capital growth.

## Financial Review

### REVIEW OF PERFORMANCE

	As at 31 December 2007
Total Net Asset Value (RM,000)	334,652
Units in Circulation (Units)	205,901,000
Net Asset Value per Unit (RM)	1.63
Market Value per Unit (RM) as at 31 December 2007	1.85
Highest Traded Price for the year (RM)	2.28
Lowest Traded Price for the year (RM)	1.60

### RESULTS

	RM'000
Total Gross Income	46,819
Total Property Expenses	(8,639)
Net Rental Income	38,180
Interest Income	8
Changes in fair value of investment properties	40,613
Total Income	78,801
Total Non-Property Expenses	(10,197)
Net Income before taxation	68,604
Tax Expenses	3
Net income after taxation for the year	68,604
Consisting of:	
Realised income after taxation	27,994
Unrealised Income after taxation	40,613
Earnings per Unit (Realised) (sen)	13.59
Distribution per Unit (DPU) (sen)	13.63

## PROFIT DEVIATION STATEMENT

In the Prospectus dated 30 June 2005 ("Prospectus"), Axis-REIT had projected RM23.8 million of Earnings After Tax (realised) for the year ended 31 December 2007 whereas the unaudited results for the year ended 31 December 2007 were RM28.0 million.

	Actual (RM'000)	Prospectus (RM'000)	Deviation (RM'000)
<b>Gross Rental Income</b>	<b>46,819</b>	<b>34,254</b>	<b>12,565</b>
Interest Income	8	1,207	(1,199)
<b>Gross Income</b>	<b>46,827</b>	<b>35,461</b>	<b>11,366</b>
Less:-			
Property Expenses	(8,639)	(5,313)	(3,326)
Non-Property Expenses	(10,197)	(5,962)	(4,235)
<b>Total Expenses</b>	<b>(18,836)</b>	<b>(11,275)</b>	<b>(7,561)</b>
<b>Earnings before Tax (realised)</b>	<b>27,991</b>	<b>24,186</b>	<b>3,805</b>
Taxation	3	(384)	387
<b>Earnings after Tax (realised)</b>	<b>27,994</b>	<b>23,802</b>	<b>4,192</b>
<b>Deviation</b>			<b>17.6%</b>

The positive deviation of RM 4,192,000 representing 17.6% between the forecast and audited results were largely due to:-

- 1. Increase of Net Property Income from the five (5) IPO properties**  
The Fund saw the gross rental income of the five (5) original IPO properties exceed Prospectus projection by RM677,000 through positive rent reversions.
- 2. Recognition of Net Property Income of nine (9) newly acquired properties**  
The combined net property income of the nine (9) newly acquired properties after the IPO have contributed to an increase of RM8,562,000 in Net Property Income.
- 3. Reduction in Interest Income**  
There was a reduction in interest income as funds available were deployed to purchase the nine (9) newly acquired properties for cash. This resulted in a reduction in interest income by RM 1,199,000.

# Manager's Report (continued)

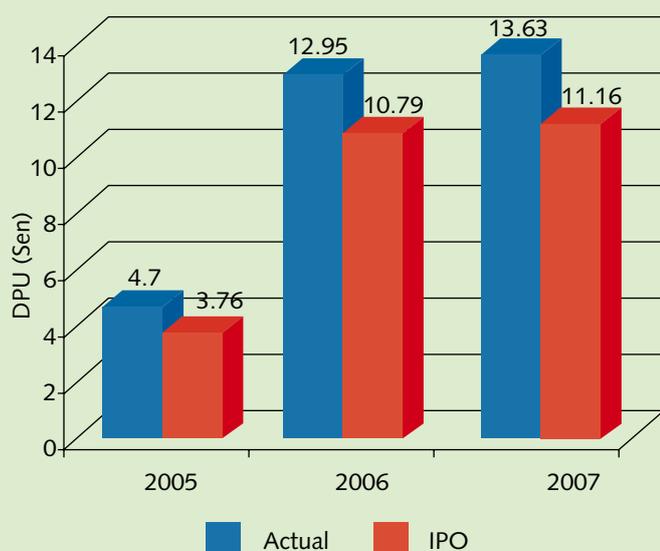
## 4. Increase in Non Property Expenses

This amounted to RM 4,235,000 and was made up from the increase in Manager's Fee (from 0.70.% p.a. to 1.0% of NAV per annum effective 1 July 2006), and revaluation fees for the properties in our portfolio to comply with current accounting standards, borrowing costs associated to debt capital raising, increase in interest expenses in meeting the financing need of Axis-REIT to acquire new properties as well as a provision for doubtful debts.

## 5. Reduction in Tax Expense

There was a reversal of RM 384,000 in Tax Expenses pursuant to the amendment of Section 61A of the Income Tax Act 2006 whereby the Fund will not incur any tax expense in the year 2007 if it distributes more than 90% of its taxable income. In addition there is an overprovision of RM 3,000 tax expense for the year 2006 which was adjusted in 2007.

### DPU EXCEEDS IPO FORECAST BY 22.1%



An Income distribution of 6.75 sen per unit totaling RM13,898,318 was paid on 28 February 2007 in respect of the second half of 2006 from 1 July 2006 to 31 December 2006.

For the six (6) months financial period ended 30 June 2007, an income distribution of 6.1 sen per unit totaling RM12,559,961 (equivalent to 99.4% of the earnings before tax [realized]) was paid on 30 August 2007.

For the second half of 2007 in respect to the six (6) months financial period ended 31 December 2007, the Manager has recommended and the Trustee approved a final income distribution of 7.53 sen, totaling RM15,504,345 which

included RM 82,360 being the balance of undistributed after tax retained earnings of 2006.

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

The total distribution for the financial year 1 January 2007 to 31 December 2007 stands at 13.63 sen equivalent to a gross yield 7.37% based on the closing price of RM 1.85 on 31 December 2007. This also represents an increase in total distribution of 5.25% over that of 2006.

The Manager expects to maintain excellent performance from its existing investment portfolio of nine (9) properties and seven (7) recently acquired properties for the year 2008.

## GEARING

### Debt Facilities

Axis-REIT has a RM 280,000,000 secured facility comprising a RM 220,000,000 Revolving Credit and a RM 60,000,000 Overdraft Facility.

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

As at 31 December 2007, Axis-REIT has drawn down RM175,000,000 of the Revolving Credit Facility and utilised RM 34,816,303 of the Overdraft Facility.

### Gearing Capacity

As at 31 December 2007, Axis-REIT had a gearing ratio (external borrowings to total assets) of 36.06% (21.39% as at 31 December 2006), and had available credit facilities of RM70,183,697. There is capacity to borrow an additional RM109,285,000 before reaching the 50% limit permitted under the SC Guidelines on REITs.

## UNITS IN ISSUE

As of 31 December 2007 the total number of units in issue of Axis-REIT is 205,901,000.

# Manager's Report (continued)

## BREAKDOWN OF UNITHOLDERS

	No. of Unitholders	% Unitholders	No. of Unitholdings	% Unitholdings
5,000 and below	720	61.75	1,495,665	0.73
5,001 to 10,000	162	13.89	1,317,800	0.64
10,001 to 50,000	135	11.59	3,461,600	1.68
50,001 to 5,000,000	91	7.80	18,332,700	8.9
5,000,001 and above	58	4.97	181,293,235	88.05
	1,166	100.00	205,901,000	100.00

## SUCCESSFUL PLACEMENT AND LISTING OF 50,000,000 NEW AXIS-REIT UNITS ON BURSA SECURITIES

On 20 July 2007 the Manager made an announcement to Bursa Securities on the extension of the proposed placement of 50,000,000 New Axis-REIT Units from 31 July 2007 till 31 January 2008, pending the completion of the six (6) new acquisitions announced on 26 July 2007. The completion of the acquisitions would result in the gearing of the Fund to exceed 40% of total assets.

On the 7 December 2007, a Unitholders meeting was convened where the approval to issue and place 50,000,000 New Axis-REIT Units was obtained.

The placement of 50 million New Axis-REIT Units were fully subscribed and have been listed on Bursa Securities on 30 January 2008. Hence, the total number of Axis-REIT Units in issue has now increased to 255,901,000.

The placement was for the purpose of reducing gearing and providing headroom for the Fund to continue to acquire new assets.

## NET ASSET VALUE ("NAV") OF AXIS-REIT

The NAV of Axis-REIT as at 31 December 2007 was RM1.63 per Unit. In line with our listing requirements, the NAV has been posted weekly with Bursa Securities and published on their website.

## DIRECTORS' BENEFITS

For the year ended 31 December 2007, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Fund or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than our Director Stephen Tew Peng Hwee who may be deemed to have derived a benefit by virtue of certain real estate agency commissions receivable by Hectares & Stratas, a real estate

practice of whom he is the Principal [as disclosed in Note 20 of the Financial Statements].

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

## MANAGER'S FEES

For the year ended 31 December 2007, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Fund or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except as disclosed in Note 10 of the financial statements.

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

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

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

For the year under review, the Manager's fee was RM3,077,064, representing 1.0% per annum of the NAV of Axis-REIT for the period 1 January 2007 to 31 December 2007. The Manager did not receive any soft commissions during the period.

## Manager's Report (continued)

The Manager is also entitled to an acquisition and disposal fee of 1% and 0.5% respectively based on the purchase and disposal consideration of the real estate assets upon the completion of the acquisition and disposal. For the period under review there were a total of five (5) acquisitions successfully completed which resulted in a fee of RM 1,158,000 being paid to the Manager.

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

### Portfolio Review

(Details of the Properties are presented in the section "Portfolio Details" on pages 24 to 27)

#### SUMMARY OF INVESTMENT PORTFOLIO

Name	Acquisition Date	Acquisition Cost (RM'000)	Enhancements up till 31/12/07 (RM'000)	Total Investment Outlay (RM'000)	Fair Value Adjustments (RM'000)	Book Value based on latest Valuation (RM'000)	% of Total Portfolio
Menara Axis	03/08/05	71,440	64	71,504	16,196	87,700	15.4%
Crystal Plaza	03/08/05	56,400	25	56,425	26,375	82,800	14.5%
Axis Business Park	03/08/05	84,600	178	84,778	13,022	97,800	17.1%
Infinite Centre	03/08/05	25,450	54	25,504	9,696	35,200	6.2%
Axis Plaza	03/08/05	22,500	0	22,500	8,200	30,700	5.4%
Wisma Kemajuan	16/12/05	29,192	3,357	32,549	13,351	45,900	8.1%
Axis North Port LC1	22/05/06	10,373	98	10,471	3,129	13,600	2.4%
Kayangan Depot	30/06/06	16,224	290	16,514	5,286	21,800	3.8%
Wisma Bintang	30/06/06	32,680	0	32,680	3,320	36,000	6.3%
Shah Alam DC 1	01/08/07	18,783	0	18,783	(283)	18,500	3.2%
Giant Hypermarket	07/09/07	38,679	0	38,679	(679)	38,000	6.7%
FCI Senai	15/11/07	12,538	0	12,538	1,362	13,900	2.4%
Nestle Office & Warehouse	16/11/07	7,352	0	7,351	149	7,500	1.3%
Nestle House	30/11/07	40,376	0	40,376	624	41,000	7.2%
<b>TOTAL</b>		<b>466,587</b>	<b>4,066</b>	<b>470,652</b>	<b>99,748</b>	<b>570,400</b>	<b>100%</b>

#### PORTFOLIO GROWTH

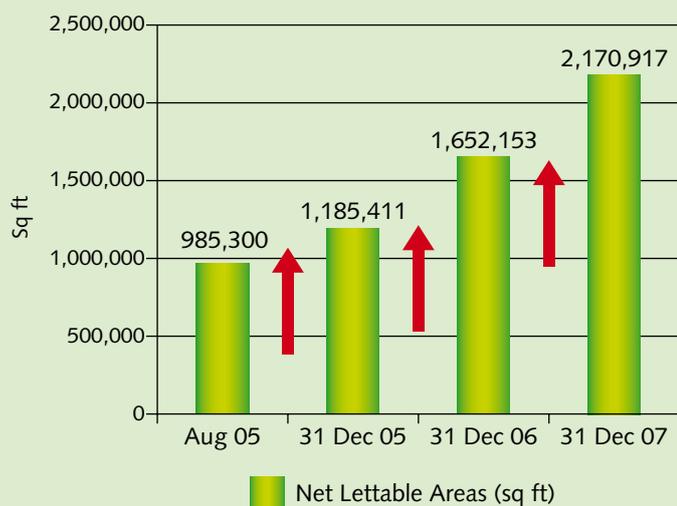
As of 31 December 2007, the total investment properties of Axis-REIT was RM 570,400,000. This represented an increase of 39.7% over 2006.



# Manager's Report (continued)

## Growth of Space Under Management

It now has 2,170,917 sq ft of space under management; a 120% increase since listing. This does not include the acquisition of the Kompakar CRC Headquarters in Petaling Jaya and the BMW Asia Technology Centre at PTP Johor.



## Growth in Property Values of RM 40,613,000 in 2007

Due to compliance with FRS 140 and SC Guidelines, each property has to undergo a comprehensive revaluation at least every three years and a desktop revaluation at the end of each financial period. In 2007 the original five (5) IPO properties namely Menara Axis, Crystal Plaza, Axis Plaza, Axis Business Park and Infinite Centre underwent a comprehensive revaluation. In addition the following properties underwent a desk top revaluation in December 2007 – Wisma Bintang, Axis North Port LC 1, Wisma Kemajuan and Kayangan Depot. This has resulted in valuations increasing by RM 40,613,000 or 21.4% over the entire portfolio in 2007. Since commencement of Axis-REIT the portfolio has recorded a favourable gain in fair value of RM99,748,000.

## Growth through Yield Accretive Acquisitions

The disciplined acquisition of high-quality yield accretive properties has been the focus of our strategy in building the portfolio of the Fund. Over the last financial year we have committed to the acquisition of seven (7) high yielding new properties worth RM 183,000,000. Of these only RM 27,000,000 is pending completion at the time of this report. This will increase our asset size to RM 635,000,000 upon completion.

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

The acquisitions were:

Property	Acquisition Cost	Date of Completion
Shah Alam DC 1	18,783,000	1 Aug 2007
Giant Hypermarket	38,697,000	7 Sep 2007
FCI Senai	12,538,000	15 Nov 2007
Nestle Office & Warehouse	7,351,000	16 Nov 2007
Nestle House	40,376,000	30 Nov 2007
Kompakar CRC HQ	37,530,000	25 Jan 2008
BMW Asia Technology Centre PTP Johor	27,483,000	1Q2008

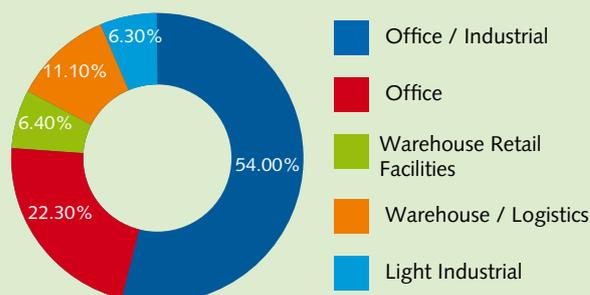
In evaluating future acquisitions the Manager will continue to focus on the following areas:

- o Location
- o Tenant strength
- o Lease structure
- o Building age and enhancement possibilities
- o Valuation
- o Occupancy
- o Capital appreciation

## PORTFOLIO DIVERSIFICATION

Axis-REIT now owns a well diversified portfolio of properties in five (5) subsectors :

### Portfolio Diversification By Type and Space Under Management

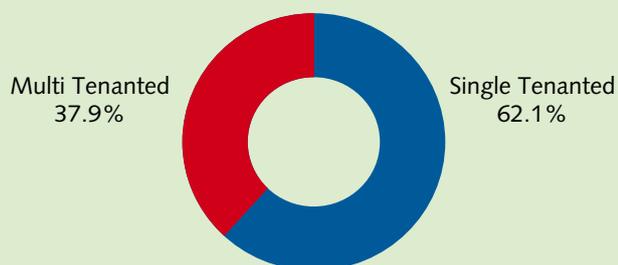


These subsectors are exposed to different growth drivers and provide diversification value to the portfolio.

In 2007, the Manager reviewed their investment strategies to include properties in the IDR in Johor by acquiring properties located in the Port of Tanjung Pelapas; (BMW Asia Technology Centre) and Senai, the southern Airport Hub; (FCI Malaysia). In addition we chose to move into the Warehouse Retail Facility sector with the acquisition of a brand new Giant Hypermarket in the NCER (Sungei Petani in Kedah).

# Manager's Report (continued)

## Well Balanced Lease Tenures with built in Growth



Tenant Type by Areas Leased

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

The long term leases have agreed increases over fixed period of the lease which provides us with a stable fund growth whereas the properties with shorter term leases allows the Fund to leverage on the improving rental market to provide positive rent reversions upon renewal.

## A well Established and Diversified Tenant Base

As of December 2007 the top ten tenants accounted for 51.4% or RM 24,084,440 of the annual income compared with 55.67% for year ending 2006. With the new acquisitions acquired in 2007, contributing to full year income in 2008, the Manager is confident that this percentage is projected to fall further in 2008 thereby reducing the risk concentration of the portfolios income profile.

## TOP TEN TENANTS AS AT 31 DECEMBER 2007



	Name Of Top Tenants	Location Of Tenants	Annual Income (RM)
1	Fuji Xerox Asia Pacific Pte Ltd	Axis Business Park	6,173,186
2	Tenaga Nasional Bhd	Crystal Plaza	3,998,394
3	Scope International (M) Sdn Bhd	Crystal Plaza / Menara Axis	2,956,437
4	Cycle & Carriage Bintang Bhd	Wisma Bintang	2,600,000
5	Zuellig Pharma Sdn Bhd	Axis Business Park	1,833,474
6	Fujifilm (Malaysia) Sdn Bhd	Menara Axis	1,578,318
7	American International Assurance (AIA)	Menara Axis	1,401,264
8	MISC Integrated Logistics Sdn Bhd	Axis North Port LC 1	1,243,465
9	CSE Automotive Technologies Sdn Bhd	Axis Plaza	1,210,152
10	Philips Malaysia Sdn Bhd	Menara Axis	1,089,747
	<b>Total</b>		<b>24,084,437</b>

# Manager's Report (continued)

## PROACTIVE ASSET MANAGEMENT

### Organic Growth through Enhancements

The Asset and Lease Management team, headed by Mr. Subramaniam, is constantly exploring ways to enhance the value of the existing portfolio.

In 2007 we embarked on the enhancement of two (2) of our properties:

- **Wisma Kemajuan**

Purchased at the end of 2005 the property underwent a through modernization in 2007. This process was completed in August 2007 at a cost of RM 3,129,000. The property (which was formerly known as Kompleks Kemajuan) was rebranded as Wisma Kemajuan to reflect a more modern and attractive office destination.

The Manager is pleased to report that since the re-launch it has successfully let out 40,762 sq ft vacant space to new tenants. We are also delighted to welcome our new tenants Gold Vois, Fossil Time Malaysia Sdn Bhd, Total Oil Malaysia Sdn Bhd & Silverlake Infrastructure and Logistics Sdn Bhd.

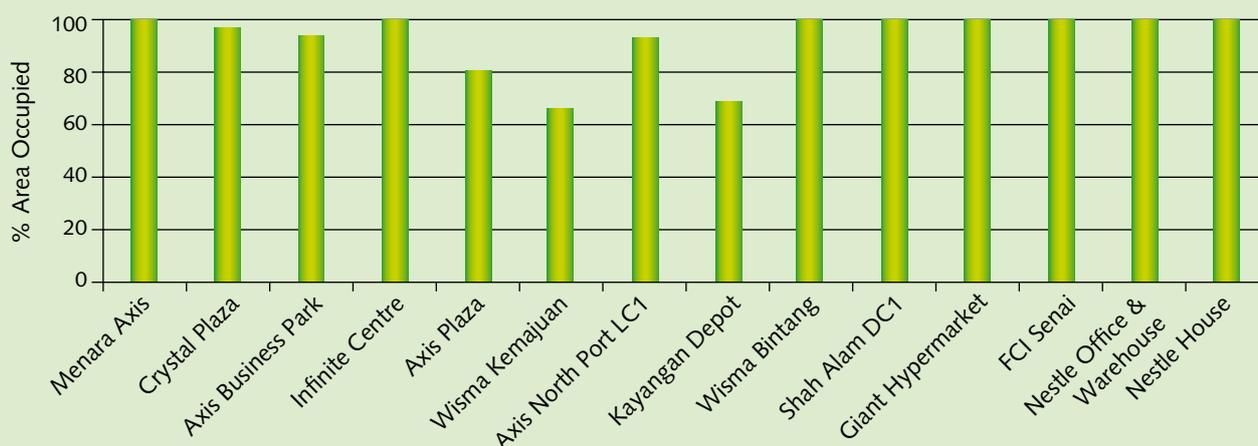
- **Kayangan Depot**

Purchased in June 2006 the property was renovated and repainted to improve the rental profile of the building. Since then we have successfully re-tenanted 68,983 sq ft with an average rent reversion of 21.6%.

The Manager started planning in 2007 to enhance Menara Axis, Crystal Plaza & Infinite Centre in 2008.

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

## OCCUPANCY AND RENT REVERSIONS



Property	Lettable Area (sq ft)	Area Occupied	% Area Occupied
Menara Axis	174,686	174,686	100.00
Crystal Plaza	203,376	203,050	99.84
Axis Business Park	341,065	332,950	97.62
Infinite Centre	147,408	147,408	100.00
Axis Plaza	118,765	96,948	81.63
Wisma Kemajuan	200,117	132,747	66.33
Axis North Port LC 1	130,000	121,155	93.20
Kayangan Depot	163,769	112,857	68.91
Wisma Bintang	172,967	172,967	100.00
Shah Alam DC 1	110,591	110,591	100.00
Giant Hypermarket	138,000	138,000	100.00
FCI Senai	136,619	136,619	100.00
Nestle Office & Warehouse	27,554	27,554	100.00
Nestle House	106,000	106,000	100.00
	2,170,917	2,013,532	92.75

## Manager's Report (continued)

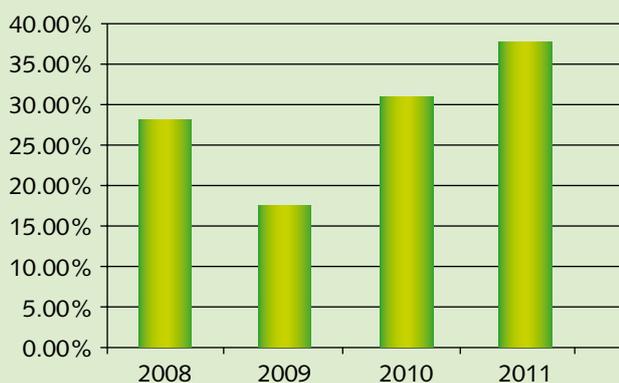
With the continuing tight supply of office space in the Petaling Jaya area and the excellent location of our properties, the Manager was able to negotiate favourable renewals of tenancies in our building portfolio with positive rent reversions. Average occupancy stood at 92.75% for the period under review but with the recent enhancements at Wisma Kemajuan and Kayangan Depot we are confident that the vacant spaces will be tenanted and this will result in an increase in occupancy in 2008.

Some of the significant renewals are:

Multi tenanted Properties	Space negotiated sq ft	Average % increase in renewal rates
Crystal Plaza	167,717	14.33%
Menara Axis	66,962	14.77%
Infinite Centre	38,001	17.9%
Axis Business Park	15,397	4.70%
Axis Plaza	32,873	21.56%
Wisma Kemajuan	59,184	10.90%
Kayangan Depot	63,000	22.73%

Over the year, the Manager successfully leased out a total 706,058 sq ft of space representing 32.5% of the total lettable space in the portfolio. This comprises new and existing tenancies.

### LEASE EXPIRY SCHEDULE



Year	Total Area (Sq Ft) to be Renewed	% of Total Space
2008	613,007	28.24%
2009	385,426	17.75%
2010	657,798	31.13%
2011	819,476	37.76%

### LONG LEASES AND DIVERSIFIED PORTFOLIO REDUCE RISK CONCENTRATION

Of the seven (7) properties acquired in 2007, six (6) featured well known Multinationals and Public Listed Companies (or their subsidiaries) as tenants with long tenancy agreements in place. This has reduced the risk concentration profile of the portfolio by reducing the renewal risks associated with shorter tenancies.

The lease profiles of the recent acquisitions are:

Property	Tenant	Term
Shah Alam DC1	Setia Corporation Sdn Bhd	2+2 years
Giant Hypermarket	GCH Retail (M) Sdn Bhd	9 +3+3 years
FCI Senai	FCI Connectors Malaysia Sdn Bhd	5+2 years
Nestle Office & Warehouse	Nestle Products Sdn Bhd	6+6 years
Nestle House	Nestle Products Sdn Bhd	2+3+3 years
Kompakar CRC HQ	Kompakar CRC Sdn Bhd	3+3 Years
BMW Asia Technology Centre PTP Johor	BMW Asia Technology Centre Sdn Bhd	5+5 years

### WISMA KEMAJUAN & KAYANGAN DEPOT OFFERS REVENUE UPSIDE

The vacant spaces in Wisma Kemajuan and Kayangan Depot were not marketed actively in 2007 as extensive enhancements were being undertaken. However, upon completion we are expecting to witness a significant reduction of these vacant areas in 2008 with the accompanying increase in revenue to the Fund.

### EXPENSE MANAGEMENT

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

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

# Manager's Report (continued)

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

Property Description	Gross Rental (RM)	Property Expenses (RM)	Net Property Income (RM)
Menara Axis	9,216,154	1,679,994	7,536,160
Crystal Plaza	8,748,086	1,254,910	7,493,176
Axis Business Park	10,759,552	1,630,976	9,128,576
Infinite Centre	3,891,502	586,162	3,305,340
Axis Plaza	2,985,738	783,518	2,202,220
Wisma Kemajuan	3,346,695	1,227,822	2,118,873
Axis North Port LC 1	1,373,465	208,235	1,165,230
Kayangan Depot	1,786,949	833,354	953,595
Wisma Bintang	2,600,000	285,953	2,314,047
Shah Alam DC 1 <sup>^</sup>	632,500	60,470	572,030
Giant Hypermarket <sup>^^</sup>	909,650	38,201	871,449
FCI Senai <sup>^^^</sup>	163,943	10,966	152,977
Nestle Office & Warehouse <sup>*</sup>	76,875	9,424	67,451
Nestle House <sup>**</sup>	328,258	28,186	300,072
	<b>46,819,367</b>	<b>8,638,171</b>	<b>38,181,196</b>

<sup>^</sup> Acquired on 01/08/2007

<sup>^^</sup> Acquired on 07/09/2007

<sup>^^^</sup> Acquired on 15/11/2007

<sup>\*</sup> Acquired on 16/11/2007

<sup>\*\*</sup> Acquired on 30/11/2007

## PROSPECTS

Given the country's well diversified economy and strong economic growth, the Malaysian property sector has been buoyant in 2007 despite the US subprime crisis. In first half of 2007 the sector recorded transactions worth RM 33.3 billion or 11.7% increase over the first half of 2006. Prospects are expected to remain positive in 2008, underpinned by the country's sustainable population growth at around 2.5%, a conducive macroeconomic environment with sustained private consumption and a flourishing tourism industry.

In 2007 the Government has taken many proactive steps to boost the property sector by introducing a series of bold measures some of the more significant were:

- Exemption of Real Property Gains Tax ("RPGT"); This was effective 1 April 2007.
- The waiver of the Foreign Investment Committee approval for the purchase of property by non-residents.

- Foreign investors are allowed to own 70% of a REIT Management Company (current 49%) while the Bumiputera shareholding remains at 30%.

All the properties in the Axis-REIT Portfolio continue to enjoy a high level of occupancy due to their strategic locations, excellent facilities and continuing tightening supply of the market. Malaysia remains one of the most competitive country for office space in both a regional and global context.

Kompleks Kemajuan and Kayangan Depot have undergone extensive enhancements in 2007 to improve the presentation of space and marketability of these properties. The buildings will see their current levels of occupancy of 66% and 69% improve as new tenants move in, positively accreting the Fund. In 2008 enhancements to Crystal Plaza, Menara Axis and Infinite Centre will commence boosting its competitiveness and securing positive rent reversions in the future.

The Manager will be stepping up the pace of acquisitions for 2008 with a view to taking advantage of the recent successful placement of 50,000,000 New Units to the Fund. It is confident that the Fund will continue to provide Unitholders with one of the highest Income Distributions per Unit in the region.

## Other Statutory Information

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

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

- that would render the value attributed to the current assets in the Axis-REIT financial statements misleading, or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of Axis-REIT misleading or inappropriate, or
- 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.

# Manager's Report (continued)

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

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

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

In the opinion of the Manager, the results of the operations of Axis-REIT for the financial period ended 31 December 2007 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial period and the date of this report.

## AUDITORS

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

## CORPORATE SOCIAL RESPONSIBILITY PROGRAMMES ("CSR")

The Manager did not undertake any CSR programmes in 2007 but spent time formulating an effective strategy moving forward. At its Board meeting held on the 7 January 2008 the Manager presented for approval a project to set up a permanent guest house for poor families who travel from outstation to treat their children at the Children's Ward of University Malaysia Medical Centre ("UMMC") in Petaling Jaya.

The Board requested that a full proposal be presented for approval at the next Board Meeting.

## DIRECTORS' TRAINING

At the Board Meeting held on the 7 January 2008 all the Directors of the Manager have confirmed that they have attended the required Directors' Training for the year 2007.

Newly appointed Director Mr Yin-Yong Lee Lao has also attended and completed the Mandatory Accreditation Program ("MAP") which was held on the 4th and 5th December 2007.

This concludes the Managers Report.

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



Stephen Tew Peng Hwee  
Executive Director – Business Development



George Stewart LaBrooy  
Chief Operating Officer/Executive Director

Kuala Lumpur  
Date: 21 February 2008

# Property Portfolio



# Property Portfolio

## Petaling Jaya, Selangor



1. Wisma Kemajuan



2. Infinite Centre



5. Menara Axis



3. Axis Business Park



4. Nestle House



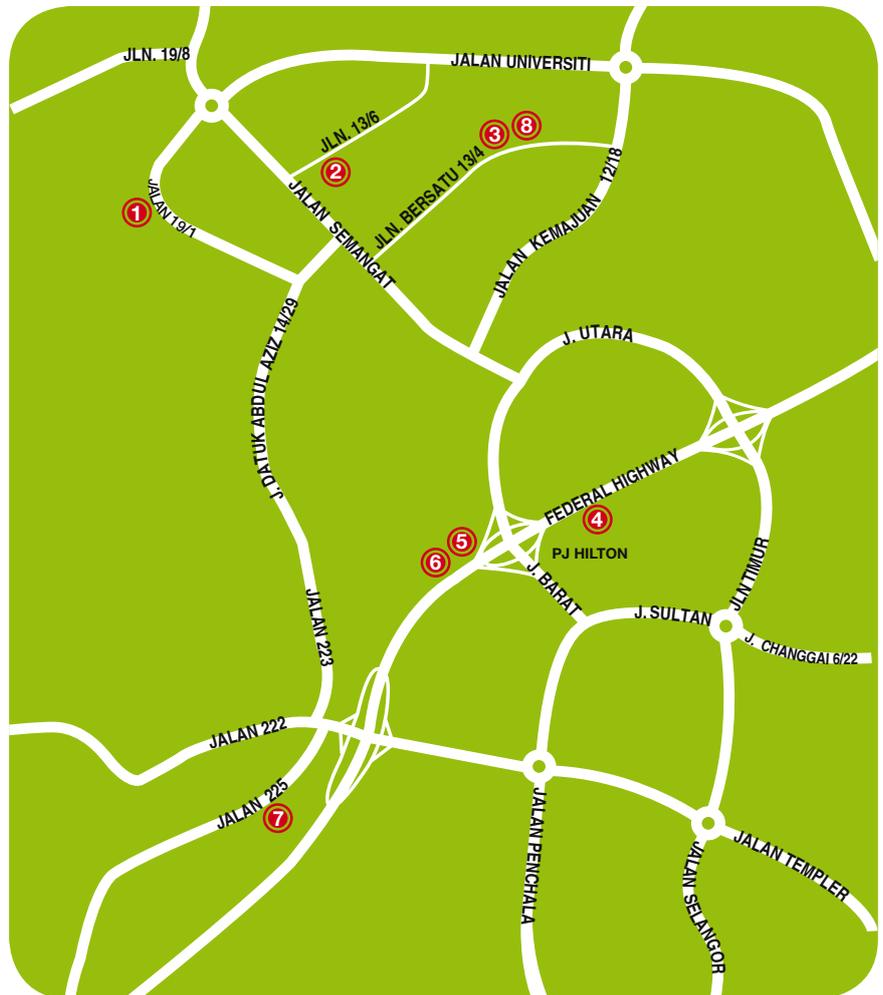
6. Crystal Plaza



7. Wisma Bintang



8. Kompakar CRC HQ



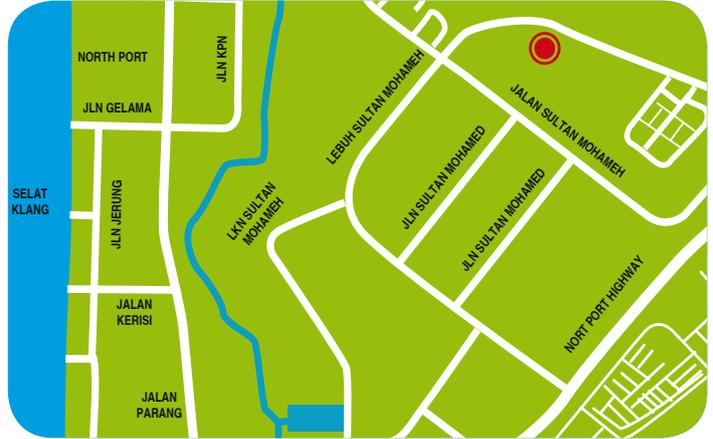


# Property Portfolio (continued)

## Port Klang, Selangor



Axis North Port LC 1



## Sg. Petani, Kedah



Giant Hypermarket

# Property Portfolio (continued)

## Senai, Johor

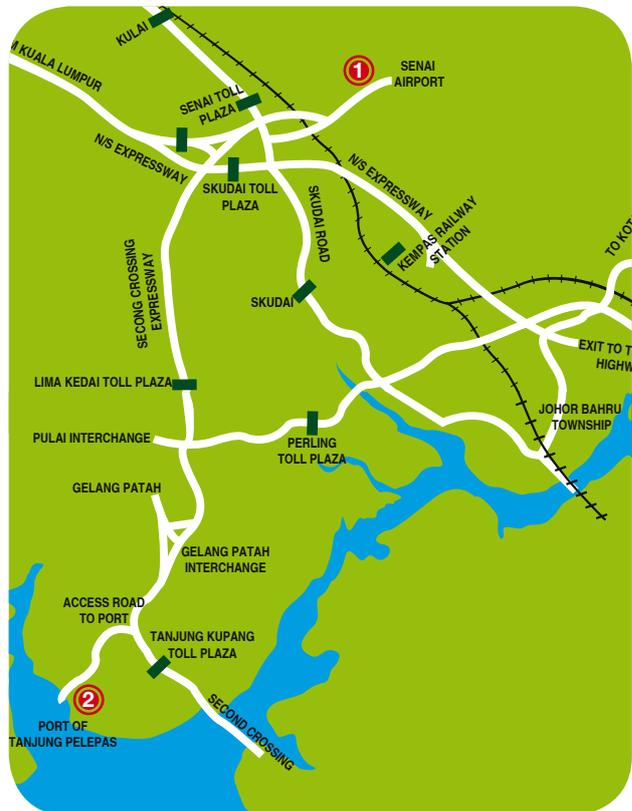


1. FCI Senai

## Port of Tanjung Pelepas, Johor



2. BMW Asia Technology Centre PTP Johor



# Portfolio Details

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-07	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
1 Menara Axis	3/8/2005	71,400	71,504	87,700	174,025
2 Crystal Plaza	3/8/2005	56,400	56,425	82,800	200,970
3 Axis Business Park	3/8/2005	84,600	84,778	97,800	340,970
4 Infinite Centre	3/8/2005	25,450	25,504	35,200	149,888
5 Axis Plaza	3/8/2005	22,500	22,500	30,700	118,765
6 Wisma Kemajuan	16/12/2005	29,000	32,549	45,900	201,972
7 Axis North Port LC 1	22/5/2006	10,300	10,471	13,600	130,000
8 Kayangan Depot	30/6/2006	16,100	16,514	21,800	162,206

## Portfolio Details (continued)

Address	Gross Revenue for the year ended 31-12-07	Occupancy Rate as at 31-12-07	Major Tenants
No. 2, Jalan 51A/223, 46100 Petaling Jaya, Selangor.	9,216,154	100%	Fujifilm (M) Sdn Bhd American International Assurance Co Ltd Sportathlon (M) Sdn Bhd Philips Malaysia Sdn Bhd DHL Asia Pacific Shared Services Sdn Bhd
No. 4, Jalan 51A/223, 46100 Petaling Jaya, Selangor.	8,748,086	99%	Tenaga Nasional Bhd Scope International (M) Sdn Bhd Cosmopoint Sdn Bhd Asiaworks Training Sdn Bhd
No. 10, Jalan Bersatu 13/4, 46200 Petaling Jaya, Selangor.	10,759,552	97%	Fuji Xerox Asia Pacific Pte Ltd Zuellig Pharma Sdn Bhd Honeywell Engineering Sdn Bhd Johnson & Johnson Sdn Bhd
Lot 1, Jalan 13/6, 46200 Petaling Jaya, Selangor.	3,891,502	100%	Pharmaniaga Marketing Sdn Bhd Konica Minolta Business Solutions (M) Sdn Bhd FJ Benjamin (M) Sdn Bhd C Melchers Gmbh & Co Crystal Edge Sdn Bhd
Lot 5, Jalan Penyair U1/44, Off Jalan Glenmarie, Temasya Industrial Park, Batu Tiga, 40150 Shah Alam, Selangor.	2,985,738	81%	Ricoh (Malaysia) Sdn Bhd CSE Automotive Technologies Sdn Bhd Electrolux Commercial Products Sdn Bhd City-Link Express (M) Sdn Bhd EMS Asia Group Sdn Bhd
No. 2, Jalan 19/1B, 46300 Petaling Jaya Selangor.	3,346,695	66%	Goucera Marketing Sdn Bhd Hong Leong Marketing Co Bhd EP2M Services Sdn Bhd Fossil Times Malaysia Sdn Bhd Silverlake Infrastrusture & Logistics Sdn Bhd
Lot 24, Jalan Lebu 1, Kawasan Perindustrian Sultan Sulaiman North Port, Port Klang.	1,373,465	93%	MISC Integrated Logistics Sdn Bhd
No. 3, Jalan 15/6, Section 15, 40200 Shah Alam, Selangor.	1,786,949	68%	Courts Mammoth Sdn Bhd Naza Kia Sdn Bhd Nineteen-O-One Sdn Bhd

# Portfolio Details

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-07	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
9 Wisma Bintang	30/6/2006	32,500	32,680	36,000	Lot 13A-65, 816 Lot 13B-107, 151
10 Axis Shah Alam DC1	1/8/2007	18,500	18,783	18,500	120,019
11 Giant Hypermarket	7/9/2007	38,000	38,679	38,000	138,000
12 FCI Senai	15/11/2007	12,300	12,538	13,900	136,619
13 Nestle Office & Warehouse	16/11/2007	7,200	7,351	7,500	Office-19, 288 W/hse-8 266
14 Nestle House	30/11/2007	39,800	40,376	41,000	106,130

## PROPERTIES TO BE COMPLETED IN 2008

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
1 Kompakar CRC HQ	25/1/2008	37,000	37,530,542	38,000	9,745
2 BMW Asia Technology Centre PTP Johor	1Q 2008	27,000	to be advised	27,100	16,457

## Portfolio Details (continued)

Address	Gross Revenue for the year ended 31-12-07	Occupancy Rate as at 31-12-07	Major Tenants
Lot 13A & 13B, Jalan 225, Section 51A 46100 Petaling Jaya, Selangor.	2,600,000	100%	Cycle & Carriage Bintang Berhad
Lots 2-22,2-24,2-26,2-28, Jalan SU 6A Taman Perindustrian Subang, (Lion Industrial Park), Section 22, 40300 Shah Alam, Selangor.	632,500	100%	Setia Corporation Sdn Bhd
Jalan Lencongan Barat, 08000 Sungei Petani, Kedah.	909,650	100%	GCH Retail (Malaysia) Sdn Bhd
PLO 205, Jalan Cyber 14, Senai IV Industrial Area, Johor Bahru.	163,943	100%	FCI Connectors Malaysia Sdn Bhd
Lot 14, Jalan Delima 1/1, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor.	76,875	100%	Nestle Products Sdn Bhd
No. 4 Lorong Persiaran Barat, 46200 Petaling Jaya, Selangor.	328,258	100%	Nestle Products Sdn Bhd

Address	Annualised Gross Revenue	Occupancy Rate as at 31-12-07	Major Tenants
No. 12 Jalan Bersatu 13/4, Section 13, 46200 Petaling Jaya, Selangor.	3,210,032	100%	Kompakar CRC Sdn Bhd
Lot D21, Jalan Tanjung A/3, Port of Tanjung Pelepas, Johor	3,024,000	100%	BMW Asia Technology Centre Sdn Bhd

# Enhancements

As part of its strategy to add value to its portfolio, the Manager has embarked on a program of enhancements to add value to its acquired properties. The images below show how careful planning can transform a property thereby enabling the Manager to negotiate better leases at higher rates together with attracting high profile companies as tenants.

## WISMA KEMAJUAN (Formerly known as Kompleks Kemajuan)

### Before Enhancement



*Old drop off and driveway*

### After Enhancement



*Changes to the entrance and drop off area*



*Old looking lift lobbies*



*Modern and vibrant designs move the building up market*



*Old tired toilets*



*Modern functional designs*

# Enhancements (continued)

## KAYANGAN DEPOT

**Before Enhancement**



*Tired facade with peeling paint*

**After Enhancement**



*Refurbished exterior*



*Bright new colours*



*Refurbished car parks for tenants*



*Upgraded docking bays for containers*

# Enhancements (continued)

## PLANNED ENHANCEMENTS FOR 2008

The Manager will undertake to enhance the following properties in 2008:

1. Infinite Centre
2. Crystal Plaza
3. Menara Axis

The reasons for the enhancements are:

- Infinite Centre; This 25 year old property is well built but the lobbies, lifts, M&E systems & toilets are in need of refurbishment.
- Crystal Plaza; Rising competition in the area requires the building to be given a modern facelift to keep the tenants in place and keep rental growth on target.
- Menara Axis; The need for additional vertical transport (2 additional lifts), external repainting and a power upgrade is on the cards.

### INFINITE CENTRE

Before Enhancement



Artist Impression of Planned Enhancement



### CRYSTAL PLAZA

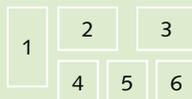
Before Enhancement



Artist Impression of Planned Enhancement



# The Axis-REIT Team



## 1 | **George Stewart LaBrooy** *Chief Operating Officer/ Executive Director*

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

He is jointly responsible for the Business Development Portfolio together with Executive Director Stephen Tew where the acquisition strategies are defined and executed. He is also responsible for the Investor Relations Portfolio.

Mr. LaBrooy has been a spokesperson for the Malaysian REIT Industry since listing and has been frequently invited to speak at several prominent regional and local conferences on Property and REITs.

## 2 | **Lim Yoon Peng** *Chief Financial Officer*

Lim Yoon Peng joined Axis-REIT Managers Berhad as its Chief Financial Officer in May 2005. He is responsible for the finance and risk management functions including business and investment strategies, regulatory compliance, acquisition analysis as well as capital management. In addition, he also assists Mr. LaBrooy in Investor Relations, which includes the regular updating and briefing to fund managers, research analysts and investors on the development of Axis-REIT.

He has over 30 years of extensive financial management and accounting experience and has held senior positions in various multinational companies from UK, Australia and Malaysia. Prior to joining the Manager, Mr. Lim spent four years as the Financial Controller cum Company Secretary of Victoria Investments & Properties Pty Ltd; a group of companies involved in property investment and development in Melbourne, Australia.

Since 2005, Mr. Lim has attended several real estate master classes and REIT seminars and workshops including being invited as a speaker on a number of international REIT conferences. He has also contributed a series of articles on the development of Malaysian REITs in several accountancy and other trade journals.

Mr. Lim is a Fellow Member of The Chartered Association of Certified Accountants, UK and a Member of the Malaysian Institute of Accountants and National Institute of Accountants, Australia. In September 2007, he was featured by ACCA Malaysia as one of the 50 Malaysian CFOs holding strategic position in a leading industry in Malaysia.

## The Axis-REIT Team (continued)

### 3 | T. Subramaniam *Asset & Lease Manager*

T. Subramaniam was appointed the Asset & Lease Manager of Axis REIT Managers Berhad on 1 March 2007. He is an engineer by training and holds a Masters degree in Marketing, from the University of Newcastle, Australia. He is responsible for overseeing the management, leasing and the implementation of organic growth strategies to enhance the performance of the Axis-REIT property portfolio.

Prior to joining the Manager, he was a Senior Manager with KLCC Properties Berhad, heading the Leasing and Tenancy management department, responsible for the Petronas Twin Towers, Komplek Dayabumi and other properties within the group. His 28 years of comprehensive working experience encompasses property and facilities management, as well as project management and the marketing and leasing of properties. During the span of his career, he has also served in various management positions, with Jones Lang Wooten and Rahim & Co in Kuala Lumpur, Vigers International in Indonesia and Tradium Holdings in Singapore.

### 4 | Leong Kit May *Accountant*

Leong Kit May was appointed Accountant of Axis REIT Managers Berhad on 18 September 2006. She graduated with a Bachelor of Business (Accountancy) from RMIT, Australia in 1997 and is a Member of the Malaysian Institute of Accountants and Certified Practising Accountants of Australia. She oversees the entire accounting department and is responsible for the preparation of monthly and statutory financial statements. She also assists the Chief Financial Officer in corporate finance and regulatory compliance matters.

Prior to joining the Manager she was the Accountant of UOA Asset Management Sdn Bhd (the Manager of UOA REIT) since December 2005. She was seconded from UOA Holdings Sdn Bhd where she had worked for the UOA Group since 2001. Preceding that she was with Ernst & Young where she gained her audit and accounting skills.

### 5 | Selina Khor *Property Manager*

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

She is responsible for the management of all the properties in Axis-REIT which includes the building and maintenance management as well as the fit out projects and enhancements. She works closely with Mr. T. Subramaniam on the tenant leasing and care and with the Chief Operating Officer/ Executive Director on matters on valuation regarding existing and new properties.

### 6 | Jackie Law *Marketing and Leasing Executive*

Jackie Law Chong Lian was appointed as Marketing and Leasing Executive on 1 February 2007. Her appointment was to strengthen the division in Axis-REIT Managers Bhd headed by Mr. T. Subramaniam. Prior to this she served in a similar function in Axis Management Sdn Bhd since May 2005. Her transfer effectively brings the Asset and Leasing Management function under direct control of the Manager.

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

Jackie has a Diploma in Business Administration from the Malaysian Institute of Training and Development and has served in several administrative functions in the Axis Group since 1994.

# Corporate Governance

In its capacity as the Manager of Axis-REIT, Axis REIT Managers Berhad recognises that an effective corporate governance culture is critical to the performance of the Manager and consequently the success of Axis-REIT.

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

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

## THE MANAGER OF AXIS-REIT

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

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

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

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

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

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

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

## BOARD OF DIRECTORS

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

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

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

# Corporate Governance (continued)

## BOARD COMPOSITION

### Board of Directors and Meeting Attendance

Directors	Designation	Attendance (No. of meetings held : 4)	Remarks
Dato' Mohamed Salleh Bajuri	Independent Non-Executive Chairman	2/2	Resigned w.e.f. 14 June 2007
Tuan Haji Mohamed Shah Bin Tan Sri Kadir	Independent Non-Executive Director	2/2	Resigned w.e.f. 14 June 2007
Lim Kian Thiam	Non-Independent Non-Executive Director	3/3	Resigned w.e.f. 10 August 2007
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Independent Non-Executive Chairman	1/1	Appointed as Director w.e.f. 10 August 2007 and subsequently appointed as Chairman of Board w.e.f. 18 September 2007
Dato' Abas Carl Gunnar Bin Abdullah	Executive Deputy Chairman	4/4	Re-designated as Executive Deputy Chairman w.e.f. 18 September 2007
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Executive Director	4/4	Re-designated as Executive Director w.e.f. 18 September 2007
George Stewart LaBrooy	Executive Director/Chief Operating Officer	4/4	Appointed as Chief Operating Officer w.e.f. 18 September 2007
Dato' Fateh Iskandar Bin Dato' Mohamed Mansor	Independent Non-Executive Director	3/4	No Change
Mohd Sharif Bin Hj Yusof	Independent Non-Executive Director	1/1	Appointed w.e.f. 10 August 2007
Yin-Yong Lee Lao	Non-Independent Non-Executive Director	1/1	Appointed w.e.f. 23 October 2007

### Members of the Audit Committee and Meeting Attendance

Audit Committee Members	Designation	Attendance (No. of meetings held : 3)	Remarks
Dato' Mohamed Salleh Bajuri	Chairman	2/2	Resigned w.e.f. 14 June 2007
Tuan Haji Mohamed Shah Bin Tan Sri Kadir	Member	2/2	Resigned w.e.f. 14 June 2007
Lim Kian Thiam	Member	2/2	Resigned w.e.f. 10 August 2007
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Chairman	1/1	Appointed w.e.f. 23 October 2007
Mohd Sharif Bin Hj Yusof	Member	1/1	Appointed w.e.f. 23 October 2007
Yin-Yong Lee Lao	Member	1/1	Appointed w.e.f. 23 October 2007

# Corporate Governance (continued)

## Members of the Remuneration and Nomination Committee and Meeting Attendance

Remuneration & Nomination Committee Members	Designation	Attendance (No. of meetings held : 2)	Remarks
Dato' Mohamed Salleh Bajuri	Chairman	1/1	Resigned w.e.f. 14 June 2007
Dato' Abas Carl Gunnar Bin Abdullah	Member	2/2	Appointed Chairman w.e.f. 18 September 2007 but re-designated as Member w.e.f. 23 October 2007
Dato' Fateh Iskandar Bin Dato' Mohamed Mansor	Chairman	2/2	Previously has been a Member but appointed Chairman w.e.f. 23 October 2007
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Member	1/1	Appointed w.e.f. 18 September 2007

As of 31 December 2007 the Board currently comprises seven (7) members, three (3) of whom are independent directors in compliance with the SC REIT Guidelines.

The following principles guide the Board composition:

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

The composition of the Board is reviewed annually to ensure that it has the best mix of expertise and experience.

During the year 2007, the Board has met for a total of four (4) times. The most recent meeting was held on 7 January 2008 to approve the Unaudited Financial Accounts and the Income Distribution for the Financial Year Ended 2007.

### CHAIRMAN AND CHIEF OPERATING OFFICER/ EXECUTIVE DIRECTOR

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

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

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

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

### BOARD REMUNERATION

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

### COMMITTEES

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

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

#### The Executive Committee

The Executive Committee operates under the delegated authority of the Board and is represented by Executive Directors and the Chief Operating Officer/Executive Director. The following are the Executive Committee Members during 2007:

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

# Corporate Governance (continued)

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

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

The Executive Committee has met formally a total of ten (10) times in 2007. However there have been several informal meetings held between members of the Committee during the period.

## Audit Committee

The Audit Committee comprises three (3) members two of whom (including the Chairman) are Independent Non-Executive Directors of the Board.

The composition of the Committee as at 31 December 2007 is:

- YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin  
*Independent Non-Executive Chairman*
- Mohd Sharif Bin Hj Yusof  
*Independent Non-Executive Director*
- Yin-Yong Lee Lao  
*Non-Independent Non-Executive Director*

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

The Audit Committee's responsibilities also include:

- Reviewing external audit reports to ensure that where deficiencies in internal control has been identified, appropriate and prompt remedial action is taken by management;
- Monitoring legislation regulated by Securities Laws (as defined in section 2(1) of the SCA), the SC Guidelines on REITs, the Listing Requirements of Bursa Securities, the Rules of the Depository and taxation laws and rulings;

- Reviewing Internal Audit reports pertaining to risk management, the operational manual compliance and internal controls ensuring that changes recommended and agreed on are promptly implemented by the management;
- Reviewing the statutory financial statements and audit report for quarterly, half yearly and annual reports and reporting to the Board and,
- Monitoring the procedures established for related party transactions to ensure that compliance is strictly adhered to as laid out in the Securities Guidelines for REITs and the Deed.

The Audit Committee met three (3) times in 2007 and was briefed by the external auditors on two (2) occasions.

## The Remuneration and Nomination Committee

The Remuneration and Nomination Committee was appointed by the Board on 21 November 2005. The composition of the committee as of 31 December 2007 is:

- Dato' Fateh Iskandar Bin Dato' Mohamed Mansor  
*Independent Non-Executive Chairman*
- Dato' Abas Carl Gunnar Bin Abdullah  
*Non Independent Executive Deputy Chairman*
- Stephen Tew Peng Hwee  
*Non Independent Executive Director*

The responsibilities of the Committee are:

- To establish and recommend to the Board the policy framework in determining the remuneration of members of the Board, the Executive Director, members of executive management and to review changes to the remuneration policy from time to time, so as to ensure that the Company attracts and retains individuals of the highest caliber.
- To recommend to the Board, candidates for directorships proposed by and other board members and/or from senior management.
- To recommend to the Board, any director(s) to fill seats on Board Committees.
- To recommend to the Board for the continuation (or not) in service of the Executive Director(s) and Directors who are due for retirement by rotation.
- To determine appropriate training for Directors and review the fulfillment of such training.

# Corporate Governance (continued)

## TRADING IN AXIS-REIT UNITS

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

- During the period commencing one month before the public announcement of Axis-REIT's quarterly results up to the date of announcement and;
- At any time the Manager is in possession of price sensitive information.

## RISK ASSESMENT AND MANAGEMENT OF BUSINESS RISK

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

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

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

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

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

## DEALINGS WITH CONFLICTS OF INTEREST

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

- The Manager will be a dedicated Manager of Axis-

REIT and will not manage any other real estate investment trust or be involved in any other real property business;

- All Executive Officers will be employed by the Manager;
- Any related party transactions must be duly disclosed by the related parties to the Audit Committee and the Board;
- The Board shall ensure 1/3 of its members are Independent Directors;
- In circumstances where any directors or officers of the Manager may have a direct or indirect interest in any related party transactions they will abstain from voting at any Board meeting and will require Trustee's approval prior to entering into any agreement.

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

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

## DEALINGS WITH RELATED PARTY TRANSACTIONS

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

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

# Corporate Governance (continued)

Related party transactions shall require the Trustee to ensure that such transactions are at arm's length in accordance with all applicable requirements of the Guidelines on REITs. Further the Trustee, as Trustee for Axis-REIT, has the ultimate discretion under the Fund Deed to decide whether or not to enter into a transaction involving a related party of the Manager. If the Trustee is to sign any contract with a related party of the Trustee or the Manager, the Trustee will review the contract documentation to ensure it complies with the requirements relating to related party transactions in the Guidelines for REITs and provisions as described in the Deed, and any future revisions of the said guidelines and provisions.

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

## COMMUNICATION WITH UNITHOLDERS

The Listing Requirements of Bursa Securities require that a listed entity discloses to the market matters that could have a material effect on the price of the entity's securities.

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

The Manager has also conducted regular briefings for analysts and fund managers, as well as the media. A total of four (4) briefings were held in the period under review. At these briefings the Manager presents the latest acquisitions of Axis-REIT, the quarterly, half yearly and annual results, as well as discusses the business outlook of the industry. The Manager has also actively participated in various seminars on REITs in Malaysia, Hong Kong and Singapore further advancing the understanding of the asset class.

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

## OTHER INFORMATION

### Relationship

There are no family relationships among the Directors and/or substantial Unitholders except for Yin-Yong Lee Lao, a Non-Independent Non-Executive Director, who is the brother of Alex Lee Lao, a substantial Unitholder and Alternate Director of Dato' Abas Carl Gunnar Bin Abdullah.

### Conflict of Interest

None of the Directors have any conflict of interest with Axis-REIT.

### Conviction for Offences

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

# Investors Relations

*"I am really impressed by the effectiveness of the management and the willingness of the management to communicate with the fundholders."*

*Mr. Eng Guo Miao - Unitholder (Email received on 4 Jan 2008)*

At Axis-REIT we take pride in maintaining an excellent relationship with our Unitholders. Through our website [www.axis-reit.com.my](http://www.axis-reit.com.my) and e-mail alerts we communicate effectively with the investing public in a timely and professional manner. During the year we have held four (4) briefings for Unitholders and Fund Managers where we had an opportunity to uphold our strong culture of transparent disclosure and listen to their views and concerns.

In addition, we take calls and e-mails from investors and hold regular analysts and press briefings that coincide with our quarterly result announcements.

We will continue to generate awareness with the general public through our active participation in local and regional seminars.

## CONTACT INFORMATION

To find out more about Axis-REIT please contact:

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Chief Operating Officer/ Executive Director  
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Fax : +603 7957 6881

## UNIT REGISTRAR

Symphony Share Registrars Sdn Bhd  
Level 26, Menara Multi-Purpose  
Capital Square  
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Tel : +603 2721 2222  
Fax : +603 2721 2530

## BURSA SECURITIES INVESTOR RELATIONS

E mail : enquiries@bursamalaysia.com  
Tel : +603 2034 7000  
Fax : +603 2732 0069

## PROPOSED FINANCIAL CALENDAR FOR 2008

### January 2008

- Announcement of Unaudited Results for FY 07
- Book Closure date to determine entitlement to 2H07 distribution and special distribution from 1 Jan – 18 Jan 2008
- Announcement of the successful place of 50,000,000 New Units of Axis-REIT
- Announcement of the settlement of the placement
- Listing of the 50,000,000 New Units of Axis-REIT on Bursa Securities

### February 2008

- Payment of the 2H07 distribution and special distribution
- Release of the 2007 Annual Report

### May 2008

- Announcement of the Unaudited 1Q08 results

### August 2008

- Announcement of the Unaudited 2Q08 results
- Announcement of the Interim Income Distribution to Unitholders for the 6 months ending 30 June 2008
- Book Closure date to determine entitlement to 1H08 distribution
- Payment of the 1H08 distribution
- Release of the 2008 Half Year Report

### November 2008

- Announcement of the Unaudited 3Q08 results

### January 2009

- Announcement of Unaudited Results for FY 08
- Book Closure date to determine entitlement to 2H08 distribution

### February 2009

- Payment of the 2H08 distribution
- Release of the 2008 Annual Report

# Frequently Asked Questions (FAQ's)

## 1. How often does Axis-REIT make any income distribution?

Semi annually. Income distributions are payable no later than 28 February (for final year end distribution) and 31 August (for interim half year) each year. However, in certain circumstances such as the issuance of New Units by Axis-REIT during the year, it may be necessary to make a special income distribution at different periods in order to attribute income distribution to existing Unitholders to avoid any income dilution from the enlarged Unitholders' capital.

## 2. How is this income distribution paid?

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

## 3. Are there different types of income distribution?

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

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

## 4. What is the tax treatment of Unitholders?

Pursuant to the amended Section 109D (2) of the Income Tax Act, 1967 under the Finance Act 2006 which was gazetted on 31 December 2006, the following withholding tax rates would be applicable on distribution of income which is tax exempt at Axis-REIT level:

### Resident Unitholder:

- Resident company : Tax flow through; thus no withholding tax
- Unitholder other than a Resident Company : Withholding tax at 15%

### Non-Resident Unitholder:

- Non-resident company : Withholding tax at 27% for 2007 and 26% for 2008
- Non-resident institutional investor : Withholding tax at 20%
- Non-resident other than company and Institutional investors : Withholding tax at 15%

## 5. How do I calculate my distribution?

For the financial year ended 31 December 2007, the total distribution was 13.63 sen per unit (of which 13.59 sen per unit is taxable and 0.04 sen per unit which has been subject to tax at REIT level is tax exempt in the hands of unitholders).

Type of Unitholder	Assumption: 10,000 Axis-REIT units	
	Gross distribution	Net distribution to unitholders after deduction of withholding tax
Resident corporate	1,363.00	1,363.00*
Resident individual/institutional	1,363.00	1,159.15
Foreign corporate	1,363.00	1,003.56
Foreign institution	1,363.00	1,091.20
Foreign individual	1,363.00	1,159.15

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

## 6. What is my Net Distribution Yield for 2007?

Type of Unitholder	Net Distribution based on IPO price of RM1.25	Net distribution based on closing price of RM1.85 on 31 December 2007
Resident corporate	10.90%	7.37%
Resident individual/institutional	9.27%	6.27%
Foreign corporate	8.03%	5.42%
Foreign institution	8.73%	5.90%
Foreign individual	9.27%	6.27%

## 7. Where can I view the Trust Deed of Axis-REIT?

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

## Frequently Asked Questions (FAQ's) (continued)

**8. Where are the total numbers of Axis-REIT Units currently in issue?**

A total of 255,901,000 Units are in circulation as at 30 January 2008.

**9. When 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 accepted by the SC. The issue of Units are to finance acquisitions for Axis-REIT or to balance the debt-equity matrix of the Fund. The prior approval of the SC and the Trustee are required for any increase in the size of the REIT through the creation of further Units. The prior approval of the Unitholders by way of ordinary resolution or otherwise will also be required for the creation of further Units where stipulated in the Deed or under the applicable laws and requirements.

**10. What are my rights as a Unitholder?**

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

**11. How can the Trust Deed be amended?**

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

**12. Under what circumstances can a Meeting of Unitholders be called?**

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

Any decision to be made by resolution of Unitholder shall be made by ordinary resolution, unless a special resolution is required by the applicable laws and requirements and/or the Deed.

At least 14 days' notice of every meeting (other than a meeting convened to pass a special resolution, which requires at least 21 days' notice) shall be given to the Unitholders in the manner provided in the Deed. The quorum at a meeting shall be as follows:

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

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

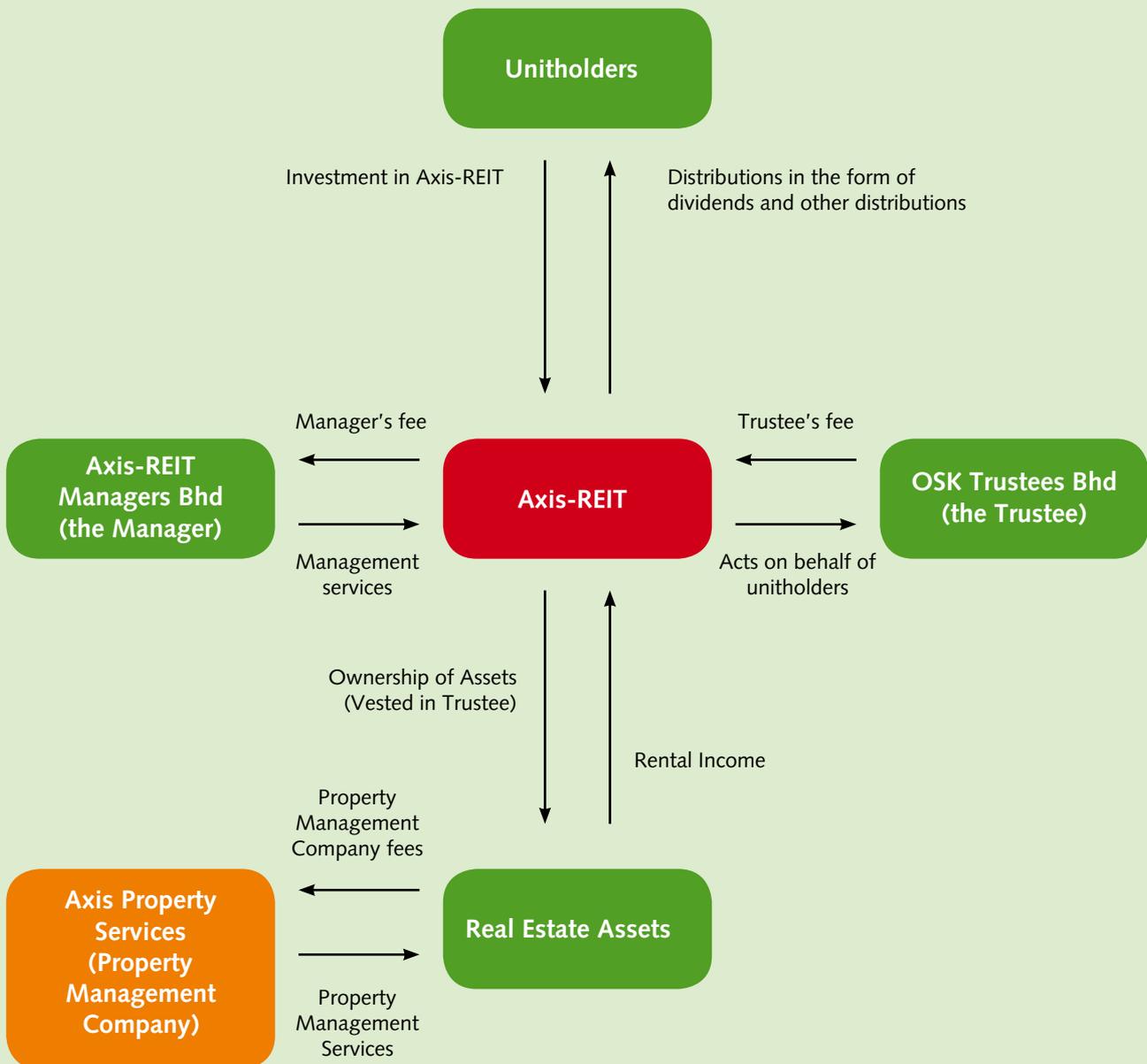
- a) it is required by the Deed or by law that the question be decided by a majority which is to be measured by a percentage of the votes of those present; or
- b) it is demanded either before or immediately after any question is put to a show of hands by Unitholders present, holding (or representing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

**13. Can the Manager vote at Unitholders' Meetings?**

No. Neither the Manager nor its related corporations or associated persons (as defined in the Deed) shall be entitled to vote in respect of any matter and shall not be counted in a quorum, unless otherwise permitted by the SC.

# Frequently Asked Questions (FAQ's) (continued)

## Axis-REIT Structure



## PROPERTY MARKET OVERVIEW 2007 – KLANG VALLEY

### 1.0 PURPOSE BUILT OFFICES

#### 1.1 Market Overview

A number of significant events marked 2007 in the office subsector, in terms of both rents and major sales. The year started with the anticipation that rents and values would rise because of the apparent shortage of space in the market for good Grade A buildings, but it was not until late into the second half of 2007 that the market saw a breakthrough in the prices of office space above RM700 per sq ft with the sale of the Icon West Wing to KFH.

There has been a gradual increase in occupancy for the last 3 years as the post-Asian financial crisis freeze on supply worked its way into the market. Rents have risen as a result but of greater significance is the chase by funds for good commercial building investments.

By the end of the year, prices had surpassed the RM1,000 per sq ft mark and yields dropped to below 5%, albeit our opinion is that one transaction below 5% is not indicative of the market.

2007 nevertheless can be said to be the turning point in an otherwise slow office subsector, and we see this positive trend continuing into 2008, with rents going past RM7 per sq ft, prices past RM1,200, yields edging below 6%, occupancies continuing to rise and land prices for commercial development going past RM2,000 per sq ft.

Interest from foreign institutional funds in this subsector has not abated and we expect more major transactions being announced in 2008 for prime assets or even development projects. 2008 will also see an increase in absorption rate as more buildings are ready, some of which are already prelet. Most importantly the office space market is not oversupplied, and the high occupancy rates and lack of large space in good buildings currently suggests a good up-cycle for the foreseeable future.

What is also important is that there is a healthy growth of rents in the suburbs as well due to the pressure of the traffic jams in the traditional parts of the city. Places like KL Sentral have already achieved rents of RM7 per sq ft as a result and this is likely to continue into 2008 and 2009.

#### 1.2 Supply

As at December 2007, the total number of Purpose Built Office Buildings in the Klang Valley stood at 261 and total space reached 66.46 million sq ft net, a sizeable market, by regional standards.

Supply has grown very slowly since 2001 as a result of DBKL's freeze on supply post 1997, with the additional supply each year falling below 2 million sq ft with the exception of year 2006. In KL growth has been slow, at below a million sq ft each year except 2006. This compares with an absorption rate of over 3 million sq ft per year in a good year.

**Table 1: Supply of Purpose Built Office Space in Klang Valley (1998 – 2007)**

Year	Net Lettable Area (million sq ft)		
	Kuala Lumpur	Suburban	Klang Valley
1998	41.36	7.31	48.66
1999	44.08	9.19	53.27
2000	46.78	10.20	56.99
2001	49.30	10.43	59.73
2002	50.33	10.68	61.01
2003	50.63	10.83	61.46
2004	50.96	10.98	61.93
2005	51.67	10.98	62.65
2006	53.40	11.32	64.72
2007	54.61	11.85	66.46
2008e	57.59	12.34	69.93
2009e	59.61	13.77	73.37
2010e	60.51	14.51	75.02
2011e	60.89	14.51	75.40

Source: Regroup Associates Sdn Bhd

In fact very little new space has been built in the traditional golden triangle area since 2001 and even today, the 'newest' buildings available here for rent would be pre 2001. New supply before 2007 was mainly in the outlying areas like K L Sentral, Bangsar and Damansara Heights. All 3 locations have since then matured into highly sought after office addresses, a fact no one would believe before 1997.

2007 itself saw more active building, with completions at Mid Valley and K L Sentral providing close to a million sq ft of space. The total new space last year was 1.746 million sq ft, again, marginal by regional standards, and signifying an undersupplied market.

**Table 2: New Supply in Klang Valley, 2007**

No.	Project Name	Net Lettable Area (sq ft)
<b>Kuala Lumpur</b>		
1.	Centrepoin Midvalley (North & South)	450,000
2.	Menara TSH (Ekowood)	125,200
3.	Plaza Cygal – Tower 2	280,600
4.	Wisma PWC (KL Sentral – Lot N)	351,000
<b>Total</b>		<b>1,206,800</b>
<b>Suburban</b>		
5.	Jaya 33	400,000
6.	32 Square	140,000
<b>Total</b>		<b>540,000</b>
<b>Grand Total</b>		<b>1,746,800</b>

Source: Regroup Associates Sdn Bhd

### 1.3 Future Supply

Future supply up to 2011 will add another 8.9 million sq ft of space in 28 new buildings. This will bring cumulative supply to 75.4 million sq ft. The supply will be mainly in the suburbs with the city centre taking only a fraction of the total. The city centre skyline will include KL Pavilion, Lot C KLCC, Cap Square, Icon, Menara Glomac and Taipan Star in the city centre, but the rest of the supply will be outside, in KL Sentral and Mont Kiara. Outside of KL, new supply will be mainly in the PJ area. Much of the new supply will be pre-let or built-to-spec, and with an absorption rate of 3 million sq ft a year in a good year, we believe the market will be strong up to 2011.

### 1.4 Average Vacancy Rate

**Table 4: Average Vacancy Rate of Purpose Built Office Space in Klang Valley (1998 – 2007)**

Year	Kuala Lumpur	Suburban	Klang Valley
1998	17.9%	27.2%	19.3%
1999	20.7%	31.6%	22.6%
2000	19.6%	29.7%	21.4%
2001	21.1%	29.5%	22.6%
2002	20.8%	22.6%	21.1%
2003	16.6%	20.8%	17.3%
2004	13.8%	17.7%	14.5%
2005	13.1%	14.8%	13.4%
2006	13.9%	17.3%	14.5%
2007	14.6%	18.6%	15.3%

Source: Regroup Associates Sdn Bhd

Vacancy rates have been dropping gradually since 2003, and this is perhaps a result of the lack of new space in the market since 2001. We now see a very healthy sub-15.5% vacancy rate in KL and just over 15% in the suburbs. In fact most of the good Grade A buildings are fully let, such as the Petronas Twin Towers, Menara Maxis, and those near KLCC. In the good suburbs like Damansara Heights, most buildings are fully let as well.

### 1.5 Average Rental Rate

Rents declined post 1998 from a high of RM6.00 in the golden triangle to below RM4 per sq ft by 2003 in older buildings. Traditional prime locations like Jalan Raja Chulan lost their appeal as a result of the increasing jams in the city centre and rents dropped as a result.

However the market has risen very fast since 2004 and rents have gone past RM7 per sq ft around KLCC, in Menara Maxis and RM5 in general. In the suburbs, rents are now RM7 in KL Sentral and above RM3 per sq ft in PJ, with very little space available for large space users. We see 2008 and 2009 continuing this trend and anticipate rents to go rise above RM8 per sq ft by then.

### 1.6 Major Transactions

2007 was a landmark year as far as major transactions are concerned. The most significant benchmark cases were the Icon and Menara Glomac transactions which were investment fund-led but without pre-lets in sight. In each case, it was the Kuwaiti Finance House which inked the deal and the commercial space market is now quoting prices of RM1,120 per sq ft as a result.

Yields have been compressed but in the case of the Menara Bumiputra-Commerce we do not see a benchmark as it is below 5% with little built in rental growth. Already 2008 looks like continuing this trend although we are not sure the price of RM1,120 will be surpassed.

## 2.0 INDUSTRIAL PROPERTY

The industrial property sector is less obvious in terms of its supply compared with high rise buildings or large shopping centres. However based on the Valuation and Property Services Department's data, total supply now has exceeded 37,000 units in the Klang Valley, most of which is in terraced lots.

The industry has however also matured with the influx of logistics multinationals and the competition from China and the region's developing countries. There is now a higher focus on logistics centres where demand is tied to the accessibility of locations as well as ICT infrastructure support.

Older locations in the fringe of KL city are beginning to lose out to the pressure of commercialisation and the shift is now towards areas nearer the highways than the city. Sungei Besi is now turning into a commercial area as land values and rents force warehousing and manufacturing out of the area. Similarly the S13 area in PJ is being commercialised with a resultant relocation of factories away from the area.

## 2.1 Supply

Existing supply totals 5,115 units in KL and 32,631 in Selangor. Of these, terraced factories predominate, taking up more than 60% of the supply in each case.

As Selangor is the suburb of KL, the number of detached factories and industrial complexes are also significantly greater with most it located in PJ, Shah Alam, Klang and outlying areas like Sepang and even Rawang.

**Table 1: Existing Supply of Industrial Properties in Klang Valley (2003 – Q3 2007)**

Area	Type of Property	2003	2004	2005	2006	Q3 2007
WP Kuala Lumpur	Terraced	2,945	2,975	2,975	2,975	2,975
	Semi-Detached	457	457	457	457	457
	Detached	550	552	553	553	553
	Flatted Factory	956	956	1,116	1,116	1,116
	Industrial Complex	14	14	14	14	14
	<b>Total</b>		<b>4,922</b>	<b>4,954</b>	<b>5,115</b>	<b>5,115</b>
Selangor	Terraced	24,528	24,534	24,978	25,049	25,195
	Semi-Detached	2,981	2,961	3,133	3,141	3,229
	Detached	3,261	3,262	3,502	3,514	3,843
	Flatted Factory	270	270	270	270	270
	Industrial Complex	90	93	94	94	94
	<b>Total</b>		<b>31,130</b>	<b>31,120</b>	<b>31,977</b>	<b>32,068</b>

Source: Property Market Report 2003 – Q3 2007, Valuation & Property Services Department, Ministry of Finance

## 2.2 Future Supply

**Table 2: Future Supply of Industrial Properties in Klang Valley (Q3 2007)**

	Area	Terraced	Semi-Detached	Detached	Flatted Factory	Industrial Complex	Total
Incoming Supply	WP Kuala Lumpur	0	0	0	0	0	0
	Selangor	2,445	232	79	0	0	2,756
Planned Supply	WP Kuala Lumpur	111	0	44	0	1	156
	Selangor	762	72	520	0	8	1,362

Source: Property Market Report Q3 2007, Valuation & Property Services Department, Ministry of Finance

Future supply is mainly in Selangor as land in KL is too expensive for industrial development. 4,000 over units are being planned over the next 3 years mainly in the terraced and detached categories. This represents less than 10% of the supply.

# Property Report (continued)

## 2.3 Market Status

According to the Property Market Status Report Q3 2007, Kuala Lumpur did not have any overhang, unsold under construction and unsold not constructed industrial properties during Q3 2007.

In Selangor, there were,

- **Overhang Units:** Selangor recorded the highest number of industrial overhang units of 257 units, representing 40.2% of the total number of overhang units in Malaysia (639 units). Most of the units were located in the Gombak district (125 units) and Klang district (81 units). Total value of the overhang units was recorded at RM128.95mil.
- **Unsold Under Construction Units:** Selangor had the highest no. of unsold industrial units which accounted for 48.1% (211) of the total number of units in Malaysia (439 units). These were terraced factories located in the district of Klang (191 units) and Gombak (20 units). All the unsold factories in Klang had remained in the market for more than 24 months since the date they were launched for sales.
- **Unsold Not Constructed Units:** There was no unsold units as there were no launches of new industrial units in Selangor.

## PROPERTY MARKET OVERVIEW 2007 – JOHOR

### 1.0 PURPOSE BUILT OFFICES

The current supply for purpose-built office space is about 5.9 million square feet with an average occupancy of 62%. Rental rates have generally stagnant with the newer buildings such as Menara Pelangi, Menara MSC, Menara MAA and City Square achieving rental rate of about RM2.20 per sq ft per month whilst the older buildings or those located at the outskirts such as Tropical Inn, Wisma Daiman, Menara KK Kam and Menara Ang achieving about RM1.50 per sq ft per month.

### 2.0 THE INDUSTRIAL SECTOR

Demand for industrial space is on the upward trend especially in the locality of Senai, Nusajaya and Port of Tanjung Pelepas (PTP). PTP for instance, has been attracting major investors such as Flextronics (1.2 million sq ft), BMW, Ciba Vision, Schenker Logistics and Maersk.

In Nusajaya locality, Nusa Cemerlang Industrial Park, Nusa Jaya Industrial Park and the Southern Industrial and Logistic Clusters have been reporting healthy sales performance.

Rental rates for factory/warehousing space are also on the upwards trend with new space achieving rental rates ranging from RM1.00 to RM1.50 per sq ft per month.

## 3.0 MARKET OUTLOOK

The outlook for property market in Johor is buoyant due to launching of Iskandar Development Region (IDR). The Government has allocated RM10.2 billion to develop IDR, with an initial investment of RM5.0 billion.

## PROPERTY MARKET OVERVIEW 2007 - PENANG ISLAND

### 1.0 PURPOSE BUILT OFFICES

#### 1.1 Supply

The existing supply of office space has increased by about 2.4 million sq ft since year 2000. Office supply stood at 8.5 million sq ft (as at 1H 2007) and comprised 172 buildings with approximately 85.4% of total office space concentrated in Georgetown. 3 buildings in Georgetown were completed in 2006 & 2007 which provide a total space of 150,280 sq ft into the market.

#### 1.2 Future Supply

4 new buildings namely Suntech, The CEO, BayCapital and IJM's headquarters which are located closer to Bayan Lepas Industrial Park are currently under various stages of construction. The new developments, totalling 510,000 sq ft (excluding BayCapital), will be in 'decentralized' locations outside the traditional business district.

#### 1.3 Occupancy Rate

Better quality office buildings with modern facilities have recorded relatively high occupancy, i.e. more than 80%. The average occupancy rate has generally maintained at 70% - 75% level over the past 4 years.

#### 1.4 Rental

With supply slightly in excess of demand, market rentals of prime office buildings generally remained unchanged at RM2.20 to RM2.70 per sq ft (gross) per month whilst secondary buildings averaged RM1.50 to RM2.00 per sq ft per month.

# Property Report (continued)

## 2.0 INDUSTRIAL PROPERTY

### 2.1 Supply

Supply for all types of industrial properties in Penang Island, comprising terraced, semi-detached, detached, flatted and industrial complexes stood at 1,339 units as at Q3 2007. Major industrial premises such as detached factories and industrial complexes are mostly located in the South-West District, especially the locality of Bayan Lepas.

### 2.2 Future Supply

Except for terraced and flatted factories, there is no marked increase in the incoming supply of other industrial property types.

### 2.3 Demand

Penang has been earmarked by the Northern Corridor Economic Region (NCER) to be transformed into an integrated logistics hub and poised to serve as the import and export gateway for the northern corridor. The manufacturing sector is expected to grow on an upward trend and remains as the catalyst of growth for the State.

Supply for quality industrial space (especially of high-tech specifications) in the Island is generally limited. The presence of renowned technology companies such as Intel, Motorola, AMD, Dell, Seagate and Agilent Technologies as well as the awarding of Cyber City status in October 2005 has augured well on the high occupancy and good demand for such industrial space. Likewise, take-up and occupancy rates for other types of industrial premises in the Island are generally strong.

### 2.4 Rentals

Rentals of industrial space within detached factories/ industrial complexes remained within the range of RM 1.20 to RM 1.50 per sq ft per month and are anticipated to rise with the general positive economic conditions.

### 2.5 General Comments

Penang and its hinterland have a strong, vibrant economy and its property market has reflected its high employment rate and rising household incomes. Industry has adjusted well to intense competition from China and Vietnam which has left no appreciable vacancies in the existing stock of industrial buildings. Major infrastructural works such as the Second Penang Bridge, the Monorail system and the Penang Outer Ring Road will ensure further growth in all sectors of the market.

Submitted on behalf of Regroup Associates.



Allan Soo  
Managing Director  
February 2008

# Axis Real Estate Investment Trust (Established in Malaysia)

## Financial Statements

For the year ended 31 December 2007

Statement by the Manager .....	49
Statutory Declaration .....	50
Trustee's Report .....	51
Report of the Auditors .....	52
Balance Sheet .....	53
Income Statement .....	54
Statement of Changes in Net Asset Value .....	56
Cash Flow Statement .....	57
Notes to the Financial Statements .....	58

# Axis Real Estate Investment Trust (Established in Malaysia) Statement by the Manager

In the opinion of the Directors, the financial statements set out on pages 53 to 74 are drawn up in accordance with the provisions of the Deed dated 15 June 2005 and the Supplemental Deed dated 8 December 2006, Securities Commission's Guidelines on Real Estate Investment Trusts, applicable securities laws and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of Axis Real Estate Investment Trust at 31 December 2007 and of the results of the operations and cash flows for the year ended on that date.

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



**Stephen Tew Peng Hwee**



**George Stewart LaBrooy**

Kuala Lumpur

Date: 21 February 2008

# Axis Real Estate Investment Trust (Established in Malaysia) Statutory Declaration

I, **George Stewart LaBrooy**, the Director of Axis REIT Managers Berhad primarily responsible for the financial management of Axis Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 53 to 74, are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 21 February 2008.



**George Stewart LaBrooy**

Before me:



No: 86, Tingkat Bawah  
Jalan Putra  
50350 KUALA LUMPUR

# Trustee's Report

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

We have acted as Trustee of Axis Real Estate Investment Trust ("Axis-REIT") for the financial year ended 31 December 2007. In our opinion and to the best of our knowledge, Axis REIT Managers Berhad ("the Manager") has managed Axis-REIT in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Deed dated 15 June 2005 and the Supplemental Deed dated 8 December 2006, other provisions of the Deeds, the Capital Markets and Services Act 2007, the applicable Guidelines on Real Estate Investment Trusts and other applicable laws during the financial year then ended.

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

We also confirm that the income distributions declared and paid during the financial year ended 31 December 2007 are in line with and are reflective of the objectives of Axis-REIT. Two distributions have been declared for the financial year ended 31 December 2007 are as follows:-

- 1) Interim income distribution of 6.10 sen per unit paid on 30 August 2007; and
- 2) Final income distribution of 7.53 sen per unit paid on 20 February 2008.

For and on behalf of the Trustee,  
OSK Trustees Berhad



**Ong Eu Jin**  
Chief Operating Officer

Kuala Lumpur

Date: 21 February 2008

# Report of the Auditors

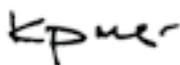
To the Unitholders of Axis Real Estate Investment Trust (Established in Malaysia)

We have audited the financial statements set out on pages 53 to 74. The preparation of the financial statements is the responsibility of the Directors of Axis REIT Manager Berhad ("the Manager") of Axis Real Estate Investment Trust ("Axis-REIT").

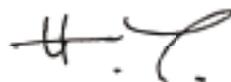
It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Securities Commission's Guidelines on Real Estate Investment Trust and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Manager, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of Axis-REIT are properly drawn up in accordance with the provisions of the Deed dated 15 June 2005 and the Supplemental Deed dated 8 December 2006, Securities Commission's Guidelines on Real Estate Investment Trusts, applicable securities laws and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of Axis-REIT at 31 December 2007 and the results of its operations and cash flows for the year ended on that date.



**KPMG**  
Firm Number: AF 0758  
Chartered Accountants



**Hasman Yusri Yusoff**  
Partner  
Approval Number: 2583/08/08(J)

Kuala Lumpur

Date: 21 February 2008

# Axis Real Estate Investment Trust (Established in Malaysia)

## Balance Sheet

As at 31 December 2007

	Note	2007 RM'000	2006 RM'000
<b>Assets</b>			
Investment properties	4	570,400	408,250
Receivables, deposits and prepayments	5	10,647	3,318
Tax recoverable		154	151
Cash and cash equivalents	6	656	62
<b>Total assets</b>		<b>581,857</b>	<b>411,781</b>
		= = = = =	= = = = =
<b>Liabilities</b>			
Payables and accruals	7	21,885	15,685
Provision for income distribution	8	15,504	13,898
Borrowings	9	209,816	88,089
<b>Total liabilities</b>		<b>247,205</b>	<b>117,672</b>
		- - - - -	- - - - -
<b>Net asset value ("NAV")</b>		<b>334,652</b>	<b>294,109</b>
		= = = = =	= = = = =
<b>Unitholders' funds</b>			
Unitholders' capital	10	234,892	234,892
Undistributed income	10	99,760	59,217
<b>Total unitholders' funds</b>		<b>334,652</b>	<b>294,109</b>
		= = = = =	= = = = =
<b>Units in Circulation ('000)</b>		<b>205,901</b>	<b>205,901</b>
		= = = = =	= = = = =
<b>Net Asset Value ("NAV") per unit (RM)</b>		<b>1.625</b>	<b>1.428</b>
		= = = = =	= = = = =

The notes on pages 58 to 74 are an integral part of these financial statements.

# Axis Real Estate Investment Trust (Established in Malaysia)

## Income Statement

For the year ended 31 December 2007

	Note	2007 RM'000	2006 RM'000
<b>Gross revenue</b>	11	<b>46,819</b>	40,931
Property expenses	12	(8,639)	(7,802)
<b>Net rental income</b>		<b>38,180</b>	33,129
Interest income		8	37
Change in the fair value of investment properties	4	40,613	16,517
<b>Total income</b>		<b>78,801</b>	49,683
Manager's fees		3,077	2,420
Trustee's fees		154	142
Auditor's fees		55	54
Tax agent's fees		11	12
Bad debts written off		144	119
(Reversal of)/Allowance for doubtful debts		(125)	167
Administrative expenses		673	353
Borrowing cost		600	65
Interest expense		5,454	3,072
Valuation fees		154	97
<b>Total expenses</b>		<b>10,197</b>	6,501
<b>Net income before taxation</b>		<b>68,604</b>	43,182
Tax income/(expense)	13	3	(260)
<b>Net income for the year</b>		<b>68,607</b>	42,922
<b>Net income for the year is made up as follows:</b>			
Realised		27,994	26,405
Unrealised			
- Change in the fair value of investment properties		40,613	16,517
		<b>68,607</b>	42,922
<b>Earnings per Unit (sen)</b>	14	<b>33.32</b>	20.85
<b>Earnings per Unit (before manager's fee)</b>			
- Gross (sen)		34.81	22.15
- Net (sen)		34.81	22.02
<b>Net income distribution</b>			
Interim income distribution of 6.10 sen (2006 - 6.20 sen) per unit		12,560	12,766
Proposed final income distribution of 7.53 sen (2006: 6.75 sen) paid on 20 February 2008 (2006: 28 February 2007)		15,504	13,898
	15	<b>28,064</b>	26,664

# Axis Real Estate Investment Trust (Established in Malaysia)

## Income Statement

For the year ended 31 December 2007 (continued)

	Note	2007 RM'000	2006 RM'000
<b>Income distribution per Unit</b>			
- Gross (sen)			
- interim	15	<b>6.10</b>	6.20
- final	15	<b>7.54</b>	6.75
- Net (sen)*			
- interim	15	<b>6.10</b>	6.20
- final	15	<b>7.53</b>	6.75
		= = = =	= = = =

\* Pursuant to the amended Section 109D(2) of the Income Tax Act, 1967 under the Finance Act 2007 which was gazetted on 31 December 2006, withholding tax will be deducted for distributions made to following type of unitholders:

- |                              |  |
|------------------------------|--|
| - resident corporate         | tax at prevailing rate, no withholding tax |
| - resident non-corporate     | withholding tax 15%                        |
| - non-resident individual    | withholding tax 15%                        |
| - non-resident corporate     | withholding tax 27%                        |
| - non-resident institutional | withholding tax 20%                        |

The notes on pages 58 to 74 are an integral part of these financial statements.

# Axis Real Estate Investment Trust (Established in Malaysia)

## Statement of Changes in Net Asset Value

For the year ended 31 December 2007

	Unitholders' capital RM'000	Non-distributable Revaluation reserve RM'000	Distributable Undistributed income		Total Unitholders' funds RM'000
			Realised RM'000	Unrealised RM'000	
<b>At 1 January 2006</b>					
- As previously reported	234,892	42,618	341	-	277,851
- Effect of adopting FRS 140	-	(42,618)	-	42,618	-
Restated balance	234,892	-	341	42,618	277,851
<b>Operations for the year ended 31 December 2006</b>					
Net income for the year	-	-	26,405	16,517	42,922
Increase in net assets resulting from operations	-	-	26,405	16,517	42,922
<b>Unitholders' transactions</b>					
Distribution to Unitholders					
- Paid and provision (Note 15)	-	-	(26,664)	-	(26,664)
Decrease in net assets resulting from Unitholders' transactions	-	-	(26,664)	-	(26,664)
<b>Net assets as at 31 December 2006</b>	234,892	-	82	59,135	294,109
	=====	=====	=====	=====	=====
	Note 10				

	Unitholders' capital RM'000	Distributable Undistributed income		Total Unitholders' funds RM'000
		Realised RM'000	Unrealised RM'000	
<b>At 1 January 2007</b>	234,892	82	59,135	294,109
<b>Operations for the year ended 31 December 2007</b>				
Net income for the year	-	27,994	40,613	68,607
Increase in net assets resulting from operations	-	27,994	40,613	68,607
<b>Unitholders' transactions</b>				
Distribution to Unitholders				
- Paid and provision (Note 15)	-	(28,064)	-	(28,064)
Decrease in net assets resulting from Unitholders' transactions	-	(28,064)	-	(28,064)
<b>Net assets as at 31 December 2007</b>	234,892	12	99,748	334,652
	=====	=====	=====	=====
	Note 10			

The notes on pages 58 to 74 are an integral part of these financial statements.

# Axis Real Estate Investment Trust (Established in Malaysia)

## Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RM'000	2006 RM'000
<b>Cash flows from operating activities</b>			
Net income before taxation		68,604	43,182
<i>Adjustments for:</i>			
Interest expense		5,454	3,137
Interest income		(8)	(37)
Change in fair value of investment properties		(40,613)	(16,517)
<b>Operating income before changes in working capital</b>		<b>33,437</b>	<b>29,765</b>
Receivables, deposits and prepayments		(7,329)	(519)
Payables and accruals		6,200	3,581
<b>Cash generated from operation</b>		<b>32,308</b>	<b>32,827</b>
Tax paid		-	(350)
<b>Net cash from operating activities</b>		<b>32,308</b>	<b>32,477</b>
<b>Cash flows from investing activities</b>			
Interest received		8	37
(Placement)/uplift of pledged deposits placed with licensed banks		(570)	450
Purchase of investment properties		(117,727)	(59,278)
Payment for enhancement of investment properties		(3,810)	(255)
<b>Net cash used in investing activities</b>		<b>(122,099)</b>	<b>(59,046)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(5,454)	(3,137)
Proceeds from borrowings		135,000	-
Distribution paid to Unitholders		(26,458)	(22,443)
<b>Net cash generated from/ (used in) financing activities</b>		<b>103,088</b>	<b>(25,580)</b>
Net increase/(decrease) in cash and cash equivalents		13,297	(52,149)
Cash and cash equivalents at 1 January		(48,027)	4,122
<b>Cash and cash equivalents at 31 December</b>	(i)	<b>(34,730)</b>	<b>(48,027)</b>

(i) *Cash and cash equivalents*

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

	2007 RM'000	2006 RM'000
Cash and bank balances	86	62
Bank overdraft	(34,816)	(48,089)
	<b>(34,730)</b>	<b>(48,027)</b>

The notes on pages 58 to 74 are an integral part of these financial statements.

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

### Registered office

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

### Principal place of business

Suite 6.04 Penthouse  
Wisma Academy  
4A Jalan 19/1  
46300 Petaling Jaya  
Selangor Darul Ehsan

Axis-REIT is principally engaged in investment of a diverse portfolio of properties with the primary objective of achieving an attractive level of return from rental income and for long-term capital growth.

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

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

### (a) Property management fees

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

### (b) Manager's fees

Pursuant to the Deed, the Manager is entitled to receive a fee of up to a maximum of 1.00% (2006: 1.00%) per annum of the Net Asset Value of Axis-REIT, calculated based on monthly accrual basis and payable monthly in arrears. The Manager's fees for year ended 31 December 2007 of RM3,077,064 (2006: RM2,420,489) is 1% (2006: 1.00% with effect from 1 July 2006 from the previous 0.70%) of the monthly net asset value.

### (c) Trustee's fees

Pursuant to the Deed, the Trustee is entitled to receive a fee of 0.05% (2006: 0.05%) per annum of the Net Asset Value of Axis-REIT calculated based on the monthly accrual basis and payable monthly in arrears. The trustee's fees for the year ended 31 December 2007 is RM154,128 (2006: RM141,648).

## 2. Basis of preparation

### (a) Statement of compliance

The financial statements of Axis-REIT have been prepared in accordance with applicable approved Financial Reporting Standards (FRSs) issued by the Malaysian Accounting Standards Board (MASB) and accounting principles generally accepted in Malaysia. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

# Notes to the Financial Statements (continued)

## 2. Basis of preparation (continued)

### (a) Statement of compliance (continued)

The MASB has also issued the following Financial Reporting Standards (FRSs) and Interpretations that are effective for annual periods beginning after 1 October 2006.

FRSs / Interpretation	Effective date
FRS 117, Leases	1 October 2006
FRS 124, Related Party Disclosures	1 October 2006
FRS 107, <i>Cash Flow Statements</i>	1 July 2007
FRS 111, <i>Construction Contracts</i>	1 July 2007
FRS 112, <i>Income Taxes</i>	1 July 2007
FRS 118, <i>Revenue</i>	1 July 2007
FRS 120, <i>Accounting for Government Grants and Disclosures of Government Assistance</i>	1 July 2007
Amendment to FRS 121, <i>The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation</i>	1 July 2007
FRS 134, <i>Interim Financial Reporting</i>	1 July 2007
FRS 137, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 July 2007
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	To be announced
IC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5, <i>Rights Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007
IC Interpretation 6, <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7, <i>Applying the Restatement Approach Under FRS 129<sup>2004</sup> Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
IC Interpretation 8, <i>Scope of FRS 2</i>	1 July 2007

In this set of financial statements, Axis-REIT has adopted FRS 117 and FRS 124 initially for the annual period beginning 1 January 2007. Axis-REIT plans to apply the rest of the above mentioned FRSs (except for FRS 111, FRS 120 and Amendment to FRS 121 as explained below and FRS 139 which its effective date has yet to be announced) and Interpretations (except for IC1, IC2, IC5, IC6 and IC7 as explained below) for the annual period beginning 1 January 2008.

The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the standard.

FRS 111, FRS 120, Amendments to FRS 121, IC1, IC2, IC5, IC6 and IC7 are not applicable to Axis-REIT. Hence, no further disclosure is warranted.

# Notes to the Financial Statements (continued)

## 2. Basis of preparation (continued)

### a) Statement of compliance (continued)

The initial application of the other standards and interpretations are not expected to have any material impact on the financial statements of Axis-REIT except for FRS 112. The Manager and the Trustee have yet to determine the impact of adopting FRS 112.

The financial statements were approved by the Board of Directors of the Manager on 21 February 2008.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4 - valuation of investment properties.

## 3. Significant accounting policies

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

### (a) Investment properties

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

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

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

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

# Notes to the Financial Statements (continued)

## 3. Significant accounting policies (continued)

### (a) Investment properties (continued)

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

### (b) Leases

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

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

### (c) Receivables

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

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

Receivables are not held for the purpose of trading.

### (d) Cash and cash equivalents

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

### (e) Impairment

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

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

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

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

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

# Notes to the Financial Statements (continued)

## 3. Significant accounting policies (continued)

### (f) Borrowings

Borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

### (g) Provisions

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

#### *Provision for income distribution*

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

### (h) Payables

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

### (i) Revenue

#### (i) Rental income

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

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

#### (ii) Interest income

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

### (j) Expenses

#### (i) Property expenses

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

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

#### (ii) Manager's fees

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

#### (iii) Trustee's fees

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

#### (iv) Interest expense

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

# Notes to the Financial Statements (continued)

## 3. Significant accounting policies (continued)

### (v) Lease payments

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

### (k) Tax expense

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

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

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

Deferred tax liability is recognised for all taxable temporary differences.

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

## 4. Investment properties

	2007 RM'000	2006 RM'000
At 1 January	408,250	332,200
Acquisitions	117,727	59,278
Enhancement	3,810	255
Change in fair value	40,613	16,517
At 31 December	<u>570,400</u>	<u>408,250</u>
	= = = =	= = = =
Included in the above are:		
Land and buildings	570,400	408,250
	= = = =	= = = =

# Notes to the Financial Statements (continued)

## 4. Investment properties (continued)

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

### Investment properties

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

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

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

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

# Notes to the Financial Statements (continued)

## 4. Investment properties (continued)

Description of Property	Tenure of land	Term of Lease Year	Remaining Term of Lease Year	Location	Existing Use	Occupancy rates as at 31.12.2006 %	Valuation as at 31.12.2006 RM'000	Acquisition cost as at 31.12.2006 RM'000	Percentage of valuation to Net Asset Value as at 31.12.2006 (%)
Menara Axis**	Leasehold	99	59	Petaling Jaya	Commercial	100	82,000	71,440	27.9
Crystal Plaza*	Leasehold	99	53	Petaling Jaya	Commercial	100	68,000	56,400	23.1
Axis Business Park**	Leasehold	99	54	Petaling Jaya	Office & Warehouse	94.2	93,600	84,600	31.8
Infinite Centre*	Leasehold	99	59	Petaling Jaya	Office & Warehouse	96.7	32,500	25,450	11.1
Axis Plaza*	Freehold	-	-	Shah Alam	Office & Warehouse	92.9	28,000	22,500	9.5
Kompleks Kemajuan**	Leasehold	99	59	Petaling Jaya	Office & Warehouse	57.6	36,250	29,192	12.3
Axis North Port LC 1*	Leasehold	99	99	Klang	Warehouse	100	13,500	10,373	4.6
Kayangan Depot**	Leasehold	99	80	Shah Alam	Office & Warehouse	71	18,400	16,224	6.3
Wisma Bintang*	Leasehold	99	61/65	Petaling Jaya	Office & Workshop	100	36,000	32,681	12.2
							408,250	348,860	
							= = = = =	= = = = =	

### Investment properties

\* Axis Plaza, Axis Business Park, Crystal Plaza, Infinite Centre, Menara Axis, Axis North Port LC 1 and Wisma Bintang were valued on 13 December 2006, 8 December 2006, 7 December 2006, 20 October 2006 and 8 September 2006 respectively, by Colliers, Jordan Lee & Jaafar Sdn. Bhd., an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison, the cost and the investment methods of valuation.

\*\* Kompleks Kemajuan and Kayangan Depot were valued on 13 December 2006 and 19 October 2006 respectively, by C H Williams Talhar & Wong Sdn. Bhd., an independent firm of professional valuer, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison and investment methods of valuation.

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

Fair value of investment properties is determined by comparing its current value with recent sale of similar properties in the vicinity with appropriate adjustments made for differences in location, floor area and other relevant factors before arriving at the fair value of the investment properties. The determination of appropriate adjustments to the recent sale value involve a degree of judgement before arriving at the respective investment property's fair value.

# Notes to the Financial Statements (continued)

## 5. Receivables, deposits and prepayments

	2007 RM'000	2006 RM'000
<b>Trade</b>		
Trade receivables	1,889	991
Less: Allowance for doubtful debts	(42)	(167)
	<u>1,847</u>	<u>824</u>
<b>Non-trade</b>		
Other receivables	14	13
Deposits	8,671	2,390
Prepayments	115	91
	<u>8,800</u>	<u>2,494</u>
	<u>10,647</u>	<u>3,318</u>
	= = = =	= = = =

## 6. Cash and cash equivalents

	Note	2007 RM'000	2006 RM'000
Deposits placed with licensed banks	a	570	-
Cash and bank balances		86	62
		<u>656</u>	<u>62</u>
		= = = =	= = = =

### Note a

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

## 7. Payables and accruals

	2007 RM'000	2006 RM'000
<b>Trade</b>		
Trade payables	773	757
<b>Non-trade</b>		
Other payables and accrued expenses	3,047	1,706
Tenants' deposits		
- payable within 12 months	4,526	3,831
- payable after 12 months	13,539	9,391
	<u>21,112</u>	<u>14,928</u>
	<u>21,885</u>	<u>15,685</u>
	= = = =	= = = =

Included in other payable and accrued expenses is amount due to the Manager and the Trustee of RM39,800 (2006: RM260,368) and RM Nil (2006: RM11,952) respectively which are unsecured, interest free and payable monthly in arrears.

# Notes to the Financial Statements (continued)

## 8. Provision for income distribution

	2007 RM'000	2006 RM'000
At 1 January	13,898	9,677
Provisions made during the year	28,064	26,664
Payments made during the year	(26,458)	(22,443)
At 31 December	15,504	13,898
	= = = =	= = = =

## 9. Borrowings

	2007 RM'000	2006 RM'000
<b>Current</b>		
Secured revolving credit	175,000	40,000
Bank overdraft	34,816	48,089
	209,816	88,089
	= = = =	= = = =

### Terms and debt repayment schedule

	Year of maturity	Interest rate %	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
<b>2007</b>							
Revolving credit	2008	4.25 - 4.88	175,000	175,000	-	-	-
Bank overdraft	2008	4.35 - 4.91	34,816	34,816	-	-	-
			= = = =	= = = =	= = = =	= = = =	= = = =
<b>2006</b>							
Revolving credit	2007	4.40 - 5.01	40,000	40,000	-	-	-
Bank overdraft	2007	4.45 - 4.91	48,089	48,089	-	-	-
			= = = =	= = = =	= = = =	= = = =	= = = =

# Notes to the Financial Statements (continued)

## 10. Total unitholders' funds

Unitholders' capital	2007 Number of Units '000	2006 Number of Units '000
Authorised:		
At 1 January	205,901	205,901
Increased during the year	50,000	-
At 31 December	255,901 = = = =	205,901 = = = =
Issued:		
At 1 January / 31 December	205,901 = = = =	205,901 = = = =
	2007 RM'000	2006 RM'000
Issued and fully paid up:		
At 1 January/31 December	234,892 = = = =	234,892 = = = =

### Unitholdings of substantial unitholders, Directors and their related parties

As at 31 December 2007, the Manager did not hold any Units in Axis-REIT. However, the Directors of the Managers and their related parties held Units in Axis-REIT, details of which are as follows:

	2007		2006	
	Number of Units '000	Market value RM'000	Number of Units '000	Market value RM'000
Axis-REIT's substantial unitholders' direct Unitholdings in Axis-REIT:				
Baiduri Kemas Sdn. Bhd.	33,790	62,512	34,050	57,204
Tew Peng Hwee @ Teoh Peng Hwee	16,963	31,381	-	-
Alex Lee Lao	14,694	27,183	-	-
Crystal Properties Sdn. Bhd.	-	-	27,750	46,620
Prestigious Landmarks Sdn. Bhd.	-	-	28,520	47,914
	= = = =	= = = =	= = = =	= = = =
The Manager's Directors' direct Unitholdings in Axis-REIT:				
Dato' Abas Carl Gunnar bin Abdullah	9,386	17,364	149	250
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	10	19	-	-
Tew Peng Hwee @ Teoh Peng Hwee	16,963	31,381	2,570	4,318
George Stewart LaBrooy	40	74	30	50
Alex Lee Lao#	14,694	27,183	200	336
	= = = =	= = = =	= = = =	= = = =

# Notes to the Financial Statements (continued)

## 10. Total unitholders' funds (continued)

	2007		2006	
	Number of Units '000	Market value RM'000	Number of Units '000	Market value RM'000
The Manager's Directors' indirect Unitholdings in Axis-REIT <sup>1</sup> :				
Dato' Abas Carl Gunnar bin Abdullah*	36,040	66,674	61,800	103,824
Tew Peng Hwee @ Teoh Peng Hwee**	35,040	64,824	91,735	154,115
Alex Lee Lao***	35,040	64,824	27,750	-
Yin-Yong Lee Lao ****	49,734	92,007	-	-
	= = = =	= = = =	= = = =	= = = =
The direct Unitholdings of the related Parties of the Manager's Directors in Axis-REIT:				
Crystal Properties Sdn. Bhd. (in Members' Voluntary Liquidation)	250	463	-	-
Prestigious Landmarks Sdn. Bhd. (in Members' Voluntary Liquidation)	1,000	1,850	-	-
Datin Kuyas Emiloglu	1,000	1,850	-	-
	= = = =	= = = =	= = = =	= = = =

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

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

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

\*\* Deemed interested by virtue of his shareholdings in Pet Resins (M) Sdn. Bhd.<sup>^^</sup>, Crystal Properties Sdn Bhd (In Members' Voluntary Liquidation), Prestigious Landmarks Sdn Bhd (In Members' Voluntary Liquidation), all are unitholders of Axis-REIT.

\*\*\* Deemed interested by virtue of his shareholdings in Axis Equities Sdn. Bhd.<sup>^</sup>, Crystal Properties Sdn Bhd (In Members' Voluntary Liquidation), Prestigious Landmarks Sdn Bhd (In Members' Voluntary Liquidation), all are unitholders of Axis-REIT.

\*\*\*\* Deemed interest in Alex Lee Lao's (brother) direct and indirect unitholdings in Axis-REIT.

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

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

# Notes to the Financial Statements (continued)

## 10. Total unitholders' funds (continued)

The market value of the Units was determined by multiplying the number of Units with the market price of RM1.85 (2006: RM1.68) as at 31 December 2007.

	Note	2007 RM'000	2006 RM'000
<b>Undistributed income</b>			
- Realised		12	82
- Unrealised	a	99,748	59,135
		<u>99,760</u>	<u>59,217</u>
		= = = =	= = = =

### Note a

This unrealised gain relating to the fair value adjustment to the investment properties.

## 11. Gross revenue

	2007 RM'000	2006 RM'000
Rental income from investment properties	42,407	36,868
Car park income	2,773	2,623
Other income	1,639	1,440
	<u>46,819</u>	<u>40,931</u>
	= = = =	= = = =

## 12. Property expenses

	2007 RM'000	2006 RM'000
Assessment	1,296	1,147
Service contracts and maintenance	2,815	2,177
Property management fees	990	831
Property management reimbursements	542	402
Utilities	2,164	1,919
Others	832	1,326
	<u>8,639</u>	<u>7,802</u>
	= = = =	= = = =

# Notes to the Financial Statements (continued)

## 13. Tax (income)/expense

### Recognised in the income statement

	2007 RM'000	2006 RM'000
Current tax income/ (expense)		
- Current year	-	249
- Prior year	(3)	11
	<u>(3)</u>	<u>260</u>
	= = = = =	= = = = =

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

## 14. Earnings per Unit

The calculation of earnings per Unit is based on the net income for the year of RM68,607,000 (2006: RM42,922,000) to the number of units in circulation during the year of 205,901,000 (2006: 205,901,000).

## 15. Distribution to Unitholders

Distribution to Unitholders is from the following sources:

	2007 RM'000	2006 RM'000
Current year:		
Net rental income	38,179	32,820
Interest income - tax exempt	-	36
Prior year:		
Net rental income (already been subject to tax)	82	-
Interest income - tax exempt	-	309
	<u>38,261</u>	<u>33,165</u>
Less: Expenses	(10,197)	(6,501)
	<u>28,064</u>	<u>26,664</u>
	= = = = =	= = = = =
Gross distribution (paid and provision) per Unit (sen)	13.64	12.95
	= = = = =	= = = = =
Net distribution (paid and provision) per Unit (sen)	13.63	12.95
	= = = = =	= = = = =

# Notes to the Financial Statements (continued)

## 16. Portfolio Turnover Ratio

	2007	2006
Portfolio Turnover Ratio ("PTR") (times)	0.20 = = = =	0.10 = = = =

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

## 17. Management Expense Ratio

	2007	2006
Management expense ratio ("MER") (%)	1.38 = = = =	1.19 = = = =

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

## 18. Financial instruments

### Financial risks management objectives and policies

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

### Credit risk

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

### Interest rate risk

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

### Liquidity risk

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

# Notes to the Financial Statements (continued)

## 18. Financial instruments (continued)

### Effective interest rates and repricing analysis

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

	<----- 2007 ----->			<----- 2006 ----->		
	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	Average effective interest rate %	Total RM'000	Less than 1 year RM'000
<b>Floating rate instruments</b>						
<b>Financial asset</b>						
Deposits with licensed banks	3.20	570	570	-	-	-
<b>Financial liability</b>						
Revolving credit	4.31	175,000	175,000	4.63	40,000	40,000
Bank overdraft	4.46	34,816	34,816	3.92	48,089	48,089

### Fair values

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

## 19. Capital commitments

	2007 RM'000	2006 RM'000
<b>Capital expenditure commitments</b>		
<b>Investment properties</b>		
<i>Contracted but not provided for and payable:</i>		
- Within one year	57,600	-
	=====	=====

# Notes to the Financial Statements (continued)

## 20. Significant related party transactions

	Transaction value		Balance outstanding	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Acquisition cost of a property payable to a related company of the Directors of the Manager	-	27	-	-
Tenancy agency commissions payable to a related company of the Directors of the Manager	<b>158</b>	<b>36</b>	<b>14</b>	-
	= = = = =	= = = = =	= = = = =	= = = = =

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

## 21. Subsequent event

On 30 January 2008, Axis-REIT has completed the placement of 50.0 million new Axis-REIT units, increasing the number of units in circulation from 205,901,000 to 255,901,000.

# Unitholders' Statistics

## Analysis of Unitholdings

As at 31 December 2007

Size of Holdings	Number of Unitholders	%	Number of Units Held	%
1 - 99	2	0.17	120	0.00
100 – 1,000	332	28.47	225,945	0.10
1,001 – 10,000	548	47.00	2,587,400	1.26
10,001 – 100,000	162	13.89	5,528,500	2.69
100,001 – 10,295,049 #	119	10.21	137,030,935	66.55
10,295,050 ## and above	3	0.26	60,528,100	29.40
<b>Total</b>	<b>1,166</b>	<b>100.00</b>	<b>205,901,000</b>	<b>100.00</b>

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

### Top 30 Unitholders as at 31 December 2007 As listed in the Register of Unitholders

Ranking	Unitholder	No. of Units	% of Total Issued Units
1	Baiduri Kemas Sdn Bhd	33,790,000	16.41
2	Alex Lee Lao	14,693,600	7.14
3	Tew Peng Hwee @ Teoh Peng Hwee	12,044,500	5.85
4	Lim Kian Thiam	9,448,800	4.59
5	Citigroup Nominees (Asing) Sdn Bhd Exempt an for American International Assurance Company Limited	8,115,000	3.94
6	Amanah Raya Nominees (Tempatan) Sdn Bhd Amanah Saham Wawasan 2020	7,429,800	3.61
7	Employees Provident Fund Board	7,207,100	3.50
8	HSBC Nominees (Tempatan) Sdn Bhd Nomura Asset Mgmt Malaysia for Employees Provident Fund	5,691,100	2.76
9	Valuecap Sdn Bhd	5,400,000	2.62
10	AMSEC Nominees (Tempatan) Sdn Bhd AmBank (M) Berhad for Abas Carl Gunnar Bin Abdullah	5,000,000	2.43
11	Citigroup Nominees (Tempatan) Sdn Bhd ING Insurance Berhad (INV-IL PAR)	4,830,500	2.35
12	Abas Carl Gunnar Bin Abdullah	4,385,900	2.13

# Unitholders' Statistics

## Analysis of Unitholdings

As at 31 December 2007 (continued)

### Top 30 Unitholders as at 31 December 2007 (continued) As listed in the Register of Unitholders

Ranking	Unitholder	No. of Units	% of Total Issued Units
13	HSBC Nominees (Asing) Sdn Bhd Exempt an for the Hongkong and Shanghai Banking Corporation Limited (HBFS-I CLT ACCT)	3,748,500	1.82
14	AMSEC Nominees (Tempatan) Sdn Bhd AmBank (M) Berhad for Tew Peng Hwee @ Teoh Peng Hwee	3,334,000	1.62
15	Permodalan Nasional Berhad	2,853,500	1.39
16	AMMB Nominees (Tempatan) Sdn Bhd Amtrustee Berhad for Pacific Pearl Fund (5/1-9)	2,851,000	1.38
17	Citigroup Nominees (Tempatan) Sdn Bhd Uni.Asia Life Assurance Berhad (Life Fund)	2,834,600	1.38
18	TM Asia Life Malaysia Berhad As Beneficial Owner (PF)	2,666,000	1.29
19	Citigroup Nominees (Asing) Sdn Bhd Exempt an for Mellon Bank (ABNAMRO Mellon)	2,601,400	1.26
20	Amanah Raya Nominees (Tempatan) Sdn Bhd Sekim Amanah Saham Nasional	2,374,600	1.15
21	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Prudential Equity Income Fund (4801)	1,937,800	0.94
22	Jerneh Insurance Bhd	1,900,000	0.92
23	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LGF)	1,895,000	0.92
24	HSBC Nominees (Asing) Sdn Bhd HSBC BK PLC For First State Singapore And Malaysia Growth Fund	1,816,700	0.88
25	Cartaban Nominees (Tempatan) Sdn Bhd Exempt an for Allianz Life Insurance Malaysia Berhad (P)	1,660,000	0.81
26	Tan Kim Chuan	1,655,800	0.80
27	Tew Peng Hwee @ Teoh Peng Hwee	1,584,200	0.77
28	Citigroup Nominees (Tempatan) Sdn Bhd ING Insurance Berhad (INV-IL NON PAR)	1,526,700	0.74
29	Elisabeth lype	1,371,000	0.67
30	Citigroup Nominees (Tempatan) Sdn Bhd Exempt An For Prudential Assurance Malaysia Berhad	1,309,700	0.64

# Corporate Directory

## MANAGER :

Axis REIT Managers Berhad

## MANAGER'S PRINCIPAL PLACE OF BUSINESS :

Suite 6.04 Penthouse  
Wisma Academy  
4A Jalan 19/1  
46300 Petaling Jaya  
Selangor Darul Ehsan  
Tel : 03-7958 4882  
Fax : 03-7957 6881

## MANAGER'S REGISTERED OFFICE :

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

## BOARD OF DIRECTORS OF THE MANAGER :

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

George Stewart LaBrooy  
*Chief Operating Officer / Executive Director*

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

Stephen Tew Peng Hwee  
*Non-Independent Executive Director*

Dato' Fateh Iskandar B.  
Dato' Mohamed Mansor  
*Independent Non-Executive Director*

Mohd Sharif bin Haji Yusof  
*Independent Non-Executive Director*

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

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

## AUDIT COMMITTEE :

YAM Tunku Dato' Seri Shahabuddin  
*(Chairman)*  
Mohd Sharif bin Haji Yusof  
Yin-Yong Lee Lao

## EXECUTIVE COMMITTEE :

Dato' Abas Carl Gunnar bin Abdullah  
*(Chairman)*  
George Stewart LaBrooy  
Stephen Tew Peng Hwee

## REMUNERATION AND NOMINATION COMMITTEE :

Dato' Fateh Iskandar B. Dato'  
Mohamed Mansor *(Chairman)*  
Stephen Tew Peng Hwee  
Dato' Abas Carl Gunnar bin Abdullah

## COMPANY SECRETARY OF THE MANAGER :

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

## PROPERTY MANAGER :

Axis Property Services  
Suite 6.04, Penthouse  
Wisma Academy  
No 4A, Jalan 19/1  
46300 Petaling Jaya  
Selangor Darul Ehsan  
Tel : +603-7958 5928  
Fax : +603-7958 3882

## TRUSTEE :

OSK Trustees Berhad  
6th Floor Plaza OSK  
Jalan Ampang  
50450 Kuala Lumpur  
Tel : 03-2333 8333  
Fax : 03-2175 3288  
Email : OSK\_Trustees@osk.com.my  
Website : www.osktrustees.com.my

## PRINCIPAL BANKERS OF THE FUND :

Malayan Banking Berhad  
37th Floor Menara Maybank  
100 Jalan Tun Perak  
50050 Kuala Lumpur

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

HSBC Bank Malaysia Berhad  
Level 15, HSBC Building  
2, Leboh Ampang  
50100 Kuala Lumpur

## AUDITORS :

KPMG  
Wisma KPMG  
Jalan Dungun  
Damansara Heights  
50490 Kuala Lumpur

## TAX AGENT :

KPMG Tax Services Sdn Bhd  
Wisma KPMG  
Jalan Dungun  
Damansara Heights  
50490 Kuala Lumpur

## REGISTRAR :

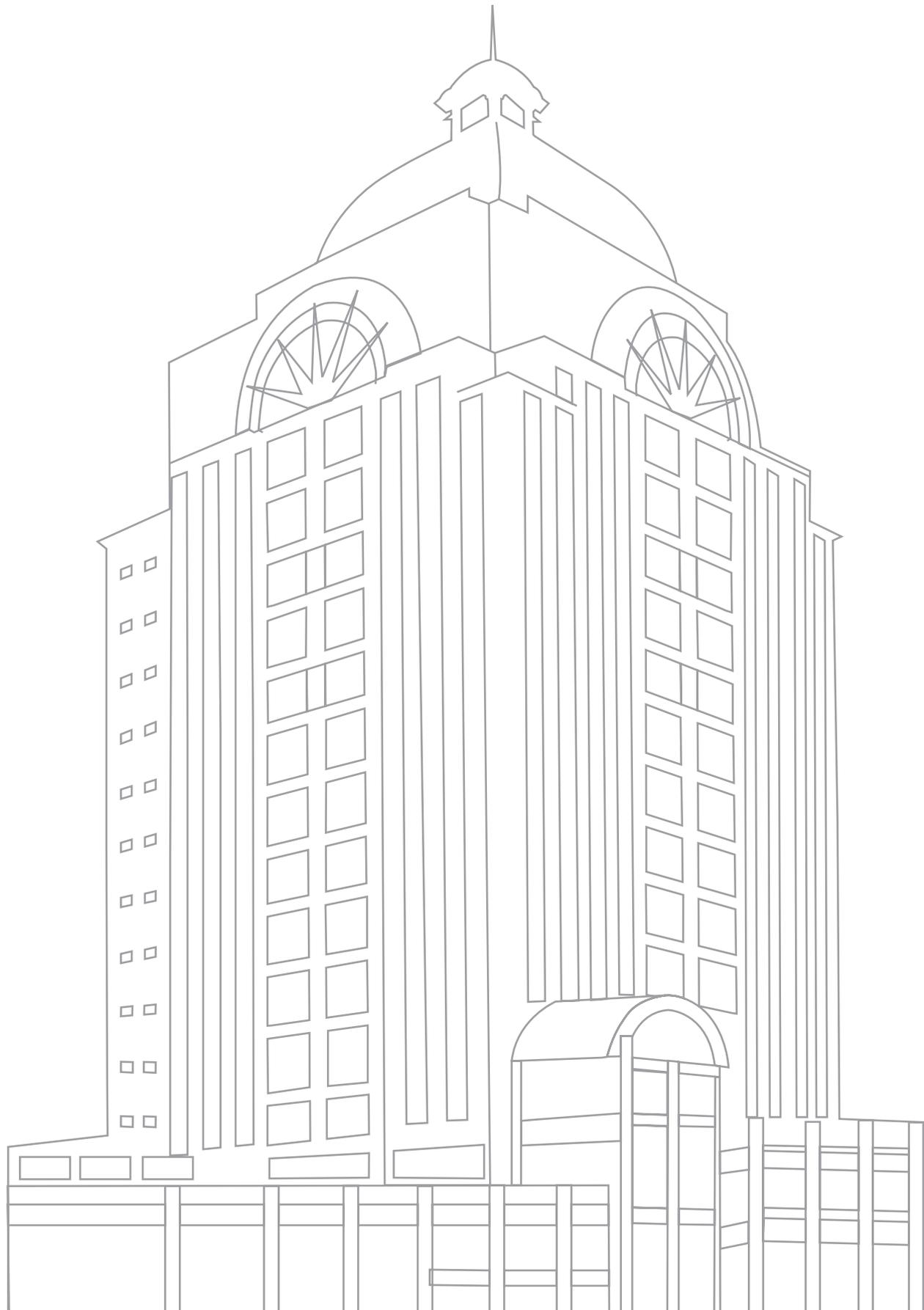
Symphony Share Registrars Sdn Bhd  
Level 26, Menara Multi-Purpose  
Capital Square  
No 8, Jalan Munshi Abdullah  
50100 Kuala Lumpur  
Tel : +603-2721 2222  
Fax : +603-2721 2530/ 2721 2531  
E Mail : ssrs@symphony.com.my  
Website : www.symphony.com.my

## BURSA SECURITIES NAME : AXREIT

BURSA MALAYSIA  
SECURITIES STOCK CODE :  
5106

# Glossary

<b>Axis-REIT / the Fund</b>	:	Axis Real Estate Investment Trust
<b>Bursa Securities / the Exchange</b>	:	Bursa Malaysia Securities Berhad (Company No. 635998-W)
<b>Deed</b>	:	The Deed dated 15th June 2005 and the Supplemental Deed dated 8th December 2006 between the Trustee and the Manager
<b>DPU</b>	:	Distribution per Unit
<b>GAV</b>	:	Gross Asset Value
<b>Gross Revenue</b>	:	Gross rental income and other income earned from the properties including license fees, car park, utilities and miscellaneous sources
<b>MER</b>	:	Management Expense Ratio
<b>Manager</b>	:	Axis REIT Managers Berhad (Company No. 649450-W), being the management company of Axis-REIT
<b>NAV</b>	:	Net Asset Value
<b>NTA</b>	:	Net Tangible Assets
<b>Net Lettable Area</b>	:	Consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
<b>OMV</b>	:	Open Market Value
<b>PTR</b>	:	Portfolio Turnover Ratio
<b>Property Manager</b>	:	Axis Property Services
<b>REIT(s)</b>	:	Real Estate Investment Trust(s)
<b>RM and sen</b>	:	Ringgit Malaysia and sen, respectively
<b>SC</b>	:	Securities Commission
<b>SCA</b>	:	Securities Commission Act, 1993
<b>SC Guidelines on REITs</b>	:	Guidelines on Real Estate Investment Trusts issued by the SC on 3 January 2005
<b>Sq. ft.</b>	:	Square feet
<b>Sqm</b>	:	Square metres
<b>Symphony Share Registrars</b>	:	Symphony Share Registrars Sdn Bhd (Company No. 378993-D)
<b>Trustee</b>	:	OSK Trustees Berhad (Company No. 573019-U) being the Trustee of Axis-REIT
<b>Unit(s)</b>	:	Undivided interest(s) in Axis-REIT as constituted by the Deed
<b>Unitholder(s)</b>	:	Holder(s) of the Units
<b>IDR</b>	:	Iskandar Development Region
<b>NCER</b>	:	Northern Corridor Economic Region





**AXIS REIT MANAGERS BERHAD**  
(Company Number 649450-W)  
(Incorporated in Malaysia under the Companies Act, 1965)

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