



TRANSCENDING BOUNDARIES

ANNUAL REPORT 2017

Malaysia's First and Largest Islamic Business Space and Industrial REIT

AXIS-REIT HIGHLIGHTS



MARKET CAPITALISATION

RM**1,848,490,000**



TOTAL ASSETS UNDER MANAGEMENT

RM**2,549,609,000**



TOTAL SPACE UNDER MANAGEMENT

8,087,781 sq. ft.



FAIR VALUE GAIN ON INVESTMENT
PROPERTIES FOR 2017

RM**30,395,000**



TOTAL ACQUISITIONS FOR 2017

RM**153,000,000**



WEIGHTED AVERAGE LEASE EXPIRY
(BASED ON RENTAL)

5.87 years

WHAT'S INSIDE



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Letter from the Chairman and the CEO

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Sustainability Report

ABOUT AXIS-REIT



Axis Real Estate Investment Trust is Malaysia's first and largest Islamic business space and industrial REIT, listed on Bursa Securities. It has a diverse portfolio of 40 properties that are located in the Klang Valley, Johor, Penang, Pahang, Negeri Sembilan and Kedah.

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

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

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

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

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

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

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

VISION

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

MISSION

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

SIX PRINCIPLES OF MANAGEMENT

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

Prudent capital and risk management

Yield-accretive asset purchases

Excellent investor relations

Maintaining the highest levels of corporate governance

Proactive asset and tenant management

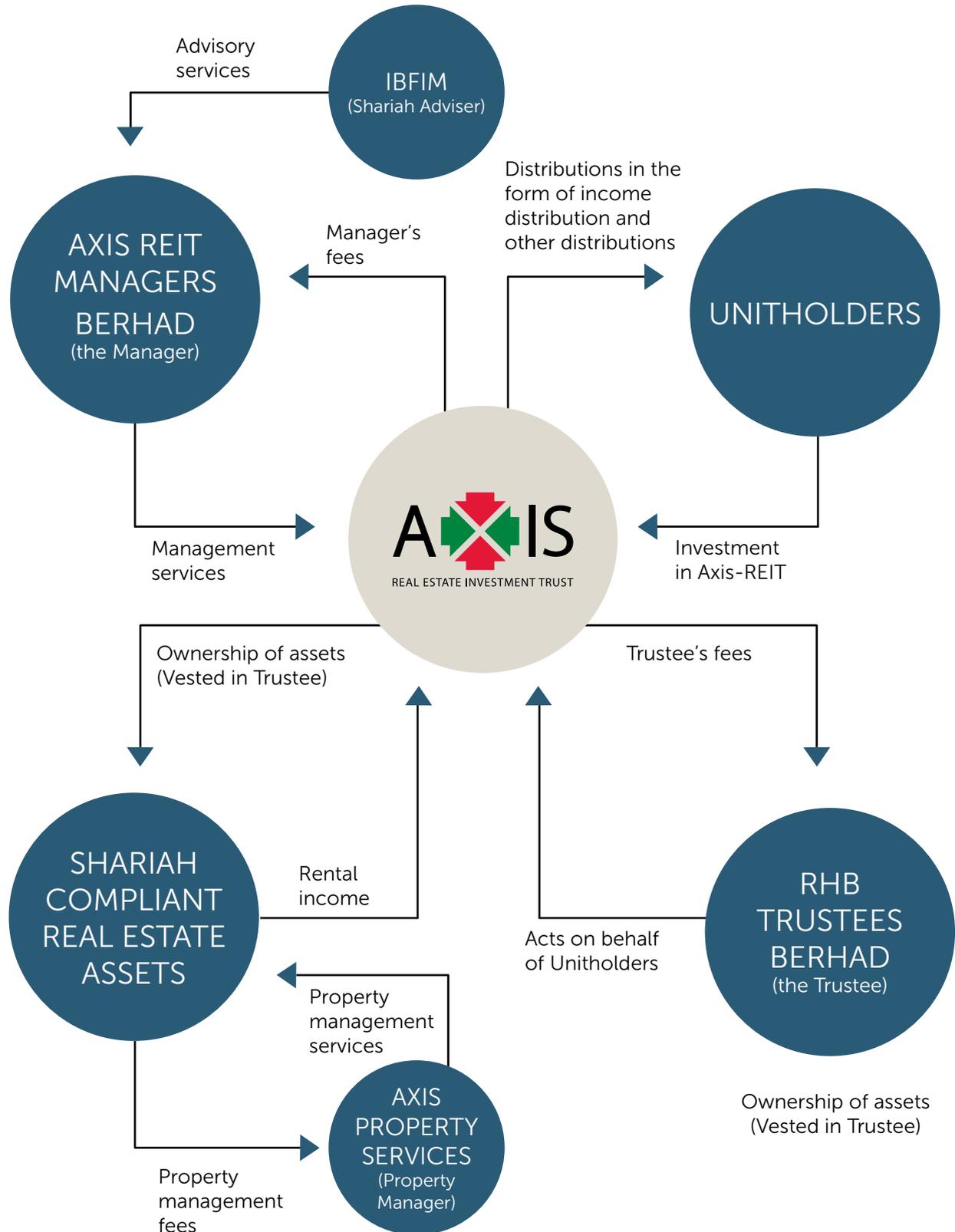
Development of human capital

SALIENT FEATURES OF AXIS-REIT

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Fund Category	Real Estate Investment Trust
Fund Type	Income and Growth
Vision of the Fund	To successfully benchmark Axis-REIT against the world's most successful REITs in terms of total returns to Unitholders and be the REIT of choice for Shariah and non-Shariah investors
Mission of the Fund	To provide consistent distributions to Unitholders through growing the property portfolio, displaying the highest level of corporate governance, excellent capital and risk management, and preserving capital values
Issued Fund Size	1,232,326,803 Units
Market Capitalisation	RM1,848,490,000
Assets Under Management	RM2,549,609,000
Authorised Investments	At least 50% of the Fund's total asset value must be invested in real estate and / or single purpose companies at all times
Initial Public Offering Retail Price	RM0.625 per Unit (equivalent to RM1.25 per Unit prior to the Unit Split)
Financial Year End	31 December
Distribution Policy	Quarterly income distribution: 1st to 3rd quarter – at least 95% of the current year-to-date distributable income 4th quarter – at least 99% of the current year-to-date distributable income
Financing Limitations	Not exceeding 50% of the total assets value of the Fund
Revaluation Policy	The investment properties shall be revalued at least once every year by independent registered valuers
Minimum Initial Investment	100 Units
Quotation	Main Market of Bursa Securities
Bursa Securities Stock Number	AXREIT 5106

AXIS-REIT STRUCTURE



CORPORATE INFORMATION

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BOARD OF DIRECTORS OF THE MANAGER

**YAM TUNKU DATO' SERI
SHAHABUDDIN BIN TUNKU
BESAR BURHANUDDIN**

Independent
Non-Executive Chairman

**Y BHG DATO' ABAS CARL
GUNNAR BIN ABDULLAH**
Executive Deputy Chairman

LEONG KIT MAY
Chief Executive Officer/
Executive Director

**STEPHEN TEW PENG HWEЕ @
TEOH PENG HWEЕ**

Non-Independent
Non-Executive Director

**Y BHG DATUK SERI FATEH
ISKANDAR BIN TAN SRI DATO'
MOHAMED MANSOR**

Independent
Non-Executive Director

MOHD SHARIF BIN HJ YUSOF

Senior Independent
Non-Executive Director

ALVIN DIM LAO

Non-Independent
Non-Executive Director

YEOH CHONG KEAT

Non-Independent
Non-Executive Director

ALEX LEE LAO

Alternate Director to Y Bhg
Dato' Abas Carl Gunnar Bin
Abdullah

JANCIS ANNE QUE LAO

Alternate Director to
Alvin Dim Lao



MANAGER

Axis REIT Managers Berhad,
The Manager of Axis-REIT

MANAGER'S PRINCIPAL PLACE OF BUSINESS

Penthouse, Menara Axis
No. 2, Jalan 51A/223
46100 Petaling Jaya
Selangor Darul Ehsan
Tel No : 603-7958 4882
Fax No: 603-7957 6881

MANAGER'S REGISTERED OFFICE

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

AUDIT COMMITTEE OF THE MANAGER

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

EXECUTIVE COMMITTEE OF THE MANAGER

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

REMUNERATION COMMITTEE OF THE MANAGER

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

Y Bhg Dato' Abas Carl Gunnar
Bin Abdullah
Stephen Tew Peng Hwee @
Teoh Peng Hwee

NOMINATION COMMITTEE OF THE MANAGER

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

COMPANY SECRETARY OF THE MANAGER

Rebecca Leong Siew Kwan
(MAICSA 7045547)

TRUSTEE OF AXIS-REIT

RHB Trustees Berhad

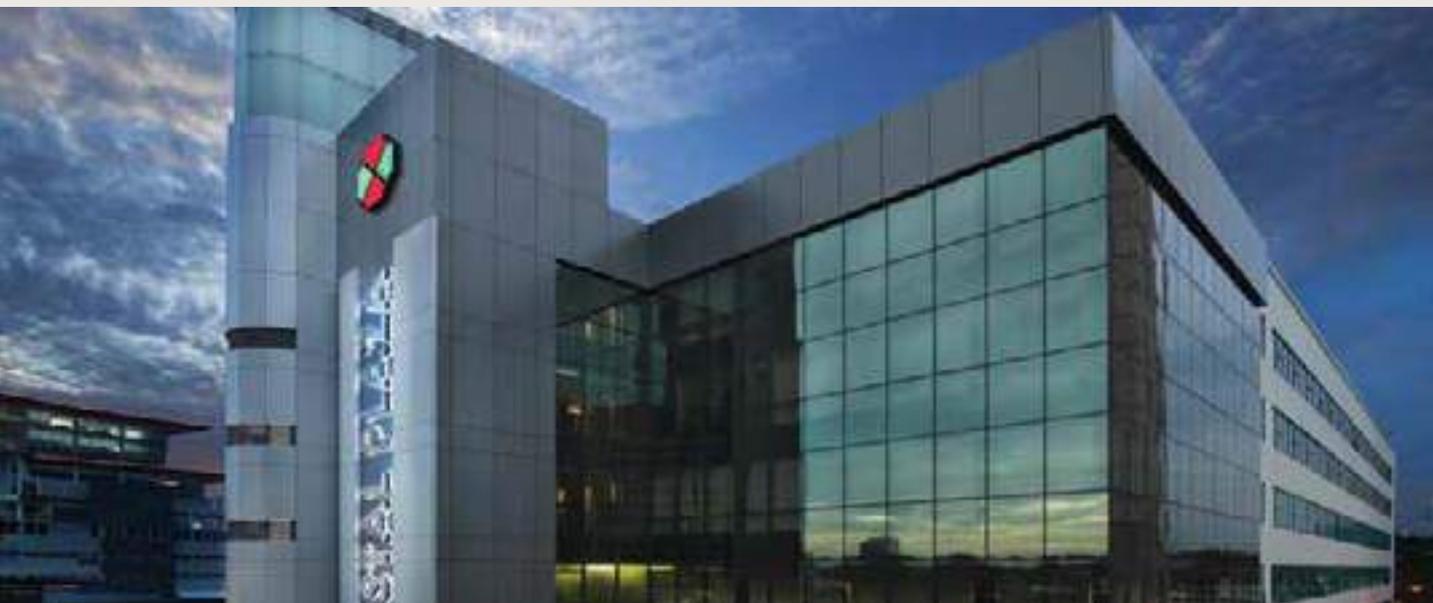
Level 9 Tower One, RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel No : 603-9280 8799
Fax No : 603-9280 8796
Website: www.rhbgroup.com

SHARIAH ADVISER OF AXIS-REIT

IBFIM

3rd Floor, Menara Takaful Malaysia
Jalan Sultan Sulaiman
50000 Kuala Lumpur
Tel No : 603-2031 1010
Fax No : 603-2078 5250
Website: www.ibfim.com

CORPORATE INFORMATION



REGISTRARS OF AXIS-REIT

Symphony Share Registrars Sdn Bhd

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

PROPERTY MANAGER OF AXIS-REIT

Axis Property Services

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

AUDITORS OF AXIS-REIT

KPMG PLT

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

INTERNAL AUDITORS OF AXIS-REIT

Baker Tilly Monteiro Heng Governance Sdn Bhd

Baker Tilly MH Tower, Level 10
Tower 1 Avenue 5
Bangsar South City
59200 Kuala Lumpur

TAX AGENTS OF AXIS-REIT

PricewaterhouseCoopers Taxation Services Sdn Bhd

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

PRINCIPAL BANKERS OF AXIS-REIT

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

STOCK NAME AND STOCK CODE

AXREIT 5106

INVESTOR RELATIONS

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

Leong Kit May

Chief Executive Officer/
Executive Director

Or

Chan Tze Wee

Manager, Investments and
Investor Relations

Contact Details

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

Website

www.axis-reit.com.my

LETTER FROM THE CHAIRMAN AND THE CEO



Dear Unitholders,

On behalf of the Board of Directors of Axis REIT Managers Berhad (“ARMB” or “Manager”), it gives us great pleasure to present to you the Annual Report of Axis Real Estate Investment Trust (“Axis-REIT” or “Fund”) for the financial year ended 31 December 2017 (“FYE2017”).

LETTER FROM THE CHAIRMAN AND THE CEO

2017 marked the 12th year of Axis-REIT's listing on Bursa Malaysia Securities Berhad ("Bursa Securities"). At the point of its listing on 3 August 2005, Axis-REIT was the first REIT to be listed on Bursa Securities, and had a stable of five properties with assets totalling RM296.0 million. Today, the Fund boasts a portfolio of 40 properties worth RM2.482 billion, with a total net lettable area ("NLA") of 8,087,781 sq. ft..

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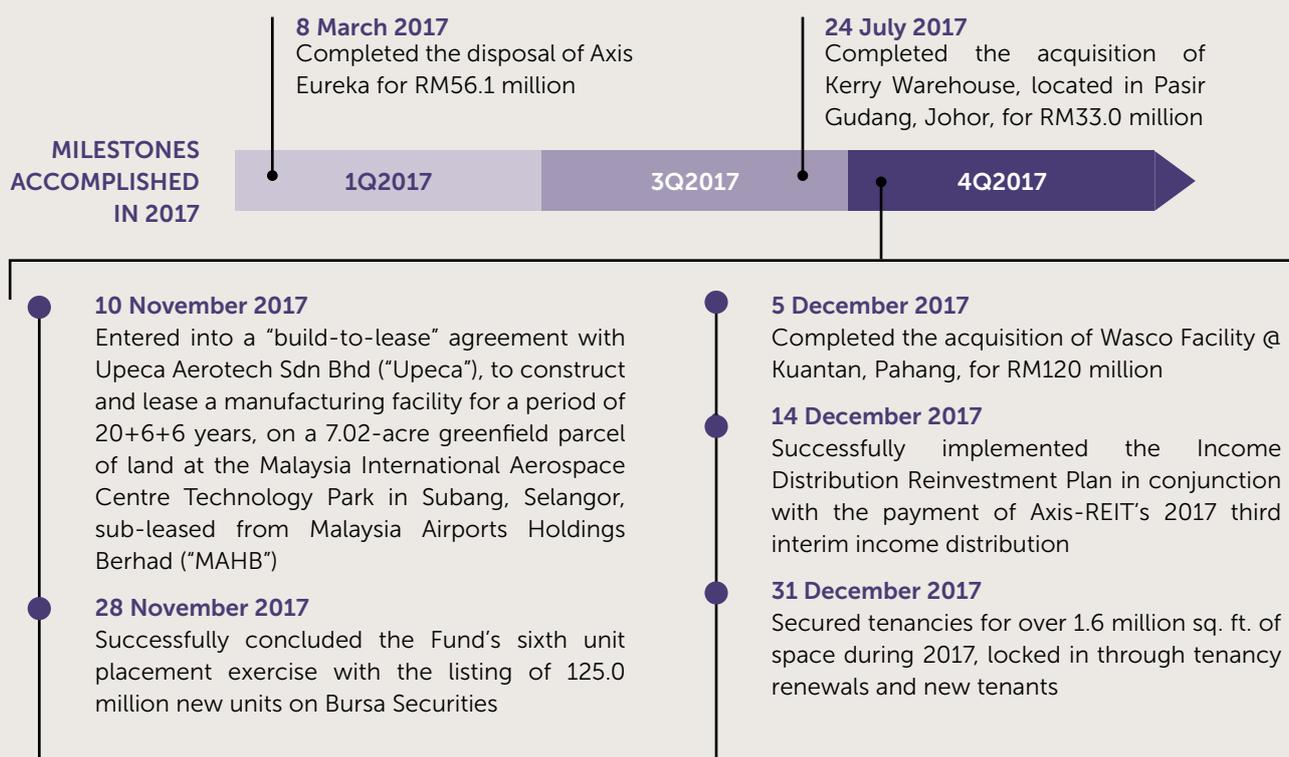
	31 December 2005	31 December 2017	Growth
Assets Under Management	RM340 million	RM2.55 billion	+650%
NLA	1,186,590 sq. ft.	8,087,781 sq. ft.	+500%
Number of Properties	6	40	+471%
Market Capitalisation	RM356 million	RM1.85 billion	+420%
Distribution per Unit ("DPU") (sen)	5.64 ⁽¹⁾	8.26	+46%
No. of Tenants	78	140	+79%
Fund Size	RM278 million	RM1.59 billion	+472%
Accumulated Revaluation Gain	RM42.6 million	RM331.0 million	+677%

Note:

(1) Annualised DPU for FYE2005, restated from 11.28 sen to reflect the Unit Split

THEME: TRANSCENDING BOUNDARIES

The Fund has achieved remarkable growth and attained many "firsts" since its listing. This year's theme, "Transcending Boundaries", encapsulates these achievements in terms of growth, as well as in the realisation of new opportunities and success in new endeavours. As Axis-REIT charts its way forward with expansionary strategies, we remain focused on generating positive investment returns and creating new avenues of growth for the Fund. The athletes on the cover of the Annual Report symbolise these relentless efforts to go higher and beyond.



LETTER FROM THE CHAIRMAN AND THE CEO

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THE OUTLOOK OF THE MALAYSIAN ECONOMY

Despite the cautious sentiment at its outset, 2017 turned out to be a better-than-expected year for the Malaysian economy. The country's gross domestic product ("GDP") grew 5.9% in 2017, driven by resilient growth in domestic demand and strong export growth, amid continued expansion in the global economy.

Current indicators suggest that the Malaysian economy will remain resilient going into 2018, with official forecasts pegging growth at 5.0-5.5% for the year. Risks to the outlook are modest and largely on the external front, and relate to increasing trade protectionism in the US, tighter global financial conditions and volatility in financial markets.

2018: PROSPECTS

We believe the country's firm economic outlook augurs well for the overall property market, but note that supply-demand dynamics will have a more immediate influence on selected property subsectors. We are cautiously optimistic in our outlook for the industrial property segment, anticipating further demand and growth opportunities in the sector amid continued resilience in exports and with the rise of e-commerce.

We remain cautious over the outlook for office space, although we continue to expect sustained demand and rents for Grade A offices in choice locations. We also note that the proposed regulatory measures to limit the development of new office space should help alleviate any supply-demand imbalances in the segment.

PORTFOLIO MANAGEMENT

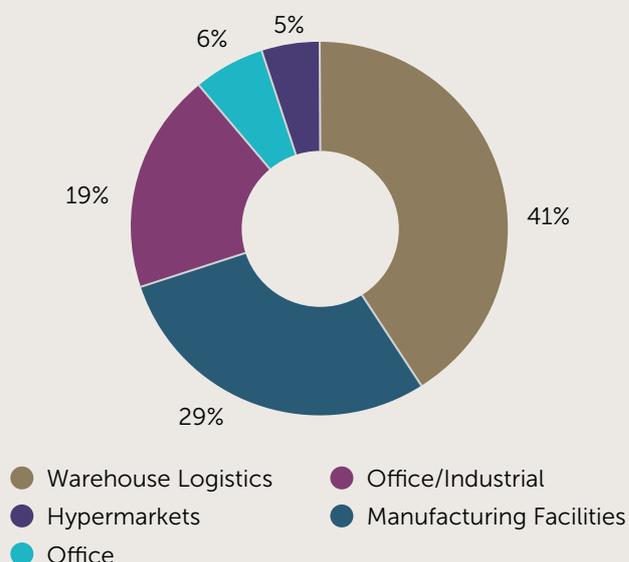
Axis-REIT's portfolio of properties encompasses offices, manufacturing facilities, warehouse logistics facilities and hypermarkets. The Fund recorded a commendable performance for 2017, maintaining its portfolio occupancy rate at 91.12%. During the year, lease commitments for a total of 1,625,963 sq. ft. of space were secured, both through tenancy renewals as well as through new tenancies. With this, the portfolio's weighted average lease expiry ("WALE") period has been extended to 5.87 years. These achievements are a result of our relentless efforts and initiatives to ensure the portfolio continues to have a strong and stable income flow.

	2016	2017
No. of properties	39	40
NLA	7,606,863 sq. ft.	8,087,781 sq. ft.
Occupancy rate	92.03%	91.12%
Portfolio weighted average lease expiry (based on rental value)	4.45 years	5.87 years

The Fund's strategy over the last five years has been to focus on the industrial property segment. This can be seen in the composition of the Fund's property portfolio, where its exposure to warehouse logistics and manufacturing facilities accounted for 70% of its NLA as at 31 December 2017. This strategy has paid off, as the sector has seen rising demand for industrial properties, which in turn, has lifted property values, and resulted in resilient rental and occupancy rates of industrial properties in recent years.

Conversely, we had expected the office space market to remain challenging given the volume of new supply coming into the market. We limited the Fund's exposure to the office sector, which now accounts for just 6% of its portfolio by NLA (from 32% as at 31 December 2005). There are only three office properties currently in its portfolio, all of which are located in Petaling Jaya, Selangor. That said, we are watching the sector closely, noting that with the proposed curb on the development of office space expected to be enforced, the supply-demand dynamics in the segment should improve.

Portfolio Diversification by Type and NLA



LETTER FROM THE CHAIRMAN AND THE CEO

MAINTAINING FOCUS ON INDUSTRIAL PROPERTIES

As part of our efforts to maintain and strengthen the Fund's competitiveness and profitability, we continuously explore opportunities to grow its property portfolio through the acquisition of new properties. In evaluating such opportunities, we place emphasis on the quality of the assets and their fit within the portfolio and investment criteria, as well as the timing of the investment. We ensure comprehensive due diligence exercises are carried out on each potential acquisition.

Our acquisition strategy continues to focus on the industrial sector, and in FYE2017, we concluded the acquisition of Kerry Warehouse, located in Pasir Gudang, Johor, and Wasco Facility @ Kuantan, which is strategically located close to Kuantan Port. Both properties provide attractive income yields and added a total of 669,753 sq. ft. of industrial space to the portfolio, further strengthening the Fund's presence in the sector. The Kerry Warehouse has a remaining tenancy term of three years, while Wasco Facility @ Kuantan is a sale-and-leaseback transaction with a 15-year lease. Wasco Facility @ Kuantan is also the Fund's first acquisition with a staggered payment scheme. In essence, the property sits on two adjacent parcels of land, with the acquisition of one parcel completed and fully paid up on 5 December 2017, while the payment for the second parcel was effected on the 9 February 2018.

Wasco Facility @ Kuantan	Purchase Consideration	Completed on
Land 1	RM120.0 million	5 Dec 2017
Land 2	RM35.0 million	9 Feb 2018



Signing ceremony for the purchase of Wasco Facility @ Kuantan

PORTFOLIO REJUVENATION

During FYE2017, we also concluded the disposal of Axis Eureka. The sale and purchase agreement was executed on 24 October 2016, and the transaction was concluded on 8 March 2017. We took the decision to dispose of the property as we believed its income generating potential had been maximised. Coupled with our view that demand for office space in Cyberjaya would remain stagnant, we capitalised on an opportunity to dispose of the property. The disposal resulted in a net gain of RM1.35 million in Axis-REIT's books for FYE2017, and allowed the Fund to redeploy its resources on other yield-accretive acquisitions.

MAIDEN DEVELOPMENT PROJECT COMPLETED

Axis-REIT reached a major milestone in 2016, when the Fund obtained approval from Securities Commission Malaysia ("SC") to undertake its maiden development project – the "build-to-lease" development of the Nestlé Distribution Centre at Axis Mega Distribution Centre (formerly known as Axis PDI Centre). Construction of the 515,000 sq. ft. warehouse logistics facility was completed on schedule, and the Certificate of Completion and Compliance (CCC) was issued on 29 January 2018. The completed facility was handed over to Nestlé Products Sdn Bhd on time. This timely completion demonstrated Axis-REIT's strength in the built-to-lease space.

The 10-year lease with Nestlé Products Sdn Bhd will see rental income commencing on 1 June 2018. The Fund will derive a starting rental of RM11.2 million for 2018, with an agreed step-up every three years.



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

LETTER FROM THE CHAIRMAN AND THE CEO

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SECOND DEVELOPMENT PROJECT UNDERWAY

The Fund continued to make great strides in the built-to-lease industrial facilities segment, entering into its second built-to-lease development on 10 November 2017. The agreement, with Upeca is for the development of a manufacturing facility on 7.02 acres of vacant land at the Malaysia International Aerospace Centre Technology Park, Sultan Abdul Aziz Shah Airport in Subang, Selangor, where the land for the project is sub-leased from MAHB. The project land was successfully leased on 7 February 2018.



Document exchange ceremony between MAHB, Upeca and Axis-REIT

The proposed development for Upeca's manufacturing facility includes the construction of a single storey manufacturing plant-cum-office building that will have a gross built-up area of approximately 178,978.60 sq. ft. for manufacturing, storage and distribution of aerospace parts. Construction is expected to commence in March 2018, with completion and handover targeted by end-2018. Upeca is ultimately owned by London Stock Exchange-listed Senior Plc.

The agreement with Upeca includes a 20-year initial fixed lease period, with an option to renew for two terms of six years each. With an estimated initial net yield of 7% per annum for the first three years, the monthly rental for the Upeca manufacturing facility is projected at RM465,344.36, with a rental step-up in the later years of the lease period. The total development cost for the project is estimated at RM74.16 million (including the project land).

The Fund obtained the SC's approval for the lease of the land and the development on 14 December 2017. Similar to the Fund's maiden development, this second development is expected to increase the Fund's gross revenue, net property income and income distribution to Unitholders, while growing its total assets under management.



Artist's Impression of second built-to-lease project

LETTER FROM THE CHAIRMAN AND THE CEO

PROACTIVE CAPITAL MANAGEMENT

As part of its proactive capital management efforts, Axis-REIT undertook a private placement exercise during 2017. This was the Fund's sixth capital raising exercise since its IPO in 2005. The private placement was successfully concluded with the listing of 125.0 million new units on 28 November 2017. Total proceeds from the private placement amounted to approximately RM178.8 million, and was used to pare down the Fund's borrowings, lowering its gearing from 36% prior to the placement, to 29% as at the end-November 2017. This has provided a war chest for Axis-REIT to undertake new acquisitions.

ACKNOWLEDGEMENTS

Axis-REIT's commendable performance for FYE2017 is the result of the continued dedication and drive of the staff of ARMB. We would like to thank the entire

team, from our distinguished Board members, to the management team and operations staff, for their respective contributions to the Fund's achievements – from formulating the Fund's comprehensive strategies, to translating these strategies into actionable plans and executing these plans efficiently and effectively. We are confident that working together, we can look forward to transcending new boundaries in the years to come.

Finally, we would also like to thank our business partners, tenants, Unitholders, members of the media and the investment community for their continued support. We look forward to our continued collaboration in the years to come.

**YAM Tunku Dato' Seri Shahabuddin
Bin Tunku Besar Burhanuddin**
Chairman
13 February 2018

Leong Kit May
Chief Executive Officer/Executive Director
13 February 2018

BOARD OF DIRECTORS

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**STEPHEN TEW
PENG HWEE
& TEOH PENG HWEE**
Non-Independent
Non-Executive
Director

**Y BHG DATO' ABAS CARL
GUNNAR BIN ABDULLAH**
Executive Deputy Chairman

LEONG KIT MAY
Chief Executive Officer/
Executive Director

**YAM TUNKU DATO'
SERI SHAHABUDDIN
BIN TUNKU BESAR
BURHANUDDIN**
Independent
Non-Executive
Chairman

BOARD OF DIRECTORS



**Y BHG DATUK SERI
FATEH ISKANDAR BIN
TAN SRI
DATO' MOHAMED
MANSOR**
Independent
Non-Executive
Director

ALVIN DIM LAO
Non-Independent
Non-Executive Director

**MOHD SHARIF
BIN HJ YUSOF**
Senior Independent
Non-Executive
Director

YEOH CHONG KEAT
Non-Independent
Non-Executive Director

DIRECTORS' PROFILE

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1. YAM TUNKU DATO' SERI SHAHABUDDIN BIN TUNKU BESAR BURHANUDDIN

*Independent Non-Executive Chairman
Malaysian/82/Male*

Date first appointed to the Board
10 August 2007

Board Committee Membership

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

Academic/Professional Qualifications

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

Working Experience/Occupation

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

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

Present Directorships in other public companies and/or listed issuers

None

Other Memberships/Appointments/Involvements

- Former inaugural member of the National Institute of Scientific Industrial Research (now known as SIRIM)
- Former Chairman of the Selangor Turf Club
- Presently the International Relations Chairman of the Selangor Turf Club
- Honorary Life Chairman of the Malaysia Australia Business Council
- Former President of the Asia-Pacific Region of the Alliance Internationale de Tourisme
- Former Honorary Consul General of Austria
- Awards received:
 - Darjah Kerabat Terengganu Yang Amat Mulia Darjah Yang Pertama (D.K.) (Terengganu)
 - Darjah Seri Paduka Tuanku Ja'afar Yang Amat Terpuji (S.P.T.J.) (Negeri Sembilan)
 - Honorary Officer (AO) in the General Division of the Order of Australia Award
 - Austrade International Business Person of the Year Award 2000

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DIRECTORS' PROFILE

2. Y BHG DATO' ABAS CARL GUNNAR BIN ABDULLAH

Executive Deputy Chairman

Norwegian/Permanent Resident of Malaysia/58/Male

Date first appointed to the Board

15 March 2005

Board Committee Membership

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

Academic/Professional Qualifications

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

Working Experience/Occupation

Dato' Abas Carl Gunnar was the Managing Director of Jotun Powder Coatings (M) Sdn Bhd from 1985 to 1993. In 1989, he embarked on a build and lease project with the multinational APV Hills & Mills. In 1992, he teamed up with Stephen Tew Peng Hwee and other investors to build Crystal Plaza. This was followed by the building of Axis Business Park, Axis Plaza and Menara Axis, which collectively formed the core property portfolio of Axis-REIT during its initial public offering.

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

Present Directorships in other public companies and/or listed issuers

None

Other Memberships/Appointments/Involvements

None

Other Information

Dato' Abas Carl Gunnar has an alternate director, Alex Lee Lao.

3. LEONG KIT MAY

Chief Executive Officer/Executive Director

Malaysian/41/Female

Date first appointed to the Board

15 November 2011

Board Committee Membership

Member of the Executive Committee

Academic/Professional Qualifications

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

Working Experience/Occupation

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

In 2006, Kit May joined ARMB and was promoted to Chief Financial Officer in 2008. In the same year, she spearheaded the project of converting Axis-REIT into the world's first Islamic Office/Industrial REIT. She continued to assume greater management responsibilities, and in November 2011, was appointed to the Board of the Manager as an Executive Director. As part of the Board's succession plans, Kit May was groomed to become Chief Executive Officer ("CEO") of ARMB. In preparation for this, she took on the position of Chief Operating Officer of ARMB in 2015, before assuming the role of CEO on 1 January 2016.

She continues to lead Axis-REIT to new milestones, which include securing its maiden property development project in 2016 with the signing of a build-and-lease agreement for Nestlé Products Sdn Bhd's distribution centre at Axis Mega Distribution Centre. Under her leadership, Axis-REIT also embarked on its second build-to-suit project in 2017, involving a parcel of land in Malaysia International Aerospace Centre Technology Park, for the development of a facility for Upeca Aerotech Sdn Bhd.

Present Directorships in other public companies and/or listed issuers

Axis REIT Sukuk Berhad

Other Memberships/Appointments/Involvements

Vice Chairman of the Malaysian REIT Managers Association

DIRECTORS' PROFILE

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4. STEPHEN TEW PENG HWEE @ TEOH PENG HWEE

Non-Independent Non-Executive Director
Malaysian/56/Male

Date first appointed to the Board

25 October 2004

Board Committee Membership

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

Academic/Professional Qualifications

Diploma from the Institute of Marketing, United Kingdom

Working Experience/Occupation

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

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

Present Directorships in other public companies and/or listed issuers

Axis REIT Sukuk Berhad

Other Memberships/Appointments/Involvements

- Past President of the Malaysian Institute of Estate Agents ("MIEA")
- Former board member of the Board of Valuers, Appraisers and Estate Agents (1998-2004)
- Awarded the prestigious 'Lifetime Achievement Award' by MIEA (2015)



DIRECTORS' PROFILE

5. DATUK SERI FATEH ISKANDAR BIN TAN SRI DATO' MOHAMED MANSOR

Independent Non-Executive Director
Malaysian/49/Male

Date first appointed to the Board

20 November 2006

Board Committee Membership

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

Academic/Professional Qualifications

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

Working Experience/Occupation

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

Present Directorships in other public companies and/or listed issuers

- Glomac Berhad and its group of companies
- Telekom Malaysia Berhad
- VADS Berhad

Other Memberships/Appointments/Involvements

- City Advisory Board Member for Dewan Bandaraya Kuala Lumpur
- President of the Real Estate & Housing Developers' Association ("REHDA") Malaysia
- Immediate Past Chairman of REHDA's Selangor Branch
- Former Deputy Chairman of the Malaysia Australia Business Council
- Co-Chair of the Special Taskforce to Facilitate Business (PEMUDAH) on legal matters and services
- Founding Director of Malaysia Property Incorporated

Awards received:

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

DIRECTORS' PROFILE

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6. ALVIN DIM LAO

Non-Independent Non-Executive Director
Filipino/46/Male

Date first appointed to the Board

30 December 2011

Board Committee Membership

Member of the Audit Committee

Academic/Professional Qualifications

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

Working Experience/Occupation

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

Alvin is also the Chief Financial Officer of LBL Industries Inc. ("LBL"), a multi-faceted property development company with industrial and commercial projects focused in the Manila region. He also sits on the board of Xurpas, Inc., another public company listed on the Philippine Stock Exchange, as an independent director.

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

Present Directorships in other public companies and/or listed issuers

None

Other Memberships/Appointments/Involvements

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

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DIRECTORS' PROFILE

7. MOHD SHARIF BIN HJ YUSOF

Senior Independent Non-Executive Director
Malaysian/78/Male

Date first appointed to the Board

10 August 2007

Board Committee Membership

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

Academic/Professional Qualifications

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

Working Experience/Occupation

Mohd Sharif served the Selangor State Government from 1967 to 1971. He then became the Senior Accountant of Anglo Oriental Sdn Bhd from 1972 to 1973, and subsequently moved on to be the Corporate Finance Officer of Bumiputera Merchant Bankers Berhad from 1973 until 1977. This was followed by a 12-year career as Senior Vice-President and Company Secretary of Manulife Insurance Malaysia Berhad (formerly known as British American Life & General Insurance Company Berhad).

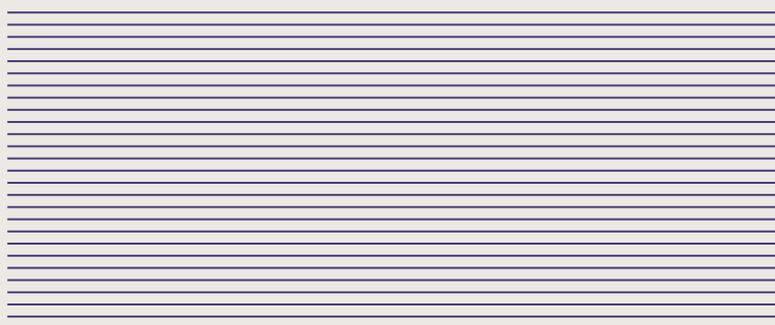
Mohd Sharif is currently a Director of Setia Raya Sdn Bhd, a family-owned company. He has held the post since 1989.

Present Directorships in other public companies and/or listed issuers

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

Other Memberships/Appointments/Involvements

None



DIRECTORS' PROFILE

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8. YEOH CHONG KEAT

*Non-Independent Non-Executive Director
Malaysian/59/Male*

Date first appointed to the Board

1 March 2017

Board Committee Membership

None

Academic/Professional Qualifications

- Fellow of The Institute of Chartered Accountants in England and Wales
- Fellow of the Chartered Tax Institute of Malaysia
- Chartered Accountant of the Malaysian Institute of Accountants
- Member of the Malaysian Institute of Certified Public Accountants

Working Experience/Occupation

Chong Keat trained and qualified as a Chartered Accountant with Deloitte Haskins & Sells, United Kingdom (now part of PricewaterhouseCoopers, United Kingdom). He was also formerly the Head of a leading corporate services firm for over 10 years and has accumulated a wealth of experience in audit, tax, consulting and secretarial work, with over 35 years in professional practice.

Chong Keat founded Archer Corporate Services Sdn Bhd ("Archer") in 1999 and is currently its President/Chief Executive Officer. Archer provides corporate secretarial services to private and public listed companies.

Present Directorships in other public companies and/or listed issuers

- Lien Hoe Corporation Berhad
- AbleGroup Berhad
- Tambun Indah Land Berhad
- Advancecon Holdings Berhad

Other Memberships/Appointments/Involvements

None

Other Disclosures

1. Alvin Dim Lao represents the interests of the Lao family on the Board of ARMB, including those of Alex Lee Lao, who is an ultimate major shareholder of ARMB. He is a nephew of Alex Lee Lao. Alvin's alternate director is Jancis Anne Que Lao, who is a daughter of Alex Lee Lao.

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

2. None of the Directors of ARMB has any conflict of interest with Axis-REIT.
3. None of the Directors of ARMB has been convicted of any offence (other than traffic offences) within the past 10 years.
4. None of the Directors of ARMB has any public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2017.
5. The details of the attendance of each Director of ARMB at Board meetings held in the financial year ended 31 December 2017 are contained in the Corporate Governance Statement of this Annual Report.
6. The details of the unitholdings held by each Director of ARMB in Axis-REIT are contained in page 239.

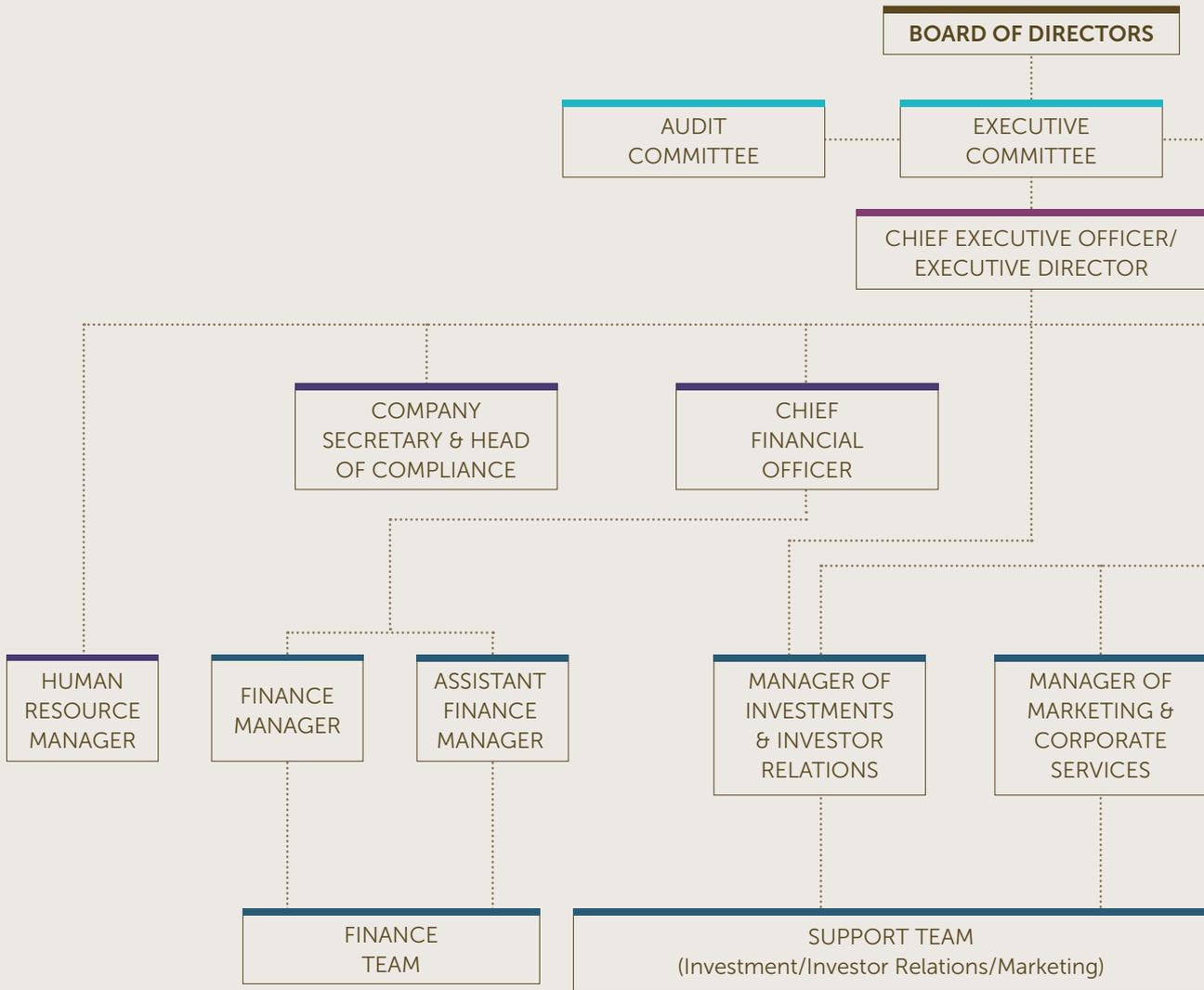
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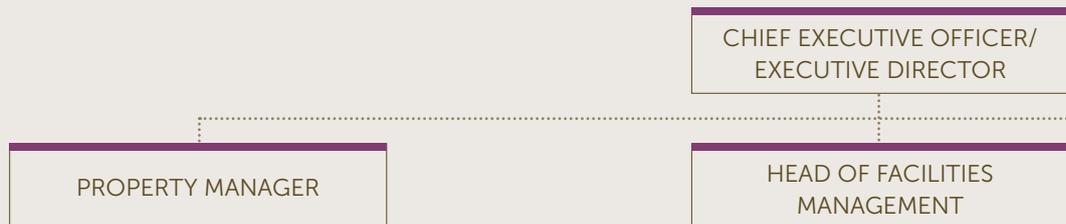


THE A TEAM'S ORGANISATIONAL STRUCTURE

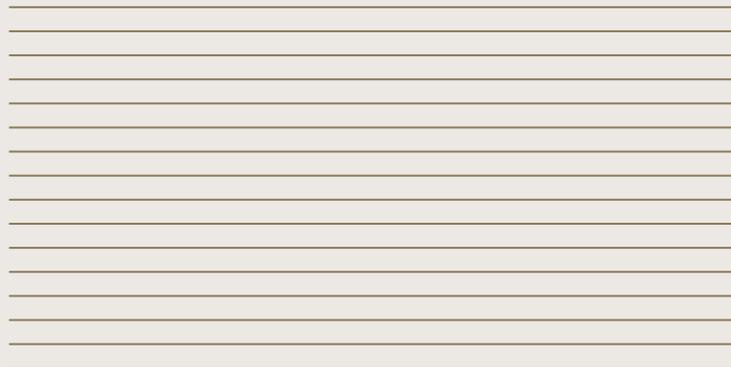
CORPORATE DIVISION



PROPERTY MANAGEMENT DIVISION



THE A TEAM'S ORGANISATIONAL STRUCTURE



THE A TEAM PROFILE

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1. LEONG KIT MAY

*Chief Executive Officer/Executive Director
Malaysian/41/Female*

Date first appointed to the Board

15 November 2011

Academic/Professional Qualifications

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

Working Experience/Occupation

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

Present Directorships in other public companies and/or listed issuers

Axis REIT Sukuk Berhad

Other Memberships/Appointments/Involvements

Vice Chairman of the Malaysian REIT Managers Association



2. NIKKI NG

*Chief Financial Officer
Malaysian/40/Female*

Date first appointed as key senior management personnel

1 June 2012

Academic/Professional Qualifications

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

Working Experience/Occupation

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

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

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

Present Directorships in public companies and/or listed issuers

None

THE A TEAM PROFILE

**3. SIVA SHANKER**

*Head of Investments
Malaysian/55/Male*

**Date first appointed as key senior
management personnel**

1 January 2016

Academic/Professional Qualifications

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

Working Experience/Occupation

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

He has over 34 years of experience in the property industry, having worked in both large international property consultancies as well as small local outfits. Siva continues to play an active role in the Malaysian Institute of Estate Agents, having served as its President for the 2013/2015 term.

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

Present Directorships in public companies and/or listed issuers

None

**4. REBECCA LEONG**

*Company Secretary & Head of Compliance
Malaysian/39/Female*

**Date first appointed as key senior
management personnel**

1 November 2016

Academic/Professional Qualifications

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

Working Experience/Occupation

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

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

Present Directorships in public companies and/or listed issuers

None

THE A TEAM PROFILE

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5. JACKIE LAW

*Head of Real Estate
Malaysian/53/Female*

Date first appointed as key senior management personnel
1 December 2012

Academic/Professional Qualifications

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

Working Experience/Occupation

Jackie is responsible for the asset management strategies and operations of Axis-REIT's property portfolio. As the Head of Real Estate, she leads the REIT's leasing functions, and is responsible for evaluating potential acquisitions, as well as recommending and implementing asset enhancement initiatives. She works with the Chief Executive Officer on the bidding and lease structuring of the built-to-lease developments. She also oversees the REIT's property management functions, which include tenant care and services, as well as maximising tenant retention, loyalty and satisfaction.

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

Present Directorships in public companies and/or listed issuers

None



6. LYNN CHIA

*Head of Leasing
Malaysian/36/Female*

Date first appointed as key senior management personnel
15 February 2016

Academic/Professional Qualifications

- Master of Business, Charles Sturt University
- Bachelor of Science in Business Computing, University of Winnipeg

Working Experience/Occupation

Lynn is responsible for the leasing administration of Axis-REIT's property portfolio. She works closely with the Head of Real Estate on leasing matters and management of tenant care.

Lynn has 10 years of experience in leasing. Prior to joining ARMB, she was the Leasing Manager at CapitaLand Malaysia Mall Trust, and Property Acquisition Manager at Tesco Stores (M) Sdn Bhd.

Present Directorships in public companies and/or listed issuers

None

THE A TEAM PROFILE

**7. CHAN TZE WEE**

*Manager, Investments & Investor Relations
Malaysian/38/Female*

**Date first appointed as key senior
management personnel**

1 January 2016

Academic/Professional Qualifications

- Bachelor of Law (LLB), University of Manchester
- Master of Science in Marketing, University of Manchester, United Kingdom
- Certificate of Real Estate Investment Finance, Asia Pacific Real Estate Association Institute

Working Experience/Occupation

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

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

Present Directorships in public companies and/or listed issuers

None

**8. LOW AY KEAN**

*Human Resource Manager
Malaysian/43/Female*

**Date first appointed as key senior
management personnel**

1 December 2015

Academic/Professional Qualifications

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

Working Experience/Occupation

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

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

Present Directorships in public companies and/or listed issuers

None

THE A TEAM PROFILE

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9. SELINA KHOR

*Property Manager of Axis Real Estate Investment Trust
Malaysian/59/Female*

Academic/Professional Qualifications

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

Working Experience/Occupation

Selina is the registered owner of Axis Property Services, the appointed Property Manager of Axis-REIT since 1 January 2007. She is responsible for the management of all properties in Axis-REIT's portfolio, and works closely with Axis Facilities Management Sdn Bhd in the provision of property management services to Axis-REIT. These range from property maintenance and management, fit-out projects and enhancement initiatives.

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

Present Directorships in public companies and/or listed issuers

None



10. SIVA SHANKAR PALANY

*Head of Facilities Management,
Axis Facilities Management Sdn Bhd
Malaysian/45/Male*

Academic/Professional Qualifications

- Bachelor of Real Estate Management, Kuala Lumpur Infrastructure University College
- Certified International Project Manager, International Academy of Project Management

Working Experience/Occupation

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

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

Present Directorships in public companies and/or listed issuers

None

THE A TEAM PROFILE

**11. LOH YEN FERN**

*Head of Project Management,
Axis Facilities Management Sdn Bhd
Malaysian/46/Female*

Academic/Professional Qualifications

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

Working Experience/Occupation

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

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

Present Directorships in public companies and/or listed issuers

None

Other Disclosures

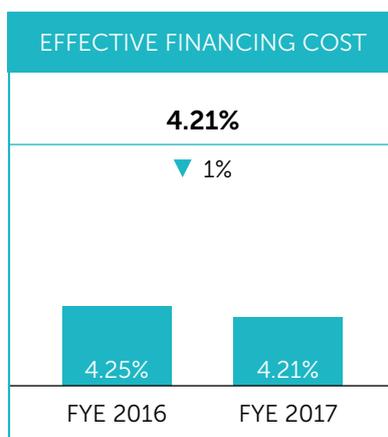
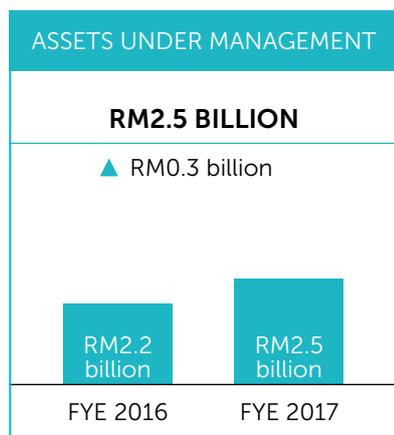
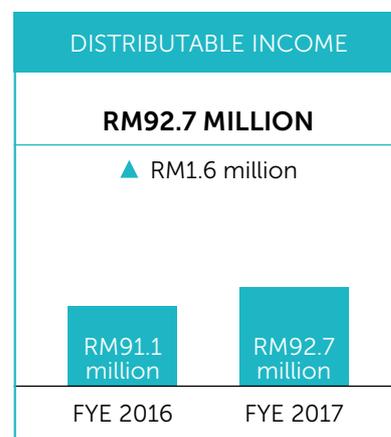
1. None of the key senior management personnel has any family relationship with any Director of ARMB and/or major shareholder of ARMB, and/or major unitholder of Axis-REIT.
2. None of the key senior management personnel of ARMB has any conflict of interest with Axis-REIT.
3. None of the key senior management personnel of ARMB has been convicted of any offence (other than traffic offences) within the past 10 years.
4. None of the key senior management personnel of ARMB has any public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2017.

FINANCE TEAM



MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

AS AT 31 DECEMBER 2017



MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

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Axis Real Estate Investment Trust ("Axis-REIT" or "Fund") has a proven track record of delivering sustainable and stable returns to Unitholders. The Fund delivered another healthy set of financial results, achieving a distribution per unit ("DPU") of 8.26 sen for the financial year ended 31 December 2017 ("FYE2017"), which translates to a distribution yield of 5.5% based on Axis-REIT's closing unit price of RM1.50 on 31 December 2017.

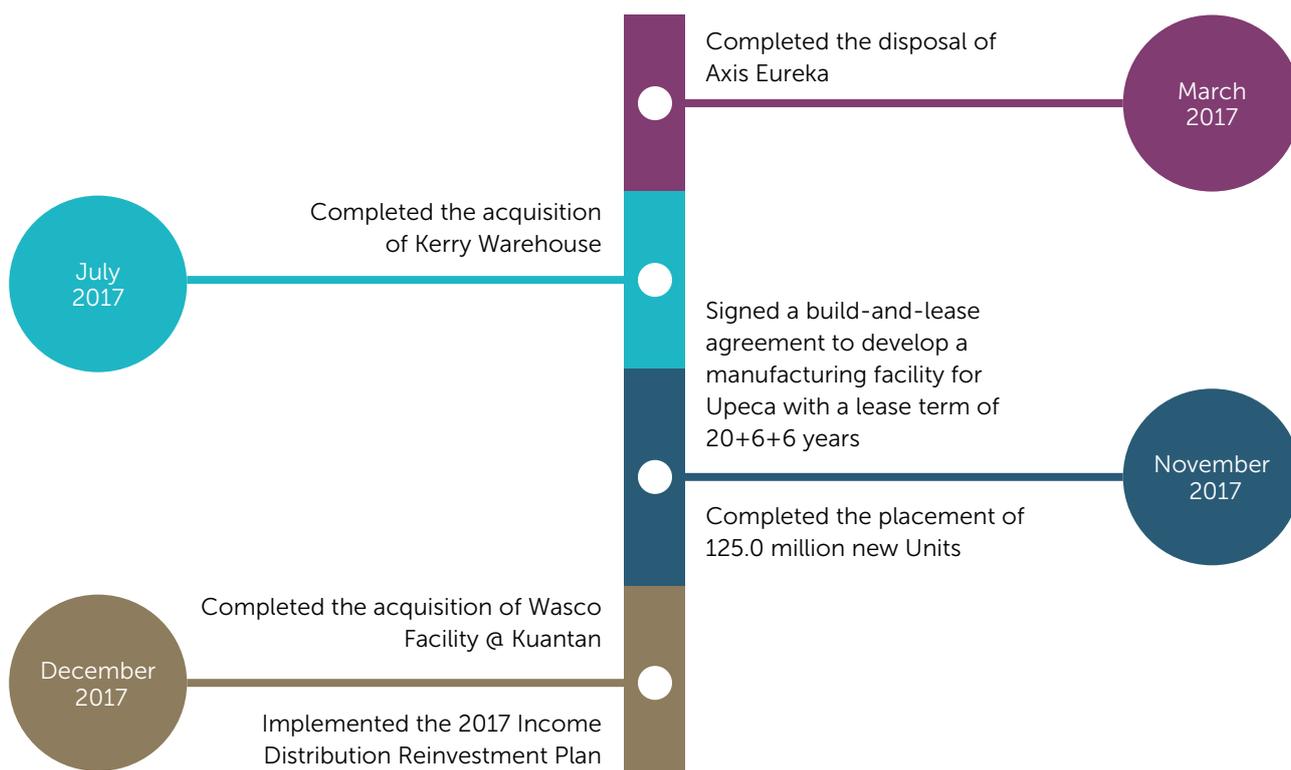
Highlights

Axis-REIT is one of the fastest growing REITs in Malaysia. Its property portfolio has grown from 5 properties at the point of its listing in 2005, to 40 properties as at 31 December 2017. During 2017, the Fund successfully concluded the acquisitions of two properties – Kerry Warehouse and Wasco Facility @ Kuantan – for a total consideration of RM153.0 million. The Fund also concluded the disposal of Axis Eureka for RM56.1 million on 8 March 2017, recording a net gain of RM1.35 million, which has been distributed to Unitholders by way of a tax-exempt income distribution in the first and second income distributions for FYE2017.

The Fund completed the development of the Nestlé Distribution Centre at Axis Mega Distribution Centre, its first "built-to-lease" development on 29 January 2018. In addition to the development recorded remarkable fair value gain of RM28.9 million in FYE2017, the development will increase the Fund's gross revenue, net property income, as well as income distribution in 2018.

On 10 November 2017, the Trustee entered its second build-and-lease agreement. The agreement, with Upeca Aerotech Sdn Bhd ("Upeca"), is for the development of a manufacturing facility with a gross built up area of approximately 178,978.60 sq. ft. on a 7.02-acre parcel of land at the Malaysia International Aerospace Centre Technology Park, Subang. The agreement includes an initial lease term of 20 years with the option to renew the lease for two additional terms of six years each. Axis-REIT expects to derive an initial annual rental of RM5.6 million upon completion of the project.

The Fund's significant events during 2017 are summarised below:



MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

Income Distribution

Every year, the net income of the Fund is distributed to Unitholders. The income available for distribution for FYE2017 was RM92,668,000, representing a year-on-year increase of 1.6%. The Fund has declared a final income distribution of 0.92 sen per unit for the 16 November 2017 to 31 December 2017 period. Together with the interim income distribution of 7.34 sen per unit for the 1 January 2017 to 15 November 2017 period, the Fund's total DPU for FYE2017 amounted to 8.26 sen.

Based on Axis-REIT's closing unit price of RM1.50 as at 31 December 2017, the distribution yield was 5.5% per unit.

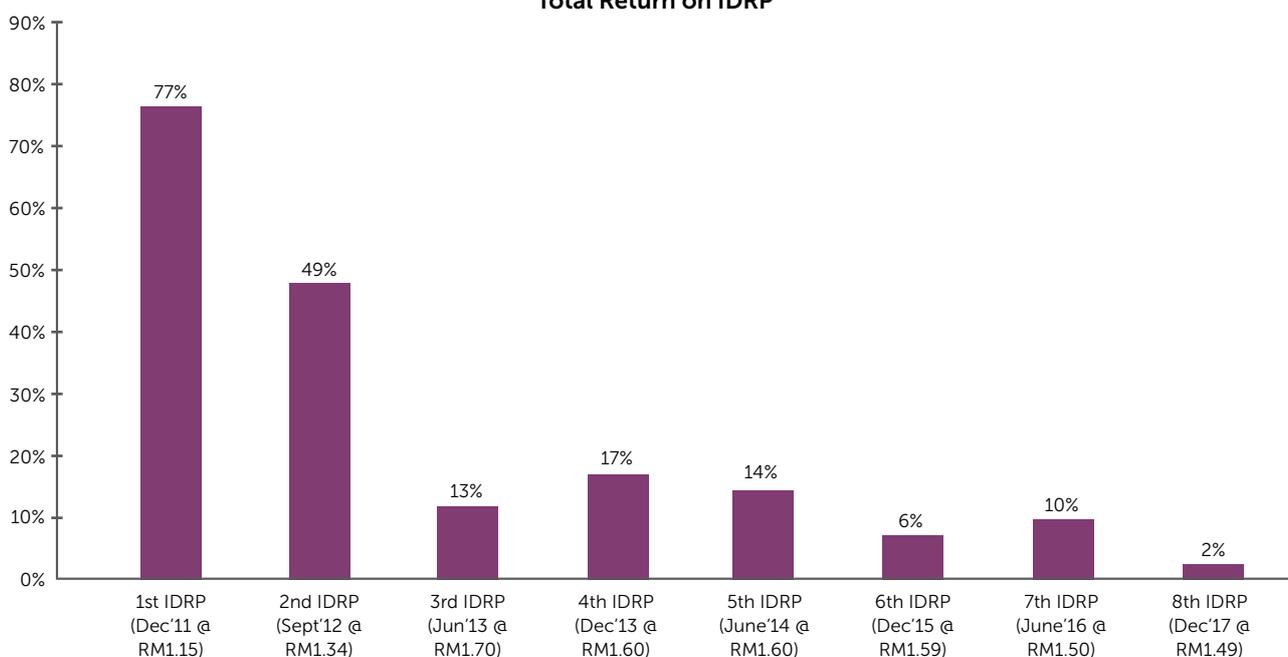
2017 IDRPs Successfully Implemented

The application of the Income Distribution Reinvestment Plan ("IDRP") in conjunction with the payment of the Third Interim Income Distribution was successfully completed in December 2017. A total of 2,153,212 IDRPs units were listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 14 December 2017. Consequently, the total number of Axis-REIT units in issue increased from 1,230,173,591 to 1,232,326,803 as at 31 December 2017.

The IDRPs were offered to Unitholders at a price of RM1.49 per unit, effectively pricing it at a 5.09% discount to the five-day volume weighted average market price ("VWAMP"). Unitholders who participated in the 2017 IDRPs would have registered a total return of 2% within a month of its issuance, i.e. from the IDRPs issuance date to 31 December 2017. The Fund retained RM3.14 million in capital from the IDRPs, which was deployed towards Asset Enhancement Initiatives ("AEIs") of its property portfolio.

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

Total Return on IDRPs



MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

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Acquisition of Yield-Accretive Properties

Axis-REIT's property portfolio has successfully generated strong investment returns, and the Manager continues to implement growth strategies to further improve the Fund's property portfolio. As at 31 December 2017, the value of the portfolio stood at RM2.5 billion, an increase of 15.8% from 2016.

The Fund remains committed to actively pursue yield-enhancing acquisition opportunities, seeking suitable and income-producing commercial/industrial properties. During FYE2017, the Fund completed two acquisitions for a total consideration of RM153.0 million. These acquisitions were fully debt-funded, utilising available banking facilities, and immediately contributed to Axis-REIT's FYE2017 income upon their completion.

As part of our strategy, the Manager will continue to proactively seek yield-accretive investment opportunities that can expand the scale of Axis-REIT's portfolio. The Manager also closely monitors and evaluates the portfolio to ascertain if there are properties that have reached the optimal stage in their life cycle and should be divested to realise their value. The proceeds from such divestments would then be redeployed for other purposes, including reinvestment into higher-yielding properties to provide stable income growth and capital appreciation in the long term.

Disposal of Axis Eureka

Axis-REIT completed the disposal of Axis Eureka on 8 March 2017. The Fund recorded a gain on disposal of RM1.35 million upon completion of the transaction, which translated to an incremental income distribution of 0.12 sen per unit. This gain was distributed to Unitholders in the 2017 first and second interim income distributions by way of a tax-exempt income distribution.

The computation in arriving the RM1.35 million gain from the disposal of Axis Eureka is as follows:

	RM'000
Disposal price	56,132
Less : incidental disposal costs	(1,551)
Less : carrying value of Axis Eureka	(55,000)
Add : realisation of revaluation gain	1,764
Net gain on disposal	<u>1,345</u>

Summary of Performance

	2013	2014	2015	2016	2017
Total Asset Value (RM'000)	1,616,523	2,085,883	2,141,493	2,244,274	2,549,609
Total Net Asset Value (RM'000)	1,028,640	1,326,369	1,352,485	1,392,971	1,591,136
Units in Circulation (Units) ('000)	461,239	547,522	1,099,793 *	1,105,174 *	1,232,327 *
Net Asset Value ("NAV") per Unit (RM)					
- As at 31 December	2.23	2.42	1.22 *	1.26 *	1.29 *
- Lowest NAV during the year	2.14	2.22	1.22 *	1.23 *	1.25 *
- Highest NAV during the year	2.24	2.42	1.25 *	1.26 *	1.29 *
Market Value per Unit as at 31 December (RM)	2.93	3.62	1.64 *	1.61 *	1.50 *
Highest Traded Price for the year (RM)	4.02	3.70	1.85 *	1.81 *	1.72 *
Lowest Traded Price for the year (RM)	2.93	2.80	1.55 *	1.50 *	1.45 *

* Adjusted to reflect the effect of Unit Split

MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

Summary of Results

	2013	2014	2015	2016	2017
Gross Revenue (RM'000)	141,314	137,625	163,077	166,685	167,761
Unrealised Rental Revenue (RM'000)	2,271	2,424	2,598	4,655	4,954
Property Operating Expenses (RM'000)	(20,812)	(21,553)	(23,746)	(27,048)	(26,512)
Net Property Income (RM'000)	122,773	118,496	141,929	144,292	146,203
Profit Income (RM'000)	667	1,210	744	678	984
Changes in Fair Value of Investment Properties (RM'000)	27,206	25,970	5,791	29,861	30,395
Unbilled Lease Income Receivable (RM'000)	(2,271)	(2,424)	(2,598)	(4,655)	(4,954)
Net Gain/(Loss) on Financial Liabilities measured at amortised cost * (RM'000)	(86)	2,744	(683)	2,446	1,163
Net gain/(loss) on Disposal of Investment Property (RM'000)	-	1,614	-	-	(419)
Fair Value Change on Derivatives (RM'000)	(366)	455	(81)	(201)	206
Net Property and Investment Income (RM'000)	147,923	148,065	145,102	172,421	173,578
Non-Property Expenses (RM'000)	(36,642)	(37,610)	48,465	50,129	51,018
Net Income before Taxation (RM'000)	111,281	110,455	96,637	122,292	122,560
Breakdown of Net Income after Taxation:					
- Realised Income after Taxation (RM'000)	84,527	81,286	91,537	90,186	90,796
- Unrealised Income after Taxation (RM'000)	26,754	29,169	5,027	32,106	31,764
Income Available for Distribution (RM'000)	84,942	92,720	92,154	91,122	92,668
Earnings per Unit (Realised + Unrealised) ("EPU") (sen)	24.30	23.64	8.81**	11.09**	10.97**
Income Distribution (RM'000)	84,903	92,684	92,114	91,067	92,457
Distribution Per Unit ("DPU") (sen)	18.50	19.75	8.40**	8.25**	8.26**
Distribution Yield (based on closing market price on 31 December) (%)	6.31	5.46	5.12	5.12	5.51
EPU Yield (based on closing market price on 31 December) (%)	8.29	6.53	5.37	6.89	7.31
Management Expense Ratio ("MER") (%)	1.25	1.29	1.36	1.25	1.31
Annual Total Return *** (%)	-0.5	30.29	-4.75	3.20	-1.70
Average Total Return (3 years) (%)	14.91	18.78	8.35	9.58	-1.08

* Unrealised gain/(loss) on discounted tenants' deposits received in compliance with the Malaysian Financial Reporting Standard ("MFRS") 139.

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

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

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Increase in Gross Revenue with Recent Acquisitions

In FYE2017, Axis-REIT successfully completed the acquisitions of Kerry Warehouse and Wasco Facility @ Kuantan. During the year, the Fund also disposed of Axis Eureka, which resulted in a net gain of RM1.35 million. This led to an increase in the number of properties during the year, from 39 to 40 properties as at 31 December 2017.

For FYE2017, the Fund realised RM167.8 million in property income, up 0.65% from FYE2016. The growth was attributable to additional revenue from the two properties acquired in the second half of 2017 and healthy rental reversions across the portfolio, although these were partly offset by the loss of revenue of approximately RM3.3 million following the divestment of Axis Eureka.

From FYE2018 onwards, the Fund will benefit from full-year revenue contributions of RM11.8 million from Kerry Warehouse and Wasco Facility @ Kuantan, as the acquisitions were only completed in the second half of 2017.

The breakdown of total gross income is as follows:

	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000
Rental income	133,008	127,969	153,861	156,546	154,537
Car park income	5,572	6,283	5,800	6,475	7,817
Other income	2,734	3,373	3,416	3,664	5,407
Total	141,314	137,625	163,077	166,685	167,761
No. of properties	31	33	34	39	40

Gross Property Yields

The average gross yield on the Fund's portfolio of properties for FYE2017 is 9.2%.

Properties	Annualised Gross Yield (%)
1. Axis Business Park	8.41
2. Crystal Plaza	14.39
3. Menara Axis	13.27
4. Infinite Centre	8.43
5. Wisma Kemajuan	17.42
6. Axis Business Campus	2.28
7. Axis Shah Alam DC 1	9.36
8. Giant Hypermarket	9.48
9. FCI Senai	14.85
10. Fonterra HQ	11.37
11. Quattro West	6.84
12. Strateq Data Centre	12.43
13. Niro Warehouse	11.78
14. D21 Logistics Warehouse (formerly known as BMW Centre PTP)	6.66
15. Pasir Gudang Logistics Warehouse 1 (formerly known as Delfi Warehouse)	5.52
16. Axis Vista	8.75
17. Axis Steel Centre	10.58
18. Bukit Raja Distribution Centre	9.48
19. Seberang Prai Logistics Warehouse 1	9.85
20. Seberang Prai Logistics Warehouse 2	9.38
21. Tesco Bukit Indah	8.85

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Properties	Annualised Gross Yield (%)
22. Axis Mega Distribution Centre (formerly known as Axis PDI Centre)	Under development
23. Axis Technology Centre	8.11
24. D8 Logistics Warehouse	12.13
25. Bayan Lepas Distribution Centre	10.68
26. Seberang Prai Logistics Warehouse 3	10.80
27. Emerson Industrial Facility Nilai	10.64
28. Wisma Academy Parcel	10.17
29. The Annex	5.96
30. Axis MRO Hub	7.82
31. Axis Shah Alam DC 3	8.09
32. Axis Steel Centre @ SiLC	7.47
33. Axis Shah Alam DC 2	7.74
34. Beyonics i-Park Campus Block A	8.06
35. Beyonics i-Park Campus Block B	8.06
36. Beyonics i-Park Campus Block C	8.08
37. Beyonics i-Park Campus Block D	8.05
38. Scomi Facility @ Rawang	8.02
39. Kerry Warehouse	8.09
40. Wasco Facility @ Kuantan	7.32

Management of Property Operating Expenses

Total property operating expenses for FYE2017 decreased 2% to RM26.5 million. The decrease was mainly due to the disposal of Axis Eureka, which was completed on 8 March 2017, as well as from lower maintenance costs during the year. The breakdown of property operating expenses is as follows:

	2013 (RM'000)	2014 (RM'000)	2015 (RM'000)	2016 (RM'000)	2017 (RM'000)
Assessment and quit rent	4,203	3,977	4,698	4,898	5,072
Property manager's fee and on-site personnel costs	5,531	5,515	6,062	6,249	5,905
Security	1,854	1,916	1,948	1,855	1,981
Takaful	1,080	995	1,348	1,544	1,168
Maintenance and others	8,144	9,150	9,690	12,502	12,386
Total	20,812	21,553	23,746	27,048	26,512

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Overall Financial Results

FYE2017 was a period of continued and steady growth for Axis-REIT's financial performance. Total gross income rose by 0.65% year-on-year to RM167.8 million during the year, despite the loss of tenancies at Pasir Gudang Logistics Warehouse 1 (formerly known as Delfi Warehouse) and D21 Logistics Warehouse (formerly known as BMW Centre PTP), as well as from Axis Eureka, following the completion of its disposal. New tenants have been secured for both Pasir Gudang Logistics Warehouse 1 and D21 Logistics Warehouse, and full rental income from these properties are expected to resume in FYE2018.

Property expenses for the year fell to RM26.5 million, a decrease of RM0.5 million compared with RM27.0 million during FYE2016.

The higher gross income and lower property expenses resulted in a 1.2% year-on-year increase in net property income (excluding unrealised rental income/unbilled lease income receivables), which rose to RM141.2 million in FYE2017, compared with RM139.6 million in FYE2016.

The summary of our gross income, property operating expenses and net property income per property for FYE2017 is presented below:

Properties	Gross Revenue	Property Operating Expenses	Net Property Income
	RM	RM	RM
Axis Business Park	8,503,816	2,123,511	6,380,305
Crystal Plaza	9,559,807	1,532,243	8,027,564
Menara Axis	11,531,187	2,091,539	9,439,648
Infinite Centre	3,001,014	911,099	2,089,915
Wisma Kemajuan	6,535,014	1,728,202	4,806,812
Axis Business Campus	1,413,260	1,148,732	264,528
Axis Shah Alam DC 1	2,103,234	183,780	1,919,454
Giant Hypermarket	3,692,880	294,585	3,398,295
FCI Senai	1,885,342	163,811	1,721,531
Fonterra HQ	1,258,801	280,497	978,304
Quattro West	3,494,854	1,335,845	2,159,009
Strateq Data Centre	5,310,919	292,951	5,017,968
Niro Warehouse	1,794,849	162,386	1,632,463
D21 Logistics Warehouse (formerly known as BMW Centre PTP)	1,892,590	276,611	1,615,979
Pasir Gudang Logistics Warehouse 1 (formerly known as Delfi Warehouse)	157,221	274,150	(116,929)
Axis Vista	2,984,401	434,630	2,549,771
Axis Steel Centre	7,057,669	1,215,174	5,842,495
Bukit Raja Distribution Centre	7,231,973	319,176	6,912,797
Seberang Prai Logistics Warehouse 1	1,755,016	82,278	1,672,738
Seberang Prai Logistics Warehouse 2	693,011	50,611	642,400
Tesco Bukit Indah	6,811,158	455,743	6,355,415
Axis Mega Distribution Centre (formerly known as Axis PDI Centre)	2,321,261	946,802	1,374,459
Axis Technology Centre	4,085,233	1,073,386	3,011,847
D8 Logistics Warehouse	3,722,010	324,092	3,397,918

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Properties	Gross Revenue	Property Operating Expenses	Net Property Income
	RM	RM	RM
Axis Eureka *	739,802	289,926	449,876
Bayan Lepas Distribution Centre	5,347,956	847,441	4,500,515
Seberang Prai Logistics Warehouse 3	6,686,558	999,039	5,687,519
Emerson Industrial Facility Nilai	2,907,546	245,634	2,661,912
Wisma Academy Parcel	7,715,718	2,204,663	5,511,055
The Annex	795,441	227,586	567,855
Axis MRO Hub	4,176,236	330,170	3,846,066
Axis Shah Alam DC 3	15,127,989	1,834,751	13,293,238
Axis Steel Centre @ SiLC	11,642,307	502,958	11,139,349
Axis Shah Alam DC 2	3,542,198	334,685	3,207,513
Beyonics i-Park Campus Block A	1,165,534	144,251	1,021,283
Beyonics i-Park Campus Block B	1,056,442	130,768	925,674
Beyonics i-Park Campus Block C	964,009	124,217	839,792
Beyonics i-Park Campus Block D	1,810,742	221,154	1,589,588
Scomi Facility @ Rawang	3,425,836	207,741	3,218,095
Kerry Warehouse ^	1,199,890	120,787	1,079,103
Wasco Facility @ Kuantan #	660,305	44,748	615,557
Total	167,761,029	26,512,353	141,248,676

* Disposed on 8 March 2017

^ Acquired on 24 July 2017

Acquired on 5 December 2017

Unrealised Rental Income / Unbilled Lease Income Receivables

The recognition of unrealised rental income on unbilled lease income receivables is pursuant to the requirements of Malaysian Financial Reporting Standards ("MFRS") 117, which requires the Fund to recognise income from operating leases on a straight-line basis, including contractual increases in rental rates over the fixed tenure of the agreements.

Profit Income

Axis-REIT recorded a profit income of RM984,000 for FYE2017 from the placement of funds under Islamic REPO and fixed deposits. The 45.1% increase in profit income stemmed from the temporary placement of proceeds from the Fund's Placement exercise into Islamic REPOs, pending the redemption of the Islamic RC facilities on their maturity dates in December 2017.

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Portfolio Valuation

As at 31 December 2017, Axis-REIT's properties were valued at RM2,482,200,000 by independent registered valuers. This represents a 13.2% increase from the valuation of RM2,192,900,000 as at end-FYE2016.

The higher valuations accorded to properties in the Fund's portfolio by independent registered valuers during the year resulted in a revaluation gain of RM30,395,000 for FYE2017.

A summary of unrealised gains/(losses) on all investment properties during FYE2017 is as follows:

Properties	Carrying Value before Revaluation RM	Market Value * RM	Unrealised gain/(loss) ** RM
1. Axis Business Park	121,356,000	120,000,000	(1,356,000)
2. Crystal Plaza	111,189,000	112,000,000	811,000
3. Menara Axis	124,484,000	123,600,000	(884,000)
4. Infinite Centre	43,150,000	42,000,000	(1,150,000)
5. Wisma Kemajuan	64,231,000	64,100,000	(131,000)
6. Axis Business Campus	74,808,000	73,700,000	(1,108,000)
7. Axis Shah Alam DC 1	32,324,000	31,500,000	(824,000)
8. Giant Hypermarket	46,000,000	46,000,000	-
9. FCI Senai	20,000,000	20,000,000	-
10. Fonterra HQ	16,641,000	16,700,000	59,000
11. Quattro West	57,050,000	55,800,000	(1,250,000)
12. Strateq Data Centre	57,000,000	57,000,000	-
13. Niro Warehouse	19,000,000	19,000,000	-
14. D21 Logistics Warehouse (formerly known as BMW Centre PTP)	30,630,000	29,000,000	(1,630,000)
15. Pasir Gudang Logistics Warehouse 1 (formerly known as Delfi Warehouse)	16,728,000	16,000,000	(728,000)
16. Axis Vista	56,252,000	56,300,000	48,000
17. Axis Steel Centre	70,575,000	70,500,000	(75,000)
18. Bukit Raja Distribution Centre	102,397,000	103,000,000	603,000
19. Seberang Prai Logistics Warehouse 1	20,500,000	20,500,000	-
20. Seberang Prai Logistics Warehouse 2	8,200,000	8,200,000	-
21. Tesco Bukit Indah	96,000,000	97,000,000	1,000,000
22. Axis Mega Distribution Centre (formerly known as Axis PDI Centre)	232,058,000	261,000,000	28,942,000
23. Axis Technology Centre	54,125,000	54,900,000	775,000
24. D8 Logistics Warehouse	32,940,000	33,000,000	60,000
25. Bayan Lepas Distribution Centre	51,500,000	60,000,000	8,500,000
26. Seberang Prai Logistics Warehouse 3	65,104,000	66,000,000	896,000
27. Emerson Industrial Facility Nilai	30,500,000	30,500,000	-
28. Wisma Academy Parcel	75,500,000	72,600,000	(2,900,000)
29. The Annex	19,030,000	19,600,000	570,000
30. Axis MRO Hub	53,000,000	53,000,000	-
31. Axis Shah Alam DC 3	185,073,000	185,000,000	(73,000)
32. Axis Steel Centre @ SiLC	156,500,000	157,000,000	500,000
33. Axis Shah Alam DC 2	46,600,000	46,600,000	-

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Properties	Carrying Value before Revaluation RM	Market Value * RM	Unrealised gain/(loss) ** RM
34. Beyonics i-Park Campus Block A	14,600,000	14,700,000	100,000
35. Beyonics i-Park Campus Block B	13,300,000	13,400,000	100,000
36. Beyonics i-Park Campus Block C	12,100,000	12,200,000	100,000
37. Beyonics i-Park Campus Block D	22,700,000	22,800,000	100,000
38. Scomi Facility @ Rawang	43,000,000	44,000,000	1,000,000
39. Kerry Warehouse	33,633,000	34,000,000	367,000
40. Wasco Facility @ Kuantan	122,027,000	120,000,000	(2,027,000)
Total	2,451,805,000	2,482,200,000	30,395,000

Note:

* Market value based on valuations conducted by independent registered valuers.

** This revaluation gain of RM30,395,000 raised the Fund's NAV per unit by 2.5 sen to RM1.29 as at 31 December 2017.

Capital expenditure amounting to RM152,997,000 (including development costs for Axis Mega Distribution Centre) had been capitalised as at 31 December 2017, bringing total Investment Properties to RM2,482,200,000.

Valuation Analysis

The following table summarises the market value, total investment outlay and the accumulated revaluation gain of Axis-REIT on all its properties.

Properties	Market Value RM	Total Investment Outlay (including enhancements) RM	Accumulated Revaluation Gain RM
1. Axis Business Park	120,000,000	101,124,000	18,876,000
2. Crystal Plaza	112,000,000	66,436,000	45,564,000
3. Menara Axis	123,600,000	86,868,000	36,732,000
4. Infinite Centre	42,000,000	35,593,000	6,407,000
5. Wisma Kemajuan	64,100,000	37,521,000	26,579,000
6. Axis Business Campus	73,700,000	61,967,000	11,733,000
7. Axis Shah Alam DC 1	31,500,000	22,472,000	9,028,000
8. Giant Hypermarket	46,000,000	38,973,000	7,027,000
9. FCI Senai	20,000,000	12,693,000	7,307,000
10. Fonterra HQ	16,700,000	11,068,000	5,632,000
11. Quattro West	55,800,000	51,126,000	4,674,000
12. Strateq Data Centre	57,000,000	42,729,000	14,271,000
13. Niro Warehouse	19,000,000	15,234,000	3,766,000
14. D21 Logistics Warehouse (formerly known as BMW Centre PTP)	29,000,000	28,413,000	587,000
15. Pasir Gudang Logistics Warehouse 1 (formerly known as Delfi Warehouse)	16,000,000	13,731,000	2,269,000

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Properties		Market Value	Total Investment Outlay (including enhancements)	Accumulated Revaluation Gain
		RM	RM	RM
16.	Axis Vista	56,300,000	34,111,000	22,189,000
17.	Axis Steel Centre	70,500,000	66,686,000	3,814,000
18.	Bukit Raja Distribution Centre	103,000,000	76,325,000	26,675,000
19.	Seberang Prai Logistics Warehouse 1	20,500,000	17,821,000	2,679,000
20.	Seberang Prai Logistics Warehouse 2	8,200,000	7,384,000	816,000
21.	Tesco Bukit Indah	97,000,000	76,924,000	20,076,000
22.	Axis Mega Distribution Centre (formerly known as Axis PDI Centre)	261,000,000	233,744,000	27,256,000
23.	Axis Technology Centre	54,900,000	50,380,000	4,520,000
24.	D8 Logistics Warehouse	33,000,000	30,689,000	2,311,000
25.	Bayan Lepas Distribution Centre	60,000,000	50,082,000	9,918,000
26.	Seberang Prai Logistics Warehouse 3	66,000,000	61,920,000	4,080,000
27.	Emerson Industrial Facility Nilai	30,500,000	27,317,000	3,183,000
28.	Wisma Academy Parcel	72,600,000	75,869,000	(3,269,000)
29.	The Annex	19,600,000	13,352,000	6,248,000
30.	Axis MRO Hub	53,000,000	53,375,000	(375,000)
31.	Axis Shah Alam DC 3	185,000,000	187,008,000	(2,008,000)
32.	Axis Steel Centre @ SiLC	157,000,000	155,949,000	1,051,000
33.	Axis Shah Alam DC 2	46,600,000	45,782,000	818,000
34.	Beyonics i-Park Campus Block A	14,700,000	14,469,000	231,000
35.	Beyonics i-Park Campus Block B	13,400,000	13,115,000	285,000
36.	Beyonics i-Park Campus Block C	12,200,000	11,934,000	266,000
37.	Beyonics i-Park Campus Block D	22,800,000	22,504,000	296,000
38.	Scomi Facility @ Rawang	44,000,000	42,696,000	1,304,000
39.	Kerry Warehouse	34,000,000	33,633,000	367,000
40.	Wasco Facility @ Kuantan	120,000,000	122,027,000	(2,027,000)
Total		2,482,200,000	2,151,044,000	331,156,000

Premium to NAV Recorded for 2017

The net assets attributable to Unitholders amounted to RM1,591,136,000, which is equivalent to RM1.29 per unit, vs Axis-REIT's closing unit price of RM1.50 as at 31 December 2017, valuing the Fund at a 16.3% premium to its NAV. The chart below shows the premium to NAV that the Fund has maintained over the past five years.



* Unit prices adjusted to reflect the effect of Unit Split

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Non-Property Expenses

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

	2013	2014	2015	2016	2017
Administrative and professional fees *	12,835	13,725	18,342	17,651	18,934
Bad debts (recovered)/written off	-	-	-	319	-
Impairment/(Reversal of) losses on trade receivables	(30)	37	188	155	(369)
Islamic financing costs	23,837	23,848	29,935	32,004	32,453
Total non-property expenses	36,642	37,610	48,465	50,129	51,018

* Professional fees include the manager's fees, trustee's fees, valuation fees, auditors' fees and tax agent's fees.

Administrative and Professional Fees

There was a 7.3% increase in the administrative and professional fees during FYE2017. This was largely due to an increase in marketing and promotional expenses that were incurred during the year, the apportionment adjustment on GST input tax (in respect of the Placement and IDRPs exercises), and the increase in the Manager's fees arising from the increase in the NAV of the Fund.

Islamic Financing Costs

The increase in Islamic financing costs in FYE2017 was due to additional financing facilities that were utilised in the acquisition of Kerry Warehouse and Wasco Facility @ Kuantan. These acquisitions, which were completed on 24 July 2017 and 5 December 2017 respectively, resulted in the Fund's gearing rising to 36.5% in the second half 2017.

Alignment of Interests Between the Manager and the Fund

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

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

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

There was no issuance of new units pursuant to the Payment of Management Fee Authority in FYE2017.

General Mandate to Issue New Units in Axis-REIT

At the fifth annual general meeting of Axis-REIT on 26 April 2017, the Manager obtained, among others, approval from Unitholders for the allotment and issuance of new Units in Axis-REIT of up to 20% of the approved fund size of Axis-REIT to facilitate a placement exercise ("Proposed Authority").

On 19 June 2017, Axis-REIT obtained approval from the SC for the listing and quotation of the new units to be issued under the Proposed Authority.

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Further thereto, on 28 July 2017, Axis-REIT obtained approval from Bursa Securities for the listing application in relation to the Proposed Authority.

On 28 November 2017, Axis-REIT successfully implemented and completed the issuance and listing of 125,000,000 new units at RM1.43 per Unit, representing a 5.17% discount to the five-day VWAMP of the Units up to and including 9 November 2017 of RM1.5079 per Unit. The Placement Units were well oversubscribed.

The net proceeds of RM176.8 million raised from the Placement exercise has been used to pare down Axis-REIT's financings, which had been drawn down earlier to finance its property acquisitions. As at 31 December 2017, following the completion of the Placement, Axis-REIT's gearing level stood at 33.05%, giving the Fund scope to take on additional financings of up to approximately RM432.2 million before its gearing level breaches the 50% threshold.

Sukuk Programme

Axis-REIT had set up a Sukuk Programme of up to RM300 million in nominal value during FYE2012, which was undertaken by Axis REIT Sukuk Berhad, a special-purpose vehicle specifically established for the Sukuk Programme. A total of RM265 million in nominal value Sukuk was issued in FYE2013 under the Sukuk Programme (earlier issuances).

On 19 January 2015, the Manager obtained approval from the SC to upsize the Sukuk Programme from RM300 million to RM3 billion in nominal value, as the existing programme had been almost fully utilised. The size of the Sukuk Programme was successfully increased to RM3 billion in nominal value and the tenure of the Sukuk Programme has been extended from a 15-year programme to a perpetual programme, following the execution of the relevant supplemental documents in connection to the Proposed Upsizing on 10 April 2015.

The plan of extending and upsizing the Sukuk Programme is for subsequent issuances, as it is economically and administratively more efficient compared with setting up a separate programme for each issuance, as long as the terms and conditions of the future issuances remain unchanged from the earlier issuances.

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

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

Financing Profile

	2013	2014	2015	2016	2017
Total financing (RM'000)	528,004	683,769	731,814	780,665	842,594
Total assets (RM'000)	1,616,523	2,085,883	2,141,493	2,244,274	2,549,609
Gearing	32.66%	32.78%	34.17%	34.78%	33.05%
Effective profit rate *	4.38%	4.24%	4.28%	4.25%	4.21%
Percentage of short term financing	50%	61%	55%	58%	71%
Percentage of medium or long term financing	50%	39%	45%	42%	29%
Total unencumbered assets	5	5	10	15	15
Percentage of unencumbered assets/total assets	16%	21%	26%	30%	27%
Financing cost cover	4.5	4.5	4.1	3.8	3.8

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

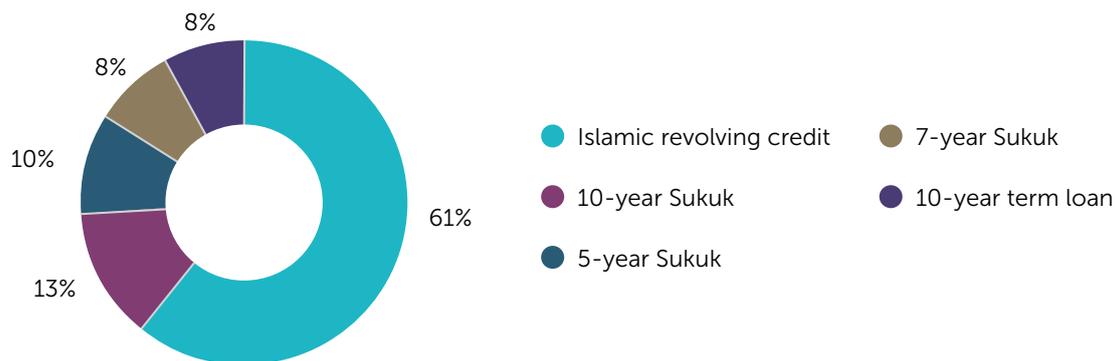
MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

The Fund continues to adopt a prudent and disciplined approach towards capital and risk management to strengthen its balance sheet and capital position. As part of the prudent and disciplined approach, the Fund has diversified its funding sources by tapping the sukuk market, extending and upsizing existing Islamic revolving credit facilities and Islamic term financing facilities, as well as entering into new facilities. Both the Islamic revolving facilities and Islamic term financing facilities are offered by four big local and foreign Islamic financial institutions.

As at 31 December 2017, Axis-REIT's total committed financing facilities amounted to RM842.6 million, with total fixed-rate financing facilities amounting to RM315 million, or 37.4% of total financing outstanding in FYE2017. The financing cost for approximately 6% of the Fund's outstanding financing, in an aggregate amount of RM50.0 million, was hedged through IPRS. The Fund will continue to monitor the market, watching closely for opportunities to further increase the fixed rate portion of the outstanding financing.

The Fund's gearing ratio decreased from 34.78% in FYE2016 to 33.05% in FYE2017, as a result of a higher asset value. At an average all-in cost of financing of 4.21%, slightly improved from 4.25% a year ago, the Fund's interest coverage ratio remained healthy at 3.8 times.

DEBT PROFILE



Risk Management

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

Liquidity Risk

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

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

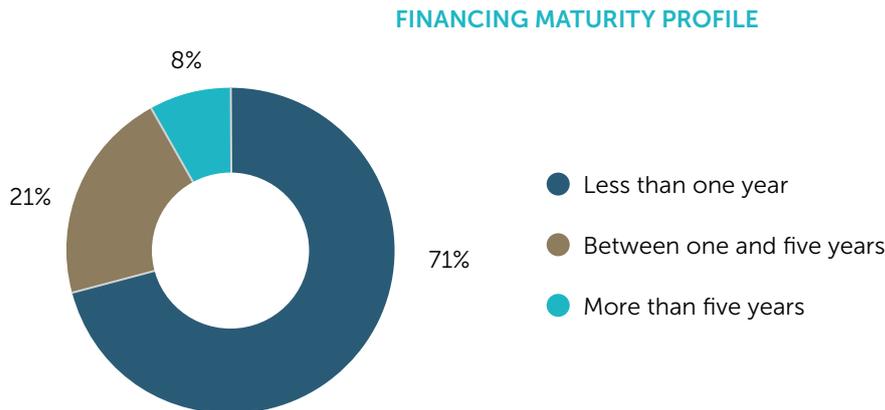
The Fund continues to ensure that it has ample available liquidity for both risk management and potential growth. As at 31 December 2017, Axis-REIT's financing stood at RM842.6 million, comprising RM577.6 million in bank financing and RM265.0 million in Sukuk issuances. The Fund has committed undrawn financing facilities of RM260.4 million and a cash balance of RM34.9 million. With these financial resources available to the Fund, it has sufficient liquid assets to satisfy its working capital and operating requirements.

MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

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The Manager regularly assesses and forecasts the Fund's expense requirements and potential funding needs. It maintains an efficient use of cash and financing facilities to ensure sufficient credit facilities to meet its financial obligations.

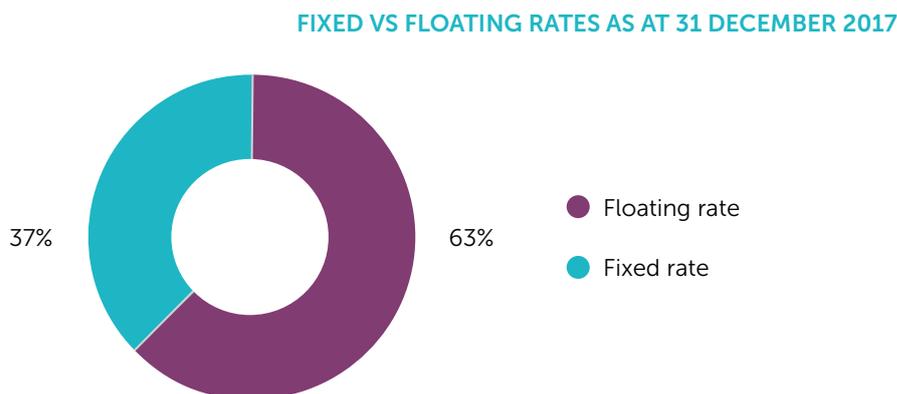
The chart below summarises the maturity profile of the Fund's financing facilities at 31 December 2017 based on contractual repayment obligations.



Interest Rate Risk

The Fund had total financing facilities of RM1.1 billion as at 31 December 2017, of which RM842.6 million had been utilised, which is equivalent to 33.05% of total assets.

Axis-REIT manages its financing costs using a mix of fixed and floating rate facilities. Of its total financing facilities, RM265 million is in Sukuk with fixed rates. Some financing facilities carry floating rates, and consequently, the Fund's financing cost is subject to fluctuations in interest rates.



As part of its capital management strategy, Axis-REIT adopted appropriate hedging strategies to manage its profit rate to ensure stability of distributions to Unitholders. As at 31 December 2017, approximately 6% of Axis-REIT's total financing was hedged through the use of Islamic Profit Rate Swaps ("IPRS"). Consequently, the Fund's exposure to floating rates amounted to 63% of its total financing facilities.

As of 31 December 2017, the interest cost on 37% of the Fund's total financing was fixed, thereby reducing its exposure to financing rate volatility. It is estimated that a 100-basis point increase in the Fund's financing rate would result in a 9.1% reduction in its distributable income.

The exposure to interest rate risk is further managed through regular reviews with the Board of Directors of the Manager on the optimal mix of fixed and floating rate financing. Interest rate risk is managed on a continuous basis, with the objective of limiting Axis-REIT's exposure to fluctuations in financing rates, which will affect its financing costs.

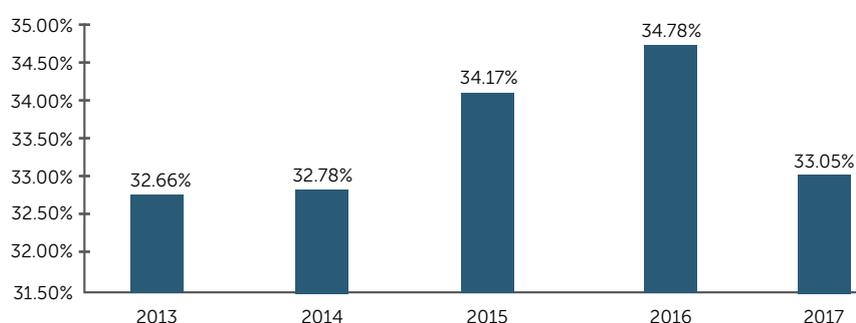
MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

Gearing Risk

As at 31 December 2017, Axis-REIT's gearing of 33.05% was below the 50% limit permitted by the SC's Guidelines on REITs.

The Manager are determined to maintain an optimal gearing ratio that complies with regulatory requirements. During FYE2017, Axis-REIT's capital management strategy, which was unchanged from FYE2016 and will only undertake a new placement exercise to raise capital when it anticipates that the Fund's gearing will breach 35%.

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



Valuation

The Manager recognises the importance of fair valuation of all its investment properties. The entire portfolio is revalued annually to ensure that the value incorporated in the financial statements reflects current market values, and is in compliance with MFRS 140.

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

In 2017, Axis-REIT had 11 registered valuers on its panel. The Manager is looking to expand this panel further to provide the Fund with a transparent valuation model for the benefit of Unitholders. It is the Fund's policy to ensure that no valuer may conduct more than two consecutive full comprehensive valuations on any particular property, which is consistent with the SC's Guidelines on REITs.

Tenant and Credit Risk

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

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

As at 31 December 2017, Axis-REIT had 40 properties and 140 tenants, many of whom are multinationals and local public-listed companies with strong financial credentials.

	2013	2014	2015	2016	2017
Top 10 tenants' contribution to gross income	47%	46%	53%	52%	52%

Lease Management Risk is described in greater detail in the Real Estate Report.

MANAGER'S DISCUSSION AND ANALYSIS FINANCIAL REVIEW

48 **Doubtful Debt Provision and Impairment Losses on Trade Receivables**

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

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

As a result of the rigorous management of account receivables, the Manager has attained a low impairment loss on trade receivables as a percentage of total gross income. As at 31 December 2017, there was a reversal of impairment loss on trade receivables and bad debts amounting to RM369,000. The keen focus on receivables and a well-established internal credit control process has resulted in this excellent result.

	2013 (RM'000)	2014 (RM'000)	2015 (RM'000)	2016 (RM'000)	2017 (RM'000)
Impairment Losses on Trade Receivables					
Impairment losses on trade receivables/bad debts written off/(written back)	(30)	37	188	474	(369)
Trade receivables	1,072	574	4,016	1,469	2,628
Total annual gross revenue	141,314	137,625	163,077	166,685	167,761
Impairment losses on trade receivables/bad debts written off/(written back) as a % of gross revenue	-	0.03	0.12	0.28	-

The trade receivables balance as at 31 December 2017 is comparatively higher than that of 2016 mainly because two major tenants had delayed their payments during the financial year under review. However, most of the outstanding payments were subsequently collected in January and February 2018.

For The Period Ended	Average Collection Period (in days)
31 Dec 2015	9
31 Dec 2016	3
31 Dec 2017	6

Risk Management Framework

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

During the year, the Manager reviewed the updated Detailed Risk Register of the Risk Management Report to ensure it remains aligned with the Fund's strategy and business plans for the governance of risk across Axis-REIT. The reports are made available to the Audit Committee as well as the Board.

MANAGER'S DISCUSSION AND ANALYSIS COMPLIANCE WITH BEST PRACTICES

As part of the initiative to achieve full compliance with the best practices recommendations by Asia Pacific Real Estate Association, the Manager has presented some of Axis-REIT's financial highlights in US Dollars ("USD"), and also adopted the use of the direct method statement of cash flows.

A Snapshot in USD

The presentation of financial highlights in USD allows for comparison against other foreign REITs and companies. The following is an extract of Axis-REIT's financial highlights for the financial year ended 31 December 2017, presented in USD.

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

Assets Under Management (USD)	628,400,000
Total Net Asset Value (USD)	392,166,000
Number of Investment Properties	40
Units in Circulation	1,232,326,803
Total Financing (USD)	207,674
Total Financing to Total Assets	33.05%
Market Capitalisation (USD)	455,596
Net Asset Value per Unit (USD)	0.32
Unit Price as at 31 December 2017 (USD)	0.37

Notes:

Translated to USD equivalent based on the closing USD/MYR rate of 4.0573 (Source: www.oanda.com).

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

Summary of Results – in USD

Gross Realised Revenue (USD)	39,033,000
Unrealised Income in Relation to Unbilled Lease Income Receivable (USD)	1,153,000
Property Operating Expenses (USD)	(6,169,000)
Net Property Income (USD)	34,017,000
Profit Income (USD)	229,000
Net Loss on Disposal of Investment Property (USD)	(97,000)
Changes in Fair Value of Investment Properties (USD)	7,072,000
Unbilled Lease Income Receivable (USD)	(1,153,000)
Net gain on Financial Liabilities Measured at Amortised Cost* (USD)	271,000
Fair Value Change on Derivatives (USD)	48,000
Net Property and Investment Income (USD)	40,387,000
Non-Property Expenses (USD)	(11,870,000)
Net Income before Tax (USD)	28,517,000
Net Income after Tax (USD)	28,517,000
Breakdown of Net Income after Tax:	
- Realised Income after Tax (USD)	21,126,000
- Unrealised Income after Tax (USD)	7,391,000
Earnings per Unit (Realised + Unrealised) (USD cents)	2.55
Distribution per Unit (DPU) (USD cents)	1.92

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

Notes:

Translated to USD equivalent based on the average rate USD/MYR of 4.2979 (Source: www.oanda.com). Translations are done purely for comparison purposes and are not required in accordance to the provisions of the Malaysian Financial Reporting Standards.

MANAGER'S DISCUSSION AND ANALYSIS COMPLIANCE WITH BEST PRACTICES

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Direct Method Statement of Cash Flows

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

Statement of Cash Flows (Direct Method) for the financial year ended 31 December 2017

	RM'000	RM'000
CASH FLOW FROM INVESTING ACTIVITIES		
Gross Revenue Received	148,001	
Tenant Deposits Received	17,625	
Operating Expenses Paid	(25,264)	
Retention Sum Withheld	9,225	
Net cash from operating activities		149,587
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from Disposal of Investment Property	54,581	
Profit Income Received	984	
Enhancement of Investment Properties	(152,996)	
Acquisition of Investment Properties	(155,660)	
Pledged Deposits	1,462	
Net cash used in investing activities		(251,629)
CASH FLOW FROM FINANCING ACTIVITIES		
Islamic Financing Costs Paid	(32,453)	
Proceeds from Borrowings	62,240	
Payment of Hire Purchase Liabilities	(311)	
Income Distribution Paid to Unitholders	(104,328)	
Proceeds from Issue of Units	181,958	
Issuing Expenses	(2,025)	
Net cash used in financing activities		105,081
Net Increase in cash and cash Equivalents		3,039
Cash and cash equivalents at 1 January		19,998
Cash and cash equivalents at 31 December		23,037

MANAGER'S DISCUSSION AND ANALYSIS REPORT ON SHARIAH COMPLIANCE



From left to right: Ustaz Muhammad Khairulnizam B. Alias, Ustaz Dr. Ahmad Zakirullah, Haji Razli Ramli and Ustaz Mohd Khairul Izzaz B. Ismail

On 11 December 2008, Axis-REIT became the world's first Islamic Business Space and Industrial REIT. Since its successful reclassification, we have seen strong participation by Shariah investors from both the institutional and retail sectors. IBFIM, which is a Registered Eligible Shariah Adviser with the Securities Commission Malaysia ("SC"), is the appointed Shariah Adviser of the Fund.

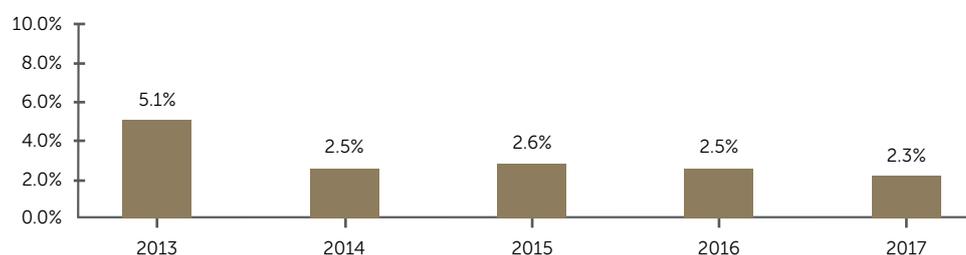
IBFIM's services include:

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

Please refer to the Shariah Adviser's Report enclosed in this Annual Report.

The Manager is pleased to report that under the guidance of IBFIM, the level of income from non-permissible activities has been reduced to 2.3% in the financial year ended 31 December 2017. The Manager is also pleased to confirm that the Islamic fund management business of Axis-REIT in respect of the financial year under review has been carried out in accordance with Shariah principles.

Income from Non-Permissible Activities



SHARIAH ADVISER'S REPORT

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

We have acted as the Shariah Adviser of **AXIS-REIT**. Our responsibility is to ensure that the procedures and processes employed by **AXIS REIT Managers Berhad** are in accordance with Shariah principles.

In our opinion, **AXIS REIT Managers Berhad** has managed and administered **AXIS-REIT** in accordance with Shariah principles and complied with applicable guidelines, rulings and decisions issued by the Securities Commission pertaining to Shariah matters for the financial year ended 31 December 2017.

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

1. Rental income from properties which complied with the Guidelines for Islamic Real Estate Investment Trust; and
2. Cash placements and liquid assets, which are placed in Shariah-compliant investments and/or instruments.

For and on behalf of the Shariah Adviser
IBFIM

MUHAMMAD KHAIRULNIZAM BIN ALIAS

Consultant (Shariah)/Designated Person Responsible for Shariah Advisory

Kuala Lumpur



REAL ESTATE

TEAM

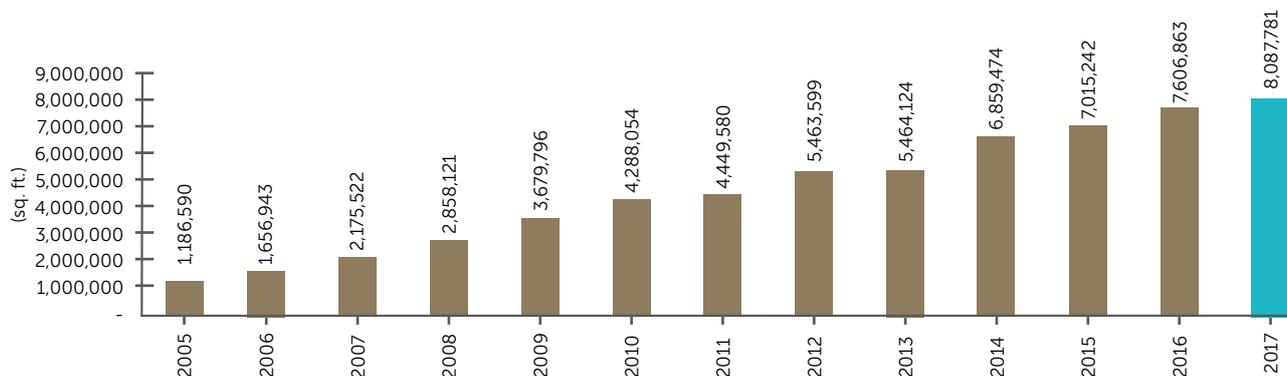
MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

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PORTFOLIO OVERVIEW

Portfolio Size	: 40 properties
Total Space Under Management	: 8,087,781 sq. ft.
Number of Tenants	: 140
Occupancy	: 91.12%
Gross Income	: RM167,761,000
Net Operating Income (NOI)	: RM141,249,000
Average Rental	: Commercial Office: RM4.80 per sq. ft. Office/Industrial: RM2.74 per sq. ft. Warehouse/Logistics: RM1.53 per sq. ft. Manufacturing Facilities: RM1.47 per sq. ft. Hypermarket: RM 2.36 per sq. ft.

Space Under Management (sq. ft.)



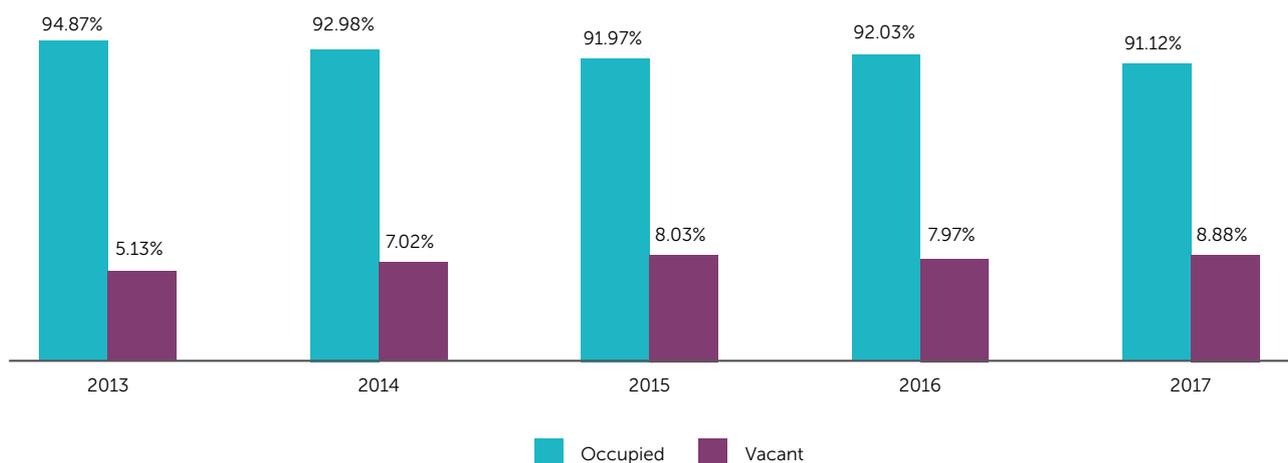
Total space under management in Axis-REIT's portfolio reached 8,087,781 sq. ft. as at 31 December 2017. With the Fund's robust pipeline of strategic asset acquisitions and venturing into two built-to-lease facilities, the portfolio is poised for further growth.

In addition to generating additional revenue for the Fund, strategic asset acquisitions and development projects also improve the portfolio's overall occupancy and Weighted Average Lease Expiry ("WALE"), as these asset acquisitions and built-to-lease facilities typically come with 100% occupancy rates and long-term leases with pre-negotiated rental step-ups.

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

Portfolio Occupancy Rate - 5 Year Analysis

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The Leasing Team is proactive in securing tenancies to fill vacant spaces in the portfolio, and as part of efforts to broaden the Fund's reach to secure new tenants and assets, the team organised a series of events to engage real estate agents in 2017. The team also conducts regular visits, monitors tenant activities, respond quickly to complaints, and manage tenants' expansions and relocation of space within the portfolio, in an effort to maintain high tenant satisfaction levels. In 2017, the Manager also launched a tenant management portal to facilitate better communication between tenants and the Manager. Details of these and other efforts are available in the Marketing Report within this Annual Report.

As a result of these efforts, the Fund has successfully maintained a good track record of tenant retention. These efforts have also maintained the Fund's overall portfolio occupancy rate above 90% over the last six years, with the occupancy rate holding up at 91.12% as at 31 December 2017.

The Manager will continue to adopt appropriate marketing and leasing strategies to further improve the occupancy rate to deliver sustainable returns to Unitholders.

Lease and Rent Reversion Management

On top of maintaining a high portfolio occupancy rate, the Real Estate Team also successfully secured leases for 1,625,963 sq. ft. of space in 2017 through new tenancies and tenancy renewals. The portfolio recorded an average positive rental reversion of 6.25% for the year, largely from tenancy renewals and pre-negotiated rental step-ups.

RISK MANAGEMENT

Managing a REIT involves managing various risks. At the property level, the Manager looks at the following risks that affect the Fund's performance, and takes steps to mitigate them.

Tenant Credit Worthiness

To minimise tenant credit risk, a credit evaluation process is conducted before a prospective tenant is offered tenancy within the Fund's portfolio. The process is repeated annually to ensure the tenant's business is progressing well. The Credit Control Team vigilantly tracks rental collections to ensure that all collections are within the prescribed time period.

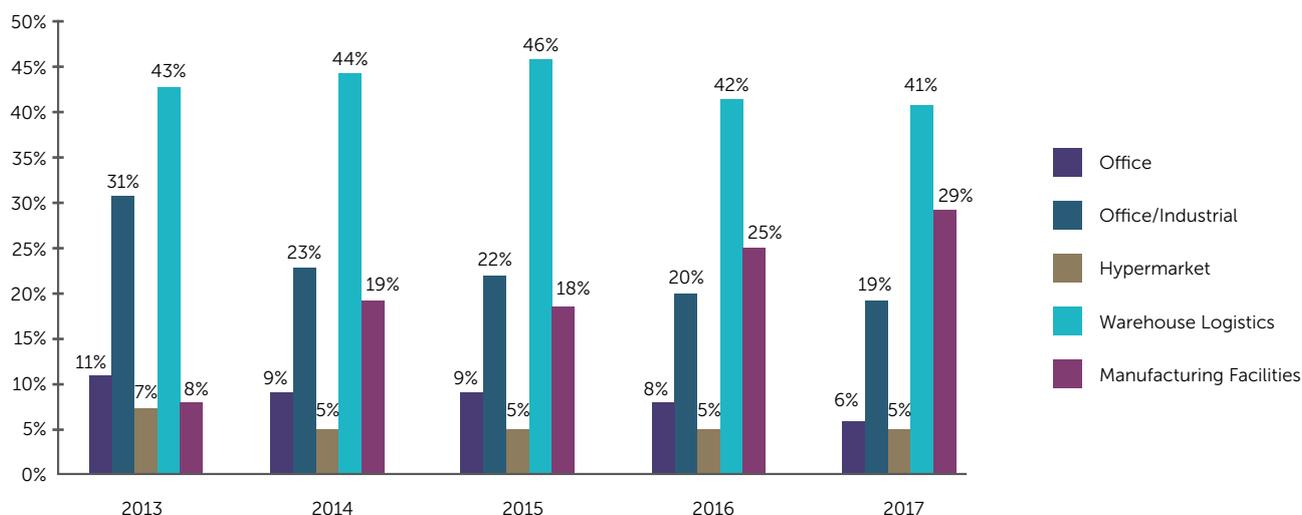
MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

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Maintaining a Diverse Tenant Base

As at 31 December 2017, Axis-REIT's tenant base comprised 140 local and international companies from a diverse range of industries and geographical locations, thereby minimising industry concentration risk.

Portfolio Diversification by Type and NLA - 5 Year Analysis



The portfolio's tenancy profile is dominated by office/industrial and logistics warehouse tenants, the proportion of which has remained consistent over the past seven years. These tenants are prominent local and multinational companies, as well as government-linked companies ("GLCs"), which provide the Fund with a stable income and minimal risk of default. In terms of rental income, the largest contributors are from the logistics industry. The portfolio's 10 biggest tenants, which include five logistics providers, contributed 52% to the Fund's total revenue in FYE2017.

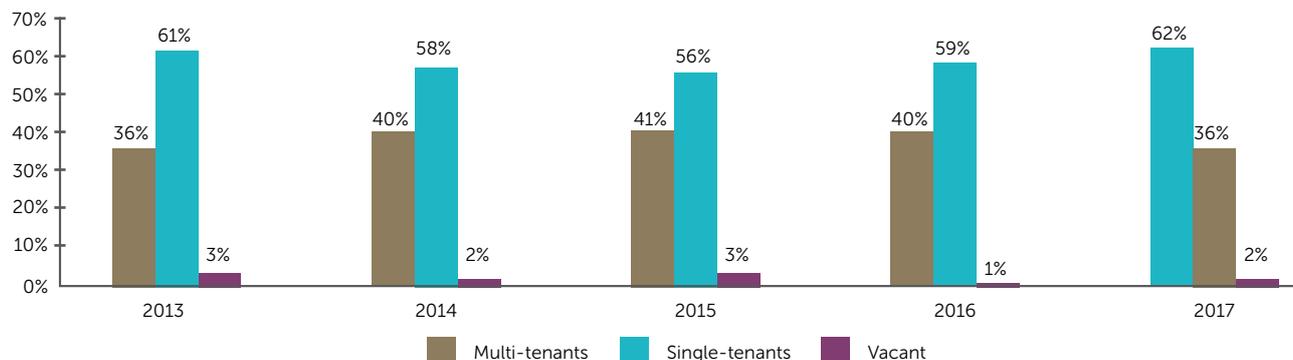
Eight of the Fund's top 10 tenants occupy single-tenanted properties. All our single-tenanted properties feature high-quality tenants who have signed long-term lease agreements and generally have much lower maintenance costs as a proportion of income.

The top ten tenants are:

1. LF Logistics Services (M) Sdn Bhd
2. Yongnam Engineering Sdn Bhd
3. POS Logistics Berhad
4. Tenaga Nasional Berhad
5. Tesco Stores (Malaysia) Sdn Bhd
6. Schenker Logistics (Malaysia) Sdn Bhd
7. DHL Properties (M) Sdn Bhd
8. Strateq Data Center Sdn Bhd
9. SR Technics Malaysia Sdn Bhd
10. Nippon Express (M) Sdn Bhd

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

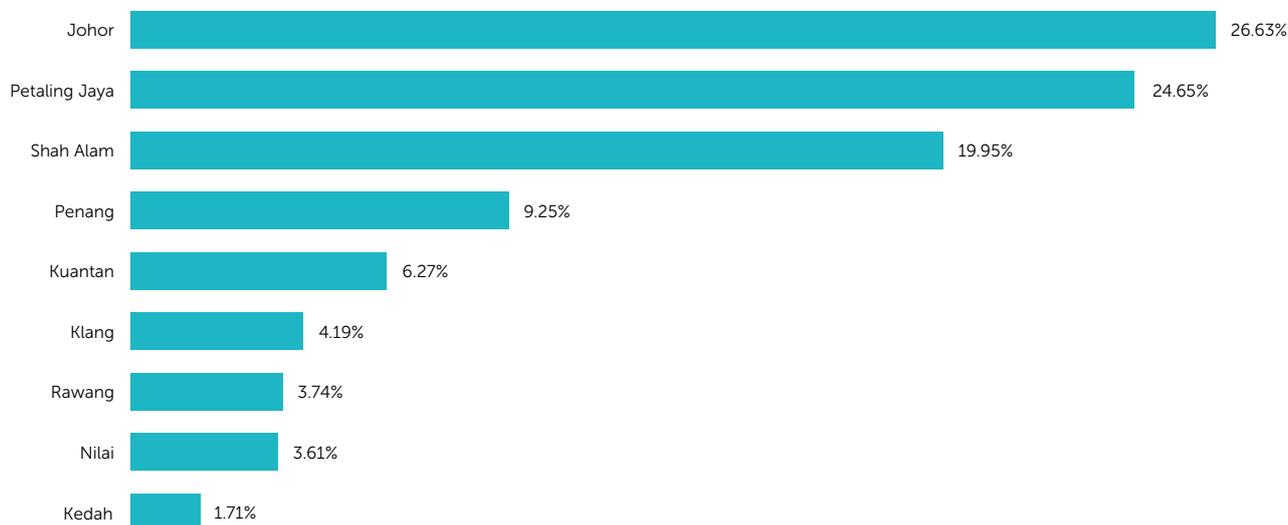
Single-Tenanted Properties vs Multi-Tenanted Properties - 5 Year Analysis



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Portfolio risk is mitigated by maintaining a balanced structure of single- and multi-tenanted properties. The single-tenanted properties provide stable, long-term organic rental income growth as these leases are generally long-term leases with pre-agreed rental increases over the fixed period of the lease. Tenancies of multi-tenanted properties generally have three-year lease terms, which are renewed at the end of each lease term at prevailing market rates, thus providing the opportunity for positive rental reversions upon renewal.

Portfolio Diversification by Geographical Location



Keeping the Portfolio Geographically Diversified

Although the Fund's portfolio is located entirely in Malaysia, there is minimal geographical concentration risk as the properties are spread across six main geographical zones, namely Klang Valley, Johor, Penang, Pahang, Negeri Sembilan and Kedah each with different growth drivers.

The acquisition of the 126.55-acre Wasco Facility @ Kuantan further adds geographical diversity to the property portfolio, noting that its proximity to Kuantan Port offers excellent growth potential.

The Manager regularly reviews and recalibrates the portfolio in order to achieve an optimal level of diversification and to minimise geographical and tenant concentration risk. This strategy ensures that the Fund enjoys a stable earnings platform to provide Unitholders with the best possible returns each year.

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

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Managing Lease Expiry Profiles

Expiring leases are always a concern, as failure to renew a lease will impact revenue. The Manager takes a very proactive approach in seeking early lease renewals.

During FYE2017, 1,299,012 sq. ft. of the portfolio's NLA became due for renewal. The Real Estate Team successfully renegotiated tenancy renewals for 585,419 sq. ft. of space, achieving a 45.07% tenant retention rate. Despite the lower tenant retention rate, the Manager was able to off-set the vacancies by securing new tenants. We are confident in our ability to successfully manage tenancy renewals in 2018.

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

By Location

Property	2018	% of Total NLA	% of Rental Income/month	2019	% of Total NLA	% of Rental Income/month	2020	% of Total NLA	% of Rental Income/month
Petaling Jaya	379,888	4.70	6.99	513,972	6.35	13.49	465,082	5.75	10.71
Klang	-	-	-	-	-	-	339,194	4.19	3.63
Shah Alam	527,167	6.52	6.15	-	-	-	322,915	3.99	4.37
Johor	438,362	5.42	4.46	-	-	-	167,193	2.07	1.17
Nilai	-	-	-	291,642	3.61	1.81	-	-	-
Penang	-	-	-	395,225	4.89	4.16	205,151	2.54	3.35
TOTAL	1,345,417	16.64	17.60	1,200,839	14.85	19.46	1,499,535	18.54	23.23

By Type

Property	2018	% of Total NLA	% of Rental Income/month	2019	% of Total NLA	% of Rental Income/month	2020	% of Total NLA	% of Rental Income/month
Office	87,631	1.08	1.65	164,746	2.04	6.99	144,039	1.78	4.68
Office/Industrial	292,857	3.62	5.35	349,226	4.32	6.50	321,043	3.97	6.02
Warehouse/Logistics	828,310	10.25	9.42	395,225	4.89	4.16	1,034,453	12.79	12.53
Manufacturing Facilities	136,619	1.69	1.18	291,642	3.61	1.81	-	-	-
TOTAL	1,345,417	16.64	17.60	1,200,839	14.85	19.46	1,499,535	18.54	23.23

Weighted Average Lease Expiry ("WALE")

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

	2013	2014	2015	2016	2017
By Net Lettable Area	3.89	4.22	3.89	4.33	5.25
By Rental	3.99	4.33	3.99	4.45	5.87

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

Land Tenure Management

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

Properties	Land Tenure	Remaining Lease Period (years)	
1	Axis Business Park	Leasehold	43
2	Crystal Plaza	Leasehold	42
3	Menara Axis	Leasehold	48
4	Infinite Centre	Leasehold	48
5	Wisma Kemajuan	Leasehold	48
6	Axis Business Campus	Leasehold	50
7	Axis Shah Alam DC 1	Freehold	-
8	Giant Hypermarket	Freehold	-
9	FCI Senai	Leasehold	50
10	Fonterra HQ	Freehold	-
11	Quattro West	Leasehold	55
12	Strateq Data Centre	Leasehold	51
13	Niro Warehouse	Leasehold	34
14	D21 Logistics Warehouse (formerly known as BMW Centre PTP)	Leasehold	38
15	Pasir Gudang Logistics Warehouse 1 (formerly known as Delfi Warehouse)	Leasehold	50
16	Axis Vista	Leasehold	49
17	Axis Steel Centre	Leasehold	85
18	Bukit Raja Distribution Centre	Freehold	-
19	Seberang Prai Logistics Warehouse 1	Leasehold	36
20	Seberang Prai Logistics Warehouse 2	Leasehold	36
21	Tesco Bukit Indah	Freehold	-
22	Axis Mega Distribution Centre (formerly known as Axis PDI Centre)	Leasehold	74
23	Axis Technology Centre	Leasehold	50
24	D8 Logistics Warehouse	Leasehold	38
25	Bayan Lepas Distribution Centre	Leasehold	45
26	Seberang Prai Logistics Warehouse 3	Leasehold	35/51
27	Emerson Industrial Facility Nilai	Leasehold	78
28	Wisma Academy Parcel	Leasehold	45
29	The Annex	Leasehold	45
30	Axis MRO Hub	Leasehold	68
31	Axis Shah Alam DC 3	Freehold	-
32	Axis Steel Centre @ SiLC	Freehold	-
33	Axis Shah Alam DC 2	Freehold	-
34	Beyonics iPark Campus Block A	Freehold	-
35	Beyonics iPark Campus Block B	Freehold	-
36	Beyonics iPark Campus Block C	Freehold	-
37	Beyonics iPark Campus Block D	Freehold	-
38	Scomi Facility @ Rawang	Freehold	-
39	Kerry Warehouse	Leasehold	56
40	Wasco Facility @ Kuantan	Leasehold	92

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

CENTRAL REGION - PETALING JAYA



1

Axis Business Campus



2

Axis Business Park



3

Axis Technology Centre

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/17 (RM'000)	Carrying Value based on latest valuation (RM'000)	Net Lettable Area (sq. ft.)
1 Axis Business Campus	30/06/2006	32,500	61,967	73,700	151,630
2 Axis Business Park	03/08/2005	84,600	101,124	120,000	330,725
3 Axis Technology Centre	15/11/2010	49,000	50,380	54,900	170,730
4 Axis Vista	09/12/2008	32,000	34,111	56,300	118,557
5 Crystal Plaza	03/08/2005	56,400	66,436	112,000	205,103
6 Infinite Centre	03/08/2005	25,450	35,593	42,000	143,476

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT



Axis Vista

4



Crystal Plaza

5



Infinite Centre

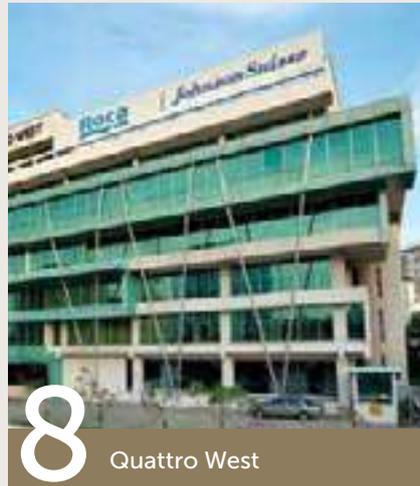
6

Address	Occupancy Rate as at 31/12/17	Major Tenants
Lot 13A & 13B, Jalan 225, Section 51A, 46100 Petaling Jaya, Selangor.	26.21%	Krohne (M) Sdn Bhd MIG Network & Consultancy Sdn Bhd
No. 10, Jalan Bersatu 13/4, 46200 Petaling Jaya, Selangor.	59.21%	Fuji Xerox Asia Pacific Pte Ltd Hitachi eBworx Sdn Bhd Alcon Laboratories (M) Sdn Bhd
No 13, Jalan 225, Section 51A, 46100 Petaling Jaya, Selangor.	73.81%	Fresenius Kabi Malaysia Sdn Bhd Fresenius Medical Care Malaysia Sdn Bhd NZ New Image Sdn Bhd Helukabel Malaysia Sdn Bhd
No. 11, Jalan 219, Section 51A 46100 Petaling Jaya, Selangor.	100%	Mitsubishi Electric Sales Malaysia Sdn Bhd Extrovest Communications Sdn Bhd Modes Cube Sdn Bhd
No. 4, Jalan 51A/223, 46100 Petaling Jaya, Selangor.	81.35%	Tenaga Nasional Bhd DHL Asia Pacific Shared Services Sdn Bhd Asiaworks Malaysia Sdn Bhd
Lot 1, Jalan 13/6, 46200 Petaling Jaya, Selangor.	62.77%	Procurri Malaysia Sdn Bhd Konica Minolta Business Solutions (M) Sdn Bhd C Melchers Gmbh & Co

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

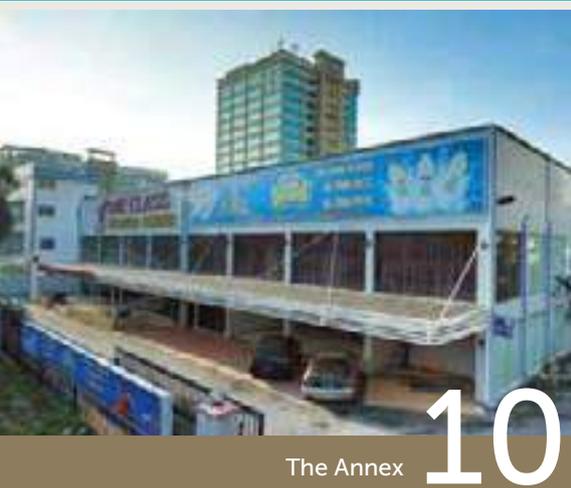
62

CENTRAL REGION - PETALING JAYA



Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/17 (RM'000)	Carrying Value based on latest valuation (RM'000)	Net Lettable Area (sq. ft.)
7 Menara Axis	03/08/2005	71,400	86,868	123,600	184,121
8 Quattro West	30/11/2007	39,800	51,126	55,800	104,196
9 Strateq Data Centre	25/01/2008	37,000	42,729	57,000	104,903
10 The Annex	01/10/2012	12,000	13,352	19,600	45,400
11 Wisma Academy Parcel	01/10/2012	73,000	75,869	72,600	236,075
12 Wisma Kemajuan	16/12/2005	29,000	37,521	64,100	199,008

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT



The Annex

10



Wisma Academy Parcel

11



Wisma Kemajuan

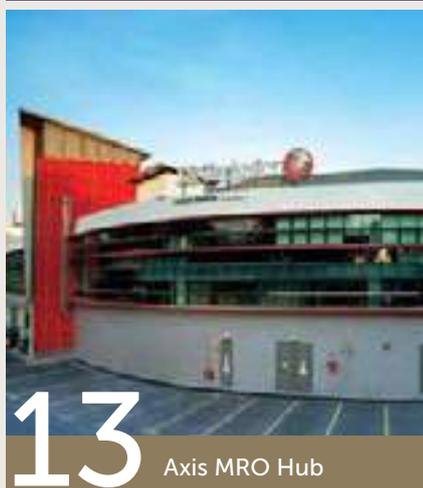
12

Address	Occupancy Rate as at 31/12/17	Major Tenants
No. 2, Jalan 51A/223, Section 51A, 46100 Petaling Jaya, Selangor.	86.36%	Fujifilm (M) Sdn Bhd Orient Overseas Container Line (M) Sdn Bhd Philips Malaysia Sdn Bhd DHL Asia Pacific Shared Services Sdn Bhd Berjaya Starbucks Coffee Sdn Bhd
No. 4 Lorong Persiaran Barat, 46100 Petaling Jaya, Selangor.	50.15%	Jeunesse Global Sdn Bhd Kenanga Investment Bank Bhd MIMS Medica Sdn Bhd Roca Malaysia Sdn Bhd
No. 12 Jalan Bersatu 13/4, Section 13, 46200 Petaling Jaya, Selangor.	100%	Strateq Data Centre Sdn Bhd
No 4, Jalan 19/1, 46300 Petaling Jaya, Selangor.	100%	Sports Garage Sdn Bhd
No 4A, Jalan 19/1, 46300 Petaling Jaya, Selangor.	81.02%	Dataprep (Malaysia) Sdn Bhd Ban Leong Technologies Sdn Bhd Tenaga Nasional Berhad Ingram Micro (Malaysia) Sdn Bhd Oppo Electronics Sdn Bhd
No. 2, Jalan 19/1B, Section 19, 46300 Petaling Jaya, Selangor.	83.69%	Total Oil Malaysia Sdn Bhd Fossil Time Malaysia Sdn Bhd Hawley & Hazel Marketing Sdn Bhd Brightstar Distribution Sdn Bhd

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

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CENTRAL REGION - SUBANG, SHAH ALAM & KLANG



13 Axis MRO Hub



14 Axis Shah Alam DC 1



15 Axis Shah Alam DC 2

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/17 (RM'000)	Carrying Value based on latest valuation (RM'000)	Net Lettable Area (sq. ft.)
13 Axis MRO Hub	18/12/2014	52,500	53,375	53,000	161,280
14 Axis Shah Alam DC 1	31/07/2007	18,500	22,472	31,500	110,406
15 Axis Shah Alam DC 2	31/03/2015	45,000	45,782	46,600	164,400
16 Axis Shah Alam DC 3	18/12/2014	183,000	187,008	185,000	685,082
17 Fonterra HQ	16/11/2007	7,200	11,068	16,700	36,310
18 Axis Mega Distribution Centre (formerly known as Axis PDI Centre)	15/10/2010	85,000	233,744	261,000	0

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT



Axis Shah Alam DC 3

16



Fonterra HQ

17



Axis Mega
Distribution Centre

18

Address	Occupancy Rate as at 31/12/17	Major Tenants
No. 3, Jalan Keluli 15/16 Section 15 40200 Shah Alam, Selangor.	100%	SR Technics Malaysia Sdn Bhd
Lots 2-22,2-24,2-26,2-28, Jalan SU 6A Taman Perindustrian, Subang, (Lion Industrial Park), Section 22, 40300 Shah Alam, Selangor.	100%	Upeca Aerotech Sdn Bhd
Lot No. 10 & 12, Jalan Pahat 16/18A, Lot No. 11 & 13, Jalan Gudang 16/9, Section 16, 40200 Shah Alam, Selangor.	100%	Able Heights Sdn Bhd
Lot No. 22202 Jalan Gambus 33/4, Off Jalan Bukit Kemuning, Batu 8.5, 40400 Shah Alam, Selangor.	100%	POS Logistics Berhad (formerly known as Konsortium Logistik Bhd) LF Logistics Services (M) Sdn Bhd
No. 23, Jalan Delima 1/1, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor.	84.96%	Fonterra Brands (M) Sdn Bhd
Lot 7316 (PT 3609), Persiaran Sijangkang Utama, 42500 Telok Panglima Garang, Selangor.	0%	-

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

66

CENTRAL REGION - SUBANG, SHAH ALAM & KLANG



19

Axis Steel Centre



20

Bukit Raja Distribution Centre

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/17 (RM'000)	Carrying Value based on latest valuation (RM'000)	Net Lettable Area (sq. ft.)
19 Axis Steel Centre	20/10/2009	65,000	66,686	70,500	339,194
20 Bukit Raja Distribution Centre	14/12/2009	71,750	76,325	103,000	456,435
21 Emerson Industrial Facility Nilai	30/08/2012	26,500	27,317	30,500	291,642
22 Scomi Facility @ Rawang	15/11/2016	42,696	42,696	44,000	302,621

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

CENTRAL REGION - NILAI & RAWANG



Emerson Industrial Facility Nilai

21



Scomi Facility @ Rawang

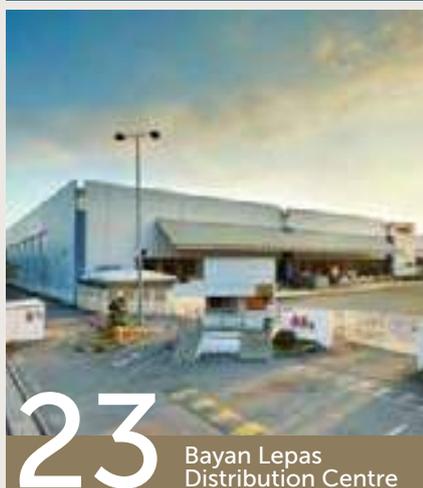
22

Address	Occupancy Rate as at 31/12/17	Major Tenants
Lot 19, LebuH Hishamuddin 1, Selat Klang Utara, 42000 Pelabuhan Klang.	100%	Northport (Malaysia) Berhad
No. 43 & 44, Lengkok Keluli 1, Kawasan Perindustrian, Bukit Raja Selatan, Sek 7, 40000 Shah Alam, Selangor.	100%	LF Logistics Services (M) Sdn Bhd
Lot 13111 & Lot 13112, Mukim Labu, Kawasan Perindustrian Nilai, 71800 Negeri Sembilan.	100%	Emerson Process Management Manufacturing (M) Sdn Bhd
Lot 795 & 796 Jalan Monorail Kawasan Industri Sungai Choh 48000 Sungai Choh Rawang, Selangor Darul Ehsan.	100%	Scomi Engineering Berhad

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

68

NORTHERN REGION



23

Bayan Lepas
Distribution Centre



24

Giant
Hypermarket



25

Seberang Prai
Logistics Warehouse 1

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/17 (RM'000)	Carrying Value based on latest valuation (RM'000)	Net Lettable Area (sq. ft.)
23 Bayan Lepas Distribution Centre	17/01/2012	48,500	50,082	60,000	205,151
24 Giant Hypermarket	07/09/2007	38,000	38,973	46,000	138,000
25 Seberang Prai Logistics Warehouse 1	05/03/2010	17,390	17,821	20,500	106,092
26 Seberang Prai Logistics Warehouse 2	05/03/2010	6,860	7,384	8,200	41,893
27 Seberang Prai Logistics Warehouse 3	15/02/2012	59,000	61,920	66,000	395,225
28 Wasco Facility @ Kuantan	5/12/2017	120,000	122,027	120,000	506,753

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

EAST COAST REGION



Seberang Prai
Logistics Warehouse 2

26



Seberang Prai
Logistics Warehouse 3

27



Wasco Facility
@ Kuantan

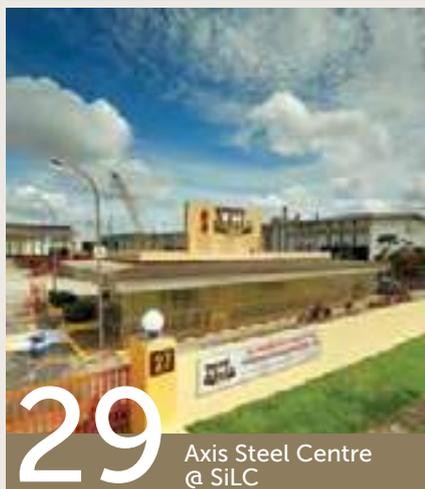
28

Address	Occupancy Rate as at 31/12/17	Major Tenants
88A, Lintang Bayan 9, Lintang Bayan Lepas Industrial Park, Phase IV 11900 Bayan Lepas, Penang.	100%	DHL Properties (M) Sdn Bhd
Jalan Lencongan Barat, 08000 Sungai Petani, Kedah.	100%	GCH Retail (Malaysia) Sdn Bhd
Plot 23, Tingkat Perusahaan 6, Kawasan Perusahaan Prai Phase 4, Seberang Prai Tengah, Penang.	100%	LF Logistics Services (M) Sdn Bhd
Plot 24, Tingkat Perusahaan 6, Kawasan Perusahaan Prai Phase 4, Seberang Prai Tengah, Penang.	100%	LF Logistics Services (M) Sdn Bhd
No. 74, Lorong Perusahaan Utama 4, Bukit Tengah Industrial Park, 14000 Bukit Mertajam, Penang.	100%	Schenker Logistics (M) Sdn Bhd
Sub Lot 2, Kawasan Perindustrian MIEL, Gebeng. Km25, Jalan Kuantan- Kemaman, P.O.Box 240, 25720 Kuantan, Pahang Darul Makmur	100%	Wasco Coatings Malaysia Sdn Bhd

MANAGER'S DISCUSSION AND ANALYSIS
REAL ESTATE REPORT

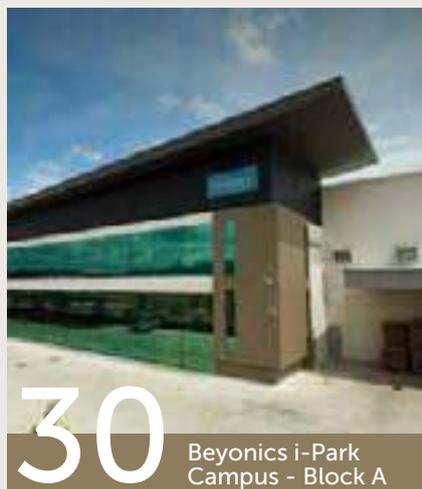
70

SOUTHERN REGION



29

Axis Steel Centre
@ SiLC



30

Beyonics i-Park
Campus - Block A



31

Beyonics i-Park
Campus - Block B

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/17 (RM'000)	Carrying Value based on latest valuation (RM'000)	Net Lettable Area (sq. ft.)
29 Axis Steel Centre @ SiLC	30/12/2014	153,500	155,949	157,000	688,011
30 Beyonics i-Park Campus – Block A	28/01/2016	14,231	14,469	14,700	67,260
31 Beyonics i-Park Campus – Block B	28/01/2016	12,899	13,115	13,400	60,967
32 Beyonics i-Park Campus – Block C	28/01/2016	11,737	11,934	12,200	55,476
33 Beyonics i-Park Campus – Block D	28/01/2016	22,133	22,504	22,800	104,606
34 D21 Logistics Warehouse (formerly known as BMW Centre PTP)	30/04/2008	27,000	28,413	29,000	174,920

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT



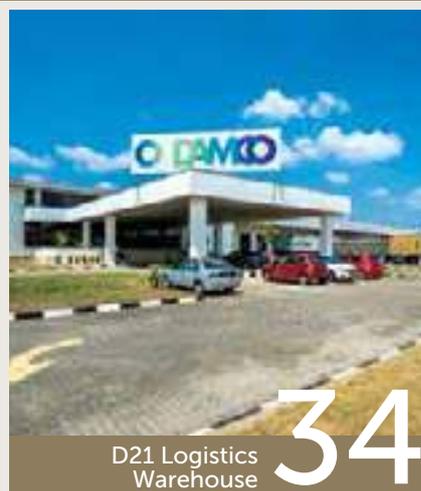
Beyonics i-Park
Campus - Block C

32



Beyonics i-Park
Campus - Block D

33



D21 Logistics
Warehouse

34

Address	Occupancy Rate as at 31/12/17	Major Tenants
No. 27, Jalan SiLC 1/5, Kawasan Perindustrian SiLC, 79200 Nusajaya, Johor Darul Takzim.	100%	Yongnam Engineering Sdn Bhd
No. 95, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, 81000 Bandar Indahpura, Kulaijaya, Johor Darul Takzim.	100%	Beyonics Technology (Senai) Sdn Bhd
No. 96, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, 81000 Bandar Indahpura, Kulaijaya, Johor Darul Takzim.	100%	Beyonics Technology (Senai) Sdn Bhd
No. 97, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, 81000 Bandar Indahpura, Kulaijaya, Johor Darul Takzim.	100%	Beyonics Precision Machining Sdn Bhd
No. 98, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, 81000 Bandar Indahpura, Kulaijaya, Johor Darul Takzim.	100%	Beyonics Precision Machining Sdn Bhd
Lot D21, Jalan Tanjung A/3, Distripark A, Port of Tanjung Pelepas, Gelang Patah, 81560 Johor.	0%	-

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT

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SOUTHERN REGION



35

D8 Logistics Warehouse



36

Pasir Gudang Logistics Warehouse 1



37

FCI Senai

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/17 (RM'000)	Carrying Value based on latest valuation (RM'000)	Net Lettable Area (sq. ft.)
35 D8 Logistics Warehouse	01/03/2011	30,000	30,689	33,000	171,000
36 Pasir Gudang Logistics Warehouse 1 (formerly known as Delfi Warehouse)	04/08/2008	12,500	13,731	16,000	130,743
37 FCI Senai	15/11/2007	12,300	12,693	20,000	136,619
38 Niro Warehouse	30/04/2008	14,500	15,234	19,000	167,193
39 Tesco Bukit Indah	01/10/2010	75,600	76,924	97,000	233,579
40 Kerry Warehouse	24/07/2017	33,000	33,633	34,000	163,000

MANAGER'S DISCUSSION AND ANALYSIS REAL ESTATE REPORT



Niro Warehouse

38



Tesco Bukit Indah

39



Kerry Warehouse

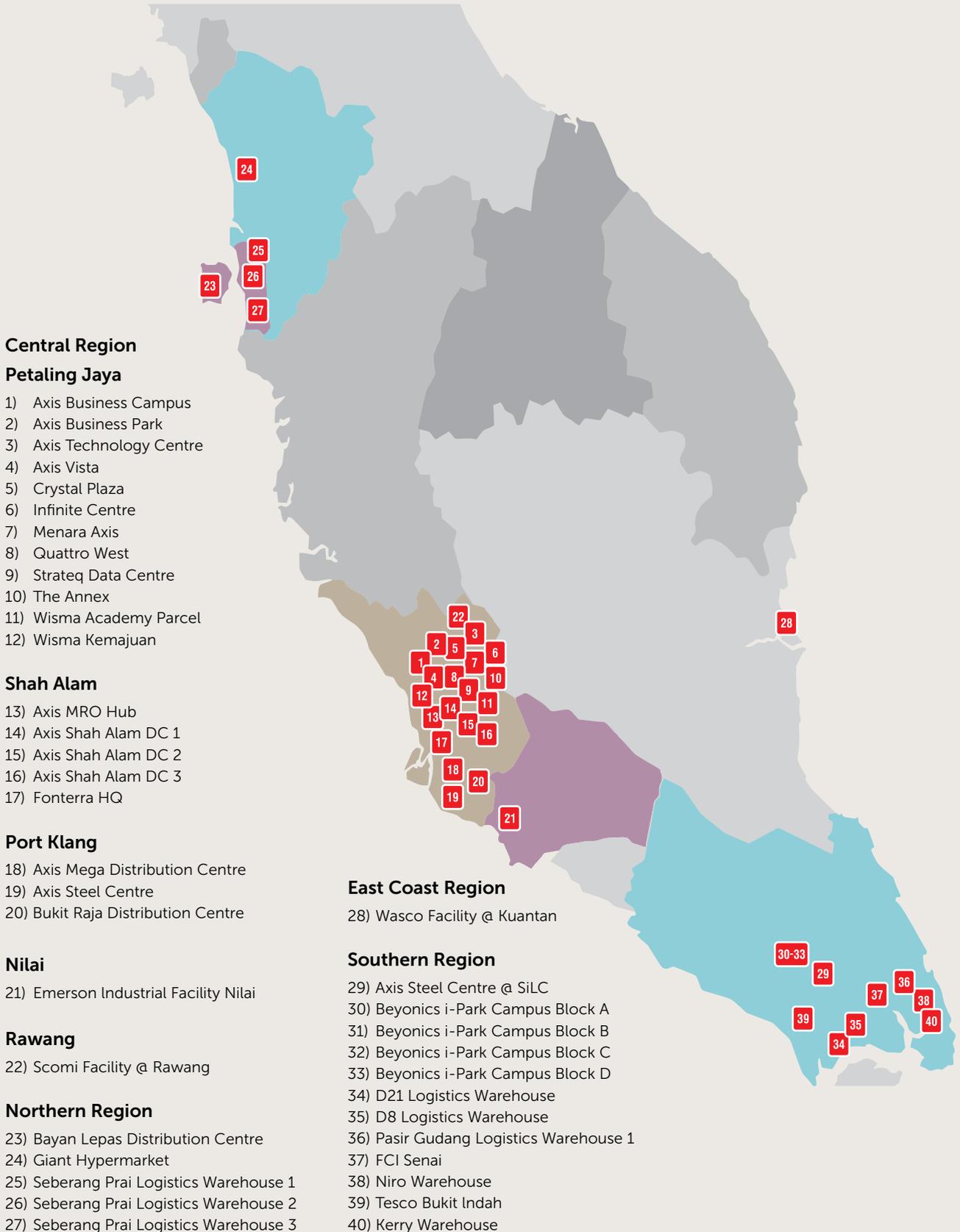
40

Address	Occupancy Rate as at 31/12/17	Major Tenants
Lot D8, Jalan Tanjung A/4, Distripark A, Port of Tanjung Pelepas, Gelang Patah, 81560 Johor.	100%	Nippon Express (M) Sdn Bhd
PLO 563, Jalan Keluli 8, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor.	100%	Guan Chong Cocoa Manufacturer Sdn Bhd
PLO 205, Jalan Cyber 14, Kawasan Perindustrian Senai IV, 81400 Johor.	100%	FCI Connectors Malaysia Sdn Bhd
PLO 419-421, Jalan Emas 2, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor.	100%	Niro Ceramic (M) Sdn Bhd
No 1, Jalan Bukit Indah 15, 81200 Johor.	100%	Tesco Stores (M) Sdn Bhd
PLO 731, Jalan Nikel 2, Kawasan Perindustrian Pasir Gudang, 81700 Pasir Gudang, Johor.	100%	Kerry Ingredients (Malaysia) Sdn Bhd

MANAGER'S DISCUSSION AND ANALYSIS LOCATIONS OF INVESTMENT PROPERTIES

AS AT 31 DECEMBER 2017

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PROJECT MANAGEMENT TEAM



MANAGER'S DISCUSSION AND ANALYSIS PROJECT MANAGEMENT REPORT

76

DEVELOPMENT OF THE NESTLÉ DISTRIBUTION CENTRE AT AXIS MEGA DISTRIBUTION CENTRE

On 19 August 2016, Axis-REIT embarked on its first property development project when it entered into a "build-to-lease" agreement with Nestlé Products Sdn Bhd ("Nestlé"). The agreement involved the development of a 515,000 sq. ft. distribution warehouse facility ("Nestlé Distribution Centre") with an initial lease term of ten years and a renewal option of two further terms of three years each.

The strategy on development provides an extra leg of growth as good yielding, quality assets are increasingly hard to come by.

Key details of the development are as follows:

Features	: Basic specifications: -Distribution centre built to Nestlé's requirements -Long-term sustainable building design Further enhancements pursuant to Nestlé's specifications -Early Suppression Fast Response (ESFR) fire protection system -Compartmentalised layout configurations -Customised warehouse racking system
Net lettable area	: Approximately 515,000 sq. ft.
Tenure	: Initial lease term of ten years, with the option to renew for two additional terms of three years each
Gross rental income	: Approximately RM19.2 million per annum, with rental step-up in later years
Completion date	: 29 January 2018

The Nestlé Distribution Centre constitutes Phase 1 of the development of the Axis Mega Distribution Centre. It occupies 24.78 acres, which is approximately half the land size of the 50-acre site. Axis Mega Distribution Centre is located close to West Port, and has good connectivity to four major highways. It is also situated close to the upcoming Johan Setia LRT Station, under the LRT 3 project.

Axis-REIT acquired the property on 15 October 2010. It was then known as Axis PDI Centre, and at the point of acquisition, it was fully leased to Konsortium Logistik Berhad as a pre-delivery inspection centre for automotive vehicles.

The property fell vacant on 1 October 2015 when Konsortium Logistik Berhad's lease ended. As the existing building occupied only 2.76% of the land area, the Fund took the decision to propose half of the site to Nestlé for the construction of their distribution centre.

The construction of the Nestlé Distribution Centre was completed in one year, following which, the Fund took the opportunity to re-position the property as a distribution hub, rebranding it as Axis Mega Distribution Centre.

MANAGER'S DISCUSSION AND ANALYSIS PROJECT MANAGEMENT REPORT

Development Milestones:

Aug 2016	Waiver received from SC to undertake development project
Aug 2016	Agreement to build-and-lease signed with Nestlé
Dec 2016	Commencement of construction works
Jan 2018	Development completed for handover

The Manager is proud to report that the development was completed on time on 29 January 2018 and handed over to Nestlé.



Aerial view of the completed Nestlé Distribution Centre at Axis Mega Distribution Centre

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

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

With a long-term lease in place, Axis-REIT is expected to derive an initial rental income of approximately RM19.22 million per annum. This is a significant increase in rental income as compared with that contributed by the property's previous tenant, of RM8.58 million per annum.

MANAGER'S DISCUSSION AND ANALYSIS PROJECT MANAGEMENT REPORT

78

DEVELOPMENT OF A 'BUILT-TO-LEASE' FACILITY FOR UPECA AEROTECH SDN BHD

Following the success in developing the Nestlé Distribution Centre at Axis Mega Distribution Centre, Axis-REIT is now embarking on its second built-to-lease project.

In November 2017, Axis-REIT entered into an agreement to build and lease an aerospace industrial manufacturing facility for Upeca Aerotech Sdn Bhd ("Upeca") on a 7.02-acre site within the proposed Malaysia International Aerospace Centre Technology Park in Subang, Selangor, adjacent to the Sultan Abdul Aziz Shah Airport. Axis-

REIT had entered into a sub-lease agreement with Malaysia Airports Holdings Bhd ("MAHB") on 1 November 2017, to lease the 7.02-acre plot of land to be used in the development, for RM19.9 million. The lease from MAHB will run for 49 years, and will expire on 30 December 2066.

Upeca is a long-time tenant of Axis-REIT, having occupied Axis Shah Alam DC 1, a 110,406 sq. ft. facility in Taman Perindustrian Subang since 2010.



Artist's Impression of second built-to-lease project

Details of the development are as follows:

Features	: Specification :
	<ul style="list-style-type: none"> • Customised facility according to Upeca's specifications • Fully air-conditioned manufacturing facility
Land area	: 7.02 acres
Net lettable area	: Approximately 178,978.6 sq. ft.
Lease tenure	: 20 years with a renewal option of two further terms of six years each
Estimated development cost	: Approximately RM74.16 million (including the land)
Estimated initial net yield	: Approximately 7.0% per annum
Expected completion date	: December 2018

The development will be funded by borrowings, with the associated financing costs capitalised together with the development cost, thereby not impacting Axis-REIT's earnings per unit.

MANAGER'S DISCUSSION AND ANALYSIS PROJECT MANAGEMENT REPORT

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Crystal Plaza

Crystal Plaza is part of the first cluster of assets injected into the Fund. Crystal Plaza was last refurbished in 2011, where enhancements included the construction of a new drop off area, upgraded toilets in lobby 1 and 2, improvements to the mechanical and electrical (“M&E”) system and an allocation for an F&B space in lobby 2.

In 2017, the Manager undertook to install new waterproofing to the roof top, as well as to reconfigure the existing M&E services located on the roof. Further improvements to Crystal Plaza will continue in 2018, with repairs to the building’s façade and painting works scheduled for the first quarter of 2018. Enhancement work to the toilets in lobby 3 is in progress and scheduled to be completed by second quarter of 2018.

MANAGER'S DISCUSSION AND ANALYSIS PROJECT MANAGEMENT REPORT

Wisma Academy Parcel

Wisma Academy Parcel is a multi-tenanted office-cum-warehouse building located along Jalan 19/1 in Section 19, Petaling Jaya, Selangor. Axis-REIT acquired the building in October 2012, which currently has the highest number of tenants among all properties in its portfolio. Both the office and warehouse components are heavily used, and it was determined early on that the building required upgrades.

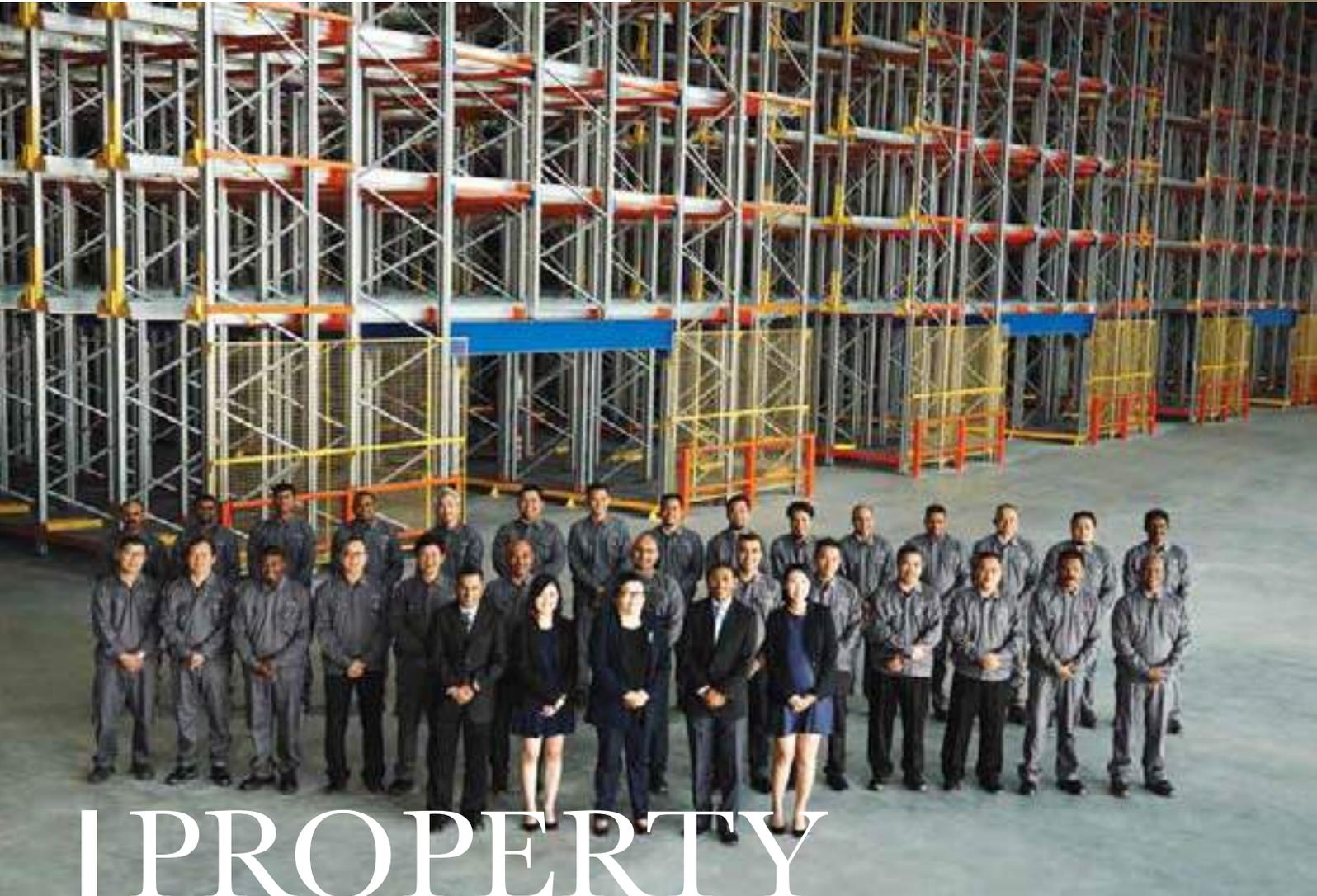
The Manager undertook to upgrade the two passenger lifts and three cargo lifts with the building running at over 86% occupancy. The lift upgrading work commenced in November 2015 and was completed in December 2016. Following through on these efforts, the Manager carried out internal and external painting works in 2017. The next phase of improvements will be to upgrade the toilets, which is planned for 2018.



Before (picture on the left) and after (picture on the right) pictures of Wisma Academy Parcel façade painting

Technical Due Diligence on New Acquisitions

The Project Management team's responsibilities include collaborating with the Investment Team in the process of acquiring new properties. During FYE2017, the team was involved in the technical due diligence for potential acquisitions, including that of the recently-completed Wasco Facility @ Kuantan. The scope of involvement covered regulatory compliance, property condition assessment, an audit of equipment maintenance, as well as the identification of potential repairs and problems, followed by documentation and an audit of these findings.



PROPERTY MANAGEMENT TEAM

MANAGER'S DISCUSSION AND ANALYSIS PROPERTY MANAGER'S REPORT

The Manager has appointed Axis Property Services, together with service provider Axis Facilities Management Sdn. Bhd., as the Property Manager for the Fund. The Property Manager is entrusted with the day-to-day management of the Fund's 40 properties that collectively have approximately 8.1 million sq. ft. of net lettable area.

The key roles of the Property Manager are as follows:

Facilities Management Services

The facilities management team ensures the functionality of the built environment by integrating people, places, processes and technology. The Property Manager ensures that the facilities management team is equipped with the skill set, knowledge and abilities required to effectively perform its role.

The facilities management team, with the strength of 32 staff comprising facility managers, chargemen and technicians, manage 40 properties, with 8,087,781 sq. ft. of net lettable area.

Expense Management

The Property Manager maintains a prudent operating strategy in line with the Fund's objective of maximising returns to Unitholders, without compromising service standards and agreed deliverables to tenants. The Property Manager strives to continuously improve operating processes to optimise operational costs.

A key metric that is monitored is the Efficiency Ratio, which plots the Property Operating Expenses for the Portfolio/ Gross Revenue. This has been well controlled over the years as the table below shows:

Efficiency Ratio (ER)	2013	2014	2015	2016	2017
	14.73%	15.66%	14.56%	16.23%	15.80%



MANAGER'S DISCUSSION AND ANALYSIS PROPERTY MANAGER'S REPORT

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Code Compliance

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

Our stringent code compliance has resulted in a positive impact to the Fund, tenants and staff, as well as improved relationships with the local authorities. The code of compliance includes adherence to rules and regulations that take into consideration the safety and well-being of members of the community, with reference to fire codes, building codes and general property standards.

Car Park Management

In the best interest of our tenants, and for better expense management, the Manager has taken the decision to insource the management of all car parks in multi-tenanted buildings in the Fund's portfolio. The Property Manager, through the facilities management team, is currently managing more than 3,000 car park bays.

Valuation

The Property Manager coordinates valuation exercises for new and existing properties in the Fund's portfolio, to ensure that their valuations reflect the properties' fair market value. These valuation exercises are undertaken by independent registered valuers engaged by the Trustee.

The Fund is required to abide by and comply with Clause 10.03 of the SC's Guidelines on REITs, wherein all investment properties must undertake a full and comprehensive valuation at least once every three years. The Fund must also ensure that no more than two consecutive valuations of any investment property are carried out by the same registered valuer.

In addition, the Fund must undertake a revaluation update on all investment properties to ascertain the current market value for accounting purposes in compliance with MFRS 140, on an annual basis.

MANAGER'S DISCUSSION AND ANALYSIS PROPERTY MANAGER'S REPORT

Facilities Management Team

The facilities management team is strategically stationed on site at the geographic location of the 40 properties in the Fund's portfolio. The team's coverage is as follows:

Facilities Management Team



SIVA SHANKAR
Head of Facilities Management



SARAVANAN
Senior Facility Manager



LOH WAI YAN
Senior Property Executive



KATHERINE LIM
Administrative Assistant

Shah Alam / Klang / Cyberjaya / Nilai/ Kuantan

SCOMI Facility @ Rawang	Axis Shah Alam DC 2	Bukit Raja Distribution Centre
Emerson Industrial Facility Nilai	Axis Shah Alam DC 3	Axis Mega Distribution Centre
Fonterra HQ	Axis MRO Hub	WASCO @ Kuantan
Axis Shah Alam DC 1	Axis Steel Centre	



V. KAMALAHASAN
Facility Manager

- Menara Axis
- Crystal Plaza
- Quattro West



SIVAKUMAR
Facility Manager

- Wisma Kemajuan
- Wisma Academy Parcel
- The Annex



JAMALUDDIN ATAN
Facility Manager

- Axis Business Park
- Strateq Data Centre



LIEW LEE TACK
Facility Manager

- Infinite Centre



ISHAK ABU BAKAR
Facility Manager

- Axis Technology Centre
- Axis Business Campus
- Axis Vista



MOHD AZMI YAACOB
Facility Manager

Johor

- D21 Logistics Warehouse
- D8 Logistics Warehouse
- Niro Warehouse
- FCI Senai
- Tesco Bukit Indah Hypermarket
- Pasir Gudang Logistics Warehouse 1
- Axis Steel Centre @ SILC
- Beyonics i-Park Campus Blocks A-D
- Kerry Warehouse



SUHAIMI MAT ISA
Facility Manager

Penang & Kedah

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

PROPERTY MARKET OVERVIEW 2017



MARKET INDICATORS

HIGHLIGHTS

- Expansion was seen across all economic sectors, but the services and manufacturing sectors remain the leading contributors to Malaysia's Gross Domestic Product (GDP)
- Growth on the demand side is steered by both private and public sector spending

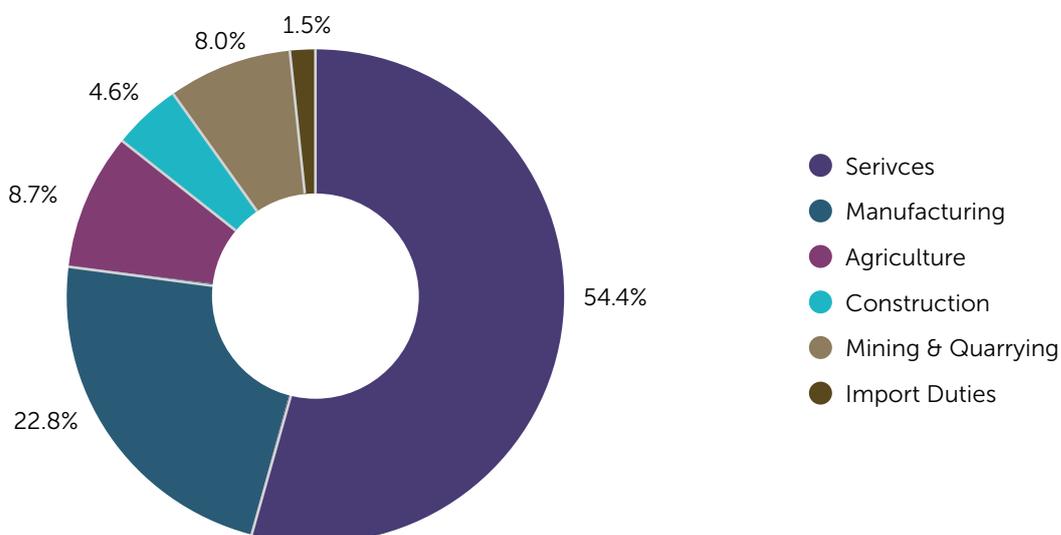
Malaysia's economy recorded a higher GDP growth of 6.2% in the third quarter of 2017 (Q3/2017), compared with 5.8% in the second quarter of 2017 (Q2/2017), supported by continued growth in domestic demand and across all economic sectors. Domestic demand grew by 6.6% in Q3/2017 (Q2/2017: 5.7%), sustained by both private and public sector expenditure. On the supply side, the manufacturing and services sectors remained the key drivers of growth. Bank Negara Malaysia (BNM) expects full year GDP growth of 5.2-5.7% in 2017.

As stated in the 11th Malaysia Plan (2016-2020), the services sector will continue to be the primary driver of economic growth. The strategies of the 11th Malaysia Plan are formulated to enhance the competitiveness and resilience of the services sector, and to promote the country's migration into high value and knowledge-intensive services activities. Greater focus will be given to modern and knowledge-intensive industries, including halal products and services, ecotourism, as well as the information, communications and technology (ICT) industry.

The Federation of Malaysian Manufacturers expects the manufacturing sector to continue to excel with better local sales and exports in the near term. Statistics from the Department of Statistics Malaysia (DOSM) revealed that manufacturing sales increased by 7.0% in Q3/2017 (Q2/2017: 6.0%)

Looking beyond the 11MP, the government launched National Transformation 2050 (TN50) in January 2017 with aims to set Malaysia to be a top 20 nation in economic development, social advancement and innovation by 2050.

Graph 1: Percentage Share of Total GDP in Malaysia as at Q3/2017



Source: DOSM, Malaysian Investment Development Authority (MIDA)

PROPERTY MARKET OVERVIEW 2017

1.0 GREATER KUALA LUMPUR

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1.1 Market Brief

As of Q3/2017, the Selangor property market reported a total transaction value of RM29.51 billion for 44,869 property transactions, charting an increase of 5.6% in terms of value (Q3/2016: RM27.95 billion) and a decrease of 4.1% in terms of volume (Q3/2016: 46,804 property transactions). Kuala Lumpur recorded RM19.74 billion in transaction value for 10,505 property units. (Source: NAPIC)

1.2 Industrial Sector

Kuala Lumpur and Selangor recorded a combined total of 137 approved manufacturing projects with a total capital investment of RM3,106.9 billion from January to September 2017. This is a decline from the total capital investment of RM5,669.3 billion recorded in the corresponding period in 2016 with 201 approved manufacturing projects.

Table 1.2: Approved Manufacturing Projects (2016 – Jan-Sep 2017) in Kuala Lumpur and Selangor

	2016		Jan-Sep 2016		Jan-Sep 2017			
	No	Total Capital Investment (RM million)	No	Total Capital Investment (RM million)	No	Domestic Investment (RM million)	Foreign Investment (RM million)	Total Capital Investment (RM million)
Selangor	242	7,880.8	192	5,592.4	132	1,991.7	1,057.7	3,049.4
Kuala Lumpur	12	189.0	9	76.9	5	55.7	1.9	57.5
Total	254	8,069.8	201	5,669.3	137	2,047.4	1,059.6	3,106.9

Source: Malaysian Investment Development Authority (MIDA)

Almost 97% of the manufacturing projects approved for Greater Kuala Lumpur (Greater KL) was in Selangor. Foreign direct investments (FDI) accounted for approximately 34% of the total approved capital investments in Selangor, mainly stemming from countries such as Switzerland, Netherlands, Singapore, Hong Kong, Germany, USA and Japan. The significant new major manufacturing plants and expansion plans that were unveiled in the state during 2017 include:

- Medical glove manufacturer Hartalega Holdings Bhd's announcement that it was embarking on Industry 4.0 in the next three to four years. Hartalega currently employs a combined total of 6,400 workers at its RM1.2 billion next generation complex (NGC) in Sepang and Bestari Jaya plants. The NGC will have six manufacturing plants by 2021, workers' quarters, an R&D centre, a sports complex as well as a learning centre.
- New Zealand dairy producer Fonterra Brands Malaysia reopening its milk powder manufacturing plant, Susumas, in Subang Hi-Tech Industrial Park in May 2017, following a RM20 million upgrade. The upgrade will improve Susumas' role as a manufacturing hub in Malaysia and as an exporter to 13 other countries in Southeast Asia and the Middle East.

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- Pharmaniaga Bhd announcing plans to invest RM100 million to establish a halal and cost-effective vaccine manufacturing facility in Puchong, occupying around 280,000 sq. ft. of space that is expected to be ready within the next two to three years. The project is a collaboration with Technology Depository Agency (TDA) and Hilleman Laboratories. TDA is an agency under the Ministry of Finance Malaysia, while Hilleman Laboratories is a vaccine research organisation from India.
- Top Glove Berhad's acquisition of Eastern Press Sdn Bhd, a printing and packaging material manufacturer, which is aimed at improving the glove maker's supply chain coordination and to allow for flexible planning and better delivery times. Its expansion plans include two new manufacturing facilities, namely Factory 31 and Factory 32 that would be ready by May and December 2018 respectively. Top Glove also has plans to emerge as the world's biggest surgical glove manufacturer by acquiring Aspion Sdn Bhd soon.
- Axis Mega Distribution Center Phase 1, the 515,000 sq. ft. built-to-lease warehouse is completed and ready to be handed over to occupant Nestlé Products Sdn Bhd by January 2018. It occupies 24.78-acre of the 50-acre Axis PDI Centre in Telok Panglima Garang.
- In November 2017, Axis Real Estate Investment Trust (Axis-REIT) entered into a sub-lease agreement with Malaysia Airports Holdings Berhad (MAHB) to lease 7.02 acres of land in the proposed Malaysia International Aerospace Centre (MIAC) Technology Park. Axis-REIT will then build an industrial manufacturing facility for Upeca Aerotech Sdn Bhd for RM74 million, and is expected to be ready by December 2018.

1.2.1 Existing and Future Supply

Table 1.2.1: Supply of Industrial Properties in Greater KL (number of units)

State	Type of Property	Existing Supply			Future Supply	
		2015	2016	1H2017	Incoming Supply	Planned Supply
Kuala Lumpur	Terraced	2,545	2,545	2,545	0	37
	Semi-detached	412	412	412	0	0
	Detached	511	511	511	0	0
	Flatted Factory	1,295	1,670	1,670	0	0
	Industrial Complex	375	0	0	0	0
	TOTAL	5,138	5,138	5,138	0	37
Selangor	Terraced	26,921	27,993	28,024	544	328
	Semi-detached	4,568	5,582	5,766	682	758
	Detached	4,425	4,912	4,979	162	281
	Flatted Factory	272	263	263	0	0
	Industrial Complex	108	107	107	1	5
	TOTAL	36,294	38,857	39,139	1,389	1,372
Greater KL	Terraced	29,466	30,538	30,569	544	365
	Semi-detached	4,980	5,994	6,178	682	758
	Detached	4,936	5,423	5,490	162	281
	Flatted Factory	1,567	1,933	1,933	0	0
	Industrial Complex	483	107	107	1	5
	Grand Total	41,432	43,995	44,277	1,389	1,409
	Growth Rate (%)		6.19%	0.64%		

Source: JPPH, Ministry of Finance

PROPERTY MARKET OVERVIEW 2017

The cumulative existing supply of industrial properties in Kuala Lumpur and Selangor grew by 0.64% to 44,277 units as at 1H2017 from 2016, with all new additional units located in Selangor.

Most of the existing industrial properties are largely terraced factories, which make up 69% of the combined supply of industrial properties in Kuala Lumpur and Selangor, followed by the semi-detached category (14%) and the detached category (12.4%).

Most of the future supply of industrial properties is located in Selangor, with semi-detached factories making up the bulk of this. Kuala Lumpur, in contrast, has limited future supply, with only 37 industrial units being planned.

1.2.2 Industrial Land Value and Industrial Property Rent

Industrial land values in Greater KL range from as low as RM20 per sq. ft. to as high as RM250 per sq. ft., very much depending on the location and land tenure. The lowest land values are recorded for areas to the north and south of the Klang-Kuala Lumpur axis.

The highest industrial land values are found in Petaling Jaya (where the bulk of land is leasehold) due to its proximity to residential and commercial areas, followed by freehold industrial land in Bukit Jelutong and Glenmarie in Shah Alam.

The supply of industrial land in Petaling Jaya has been subdued in recent years as the industrial areas of Petaling Jaya are gradually being converted to commercial and residential hubs. Similarly, there is no new supply of industrial land in Shah Alam, resulting in significant increases in land values.

Most of the notable transactions of industrial properties in Greater KL occurred in Selangor as there is very limited industrial land available in Kuala Lumpur. The transacted prices of industrial premises located within Shah Alam, Subang Jaya, Petaling Jaya and Gombak depend on their location, land size, built-up area, accessibility, etc.

Table 1.2.2a: Industrial Land Value in various locations of Greater KL

Area	Transacted Prices as at Q3/2017 (RM per sq. ft.)	
	Leasehold	Freehold
1) Klang	30 – 40	50 – 60
2) Petaling Jaya (Section 51/51A)	170 – 260	-
3) Puchong	100 – 140	150 – 200
4) Rawang/Kuala Selangor	20 – 30	40 – 60
5) Shah Alam – Bukit Jelutong/ Glenmarie	-	180 – 220
6) Shah Alam – other sections	70 – 100	90 – 130
7) Subang Jaya	100 – 120	140 – 160
8) Sungai Buloh	70 – 90	80 – 110
9) Telok Panglima Garang	20 – 40	30 – 70

Source: Savills Malaysia Research

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The range of asking rentals reflects the gamut of logistics properties that can currently be found in the market, with lower rents being related to low-quality premises and/or those that have been leased for several years to the same tenants. Conversely, the highest rents take into account the building's condition, the improvements in terms of quality of construction which has progressed over the years, as well as increases in land and construction prices. Normally, rents are quoted on a gross basis with a 10-15% difference between asking rents and actual rents.

Table 1.2.2b: Estimated Range of Historical Asking Rents for Industrial Space in Greater KL

No	Areas	Asking monthly rents (RM per sq. ft.)		
		2015	2016	2017
1	Petaling Jaya - Sections 13, 19, 51 and 51A	1.80-2.20	1.80-2.30	1.90-2.50
2	Shah Alam - Sections 15, 16, 21-27	1.10-2.10	1.30-2.20	1.30-2.30
3	Shah Alam - Glenmarie, Temasya, Bukit Jelutong	1.70-2.20	1.80-2.30	1.80-2.40
4	Klang - Northport, Westport	0.90-1.40	1.00-1.50	1.00-1.70
5	Kajang	0.80-1.00	0.80-1.10	0.80-1.20
6	Bangi	0.80-1.00	0.90-1.20	1.00-1.30
7	Sungai Besi - Chan Sow Lin	1.80-2.40	1.90-2.50	1.90-2.60
8	Kepong	1.20-1.60	1.30-1.80	1.50-2.00
9	Rawang	0.60-1.20	0.80-1.30	1.00-1.50

Source: Savills Malaysia Research

Note:

- The samples of the industrial properties for rent include factories, warehouses and distribution centres
- The asking rental rate is quoted as RM per sq. ft. per month
- To ensure uniformity of data, only industrial spaces of over 10,000 sq. ft. in size are included.

The rental rate has been stable for the past five years, with minimal fluctuations which range between RM0.10 and RM0.20 per sq. ft. per month.

1.3 PURPOSE-BUILT OFFICES

1.3.1 Existing Supply

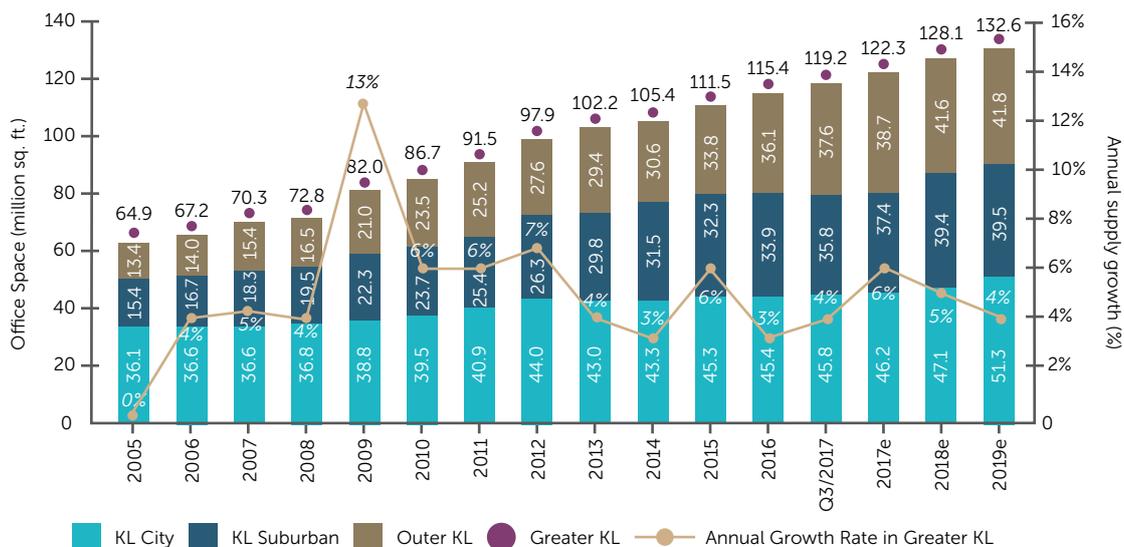
The existing supply of office space in Greater KL stood at 119.2 million sq. ft. of net lettable area (NLA) as at Q3/2017. Existing supply has grown at a compounded annual growth rate (CAGR) of 5.2% over the past 12 years, with an average annual addition of 4.53 million sq. ft.. Out of the total office supply, 38.4% or 45.8 million sq. ft. is located in KL City, followed by KL Suburban areas (31.5% or 37.6 million sq. ft.), and outer KL (30.0% or 35.8 million sq. ft.).

KL Suburban saw the emergence of new office locations such as Mid Valley City, KL Sentral and Bangsar in the last decade, offering better quality buildings than the aged office supply in Damansara Heights. Meanwhile, in Selangor, most of the office developments are located in Petaling Jaya (PJ), followed by the north of PJ such as Damansara Utama, Bandar Utama, Mutiara Damansara and Damansara Perdana.

PROPERTY MARKET OVERVIEW 2017

New office completions in 2017 were mostly located in KL Suburban and Selangor, followed by KL City with a combined total new office space of 3.78 million sq. ft.. Some of the prominent office buildings include Menara Public Bank 2, Menara Suezcap 1 @ KL Gateway, The Vertical Corporate Tower B, Pillars 12 @ KL Eco City and Pinnacle PJ.

Table 1.3.1: Cumulative Supply of Office Space in the Greater KL



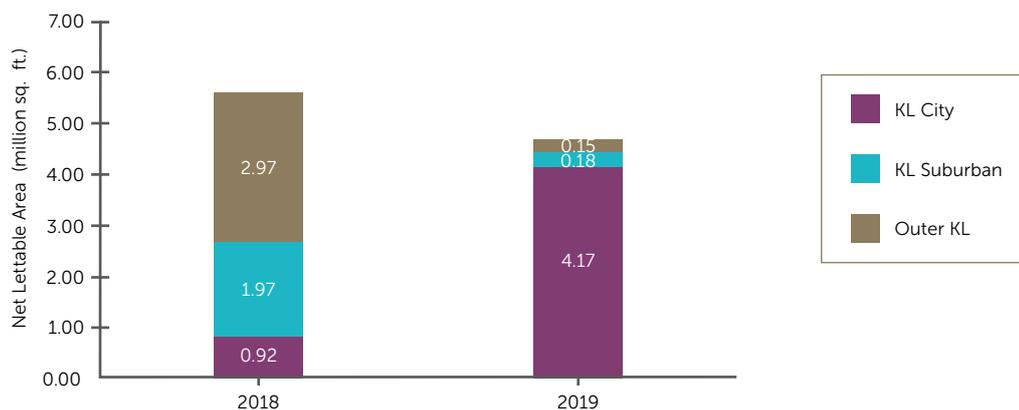
Note:

- Greater KL is defined as the combination of Kuala Lumpur City, suburban Kuala Lumpur and Outer KL. Kuala Lumpur City (KLC) comprises the Golden Triangle (GT) and the Central Business District (CBD). KL Suburban refers to the KL city fringe areas such as Damansara Heights, Bangsar, KL Sentral/Brickfields, Mid Valley, Pantai/Kerinchi, Mont Kiara, and KL North. Outer KL encompasses the geographical boundaries of the state, including Subang Jaya, Petaling Jaya, Shah Alam, Klang, Seri Kembangan, Puchong, Cyberjaya and Putrajaya (excluding government offices), among others.

Source: Savills Research

1.3.2 Future Supply

The supply of office space in Greater KL is set to grow sharply over the coming years. It is projected that approximately 10.3 million sq. ft. of new office space will be ready by 2019. About 49.1% or 5.08 million sq. ft. of this stock will be located in KL City, and 30.2% or 3.12 million sq. ft. will be in Outer KL. KL Suburban will have around 2.14 million sq. ft., or 20.7% of the stock.



Source: Savills Research

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Table 1.3.2: List of Selected Major Future Completions in Greater KL (2018-2019e)

No.	Building Name	Location	Estimated NLA (sq. ft.)
KL City			
1	Equatorial Plaza	GT	460,000
2	Redevelopment of MAS building (PNB Lot 1194)	GT	357,000
3	YTL HQ: BB Tower	GT	450,000
4	Tun Razak Exchange (TRX) – The Exchange 106	GT	2,400,000
5	Menara Dayabumi Phase 3	CBD	500,000
6	Tun Razak Exchange (TRX) – Prudential	GT	415,000
7	Office Development on Lot 143	GT	400,000
KL Suburban			
8	KL Eco City: Setia Tower	KL Eco City	537,784
9	Mid Valley Southpoint	Mid Valley	858,000
10	Etiqa Insurance	Bangsar	370,000
Selangor			
11	HCK Tower @ Empire City	Damansara Perdana	561,499
12	Celcom Axiata @ PJ Sentral	Petaling Jaya	450,000
13	The Star Tower @ Pacific Star	Petaling Jaya	238,000
14	Office Tower (by Symphony Life Bhd)	Petaling Jaya	269,000
15	Radia Offices (Block A)	Bukit Jelutong	305,000
16	Nucleus Tower	Mutiara Damansara	230,768

Note – This is a non-exhaustive list

Source: Savills Research

1.3.3 Average Vacancy Rates

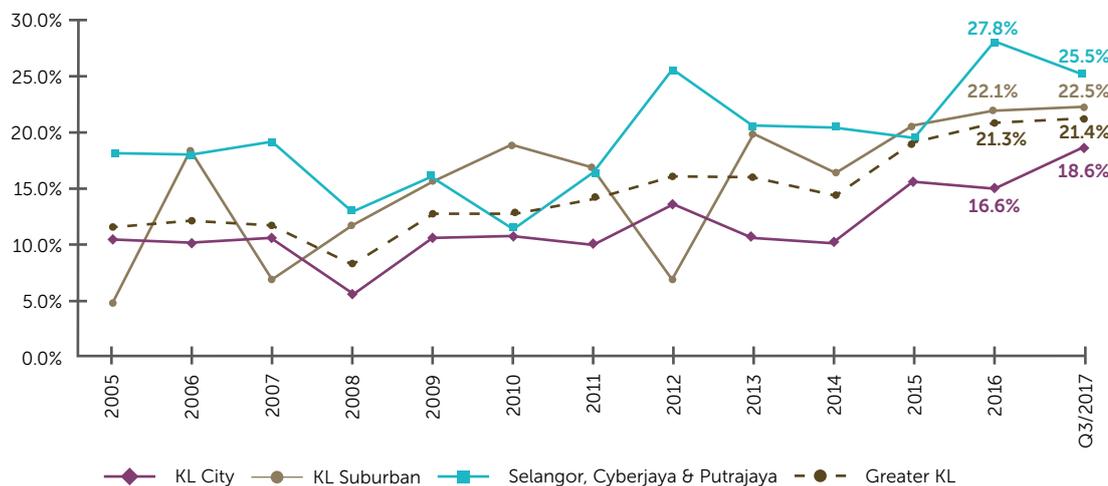
The average vacancy rate for purpose-built offices in Greater KL increased to a historical high of 21.4% as at Q3/2017. This was mainly due to the slow absorption of existing supply in 2017, together with the new completion of office buildings, particularly in KL Suburban. The higher vacancy rates in KL City are mostly caused by the downsizing of oil and gas companies. As a result, the average vacancy rates for KL City and KL Suburban increased to 18.2% and 22.5%, respectively as at Q3/2017.

The average vacancy rate for Selangor inclusive of Cyberjaya and Putrajaya was 25.5% as at Q3/2017 - a slight decrease from 27.8% in 2016. Some of the notable offices with improved occupancy rates include Sunway GEO Tower, Top Glove Tower, PFCC (Tower 5) and UOA Business Park.

Going forward, it is expected that the overall vacancy rate for Greater KL is likely to trend upwards given the vast upcoming supply of office developments over the next two years.

PROPERTY MARKET OVERVIEW 2017

Graph 1.3.3: Vacancy Rates of Office Space in Greater KL



Source: Savills Research

1.3.4 Average Asking Rental Rates

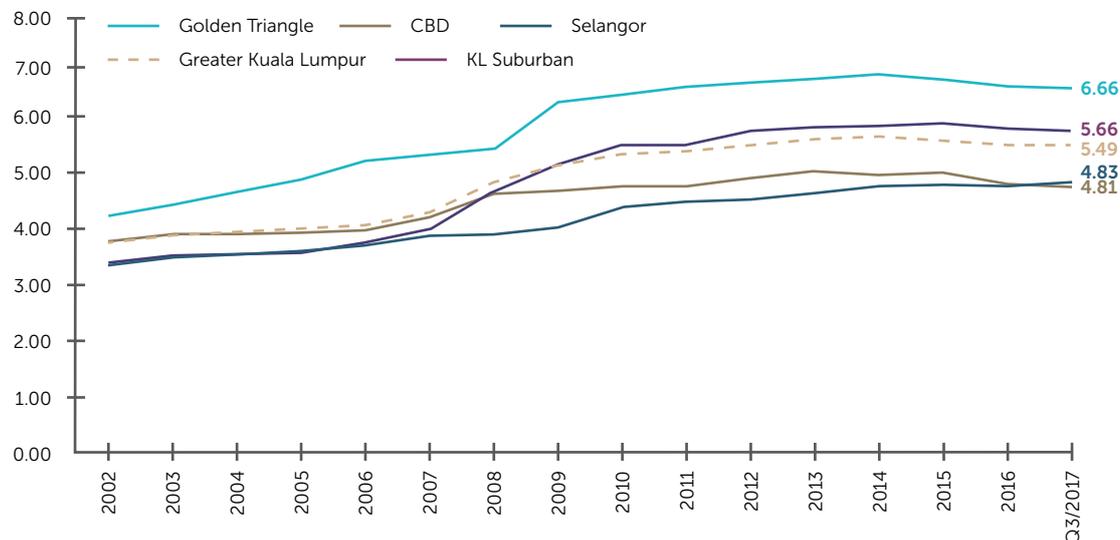
The average gross asking rent in Greater KL stabilised at RM5.49 per sq. ft. as at Q3/2017.

For the same period, the average gross asking rent in KL Golden Triangle and KL CBD saw a slightly drop to 6.66 per sq. ft. (-0.7% from Q3/2016) and RM4.81 per sq. ft. (-1.8% from Q3/2016), respectively.

The average office rent in KL Suburban also saw a dip of 3.1% (from Q3/2016) to RM5.66 per sq. ft.. Conversely, Selangor saw a slight uptick of 0.9% (from Q3/2016) to RM4.83 per sq. ft..

The market remains a tenants' market. Given the quantity of new offices projected to be completed over the next two years, it is unlikely that most landlords will have any significant leverage to raise rents.

Graph 1.3.4: Average Gross Rental Rates for Office Space in Greater KL



Source: Savills Research

PROPERTY MARKET OVERVIEW 2017

1.3.5 Major Investments

Office transactions were rather quiet in 2016 with six office buildings sold for a total value of RM818 million. The investment market has been equally inactive in 2017, with only four office building transactions, although these aggregated a higher total investment amount of about RM1.4 billion.

The four transactions recorded during the year concerned the sale of The Ascent @ Paradigm, bought by EPF from Jelas Puri Sdn Bhd for RM321 million, Menara Prudential, bought by KL 33 Sdn Bhd from OCBC Properties (M) Sdn Bhd for RM125 million, Wisma Selangor Dredging, bought by Golden Eagle Realty Sdn Bhd from Selangor Dredging Bhd for RM480 million, and Vista Tower, bought by AmanahRaya REIT from BlackRock Inc. for RM430 million.

Graph 1.3.5a: Major Office Building Transactions in Greater KL 2005-Q3/2017



Source: Savills Research

(Note: Total value of transactions includes sale of integrated/mixed developments)

Most of the high-quality office space in KL were transacted in the range of RM1,000-1,200 per sq. ft.. However, there were two prominent office buildings sold for more than RM1,200 per sq. ft., i.e. Integra Tower (in 2015) and Platinum Sentral (in 2014). High-grade office buildings with high occupancy rates in KL are always attracting local buyers, including institutions, REITs and private buyers.

Table 1.3.5b: Major Transactions of Purpose-Built Office Buildings in Greater KL in 2017

Buildings	Location	NLA (sq. ft.)	Consideration	
			RM million	RM per sq. ft.
Kuala Lumpur				
Menara Prudential	Jalan Sultan Ismail	164,706	125	758
Wisma Selangor Dredging	Jalan Ampang	362,782	480	1,323
Vista Tower	Jalan Tun Razak	551,875	430	779
Selangor				
The Ascent @Paradigm	Jalan SS7/26	516,633	321	621

Source: Bursa Malaysia, Savills Research

PROPERTY MARKET OVERVIEW 2017

2.0 JOHOR

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2.1 Market Overview

Transactional activities in the Johor property market declined in 1H2017, with transactions amounting to RM9.40 billion for 19,111 property units, against RM10.87 billion for 20,680 property units in 1H2016. This indicates a substantial decrease of 7.6% and 12.6% in terms of volume and value of property transactions in Johor over the two periods.

As Q3/2017, the total cumulative investment (since 2006) in Iskandar Malaysia amounted to RM244.46 billion, an increase of 9.4% from RM222.44 billion as at end-2016. From the total cumulative committed investments of RM244.46 billion, 61% or RM149 billion were domestic investments, while the remaining 39% or RM95 billion were foreign investments.

2.2 Industrial Sector

Table 2.2: *Approved Manufacturing Projects (2013 – January to September 2017) In Johor*

	2013	2014	2015	2016	Jan – Sep 2016	Jan – Sep 2017
Number of Approved Projects	197	179	119	165	137	98
Total Capital Investment (RM million)	14,444.6	21,176.4	31,102.3	26,410.6	18,109.4	3,718.6

Source: Malaysian Investment Development Authority (MIDA)

2.2.1 Existing And Future Supply

A number of new major manufacturing plants and expansion plans were unveiled in Johor in 2017:

- BMW Group launched its new regional parts and distribution centre. The RM130 million facility, located on a 72-hectare site within the Free Trade Zone of Port of Tanjung Pelepas (PTP) in Senai, will provide support across 23 countries in the region which include Malaysia, Singapore, Thailand and Indonesia.
- Johor Corporation signed an intention agreement with Chinese company Siasun Robot Investment Pte Ltd to transform a 404-hectare site located in Johor into a Future Robotics City in a development worth RM15 billion. The agreement signed is in line with Johor's initiatives to promote the robotics sector and partly to support China's One Belt and Road project, which is beneficial to Malaysia and China.
- Petropolymer Sdn Bhd signed an agreement with Permodalan Darul Takzim (PDT) to build a new glove manufacturing facility located on a 60.7-hectare site located in Pengerang, Kota Tinggi, in the vicinity of the RAPID development.
- Country Garden Pacific View Sdn Bhd is set to build a RM2.6 billion Industrialised Building System (IBS) factory on a 109.5-hectare site in Forest City. The factory has three lines currently in production, and will have a total of 12 in the future, thus becoming the largest IBS facility in the world.

PROPERTY MARKET OVERVIEW 2017

Table 2.2.1: Industrial Property Volume and Value Transactions (2015 to Q3/2017)

Industrial property type	2015		2016		Q1-Q3/2017	
	Volume (no.)	Value (RM million)	Volume (no.)	Value (RM million)	Volume (no.)	Value (RM million)
Terraced	277	157.48	168	99.68	168	105.05
Semi-detached	197	387.17	206	429.44	142	282.51
Detached	2,017	940.52	139	792.68	104	424.70
Others	453	845.96	217	704.99	173	544.56
TOTAL	2,944	2,331.13	730	2026.79	587	1,356.82

*Note: "Others" includes vacant industrial land, industrial complexes and other types of industrial properties.
Source: NAPIC

As observed until Q3/2017, the volume of industrial property transactions in Johor was 587, which was a 17.9% increase as compared to the volume of industrial property transactions in Q3/2016 at 498. Despite the increase in the volume of industrial property transactions, the total value of transactions in Q3/2017 amounted to RM1.37 billion - a 9% decrease as compared with the corresponding period in 2016.

The terraced factory category surpassed the semi-detached factory category as the most actively transacted industrial property category between Q1-Q3/2017, accounting for 29% of the total volume of industrial property transactions in Q3/2017 with a corresponding transaction value of RM105.05 million.

Although the semi-detached category recorded a lower volume of 142 transactions, it recorded a total transaction value of RM282.51 million. The detached factory category continued to record the highest value of transactions at RM424.70 million, with 104 units transacted in Q3/2017. This translates to an average value per detached factory of about RM4.08 million, compared with RM5.85 million in the previous year's corresponding period.

2.2.2 Existing and Future Supply

Table 2.2.2: Industrial Property Supply – Existing and Future Incoming and Planned Supply

Industrial property type	2011	2012	2013	2014	2015	2016	1H2017	Incoming Supply	Planned Supply
Terraced	7,471	7,509	7,509	7,651	7,760	7,687	7,697	254	308
Semi-detached	2,825	2,855	2,911	2,986	3,165	3,583	4,011	738	517
Detached	2,750	2,866	2,901	3,026	3,087	3,665	3,676	177	342
Flatted factory	0	0	2	0	0	0	0	0	0
Industrial complex	470	470	470	448	448	409	409	0	7
Cluster	0	0	0	48	48	260	324	652	288
TOTAL	13,516	13,700	13,793	14,159	14,508	15,604	16,117	1,821	1,462

Source: NAPIC

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Johor had a total of 16,117 industrial properties as at 1H2017. The existing industrial properties are largely terraced factories, which accounted for 47.8% of the total existing supply in Johor, followed by semi-detached factories (24.9%), detached factories (22.8%), with the remaining 4.5% consisting of industrial complexes and cluster factories. Government data shows no record of flatted factories in Johor.

As at 1H2017, total future industrial properties in Johor stood at 3,283 units. Of these, 1,821 are industrial units currently under construction, while the remaining 1,462 are units with development approval but have yet to commence construction works.

Currently, most of Johor's industrial properties are concentrated in Iskandar Malaysia, particularly in Flagship Zone C: Western Gate Development, where Port of Tanjung Pelepas is located, Flagship D: Eastern Gate Development, where Johor Port and Tanjung Langsat Port are located, and Flagship E: Senai-Skudai, where the Senai Airport is located.

2.2.3 Industrial Land Prices And Industrial Property Rents

Industrial land values in Iskandar Malaysia normally range between RM25–75 per sq. ft., depending on location and tenure. Land prices have even exceeded RM100 per sq. ft. in some cases within the Southern Industrial and Logistics Cluster (SiLC) Nusajaya, where the land tenure is freehold, and which is currently viewed as one of the best industrial parks in Iskandar Malaysia for its standout attributes and strategic location. The most recent example would be UEM Sunrise Bhd's recent sale of 100,000 sq. ft. of land located within SiLC to Luxx Newhouse for a purchase price of RM13 million (RM130 per sq. ft.).

Lower industrial land values were mostly recorded for 30-year leasehold land located in Pasir Gudang and the Senai/Kulai areas, which average RM20 per sq. ft.

Industrial property rents in Iskandar Malaysia have been relatively stable, at between RM1.00 to RM1.50 per sq. ft. per month, with only properties located at Tanjung Pelepas and SiLC recording rents ranging between RM1.50-2.20 per sq. ft. in 2017, due to their strategic location and better building specifications.

Table 2.2.3: Industrial Space Rental Rates in Iskandar Malaysia

No	Johor	2014	2015	2016	Q3/2017
1	Southern Industrial and Logistics Cluster (SiLC)	RM1.40-1.70 per sq. ft.	RM1.40-1.80 per sq. ft.	RM1.50-1.80 per sq. ft.	RM1.50-1.90 per sq. ft.
2	Port of Tanjung Pelepas (PTP)	RM1.70-1.90 per sq. ft.	RM1.80-2.00 per sq. ft.	RM1.80-2.00 per sq. ft.	RM1.80 – 2.20 per sq. ft.

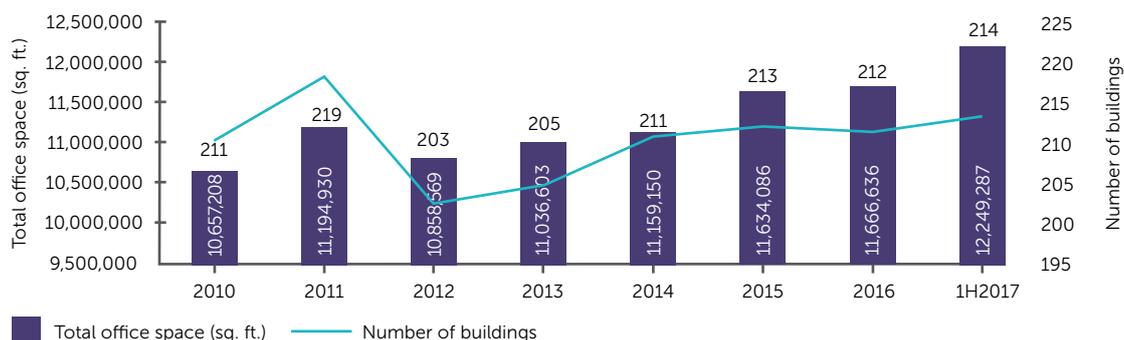
Source: Savills Research

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2.3 Purpose-Built Offices

2.3.1 Existing And Future Supply

Graph 2.3.1: Cumulative Supply of Office Space in Johor



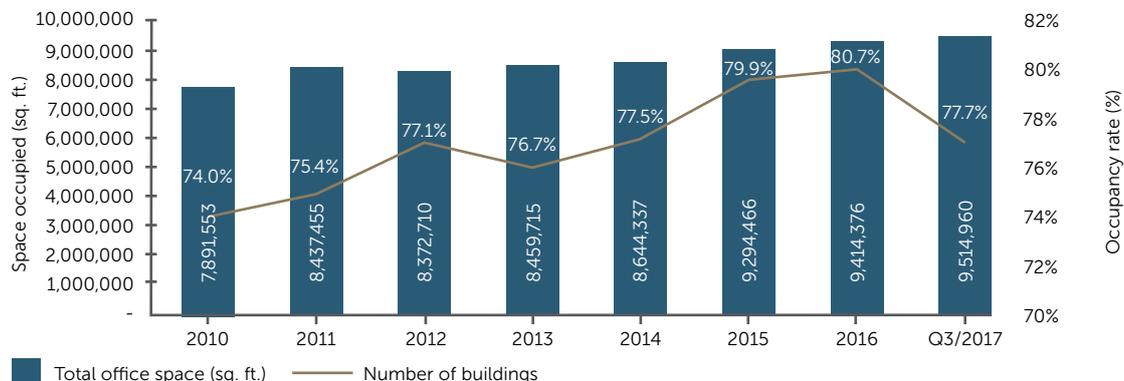
Source: NAPIC, Savills Research

As at 1H2017, the total supply of office space in Johor stood at 12.25 million sq. ft., which includes private office buildings and government buildings. Most of the state's office space is located in Johor Bahru and Batu Pahat, which have about 9.5 million sq. ft. and 0.89 million sq. ft. respectively.

The incoming supply of purpose-built office buildings will mostly be in Medini Iskandar, Iskandar Puteri. The significant upcoming supply of office buildings include Medini 9 (407,010 sq. ft.), Medini 10 (415,578 sq. ft.) and Volt Corporate Park Office Tower (427,640 sq. ft.). New upcoming supply in Johor Bahru City Centre includes Menara JLand (262,592 sq. ft.), MBBJ Headquarters at One Bukit Senyum (445,848 sq. ft.) and Bank Rakyat Tower (550,000 sq. ft.), which is also part of the Coronation Square development.

2.3.2 Occupancy Rate

Graph 2.3.2: Average Occupancy Rate of Office Space in Johor



Source: NAPIC, Savills Research

The overall occupancy rate of office buildings in Johor has trended higher since 2010, with a slight dip in 2013 and a more noticeable drop in 1H2017. The average occupancy rate of office buildings in Johor is close to about 78% as at 1H2017.

In Johor Bahru City Centre, office buildings with good occupancy rates include City Square Office Tower, Menara MSC Cyberport, Menara KOMTAR, Menara Landmark, Menara Ansar and Public Bank Tower, all of which recorded average occupancy rates of over 80%.

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2.3.3 Rental Rates

Rental rates have consistently been quite stable in Johor with a just a few exceptions like Menara Tabung Haji, which recorded a 7.0-7.5% spike in rental rates, and also in suburban areas with buildings like the Muar Trade Centre experiencing a 5.9% increase in rental as compared to the same period in 2016. These increases are mostly due to rental renewals. In the CBD area, rentals have recorded increases of 3.3-8.7% (equivalent to an average increase of about RM0.10 per sq. ft. per month).

Table 2.3.3: Office Rental Rates in Johor Bahru (CBD area)

Office Building	Floor Level	Floor Area (sq. ft.)			Average Rental Range Per Month (RM per sq. ft.)		
		Min		Max	Min		Max
Menara KOMTAR JBCC	4	312	-	473	6.00	-	6.50
	6			893			3.50
	15	1,420	-	4,357			3.00
	16			1,226			5.60
	17			1,334			3.00
	18	946	-	3,497	3.00	-	5.60
	20			882			2.80
	23			2,625			3.00
Menara Ansar	Podium 5			14,97			2.60
	6			4,174			3.50
	7			4,971			3.00
	8	1,667	-	3,626	2.80	-	3.30
	9 to 10	5,003	-	8,048			2.60
	12	3,335	-	5,358			3.00
	13			10,394			2.60
	14-15	5,046	-	10,426			2.80
	17			10,254			2.60
	19	5,057	-	5,315	2.80	-	3.40
	20			8,123			2.80
	21			7,628			2.80
Menara Landmark	12			4,551			2.85
	13			2,496			2.29
	16	903	-	968	2.20	-	2.60
	17	2,119	-	3,561	2.20	-	2.60
	19	3,410	-	3,561	2.20	-	3.25
	20	1,065	-	3,561	2.00	-	3.50
	21	2,087	-	4,573	2.20	-	3.50
	22	1,011	-	2,087	2.20	-	3.00
	23	839	-	1,022	2.30	-	2.53
	23A	1,011	-	1,872	2.20	-	2.50
	25	3,174	-	3,281			3.00
	26	1,667	-	4,131			2.20
	27			12,449			2.20
32			13,611			2.75	

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Office Building	Floor Level	Floor Area (sq. ft.)			Average Rental Range Per Month (RM per sq. ft.)	
		Min		Max	Min	Max
Medini 6, Iskandar Puteri	Ground - 1			42,695		4.00
	3			3,744		4.05
Medini 7, Iskandar Puteri	Ground	645	-	720		4.50
		6,197	-	7,607		4.50
	1	3,249	-	7,747		3.50
				10,544		4.50

Source: NAPIC, Savills Research

2.3.4 Major Investments

Office market transactions in Johor are not as active as in Greater KL. In late-November 2016, the Johor Bahru City Council (MBJB) signed a RM308 million agreement with Astaka Holding Ltd. to build Menara MBJB, a 15-storey grade-A office tower located at One Bukit Senyum, which is slated for completion by 2021. In September 2017, Singapore firm Pavilion Holdings entered into an agreement to acquire a commercial complex known as City Plaza, Johor Bahru, together with its adjoining vacant lands for RM52 million. Separately, Optimum Impress Sdn Bhd acquired a 59,374 sq. ft. piece of freehold land together with Metropolis Tower for RM100 million in cash. Metropolis Tower is a mixed development which consists of the 27-storey Hotel Selesa and a 31-storey office tower.

Table 2.3.4: Recent Transactions of Purpose-Built Office Buildings in Johor

Building	Location	GFA	Price Consideration	
		(sq. ft.)	RM million	RM per sq. ft.
Menara MBJB @ 1 Bukit Senyum	Johor Bahru	445,848	308	690
Metropolis Tower together with its adjacent land measuring 5,516 sq. m.	Johor Bahru	-	100	-
City Plaza Johor Bahru (107 Lots)	Johor Bahru	-	52	-

Sources: Bursa Malaysia, Savills Research

3.0 PENANG

3.1 Market Overview

The Penang property market recorded a total transaction value of RM7.87 billion for 12,449 property units as of Q3/2017, an increase in value compared to RM6.85 billion recorded in the similar period in 2016, but a decrease in volume (Q3/2016: 13,539 units). This shows that activities in the Penang property market slowed in terms of volume in the first three quarters of 2017, (down by 8.1%) but increased in terms of value of property transactions (up by 14.8%). (Source: JPPH)

It is worth noting that the Penang property market is still expected to be driven by continuous business activities and the flow of foreign investments into the state, particularly in the manufacturing sector.

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3.2 Industrial Sector

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Statistics from MIDA showed that Penang recorded 90 approved manufacturing projects with a total of RM9,913.8 billion in capital investment during the first three quarters of 2017. The number of approved projects and investments rose by 7.1% and 155% respectively, when compared to the corresponding period in 2016.

Table 3.2a: Approved Manufacturing Projects (2013 – January-September 2017) in Penang

	2013	2014	2015	2016	Jan – Sep 2016	Jan – Sep 2017
Number of Approved Projects	119	169	107	106	84	90
Total Capital Investment (RM million)	3,912.3	8,162.4	6,724.4	4,293.9	3,881.6	9,913.8

Source: Malaysian Investment Development Authority (MIDA)

A number of significant new major manufacturing plants and expansion plans were unveiled in the state in 2017, including:

- Broadcom Limited, a leading semiconductor supplier, opening a new RM59 million global distribution warehouse in Batu Kawan, with plans to allocate 30% of its export to the United States and 70% to other countries. This facility is expected to facilitate some RM65 billion in export revenue by 2018, thus making Broadcom the largest E&E exporter in the country. Additionally, the company intends to expand further by spending RM4.1 billion over the next 10 years on areas such as global production planning, quality management, strategic procurement and logistics management.
- New York Stock Exchange-listed Boston Scientific Corp, a maker of medical products, commencing operations at its new manufacturing plant in Batu Kawan Industrial Park. The plant spans 375,000 sq. ft. over a 20-acre (8.1ha) parcel. This is the 19th global manufacturing facility for the medical device giant, and its first in Asia. It is expected that the plant will operate at 30% of its capacity by 2019.
- UST Global, a fast-growing digital technology company that provides advanced computing and digital services, announcing the opening of a new facility in Bayan Lepas Free Industrial Zone Phase 3. This facility is UST Global's second centre in Penang.
- Federal Oats Mills Sdn Bhd, the homegrown producer of Captain Oats, is investing RM120 million to build a new facility in an effort to achieve a five-fold expansion in its production capacity. To be built over an estimated 2.7 hectares and expected to be completed in two years, the new facility will be situated in Penang Science Park at Bukit Minyak, an addition to its present factory in Mak Mandin Industrial Park.
- Hotayi Electronics (M) Sdn Bhd, a Taiwanese-owned electronic manufacturing services (EMS) company, is re-investing RM1 billion to magnify its vertical integration segment. The first phase of construction will encompass a 250,000 sq. ft. facility in Batu Kawan Industrial Park, which is targeted to begin operations in Q1/2018.

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- The Penang state government announcing the formation of the Penang Automation Cluster in Batu Kawan Industrial Park, a joint-venture by three local large companies – ViTrox Corporation Berhad, Pentamaster Technology (M) Sdn Bhd and Walta Engineering Sdn Bhd. The small medium enterprise (SME) precision metal fabrication or automation cluster will be the first of its kind in Malaysia, and is expected to be operational by 2019.
- Sweden's Industrialized Building Systems will invest about RM100 million in its production and R&D facility at the Penang Science Park. This would make it the country's biggest investor in Penang thus far. The facility is targeted to produce approximately 500,000 sq. ft. of apartment modules per year, which will mostly be shipped to northern Europe.

Table 3.2b: Industrial Property Volume and Value Transactions (2016 to Q3/2017)

Industrial property type	2016		Q1-Q3/2016		Q1-Q3/2017	
	Volume (no.)	Value (RM million)	Volume (no.)	Value (RM million)	Volume (no.)	Value (RM million)
Terraced	124	79.89	95	66.98	88	61.63
Semi-detached	83	145.99	52	92.52	63	113.97
Detached	56	484.4	37	390.05	29	172.33
Others	180	198.26	111	157.29	137	132.02
TOTAL	443	908.54	295	706.84	317	479.95

*Note: "Others" includes vacant industrial land, industrial complexes and other types of industrial properties.
Source: NAPIC

- During first nine months of 2017, there were 317 industrial property transactions in Penang, a 7% increase from the 295 transactions recorded in Q3/2016. However, the total value of transactions decreased significantly, by 32% in Q3/2017 to RM479.95 million compared with the corresponding period of 2016.
- The terraced factory category remained as the most actively transacted industrial property category, accounting for 28% of the total volume of industrial property transactions in Q3/2017 with a corresponding value of RM61.63 million.
- Other industrial property types recorded notably higher transactions, with 137 units and a total transaction value of RM132 million during Q3/2017. This translates to an average value per industrial property of about RM0.96 million, from RM1.41 million in the same period last year.

PROPERTY MARKET OVERVIEW 2017

3.2.1 Existing and Future Supply

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Table 3.2.1: Industrial Property Supply – Existing and Future

Industrial Property Type	Existing Supply						Future Supply	
	2012	2013	2014	2015	2016	1H2017	Incoming Supply	Planned
Terraced	4,882	4,920	4,969	4,969	5,044	5,058	47	28
Semi-detached	1,109	1,121	1,154	1,164	1,556	1,566	166	76
Detached	1,380	1,415	1,439	1,442	1,792	1,873	33	68
Flatted factory	333	333	341	341	489	489	0	8
Industrial complex	42	42	103	103	71	71	0	1
Cluster	0	0	0	0	0	0	0	0
Total	7,746	7,831	8,006	8,019	8,952	9,057	246	181

Source: NAPIC

The cumulative existing supply of industrial properties in Penang stood at 9,057 units as at 1H2017. The existing industrial properties are largely terraced factories, which make up 56% of the supply in Penang, followed by the detached category (20%) and the semi-detached category (17.4%).

A total of 246 industrial units are currently under construction, and another 181 industrial units have been approved but have yet to commence construction.

3.2.2 Industrial Land Value and Industrial Property Rents

Industrial land in Penang was generally priced between RM35 and RM120 per sq. ft. as at 1H2017. Land prices in Bayan Lepas and Batu Kawan have risen more in comparison to other industrial zones. Bayan Lepas is currently the only industrial area in which the land value can go beyond the RM100 per sq. ft. mark. This is due to land in Bayan Lepas being limited, along with its connectivity to the airport.

Land values in Batu Kawan have been on an uptrend, rising from RM27 per sq. ft. in 2012 to RM60 per sq. ft. as at 1H2017. As Batu Kawan's development progresses, improvements in infrastructure and facilities will cause land prices to continue rising. Transacted prices for Bukit Minyak/Penang Science Park have been stable since 2014 with very few transactions. Meanwhile, Prai has seen a marginal increase in the value of transacted properties year-on-year since 2010 without any major fluctuations in price.

Rents are estimated to range between RM1.10 and RM1.50 per sq. ft. per month in Seberang Perai, and between RM2.20 and RM2.60 per sq. ft. per month in Bayan Lepas.

Table 3.2.2: Warehouse Space Asking Rental in Penang

No	Area	Asking Rentals (RM per sq. ft. per month)		
		2015	2016	2017
1	Penang Island - Bayan Lepas	2.20-2.50	2.20-2.50	2.20-2.60
2	Prai Industrial Park	1.10-1.50	1.10-1.50	1.10-1.50

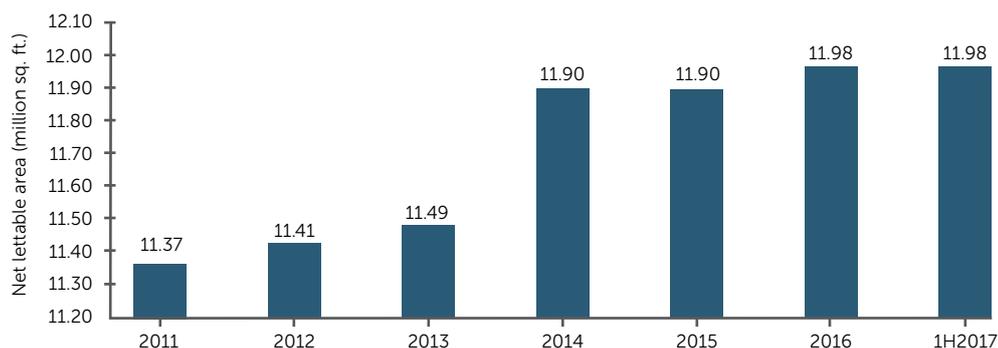
Source: Savills Research

PROPERTY MARKET OVERVIEW 2017

3.3 Office Sector

3.3.1 Existing and Future Supply

Graph 3.3.1: Cumulative Supply of Office Space in Penang



Source: NAPIC, Savills Research

The total supply of office space in Penang stood at about 11.98 million sq. ft. as at 1H2017, which includes both government and private purpose-built office buildings. The office sector in Penang remained inactive as a result of the stagnant movement of office supply since 2014. The bulk of Penang's office space is located in Georgetown, Bukit Mertajam and Butterworth, with about 7.16 million sq. ft., 0.85 million sq. ft. and 0.76 million sq. ft. of space respectively. Some notable office buildings in Penang include Menara Boustead, Plaza MWE, Menara KWSP, Menara IJM Land, Menara Northam and Suntech.

Future office space is anticipated in the upcoming second phase of The Light Waterfront Corporate Park, which includes a condominium, a convention centre, a four- and five-star hotel, a retail mall and an office tower. Elsewhere, there are also significant plans by Hunza Properties to develop the Penang International Commercial City (PICC) in Bayan Baru over a 10-year period, which includes a business process outsourcing tower within a mixed development project.

Other planned purpose-built offices include:

Development name	Developer
BPO Prime	Penang Development Corporation (PDC), Temasek, Economic Development Innovation Singapore (EDIS)
Sunway Valley City	Sunway Berhad
Penang World City	Tropicana Ivory
Aspen Vision City	Aspen Group
Utropolis	Paramount Group
Penang Sentral	Malaysian Resources Corporation Berhad (MRCB)

Source: Savills Research

PROPERTY MARKET
OVERVIEW 2017**3.3.2 Average Occupancy Rates**

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Graph 3.3.2: Average Occupancy Rate of Office Space in Penang

Source: NAPIC, Savills Research

Note: Data is only available up to 1H2017

There was a slight decline in the overall occupancy rate of office space in Penang in 1H2017, which fell to 81.9% compared with 82.3% in 2016.

In May 2017, Zurich Takaful Malaysia Berhad opened its new office space measuring 15,768 sq. ft. at Setia SPICE Convention Centre (SPICE) in Bayan Lepas, Penang, to meet the needs of its growing business in the northern region.

In December 2017, Regus, the global flexible workspace solutions provider, announced that it will open its fourth business centre in SPICE. Regus presently has three business centres in Penang, which are located in Gurney Paragon, Menara Boustead and iDEAL @ Bayan Lepas.

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3.3.3 Average Asking Rental Rates

Table 3.3.3: Office Rental Rates in Penang

Office Building	Floor Level	Size (sq. ft.)		Rental 1H2017 (RM per sq. ft.per month)			
		Min	Max	Min	Max		
KOMTAR Tower Block	29-54		2,497		2.19		
		2,497	-	4,994	1.85	-	1.90
		4,994	-	7,492	1.80	-	2.18
		7,492	-	10,000	1.75	-	2.18
		10,000	-	12,497	1.70	-	2.18
			12,497	1.66	-	2.18	
Mayban Trust Fund Building	Ground		5,522		2.60		
	Mezzanine		2,411		1.00		
	3-12	797	-	2,131	1.60	-	2.00
MWE Plaza	Ground		1,991		3.52		
	7-9	904	-	2,476	2.70	-	2.80
	10-15A	581	-	7,545	2.70	-	2.80
	15-21	1,087	-	7,545	2.60	-	2.80
Wisma Boon Siew	8-16	538	-	1,615	1.10	-	1.90
Asia Insurance Building	Ground & Mezzanine		4,855		3.51		
	1-6	3,595	-	4,004	1.80	-	2.20
Bangunan Barkath	3-6	3,907	-	4,478	1.80	-	2.20
Mutiaral&P, Greenhall	1	786	-	915			1.72
	2-4	603	-	8,740	1.30	-	1.65
Lembaga Tabung Haji Building	Ground		3,305		1.65		
	1	5,113	-	5,188			1.60
	2-4	237	-	1,324	1.40	-	2.10
Menara UMNO	Ground		3,660		4.01		
	1		5,705		2.00		
	7-20	1,001	-	2,002	1.50	-	1.70
	21		3,552		2.00		
Wisma Great Eastern	Ground		6,555		4.81		
	2-3	1,884	-	5,899	2.60	-	2.80

Source: NAPIC, Savills Research

Increasing demand and the lack of new office buildings in Penang Island has driven up rental rates of office buildings, especially for the better grade buildings. This has been observed in the starting rental price of Bangunan Barkath, which rose by RM0.50 per sq. ft. compared to 2016.

MANAGER'S DISCUSSION AND ANALYSIS INVESTMENT REPORT

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OVERVIEW

Throughout 2017, we maintained our strategy of aggressively seeking and securing potential assets to acquire. The property market remained cautious in 2017, with a mismatch between the requirements of buyers and sellers. This resulted in a drop in the total number of transactions concluded in 2017, compared with 2016.

This market presented opportunities for us from an acquisition viewpoint: many properties were put on the market for sale as their owners adopted a more cautious outlook. With careful selection and a stringent due diligence process, the Manager was able to consider the purchase of several yield-accretive properties for the Fund.

Notwithstanding the prevailing property market conditions, many industrial players, both local and international, are now more open to adopting an asset-light strategy, preferring to monetise their assets and reinvest the proceeds into their businesses. This presents a unique opportunity for us to acquire assets that would otherwise not have been put up for sale. Growth in the industrial property sector is segmented, and is seen to be driven by demand for warehousing and fulfilment centres for the e-commerce activities of both retailers

and logistics service providers. This segment presents opportunities in terms of potential acquisitions of existing properties, as well as new build-to-lease developments for high-specification distribution centres.

We expect 2018 to continue on this momentum as there are clear signs that the market has bottomed out, and is on its way to recovery. We believe this recovery will be sustainable in the long run, and that the market will continue to offer acquisition opportunities for the Fund.

Acquisitions

During FYE2017, Axis-REIT completed two acquisitions totalling RM153.0 million. With these acquisitions, the Fund's net lettable area increased by approximately 669,753 sq. ft., surpassing the 8 million sq. ft. mark at the close of the financial year. These yield-accretive acquisitions contributed to an increase in the Fund's total AUM, and added an incremental 1.08 sen (before financing cost) to Axis-REIT's DPU.

We broadened our horizons in terms of geographical location, and considered prime and upcoming industrial locations which culminated in the completion of the acquisition in Kuantan, Pahang.



MANAGER'S DISCUSSION AND ANALYSIS INVESTMENT REPORT

Salient details of acquisitions completed in 2017:

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Property Name	:	Kerry Warehouse
Gross Floor Area	:	168,428 sq. ft.
Land Tenure	:	60-year leasehold expiring on 20 March 2073
Purchase Price	:	RM33,000,000
Valuation	:	RM34,000,000
Occupancy	:	100%
Initial Net Yield	:	7.5%
Overall WALE	:	3 years
Vendor	:	Orientant Int. Sdn. Bhd.
Acquisition Date	:	24 July 2017



Property Name	:	Wasco Facility @ Kuantan
Gross Floor Area	:	506,753 sq. ft.
Land Tenure	:	Land 1 : 99-year leasehold expiring on 8 November 2109
	:	Land 2 : 99-year leasehold expiring on 6 August 2113
Purchase Price	:	Land 1 : RM120,000,000 Land 2 : RM35,000,000
Valuation	:	RM155,000,000
Occupancy	:	100%
Initial Net Yield	:	7.0%
Overall WALE	:	15 years
Vendor	:	Wasco Resources Sdn. Bhd., Wasco Coatings Services Sdn. Bhd., Wasco Coatings Insulation Sdn. Bhd., Wasco Lindung Sdn. Bhd. and Wasco Coatings Malaysia Sdn. Bhd.
Acquisition Date	:	5 December 2017

MANAGER'S DISCUSSION AND ANALYSIS INVESTMENT REPORT

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Disposals

During FYE2017, Axis-REIT completed the disposal of Axis Eureka, a multi-tenanted office building in Cyberjaya, Selangor, for RM56.13 million.

Property Name	: Axis Eureka
Acquisition Date	: 18 April 2011
Net Lettable Area	: 117,618 sq. ft.
Market Value	: RM55.0 million as at 12 October 2016
Registered Valuer	: Savills (Malaysia) Sdn Bhd
Disposal Price	: RM56,132,075
Purchaser	: Malaysian Qualifications Agency
Completion Date	: 8 March 2017

Looking Ahead

Following the success on acquisition for 2017, we are looking to continue building a strong pipeline of potential acquisitions within our preferred asset class of industrial warehouses and manufacturing facilities. Looking ahead, the Manager is currently considering several potential acquisitions worth approximately RM150 million. The transactions are undergoing due diligence exercises, which are expected to be completed in FYE2018.

- **19 October 2017**
Letter of Offer accepted for Axis-REIT to acquire an industrial facility, located in Senawang, Negeri Sembilan, for RM18.5 million.
- **20 November 2017**
Letters of Offer accepted for Axis-REIT to acquire three industrial facilities located in Indahpura, Kulaijaya, Johor, for RM45.15 million.
- **23 December 2017**
Letter of Offer accepted for Axis-REIT to acquire an industrial facility located in Shah Alam, Selangor, for RM87.0 million.

Transactions-wise, all acquisitions will continue to be financed by a mix of Islamic financing facilities and equity. The key performance indicator for the Manager's acquisitions is to maximise returns to Unitholders.

The selection of assets remains focused on:

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

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

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

INVESTOR RELATIONS



MANAGER'S DISCUSSION AND ANALYSIS INVESTOR RELATIONS REPORT

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Our annual stakeholder engagement activities are organised through various channels that aim to extend our reach beyond existing institutional and retail investors, to prospective investors.

Bi-annual Results Briefings

Every year, we organise two comprehensive results briefings and Q&A sessions with analysts, fund managers and members of the media in conjunction with the release of our second quarter and fourth quarter financial results. These sessions are led by the Chief Executive Officer ("CEO") as the primary spokesperson, supported by members of the Management Team. This presentation typically covers Axis-REIT's latest quarterly financial results, operational performance, as well as its business outlook. Members of the Board and senior management team also attend these briefings to enable participants to interact with key representatives from the Manager, and to respond to any queries related to the Fund and its latest developments. This year's analyst briefings were held on 19 January 2017 and 25 July 2017 for the announcement of Axis-REIT's fourth quarter 2016 and second quarter 2017 results respectively.

Deal and Non-Deal Roadshows

This year, we embarked on a deal-related roadshow in the third quarter of 2017, prior to the Fund's placement exercise for the issuance of 125 million new placement units. This fundraising exercise was well oversubscribed and completed on 28 November 2017.

One-on-one Meetings / Site Visits

We receive, and where possible, accommodate requests for one-on-one meetings from analysts and fund managers, both local and foreign. During these meetings, the Manager is always represented by key management personnel. We have also accommodated requests for site visits, including from foreign funds who are keen to see the latest acquisitions in the Fund's portfolio.

Annual General Meeting 2017

The Manager held Axis-REIT's Fifth Annual General Meeting ("AGM") on 26 April 2017 at the Armada, Petaling Jaya. During the AGM, the Unitholders were tabled with the Fund's Audited Financial Statements for the financial year ended 31 December 2016 ("FYE2016"). All Unitholders are given the

opportunity to raise questions and seek clarification from the Board of Directors and senior management during AGMs and Unitholders' meetings. Results of such meetings are made available on the Bursa Securities portal on the same day. No Unitholders' Meeting was held during 2017.

Media Engagement

As with analyst briefings, the Manager engages the media through bi-annual press briefings held in conjunction with the release of its second quarter and fourth quarter financial results. During FYE2017, the Manager also organised a media appreciation night on 17 November 2017.

Other channels such as our marketing brochures, results presentation slides and Axis-REIT's website serve as conventional channels of communication for the benefit of stakeholders. These are updated every quarter, together with each quarterly financial results release. The Manager also maintains an open line of communication through its general phone line and e-mail to allow better access to potential stakeholders and investors.



Briefing and presentation of 2Q2017 unaudited results

MANAGER'S DISCUSSION AND ANALYSIS INVESTOR RELATIONS REPORT

Investor Outreach

Our investor outreach programmes also help keep current and prospective Unitholders informed about the Fund and its latest performance. These programmes include the management team's participation in the following public and private events:

Date	Events
12 January 2017	Securities Commission: International Investment Fund Forum 2017
8 February 2017	Maybank: Invest ASEAN
23 February 2017	Nomura Securities: Nomura Global Real Estate Forum 2017, Tokyo
14 March 2017	Investor Meeting: CIMB Equity Research
15 May 2017	APREA Asia Pacific Property Leaders Summit
26 July 2017	Invest Malaysia
4 August 2017	REITS Asia Pacific 2017, Singapore
26 August 2017	Invest Fair Malaysia 2017
23 October 2017	Malaysian Code on Corporate Governance 2017
23 November 2017	Fortune Times REITs Pinnacle Awards 2017 - Most Promising REIT in Asia
23 November 2017	National Annual Corporate Report Awards (NACRA) 2017 – Merit Award

Awards and Recognition

Axis-REIT is proud to be the recipient of the following accolades in 2017:

- Asia Pacific Best of Breeds REITs Awards 2017: Platinum Winner, Industrial REIT Category for Malaysia
- National Annual Corporate Report Awards (NACRA) 2017: Merit Award Recipient
- Fortune Times' REITs Pinnacle Awards 2017: Most Promising REIT in Asia

Price and Volume Metrics Overview

- Axis-REIT shares recorded an opening price of RM1.61 on 3 January 2017, and a closing price of RM1.50 on 30 December 2017
- The highest closing price during 2017 was recorded at RM1.72 in May, whereas the lowest closing price was RM1.45, recorded in December
- The number of Unitholders increased by 7.53% year-on-year, from 3,891 as at 31 December 2016 to 4,184 Unitholders recorded as at 31 December 2017
- The number of unitholdings increased to 1,232,326,803 units, following the issuance of additional units from corporate exercises such as the placement exercise and the IDRPs

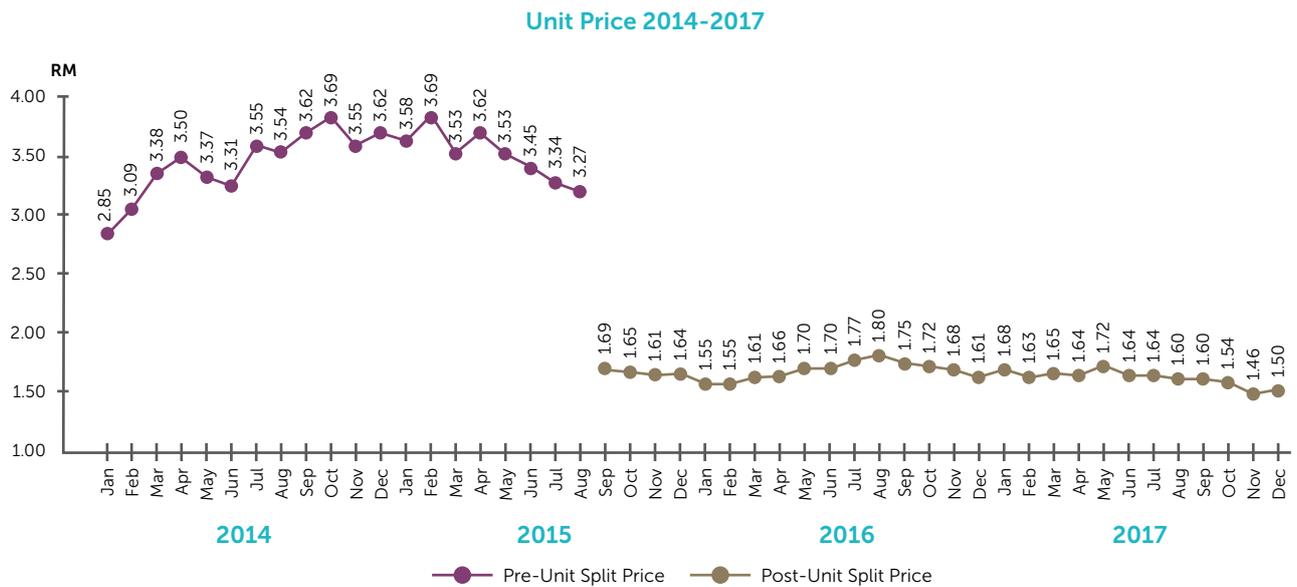
MANAGER'S DISCUSSION AND ANALYSIS INVESTOR RELATIONS REPORT

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5-Year Unit Price Performance Highlights

	2013	2014	2015*	2016*	2017*
Closing Unit Price as at 31 December (2013-2017)	2.93	3.62	1.64	1.61	1.50
High	4.02	3.70	1.85	1.81	1.72
Low	2.93	2.80	1.55	1.50	1.45
NAV	2.23	2.42	1.23	1.26	1.29
Market Capitalisation (RM million)	1,351	1,982	1,803	1,803	1,849

* Unit prices adjusted to reflect the effect of Unit Split



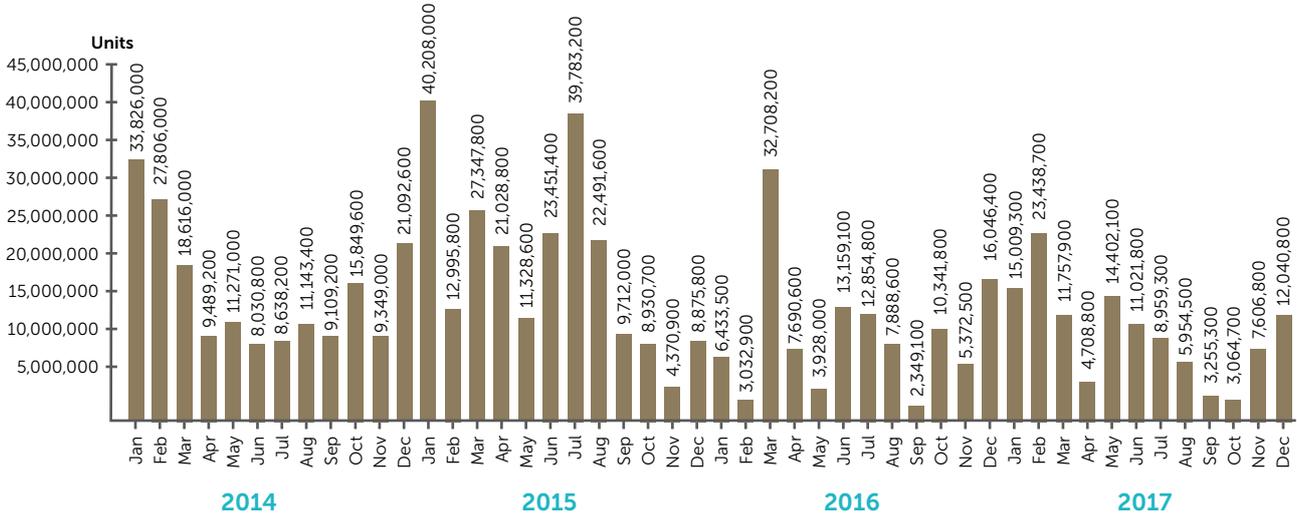
Transaction Volume Highlights

Axis-REIT's trading volume continues to show good momentum, with 121,220,000 units traded in 2017.

- Average monthly volume: 10,101,667 (1 January 2017 – 31 December 2017)
- Highest monthly volume: 23,438,700 (February 2017)
- Lowest monthly volume: 3,225,300 (September 2017)

MANAGER'S DISCUSSION AND ANALYSIS INVESTOR RELATIONS REPORT

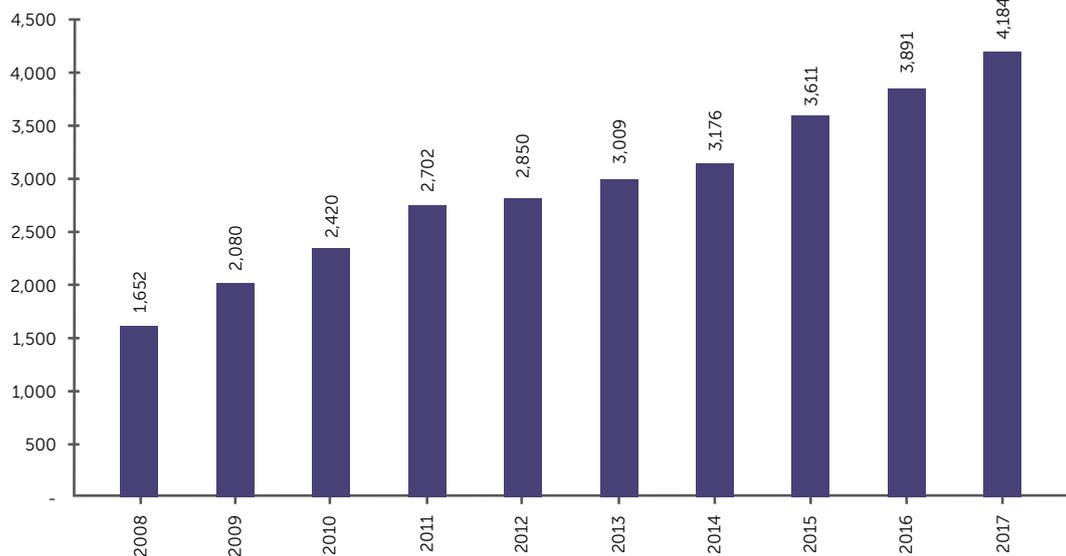
Trading Volume, 2014-2017



CDS Accounts Highlights

The number of Central Depository System ("CDS") accounts in which Axis-REIT units traded on increased from 3,891 accounts in 2016, to 4,184 accounts during 2017.

CDS Accounts



Price Performance Highlights

Indexed against the FTSE Bursa Malaysia-Kuala Lumpur Composite Index ("FBMKLCI"), Axis-REIT's Unit price outperformed the market in the first half of 2017 and recorded a softer performance against a bullish stock market in the second half of 2017.

MANAGER'S DISCUSSION AND ANALYSIS INVESTOR RELATIONS REPORT

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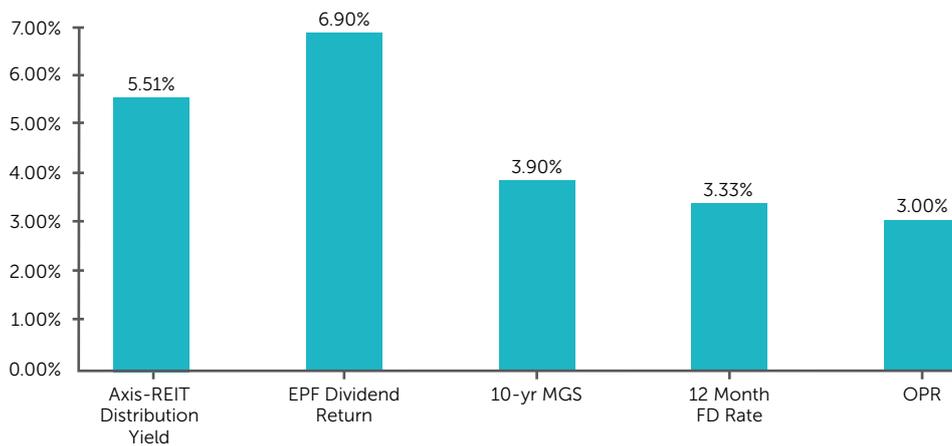
Unit Price Performance vs FBMKLCI 2014 - 2017



Annual Returns Highlights

Axis-REIT continues to provide investors with strong returns when compared with similar investment instruments in Malaysian capital markets.

2017 Return Comparatives



MARKETING
TEAM



MANAGER'S DISCUSSION AND ANALYSIS MARKETING REPORT

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In 2017, the Manager established a marketing department, headed by Mr. Siva Shanker, Head of Investments, and supported by Ms. Ong Li Syin and Ms. Lalitha Anandarajah. The department's main objective was to develop and execute Axis-REIT's marketing strategy, to coordinate and execute its marketing initiatives, and to ensure all communication and engagement efforts are aligned with the Fund's various stakeholder groups. The role was previously integrated as part of the leasing function, but with the growing needs of the Fund, a dedicated department was established to drive the Fund's marketing efforts.

Recognising the importance of branding to every organisation, the marketing team's first priority has been to review and standardise Axis-REIT's brand identity across all platforms within the organisation. The aim of the exercise is to reinforce Axis-REIT's brand, and to project a consistent and cohesive corporate identity that is associated with the Fund's mission, vision and ethos. We are leveraging on Axis-REIT's position as a leading business space provider and one of the largest industrial space providers in Malaysia. Concurrently, we are also reiterating our reputation as an established real estate investment trust that provides consistent returns to Unitholders.

Management believes this will help enhance the Fund's public image, increase its public relations value, and foster a purposeful and motivated corporate culture among ARMB's employees. These, in turn, will facilitate new customer acquisition and improve customer retention, as well as improve engagement with other stakeholder groups such as investors, the media, regulatory authorities and the communities in which we operate.

Towards this end, the marketing team conducted a brand audit and undertook the following initiatives:

- Modernising and improving Axis-REIT's logo



- We have incorporated the Fund's existing tag line, "Your Business Space Partner" in all marketing collaterals. We believe our tagline reflects our expertise in managing office and industrial spaces, as well as our commitment to being our investors' best ally, and believe incorporating our tagline in all collaterals will reiterate and reinforce this message.
 - As part of our initiative, we also undertook a brand audit.
 - We defined Axis-REIT's Brand Mission, as being:
To provide consistent distributions to unitholders through growing the property portfolio, while maintaining the highest level of corporate governance, excellent capital and risk management and preserving capital values.
 - We also defined Axis-REIT's Brand Values, namely:
The delivery of long-term sustainable distributions and capital stability via the implementation of the Six Principles of Management.
 - Development of an iconography that is unique to Axis-REIT



- Implementation of standardised signage on all Axis-REIT properties
- Incorporating clear branding on all Axis-REIT's collaterals

MANAGER'S DISCUSSION AND ANALYSIS MARKETING REPORT

MARKETING ACTIVITIES AND INITIATIVES

The marketing team ensures that there are activities, events and initiatives to engage all stakeholder groups, each led by a specific and relevant department within ARMB. Marketing initiatives organised in 2017 are as follows:

Stakeholders	Key Department	Events/Initiatives
 Employees	Human Resource	<ul style="list-style-type: none"> Seminars/Training
 Tenants	Leasing	<ul style="list-style-type: none"> Tenant Management Portal - helloaxis.com.my Axis Link Newsletter Zumba Classes
 Investors	Investor Relations/ Finance/Investments	<ul style="list-style-type: none"> Annual General Meeting (AGM) Analyst Briefings Invest Fair
 Media	Investor Relations	<ul style="list-style-type: none"> Media Night Press Briefings
 Communities (CSR)	CEO's Office	<ul style="list-style-type: none"> Malaysian Association of the Blind World Vision Malaysia The Edge KL Rat Race
 Estate Agents	Leasing/Investments	<ul style="list-style-type: none"> Agents Briefing: <ul style="list-style-type: none"> Johor Penang Kota Kinabalu Kuala Lumpur WhatsApp Marketing Campaign

AXIS-REIT BRANDING INITIATIVES

To create a stronger brand presence, the team developed a range of new marketing collaterals for Axis-REIT, to provide interested parties information on the Fund which is easy to digest and understand. These include leaflets, refreshed advertisement designs, backdrops, buntings, postcards, notebooks and a series of videos that highlight and present the Axis-REIT brand and content.

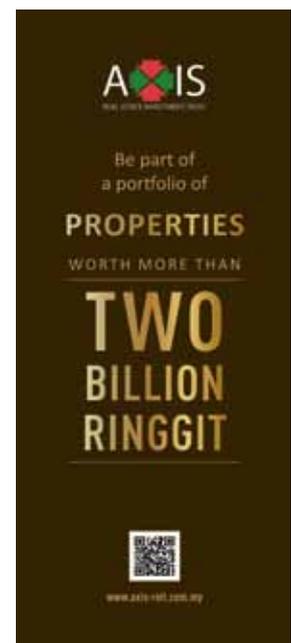
Axis-REIT has also registered with online property platforms like PropertyGuru, Propwall and iProperty, which provide unlimited access to online users.



Portable backdrop



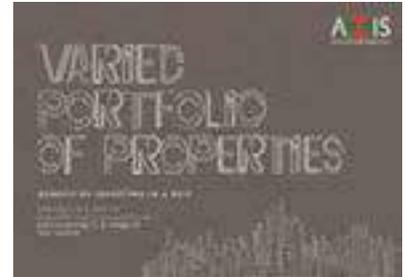
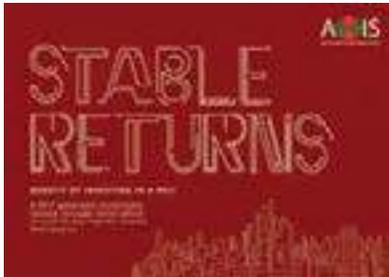
2018 diary



Buntings

MANAGER'S DISCUSSION AND ANALYSIS MARKETING REPORT

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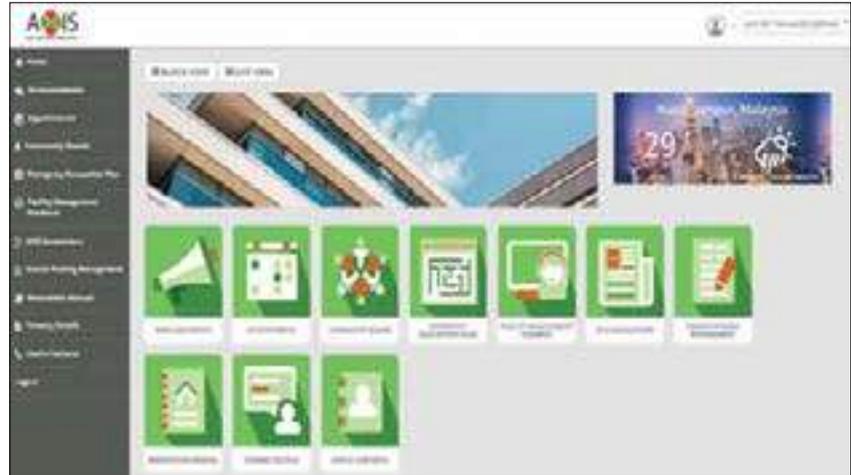
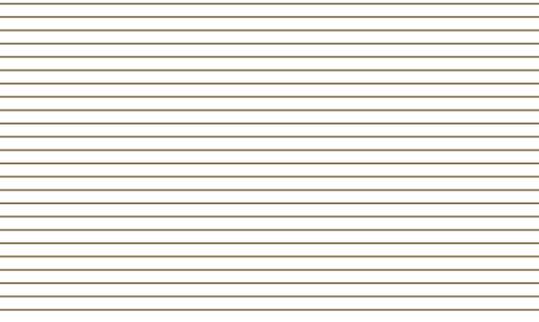
Postcards



Leaflets



MANAGER'S DISCUSSION AND ANALYSIS MARKETING REPORT



Screenshot of helloaxis.com.my on landing page

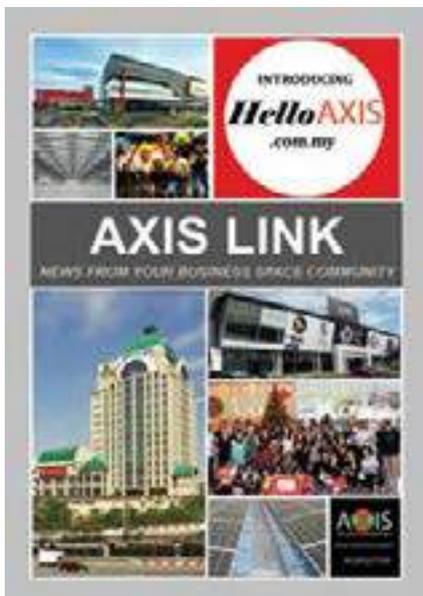
helloaxis.com.my

Launched in March 2017, helloaxis.com.my is a tenant management portal for the Axis-REIT community that helps streamline communication between tenants and the Manager.

Its key module is the facilities management feedback, which allows tenants to raise maintenance issues, monitor the progress and track the process until the issue is resolved. Tenants also have to rate the services rendered, and this input is then used to improve our delivery and fine tune our performance.

Another key module is the season parking management module, which allows tenants to apply for and cancel their season parking facilities with the Manager.

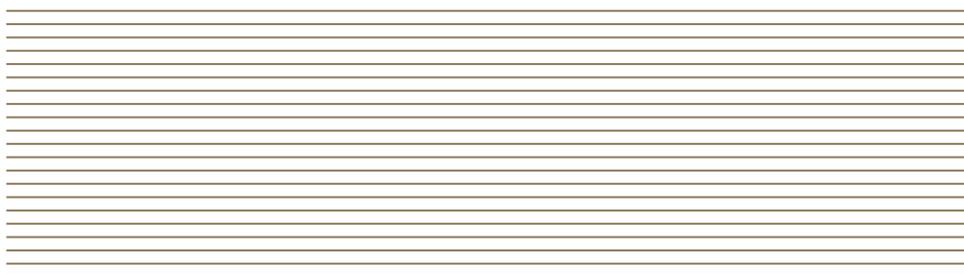
The system is constantly being improved with feedback from stakeholders, and will soon see the introduction of an emergency evacuation module. This module will hold key information on all tenants' emergency contact persons and evacuation procedures in the event of an emergency.



Axis Link

Axis Link is a community newsletter produced bi-annually by ARMB. It contains news on the activities taking place in the various buildings in Axis-REIT's property portfolio, the activities of the Manager, and also tips and articles on occupational health and safety.

The newsletter is printed and distributed to all tenants in the Axis-REIT community. It is also available online, at helloaxis.com.my



MANAGER'S DISCUSSION AND ANALYSIS MARKETING REPORT

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Complimentary Zumba Classes

Starting in July 2017, Axis-REIT commenced weekly Zumba classes at Fitness First Menara Axis. These classes are open to all tenants for free. Response has been encouraging and we plan to offer these classes on a complimentary basis for as long as possible. These classes provide the opportunity for tenants to work out and also support Fitness First as a tenant of Axis-REIT.

Whatsapp Marketing

In January 2018, Axis-REIT initiated WhatsApp marketing campaigns for property listings to estate agents. Up-to-date property listings are now sent directly to registered estate agents' mobile phones every month via Direct Marketing Collateral ("DMC"), giving estate agents salient information on Axis-REIT's featured listings, literally at their fingertips.

Website

Axis-REIT's corporate website serves as the most prominent source of information for stakeholders and the public. The Manager constantly updates information on the website to keep its content current. From Axis-REIT's unit price and corporate announcements, to the Fund's complete portfolio listing and space available for lease, the information is accessible at www.axis-reit.com.my.

Social Media

Social media has been and remains a platform that is necessary for all businesses to remain relevant. This year, the Manager have put much effort into being active on Facebook. These efforts include updating Axis-REIT's page with press articles, interviews, activities and community news. The Manager also uses this platform to feature the available space in the Fund's portfolio.



MANAGER'S DISCUSSION AND ANALYSIS MARKETING REPORT

AXIS-REIT EVENTS

MAREC, 3–4 March 2017

The Malaysian Annual Real Estate Convention ("MAREC"), organised by the Malaysian Institute of Estate Agents ("MIEA"), was held at the Setia City Convention Center on 3-4 March 2017. Axis-REIT participated as an event sponsor to build familiarity of the Axis-REIT brand and take advantage of the opportunity to network with estate agents. Estate agents play an important role in introducing leads for Axis-REIT's leasing and acquisition pipelines.

Invest Fair, 26–27 August 2017

Axis-REIT continued to reach out to retail investors by taking part in INVEST Fair Malaysia 2017, which was held at the Mid Valley Exhibition Centre. One of the largest and most effective platforms for exhibitors to showcase their range of products and services to the general public, INVEST Fair Malaysia attracted a crowd of close to 5,000 people. Our CEO, Ms. Leong Kit May, was also a speaker at the event to promote Axis-REIT.

Information on Axis-REIT's corporate social responsibility events can be found on page 128 of the Sustainability Report.

Information on ARMB's staff events can be found on page 141 of the Sustainability Report.

Information on Axis-REIT's media and press events can be found on page 112 of the Investor Relations Report.

Agent Events

Estate agents serve as a source of potential new tenants and investment properties for Axis-REIT. We believe constant engagement is important to foster better relationships with estate agents and to keep them updated on the Fund's requirements.

With the assistance of the MIEA, Axis-REIT hosted four events for estate agents during 2017, namely:

- Agents' briefing, Johor Bahru, held on 7 March 2017
- Agents' briefing, Kota Kinabalu, held on 28 April 2017
- Agents' briefing, Penang, held on 17 August 2017
- Agents' night, Kuala Lumpur, held on 7 December 2017



Media Night, 17 November 2017

In 2017, Axis-REIT took the opportunity to host a different kind of event to show our appreciation for the media. An evening was planned at GSC Signature, Gardens Mall @ Mid Valley for the screening of the movie Justice League. It was a casual and enjoyable evening, with over 100 members of the media present. In her address to the attendees, ARMB's CEO, Ms Leong Kit May said, "We want to show our appreciation to the media for being helpful and supportive to us throughout the year. It is this kind of relationship that helps organisation to gain strength and grow."

MANAGER'S DISCUSSION AND ANALYSIS DETAILS OF THE 2017 IDRPP

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

During the year, Axis-REIT applied the IDRPP to the third interim income distribution, for the period from 1 July 2017 to 30 September 2017, that was announced on 23 October 2017. A gross electable portion of 1.00 sen per Unit (which is taxable in the hands of Unitholders) out of the third interim income distribution of 2.00 sen per Unit ("electable portion") could be elected to be reinvested in new Units, while the remaining portion of 1.00 sen per Unit (of which 0.94 sen per Unit is taxable and 0.06 sen per Unit is non-taxable in the hands of Unitholders) would be paid in cash ("2017 IDRPP").

The new Units were issued at an issue price of RM1.49 per Unit, as determined on 23 October 2017 ("price-fixing date"). The issue price of RM1.49 per Unit was based on the five-day VWAMP of the Units up to and including 20 October 2017, being the last trading day immediately prior to the price-fixing date of RM1.57 per Unit, after adjusting for a discount of RM0.08 per Unit, which was approximately a 5.09% discount to the five-day VWAMP of RM1.57 per Unit.

Pursuant to the 2017 IDRPP, Axis-REIT allotted 2,153,212 new Units on 13 December 2017 and these Units were listed on the Main Market of Bursa Securities on 14 December 2017. The 2,153,212 new Units represented approximately 31% of 6,869,269, being the total number of new units that would have been issued pursuant to the IDRPP, had all entitled Axis-REIT Unitholders elected to reinvest their respective electable portion in new Units. As at 31 December 2017, Axis-REIT has an untapped balance of 143,383,961 Units that can be issued pursuant to the IDRPP.

Axis-REIT's fund size increased from 1,230,173,591 Units to 1,232,326,803 Units as a result of the issuance and listing of the 2,153,212 new Units under the 2017 IDRPP.

The net proceeds from the 2017 IDRPP of RM3,140,000 (after deducting expenses for the IDRPP) were utilised to refurbish and/or renovate Axis-REIT's properties. The refurbishment and/or renovation of the properties is expected to enhance the income-generating potential of the said properties moving forward.

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

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

SUSTAINABILITY REPORT



SUSTAINABILITY REPORT

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CEO'S MESSAGE ON SUSTAINABILITY

As Malaysia's first and largest Islamic business space and industrial real estate investment trust¹ listed on Bursa Malaysia Securities Berhad, Axis Real Estate Investment Trust ("Axis-REIT" or "Fund") aims to be at the forefront of adopting the industry's best practices. We believe that our business operations must be sustainable not just in terms of business performance, but also in its relationships with the various stakeholders it serves.

Our primary objectives are two-fold: 1) to ensure the provision of regular and stable income distributions to Unitholders of the Fund, and 2) to ensure long-term growth of the Fund in terms of Net Asset Value ("NAV"). These objectives cannot be achieved without good corporate governance and robust asset management practices that are guided by forward-focused strategies.

In 2016, our senior management team reviewed the 2021 Strategy Plan towards creating continuous value for Unitholders. We remain committed to growing Axis-REIT's Assets Under Management ("AUM") to RM5 billion by 2021 through the strict capital management practices and asset management strategies detailed below.

Facilities Management Strategy	<p>Implement annual asset management plans based on property life cycle planning for all 40 properties within the portfolio.</p> <p>To evaluate emissions and energy consumption of existing buildings and consider energy saving and environmentally friendly options.</p> <p>In 2017, we concluded energy audits in all multi-tenanted buildings in Axis-REIT's portfolio and devised an energy saving action plan for 2018.</p>
Real Estate Strategy	<p>Improve occupancy rates through tenant retention initiatives such as the creation of a new tenant management portal, and seeking new tenant leads.</p> <p>Raise the occupancy levels of other properties within the portfolio that have existing vacant spaces.</p> <p>Maintain high tenant satisfaction levels, as measured via the new tenant management portal that was launched in 2017.</p>
Development Strategy	<p>Completed the development of the Nestlé Distribution Centre at Axis Mega Distribution Centre and will commence a built-to-lease project for Upeca Aerotech Sdn Bhd in 2018.</p> <p>The Manager will continue to explore viable built-to-lease projects and incorporate passive design techniques and green features, where possible.</p>
Capital Management Strategy	<p>Maintain current Sukuk ratings for both Axis-REIT's First and Second Sukuk issuances by improving occupancy levels of portfolio properties that are secured under both Sukuk issuances.</p>
Investment Strategy	<p>Maintain an aggressive acquisition strategy with focus on well-located industrial properties with strong tenant profiles and covenants.</p> <p>Review possible disposal of assets that have fully optimised their income-generating potential.</p>

¹ In terms of net lettable area

SUSTAINABILITY REPORT

We remain fully committed to the 2021 Strategy Plan, and in 2017, continued to undertake initiatives towards achieving its goals. These include:

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- Maintaining our aggressive acquisition strategy with a focus on well-located industrial properties that have strong tenant profiles and covenants. In 2017, we acquired the Kerry Warehouse and Wasco Facility @ Kuantan.
- Completed and handed over our first development project to Nestlé Products Sdn Bhd. During the year, Axis-REIT also entered into its second built-to-lease agreement, this time with an existing tenant, Upeca Aerotech Sdn Bhd.
- Maintaining portfolio occupancy at 91.12% as at 31 December 2017 despite the challenging market. We are also in the midst of repositioning our buildings by converting existing vacant spaces into services that meet the needs of our tenants.
- Completing the disposal of Axis Eureka, which had fully optimised its income-generating potential.
- Looking into creating more awareness among our staff and community on safety issues such as fire safety, cyber risks, etc.
- Successfully placing out 125,000,000 new Units to fuel future growth. The gross proceeds from the Placement, which amounted to RM178.8 million, will be used to pare down the Fund's borrowings, thereby reducing its gearing to 29% and allowing for sufficient headroom for growth and new acquisitions.
- Completed the Income Distribution Reinvestment Plan ("IDRP") in conjunction with the 2017 Third Interim Income Distribution.
- Exploring overseas asset acquisitions with emphasis on locations with transparent land and taxation laws such as the United Kingdom, Australia and Japan.

Our Sustainability Committee, comprising of key representatives from Management, the Marketing Team, the Project Management Team and the Investment Team, continues to meet on a regular basis to review the sustainability performance of our organisation. Updates are then provided to the senior management and the Board where applicable.

For multi-tenanted buildings, we have embarked on installing energy saving light fittings in common areas which include car parks and lobbies. This initiative has resulted in savings of about 5% in energy consumption. For single tenant buildings, we also work with the tenant to reduce energy consumption. In 2017, the Manager worked with Schenker Logistics (M) Sdn Bhd to replace metal halide high bay lightings at the Seberang Prai Logistic Warehouse 3 which resulted in 20% savings in electricity consumption. In 2018, we are planning to roll out a similar asset enhancement initiative for two more warehouses.

The Manager has also rolled out recycling initiatives across nine multi-tenanted buildings by introducing recycling centers.

We also rent approximately 530,000 sq. ft. of roof space to solar energy harvesting companies that sell the power generated back to Tenaga Nasional Berhad ("TNB"). While we are not direct users of the power generated, we recognise that this helps reduce the use of non-renewable energy.

Moving forward, we aim to transition to the Global Reporting Initiatives ("GRI") Standards in our next Sustainability Report and further improving our reporting processes.

SUSTAINABILITY REPORT

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INTRODUCTION

About the Report

This is Axis-REIT's second Sustainability Report and it has been prepared in accordance with both the GRI G4 guidelines – "Core" option and the GRI Construction and Real Estate Sector Supplement ("CRESS"), as well as requirements under the Listing Requirements of Bursa Malaysia Securities Berhad (paragraph 9.45(2) and paragraph (29), and Part A of Appendix 9C of the Main Market Listing Requirements (supplemented by Practice Note 9). The report covers the governance, economic, environment and social performance of all Axis-REIT properties in Malaysia from 1 January 2017 to 31 December 2017 ("FYE2017"), with 1 January 2016 to 31 December 2016 ("FYE2016") as the year of comparison.

All environmental performance metrics included in this report are limited to the Fund's multi-tenanted properties, and only include the non-lettable areas, which are the areas under Axis-REIT's operational control.

Axis REIT Managers Berhad ("Manager" or "ARMB") is working towards engaging with tenants of its single-tenanted assets for inclusion in future sustainability reports.

The Manager will continue to report its sustainability performance on an annual basis. The Manager has not sought external assurance for this reporting period, but will consider doing so as its reporting matures.

For any queries in relation to this report, please feel free to contact:

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Manager, Investments and Investor Relations
+603 7958 4882
tzewee@axis-reit.com.my

Our Business

Axis-REIT is an industrial-focused real estate investment trust with a diverse portfolio of warehouses, manufacturing facilities, hypermarkets, industrial spaces and offices located in Malaysia. Its assets are located in the Klang Valley, Johor, Penang, Pahang, Negeri Sembilan and Kedah. As at 31 December 2017, the Fund's market capitalisation stood at RM1,848,490,000, with RM2,549,609,000 in AUM and 8,087,781 sq. ft. of net lettable area.

During FYE2017, Axis-REIT acquired two new properties valued at RM153,000,000, and disposed off one property in the first quarter of 2017 for RM56.1 million. More notably, Axis-REIT clinched its second built-to-lease agreement with an existing tenant. More details on this project can be found on page 78, in the Project Management section of this Annual Report.

SUSTAINABILITY REPORT

Stakeholder Engagement

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Stakeholder engagement remains as one of the Manager's key pillars in its sustainability agenda as it brings into focus the primary concerns of the organisation's stakeholders, and allows the Manager to respond to them. The table below summarises Axis-REIT's stakeholder engagement process.

Stakeholder Engagement Table

Stakeholder	Axis-REIT's goal	Mode	Frequency	Stakeholder's key concerns	Axis-REIT's response
Tenants	Forge strong relationships; satisfy business space needs of tenants	<ul style="list-style-type: none"> One-on-one meetings helloaxis.com.my a new tenant management portal Axis Link, the REIT's community newsletter 	<ul style="list-style-type: none"> Quarterly When required Bi-annually 	<ul style="list-style-type: none"> Maintenance of properties Quick responses to queries/ complaints 	<ul style="list-style-type: none"> Ensuring scheduled maintenance Notify tenants of potential disruption(s) to tenant services and amenities Equip and ensure facility managers are available at all times
Unitholders	Proactively engage with Unitholders and provide up-to-date and transparent information	<ul style="list-style-type: none"> Annual General Meeting Unitholders' Meeting Timely announcements on Bursa Malaysia's website 	<ul style="list-style-type: none"> Annually As required Ongoing 	<ul style="list-style-type: none"> Transparency of dealings Financial performance of the Fund Being provided real-time information on material disclosures 	<ul style="list-style-type: none"> Adhere to the latest corporate governance and international reporting standards. Providing up-to-date information to Bursa Malaysia and on the organisation website.
Investment Community	Proactively engage the investment community through multiple channels of communication to ensure timely and transparent disclosure	<ul style="list-style-type: none"> One-on-one meetings with investors locally and overseas Local and overseas conferences Briefings for analysts 	<ul style="list-style-type: none"> Throughout the year Throughout the year Bi-annually 	<ul style="list-style-type: none"> Transparency of dealings Being provided real-time information on material disclosures 	<ul style="list-style-type: none"> Adhere to the latest corporate governance and international reporting standards. Providing up-to-date information to Bursa Malaysia and on the organisations website.

SUSTAINABILITY REPORT

Stakeholder	Axis-REIT's goal	Mode	Frequency	Stakeholder's key concerns	Axis-REIT's response
Employees	Provide an equal opportunity work environment that recognises the talents of individuals to help them grow and increase employee retention, commitment and loyalty	<ul style="list-style-type: none"> • Team building • Team activities • Staff appraisals 	<ul style="list-style-type: none"> • Annually • Quarterly • Annually 	<ul style="list-style-type: none"> • Opportunities for career advancement • Competitive remuneration and benefits 	<ul style="list-style-type: none"> • Keeping up-to-date with market remuneration rates • Management looks internally to fill vacancies and provide opportunities for staff advancement • Provide sufficient training for all employees • Ensuring staff appraisals are done in a fair manner
Local Communities	Fulfill the role of a good corporate citizen by partnering with local NGOs and charities	<ul style="list-style-type: none"> • Improving physical buildings for selected charities and NGOs • Promote employee volunteer programmes • Cash compensation for emergency situations 	<ul style="list-style-type: none"> • As appropriate • As appropriate • As appropriate 	<ul style="list-style-type: none"> • Long-term support from the business community to help address issues faced or support causes championed 	<ul style="list-style-type: none"> • Engaging with various community organisations to keep abreast with issues faced • Providing help to projects which are relevant to the Manager's mission and within its financial means
Industry Associations & Professional Bodies	Keep abreast with changes and updates in the market. Where possible, Axis-REIT also takes the lead in lobbying new amendments that could take the industry forward	<ul style="list-style-type: none"> • Attending regular meetings and events organised 	<ul style="list-style-type: none"> • When required 	<ul style="list-style-type: none"> • Providing updates on changes in laws and regulations • Fair representation of industry's needs and demands to regulators 	<ul style="list-style-type: none"> • Attending meetings and events to keep up-to-date and understand new practices in the industry • Providing feedback when necessary.
Regulatory Bodies	Engage with regulatory bodies to ensure that the Manager complies with rules and regulations and is up to date with new amendments	<ul style="list-style-type: none"> • One-on-one meetings • Attending talks and conferences organised by regulators 	<ul style="list-style-type: none"> • When required • When required 	<ul style="list-style-type: none"> • Regulatory compliance 	<ul style="list-style-type: none"> • Attending meetings and events to keep up-to-date and understand new regulations

SUSTAINABILITY REPORT

Axis-REIT's Involvement in Professional Organisations and Governance Bodies

Axis-REIT continues to be an active member of the relevant professional organisations, and also holds positions in selected governance bodies. More information on this can be found in the table below.

Axis-REIT's Involvement in Professional Organisations and Governance Bodies

Name of professional organisation / governance body	Axis-REIT's involvement
Malaysian REIT Managers Association (MRMA)	<ul style="list-style-type: none"> • Founding member • Ms. Leong Kit May (Axis-REIT's CEO and Executive Director) is the Vice Chairman of MRMA • One of the session speakers in the Bursa Investor Education Workshop 2017 organised by Bursa Malaysia • One of the speakers for the CPE Product Workshop Series organised by Bursa Malaysia • Worked with Bursa Malaysia on the establishment of an M-REIT sector index, a market capitalisation-weighted index comprising 18 REITs
Malaysia Investor Relations Association (MIRA)	<ul style="list-style-type: none"> • Corporate member
Malaysia Australia Business Council (MABC)	<ul style="list-style-type: none"> • Corporate member
British Malaysia Chamber of Commerce (BMCC)	<ul style="list-style-type: none"> • Corporate member
Malaysian German Chamber of Commerce & Industry (MGCCI)	<ul style="list-style-type: none"> • Corporate member
Malaysian Dutch Business Council (MDBC)	<ul style="list-style-type: none"> • Corporate member
Malaysian Norway Business Council (MNBC)	<ul style="list-style-type: none"> • Corporate member

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Materiality Assessment

The Manager's first formal materiality assessment was conducted in August 2016 under the guidance of independent sustainability consultants with participation and contributions from senior management across all business divisions. Senior management took into consideration both the internal and external perspective during the material matters prioritisation process. Consultations with external stakeholders is proposed to be carried out in the future. This year, the Manager also conducted a review of the previously-identified material matters to assess and establish their continued relevance. The assessment comprised a four-step process which is detailed below.

2016

FIRST FORMAL MATERIALITY ASSESSMENT

In 2016, the Manager conducted its first formal materiality assessment with the guidance of an independent sustainability consultant. The assessment consisted of four-step process as detailed below.

1. Identification: A long list of 32 Economic, Environmental, Social and Governance ("EESG") issues were identified through interviews with senior management across business divisions.
2. Prioritisation: The identified EESG matters were rated and prioritised through an anonymous voting exercise by senior management from various departments, who were able to consider both internal and external perspectives given their diverse roles, experience and interactions with external stakeholders.
3. Validation: Seven key material matters were selected based on the materiality assessment, and were presented to the Board of Directors for validation and approval.
4. Review: The seven key material matters selected for reporting in the previous Sustainability Report 2016 will continue to be reviewed to ensure their relevance in subsequent reporting periods.

2017

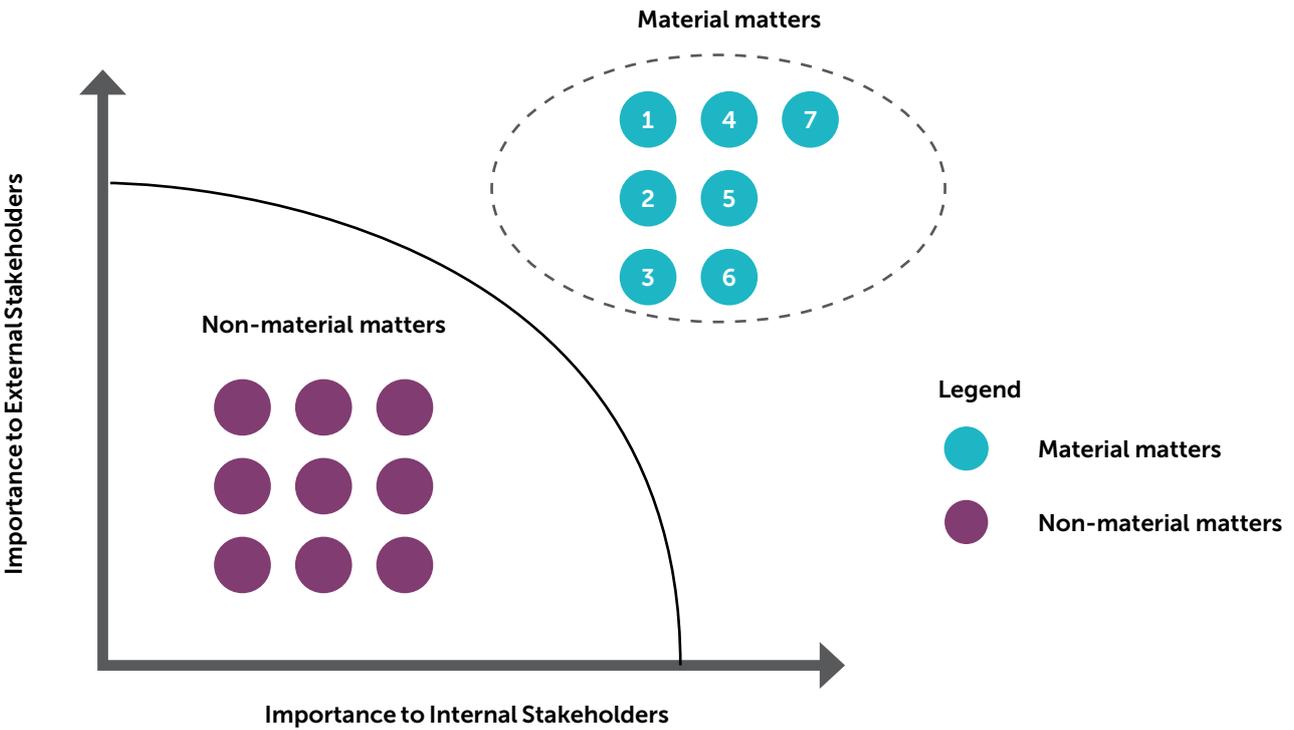
REVIEW OF MATERIAL MATTERS

All seven key material matters were reviewed in 2017 with the guidance of an independent sustainability consultant, to ensure that the matters remain relevant and material. Material matters will continue to be re-assessed in subsequent reporting periods as well.

SUSTAINABILITY REPORT

The results of the materiality review are reflected in the matrix below.

Axis-REIT's Materiality Matrix



S/N	Material ESG matters	Corresponding GRI G4 topics
1	Community Activity and Partnership	G4-DMA, EC1
2	Employee Wellness and Engagement	G4-DMA, LA1, LA2, LA11
3	Energy and Carbon Footprint	G4-DMA, EN3, EN5, EN6, EN9, EN16, EN18, CRE1, CRE3
4	Occupational Health and Safety	G4-DMA, LA6
5	Quality of Assets and Services	G4-DMA, PR9, CRE8
6	Tenant Engagement	G4-DMA, PR5
7	Tenant Satisfaction	G4-DMA, PR5, PR7, PR8

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Governance, Ethics & Integrity

Without effective corporate governance, the Manager will not be able to manage the risk and opportunities of the Economic, Environmental, Social (“EES”) matters. Hence, the Manager has appointed a competent Board of Directors (“Board”) to oversee its business operations, and implemented robust corporate governance policies and processes to ensure that the Manager’s operating procedures are aligned with the industry’s / best practices.

The Board has four committees to oversee specific functions, namely the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each committee comprises an appointed Chairman and two to three members. More information on the roles and responsibilities of these committees can be found in the Corporate Governance Report in this Annual Report. Additionally, the Board has also formalised and made a commitment to upholding ethical values in the organisation through the Manager’s Code of Conduct, which is published on Axis-REIT’s corporate website³.

A Sustainability Committee comprising representatives from several key departments was also formed in 2016. This committee meets regularly to review the sustainability performance of the Manager, and reports this performance to the senior management and the Board where applicable. The structure of the Sustainability Committee is presented below.

Axis-REIT’s Sustainability Committee



² <http://ir.chartnexus.com/axisreit/code-of-conduct.php>

SUSTAINABILITY REPORT

Enterprise Risk Management

The effective management of risks is key to the success of any organisation, and the Manager is no exception. The Manager's Enterprise Risk Management framework allows it to identify and mitigate risks which may disrupt its operations or impair Management's ability to achieve its business goals and objectives, which in turn will affect Unitholders.

The Manager regularly reviews the risks that are significant to its operations, and takes the necessary actions to mitigate these risks. These are reported every quarter to the Board. In 2017, the Manager also engaged an internal auditor to conduct a comprehensive review of its risk register. The table below presents the significant risks identified for 2017, as well as the Manager's response to these risks.

Axis-REIT's Significant Risks and Responses

Risk type	Examples of steps taken
Treasury and Financial Risks	<ul style="list-style-type: none"> Refer to the Financial Review within Annual Report (page 47)
Interest Rate Risks	<ul style="list-style-type: none"> Refer to the Financial Review within Annual Report (page 46)
Tenant and Credit Risks	<ul style="list-style-type: none"> Refer to the Real Estate Report within this Annual Report (page 55) Management is looking into reviewing the existing due diligence process to be conducted on prospective tenants in order to ensure a sustainable tenant base
Investments Risks	<ul style="list-style-type: none"> Structuring of larger security deposits from single-tenanted buildings arising from sale & leaseback or built-to-lease transactions to minimise the effects of possible default
IT Risks	<ul style="list-style-type: none"> Formulation of Cyber Risk Policies and Procedures to preserve confidentiality, integrity and availability of information or data A review was conducted on the use of laptops by staff and as a result of the review, all staff with laptops are required to store their laptops securely in drawers or rooms and be responsible to ensure safe custody of the laptops when out of the office
Health & Safety Risks	<ul style="list-style-type: none"> Conducting security and safety briefings for tenants Conducting safety awareness campaigns Change in security service provider during the year. Following the change, tenants have provided positive comments on the services of the new provider Currently in the process of hiring a Health, Safety & Environment Officer
Human Resource Risks	<ul style="list-style-type: none"> Established the Human Resource department in end-2015 to oversee the selection and recruitment process, compensation and benefits, employee training and welfare as well as industrial relations matters
Corruption Risks	<ul style="list-style-type: none"> Refer to Code of Conduct published on Axis-REIT's corporate website⁴.
Environmental Risks	<ul style="list-style-type: none"> The Manager is reviewing the appointment of an external energy consultant to study the existing air-conditioning system in Axis-REIT's older buildings with the objective of reducing energy consumption and carbon footprint
Marketing and Branding Risks	<ul style="list-style-type: none"> Trademark applications for the logos have been submitted to the trademark office in 2017 As part of a corporate branding exercise, site renee for logo placement for all 40 buildings in the Axis-REIT portfolio has been completed. The purpose of this exercise is to ensure the visibility of the Axis-REIT brand across all assets

³ <http://ir.chartnexus.com/axisreit/code-of-conduct.php>

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Whistle-Blowing Mechanism

All stakeholders, both internal and external, are encouraged to raise any concerns they may have about possible improprieties in matters of financial reporting, compliance and other misconduct or malpractices, through the Manager's whistle-blowing mechanism. Details of the mechanism are provided below.

Axis-REIT's Whistle-Blowing Mechanism



SUSTAINABILITY REPORT

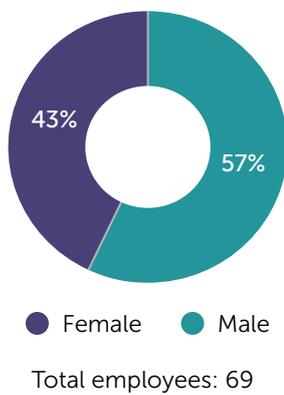
PEOPLE

Employee Profile

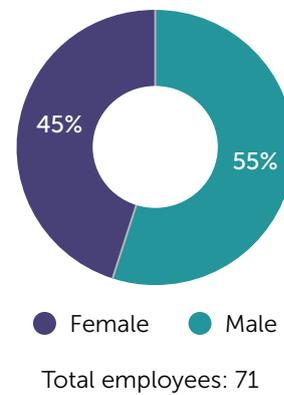
During the year, the Manager had a net increase of two full-time employees, increasing its staff strength to 71 employees, none of whom are governed by any collective bargaining schemes. All employees are Malaysian citizens. The "buddy system", which aims to provide every employee with a guidance and support system, continues to be practiced in the organisation.

Axis-REIT's Staff Strength by Gender

Percentage of Employees By Gender For FYE2016



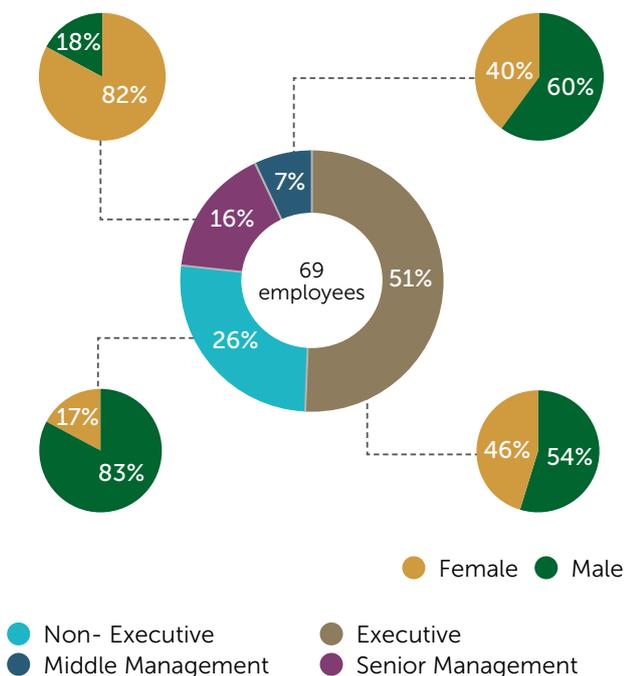
Percentage of Employees By Gender For FYE2017



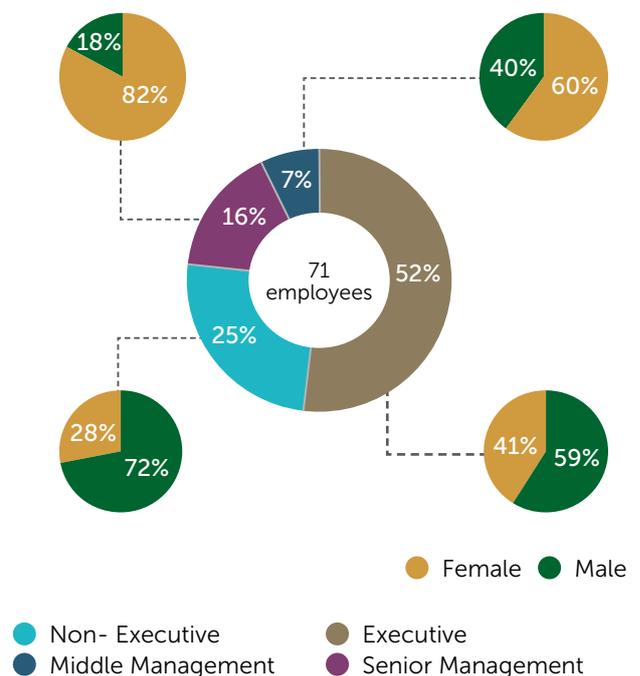
Axis-REIT's Composition of Employees by Category

Breakdown By Employment Category & By Gender

FYE2016



FYE2017



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Occupational Health and Safety

The Manager firmly believes that its people are its most valuable asset. As such, much emphasis is placed on occupational health and safety to provide a healthy and safe working environment for all employees and contractors. The Manager takes reasonable precautions to ensure that all machinery and equipment are safe to use and that their employees and contractors are compliant with the organisation's health and safety procedures.

The Manager has a perpetual target to achieve zero work place accidents through its health and safety policy (and associated practices) which is in line with the Occupational Safety and Health Act 1994 (Act 514).

The Manager takes reasonable precautions to safeguard the health and safety of its employees. Some of the measures taken include:

- Providing facility management staff with fire-retardant safety boots, cargo pants and reflective jackets annually.
- Ensuring that all equipment and machinery are maintained by trained and competent persons.
- Assigning a charginan and a supervising engineer to all properties in the portfolio to ensure the safety of employees and tenants in each building.
- Conducting training for employees on first aid and CPR.
- Conducting training on emergency management, elevator maintenance and building services and fire safety for site-based staff.
- Conducting an emergency evacuation drill and fire drill for employees annually.

In 2017, there were three incidents involving staff travelling to/from work on motorcycles. As a precaution to minimise risks of future on-site incidents, the Manager is in the process of employing a Health, Safety and Environment ("HSE") officer to create awareness of the importance of safety. The details of the Manager's other health and safety incidents are detailed in the following table.

Axis-REIT's Health and Safety Incidents in 2017

Employees				
	Number of incidents	Description	Number of lost days	Description
Accidents	3 (Petaling Jaya)	All three staff were involved in separate motorcycle accidents on the way home from work.	31 (Petaling Jaya)	One staff was on medical leave for 13 days while two other staff were on medical leave for 9 days each.
Fatalities	0	N.A.	0	N.A.

In order to meet its target of zero workplace accidents in the forthcoming year, the Manager aims to embark on the following initiatives:

- 1) To conduct a safety induction training for new staff that join the company on basic safety precautions to be exercised in the office and on-site.
- 2) To conduct training on First Aid and CPR, Emergency Management Training and Fire Safety training.
- 3) To provide Personal Protective Equipment ("PPE") uniform and safety vests for all charginan.
- 4) To appoint a HSE officer to be in charge of health, safety and environment requirements, including fire safety.

SUSTAINABILITY REPORT

Employee Wellness and Engagement

Beyond just a healthy and safe working environment, the Manager strives to actively engage all employees and ensure their physical and mental well-being.

The Manager provides all full-time employees with health care benefits, disability and invalidity coverage, retirement provisions as well as parental leave. The retirement provision provided to employees who joined the organisation before 2014 is one percentage point above the statutory contribution rate. In 2017, the Manager also increased its employees' insurance coverage.

The Manager conducts annual staff appraisal and staff are encouraged to provide feedback during the review.

The Manager is supportive of employees who aspire to advance in their careers within the organisation. In 2016, one scholarship was awarded, to Lalitha Anandarajah to undertake a Master of Real Estate programme at University Malaya. The Manager is proud to report that she completed the course and graduated in October 2017.

Lalitha Anandarajah, Manager, Marketing & Corporate Services

It has long been my ambition to pursue a Masters in Real Estate and I am grateful to Axis-REIT for giving me the opportunity to make that dream a reality. With the support of my colleagues and our management, I was able to complete the course within one year. I am now proud to be an alumni of University Malaya, Faculty of Built Environment. The education received has been useful in my daily work here at Axis-REIT and I look forward to sharing and implementing the lessons that I have learnt in the course of completing my Masters.

The Manager organises employee engagement activities throughout the year to foster greater cohesion among its staff, especially between those from different departments. Some of the events included:

- The Manager's annual dinner to acknowledge and present long service staff awards
- Participation as an organisation in The Edge Kuala Lumpur Rat Race sponsored by the Fund
- Employees are invited to join weekly fitness classes at Fitness First

Moving forward, the Manager's goal is to reduce the occurrence of illnesses and consequently reduce the number of sick days amongst its employees in FYE2018. In order to do so, the Manager plans to increase awareness of staff health and is currently looking into ways to do so.

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The Manager's Annual Dinner

To mark the 12th Anniversary of Axis-REIT, the Manager organised a dinner for staff themed 'A Night at the Movies'. The idea was to create an escape from reality and have everyone's favorite characters come to life for a night!

The event was held at The Oak Room in Bangsar South and was attended by all staff, including those based in Johor and Penang. It was a star-studded evening with the likes of Maleficent, Kylo Ren, Peter Pan and Queen Amidala gracing the group with their presence.



Roszimi bin Mohd Razali, Despatch Clerk

Syukur ke hadrat Illahi kerana memberi peluang untuk saya berkhidmat selama 10 tahun di Axis-REIT. Saya amat berterima kasih kepada rakan sekerja saya kerana banyak membantu dan memberikan kerjasama yang baik selama saya berkerja disini. Saya berharap agar dapat terus memberikan mutu kerja yang baik untuk syarikat ini.

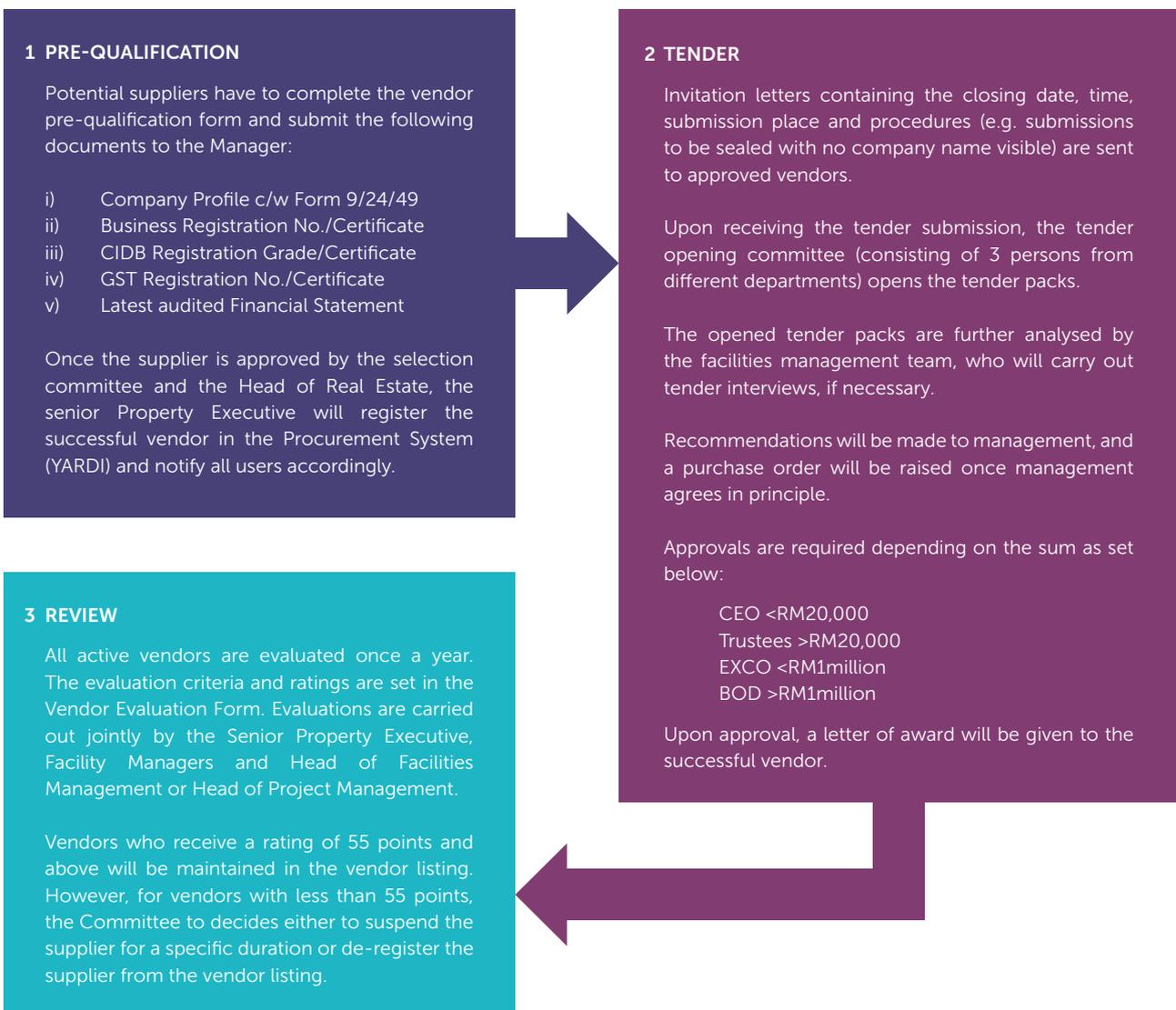
SUSTAINABILITY REPORT

VALUE CHAIN

Supply Chain Responsibility

The Manager remains committed to adhering to the industry's best practices when engaging with all stakeholders across its supply chain. The right suppliers will provide the Manager with an array of benefits, such as increased productivity, cost savings and improvement in its products and services. In order to identify the right suppliers, the Manager has implemented a stringent three-step supplier selection and monitoring process, which is detailed below.

Axis-REIT's 3-step Supplier Selection and Monitoring Process



In 2017, 16 new vendors were added to the panel of approved vendors.

There is currently no supplier code of conduct in place. However, the Manager is working on developing one.

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Quality of Assets and Services

The quality of assets in the Fund's portfolio and the accompanying services rendered will largely determine the capital value and income generation potential of the asset. These, in turn, will impact the success of the Fund and are paramount to various stakeholder groups. To manage this, the Manager has separate procedures in place to maintain the quality of existing assets and services, and to oversee the selection and acquisition of new assets and developments. The procedures are detailed in table below.

Axis-REIT's Procedures to Manage its Quality of Assets and Services

Existing Assets and Services	New Asset Acquisition and Developments
<p>The quality of existing assets and services must be maintained at the highest level in order to ensure tenant satisfaction and retention. Periodic meetings are conducted with tenants to gauge their satisfaction levels and to ensure that the Manager is meeting the expectation of Axis-REIT's tenants.</p> <p>Axis-REIT's Preventative Maintenance Programme relates to an ongoing maintenance program based on the asset life cycle and the recommendations in the operation and maintenance manual to prevent unnecessary down time. The Manager has also moved from non-comprehensive agreements to comprehensive agreements with suppliers to ensure this scope of work is covered.</p> <p>To maintain the quality of its assets, the Manager continuously strives to undertake asset enhancement initiatives to not only modernise the assets but also to ensure that it is compliant in the aspects of health, safety and environment ("HSE").</p> <p>Examples of asset enhancement initiatives include incorporating energy and water efficient design and fittings. This aids its tenants to lower their operating costs, boost productivity and continue engaging the Manager. Example of HSE compliance is in obtaining fire certificates for the properties. Of the 40 buildings owned by the Manager, 31 have fire certificates, three do not require the certificates and the remaining six are in the process of obtaining fire certificates. The Manager also ensures that the fire certificate is renewed every year.</p> <p>The services provided by the Manager are aimed at helping its tenants operate optimally. Services provided range from support services such as finance and administration to technical services such as facility management. To maintain the quality of services provided, the Manager has a rigorous in-house vendor selection process to ensure that only reputable vendors and suppliers are selected to provide services in all Axis-REIT properties.</p>	<p>For all new asset acquisitions, a stringent due diligence process involving external consultants is conducted to assess if the acquisition should be made. External consultants include technical consultants, land surveyors, solicitors and valuers.</p> <p>The competence of the external consultants engaged will determine the accuracy of the findings and whether the right business decision is made. As such, these consultants are subject to an annual quality review by Management, during which potential alternative consultants are considered as well.</p>

SUSTAINABILITY REPORT

In 2015, the Manager undertook an energy audit of its flagship property, Menara Axis. One of the audit recommendations was to upgrade the building's air-conditioning system to a more energy-efficient and eco-friendly system as it was identified as the largest contributor to its energy consumption. The Manager then proceeded to install the Variable Refrigerant Volume (VRV) air-conditioning system using R410A gas in phases. As at 31 December 2017, the Manager had completed this installation and so far an estimated 27% to 34% of savings was recorded as a result of the reduction in energy consumption.

Other initiatives undertaken during the year for existing assets include:

- Double roofing for Axis Shah Alam DC 1 which enhances internal cooling
- Repainting of Wisma Academy
- Replacement of waterproofing for Crystal Plaza and Wisma Academy
- Replacement of metal deck roofing at Crystal Plaza, Wisma Academy and Pasir Gudang Logistics Warehouse 1
- Solar panel installation at Wisma Academy rooftop
- Conventional lighting upgrade to LED lighting at Seberang Prai Logistics Warehouse
- Installation of double roofing at Shah Alam Distribution Centre 3

As for new asset developments, the Manager completed its built-to-lease warehouse for Nestlé Products Sdn Bhd during the year. The warehouse is a 515,000 sq. ft. modern warehouse built to meet the needs of Nestlé's warehouse operations. The warehouse was furnished with LED lightings, a rainwater harvesting system, an energy-efficient water-cooled air-conditioning system and meets National Fire Protection Association ("NFPA") fire protection standards.

As a testament to the Manager's overall performance in managing the Fund, Axis-REIT clinched the following awards in 2017.

1. Asia Pacific Best of Breeds REITs Awards 2017 – Platinum Winner, Industrial REIT Category for Malaysia
2. National Annual Corporate Report Awards (NACRA) 2017 – Merit Award Recipient
3. Fortune Times' REITs Pinnacle Awards 2017 - Most Promising REIT in Asia

The Manager intends to continue improving the quality of its assets and services and several initiatives (refer to the table below) are planned to be rolled out in the upcoming year.

Axis-REIT's Plans for Asset Enhancement in 2018

FY2018 Targets	Status
Enhancement of drain and road infrastructure at Bukit Raja Distribution Center	Job has been awarded and work has commenced. Expected completion in June 2018. Monthly progress meetings with tenant and contractor.
Painting and repair of external façade for Crystal Plaza and Menara Axis	Timely execution and completion of painting works. Crystal Plaza – Work commenced in January 2018 with target completion by end-May 2018 Menara Axis – Tender completed on 11 Jan 2018, commencement of work in March 2018, with an expected completion period of 6 months
Toilet refurbishment for Wisma Academy	Budget to be tabled for approval. <ul style="list-style-type: none"> • Design Review by 30 January 2018 • Tender Exercise by 28 February 2018 • Project Commencement by March 2018, with an expected completion period of 6 months
New logo placements on all Axis-REIT owned buildings to increase brand visibility and prominence	Site recce and logo placement completed and in the midst of implementing the logo placement exercise.

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In November 2017, the Manager also announced a new built-to-lease project for Upeca Aerotech Sdn Bhd, a current tenant of Axis-REIT. The new manufacturing facility will be approximately 178,978.60 sq. ft. built on a 7.02 acre parcel of land in Subang and is targeted to be completed by 15 December 2018. The new facility will be equipped with sustainability features such as a rainwater harvesting and will also be fitted with LED lighting.

Tenant Engagement and Satisfaction

Beyond providing quality assets and services, the Manager also recognises the need to maintain strong relationships with its tenants, by being able to meet their needs promptly and adequately, since tenants are the main drivers of the business.

The Manager engages its tenants through various channels, including:

- helloaxis.com.my a web-based tenant management portal that allows the Manager and tenant to communicate in a systematic manner. The main modules are Facilities Management Feedback and Season Parking Management.
 - Facilities Management Feedback: This allows tenants to raise issues pertaining to building maintenance. They are able to track the progress of the complaint till it is resolved and rate the Manager for services provided. Via this module, the Manager is able to track the occurrence of specific issues in a building and plan for maintenance or repair works. This service rating in this module also allows the Manager to monitor staff KPI.
 - Season Parking Management: This allows tenants to manage their season parking applications and terminations in their buildings.
 - Through its new tenant management portal launched in March 2017, helloaxis.com.my the Manager is able to streamline communications with tenants, track response times and receive ratings for the services rendered.

The Manager aims to achieve a target tenant satisfaction score of 3.5 and above. The current average scores (out of a minimum of five where one denotes the poorest score and five denotes the best) are shown below:

- All multi-tenanted buildings (11 buildings) – 3.8
 - All triple-net buildings (28 buildings) – 3.3
 - Entire portfolio – 3.63
- Having prompt and regular email correspondences with the tenants. The Manager has a practice of responding to tenants' emails within 24 hours, while parallel action, depending on the issue, will be taken.
 - The leasing, facilities management and finance team conduct face-to-face meetings with each tenant to gather their feedback and be updated on their business plans and performance. The Manager also makes an effort to ensure that its employees are equipped to manage the relationship with tenants. In 2017, a full day training was conducted for all employees on improving communication skills, including in liaising with tenants.



Pictures of Axis-REIT employees attending the communication skills course

SUSTAINABILITY REPORT

- Complimentary weekly Zumba classes held at Fitness First Menara Axis open for all tenants’ participation
- Sending corporate gifts and hampers to tenants during festive seasons
- Providing complimentary short-term space to tenants for their Corporate Social Responsibility (“CSR”) activities
- Conducting of fire drill exercises. In 2017, the Manager conducted 11 fire drills in its multi-tenanted buildings in collaboration with the fire department and obtained satisfactory reports from the Fire and Rescue Department of Malaysia

The Manager takes every complaint received seriously. The following table shows the common complaints received as well as the corrective action taken by the Manager to address the issue.

Axis-REIT’s Common Complaints from Tenants and Corrective Action Taken

Common complaints from tenants	Corrective actions to address the issue
<p>Wisma Academy</p> <p>Building is old and outdated. Tenants also constantly experience issues with the lifts and toilets.</p>	<ul style="list-style-type: none"> • Upgraded two passenger lifts and 3 cargo lifts in 2015 • Improved car park lighting with T5 lights in 2016 • Repainted both the internal and external façade of the building in 2017 • Submitted a budget for the renovation of washrooms.
<p>Crystal Plaza</p> <p>Air conditioning system is either too warm or too cold; Leaking roof</p>	<ul style="list-style-type: none"> • Toilets, common areas and lifts were upgraded in 2012 • Installation and water-proofing of new metal deck roof in 2017 • Currently in the process of repainting the building

The Manager has also received compliments from its tenants. A compliment received by the Manager is shown below.

Rahim
Fitness First

We truly appreciate the assistance from the Menara Axis building management team for their effort and cooperation in resolving the matter. A million thanks from Fitness First.

In 2017, the Manager achieved a 45% tenant retention rate based on the portfolio’s net-lettable area (“NLA”). The Manager aims to improve the tenant retention rate in 2018 by further engaging with tenants, so as to encourage them to renew their tenancies and expand within Axis-REIT’s portfolio. The Manager also plans to increase its marketing initiatives to create more awareness on spaces available and its capabilities as a professional landlord.

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COMMUNITY

The Manager's Corporate Social Responsibility ("CSR") efforts are targeted at educating and improving the lives of the vulnerable groups in society. Details of the Manager's CSR initiatives during the year are described below.

Axis-REIT's CSR initiatives in 2017

Beneficiary	No. of employee volunteers and volunteer hours	Value of funding provided	Details of CSR efforts
World Vision Malaysia Berhad	10 employees, 4 hours each	RM10,000	The Manager supported World Vision's fundraiser dinner themed "Love Conquers All". World Vision is an international humanitarian organisation dedicated to working with children and families to overcome extreme poverty.
Malaysian Association for the Blind ("MAB")	5 employees, 15 hours each	RM70,000	<p>In 2017, the Manager revisited MAB having, assisted them in repainting the interior and exterior of their corporate headquarters in 2012. The MAB leadership identified the need for an additional vehicle to transport members for meetings and training programmes around the city, as their one operational vehicle at the time which was not sufficient for their needs.</p> <p>In response, the Manager purchased and donated a 14-seater, 2.2-litre Jinbei van to MAB.</p> <p><i>(The van Axis-REIT purchased for MAB and its presentation to MAB.)</i></p>  

SUSTAINABILITY REPORT

Beneficiary	No. of employee volunteers and volunteer hours	Value of funding provided	Details of CSR efforts
The Edge Kuala Lumpur Rat Race 2017	8 employees, 10 hours each	RM18,000	<p>Every year for the past seven years, Axis-REIT has participated in The Edge's annual Kuala Lumpur Rat Race – a run through the streets of Kuala Lumpur that is modelled after the Carey Wall Street Rat Race in New York. This year was no exception - the Manager was represented by a team of two women and three men. The team finished in fourth place in the mixed category and Ms. Chan Tze Wee, the Investments and Investor Relations Manager, was the second runner-up in the Female - Mixed category.</p> <p><i>(Axis-REIT employees who participated in The Edge Kuala Lumpur Rat Race 2017.)</i></p> 
Blood Donation Drive for the National Blood Centre	5 employees, 3 hours each	N.A.	<p>As an asset owner, Axis-REIT provided the space and collaborated with the National Blood Centre to run two blood donation drives at Menara Axis: the first on 16 June 2017 and another on 14 December 2017. The Manager's employees, tenants of Menara Axis and Crystal Plaza, as well as visitors to the building participated in the Blood Donation Drives.</p> <p><i>(Two Blood Donation Drives that took place at Menara Axis.)</i></p>  

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Beneficiary	No. of employee volunteers and volunteer hours	Value of funding provided	Details of CSR efforts
Sponsorship of Axis-O2 Football Club	3 employees 5 hours each	RM42,000 by the Manager	<p>At the end of 2016, ARMB became the main sponsor of a community football team named O2FC. One of the Manager's staff is a player in this football team and management felt that it was within its capacity to assist the team and support their quest to the best in their league.</p> <p>Throughout 2017, Axis O2FC competed and won several football and futsal tournaments including:</p> <ul style="list-style-type: none"> • Prestige Cup 2016 : 2nd runner-up • Phuket International 5 side : Champion • Selangor Champions League 2017: Champion <p>The Selangor Champions League was held in December 2017 and comprised 16 competing teams. Axis O2FC emerged as the winner in the league and made history in Malaysian football as they will be the first amateur football club to join a professional league which is the FA Cup!</p>  

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ENVIRONMENT^{5,6}

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Summary of Axis-REIT's Energy and Carbon Data

Electricity consumption 5,279,445 kWh	Electricity consumption intensity 55.5 kWh/sq. ft.
CO_{2e} emission 3,531,949 kg CO _{2e}	CO_{2e} emission intensity 37.1kg CO _{2e} /sq. ft.

The Manager continues to take the lead in the Malaysian REIT ("M-REIT") sector in active carbon reduction measures across the reported portfolio. This is in line with the aim of reducing operating costs in the long term, as well as supporting Malaysia's commitment to reduce carbon emissions.

For the environmental performance metrics in this report, the Manager recorded the energy consumption for non-lettable areas in 11 multi-tenanted buildings. The overall average energy intensity is reported below.

Axis-REIT's Non-Lettable Floor Area and Building Energy Consumption by Property

	FYE2017	FYE2016
	Building energy (kWh)	Building energy (kWh)
Total	5,279,445	8,332,830
Overall average energy intensity	55.5 kWh/sq. ft.	87.6 kWh/sq. ft.

A significant decrease in energy consumption in 2017 was recorded as compared to the prior year. The decrease is mainly due to the sale of Axis Eureka which recorded one of the highest energy consumption among the properties. Other factors contributing to the decrease are several asset enhancement initiatives (e.g. installing energy-efficient T5 Fluorescent or LED light fittings, R410A eco-friendly air-conditioning gas), and periodic audits were conducted by the Project Management and Facilities Management teams to evaluate the effectiveness of these initiatives.

The decrease in consumption for certain buildings like Wisma Kemajuan, Crystal Plaza and Quattro West which operate using cooling towers were also attributed to lower occupancy rate.

As at 31 December 2017, two multi-tenanted buildings, i.e. Menara Axis and Crystal Plaza, had undergone energy audits, which led to the air-conditioning system upgrade in Menara Axis, which resulted in a 27% to 34% savings in energy costs.

⁴ Environmental scope of reporting has been restricted to the landlord's consumption for common non-lettable areas under the Property's Manager's operational control.

⁵ The emission factor is taken from "IEA (2015). CO₂ Emissions from Fuel Combustion, 2015 Edition. International Energy Agency"

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In addition to reducing carbon emissions, the Manager is committed to managing waste. In 2017, the Manager introduced recycling bins at nine of its multi-tenanted buildings - Menara Axis, Crystal Plaza, Wisma Kemajuan, Wisma Academy, Axis Technology Center, Axis Business Campus, Infinite Center, Axis Business Park, and Quattro West. To support this initiative, tenants are requested to separate their office waste, and educate their staff and cleaners on the different types of waste. The Manager will continue to take steps in promoting recycling and reducing waste into landfills.



Recycling bins located in Axis-REIT's buildings

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GRI G4 content index for 'In accordance' – Core Option

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General Standard Disclosures		
General Standard Disclosures		Section and page reference
Strategy and Analysis		
G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy	CEO's Message on Sustainability (page 128)
Organisational Profile		
G4-3	Organisation name	CEO's Message on Sustainability (page 128)
G4-4	Primary brands, products, and services	Real Estate Report (page 60-73)
G4-5	Headquarters location	Corporate Information (page 4)
G4-6	Organisation operations	Portfolio diversification by geographic location (page 57)
G4-7	Nature of ownership and legal form	Axis-REIT Structure (page 3)
G4-8	Markets served	Our Business (page 130)
G4-9	Scale of the organisation	Our Business (page 130) Employee Profile (page 139)
G4-10	Total number of employees by type	Employee Profile (page 139)
G4-11	Collective bargaining agreements	None of the employees are covered by collective bargaining agreements
G4-12	Organisation's supply chain.	Our Value Chain (page 143)
G4-13	Organisation changes during the reporting period	CEO's Message on Sustainability (page 128)
G4-14	Precautionary principle	Enterprise Risk Management (Page 137)
G4-15	External charters, principle or other initiatives	Tripartite Alliance for Fair and Progressive Employment Practices
G4-16	List memberships of associations	Involvement in Professional Organisations and Governance Bodies (page 133)
Identified Material Aspects and Boundaries		
G4-17	Entities included in financial statements	About the Report (page 130)
G4-18	Process for defining the report boundaries and content	About the Report (page 130)
G4-19	Material aspects included in the report	Materiality Matrix (page 135)
G4-20	Description of material aspect boundaries within the organisation	About the Report (page 130)

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G4-21	Description of material aspects outside the organisation	The Manager did not identify any Aspect which was material outside of the organisation
G4-22	Restatements of information	Electricity consumption intensity and CO _{2e} emission intensity for 2016 were restated No other restatements of information were made
G4-23	Significant changes from previous reporting periods	No significant changes were noted
Stakeholder Engagement		
G4-24	Provide a list of stakeholder groups engaged by the organisation	Stakeholder Engagement (page 131 - 132)
G4-25	Basis for identification and selection of stakeholders with whom to engage	Selected based on frequency of interaction
G4-26	Approach to stakeholder engagement	Stakeholder Engagement (page 131 - 132)
G4-27	Topics raised during stakeholder engagement	Stakeholder Engagement (page 131 - 132)
Report Profile		
G4-28	Reporting period	1 January 2017 to 31 December 2017
G4-29	Date of most recent previous report (if any)	Annual Report FYE2016
G4-30	Reporting cycle	Annual
G4-31	Report contact	About the Report (page 130)
G4-32	'In accordance' option, GRI Index and report assurance	About the Report (page 130)
G4-33	Privacy regarding report assurance	About the Report (page 130)
Governance		
G4-34	Governance structure of this report.	Corporate Governance Statement (page 158-172) Governance, Ethics & Integrity (page 136)
G4-38	Composition of the board and its committees	Corporate Governance Statement (page 158-172)
G4-39	Whether chair of the highest governance body is also an executive officer	Corporate Governance Statement (page 159)
G4-40	Nomination and selection process for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	Corporate Governance Statement (page 164-165)
G4-41	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Corporate Governance Statement (page 175-176)
G4-51	Remuneration policies for the highest governance body and senior executives	Corporate Governance Statement (page 161-162)
G4-52	Process for determining remuneration	Corporate Governance Statement (page 161-162)

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Specific Standard Disclosures		
Indicators		Section and page reference
Ethics and Integrity		
G4-56	Code of conduct	Governance, Ethics & Integrity (page 136)
G4-58	Mechanisms for reporting concerns about unethical and unlawful behaviour	Whistle-Blowing Mechanism (page 138)
Category: Economic		
EC1	Direct economic value generated and distributed	Statement of profit or loss and other comprehensive income (page 186)
Category: Environmental		
EN3	Energy consumption within the organisation	Environment (page 151)
EN5/ CRE1	Energy intensity	Environment (page 151)
EN6	Reduction of energy consumption	Environment (page 151)
EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Environment (page 151)
EN18/ CRE3	Greenhouse Gas (GHG) emissions intensity	Environment (page 151)
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	There were no significant fines during the year.
Category: Social		
Sub-category: Labour Practices and Decent Work		
LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Employee Profile (page 139)
LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Employee Wellness and Engagement (page 141)
LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender	Occupational Health and Safety (page 140)
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Employee Wellness and Engagement (page 141)

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Sub-category: Society		
SO5	Confirmed incidents of corruption and actions taken	None
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	None
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	There were no significant fines during the year.
Sub-category: Product Responsibility		
PR5	Results of surveys measuring customer satisfaction	Tenant Engagement and Satisfaction (page 146)
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	None
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	None
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	There were no significant fines during the year.
CRE8	Type and number of sustainability certification, rating and labelling schemes for new construction, management, occupation and redevelopment	None



CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

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Axis REIT Managers Berhad, being the management company (“ARMB” or “Manager”) of Axis Real Estate Investment Trust (“Axis-REIT” or “Fund”), is pleased to present this Corporate Governance Statement, approved by the Board of Directors (“Board”), which provides insights into the best practices adopted by the Manager in managing Axis-REIT.

The Manager recognises that an effective corporate governance culture is critical to its performance and consequently the success and sustainability of Axis-REIT. The Manager is committed to high standards of corporate governance and has adopted a comprehensive corporate governance framework that meets best practice principles.

The following sections describe the Manager’s corporate governance framework, practices and policies, which are substantially in accordance with the Malaysian Code on Corporate Governance that came into effect on 26 April 2017 (“CG Code”):

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

The Manager of Axis-REIT and the Board of Directors

ARMB is the appointed Manager of Axis-REIT in accordance with the terms of the trust deed constituting Axis-REIT (“Deed”). The Deed outlines the functions and duties of the Manager, as well as the circumstances under which the Manager can be retired. The Deed was last updated and restated as the Third Principal Deed on 28 November 2013. Pursuant to the Deed, the Manager has the duty to act honestly, with due care and diligence, and in the best interest of the Unitholders of Axis-REIT.

The Manager, being licensed under the Capital Markets and Services Act, 2007, is also required to observe and meet the minimum standards of conduct in the capital market as regulated by the Securities Commission Malaysia (“SC”).

The Manager has the general power over the assets of the Fund. The Manager’s main responsibility is to manage the assets and liabilities of Axis-REIT for the benefit of the Unitholders of Axis-REIT. The primary role of the Manager is to set the strategic direction of the Fund and make recommendations to the Trustee of Axis-REIT on acquisitions, divestments and enhancements that are in line with the agreed strategy. The Manager is also responsible for business planning, capital management and risk management of the Fund.

Therefore, in carrying out the duties of the Manager in accordance with the Deed, the Board is responsible for:

- Strategic planning, which supports long-term value creation
- Corporate governance, which reinforces ethical, prudent and professional behaviour
- Supervision and oversight of Management towards the accomplishment of the Fund’s objectives and mission
- Business plans and the results of their implementation
- Asset management of Axis-REIT’s property portfolio
- Risk management and internal controls, including setting the risk appetite and tolerance in the decision-making process
- Financial and non-financial reporting systems
- Business development and growth strategies
- Succession planning at Board and senior management levels
- Stakeholder communication and engagements

Board Composition

As at 31 December 2017, the Board of Directors comprised the following:

- Three Independent Non-Executive Directors
- Two Executive Directors
- Three Non-Independent Non-Executive Directors
- Two Alternate Directors

CORPORATE GOVERNANCE STATEMENT

The Board's size was increased in the current financial year under review, from nine Directors to ten Directors (including the Alternate Directors), with the appointment of Mr Yeoh Chong Keat to the Board on 1 March 2017 as a new Non-Independent Non-Executive Director.

The Board consists of a mixture of Executive and Non-Executive Directors from diverse professional backgrounds such as real estate and facility management, property development, entrepreneurship, corporate services, accounting and finance, enabling Management to tap their expertise and broad business experience in deliberating issues presented to the Board. The roles and responsibilities of the Board in discharging its fiduciary leadership functions are elaborated in the Board Charter, which can be accessed at Axis-REIT's corporate website, www.axis-reit.com.my.

The Independent Directors made up one-third of the Board and this is in line with the requirement prescribed under the SC's Guidelines on Real Estate Investment Trusts ("REIT Guidelines"). The Board noted that the CG Code recommends that at least half of the board be made up of independent directors. The Board of the Manager has taken note of this recommendation and will consider the need based on the size, requisite mix of skill and competency of the Board.

Chairman of the Board and Chief Executive Officer ("CEO")

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

The Chairman provides leadership to the Board in relation to all aspects of the Board's roles and responsibilities. He also ensures that members of the Board work together with Management in a constructive manner to address strategies, business operations, financial performance and risk management issues. The Chairman plays a role in the Manager's external relationship with stakeholders as well.

The CEO has full executive responsibilities over the execution of the agreed business policies and directions set by the Board, and over all operational decisions in managing Axis-REIT. The CEO works closely with all the heads of department through weekly cross-departmental meetings in reviewing matters relating to operational issues, capital management, investment proposals, leasing activities, facilities and project management.

Axis-REIT embarked on its first development project in 2016 with the construction of a distribution warehouse for Nestlé Products Sdn Bhd. The distribution warehouse was completed and handed over on time and in accordance with the agreed terms and conditions. The CEO had been directly involved in managing and monitoring the progress of this development project, working together with the project's contractors and consultants. With its completion, Axis-REIT is moving on to its second development project, which is situated on a parcel of land within the Malaysia International Aerospace Centre Technology Park, Sultan Abdul Aziz Shah Airport, Subang, Selangor, and the CEO is currently actively leading this new project.

Strategic Planning and Target Setting

At the beginning of the financial year ended 31 December 2017 ("FYE2017"), the Board reviewed and approved the budget of Axis-REIT, which provided the financial roadmap and targets for each department in executing the business plans of the Manager and Axis-REIT. The Manager is also guided by the Axis-REIT's 2021 Strategy Plan, which was approved by the Board in August 2016. This 2021 Strategy Plan sets out the long-term five-year initiatives towards growing the Fund's Assets Under Management to RM5 billion by 2021.

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Board Meetings and Procedures

The Board met every quarter in FYE2017 to review, discuss and approve the release of Axis-REIT's quarterly and annual financial results. It also reviewed proposed acquisitions and disposals, corporate plans and the annual budget, capital management proposals, property reports, investor relations reports, the performance of the Manager and Axis-REIT against the previously approved budget, as well as other proposals tabled by Management. The CEO led the business performance reporting at each Board meeting. The Chief Financial Officer, Head of Real Estate, Head of Investments and the Investments & Investor Relations Manager, who are heads of departments of the Manager, were also present at the Board meetings to present their reports and to facilitate the review and deliberation of issues and matters tabled and presented to the Directors at such meetings. Via such conduct at Board meetings, the Board is able to oversee, assess and monitor Management's performance in administering the business of the Manager and Axis-REIT under the leadership of the CEO.

Prior to each Board meeting, the Executive Committee of the Board would meet to review all reports and proposals from Management before a comprehensive executive committee report is compiled and presented to the Directors at Board meetings. Such executive committee reports contain financial and operational updates, as well as proposals and recommendations for the Board's consideration, deliberation and decision.

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

Access to Information and Advice

All members of the Board have access to all information in relation to the Manager and Axis-REIT at Board meetings, as well as through enquiries made via established channels. Emails are the most commonly used method to disseminate information to the Directors on a timely basis. The Board is also kept up-to-date via monthly financial updates circulated by the Finance team of the Manager, and this enables the Board to monitor and assess the performance and prospects of the Fund. All Directors have access to the rules and regulations governing the Fund and the Manager, as well as other policies approved by the Board via the Company Secretary, who maintains such corporate documents. The Manager also has a panel of financiers and consultants who provide professional advice in the areas of financing, capital markets, legal, property valuation and engineering due diligence, from whom advice can be sought. By having access to expert advice, the Board is able to ensure its decision-making mechanism is effective and result-oriented.



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Company Secretary and Head of Compliance

The Board is supported by a professionally-qualified and competent Company Secretary who is also the Head of Compliance of the Manager. She is responsible for ensuring that the Board, Board Committees and shareholder/unitholder meeting procedures, corporate policies and procedures, and applicable rules and regulations are adhered to. The Company Secretary attended every Board meeting and Board Committee meeting held in FYE2017, and thereafter prepared the minutes of proceedings for approval by the respective Chairmen. The Company Secretary also kept the Board abreast of all relevant regulatory updates to laws and requirements at physical meetings, as well as via email. As the Head of Compliance of the Manager, she also assists the CEO in legal and corporate compliance matters by liaising and working closely with the appointed external solicitors and professional advisers.

In FYE2017, the new Companies Act, 2016 was enforced. It came into effect on 31 January 2017, replacing in its entirety the Companies Act, 1965. The Company Secretary played an important role in advising the Manager and its Directors and officers on the relevant provisions affecting them. The latest CG Code was also released in the same financial year and the Company Secretary had carried out a comparison review of the existing practices against the recommendations under the CG Code. The relevant Board Committees and the Board were also updated on the areas for improvements pursuant to the CG Code.

Board Charter, Code of Conduct and Whistle-Blowing Policy

The Board Charter provides a clear description of the responsibilities of the Board, its Directors and the Board Committees. The Board Charter, which is subject to an annual review, had been updated in October 2017 to be in line with the latest CG Code. It was also expanded to describe the role of the Senior Independent Non-Executive Director as one who acts as an intermediary for other Directors, with the aim of fostering better relationships and board balance. The latest version of the Board Charter is available on Axis-REIT's corporate website.

The Board Charter has also set out the expectation on time commitment for its members and protocols for accepting new directorships. As the Board meeting dates were fixed in advance, each Director was able to commit their time to attend the Board meetings, and Directors who were travelling were able to participate in the deliberations via telephone and video conference arrangements.

The Board is committed to ethical values through its Code of Conduct. Formalised in 2012, the Code of Conduct is available on Axis-REIT's corporate website. The Board undertook a review of this Code in October 2017, and the Code has been updated to be in line with the latest CG Code, elaborating the procedures in dealing with conflicts of interest and incorporating the reporting channels for non-compliance to the Code.

A Whistle-Blowing Policy is also in place to facilitate the management of reports and claims filed in relation to possible improprieties in matters relating to financial reporting, compliance, misconduct and other malpractices. This policy reaffirms the Manager's commitment to safeguard those who report concerns in good faith against any form of reprisal. The Whistle-Blowing Policy was also reviewed by the Board in October 2017 and no revision was recommended. This Whistle-Blowing Policy is also available on Axis-REIT's corporate website.

Board Remuneration and Remuneration Policy

As Axis-REIT is externally managed by the Manager, it has no employees, and the Directors sit at the Board of the Manager. The Manager, strategically led by the Board, ensures that it appoints experienced and well-qualified personnel to handle its day-to-day operations. All Directors and employees of the Manager are remunerated by the Manager and not by the Fund.

Details of the Remuneration Committee, which is responsible for the determination of the remuneration policy framework of the Manager's Directors, is set out in the Remuneration Committee section below.

The Board, through its Remuneration Committee and in consultation with the Executive Committee, has established transparent remuneration policies and procedures. The remuneration framework reflects the Board's responsibilities,

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expertise and the complexity of the Manager's operations and activities. It is also aligned with the business strategy and long-term objectives of the Manager.

In line with the Board's remuneration policy, the Remuneration Committee, at its meeting, reviews the annual remuneration proposals presented by the Executive Committee. The Chairman of the Remuneration Committee, who is an Independent Non-Executive Director, brings his experience and exposure to facilitate the review of the proposals presented by the Executive Committee. The Board perceives that the Chairman of the Remuneration Committee contributes to the independent element of the review process. All recommendations relating to fees and remuneration packages of the CEO and Directors shall then be made by the Remuneration Committee to the Board. The Board as a whole will then consider and make the final decision on the remuneration packages recommended by the Remuneration Committee.

There is no change in the Board's remuneration policy for FYE2017, and this policy is contained in the Board Charter of the Manager.

All remuneration matters at senior management level are reviewed and determined by the Executive Committee and where required, on a case-to-case basis, the Board's guidance and/or approval is sought.

The following tables provide an overview of the remuneration of the Directors for FYE2017:

Remuneration of Executive and Non-Executive Directors for FYE2017						
	Salaries and other Emoluments (RM)	Directors' Fees (RM)	Meeting Attendance Allowance (RM)	Executive Committee Allowance (RM)	Benefits in Kind (RM)	Total (RM)
Executive Directors	1,395,911	192,000	21,500	60,000	23,950	1,693,361
Non-Executive Directors	-	555,000	93,500	60,000	-	708,500

Range of Remuneration Per Annum	Executive Directors	Non-Executive Directors
RM50,000 - RM200,000	1	6
RM200,001 - RM400,000	-	-
RM400,001 - RM600,000	-	-
RM600,001 and above	1	-

Note: Details of Directors' and senior management's individual remunerations are not disclosed as the Directors and senior management are remunerated by the Manager, which is a privately-owned company.

Board Committees and their Roles

The following Board Committees have the delegated functions to assist the Board in discharging its duties:

Executive Committee

Membership:

Chairman: Y Bhg Dato' Abas Carl Gunnar Bin Abdullah (*Executive Deputy Chairman*)
 Members: Stephen Tew Peng Hwee @ Teoh Peng Hwee (*Non-Independent Non-Executive Director*)
 Leong Kit May (*CEO/Executive Director*)

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The primary duty of the Executive Committee is to manage the business of the Manager and Axis-REIT in accordance with the vision and mission established and approved by the Board. This Committee oversees the day-to-day business activities of the Manager and Axis-REIT on behalf of the Board, and monitors, among others, the following key areas:

- Acquisition and disposal analysis
- Asset performance and business planning
- Capital and financial management
- Forecasting and budgetary controls
- Market performance of Axis-REIT
- Legal and regulatory compliance framework
- Sustainability initiatives
- Leasing, marketing and tenant services
- Property management and enhancements

The Executive Committee also oversees the internal talent and senior leadership/key management team and its succession planning, as well as the Manager's human resource management.

The Executive Committee, in discharging its duties, is guided by a formal Terms of Reference. There has been no significant change in the duties and functions of the Executive Committee as discharged in FYE2017.

Audit Committee

Membership:

Chairman: Mohd Sharif Bin Hj Yusof (*Senior Independent Non-Executive Director*)
Members: YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin
(*Independent Non-Executive Chairman*)
Alvin Dim Lao (*Non-Independent Non-Executive Director*)

Note: YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin was the Chairman of the Audit Committee for FYE2017. On 1 January 2018, he was re-designated as a Member of the Audit Committee, and Encik Mohd Sharif Bin Hj Yusof took over the Chairman's position. This change was effected in line with the CG Code.

The Board has an overall responsibility in ensuring that a balanced and understandable assessment of Axis-REIT's financial position and prospects is presented to the investing public. The Audit Committee assists the Board in discharging this responsibility. The Audit Committee ensures that the financial statements comply with applicable accounting standards and meet financial reporting requirements. It also assists the Board in the areas of internal controls, risk management and governance processes of Axis-REIT and the Manager.

The Audit Committee Report, which contains the summary of activities carried out by this Committee during FYE2017, is set out as a separate section in this Annual Report. The Audit Committee, in discharging its duties, is guided by a formal Terms of Reference. This set of Terms of Reference is available on Axis-REIT's corporate website.

Remuneration Committee

Membership:

Chairman: Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor
(*Independent Non-Executive Director*)
Members: Y Bhg Dato' Abas Carl Gunnar Bin Abdullah (*Executive Deputy Chairman*)
Stephen Tew Peng Hwee @ Teoh Peng Hwee (*Non-Independent Non-Executive Director*)

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The Remuneration Committee is responsible for recommending to the Board the policy framework for the remuneration of the Executive and Non-Executive Directors of the Board, as well as key management officers (if any). It is also responsible for reviewing the framework from time to time, to ensure that the Manager attracts and retains individuals of the highest calibre. As the Directors of the Manager are remunerated by the Manager and not by the Fund, the Executive Committee of the Manager plays an important role in presenting proposals to the Remuneration Committee. In this regard, Dato' Abas Carl Gunnar Bin Abdullah and Mr Stephen Tew Peng Hwee @ Teoh Peng Hwee have the task of representing the Executive Committee in the Remuneration Committee, given that they are members of both these Board Committees. The Executive Committee proposes to the Remuneration Committee the respective remuneration packages, including, but not limited to, bonuses, incentives and benefits-in-kind, taking into consideration, among others, the level of performance against agreed targets. All proposals presented by the Executive Committee are considered carefully by the Remuneration Committee, drawing from outside advice as necessary, in accordance with the Board's remuneration policy described above.

The Remuneration Committee, in discharging its duties, is guided by a formal Terms of Reference. This set of Terms of Reference is available on Axis-REIT's corporate website. A review of the Terms of Reference of the Remuneration Committee was carried out in January 2017 and revisions were made for clarity and consistency.

During FYE2017, the Remuneration Committee reviewed the remuneration package of the CEO based on the proposal presented by the Executive Committee, and made recommendations to the Board accordingly. Directors' Fees were also reviewed, taking into consideration market factors. The Board ultimately made the final decisions in respect of the remunerations of the Executive and Non-Executive Directors. Each Director had accordingly abstained from deliberation and voting on their own respective remuneration.

Nomination Committee

Membership:

Chairman: Mohd Sharif Bin Hj Yusof (*Senior Independent Non-Executive Director*)
Members: YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin
(*Independent Non-Executive Chairman*)
Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor
(*Independent Non-Executive Director*)

The key function of the Nomination Committee is to ensure that the Manager recruits, retains and develops the best available executive and non-executive directors. This includes managing succession at Board level effectively. The chair of the Nomination Committee is the Senior Independent Director of the Board.

The Nomination Committee, in discharging its duties, is also guided by a formal Terms of Reference, which is available on Axis-REIT's corporate website. The Terms of Reference of the Nomination Committee was reviewed in October 2017, and was enhanced to be in line with the CG Code.

The Nomination Committee held two meetings during FYE2017.

The first meeting was convened to review the proposed appointment of a new Director in accordance with the recruitment criteria of the Manager. The candidate, Mr Yeoh Chong Keat, was proposed by the Executive Committee and therefore, there was no need to seek candidates from the directors' registry, open advertisements or through independent search firms.

At the second meeting, the Nomination Committee undertook the following activities, with most being annual affairs of this Committee:

- Reviewed the performance evaluation carried out on the Board, Directors and Board Committees. The performance evaluation was facilitated by the Company Secretary and the results were reported to the Nomination Committee for onward review. The Nomination Committee had expressed satisfaction as to the level of corporate governance values/practices which are embedded in the functions of the Board, operations and management processes of the Manager;

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- Resolved to recommend to the Board the areas for improvement (arising from the evaluation results) with a view to enhance compliance with the best practices under the CG Code, where appropriate;
- Reviewed and enhanced the existing recruitment criteria of the Manager by providing clarity to the fit and proper criteria prescribed under the SC's REIT Guidelines;
- Considered and made no recommendation to revise the criteria for the annual assessment of Directors (including the assessment of independence and the assessment of Directors whose tenures had exceeded nine years) in view that the adopted criteria remains relevant to the Directors of the Manager;
- Reviewed the existing composition of the Board, as well as the effectiveness of the Board and Board Committees. No change to the Board's composition was recommended by the Committee;
- Considered the gender diversity of the Manager and was satisfied that the female representation both at the Board and senior management levels had achieved the 30% target;
- Assessed the training needs of the Directors. The Manager is committed to arranging an annual in-house training session for the Directors and senior management of the Manager;
- Reviewed the term of office and performance of the Audit Committee in accordance with Paragraph 15.20 of the Main Market Listing Requirements. No exception was noted from the assessment results;
- Discussed and recommended the proposed change in the chairmanship of the Audit Committee in line with the recommendations of the CG Code;
- Reviewed and updated the Succession Planning Policy of the Manager. The internal succession process for the Board's positions was enhanced; and
- Assessed the retiring Directors in accordance with the Constitution of the Manager and recommended to the Board their respective re-elections.

Assessment of Independent Directors

The Board had undertaken an annual assessment of the independence of its three Independent Directors, namely YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin, Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor and Encik Mohd Sharif Bin Hj Yusof, based on the independence criteria approved by the Nomination Committee. The three Independent Directors of the Manager had confirmed their independence in writing to the Board. All three Independent Directors of the Manager were also subject to additional evaluation given that they had served on the Board as Independent Directors for more than nine years. Accordingly, the Board assessed the three Independent Directors and considered them still independent based on their respective written assessments submitted. The Board was of the opinion that their independence would not be materially compromised by the length of their service as Independent Directors of the Board. The Board will be seeking the approval from the sole shareholder of the Manager at the Manager's 2018 annual general meeting for the retention of all three Independent Directors, in line with the best practice recommendations under the CG Code.

(Note: None of the Independent Directors of the Board has exceeded a tenure of twelve years, and the two-tier voting process is not applicable to the Manager given that it is an entity wholly-owned by a private company)

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Attendances at Board and Board Committee Meetings

The attendance of the Directors at the Board and Board Committee meetings held during FYE2017 are presented below:

Board of Directors	Designation	Attendance (No. of meetings held: 4)
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Independent Non-Executive Chairman	4/4
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Executive Deputy Chairman	4/4
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Non-Independent Non-Executive Director	4/4
Leong Kit May	Chief Executive Officer/Executive Director	4/4
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Independent Non-Executive Director	4/4
Mohd Sharif Bin Hj Yusof	Senior Independent Non-Executive Director	4/4
Alvin Dim Lao (Alternate Director: Jancis Anne Que Lao)	Non-Independent Non-Executive Director	3/4
Yeoh Chong Keat (Appointed w.e.f. 1 March 2017)	Non-Independent Non-Executive Director	3/3

Executive Committee Members	Designation	Attendance (No. of meetings held: 6)
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Chairman	6/6
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Member	6/6
Leong Kit May	Member	6/6

Audit Committee Members	Designation	Attendance (No. of meetings held: 4)
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin*	Chairman	4/4
Mohd Sharif Bin Hj Yusof*	Member	4/4
Alvin Dim Lao (Alternate Director: Jancis Anne Que Lao)	Member	3/4

*Note: In line with the CG Code, Encik Mohd Sharif Bin Hj Yusof was re-designated to the position of Chairman and YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin remained as Member w.e.f. 1 January 2018

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Remuneration Committee Members	Designation	Attendance (No. of meetings held: 1)
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Chairman	1/1
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Member	1/1
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Member	1/1

Nomination Committee Members	Designation	Attendance (No. of meetings held: 2)
Mohd Sharif bin Hj Yusof	Chairman	2/2
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Member	2/2
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Member	2/2

Directors' Training

The Board ensures its members have access to appropriate continuing education programmes to update their knowledge and enhance their skills in order to sustain their active participation in Board deliberations. The Directors received lists of training programmes available for selection during Board meetings. Details of training programmes attended by Directors were compiled by the Company Secretary for reporting to the Nomination Committee and Board accordingly. In-house training was also organised for all the Directors on 'The Malaysian Code on Corporate Governance 2017' in October 2017.

All the Directors of the Manager have attended training programmes during FYE2017 in compliance with the Main Market Listing Requirements. Some of the Directors had been invited to participate as speakers and presented talks at conferences and seminars. The details are as follows:

Director	Date	Events
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	23 October 2017	Malaysian Code on Corporate Governance 2017
Dato' Abas Carl Gunnar bin Abdullah	23 October 2017	Malaysian Code on Corporate Governance 2017
Stephen Tew Peng Hwee @ Teoh Peng Hwee	3 – 4 March 2017	Malaysian Annual Real Estate Convention 2017 - Transforming Your Real Estate Business in a Changing Era
	24 – 27 August 2017	ARENA Convention & Exhibition
Leong Kit May	12 January 2017	International Investment Fund Forum 2017
	8 February 2017	Maybank Kim Eng's Invest ASEAN Malaysia 2017
	23 – 24 February 2017	Nomura Global Real Estate Forum 2017, Japan
	15 – 16 May 2017	AsiaPac Property Leaders Summit 2017
	26 July 2017	Invest Malaysia
	4 August 2017	REITS Asia Pacific 2017, Singapore
	26 August 2017	Invest Fair Malaysia 2017
	23 October 2017	Malaysian Code on Corporate Governance 2017

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Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	28 February – 1 March 2017	Mobile World Congress 2017, Barcelona
	3 March 2017	Explore Your Possibilities With TM, London
	9 March 2017	Companies Act 2016
	16 March 2017	Designing Curriculum Towards Industry Ready Graduates
	19 April 2017	REHDA Property Forum 2017: Status Quo or Road to Recovery?
	19 April 2017	REHDA Media Briefing: Property Industry Survey H2 2016
	8 August 2017	NCCIM Economic Forum 2017
	12 August 2017	BUMI MAPEX
	16 August 2017	Malaysia Real Estate Summit 2017
	18 August 2017	Focus Group Budget 2018 Meeting – Meeting the Housing Needs
	23 August 2017	Housing as Habitat: A Case of Market Failure or Institutional Limitations
	13 September 2017	Credit Suisse Malaysia Property Day
	5 - 6 October 2017	20th National Housing & Property Summit
	12 October 2017	Ministry Industry Dialogue by KETTHA Ministry
	30 October 2017	The Edge Property Excellence Awards: Top Property Developers Awards 2017
9 – 11 November 2017	2017 IHA Tokyo Interim Meeting in Tokyo, Japan by JUDANREN (Japan Federation of Housing Organization)	
Mohd Sharif bin Hj Yusof	21 July 2017	Building a High Performance Board
	3 October 2017	Advocacy Session on Corporate Disclosure Framework
	16 October 2017	Case Study Workshop for Independent Directors "Rethinking – Independent Directors: A New Frontier"
	23 October 2017	Malaysian Code on Corporate Governance 2017
Alvin Dim Lao	13 - 14 January 2017	Credit Suisse ASEAN Conference, Singapore
	6 February 2017	JP Morgan PH Conference, Philippines
	8 - 9 March 2017	CLSA ASEAN Conference, Bangkok
	17 August 2017	Macquarie PH Conference, Philippines
	22 - 23 August 2017	Nomura PH Conference, Japan
	24 - 25 August 2017	Nomura PH Conference, Hong Kong
	5 October 2017	DB PH Conference, Philippines
	23 October 2017	Malaysian Code on Corporate Governance 2017
	7 - 8 November 2017	JP Morgan Rising Dragon Conference, Singapore
	9 November 2017	JP Morgan Rising Dragon Conference, Hong Kong
13 December 2017	Compliance to the Data Privacy Act and Governance Through Enterprise Dashboards	
Yeoh Chong Keat	7 – 8 June 2017	Audit Quality Enhancement Programme for SMPs 2017
	25 – 26 July 2017	National Tax Conference 2017
	5 September 2017	The New Malaysian Code on Corporate Governance – Unpacking it for Practical
	2 November 2017	Seminar Percukaian Kebangsaan 2017

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Alex Lee Lao	13 December 2017	Compliance to the Data Privacy Act and Governance Through Enterprise Dashboards
Jancis Anne Que Lao	16 – 17 February 2017	Hospitality Investment Conference Philippines 2017
	28 February – 8 March 2017	Finance For Executives Programme
	31 March 2017	5th Asia Pacific Real Estate Investment Summit Philippines
	6 – 8 June 2017	2017 ULI Asia Pacific Summit, Singapore
	13 – 14 June 2017	South East Asia Hotel Investors' Summit 2017, Bangkok
	23 October 2017	Malaysian Code on Corporate Governance 2017

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

An Effective Audit Committee

The Audit Committee plays an important role in the governance structure of the Manager and this Committee had discharged its duties in accordance with its Terms of Reference throughout FYE2017. More details on how the Audit Committee had discharged its duties in FYE2017 are presented in the Audit Committee Report.

Recognising that both the Board Chairman and the Audit Committee Chairman play different roles in ensuring the effectiveness of the Audit Committee and the Board as a whole, a change in the chairmanship of the Audit Committee was put in place with effect from 1 January 2018, i.e. at the start of the new financial year for Axis-REIT.

Assessment of the External Auditors

The assessment of the External Auditors of Axis-REIT for re-engagement is an annual affair for the Manager. The Audit Committee had evaluated the External Auditors of Axis-REIT during FYE2017 in order to determine their suitability for re-appointment and independence. The assessment on suitability, objectivity and independence was carried out against criteria adopted by the Audit Committee, such as the adequacy and experience of the firm, its resources and the experience of the professional staff assigned to the audit of Axis-REIT.

Upon due assessment, the Audit Committee recommended to the Board the re-engagement of KPMG PLT as the External Auditors for Axis-REIT in respect of FYE2017 for onward recommendation to the Trustee of Axis-REIT for approval. The re-appointment of the External Auditors of Axis-REIT is not subject to the approval of the Unitholders of Axis-REIT.

The private engagements held between the Audit Committee and the External Auditors without the presence of Management also provided a platform for the Audit Committee to gauge the working relationship between the External Auditors and Management, as well as the level of independence demonstrated by the External Auditors. A written confirmation was also obtained from the External Auditors confirming their independence throughout the audit engagement.

Risk Management and Internal Control Systems

Effective risk management is a fundamental part of the Manager's business strategy. It ensures that there are no adverse disruptions to the Manager's pursuit and accomplishment of Axis-REIT's business goals and objectives, and mitigates any potential loss that may negatively impact the Unitholders of Axis-REIT so as to preserve their investments. Risk management has been part of the Manager's day-to-day operations and is embedded in the operational functions of the Manager. The barometer for risk management is the Risk Register, which was formulated by the Manager to capture and periodically monitor key risk areas. The Risk Register is reviewed by the Audit Committee on a quarterly basis for reporting to the Board. Further details on the risk management framework of the Manager are contained in the Statement on Risk Management and Internal Control.

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The internal audit function is outsourced to an independent consultancy firm, Baker Tilly Monteiro Heng Governance Sdn Bhd, that carries out the audit review based on an approved internal audit plan. The Internal Auditors report directly to the Audit Committee and attend the quarterly Audit Committee meetings where internal audit reports are presented and discussed.

The Audit Committee has the delegated function of monitoring the performance of the internal audit function and its effectiveness for reporting to the Board on a quarterly basis. Further details on the internal audit activities are also contained in the Statement on Risk Management and Internal Control.

Assessment of the effectiveness and independence of the Internal Audit Function

During the year, the Audit Committee carried out an assessment on the effectiveness and independence of the internal audit function in line with the CG Code, and was satisfied that:

- The internal audit team members are free from any relationships or conflict of interest, which could impair their objectivity and independence;
- The assigned number of staff to handle the internal audit work is adequate, and the internal audit assignment is led by experienced employees of the outsourced internal audit firm, who are at least Assistant Managers and above in designation;
- The internal audit function of the Manager is carried out in accordance with the industry's best practices, benchmarked against the applicable practices in the International Standards for the Professional Practice of Internal Auditing; and
- The team leader from Baker Tilly Monteiro Heng Governance Sdn Bhd who is in-charge of the internal audit function of the Manager, is independent, experienced and possesses the qualifications required to render his internal audit services.

The engagement of the Internal Auditors is also reviewed and renewed annually, and this process was carried out when the Audit Committee reviewed the internal audit plan for the new cycles. During the renewal of the engagement of the Internal Auditors, the Audit Committee also considered the Internal Auditors' professional fees prior to making its recommendation to the Board for approval.

PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Disclosure and Communication with Unitholders and the Investing Community

The Manager has established a strong culture of continuous disclosure and transparent communication with Unitholders and the investing community. The Manager achieves this through timely and full disclosure of all material information relating to Axis-REIT by way of public announcements on Bursa Malaysia Securities Berhad's website, through the Fund's corporate website at www.axis-reit.com.my, as well as through press releases, analyst briefings and retail roadshows. The Manager also has in place a dedicated section for corporate governance on its corporate website, which provides information such as the Board Charter, Code of Conduct, Whistle-blowing Policy and Terms of Reference. The Manager ensures regular updates of the corporate website for timely information.

The Board is committed to promoting effective communication and proactive engagements with Unitholders and the investing community, through the Investor Relations department of the Manager. This department is guided by the Investor Relations and Corporate Disclosure Policy ("IR & CD Policy") which is also accessible on Axis-REIT's corporate website. The IR & CD Policy sets the guidelines for effective communication channels and sets the boundaries for the management of confidential information. Pursuant to the IR & CD Policy, the CEO is the primary spokesperson with all audiences, including Unitholders, press, analysts and potential investors.

Further details on communication with Unitholders, the investing community, analysts and fund managers are covered in the Investor Relations Report contained in this Annual Report.

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Other Stakeholder Engagements and Relationship Management

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The Manager also places emphasis on engaging other stakeholders such as tenants of Axis-REIT, employees and the local communities. These engagements contribute to the business decision-making process as they provide insights and ideas to meet stakeholders' expectations and sustainable goals. The Marketing team of the Manager is tasked with undertaking the various marketing initiatives and activities. Please refer to more details contained in the Marketing Report.

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

AGMs and Unitholders' meetings are the primary forums where Unitholders are presented with quality information that enables them to have a better appreciation of the goals and objectives of Axis-REIT, the milestones achieved during the year, the challenges faced, as well as the prospects of the Fund. Concurrently, these sessions also serve as a platform for Unitholders to bring their expectations and concerns to the attention of the Manager.

The Fifth AGM of Axis-REIT was convened and held on 26 April 2017 in compliance with the requirements under the SC's REIT Guidelines. The AGM Notice was issued together with the 2016 Annual Report on 28 February 2017 and ample time was allocated to the Unitholders to read through the 2016 Annual Report and consider the resolutions that would be tabled at the AGM. Sufficient explanatory notes were also given in the AGM Notice to facilitate Unitholders' consideration of the resolutions for which their approval was sought.

At the AGM, the Manager presented an update on Axis-REIT's financial performance for the financial year ended 31 December 2016, as well as its activities, progress and prospects. Prior to voting, the Company Secretary informed those present at the AGM that the resolutions tabled would be voted by way of a poll, in line with the Main Market Listing Requirements, and that Symphony Share Registrars Sdn Bhd was appointed as the poll administrator to conduct the polling process and Deloitte Enterprise Risk Services Sdn Bhd was appointed the independent scrutineer to verify the poll results.

Two Ordinary Resolutions were tabled to Unitholders for approval at the Fifth AGM. The first was the Proposed Authority to allot and issue new units in Axis-REIT, and the second was the Proposed Renewal of the Income Distribution Reinvestment Plan Authority. Both Ordinary Resolutions were passed by Unitholders via a systemised polling exercise conducted at the AGM. The voting results, which had been verified by the independent scrutineer, are contained in the summary of minutes of the Fifth AGM which is available on Axis-REIT's corporate website.

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The Board recognises the importance of Unitholders' participation at the meetings of Unitholders and encourages such participation. At the Fifth AGM, the Board provided opportunities for Unitholders present at the meeting to raise questions pertaining to the business activities of Axis-REIT. The Chairman, CEO and other Directors of the Manager were present at the AGM to answer queries posed. The senior management team also played an important part in facilitating the smooth running of the AGM.

Save for the AGM, there were no other Unitholders' Meetings held in FYE2017.

Compliance Statement

The Board is satisfied that the Manager has substantially applied the principles and best practice recommendations prescribed under the CG Code in its management of Axis-REIT during FYE2017. This Statement has been tabled and approved by the Board of Directors on 23 January 2018.

AUDIT COMMITTEE REPORT

Recognising that an audit committee plays a crucial role in the corporate governance process of an organisation, the Board of Directors ("Board") of Axis REIT Managers Berhad, the management company ("ARMB" or "Manager") of Axis Real Estate Investment Trust ("Axis-REIT" or "Fund"), had established an Audit Committee on a voluntary basis. The Audit Committee has the delegated oversight responsibilities from the Board to ensure that the interests of the Unitholders of Axis-REIT are safeguarded.

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1. Composition of the Audit Committee

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

The composition of the Audit Committee in respect of the financial year ended 31 December 2017 ("FYE2017") was as follows:

- (a) YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin
- Independent Non-Executive Chairman
- (b) Mohd Sharif Bin Hj Yusof
- Senior Independent Non-Executive Director
- (c) Alvin Dim Lao
- Non-Independent Non-Executive Director
(Alternate Director: Ms Jancis Anne Que Lao)

In line with the Malaysian Code on Corporate Governance that came into effect on 26 April 2017 ("CG Code"), the Audit Committee made a change in its composition to adopt the recommendation that the Chairman of the Audit Committee is not the Chairman of the Board. YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin, who was also the Chairman of the Board, relinquished his chairmanship of the Audit Committee to Encik Mohd Sharif Bin Hj Yusof but remained on the Audit Committee as a member. This change took effect on 1 January 2018 i.e. at the commencement of the new financial year of Axis-REIT.

2. Audit Committee Meetings

The Audit Committee held four meetings during FYE2017. Details of the attendance of the Audit Committee members are set out in the Corporate Governance Statement of this Annual Report. The meeting dates were pre-determined in advance in order to ensure availability of each member. Meeting papers were circulated to all the Audit Committee members prior to the meetings by way of electronic means and hard copies.

3. Terms of Reference

The Audit Committee has a set of Terms of Reference that guides the discharge of its roles and responsibilities. Details of the Terms of Reference are available on the corporate website of Axis-REIT at www.axis-reit.com.my.

The latest review of the Terms of Reference was undertaken in October 2017 and the Audit Committee's Terms of Reference was updated to incorporate new areas provided under the CG Code, such as the inclusion of a policy that requires a former key audit partner to observe a cooling off period of at least two years prior to appointment as a member of the Audit Committee.

AUDIT COMMITTEE REPORT

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4. Summary of Activities carried out by the Audit Committee during the Financial Year

The primary role of the Audit Committee is to monitor, oversee, review and evaluate the effectiveness and adequacy of the Manager's financial management and reporting system, as well as the risk management and internal control environment in which the Manager operates in managing Axis-REIT. The Audit Committee also has the delegated responsibilities to assist the Board in overseeing the external and internal audit functions, conflict of interest situations and related party transactions pertaining to Axis-REIT and the Manager (where applicable).

The Audit Committee had, in the discharge of its duties and responsibilities during the financial year under review, carried out the following:

- (a) reviewed the quarterly financial results for public release to ensure adherence to legal and regulatory reporting requirements before recommending the same to the Board of Directors for approval;
- (b) reviewed the audited financial statements of Axis-REIT for the financial year ended 31 December 2016 ("FYE2016"), issued in February 2017, and discussed with the External Auditors the results of the final audit conducted on Axis-REIT prior to recommending the same to the Board of Directors for approval. There were no significant audit issues raised by the External Auditors;
- (c) reviewed with the External Auditors, their audit plan for FYE2017, audit approach and reporting requirements prior to the commencement of audit works for the year under review;
- (d) evaluated the suitability and independence of the External Auditors and recommended to the Board their re-appointment as Auditors of Axis-REIT in respect of FYE2017 for onward recommendation to the Trustee of Axis-REIT. The evaluation criteria included, among others, the adequacy and experience of the firm, its resources, and the experience of the professional staff assigned to the audit of Axis-REIT;
- (e) obtained a written confirmation on the independence of the External Auditors confirming that their firm had been independent throughout the conduct of the audit engagement for Axis-REIT in respect of FYE2016 in accordance with the terms of all relevant professional and regulatory requirements;
- (f) ensured that Axis-REIT's appointed External Auditors were duly registered with the Audit Oversight Board of the Securities Commission Malaysia ("SC");
- (g) reviewed the key audit matters and other audit focus areas in respect of FYE2016. The audited financial statements for FYE2016 were finalised with valuation of investment properties being the most significant audit area for Axis-REIT given that investment properties represented the single largest category of assets on the Fund's statement of financial position as at 31 December 2016; and
- (h) reviewed the audit fees for FYE2017 of Axis-REIT and its wholly-owned subsidiary, Axis REIT Sukuk Berhad, for recommendation to the Board of Directors. The Audit Committee also considered the non-audit fees applicable to Axis-REIT and Axis REIT Sukuk Berhad for FYE2017 and was satisfied that the non-audit fees were not of significant nature and were necessary compliance costs in order for Axis-REIT and Axis REIT Sukuk Berhad to comply with relevant requirements.

The details of the audit and non-audit fees are disclosed below:

Fees applicable to Axis-REIT		Fees applicable to Axis REIT Sukuk Berhad	
Audit	Non-Audit	Audit	Non-Audit
RM111,000	RM7,000	RM10,000	RM8,000 [^]

[^] Non-audit fee for the agreed upon procedures engagement on Financial Service Coverage Ratio in relation to the Sukuk Programme

AUDIT COMMITTEE REPORT

- (i) kept abreast and informed of new accounting standards i.e. Malaysian Financial Reporting Standard ("MFRS") 15 (Revenue from Contracts with Customers), MFRS 9 (Financial Instruments) and MFRS 16 (Leases). The Audit Committee was briefed by the External Auditors on the nature and applicability of the new accounting standards. Management is currently working closely with the Auditors in preparation to adopt the new accounting standards applicable to Axis-REIT;
- (j) reviewed with the Internal Auditors, the internal audit plan for the year 2017/2018 which covers four audit cycles, and agreed with the methodologies (risk-driven approach) employed by the Internal Auditors;
- (k) reviewed the internal audit reports with the Internal Auditors, and ensured that action plans recommended are agreed upon and implemented by Management on a timely basis. The summary activities of the internal audit function are contained in the Statement on Risk Management and Internal Control of this Annual Report;
- (l) evaluated the outsourced Internal Auditors and recommended to the Board of Directors their re-engagement to carry out the internal audit function in respect of the year 2017/2018. The Audit Committee also reviewed the internal audit fees applicable for the audit cycles under engagement for the year 2017/2018 before the same was approved by the Board of Directors;
- (m) reviewed the Risk Management Report containing the Risk Register on a quarterly basis. Details of the risk management processes of the Manager are contained in the Statement on Risk Management and Internal Control of this Annual Report;
- (n) reviewed on a quarterly basis, the list of related party transactions involving interests of related parties who are Directors of the Manager, substantial Unitholders of Axis-REIT and ultimate major shareholders of the Manager or persons connected to them (more details relating to this responsibility are elaborated in section 5 below);
- (o) reviewed the implementation of the income distribution reinvestment plan in conjunction with the 2017 Third Interim Income Distribution of Axis-REIT, which was implemented and completed on 14 December 2017 with the issuance and listing of 2,153,212 new units of Axis-REIT on the Main Market of Bursa Malaysia Securities Berhad. The Audit Committee ensured the adequacy of the realised income for distribution prior to recommending the proposal to the Board; and
- (p) reviewed and recommended for the Board's approval, the Audit Committee Report and Statement on Risk Management and Internal Control for inclusion in the 2016 Annual Report of Axis-REIT issued in February 2017, ensuring that these reports contained informative and meaningful disclosures in line with prescribed regulatory requirements.

5. Review of Related Party Transactions

The Manager is guided by the SC's Guidelines on Real Estate Investment Trusts in handling all related party transactions. The Audit Committee reviews all proposed related party transactions prior to making recommendations to the Board of Directors and it has the duty to ensure that all related party transactions are:

- (a) carried out at arm's length;
- (b) transacted in the best interest of the Unitholders;
- (c) in relation to real estate transactions:
 - transacted at a price that is equivalent to the value assessed in the valuation report;
 - consented by the Trustee of Axis-REIT; and
 - consistent with the investment objectives and strategy of Axis-REIT
- (d) adequately disclosed to Unitholders.

The Audit Committee reviews the terms of the transactions and makes enquiries with Management before concluding if the proposed related party transactions presented to the Audit Committee meet the requirements stated above. If any Audit Committee member is an interested party, such member will abstain from deliberation

AUDIT COMMITTEE REPORT

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and voting on the proposed related party transaction under review. Once satisfied that the proposed related party transaction meets the prescribed requirements, a recommendation will then be made to the Board of Directors for consideration and approval.

Following the recommendation of the Audit Committee, the Board will deliberate on the proposed related party transaction and it is also obliged to ensure that the proposed related party transaction satisfies the criteria mentioned above. The nature of interest will be fully disclosed by the interested Director and such declaration will be recorded in the minutes of meeting by the Company Secretary. Such interested Directors will also abstain from deliberation and voting at Board level. Where appropriate, the Manager will seek the consent or approval from Axis-REIT's Trustee and in respect of related party transactions involving real estate, and the Manager will seek a written confirmation from the Trustee that the proposed related party transaction is based on normal commercial terms, at arm's length, and not prejudicial to the interests of the Unitholders.

All Directors are required to provide declaration letters of their interest and disclosure of conflict of interest situation(s) on a quarterly basis, and all declarations are documented and kept in the statutory records of the Manager.

6. Relationship with the External Auditors and Internal Auditors

The Board of Directors, via the Audit Committee, maintains a formal and transparent relationship with the External Auditors as well as the Internal Auditors. The Audit Committee has direct and unrestricted access to both the External and Internal Auditors. The Audit Committee had, during the year, met twice, on 18 January 2017 and 23 October 2017, with the External Auditors without the presence of Management, to discuss issues, problems and reservations (if any) that the External Auditors wished to highlight to the Committee. A private session was also held between the Audit Committee and the Internal Auditors on 23 October 2017 for the same purpose.

Both the External and Internal Auditors had been extended good cooperation from the Management and they were able to access information to carry out their functions effectively.

7. Annual Assessment of the Audit Committee

The Audit Committee assessed its own performance against the Terms of Reference of the Audit Committee by completing the assessment form prepared by the Company Secretary prior to the assessment by the Nomination Committee of the Board. The assessment results were satisfactory to the Nomination Committee and the same was subsequently reviewed by the Board. The Board, upon due assessment, was satisfied that each member of the Audit Committee and the Audit Committee as a whole, had carried out their duties diligently and effectively in accordance with the Audit Committee's Terms of Reference.

8. Internal Audit Function

The internal audit function of the Manager is outsourced to an independent consultancy firm, Baker Tilly Monteiro Heng Governance Sdn Bhd. The outsourced Internal Auditors have the professional duty to assist the Board to review the system of internal control, risk management and governance practices of the Manager in managing Axis-REIT. Where necessary, the Internal Auditors, upon completion of the audit cycle, may make recommendations for improvements to the existing processes and procedures. Their internal audit scope (risk driven approach) encompasses financial control review, compliance review, risk assessment and governance review on the identified auditable areas. The annual internal audit plan is tabled to the Audit Committee for approval prior to commencement of audit work.

Details of the internal audit activities are contained in the Statement on Risk Management and Internal Control and details relating to the assessment of the effectiveness and independence of the internal audit function are disclosed in the Corporate Governance Statement.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Pursuant To Paragraph 15.26(B) Of The Main Market Listing Requirements

Introduction

The Board of Directors ("Board") of Axis REIT Managers Berhad, being the management company ("Manager") of Axis Real Estate Investment Trust ("Axis-REIT" or "Fund") is committed to maintaining a sound and effective system of internal control to safeguard the interests of the Unitholders of Axis-REIT and the investments and assets of Axis-REIT. The Board is ultimately responsible for the risk management and internal control systems of the Manager in managing Axis-REIT and it is assisted by the Audit Committee of the Manager who has the delegated function to oversee these areas.

KEY ELEMENTS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Operations Manual

The Manager has policies and procedures encapsulated in the Operations Manual that are tailored to the needs of the respective departments, which provide an overview of the Manager's responsibilities in relation to the management of Axis-REIT. The Management team of the Manager is committed to being guided by the Operations Manual and this ensures consistency of operational procedures and practices within the organisation.

Financial Controls and Business Management

The Board of the Manager had at its meeting held in January 2017, approved the annual budget for the financial year ended 31 December 2017 ("FYE2017"), which underwent a target-setting process carried out by each department with detailed reviews at all levels of operation. The Manager had been guided by the approved budget in managing Axis-REIT throughout FYE2017. Monthly financial updates had also been provided to the Directors in order to give timely assessment of the Fund's performance and prospects. Management closely monitors the actual financial performance of Axis-REIT on a monthly basis. The Manager is still committed to the implementation of the 2021 Strategy Plan which encompasses the Manager's long term 5-year initiatives for Axis-REIT in the pursuit of its corporate objectives. The Manager has in this current financial year under review, embarked on a corporate branding exercise aimed at establishing an official corporate identity for Axis-REIT and to position Axis-REIT for competitiveness in the industry.

The Manager also has a policy on financial limits and approving authority for its operating and capital expenditure. All major operating and capital expenditure in respect of FYE2017 had been recommended by the Executive Committee of the Manager and approved by the Board of the Manager prior to implementation. There has been no change in the authority limits established by the Manager in respect of FYE2017.

Management meetings chaired by the Chief Executive Officer ("CEO") and attended by all heads of departments ("HOD") were held to review operational activities, management issues, financial performance and business development proposals, including the deliberation of relevant strengths, weaknesses, opportunities and threats faced by the Manager in managing Axis-REIT. Separate operation meetings attended by the facilities, project and leasing teams were held as and when needed to review and discuss the facilities and project management issues in relation to all the properties within the Fund's portfolio.

The Executive Committee of the Manager met with the senior management team on a quarterly basis to review, assess and discuss business updates, investment proposals, financial performance and to resolve key operational, financial and other key management issues faced by the senior management team during FYE2017. Significant issues were highlighted and discussed at Board meetings for the Board's ultimate decisions.

The Yardi Voyager system, which is a synchronised platform for capturing and processing data covering tenant and debt management, payment processing, financial reporting, advanced budgeting and finance as well as job costing, is being improved and tested annually to ensure that the processes are effective in ensuring timely generation of accurate information for management action and decision-making, operationally and financially. The operating effectiveness of the Yardi Voyager system is subject to annual testing and review, and such tests are carried out by independent auditors appointed by Yardi Systems Inc, the service provider.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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During the year, the Manager had implemented e-payment or interbank Giro payments to reduce usage of physical cheques in order to mitigate the risk of fraudulent cheques.

In order to ensure compliance with Goods and Services Tax ("GST"), the Manager had engaged a professional consultant to carry out GST compliance review (post implementation of GST) on the processes put in place by the Manager. Management had reported to the Board that the compliance review results were satisfactory and the Manager had acted upon areas for improvement accordingly.

In accordance with the Manager's capital management strategy, a total of RM265 million in nominal value Islamic Medium Term Notes ("Sukuk"), pursuant to an Islamic Medium Term Notes Programme ("Sukuk Programme") of up to RM3 billion in nominal value with perpetual tenure had been issued in 2012 and 2013 via Axis-REIT's wholly-owned subsidiary, Axis REIT Sukuk Berhad. The Sukuk provided Axis-REIT a blended financing rate of 4.13% (5 & 7 years) to 4.61% (10 years) per annum and reduced Axis-REIT's exposure to short term financing.

There has been no new issuance under the Sukuk Programme as at the date of this Annual Report. The Manager reviews the market conditions and Axis-REIT's financing needs on a quarterly basis in determining its capital management strategy.

Pursuant to the Manager's capital management strategy, the Manager had successfully implemented and completed the placement of 125 million new units on 28 November 2017, which was exercised from the general mandate to issue new units obtained from the Unitholders of Axis-REIT. The net proceeds raised from this placement would pare down the borrowings of Axis-REIT. Further details on the placement are set out in the Financial Review.

Investment Controls

The Board of the Manager reviews, evaluates and decides on strategic investment proposals covering acquisitions and disposals as recommended by the Executive Committee of the Manager. The Manager has in place systematic procedures to identify potential acquisitions and assess the viability of the proposed acquisitions prior to recommending them to the Board for consideration and decision. Due diligence processes are also in place to ensure that Axis-REIT acquires yield-accretive assets that will enhance the property portfolio of the Fund. Disposal processes are also in place to ensure that the interests of the Unitholders of Axis-REIT are safeguarded at all times post disposal. Management also monitors the performance of each property in the portfolio of Axis-REIT, on a quarterly basis, in terms of property yield, portfolio efficiency and occupancy levels.

During the year under review, the Manager had embarked on the second proposed built-to-suit project with a proposed sub-lease of a parcel of vacant land in Subang, which is within the upcoming Malaysia International Aerospace Centre Technology Park, Sultan Abdul Aziz Shah Airport. This proposal undertaken by the Manager on behalf of Axis-REIT, underwent the requisite due diligence process in order to ensure that risks associated with such a project are identified and addressed and that the relevant applicable rules are complied with.

Tenant Relationship Management

The Manager had also implemented the "Hello Axis" tenant management portal which is an online customized customer relationship management tool that facilitates announcements, general feedback, property maintenance and form downloads by tenants. This is to reduce the manual paper flow between landlord and tenant and is a green initiative towards environmental sustainability. This tenant management portal also provides a platform for the facilities and leasing teams to track feedbacks and complaints from tenants; to address and rectify issues raised by tenants; and to ensure that action plans and the follow up activities are carried out to a satisfactory level.

Risk Management and Risk Register

Risk management is part of Management's day-to-day operations that facilitates the timely response to evolving business risks, whether arising from factors within Axis-REIT or from changes in the business environment in which

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Axis-REIT operates. The Manager has in place a Risk Register that assists Management in its risk management processes to identify risks, consider the likelihood of a risk occurring and the impact if a particular risk materialises and the action plans to mitigate the identified risks.

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The Risk Register which is the result of the Manager's execution of the risk management processes adopted by the Manager, follows the relevant guidance from the International Standards Organization (ISO) 31000 – Risk Management-Principles & Guidelines. The diagram below shows the risk management processes as encapsulated in the procedures underlying the Risk Register:



The Manager carried out a quarterly update of the Risk Register which focuses on business, real estate management, financial, compliance, information technology and risk management system. The Risk Register segregates risk areas based on departmental components. All HODs are responsible for their respective risk components and report directly to the CEO on risk issues and mitigating factors. Updates were made to the Risk Register on a quarterly basis capturing data arising from management analysis, management action plans and monitoring activities undertaken by each HOD on an on-going basis. All updates are compiled by the Head of Compliance, who assists the CEO in this area, for reporting purposes and the Risk Management Report comprising the executive summary and the detailed Risk Register are presented to the Audit Committee and Board at their quarterly meetings. The Audit Committee reviewed the Risk Management Report at each of its meeting held in FYE2017 and the same was tabled to the Board.

The Risk Register captured the following major updates during FYE2017:

- Formulation of the Cyber Risk Policy & Procedures to address and mitigate risks caused by cyber incidents/ crimes. This was established pursuant to the Guidelines on Management of Cyber Risk issued by the Securities Commission Malaysia on 31 October 2016 and the Cyber Risk Policy & Procedures was approved and adopted by the Board on 18 January 2017;
- Assessment was carried out on the effectiveness of the information technology ("IT") support system of the Manager and a change of the IT service provider had been effected during FYE2017 with the aim of strengthening the IT support with better expertise;
- Inclusion of the new Companies Act 2016 which became effective on 31 January 2017 replacing in its entirety the Companies Act 1965, as a new area of concern and management action plans were put in place to ensure that the Directors, Head of Compliance and other relevant officers of the Manager are kept abreast on the latest provisions of the said new Act, where applicable;
- Incorporation of a new component into the Risk Register, namely, Marketing and Branding, which covers risks and controls relating to marketing activities and the promotion of the spaces in the property portfolio. The branding component outlines the management action plans towards building a strong image for the Manager and Axis-REIT. In line with the corporate branding exercise, the Manager had also applied to the relevant authority for the trademark of logos;
- Establishment of a new communication platform with the tenants of Axis-REIT i.e. Hello Axis, a tenant management portal as described above; and
- Enhancement made to building security and safety controls by changing to a new security service provider where emphasis was placed on quality of service.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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The entire Risk Register and the risk management processes practiced by the Manager had been reviewed by the out-sourced independent internal auditor firm ("Internal Auditors") during the May/June 2017 audit cycle. This exercise was carried out in order to ensure that the Risk Register is up-to-date and the risk management practices are relevant and effective.

Internal Audit Function and its Activities

Based on the agreed internal audit plan, the outsourced Internal Auditors had assisted the Manager in reviewing the internal control systems relating to Axis-REIT's operations, procedures and processes. Follow-up reviews were carried out to ensure that the agreed action plans were implemented. The Internal Auditors had reviewed and reported the results of the audit to the Audit Committee on the following internal audit work carried out during FYE2017:

- Internal audit review on asset acquisition and disposal processes as stipulated in the Operations Manual. Pursuant to this audit, it was recommended that the Investment team of the Manager maintain a comprehensive register to keep record of shortlisted real estate acquisitions which are under consideration, for future reference and improvement purposes;
- Internal audit review on the adequacy and sufficiency of the Operations Manual in view of the implementation of GST;
- Internal audit review on rental or lease procedures, facilities management and Takaful insurance arrangement. Pursuant to this audit, efforts were made to improve facilities management and one of the management action plans is to conduct annual evaluation on suppliers/contractors in order to ensure the effectiveness of their performance and quality of services rendered;
- Internal audit review on risk management procedures and practices adopted by the management and tenant relationship management. Arising from this audit, improvements had been made to the Risk Register as reported above. As for the tenant management portal, Hello Axis, additional key performance indices were introduced into the system to better manage the timeliness and effectiveness of the service delivery to tenants, based on recommendations from the Internal Auditors; and
- Internal audit review on IT security controls of the Manager and recommendations had been made by the Internal Auditors to improve certain aspects of the existing IT security controls.

The costs incurred by the Manager for the outsourced Internal Audit Function in respect of FYE2017 amounted to RM61,500.

The Audit Committee, in its review of this Statement, was satisfied that there were no significant control deficiencies noted during the financial year under review that had a material impact on Axis-REIT's financial performance or business operations.

Appraisal of the System of Risk Management and Internal Controls

The Board of the Manager had appraised the adequacy, effectiveness and integrity of the system of risk management and internal controls framework which has been in place during the financial year under review up to the date of approval of this Statement. The Board of the Manager has received assurance from the CEO and Chief Financial Officer that the risk management and internal control systems set in place by the Manager, in relation to managing the operations of Axis-REIT, is operating adequately and effectively, in all material aspects.

Review of This Statement

The Board of the Manager has ensured that this Statement is reviewed in accordance with Paragraph 15.23 of the Main Market Listing Requirements for inclusion in the annual report of Axis-REIT for FYE2017.

This Statement has been tabled and approved by the Board on 23 January 2018.

OTHER INFORMATION

Directors' Benefits

For FYE2017, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Fund or a related corporation with the Director, or with a firm in which the Director is a member, or with a company in which the Director has a substantial financial interest except as disclosed in Note 25 of the financial statements of Axis-REIT.

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

Manager's Fees

The Manager receives a fee of 1.0% per annum of the NAV of Axis-REIT, calculated on a monthly basis and payable to the Manager monthly in arrears. There will be no payment due to the Manager by way of remuneration for its services upon the subscription for the purchase or sale of Axis-REIT Units or upon any distribution of income and capital.

Any increase in the Manager's fees above 1.0% per annum must be approved by the Trustee and Unitholders by way of a majority resolution (consisting of not less than 2/3 of the Unitholders voting thereat) passed at a Unitholders' Meeting convened in accordance with the Deed.

For the year under review, the total Manager's fee was RM14,278,494, representing 1.0% per annum of the NAV of Axis-REIT for the period from 1 January 2017 to 31 December 2017. The Manager did not receive any soft commissions during the period.

The Manager is also entitled to an acquisition and disposal fee of 1.0% and 0.5% respectively based on the purchase and disposal consideration price of the real estate assets upon the completion of the acquisition and disposal. For the period under review, there were two acquisitions and one disposal successfully completed by Axis-REIT, which resulted in a fee of RM1,530,000 and RM280,660 respectively being paid to the Manager.

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

Other Information

Before the financial statements of Axis-REIT were issued, 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:

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

OTHER INFORMATION

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

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

No contingent liability or other liability of Axis-REIT has become enforceable, or is likely to become enforceable within the period of 12 months after the end of the financial period which, in the opinion of the Manager, will or may substantially affect the ability of Axis-REIT to meet its obligations as and when they fall due.

In the opinion of the Manager, the results of the operations of Axis-REIT for FYE2017 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, KPMG PLT, have indicated their willingness to accept re-appointment.

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

Tew Peng Hwee @ Teoh Peng Hwee

Director

Leong Kit May

Chief Executive Officer/Executive Director

Kuala Lumpur

13 February 2018

DIRECTORS' RESPONSIBILITY STATEMENT

IN PREPARING THE ANNUAL AUDITED FINANCIAL STATEMENTS

In accordance with Paragraph 15.26(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of Axis REIT Managers Berhad, the management company of Axis Real Estate Investment Trust ("Axis-REIT"), is pleased to report that the financial statements of Axis-REIT for the financial year ended 31 December 2017 have been drawn up in accordance with the provisions of the Third Principal Deed constituting Axis-REIT dated 28 November 2013, the Securities Commission's ("SC") Guidelines on Real Estate Investment Trusts ("REITs"), the SC's Guidelines for Islamic REITs, applicable securities laws and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of Axis-REIT as at 31 December 2017 and of the results of its operations and cash flows for the year then ended. The Directors have:

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

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

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STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 RM'000	2016 RM'000
Assets			
Non-current assets			
Investment properties	4	2,482,200	2,143,149
Equipment	5	2,477	2,899
		2,484,677	2,146,048
Current assets			
Receivables, deposits and prepayments	6	30,063	9,934
Cash and cash equivalents	7	34,869	33,292
		64,932	43,226
Asset classified as held for sale	8	-	55,000
		64,932	98,226
Total current assets		64,932	98,226
Total assets		2,549,609	2,244,274
Financed by:			
Unitholders' funds			
Unitholders' capital		1,240,253	1,060,320
Reserves		350,883	332,651
Total unitholders' funds	9	1,591,136	1,392,971
Non-current liabilities			
Tenants' deposits	10	43,998	46,417
Financing	11	245,830	330,854
		289,828	377,271
Current liabilities			
Payables and accruals	10	71,881	24,221
Financing	11	596,764	449,811
Total current liabilities		668,645	474,032
Total liabilities		958,473	851,303
Total unitholders' funds and liabilities		2,549,609	2,244,274
Net asset value ("NAV")		1,591,136	1,392,971
Number of units in circulation ('000 units)		1,232,327	1,105,174
NAV per unit (RM)			
- Before income distribution		1.2912	1.2604
- After income distribution		1.2820 [#]	1.2394

NAV per unit after reflecting realised income to be distributed as final 2017 income distribution of 0.92 sen per unit payable on 28 February 2018.

The notes on pages 190 to 230 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

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	Note	2017 RM'000	2016 RM'000
Gross revenue			
- realised		167,761	166,685
- unrealised (in relation to unbilled lease income receivable)		4,954	4,655
Property operating expenses	12 13	172,715 (26,512)	171,340 (27,048)
Net property income		146,203	144,292
Profit income		984	678
Net loss on disposal of investment property		(419)	-
Change in fair value of investment properties			
- as per valuation	4	30,395	29,861
- unbilled lease income receivable		(4,954)	(4,655)
Fair value change on derivatives		206	(201)
Net gain on financial liabilities measured at amortised cost		1,163	2,446
Net property and investment income		173,578	172,421
Manager's fees	1(b)	14,278	13,745
Trustee's fees	1(c)	755	730
Auditor's fees			
- audit		121	116
- other services		15	5
Tax agent's fees		15	14
Net (reversal of impairment losses)/impairment losses on trade receivables		(369)	155
Bad debts written off		-	319
Depreciation of equipment	5	422	422
Administrative expenses		2,518	1,777
Islamic financing costs		32,453	32,004
Valuation fees		810	842
Non-property expenses		51,018	50,129
Net income before tax		122,560	122,292
Income tax expense	14	-	-
Net income for the year attributable to unitholders		122,560	122,292
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year attributable to unitholders		122,560	122,292
Net income for the year is made up as follows:			
Realised		90,796	90,186
Unrealised			
- Unrealised rental income (in relation to unbilled lease income receivable)		4,954	4,655
- Change in fair value of investment properties			
- as per valuation	4	30,395	29,861
- unbilled lease income receivable		(4,954)	(4,655)
- Net gain on financial liabilities measured at amortised cost		1,163	2,446
Fair value change on derivatives		206	(201)
		31,764	32,106
		122,560	122,292

	Note	2017 RM'000	2016 RM'000
Earnings per unit (sen)	15	10.97	11.09
Number of units in circulation ('000 units)		1,232,327	1,105,174
Earnings per unit (before Manager's fees)			
- Gross (sen)		12.25	12.34
- Net (sen)		12.25	12.34
Net income distribution			
First, Second and Third interim income distributions totalling 6.32 sen per unit paid on 31 May 2017, 30 August 2017 and 13 December 2017 (2016: 6.15 sen per unit paid on 16 June 2016, 9 September 2016 and 30 November 2016). Fourth interim income distribution amounting 1.02 sen paid on 22 December 2017 (2016: Nil).		81,119	67,858
Final income distribution of 0.92 sen per unit payable on 28 February 2018 (2016: 2.10 sen per unit payable on 28 February 2017)		11,338	23,209
	16	92,457	91,067
	Note	2017	2016
Distribution per unit			
- Gross (sen) - interim		7.34	6.15
- final		0.92	2.10
	16	8.26	8.25
- Net (sen) * - interim		7.34	6.15
- final		0.92	2.10
	16	8.26	8.25

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

	Withholding tax rate	
	2017	2016
Resident corporate	N/A [^]	N/A [^]
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	24%	24%
Non-resident institutional	10%	10%

[^] to tax at prevailing rate

The notes on pages 190 to 230 are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSET VALUE

For the year ended 31 December 2017

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	Total unitholders' capital RM'000	Distributable		Total unitholders' funds RM'000
		Realised income RM'000	Non-distributable Unrealised income RM'000	
At 1 January 2016	1,052,272	19,036	281,177	1,352,485
Net income for the year	-	90,186	32,106	122,292
Total comprehensive income for the year	-	90,186	32,106	122,292
<i>Contributions by and distributions to unitholders</i>				
Issuance and placement of units	8,071	-	-	8,071
Issuing expenses	(23)	-	-	(23)
Distributions to unitholders	-	(89,854)	-	(89,854)
Total transactions with unitholders	8,048	(89,854)	-	(81,806)
At 31 December 2016/1 January 2017	1,060,320	19,368	313,283	1,392,971
Net income for the year	-	90,796	31,764	122,560
Realisation of unrealised income	-	1,764	(1,764)	-
Total comprehensive income for the year	-	92,560	30,000	122,560
<i>Contributions by and distributions to unitholders</i>				
Issuance and placement of units	181,958	-	-	181,958
Issuing expenses	(2,025)	-	-	(2,025)
Distributions to unitholders	-	(104,328)	-	(104,328)
Total transactions with unitholders	179,933	(104,328)	-	75,605
At 31 December 2017	1,240,253	7,600	343,283	1,591,136

Note 9

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Cash flows from operating activities			
Net income before tax		122,560	122,292
<i>Adjustments for:</i>			
Islamic financing costs		32,453	32,004
Profit income		(984)	(678)
Net loss on disposal of investment property		419	-
Change in fair value of investment properties	4	(30,395)	(29,861)
Depreciation of equipment	5	422	422
Net gain on financial liabilities measured at amortised cost		(1,163)	(2,446)
Net (reversal of impairment losses)/impairment losses on trade receivables		(369)	155
Bad debts written off		-	319
Fair value change on derivatives		(206)	201
Amortisation of transaction costs		247	-
Operating income before changes in working capital		122,984	122,408
Changes in working capital:			
Receivables, deposits and prepayments		(19,760)	48,822
Payables and accruals		39,850	7,574
Tenants' deposits		6,760	8,115
Net cash from operating activities		149,834	186,919
Cash flows from investing activities			
Profit income received		984	678
Acquisition of investment properties	4	(155,660)	(104,718)
Net proceeds from disposal of investment property		54,581	-
Acquisition of equipment	5	-	(25)
Enhancement of investment properties	4	(152,996)	(14,638)
Decrease/(Increase) in pledged deposits		1,462	(421)
Net cash used in investing activities		(251,629)	(119,124)
Cash flows from financing activities			
Islamic financing cost paid		(32,453)	(32,004)
Net proceeds from financing		61,993	49,247
Repayment of finance lease liabilities		(311)	(396)
Income distribution paid to unitholders		(104,328)	(89,854)
Proceeds from issue of units		181,958	8,071
Issuing expenses	17	(2,025)	(23)
Net cash from/(used in) financing activities		104,834	(64,959)
Net increase in cash and cash equivalents		3,039	2,836
Cash and cash equivalents at 1 January		19,998	17,162
Cash and cash equivalents at 31 December	(i)	23,037	19,998

(i) **Cash and cash equivalents**

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

	Note	2017 RM'000	2016 RM'000
Cash and bank balances	7	10,028	13,896
Islamic deposits placed with licensed banks	7	24,841	19,396
		34,869	33,292
Less: Islamic deposits placed with licensed banks - pledged	7	(11,832)	(13,294)
		23,037	19,998

The notes on pages 190 to 230 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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1. GENERAL

Axis Real Estate Investment Trust ("Axis-REIT") is a Malaysia-domiciled real estate investment trust constituted pursuant to the Third Principal Deed dated 28 November 2013 ("the Deed") between Axis REIT Managers Berhad ("the Manager") and RHB Trustees Berhad ("the Trustee"). The Deed is regulated by the Securities Commission Act, 1993, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, the Listing Requirements of Bursa Malaysia Securities Berhad, the Rules of the Depository and taxation laws and rulings. Axis-REIT will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of Clause 26 of the Deed. The addresses of its registered office and principal place of business are as follows:

Registered office	Principal place of business
Level 7, Menara Milenium Jalan Damanlela Pusat Bandar Damansara Damansara Heights, 50490 Kuala Lumpur	Penthouse, Menara Axis No. 2, Jalan 51A/223 46100 Petaling Jaya Selangor Darul Ehsan

The financial statements as at and for the financial year ended 31 December 2017 comprise the financial statements of Axis-REIT and its wholly owned subsidiary, Axis REIT Sukuk Berhad, a company incorporated in Malaysia, whose principal activity is to raise financing on behalf of Axis-REIT.

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

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

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

(a) Property management fees

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

(b) Manager's fees

Pursuant to the Deed, the Manager is entitled to receive a fee of up to a maximum of 1% (2016: 1%) per annum of the Net Asset Value of Axis-REIT, calculated on a monthly accrual basis and payable monthly in arrears. The Manager's fees for the year ended 31 December 2017 of RM14,278,494 (2016: RM13,744,725) is 1% (2016: 1%) of the monthly Net Asset Value.

The Manager is also entitled to receive an acquisition fee or a disposal fee of 1% or 0.5% (2016: 1% or 0.5%) of the purchase price or the disposal price, respectively, of any investment property purchased or disposed directly or indirectly by Axis-REIT which is payable after the completion of the acquisition or the disposal. The acquisition fees for the financial year ended 31 December 2017 is RM1,530,000 (2016: RM1,030,000) which was 1% of the purchase price. The acquisition fees are included in the acquisition cost of the investment properties acquired (Note 4).

The disposal fee for the year ended 31 December 2017 of RM280,660 (2016: nil) is 0.5% of the disposal price.

1. GENERAL (CONTINUED)

(c) Trustee's fees

Pursuant to the Deed, the Trustee is entitled to receive a fee of 0.05% (2016: 0.05%) per annum of the Net Asset Value of Axis-REIT calculated on a monthly accrual basis and payable monthly in arrears. The Trustee's fees for the year ended 31 December 2017 is RM755,300 (2016: RM729,985).

These financial statements were approved by the Board of Directors of the Manager on 13 February 2018.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of Axis-REIT have been prepared in accordance with provisions of the Deed, the Securities Commissions' Guidelines on Real Estate Investments Trusts, applicable securities laws, Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

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2. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018 except for amendments to MFRS 1, 2, 4, 128 and IC Interpretation 22 which are not applicable to Axis-REIT.
- and from the annual period beginning on 1 January 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for amendments to MFRS 11 and 128 which are not applicable to Axis-REIT.

MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 is not applicable to Axis-REIT.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of Axis-REIT except as mentioned below:

(i) **MFRS 15, Revenue from Contracts with Customers**

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

In the implementation of MFRS 15, Axis-REIT has preliminarily assessed and does not expect the impact to be material.

(ii) **MFRS 9, Financial Instruments**

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

There are no changes in measurement of financial assets of Axis-REIT based on assessment undertaken to date. In respect of impairment of financial assets, MFRS 9 replaces the "incurred loss" model in MFRS 139 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments.

Axis-REIT has assessed the estimated impact that the initial application of MFRS 9 model will have on its financial statements as at 1 January 2018 and based on preliminary assessment undertaken to date, Axis-REIT does not expect the impact to be material.

2. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

(iii) MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, *IC Interpretation 4, Determining whether an Arrangement contains a Lease*, *IC Interpretation 115, Operating Leases – Incentives and IC Interpretation 127, Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

Axis-REIT is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except as otherwise stated in the financial statements.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

Axis-REIT has established a special purpose company, Axis REIT Sukuk Berhad, for the purpose of raising financing on behalf of Axis-REIT. Axis REIT Sukuk Berhad is consolidated as if it is a subsidiary of Axis-REIT.

Subsidiaries are entities, including structured entities, controlled by Axis-REIT. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Axis-REIT controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. Axis-REIT also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the financial statements of Axis-REIT.

(b) Financial instruments

(i) Initial recognition and measurement

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

Axis-REIT categorises financial instruments as follows:

Financial assets

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

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

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

(b) Loans and receivables

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

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

Axis-REIT does not have or provide any loans.

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

Financial liabilities

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

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

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

(iii) Derecognition

A financial asset or a part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset is transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(iii) Derecognition (continued)

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Investment properties

Investment properties carried at fair value

Investment properties are properties which are owned under a freehold interest or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(d) Equipment

(i) Recognition and measurement

Items of equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

The gain and loss on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of equipment and is recognised net within profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Equipment (continued)

(ii) Subsequent costs

The cost of replacing a component of an item of equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to Axis-REIT, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of equipment. The estimated useful lives for the current and comparative periods are as follows

- | | |
|--|----------|
| • Office equipment, furniture and fittings | 10 years |
| • Car park machines | 10 years |
| • Software | 10 years |

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(e) Leases

(i) Finance lease

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

Leasehold land which in substance is a finance lease is classified as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

Leases, where Axis-REIT does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on Axis-REIT's statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and Islamic deposits placed with banks and highly liquid Shariah-compliant investments which have an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged Islamic deposits, if any.

(g) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account. Axis-REIT does not have or provide any loans.

(ii) Other assets

The carrying amounts of other assets (except for investment properties that are measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

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

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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(h) Asset held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets are remeasured in accordance with the applicable accounting policies. Thereafter, on initial classification as held for sale, the assets are measured at the lower of carrying amount and fair value less cost to sell. Any differences are charged to the profit or loss.

(i) 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.

(j) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issuing expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Units

Units are classified as equity.

(k) Revenue

(i) Rental income

Rental income consists of income from the letting of investment properties including land lots and car parks, and other associated income.

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(ii) Profit income

Profit income is recognised as it accrues using the effective profit method in profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Expenses

(i) Property expenses

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

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

(ii) Manager's fees

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

(iii) Trustee's fees

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

(iv) Islamic financing costs

Islamic financing costs incurred in connection with financing are expensed using the effective profit method, in the period in which they are incurred.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 3(c), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Income tax (continued)

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

(n) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, Axis-REIT uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that Axis-REIT can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

Axis-REIT recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

4. INVESTMENT PROPERTIES

	2017 RM'000	2016 RM'000
Land and buildings at fair value:		
At 1 January	2,143,149	2,048,626
Acquisitions	155,660	104,718
Enhancements #	152,996	14,638
Change in fair value	30,395	29,861
Reclassification from equipment	-	306
Reclassification as asset held for sale	-	(55,000)
At 31 December	2,482,200	2,143,149

Included in the enhancements is RM143,623,000 (2016: RM3,600,000) which relates to the development costs incurred for Nestle Distribution Centre at Axis Mega Distribution Centre (formerly known as Axis PDI Centre), of which RM2,097,725 (2016: Nil) is related to capitalisation of borrowing cost.

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4. INVESTMENT PROPERTIES (CONTINUED)

2017

Description of property	Tenure of land (Years)	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at		Fair value as at 31.12.2017 RM'000	Initial acquisition cost as at 31.12.2017 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2017 %	
						31.12.2017 %	31.12.2017 %			31.12.2017 %	31.12.2017 %
Menara Axis ** ~ ~ ~	Leasehold	99	48	Petaling Jaya	Commercial office	86.4	123,600	71,440	7.8		
Crystal Plaza * ~ ~ ~	Leasehold	99	42	Petaling Jaya	Commercial office	81.4	112,000	56,400	7.0		
Axis Business Park *** ~ ~ ~	Leasehold	99	43	Petaling Jaya	Office/Industrial	59.2	120,000	84,600	7.5		
Infinite Centre * ~	Leasehold	99	48	Petaling Jaya	Office/Industrial	62.8	42,000	25,450	2.6		
Wisma Kemajuan ## ~	Leasehold	99	48	Petaling Jaya	Office/Industrial	83.67	64,100	29,192	4.0		
Axis Business Campus ^ ^ ^ ~	Leasehold	99	50	Petaling Jaya	Office/Industrial	26.2	73,700	32,681	4.6		
Axis Shah Alam DC 1 ### ~	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	31,500	18,783	2.0		
Giant Hypermarket ^ ~	Freehold	-	-	Sungai Petani	Hypermarket	100.0	46,000	38,678	2.9		
FCI Senai ### ~	Leasehold	60	50	Senai, Johor	Manufacturing facilities	100.0	20,000	12,538	1.3		
Fonterra HQ ***	Freehold	-	-	Shah Alam	Office/Industrial	84.9	16,700	7,352	1.0		
Quattro West * ~ ~ ~	Leasehold	99	55	Petaling Jaya	Commercial office	50.2	55,800	40,376	3.5		
Strateq Data Centre ### ~	Leasehold	99	51	Petaling Jaya	Office/Industrial	100.0	57,000	37,549	3.6		
D21 Logistics Warehouse ^ ^ y (formerly known as BMW Centre PTP)	Leasehold	60	38	Tanjung Pelepas	Warehouse/Logistics	-	29,000	27,470	1.8		
Niro Warehouse #	Leasehold	60	34	Pasir Gudang	Warehouse/Logistics	100.0	19,000	14,811	1.2		
Pasir Gudang Logistic Warehouse 1# (formerly known as Delfi Warehouse)	Leasehold	60	50	Pasir Gudang	Warehouse/Logistics	100.0	16,000	12,743	1.0		
Axis Vista ## ~ ~	Leasehold	99	49	Petaling Jaya	Office/Industrial	100.0	56,300	32,481	3.5		
Axis Steel Centre # ~ ~	Leasehold	99	85	Klang	Warehouse/Logistics	100.0	70,500	65,882	4.4		
Bukit Raja Distribution Centre * ~ ~	Freehold	-	-	Klang	Warehouse/Logistics	100.0	103,000	72,636	6.5		
Seberang Prai Logistic Warehouse 1 *** ~	Leasehold	60	36	Seberang Prai	Warehouse/Logistics	100.0	20,500	17,695	1.3		
Seberang Prai Logistic Warehouse 2 *** ~	Leasehold	60	36	Seberang Prai	Warehouse/Logistics	100.0	8,200	6,981	0.5		
Tesco Bukit Indah Δ ~ ~	Freehold	-	-	Johor Bahru	Hypermarket	100.0	97,000	76,750	6.1		
Axis Mega Distribution Centre* ~ (formerly known as Axis PDI Centre)	Leasehold	99	74	Kuala Langat	Warehouse/Logistics	-	261,000	86,146	16.4		

4. INVESTMENT PROPERTIES (CONTINUED)

2017

Description of property	Tenure of land (Years)	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at		Fair value as at 31.12.2017 RM'000	Initial acquisition cost as at 31.12.2017 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2017 %	
						31.12.2017 %	31.12.2017 %			31.12.2017 %	31.12.2017 %
Axis Technology Centre ## ~	Leasehold	99	50	Petaling Jaya	Office/Industrial	73.8	54,900	49,697	3.5		
D8 Logistics Warehouse # ~	Leasehold	60	38	Johor Bahru	Warehouse/Logistics	100.0	33,000	30,521	2.1		
Bayan Lepas Distribution Centre ## ~	Leasehold	60	45	Bayan Lepas	Warehouse/Logistics	100.0	60,000	49,471	3.8		
Seberang Prai Logistic Warehouse 3 ^	Leasehold	60	35/51	Seberang Prai	Warehouse/Logistics	100.0	66,000	60,139	4.1		
Emerson Industrial Facility Nilai * ~	Leasehold	99	78	Nilai	Manufacturing facilities	100.0	30,500	27,011	1.9		
Wisma Academy Parcel ** ~	Leasehold	99	45	Petaling Jaya	Office/Industrial	81.0	72,600	74,242	4.6		
The Annex ** ~	Leasehold	99	45	Petaling Jaya	Office/Industrial	100.0	19,600	12,289	1.2		
Axis MRO Hub ##	Leasehold	99	68	Shah Alam	Manufacturing facilities	100.0	53,000	53,357	3.3		
Axis Shah Alam DC 3 *	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	185,000	185,661	11.6		
Axis Steel Centre @ SILC Δ ~	Freehold	-	-	Nusajaya	Manufacturing facilities	100.0	157,000	155,950	9.9		
Axis Shah Alam DC 2 ##	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	46,600	45,781	2.9		
Beyonics i-Park Campus Block A Δ	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	14,700	14,470	0.9		
Beyonics i-Park Campus Block B Δ	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	13,400	13,116	0.8		
Beyonics i-Park Campus Block C Δ	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	12,200	11,933	0.8		
Beyonics i-Park Campus Block D Δ	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	22,800	22,504	1.4		
Scomi Facility @ Rawang **	Freehold	-	-	Rawang	Manufacturing facilities	100.0	44,000	42,696	2.8		
Kerry Warehouse **	Leasehold	60	56	Johor Bahru	Warehouse/Logistics	100.0	34,000	33,645	2.1		
Wasco Facility @ Kuantan ***	Leasehold	99	92	Kuantan	Manufacturing facilities	100.0	120,000	122,027	7.5		
Total							2,482,200	1,873,144			

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4. INVESTMENT PROPERTIES (CONTINUED)

- * Crystal Plaza, Infinite Centre, Quattro West, Bukit Raja Distribution Centre, Axis Mega Distribution Centre (formerly known as Axis PDI Centre), Emerson Industrial Facility Nilai and Axis Shah Alam DC 3 were valued on 5 December 2017, 4 December 2017, 5 December 2017, 30 November 2017, 29 December 2017, 29 November 2017 and 3 July 2017 respectively, by Savills (Malaysia) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ** Menara Axis, Wisma Academy Parcel, The Annex, Scomi Facility @ Rawang and Kerry Warehouse were valued on 7 December 2017, 4 December 2017, 27 November 2017, 4 December 2017 and 29 November 2017 respectively, by PA International Property Consultants (KL) Sdn Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation except for The Annex which uses the cost method of valuation.
- *** Axis Business Park, Fonterra HQ, Seberang Prai Logistics Warehouse 1, Seberang Prai Logistics Warehouse 2 and Wasco Facility @ Kuantan were valued on 5 December 2017, 13 December 2017, 5 December 2017, 5 December 2017 and 4 May 2017 respectively by Rahim & Co Chartered Surveyors Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- # Niro Warehouse, Pasir Gudang Logistic Warehouse 1 (formerly known as Delfi Warehouse), Axis Steel Centre and D8 Logistics Warehouse were valued on 5 December 2017, 6 December 2017, 12 December 2017 and 4 December 2017 respectively by C H Williams Talhar & Wong Sdn Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ## Wisma Kemajuan, Axis Vista, Axis Technology Centre, Bayan Lepas Distribution Centre, Axis MRO Hub and Axis Shah Alam DC 2 were valued on 20 November 2017, 5 July 2017, 11 December 2017, 17 August 2017, 30 June 2017 and 6 July 2017 respectively, by First Pacific Valuers Property Consultants Sdn Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ### Axis Shah Alam DC 1, FCI Senai and Strateq Data Centre were valued on 7 December 2017, 2 December 2017 and 29 November 2017 respectively, by KGV International Property Consultants (M) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.

4. INVESTMENT PROPERTIES (CONTINUED)

- [^] Giant Hypermarket and Seberang Prai Logistic Warehouse 3 were valued on 6 December 2017 and 4 July 2017 respectively, by Henry Butcher Malaysia (Penang) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment and cost methods of valuation.
- ^{^^} D21 Logistics Warehouse (formerly known as BMW Centre PTP) was valued on 28 December 2017 by PPC International Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^{^^^} Axis Business Campus was valued on 7 December 2017, by W.M. Malik & Kamaruzaman, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the cost method of valuation.
- ^Δ Tesco Bukit Indah, Axis Steel Centre @ SiLC and Beyonics I-Park Campus were valued on 29 November 2017, 28 August 2017 and 30 November 2017 and by Savills (Johor) Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- [~] These properties are charged to financial institutions for revolving credit and term financing facilities granted to Axis-REIT (Note 11).
- ^{~~} These properties are charged to the Sukukholders for Islamic Medium Term Notes ("Sukuk") of RM110.0 million in nominal value (Note 11).
- ^{~~~} These properties are charged to the Sukukholders for Sukuk of RM155.0 million in nominal value (Note 11).
- ^Υ Fixed land lease of 30 years until 23 March 2025 with an option to renew for a further term of 30 years.

Included in the acquisition cost of investment properties is RM1,530,000 (2016: RM1,030,000) which relates to acquisition fees paid to the Manager (Note 1(b)).

The following are recognised in profit or loss in respect of investment properties:

	Note	2017 RM'000	2016 RM'000
Gross revenue			
- realised		167,761	166,685
- unrealised (in relation to unbilled lease income receivable)		4,954	4,655
Property operating expenses	12	172,715	171,340
	13	(26,512)	(27,048)
Net property income		146,203	144,292

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4. INVESTMENT PROPERTIES (CONTINUED)

4.1 Fair value information

As at 31 December 2017, the fair value of investment properties amounting to RM2,482,200,000 (2016: RM2,143,149,000) is categorised as Level 3 in accordance to MFRS 13, using unobservable inputs.

Level 3 fair value

The following table shows a reconciliation of Level 3 fair values:

	2017 RM'000	2016 RM'000
At 1 January	2,143,149	2,048,626
Additions	308,656	119,662
Reclassification as asset held for sale	-	(55,000)
	2,451,805	2,113,288
Gains and losses recognised in profit or loss		
Change in fair value - unrealised	30,395	29,861
At 31 December	2,482,200	2,143,149

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
a) The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates to income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.	<ul style="list-style-type: none"> • Risk-adjusted capitalisation rates ranging from 6.50% - 7.50% (2016: 6.50% - 8.50%). • Risk-adjusted discount rate of 6.70% - 8.00% (2016: 6.70% - 8.00%). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Risk-adjusted capitalisation rates were lower (higher). • Risk-adjusted discount rates were lower (higher).

4. INVESTMENT PROPERTIES (CONTINUED)

4.1 Fair value information (continued)

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
<p>b) The comparison method considers the sales of similar or substitute properties and related market data, and establishes a value estimate by processes involving comparison. In general, the property being valued is compared with sales of similar properties that have been transacted in the open market. Listing and offering may also be considered. Valuation under this method may be significantly affected by the timing and the characteristics (such as location, accessibility, design, size and condition) of the property transactions used for comparison.</p>	<ul style="list-style-type: none"> There was no investment property being valued using comparison method in 2017 (2016: Adjusted land value ranging from RM200 per sq. ft. - RM370 per sq. ft. and weighted average value of RM389 per sq. ft.). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> Adjusted land value per sq. ft. was higher (lower). Weighted average value per sq. ft. was higher (lower).
<p>c) The cost method considers the summation of the value components of the land and cost of building. The value components of land are estimated based on location, plot size, accessibility and other relevant factors. The cost of building is determined based on current estimates of size, reconstruction cost less depreciation or replacement cost less depreciation, obsolescence and existing physical condition of the building. The reconstruction or replacement cost of building is derived from estimates of current market prices for materials, labour and present construction techniques. Valuation under this method may be significantly affected by the location of the property and the market prices for materials and labour.</p> <p>There were three properties which were revalued under cost method in 2017 (2016: two properties).</p>	<ul style="list-style-type: none"> Land value ranging from RM41 per sq. ft. (2016: RM87 per sq. ft.) to RM250 per sq. ft. (2016: RM235 per sq. ft.). Main floor area cost ranging from RM70 per sq. ft. (2016: RM130 per sq. ft.) to RM160 per sq. ft. (2016: RM150 per sq. ft.). Depreciation rates ranging from 24% (2016: 24%), to 50% (2016: 45%). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> Land value were higher (lower). Main floor area cost were higher (lower). Depreciation rates were lower (higher).

Valuation processes applied by Axis-REIT for Level 3 fair value

The fair value of investment properties is determined by external, independent property valuers approved by the Securities Commission, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. A valuation is carried out on each property within Axis-REIT's investment property portfolio once every calendar year.

Highest and best use

Axis-REIT's current use of the investment properties are their highest and best uses as there are no other factors to suggest that a different use would maximise the value of the investment properties.

NOTES TO THE FINANCIAL STATEMENTS

4. INVESTMENT PROPERTIES (CONTINUED)

2016

Description of property	Tenure of land (Years)	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at		Fair value as at 31.12.2016 RM'000	Initial acquisition cost as at 31.12.2016 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2016 %	
						31.12.2016 %	31.12.2016 %			31.12.2016 %	31.12.2016 %
Menara Axis ^###	Leasehold	99	49	Petaling Jaya	Commercial office	93.8	123,649	71,440	8.9		
Crystal Plaza *###	Leasehold	99	43	Petaling Jaya	Commercial office	81.2	110,000	56,400	7.9		
Axis Business Park ^###	Leasehold	99	44	Petaling Jaya	Office/Industrial	69.8	120,247	84,600	8.6		
Infinite Centre *#	Leasehold	99	49	Petaling Jaya	Office/Industrial	68.1	43,000	25,450	3.1		
Wisma Kemajuan ^ #	Leasehold	99	49	Petaling Jaya	Office/Industrial	92.0	63,900	29,192	4.6		
Axis Business Campus ^^^^##	Leasehold	99	51	Petaling Jaya	Office/Industrial	11.9	73,200	32,681	5.3		
Axis Shah Alam DC 1 ***	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	31,239	18,783	2.2		
Giant Hypermarket ~#	Freehold	-	-	Sungai Petani	Hypermarket	100.0	46,000	38,678	3.3		
FCI Senai ~~#	Leasehold	60	51	Senai, Johor	Manufacturing facilities	100.0	20,000	12,538	1.4		
Fonterra HQ ^^	Freehold	-	-	Shah Alam	Office/Industrial	85.0	16,641	7,352	1.2		
Quattro West *###	Leasehold	99	56	Petaling Jaya	Commercial office	65.9	56,800	40,376	4.1		
Strateq Data Centre ***#	Leasehold	99	52	Petaling Jaya	Office/Industrial	100.0	57,000	37,549	4.1		
BMW Centre PTP **#Δ	Leasehold	60	39	Tanjung Pelepas	Warehouse/Logistics	100.0	30,376	27,470	2.2		
Niro Warehouse ^^^	Leasehold	60	35	Pasir Gudang	Warehouse/Logistics	100.0	19,000	14,811	1.4		
Delfi Warehouse ^^^	Leasehold	60	51	Pasir Gudang	Warehouse/Logistics	100.0	15,800	12,743	1.1		
Axis Vista ^^ ##	Leasehold	99	50	Petaling Jaya	Office/Industrial	65.3	56,000	32,481	4.0		
Axis Steel Centre ^^^ ##	Leasehold	99	86	Klang	Warehouse/Logistics	100.0	70,500	65,882	5.1		
Bukit Raja Distribution Centre *##	Freehold	-	-	Klang	Warehouse/Logistics	100.0	102,397	72,636	7.4		
Seberang Prai Logistic Warehouse 1.^^#	Leasehold	60	37	Seberang Prai	Warehouse/Logistics	100.0	20,500	17,695	1.5		
Seberang Prai Logistic Warehouse 2.^^#	Leasehold	60	37	Seberang Prai	Warehouse/Logistics	100.0	8,200	6,981	0.6		

4. INVESTMENT PROPERTIES (CONTINUED)

2016

Description of property	Tenure of land (Years)	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2016		Fair value as at 31.12.2016 RM'000	Initial acquisition cost as at 31.12.2016 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2016	
						%	%			RM'000	%
Tesco Bukit Indah **#	Freehold	-	-	Johor Bahru	Hypermarket	100.0	100.0	96,000	76,750	6.9	6.9
Axis PDI Centre *	Leasehold	99	75	Kuala Langat	Warehouse/Logistics	-	-	88,435	86,146	6.3	6.3
Axis Technology Centre ^^^^#	Leasehold	99	51	Petaling Jaya	Office/Industrial	82.9	82.9	54,025	49,697	3.9	3.9
D8 Logistics Warehouse ^^^#	Leasehold	60	39	Johor Bahru	Warehouse/Logistics	100.0	100.0	32,940	30,521	2.4	2.4
Bayan Lepas Distribution Centre ^^#	Leasehold	60	46	Bayan Lepas	Warehouse/Logistics	100.0	100.0	51,500	49,471	3.7	3.7
Seberang Prai Logistic Warehouse 3 ****	Leasehold	60	36/52	Seberang Prai	Warehouse/Logistics	100.0	100.0	65,000	60,139	4.7	4.7
Emerson Industrial Facility Nilai *#	Leasehold	99	79	Nilai	Manufacturing facilities	100.0	100.0	30,500	27,011	2.2	2.2
Wisma Academy Parcel ^	Leasehold	99	46	Petaling Jaya	Office/Industrial	81.0	81.0	75,500	74,242	5.4	5.4
The Annex ^#	Leasehold	99	46	Petaling Jaya	Office/Industrial	100.0	100.0	19,000	12,289	1.4	1.4
Axis MRO Hub ^^^^	Leasehold	99	69	Shah Alam	Manufacturing facilities	100.0	100.0	53,000	53,357	3.8	3.8
Axis Shah Alam DC 3 ***	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	100.0	184,000	185,661	13.2	13.2
Axis Steel Centre @ SILC ** #	Freehold	-	-	Nusajaya	Manufacturing	100.0	100.0	156,500	155,950	11.2	11.2
Axis Shah Alam DC 2 ^^^	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	100.0	46,600	45,781	3.3	3.3
Beyondics i-Park Campus Block A **	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	100.0	14,600	14,470	1.0	1.0
Beyondics i-Park Campus Block B **	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	100.0	13,300	13,116	1.0	1.0
Beyondics i-Park Campus Block C **	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	100.0	12,100	11,933	0.9	0.9
Beyondics i-Park Campus Block D **	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	100.0	22,700	22,504	1.6	1.6
Scomi Facility @ Rawang ^	Freehold	-	-	Rawang	Manufacturing facilities	100.0	100.0	43,000	42,696	3.1	3.1
Axis Eureka *	Freehold	-	-	Cyberjaya	Commercial office	59.6	59.6	55,000	52,050	3.9	3.9
								2,198,149	1,769,522		
Investment property classified as held for sale (Note 8)								(55,000)	(52,050)		
Total								2,143,149	1,717,472		

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4. INVESTMENT PROPERTIES (CONTINUED)

- * Crystal Plaza, Infinite Centre, Quattro West, Bukit Raja Distribution Centre, Axis PDI Centre, Emerson Industrial Facility Nilai and Axis Eureka were valued on 1 August 2016, 5 August 2016, 6 May 2016, 3 June 2016, 2 May 2016, 21 December 2016 and 24 November 2016, respectively, by Savills (Malaysia) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ** BMW Centre PTP, Tesco Bukit Indah, Axis Steel Centre @ SiLC and Beyonics i-Park Campus were valued on 3 June 2016, 29 July 2016, 14 December 2016 and 15 December 2016 respectively, by Savills (Johor) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- *** Axis Shah Alam DC 1, Strateq Data Center and Axis Shah Alam DC 3 were valued on 10 March 2016, 10 September 2016 and 15 December 2016 respectively, by KGV International Property Consultants (M) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- **** Seberang Prai Logistic Warehouse 3 was valued on 13 December 2016 by Knight Frank Malaysia Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^ Menara Axis, Wisma Kemajuan, Wisma Academy Parcel, The Annex and Scomi Facility @ Rawang were valued on 2 August 2016, 19 December 2016, 29 December 2016, 8 December 2016 and 1 June 2016 respectively, by PA International Property Consultants (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment and cost methods of valuation.
- ^^ Axis Business Park, Fonterra HQ, Axis Vista, Seberang Prai Logistics Warehouse 1, Seberang Prai Logistics Warehouse 2 and Bayan Lepas Distribution Centre were valued on 5 August 2016, 3 May 2016, 27 December 2016, 3 June 2016, 3 June 2016 and 15 December 2016 respectively, by Rahim & Co Chartered Surveyors Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment, cost and comparison methods of valuation.

4. INVESTMENT PROPERTIES (CONTINUED)

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- ^^^ Niro Warehouse, Delfi Warehouse, Axis Steel Centre and D8 Logistics Warehouse were valued on 13 September 2016, 13 September 2016, 31 December 2016 and 4 April 2016 respectively, by CH Williams Talhar & Wong Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^^^ Axis Technology Centre and Axis Shah Alam DC 2 were valued on 3 May 2016 and 16 December 2016 respectively, by First Pacific Valuers Property Consultants Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^^^^ Axis MRO Hub was valued on 22 December 2016, by VPC Alliance (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^^^^^ Axis Business Campus was valued on 21 December 2016, by W.M. Malik & Kamaruzaman, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison method of valuation.
- ~ Giant Hypermarket was valued on 30 May 2016, by Henry Butcher Malaysia (Penang) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ~~ FCI Senai was valued on 3 July 2016, by KGV International Property Consultants (Johor) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- # These properties are charged to financial institutions for revolving credit and term financing facilities granted to Axis-REIT (Note 11).
- ## These properties are charged to the Sukukholders for Islamic Medium Term Notes ("Sukuk") of RM110.0 million in nominal value (Note 11).
- ### These properties are charged to the Sukukholders for Sukuk of RM155.0 million in nominal value (Note 11).
- Δ Fixed land lease of 30 years until 23 March 2025 with an option to renew for a further term of 30 years.

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5. EQUIPMENT

	Office equipment, furniture and fittings RM'000	Car park machines RM'000	Software RM'000	Work-in- progress RM'000	Total RM'000
Cost					
At 1 January 2016	30	3,369	795	306	4,500
Additions	-	25	-	-	25
Reclassification as investment properties	-	-	-	(306)	(306)
At 31 December 2016/ 1 January 2017/ At 31 December 2017	30	3,394	795	-	4,219
Accumulated depreciation					
At 1 January 2016	9	711	178	-	898
Depreciation for the year	3	339	80	-	422
At 31 December 2016/ 1 January 2017	12	1,050	258	-	1,320
Depreciation for the year	3	339	80	-	422
At 31 December 2017	15	1,389	338	-	1,742
Carrying amounts					
At 31 December 2017	15	2,005	457	-	2,477
At 31 December 2016	18	2,344	537	-	2,899

Leased equipment

At 31 December 2017, the net carrying amount of leased equipment was RM2,005,000 (2016: RM2,344,000).

6. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 RM'000	2016 RM'000
Trade		
Trade receivables	2,628	1,469
Non-trade		
Other receivables	14,486	262
Prepayments	2,384	1,975
Deposits	10,551	6,228
Shariah-compliant derivative asset	14	-
	27,435	8,465
	30,063	9,934

7. CASH AND CASH EQUIVALENTS

	2017 RM'000	2016 RM'000
Cash and bank balances	10,028	13,896
Islamic deposits placed with licensed banks	24,841	19,396
	34,869	33,292

Included in Islamic deposits placed with licensed banks is an amount of RM300,000 (2016: RM300,000) which is pledged for banking facilities granted to Axis-REIT (Note 11) and RM11,532,067 (2016: RM12,994,000) which is maintained in a Finance Service Reserve Account with a licensed bank to cover a minimum of 12 months' financing costs for Sukuk issued by Axis-REIT's special purpose company, Axis REIT Sukuk Berhad (Note 11).

8. ASSET CLASSIFIED AS HELD FOR SALE

On 24 October 2016, Axis-REIT entered into a sale and purchase agreement for the disposal of an investment property, Axis Eureka, for a total consideration of RM56,132,075. As at 31 December 2016, the disposal was not completed pending the fulfillment of certain conditions precedent as set out in the sale and purchase agreement. The disposal of Axis Eureka was completed on 8 March 2017.

9. TOTAL UNITHOLDERS' FUNDS

9.1 Unitholders' capital

	2017 Number of units '000	2016 Number of units '000
Authorised:		
At 1 January	1,105,174	1,099,793
Increase during the year	127,153	5,381
At 31 December	1,232,327	1,105,174
Issued and fully paid up:		
At 1 January	1,105,174	1,099,793
Issued for cash	125,000	-
Issued under Income Distribution Reinvestment Plan ("IDRP")	2,153	5,381
At 31 December	1,232,327	1,105,174
	RM'000	RM'000
At 1 January	1,060,320	1,052,272
Issues of new units: 125,000,000 units @ RM1.43 per unit and 2,153,212 units @ RM1.49 per unit (2016: 5,380,523 units @ RM1.50 per unit)	181,958	8,071
Issuing expenses (Note 17)	(2,025)	(23)
At 31 December	1,240,253	1,060,320

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9. TOTAL UNITHOLDERS' FUNDS (CONTINUED)

9.2 Unitholdings of substantial unitholders, Directors and their related parties

The Directors of the Manager and their related parties held units in Axis-REIT, details of which are as follows:

	2017		2016	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
Axis-REIT's substantial unitholder's direct unitholdings in Axis-REIT:				
Tew Peng Hwee @ Teoh Peng Hwee	-	-	55,684	89,651
Alex Lee Lao #	-	-	53,719	86,488
The Manager's Directors' direct unitholdings in Axis-REIT:				
Dato' Abas Carl Gunnar Bin Abdullah	25,280	37,920	27,729	44,644
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	20	30	20	32
Tew Peng Hwee @ Teoh Peng Hwee	55,684	83,526	55,684	89,651
Alex Lee Lao #	55,151	82,727	53,719	86,488
Leong Kit May	42	63	42	68
Jancis Anne Que Lao ##	839	1,259	835	1,344
Yeoh Chong Keat	19	29	-	-
The Manager's Directors' indirect unitholdings in Axis-REIT:				
Dato' Abas Carl Gunnar Bin Abdullah *	10,231	15,347	10,169	16,372
Alex Lee Lao **	3,112	4,668	3,112	5,010
Direct unitholdings of close family members of the Manager's Directors:				
Datin Kuyas Emiloglu (also known as Ka Ya-Shih)	10,159	15,239	10,098	16,258
Leon Lee Lao	2,277	3,416	2,277	3,666
Yin-Yong Lee Lao	835	1,252	835	1,344
Tan Siew Geok	919	1,379	819	1,319
Jeanette Ivy Robertson Lomax	515	773	515	829
Amanda Tan Myhre	72	108	71	114
John Lee Lao	1,172	1,758	672	1,082
Dean Lee Lao	2,372	3,558	1,372	2,209

Notes:

Alex Lee Lao is an alternate director to Dato' Abas Carl Gunnar Bin Abdullah.

Jancis Anne Que Lao is an alternate director to Alvin Dim Lao.

* Deemed interested in the direct unitholdings of his spouse, Datin Kuyas Emiloglu (also known as Ka Ya-Shih) and his daughter, Amanda Tan Myhre.

** Deemed interested in the direct unitholdings of his brothers, Yin-Yong Lee Lao and Leon Lee Lao.

The market value of the units was determined by multiplying the number of units with the market price as at 31 December 2017 of RM1.50 (2016: RM1.61).

10. PAYABLES AND ACCRUALS

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	2017 RM'000	2016 RM'000
Non-current		
Non-trade		
Tenants' deposits - payable after 12 months	43,998	46,417
Current		
Trade		
Trade payables	34,375	7,021
Non-trade		
Tenants' deposits - payable within 12 months	11,872	3,856
Other payables and accrued expenses	25,634	13,152
Shariah-compliant derivative liability	-	192
	71,881	24,221
	115,879	70,638

Included in other payables and accrued expenses are amounts due to the Manager and the Property Manager of RM2,883,906 (2016: RM1,258,000) and RM527,000 (2016: RM544,000) respectively, which are unsecured, interest-free and payable monthly in arrears.

11. FINANCING

	Note	2017 RM'000	2016 RM'000
Non-current			
Islamic Medium Term Notes ("Sukuk")	11.1	180,000	265,000
Finance lease liabilities	11.2	211	517
Term financing	11.3	66,500	66,500
Transaction costs			
- Sukuk	11.1	(661)	(912)
- Term financing	11.3	(220)	(251)
		245,830	330,854
Current			
Secured revolving credit	11.4	511,493	449,500
Finance lease liabilities	11.2	306	311
Islamic Medium Term Notes ("Sukuk")	11.1	85,000	-
Transaction costs			
- Sukuk	11.1	(35)	-
		596,764	449,811
		842,594	780,665

NOTES TO THE FINANCIAL STATEMENTS

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11. FINANCING (CONTINUED)

11.1 Islamic Medium Term Notes ("Sukuk")

Axis-REIT's special purpose company, Axis REIT Sukuk Berhad has an Islamic Medium Term Note Programme ("Sukuk Programme") of up to RM3.0 billion in nominal value. It is a perpetual programme that commenced on 13 July 2012. Details of the Sukuk issued are set out below.

First Sukuk

On 13 July 2012, Axis REIT Sukuk Berhad, issued RM110.0 million Sukuk in nominal value pursuant to the Sukuk Programme.

The First Sukuk of RM110.0 million was issued to re-finance Axis-REIT's existing financing facilities. The First Sukuk, which comprises four tranches have obtained long-term ratings of AAA, AA1, AA2 and AA3 respectively from RAM Rating Services Berhad ("RAM"). The expected maturity date is 10 years from the issuance date and the legal maturity date is 12 years from the issuance date.

The transaction costs relating to the First Sukuk issuance of RM110.0 million which amounted to RM1.277 million are amortised and charged to profit or loss over the expected tenure of the First Sukuk of 10 years.

The First Sukuk is secured inter-alia by the following:

1. A first ranking third party legal charge over the following properties of Axis-REIT:
 - (i) H.S.(D) 77831, Lot Plot 19, Bandar Sultan Sulaiman, Daerah Klang, State of Selangor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Axis Steel Centre");
 - (ii) H.S.(D) 159847, Lot PT 11, Bandar Petaling Jaya, Daerah Petaling, State of Selangor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Axis Vista");
 - (iii) GRN 59001, Lot 26028 and H.S.(D) 99548, PT 48025, both in Mukim Kapar, Daerah Klang, State of Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Bukit Raja Distribution Centre"); and
 - (iv) GRN 427597, Lot 138207, Mukim Pulai, Daerah Johor Bahru, State of Johor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Tesco Bukit Indah").

11. FINANCING (CONTINUED)

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11.1 Islamic Medium Term Notes ("Sukuk") (continued)

2. Other securities as advised by the legal counsel of CIMB Investment Bank Berhad ("the Lead Manager") and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

Second Sukuk

On 15 August 2013, Axis REIT Sukuk Berhad, issued RM155.0 million Sukuk in nominal value pursuant to the Sukuk Programme.

The Second Sukuk of RM155.0 million was issued to re-finance Axis-REIT's existing financing facilities. The Second Sukuk, which comprises five tranches have obtained long-term ratings of AAA, AAA, AA1, AA2 and AA3 respectively from RAM. The expected maturity dates are 7 years for RM70.0 million and 5 years for RM85.0 million from the issuance date and the legal maturity dates are 9.5 years and 7.5 years, respectively from the issuance date.

The transaction costs relating to the Second Sukuk issuance of RM155.0 million which amounted to RM525,000 are amortised and charged to profit or loss over the expected tenure of the Second Sukuk of 7 years and 5 years.

The Second Sukuk is secured inter-alia by the following:

1. A first ranking third party legal charge over the following properties of Axis-REIT:
 - (i) PN 12419, Lot No. 91, Seksyen 13, Bandar Petaling Jaya, Daerah Petaling, State of Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Axis Business Park");
 - (ii) PN 50492, Lot No. 1476, Seksyen 14, Bandar Petaling Jaya, Daerah Petaling, State of Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Crystal Plaza");
 - (iii) PN 6871, Lot No. 309, Seksyen 14, Bandar Petaling Jaya, Daerah Petaling, State of Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Menara Axis"); and
 - (iv) H.S.(D) 59450, PT No. 4, Seksyen 26, Bandar Petaling Jaya, Daerah Petaling, State of Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Quattro West").
2. Other securities as advised by the legal counsel of the Lead Manager and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

NOTES TO THE FINANCIAL STATEMENTS

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11. FINANCING (CONTINUED)

11.2 Finance lease liabilities

Finance lease liabilities are subject to financing costs at 3.5% (2016: 3.5%) per annum.

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2017 RM'000	Finance costs 2017 RM'000	Present value of minimum lease payments 2017 RM'000	Future minimum lease payments 2016 RM'000	Finance costs 2016 RM'000	Present value of minimum lease payments 2016 RM'000
Less than one year	359	53	306	365	54	311
Between one and five years	248	37	211	607	90	517
	607	90	517	972	144	828

11.3 Term financing

The term financing is secured over investment properties as indicated in Note 4 to the financial statements and is payable on 28 January 2025. The transaction costs related to the term financing amounted to RM314,000 is amortised and charged to profit and loss over the expected tenure of 10 years.

11.4 Secured revolving credit

The secured revolving credit is secured over the investment properties as indicated in Note 4 to the financial statements.

11.5 Reconciliation of movement of liabilities to cash flows arising from financing activities

	At 1.1.2017 RM'000	Net changes from financing cash flows RM'000	Others RM'000	At 31.12.2017 RM'000
Islamic Medium Term Notes ("Sukuk")	264,088	-	216	264,304
Finance lease liabilities	828	(311)	-	517
Term financing	66,249	-	31	66,280
Secured revolving credit	449,500	61,993	-	511,493
Total liabilities from financing activities	780,665	61,682	247	842,594

12. GROSS REVENUE

	2017 RM'000	2016 RM'000
Rental income from investment properties		
- realised	154,537	156,546
- unrealised (in relation to unbilled lease income receivable)	4,954	4,655
Car park income	7,817	6,475
Other income	5,407	3,664
	172,715	171,340

13. PROPERTY OPERATING EXPENSES

	Note	2017 RM'000	2016 RM'000
Assessment		3,950	3,882
Service contracts and maintenance		7,865	7,638
Property management fees	1(a)	3,355	3,362
Property management reimbursements		2,550	2,887
Utilities		3,773	4,163
Others		5,019	5,116
		26,512	27,048

14. INCOME TAX EXPENSE

	2017 RM'000	2016 RM'000
Reconciliation of income tax expense		
Net income before tax	122,560	122,292
Income tax using Malaysian tax rate of 24%	29,414	29,350
Non-deductible expenses	713	768
Effect of fair value change on investment properties which is not subject to tax	(7,295)	(7,167)
Effect of income exempted from tax	(22,832)	(22,951)
	-	-

Pursuant to the amendment to Section 61A of the Income Tax Act, 1967 under the Finance Act 2006 which was gazetted on 31 December 2006, where in the basis period for a year of assessment, 90% (2016: 90%) or more of the total income of a real estate investment trust or property trust fund is distributed to its unitholders, the total income of a real estate investment trust or property trust fund for that year of assessment shall be exempted from tax.

NOTES TO THE FINANCIAL STATEMENTS

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15. EARNINGS PER UNIT

The calculation of earnings per unit is based on the net income for the year of RM122,560,000 (2016: RM122,292,000) and on the weighted average number of units in circulation during the year of 1,116,923,612 (2016: 1,102,718,544).

16. DISTRIBUTION TO UNITHOLDERS

Distribution to unitholders is from the following sources:

	2017 RM'000	2016 RM'000
Net realised rental income		
- current year	141,249	139,637
- prior year (already subject to tax)	55	40
Realisation of unrealised income	1,764	-
Net loss on disposal of investment property	(419)	-
Profit income	984	678
	143,633	140,355
Less: Non-property expenses	(51,018)	(50,129)
	92,615	90,226
Adjustments to earnings available for distribution:		
- depreciation of equipment	422	422
- net (reversal of impairment losses)/impairment losses on trade receivables	(369)	155
- bad debts written off	-	319
	92,668	91,122
Less: Undistributed income	(211)	(55)
	92,457	91,067
Gross distribution per unit (sen)	8.26	8.25
Net distribution per unit (sen)	8.26	8.25

17. ISSUING EXPENSES

	Note	2017 RM'000	2016 RM'000
Miscellaneous expenses	9.1	2,025	23

18. PORTFOLIO TURNOVER RATIO

	2017	2016
Portfolio Turnover Ratio ("PTR") (times)	0.02	0.02

The calculation of PTR is based on the average of total acquisitions and total disposals of investment properties in Axis-REIT for the year to the average Net Asset Value during the year calculated on a quarterly basis.

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

19. MANAGEMENT EXPENSE RATIO

	2017	2016
Management Expense Ratio ("MER") (%)	1.31	1.25

The calculation of MER is based on the total fees incurred by Axis-REIT, including Manager's fees, Trustee's fees, auditor's fees, tax agent's fees and administrative expenses, to the average Net Asset Value during the year calculated on a quarterly basis. Comparison of the MER of Axis-REIT with other real estate investment trusts which uses different basis of calculation may not be an accurate comparison.

20. FINANCIAL INSTRUMENTS**20.1 Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as follows:

Financial assets	Carrying amount RM'000	Loans and receivables* RM'000	Fair value through profit or loss – held for trading RM'000
2017			
Receivables and deposits	13,796	13,796	-
Cash and cash equivalents	34,869	34,869	-
	48,665	48,665	-
2016			
Receivables and deposits	7,959	7,959	-
Cash and cash equivalents	33,292	33,292	-
	41,251	41,251	-

* Axis-REIT does not have or provide any loans.

20.2 Net gains and losses arising from financial instruments

	2017 RM'000	2016 RM'000
Net gains/(losses) on:		
Fair value through profit or loss – held for trading	206	(201)
Loans and receivables *	1,353	204
Financial liabilities measured at amortised cost	(31,290)	(29,558)
Total	(29,731)	(29,555)

* Axis-REIT does not have or provide any loans.

NOTES TO THE FINANCIAL STATEMENTS

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20. FINANCIAL INSTRUMENTS (CONTINUED)

20.3 Financial risk management

Axis-REIT has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

20.4 Credit risk

Credit risk is the risk of a financial loss to Axis-REIT if the tenants or counterparty to a financial instrument fails to meet its contractual obligations. Axis-REIT's exposure to credit risk arises principally from its receivables from tenants. Axis-REIT performs ongoing credit evaluation of its tenants and generally does not require collateral other than tenants' deposits.

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amount in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. Axis-REIT uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables as at the end of the reporting period amounts to RM2,628,000 (2016: RM1,469,000) which are secured by tenants' deposits.

Impairment losses

Axis-REIT maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Past due 1 - 30 days	1,119	-	1,119
Past due 31 - 60 days	454	-	454
Past due 61 - 90 days	305	-	305
Past due more than 90 days	1,210	(460)	750
	3,088	(460)	2,628
2016			
Past due 1 - 30 days	299	-	299
Past due 31 - 60 days	192	-	192
Past due 61 - 90 days	154	-	154
Past due more than 90 days	1,653	(829)	824
	2,298	(829)	1,469

20. FINANCIAL INSTRUMENTS (CONTINUED)

20.4 Credit risk (continued)

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	2017 RM'000	2016 RM'000
At 1 January	829	674
Impairment loss recognised	59	577
Impairment loss reversed	(428)	(422)
At 31 December	460	829

Trade receivables that are individually determined to be impaired relate to tenants who are in significant financial difficulties and have defaulted in payments after taking into consideration the security deposits received from the tenants. For the purpose of quantifying individual impairment, Axis-REIT utilises the security deposits received to first off-set against the longest outstanding receivables. The allowance account in respect of receivables is used to record impairment losses. Unless Axis-REIT is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

20.5 Liquidity risk

Liquidity risk is the risk that Axis-REIT will not be able to meet its financial obligations as they fall due. Axis-REIT's exposure to liquidity risk arises principally from its payables and accruals, tenants' deposits and financing.

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

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

20. FINANCIAL INSTRUMENTS (CONTINUED)

20.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of Axis-REIT's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual profit rate %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Financial liabilities							
2017							
Payables and accruals	60,009	-	60,009	60,009	-	-	-
Tenants' deposits	*55,870	-	67,985	11,872	11,295	18,911	25,907
Revolving credit	511,493	3.86 - 4.26	513,228	513,228	-	-	-
Term financing	66,280	3.86	84,682	2,567	2,567	7,700	71,848
Finance lease liabilities	517	3.50	607	359	173	75	-
Sukuk	264,304	4.13 - 4.61	301,113	94,662	7,968	86,509	111,974
	958,473		1,027,624	682,697	22,003	113,195	209,729
2016							
Payables and accruals	20,365	-	20,365	20,365	-	-	-
Tenants' deposits	50,273	-	61,225	3,856	10,701	23,001	23,667
Revolving credit	449,500	3.86 - 4.25	451,038	451,038	-	-	-
Term financing	66,249	4.04 - 4.19	88,044	2,693	2,693	8,079	74,579
Finance lease liabilities	828	3.50	972	365	359	248	-
Sukuk	264,088	4.13 - 4.61	325,181	11,466	11,466	185,380	116,869
	851,303		946,825	489,783	25,219	216,708	215,115

* The carrying amount of tenants' deposits has been discounted using the imputed profit rate of 4.18% (2016: 4.14%) per annum.

20. FINANCIAL INSTRUMENTS (CONTINUED)

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20.6 Market risk

Market risk is the risk that changes in market prices such as interest rates that will affect Axis-REIT's financial position or cash flows.

The interest rate is a general economic indicator that will have an impact on Axis-REIT's financial position or cash flows regardless whether it is a Shariah compliant real estate investment trust or otherwise.

Interest rate risk

Axis-REIT's exposure to changes in interest rates relates primarily to interest related financial assets, such as Islamic deposits and interest related financial liabilities such as Sukuk, term financing, revolving credit and finance lease liabilities. Interest rate risk is managed by the Manager on an on-going basis with the primary objective of limiting the extent to which the profit income and financing costs could be affected by adverse movements in interest rates.

Risk management objectives, policies and processes for managing the risk

Axis-REIT entered into a profit rate swap with a notional contract amount of RM50,000,000 (2016: two profit rate swaps with a total notional contract amount of RM50,000,000 each) in order to achieve an approximate mix of fixed and floating rates exposure that is deemed acceptable for Axis-REIT. The swap matures in May 2020.

Exposure to interest rate risk

The interest rate profile of Axis-REIT's significant interest related financial instruments, based on carrying amounts at the end of the reporting period was:

	2017 RM'000	2016 RM'000
Financial assets		
<i>Fixed rate instrument</i>		
Islamic deposits placed with licensed banks	24,841	19,396
Financial liabilities		
<i>Fixed rate instruments</i>		
Finance lease liabilities	517	828
Sukuk	264,304	264,088
	264,821	264,916
<i>Floating rate instruments</i>		
Term financing	66,280	66,249
Revolving credit	511,493	449,500
	577,773	515,749

NOTES TO THE FINANCIAL STATEMENTS

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20. FINANCIAL INSTRUMENTS (CONTINUED)

20.6 Market risk (continued)

Interest rate risk (continued)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis

Axis-REIT does not account for any fixed rate financial liabilities at fair value through profit or loss, and Axis-REIT does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) Cash flow sensitivity analysis

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/(decreased) unitholders' funds and profit or loss by the amounts shown below.

	Unitholders' funds		Profit or loss	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
2017				
Floating rate instruments	-	-	(5,778)	5,778
Profit rate swap	-	-	(500)	500
2016				
Floating rate instruments	-	-	(5,157)	5,157
Profit rate swaps	-	-	(1,000)	1,000

20.7 Fair value information

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

20. FINANCIAL INSTRUMENTS (CONTINUED)

20.7 Fair value information (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017								
Financial liabilities								
Tenants' deposits	-	-	-	-	-	(55,870)	(55,870)	(55,870)
Financing	-	-	-	-	(261,765)	(554,353)	(816,118)	(842,077)
Finance lease liabilities	-	-	-	-	-	(600)	(600)	(517)
	-	-	-	-	(261,765)	(610,823)	(872,588)	(898,464)
2016								
Financial liabilities								
Tenants' deposits	-	-	-	-	-	(50,273)	(50,273)	(50,273)
Financing	-	-	-	-	(268,540)	(495,817)	(764,357)	(779,837)
Finance lease liabilities	-	-	-	-	-	(796)	(796)	(828)
Shariah-compliant derivative liability	-	(192)	-	(192)	-	-	(192)	(192)
	-	(192)	-	(192)	(268,540)	(546,886)	(815,618)	(831,130)

NOTES TO THE FINANCIAL STATEMENTS

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20. FINANCIAL INSTRUMENTS (CONTINUED)

20.7 Fair value information (continued)

Level 2 fair value

Shariah-compliant derivatives

The fair value of profit rate swap is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market profit rates for a similar instrument at the measurement date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the market profit rate at the end of the reporting period.

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2016: no transfer in either directions).

Level 3 fair value

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

Financial instruments not carried at fair value

Type	Description of valuation technique and inputs used
Tenants' deposits, financing and finance lease liabilities	Discounted cash flows using a rate based on the current market rate of Islamic financing facilities of Axis-REIT at the reporting date.

21. CAPITAL MANAGEMENT

Axis-REIT's objectives when managing capital is to maintain a strong capital base and safeguard Axis-REIT's ability to continue as a going concern, so as to maintain unitholders, creditors and market confidence and to sustain future development of the business. The Directors of the Manager monitor and are determined to maintain an optimal gearing ratio that complies with regulatory requirements.

During 2017, Axis-REIT's strategy, which was unchanged from 2016, is to implement a placement exercise whenever Axis-REIT anticipates that its financing will exceed 35% of its total assets. This internal gearing threshold is below that allowed by the Securities Commission's Guidelines on Real Estate Investment Trusts of 50%. The gearing ratio at 31 December 2017 and at 31 December 2016 were as follows:

	Note	2017 RM'000	2016 RM'000
Total financing	11	842,594	780,665
Total assets		2,549,609	2,244,274
Gearing ratio (%)		33.05	34.78

There was no change in Axis-REIT's approach to capital management during the financial year.

22. OPERATING LEASES

Leases as lessor

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

	2017 RM'000	2016 RM'000
Less than one year	172,481	123,682
Between one and five years	405,421	244,336
More than five years	624,185	177,464
	1,202,087	545,482

23. OPERATING SEGMENTS

Segment information is presented based on the information reviewed by Axis-REIT's Chief Operating Decision Makers ("CODMs") for performance assessment and resource allocation. For the purpose of the assessment of segment performance, Axis-REIT's CODMs have focused on its investment properties. This forms the basis of identifying the operating segments of Axis-REIT under MFRS 8, *Operating Segments*.

As the investment properties are similar in terms of economic characteristics and nature of services, the CODMs are of the view that Axis-REIT only has one reportable segment – leasing of investment properties as already presented in the statement of financial position and statement of profit or loss and other comprehensive income.

Accordingly, no operating segment information has been prepared as Axis-REIT only has one reportable segment.

No geographical segment information has been prepared as all the investment properties of Axis-REIT are located in Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

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24. CAPITAL COMMITMENTS

	2017 RM'000	2016 RM'000
Capital expenditure commitments		
Investment properties		
<i>Contracted but not provided for and payable:</i>		
- Within one year	231,876	182,872

25. RELATED PARTIES

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

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of Axis-REIT either directly or indirectly. The key management personnel include all the Directors of the Manager and the Trustee, and certain members of senior management of the Manager and the Trustee.

Significant related party transactions

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

Significant related party transactions other than those disclosed elsewhere in the financial statements are as follows:

	2017 RM'000	2016 RM'000
Acquisition cost of investment properties payable to related parties of the Directors of the Manager	45,150	-
Rental received and receivable from related parties of the Directors of the Manager	9,308	9,042

STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 185 to 230 are drawn up in accordance with the Third Principal Deed dated 28 November 2013, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards and International Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of Axis Real Estate Investment Trust at 31 December 2017 and of its financial performance and cash flows for the financial year ended on that date.

For and on behalf of the Manager,
Axis REIT Managers Berhad,

Signed on behalf of the Board of Directors of the Manager in accordance with a resolution of the Directors of the Manager:

.....
Tew Peng Hwee @ Teoh Peng Hwee

Director

.....
Leong Kit May

Director

Kuala Lumpur,

Date: 13 February 2018

STATUTORY DECLARATION

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I, **Ng Choy Tip**, the Officer of Axis REIT Managers Berhad primarily responsible for the financial management of Axis Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 185 to 230, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Ng Choy Tip, in Kuala Lumpur on 13 February 2018.

.....
Ng Choy Tip

Before me:

TRUSTEE'S REPORT

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

We have acted as Trustee of Axis Real Estate Investment Trust ("Axis-REIT") for the financial year ended 31 December 2017. In our opinion and to the best of our knowledge, Axis REIT Managers Berhad ("the Manager") has managed Axis-REIT in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Third Principal Deed ("the Deed") dated 28 November 2013, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws and other applicable laws during the financial year then ended.

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

We also confirm that the income distributions declared and paid during the financial year ended 31 December 2017 are in line with and are reflective of the objectives of Axis-REIT. Five distributions have been declared for the financial year ended 31 December 2017 as follows:

- 1) 1st interim income distribution of 2.15 sen per unit paid on 31 May 2017;
- 2) 2nd interim income distribution of 2.17 sen per unit paid on 30 August 2017;
- 3) 3rd interim income distribution of 2.00 sen per unit paid on 13 December 2017;
- 4) 4th interim income distribution of 1.02 sen per unit paid on 22 December 2017; and
- 5) Final income distribution of 0.92 sen per unit payable on 28 February 2018.

For and on behalf of the Trustee,
RHB Trustees Berhad
(Company No.: 573019-U)

.....
Tony Chieng Siong Ung
Director

Kuala Lumpur,

Date: 13 February 2018

INDEPENDENT AUDITORS' REPORT

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

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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Axis Real Estate Investment Trust ("Axis-REIT"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, changes in net asset value and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 185 to 230.

In our opinion, the financial statements give a true and fair view of the financial position of Axis-REIT as of 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of Axis-REIT in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of Axis-REIT for the current financial year. These matters were addressed in the context of our audit of the financial statements of Axis-REIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties

Refer to Note 4 to the financial statements.

The key audit matter

Axis-REIT owns a portfolio of 40 investment properties comprising office/industrial buildings and logistics warehouses located in Malaysia. Investment properties represent the single largest category of assets on the statement of financial position, at RM2,482,200,000 as at 31 December 2017.

These investment properties are stated at their fair values based on independent external valuations.

The valuation process involves judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied i.e. a small change in the assumptions can have a significant impact to the valuation. This is a key audit matter as some of the key assumptions are based on unobservable inputs and hence, significant judgement is required to evaluate the unobservable inputs.

INDEPENDENT AUDITORS' REPORT

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

How the matter was addressed in our audit:

We assessed the processes of Axis-REIT Managers Berhad ("the Manager") for the selection of the external valuers, the determination of the scope of work of the valuers, and the review and acceptance of the valuations reported by the external valuers.

We evaluated the qualifications and competence of the external valuers based on their membership of recognised professional body. We also examined the terms of engagement of the valuers entered into with Axis-REIT to determine whether there were any matters that might have affected the valuers' objectivity or placed limitations on their scope of work.

We assessed the appropriateness of the valuation methodologies used by considering their respective merits based on the occupancy status and/or condition of each property. We tested the appropriateness of the projected cash flows used in the valuation to supporting lease agreements and title deeds. We challenged the capitalisation rates used in the valuation by comparing them against historical rates and available industry data. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the valuers.

We also considered the adequacy of disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Information Other than the Financial Statements and Auditors' Report Thereon

The Manager is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditors' report thereon) which we obtained prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

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

236 *Responsibilities of the Manager for the Financial Statements of Axis-REIT*

The Manager is responsible for the preparation of the financial statements of Axis-REIT so as to give a true and fair view in accordance with the Third Principal Deed dated 28 November 2013, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of Axis-REIT that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of Axis-REIT, the Manager is responsible for assessing Axis-REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate Axis-REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Axis-REIT's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements of Axis-REIT

Our objectives are to obtain reasonable assurance about whether the financial statements of Axis-REIT as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of Axis-REIT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Axis-REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of Axis-REIT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Axis-REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of Axis-REIT, including the disclosures, and whether the financial statements of Axis-REIT represent the underlying transactions and events in a manner that achieves fair presentation

INDEPENDENT AUDITORS' REPORT

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

Auditors' Responsibilities for the Audit of the Financial Statements of Axis-REIT (continued)

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We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Manager, we determine those matters that were of most significance in the audit of the financial statements of Axis-REIT of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Chan Chee Keong
Approval Number: 03175/04/2019 J
Chartered Accountant

Petaling Jaya,
13 February 2018

UNITHOLDERS' STATISTICS

As at 30 January 2018

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Approved fund size : 1,253,754,764 units
Issued and fully paid units : 1,232,326,803 units (voting right: 1 vote per unit)

DISTRIBUTION OF UNITHOLDINGS

Size of Unitholdings	No. of Unitholders	% of Unitholdings	No. of Units Helds	% of Unitholdings
Less than 100	482	11.27	8,625	Neg
100 - 1,000	623	14.57	295,460	0.02
1001 - 10,000	1,850	43.25	8,436,854	0.69
10,001 - 100,000	991	23.17	28,911,316	2.35
100,001 to less than 5% of issued units	328	7.67	867,115,655	70.36
5% and above of issued units	3	0.07	327,558,893	26.58
	4,277	100.00	1,232,326,803	100.00

30 LARGEST UNITHOLDERS AS PER RECORD OF DEPOSITORS

Name of Unitholders	No. of Units	%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD	128,888,195	10.46
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA	100,000,000	8.11
KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	98,670,698	8.01
LEMBAGA TABUNG HAJI	60,038,100	4.87
TEW PENG HWEE @ TEOH PENG HWEE	55,683,993	4.52
ALEX LEE LAO	51,435,368	4.17
PERMODALAN NASIONAL BERHAD	42,500,000	3.45
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA 2	25,067,800	2.03
AMANAHRAYA TRUSTEES BERHAD - AS 1MALAYSIA	24,515,914	1.99
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM MALAYSIA	24,230,600	1.97
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM WAWASAN 2020	24,000,000	1.95
AMANAHRAYA TRUSTEES BERHAD - PUBLIC SMALLCAP FUND	22,507,408	1.83
MAYBANK NOMINEES (TEMPATAN) SDN BHD - MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	20,120,000	1.63
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM GEMILANG FOR AMANAH SAHAM KESIHATAN	19,194,662	1.56
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ITTIKAL SEQUEL FUND	18,327,810	1.49
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD (ABERDEEN)	17,335,544	1.41
ABAS CARL GUNNAR BIN ABDULLAH	15,231,291	1.24
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM GEMILANG FOR AMANAH SAHAM PENDIDIKAN	15,057,989	1.22
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EXEMPT AN FOR AIA BHD.	14,081,408	1.14
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ISLAMIC SELECT TREASURES FUND	12,033,598	0.98
AMANAHRAYA TRUSTEES BERHAD - PUBLIC STRATEGIC SMALLCAP FUND	11,711,781	0.95
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM NASIONAL 3 IMBANG	11,265,470	0.91
AMANAHRAYA BERHAD - KUMPULAN WANG BERSAMA SYARIAH	10,909,891	0.89

UNITHOLDERS' STATISTICS

As at 30 January 2018

30 LARGEST UNITHOLDERS AS PER RECORD OF DEPOSITORS

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Name of Unitholders	No. of Units	%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ABERDEEN)	10,338,094	0.84
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD (ABERISLAMIC)	10,263,887	0.83
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ISLAMIC OPPORTUNITIES FUND	10,229,050	0.83
MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD - GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)	10,191,651	0.83
KA, YA-SHIH ALSO KNOWN AS MYHRE, KUYAS	10,158,766	0.82
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM DIDIK	10,000,000	0.81
MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD - GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 2)	9,901,089	0.80
	893,890,057	72.54

SUBSTANTIAL UNITHOLDERS (5% and above)

Name of Substantial Unitholders	Direct Interest		Indirect Interest	
	No. of Units	%	No. of Units	%
EMPLOYEES PROVIDENT FUND BOARD	175,383,013	14.23	-	-
KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	98,670,698	8.01	29,498,613*	2.39
LEMBAGA TABUNG HAJI	67,046,706	5.44	-	-
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA	100,000,000	8.11	-	-

* Held by Fund Managers of Kumpulan Wang Persaraan (Diperbadankan)

DIRECTORS' INTERESTS

Name of Directors/Alternate Directors	Direct Interest		Indirect Interest	
	No. of Units	%	No. of Units	%
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin (Director)	20,000	Neg	-	-
Dato' Abas Carl Gunnar Bin Abdullah (Director)	25,080,499	2.04	10,230,893*	0.83
Tew Peng Hwee @ Teoh Peng Hwee (Director)	55,683,993	4.52	-	-
Leong Kit May (Director)	42,313	Neg	-	-
Mohd Sharif Bin Hj Yusof (Director)	-	-	-	-
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor (Director)	-	-	-	-
Alvin Dim Lao (Director)	-	-	-	-
Yeoh Chong Keat (Director)	19,105	Neg	-	-
Alex Lee Lao (Alternate Director)	55,150,506	4.48	3,111,932**	0.25
Jancis Anne Que Lao (Alternate Director)	838,967	0.07	-	-

Notes:

* Deemed interested in the direct unitholdings of his spouse and daughter, Datin Kuyas Emiloglu also known as Ka Ya-Shih and Amanda Tan Myhre in Axis-REIT

** Deemed interested in the direct unitholdings of his brothers, Lao, Yin Yong Lee and Leon Lee Lao in Axis-REIT

FREQUENTLY ASKED QUESTIONS (FAQ)

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

Effective 1 January 2009, Axis-REIT changed its income distribution policy from semi-annual payments to quarterly payments, payable within one month of the book closure date. In the event of an IDRП being applied in conjunction with an income distribution, the income distribution will be paid no later than five market days after one month of the book closure date. However, in certain circumstances, such as the issuance of new Units by Axis-REIT during the year, it may be necessary for a special income distribution to be declared and paid at different periods in order to attribute the income distribution to existing Unitholders. This is to avoid any dilution as a result of the enlarged Unitholders' capital

2. How is this income distribution paid?

Payments are made via direct credit/cheques to each Unitholder with an attached Distribution Tax Voucher detailing the entitlement and the gross/net amounts payable.

3. Are there different types of income distributions?

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

- a. Current year's realised income before taxation;
- b. Current year's tax exempt income, if any;
- c. Portions of 'Accumulated Retained Earnings' that have been taxed;
- d. Portions of 'Accumulated Retained Earnings' that consist of tax-exempt income.

4. What is the tax treatment of Unitholders?

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

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

Type of Unitholder	Withholding tax rate		
	2017	2016	2015
Resident corporate	Nil [^]	Nil [^]	Nil [^]
Resident non-corporate	10%	10%	10%
Non-resident individual	10%	10%	10%
Non-resident corporate	24%	24%	25%
Non-resident institution	10%	10%	10%

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

FREQUENTLY ASKED QUESTIONS (FAQ)

5. How do I calculate my distribution?

For the financial year ended 31 December 2017, the total income distribution was 8.26 sen per Unit. Of this amount, 1.49 sen was derived from the utilisation of capital allowances, industrial building allowances, distribution of net gains on disposal of investment properties and tax-exempt profit income, and is therefore not subject to tax.

Assumption: 10,000 Axis-REIT units		
Type of Unitholder	Gross distribution	Net distribution to Unitholders after deduction of withholding tax
Resident corporate*	826.00	826.00
Resident individual/institution	826.00	758.30
Foreign corporate	826.00	663.52
Foreign institution	826.00	758.30
Foreign individual	826.00	758.30

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

6. What is my net distribution yield for 2017?

For the financial year ended 31 December 2017, the total distribution was 8.26 sen per Unit.

Type of Unitholder	Net Distribution based on IPO price of RM0.625*	Net distribution based on closing price of RM1.50 on 31 December 2017
Resident corporate	13.22%	5.51%
Resident individual/institution	12.13%	5.06%
Foreign corporate	10.62%	4.42%
Foreign institution	12.13%	5.06%
Foreign individual	12.13%	5.06%

* Restated from RM1.25 to reflect the Unit Split

7. Where can a Unitholder view the Deed of Axis-REIT?

The Deed is available for inspection during ordinary business hours at the principal place of business of the Manager and at the principal place of business of the Trustee.

FREQUENTLY ASKED QUESTIONS (FAQ)

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8. What is the total number of Axis-REIT Units currently in issue?

A total of 1,232,326,803 Units are in circulation

9. How can new Units be issued?

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

Issuance of new Units in Axis-REIT will be subject to the prior approval of the Trustee, SC and Unitholders in the manner as stipulated in the Deed and subject to the applicable laws and requirements.

10. What are my rights as a Unitholder?

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

11. How can the Deed be amended?

Any amendment to the Deed involving a material change to the investment objectives of Axis-REIT, or any amendment that may materially or adversely affect the rights of the Unitholders, may only be approved by way of a resolution of not less than 2/3 of Unitholders passed at a meeting of Unitholders duly convened and held in accordance with the Deed. In cases where the amendment to the Deed does not require Unitholders' approval, the amendment may only be made if the Trustee and the Manager certify, in their opinion, that such amendment does not materially prejudice the interests of Unitholders, and does not operate to release (to any material extent) the Trustee or the Manager from any responsibility to the Unitholders.

12. When does Axis-REIT need to hold its AGM?

The AGM of Axis-REIT shall be held once in every calendar year and not more than 15 months after the last preceding AGM. At the AGM, the Manager shall lay before the Unitholders, the annual audited financial statements of Axis-REIT made up to a date that is not more than four months before the date of the AGM.

13. Who may convene a meeting of Unitholders?

Either the Trustee or the Manager may convene a meeting of Unitholders at any time, subject to the provisions of the Deed. Unitholders may request for a meeting of Unitholders by submitting to the Manager an application made by not fewer than 50, or one tenth, whichever is lesser, of all the Unitholders. Subject to the provisions of the Deed, the Manager will have to convene a meeting of Unitholders within 21 days after such requisition is submitted to the Manager at its registered office.

14. Can the Manager vote at Unitholders' meetings of Axis-REIT?

No. However related parties (as defined in the Deed) of the Manager may vote, provided that they have no interest in the outcome of the transaction laid before the meeting for approval.

FREQUENTLY ASKED
QUESTIONS (FAQ)**15. Why was Axis-REIT reclassified into an Islamic REIT?**

Axis-REIT was reclassified into an Islamic REIT:

- a. To widen its investor base to include local Shariah-compliant funds and also to develop investor interest from Shariah-compliant foreign funds;
- b. To expedite its asset growth with new strategic partners;
- c. To become the first Office Industrial REIT on a global platform which complies with the SC's Guidelines on Islamic REITs.

16. What are the salient compliance requirements of an Islamic REIT pursuant to the SC's Guidelines on Islamic REITs?

The salient compliance requirements are:

- a. Rental obtained from non-permissible activities must not exceed the 20% threshold as determined by the Syariah Advisory Council ("SAC") of the SC;
- b. An Islamic REIT is not permitted to own real estate in which all the tenants operate non-permissible activities even if the percentage of rental based on turnover is less than the 20% threshold;
- c. All forms of investments, deposits and financing instruments of an Islamic REIT must comply with Shariah principles;
- d. An Islamic REIT must use Takaful schemes to insure its real estate;
- e. An Islamic REIT shall not accept any new tenant(s) whose activities are fully non-permissible.

17. Is an Islamic REIT permitted to own (purchase) real estate in which the tenant(s) operate(s) mixed activities that are permissible and non-permissible according to the Shariah rules?

An Islamic REIT is permitted to own (purchase) real estate in which its tenant(s) operate(s) mixed activities that are permissible and non-permissible, according to the Shariah rules. However, the management company of the Islamic REIT must perform additional compliance assessments before acquiring real estate that has tenant(s) who operate(s) mixed activities.

18. What are non-permissible activities?

Rental activities that are classified as non-permissible as decided by the SAC are:

- a. financial services based on riba (interest);
- b. gambling/gaming;
- c. manufacture or sale of non-halal products or related products;
- d. conventional insurance;
- e. entertainment activities that are non-permissible according to Shariah rules;
- f. manufacture or sale of tobacco-based products or related products;
- g. stockbroking or share trading in Shariah non-compliant securities; and
- h. hotels and resorts.

19. Must Axis-REIT comply with the SC's Guidelines on Islamic REITs and the SC's Guidelines on REITs?

Yes. The SC's Guidelines on Islamic REITs essentially provide Shariah guidance on the investment and business activities of Islamic REITs and complement the SC's Guidelines on REITs.

GLOSSARY

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AGM	:	Annual General Meeting
AUM	:	Assets Under Management
Axis-REIT / the Trust / the Fund	:	Axis Real Estate Investment Trust
Bursa Securities / the Exchange	:	Bursa Malaysia Securities Berhad
CDS	:	Central Depository System
Deed	:	The third Principal Deed dated 28 November 2013 signed between the Trustee and the Manager constituting Axis-REIT
DPU	:	Distribution per Unit
FYE	:	Financial Year Ended/Ending
GAV	:	Gross Asset Value
GST	:	Goods and Services Tax
Gearing	:	Financing to Total Assets
Gross Revenue	:	Gross rental income and other income earned from the properties including licence fees, car park income, utilities and miscellaneous income
IDRP	:	Income Distribution Reinvestment Plan
Islamic REITs	:	REITs that comply with the SC's Guidelines on Islamic REITs
MER	:	Management Expense Ratio
Manager	:	Axis REIT Managers Berhad, being the Manager of Axis-REIT
NAV	:	Net Asset Value
NTA	:	Net Tangible Assets
NLA	:	Net Lettable Area, which consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
OMV	:	Open Market Value
PTR	:	Portfolio Turnover Ratio
Property Manager	:	Axis Property Services
REIT(s)	:	Real Estate Investment Trust(s)
RM and sen	:	Ringgit Malaysia and sen, respectively
SC	:	Securities Commission Malaysia
SCA	:	Securities Commission Act, 1993
SC's Guidelines on REITs	:	Guidelines on Real Estate Investment Trusts issued by the SC on 21 August 2008 (updated 28 December 2012), as amended from time to time
SC's Guidelines on Islamic REITs	:	Guidelines for Islamic Real Estate Investment Trusts issued by the SC on 21 Nov 2005
Sq. ft.	:	Square feet
Sqm	:	Square meters
Trustee of Axis-REIT/Trustee	:	RHB Trustees Berhad, being the Trustee of Axis-REIT
Unit(s)	:	Undivided interest(s) in Axis-REIT as constituted by the Deed
Unitholder(s)	:	Holder(s) of the Units
VWAMP	:	Volume weighted average market price
Unit Split	:	Subdivision of every one existing Unit into two Units that was completed on 9 September 2015

NOTICE OF SIXTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Sixth Annual General Meeting ("AGM") of Axis Real Estate Investment Trust ("Axis-REIT") will be convened and held at Ballroom 1, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Thursday, 26 April 2018 at 10.00 a.m. or at any adjournment thereof, for the following purposes:

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ORDINARY BUSINESS

To receive the Audited Financial Statements for the financial year ended 31 December 2017 of Axis-REIT together with the Reports attached thereon.

SPECIAL BUSINESS

To consider and if thought fit, to pass, with or without modifications, the following resolutions as Ordinary Resolutions of Axis-REIT:

ORDINARY RESOLUTION NO. 1

PROPOSED AUTHORITY TO ALLOT AND ISSUE NEW UNITS IN AXIS-REIT ("UNITS") OF UP TO 20% OF THE APPROVED FUND SIZE OF AXIS-REIT, TO FACILITATE A PLACEMENT EXERCISE ("PROPOSED AUTHORITY")

"THAT pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia ("SC") ("REIT Guidelines") on 21 August 2008 and updated on 28 December 2012, or such corresponding provisions under any superseding guidelines issued by the SC from time to time; and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), where applicable, and subject to requisite approvals being obtained, approval be hereby given to the Directors of Axis REIT Managers Berhad ("Manager") to allot and issue new Units, to facilitate Axis-REIT in raising funds via a placement exercise ("Proposed Placement"), at any time to any such persons, upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of new Units to be issued pursuant to this resolution does not exceed 20% of the approved fund size of Axis-REIT;

THAT such authority shall continue to be in force until:

- (i) the conclusion of the Seventh AGM of Axis-REIT to be held in year 2019 or a meeting of the Unitholders ("Unitholders' Meeting") following the Seventh AGM of Axis-REIT (whichever is later) provided that such authority does not exceed one (1) year from the Sixth AGM of Axis-REIT, at which time it will lapse, unless by a resolution passed by the Unitholders at such meeting the authority is renewed; or
- (ii) the Proposed Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders' Meeting,

whichever is the earliest;

THAT such new Units to be issued under the Proposed Placement ("Placement Units") shall, upon allotment and issue, rank equally in all respects with the Units already in existence except that the Placement Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared, made or paid before the date of allotment and issue of the Placement Units;

AND THAT authority be and is hereby given to the Directors of the Manager and RHB Trustees Berhad ("Trustee") (acting for and on behalf of Axis-REIT), to give effect to the Proposed Authority including but not limited to the creation of the requisite new Units and with full powers to assent to any condition, modification, variation, arrangement and/or amendment in relation to the Proposed Authority as they may deem fit in the best interest of Axis-REIT and/or as may be imposed by the relevant authorities **AND FURTHER THAT** the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), are to implement, finalise, complete and do all such acts and things (including executing such documents as may be required) in relation to the Proposed Authority."

NOTICE OF SIXTH ANNUAL GENERAL MEETING

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ORDINARY RESOLUTION NO. 2

PROPOSED RENEWAL OF THE AUTHORITY TO ALLOT AND ISSUE UP TO 143,383,961 NEW UNITS IN AXIS-REIT FOR THE PURPOSE OF THE INCOME DISTRIBUTION REINVESTMENT PLAN (“IDRP”) THAT PROVIDES THE UNITHOLDERS OF AXIS-REIT THE OPTION TO REINVEST THEIR INCOME DISTRIBUTION IN NEW UNITS (“PROPOSED RENEWAL OF IDRPA AUTHORITY”)

“THAT pursuant to the approval from the Unitholders obtained on 21 August 2015 for, among others, the renewal of the authority to allot and issue new Units for the purpose of the IDRPA, approval be and is hereby given to the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), to renew the authority in order to empower the Board to allot and issue new Units from time to time pursuant to the IDRPA upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of the new Units to be issued pursuant to this resolution does not exceed 143,383,961 new Units;

THAT such authority shall continue to be in force until:

- (i) the conclusion of the Seventh AGM of Axis-REIT to be held in year 2019 or a Unitholders’ Meeting following the Seventh AGM of Axis-REIT (whichever is later) provided that such authority does not exceed one (1) year from the Sixth AGM of Axis-REIT, at which time it will lapse, unless by a resolution passed by the Unitholders at such meeting the authority is renewed; or
- (ii) the Proposed Renewal of IDRPA Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders’ Meeting,

whichever is the earliest;

THAT such new Units to be issued under the Proposed Renewal of IDRPA Authority shall, upon allotment and issue, rank equally in all respects with the Units already in existence except that the Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared, made or paid before the date of allotment and issue of such Units;

AND THAT authority be and is hereby given to the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), to give effect to the Proposed Renewal of IDRPA Authority including but not limited to the creation of the requisite new Units and with full powers to assent to any condition, modification, variation, arrangement and/or amendment in relation to the Proposed Renewal of IDRPA Authority as they may deem fit in the best interest of Axis-REIT and/or as may be imposed by the relevant authorities **AND FURTHER THAT** the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), are to implement, finalise, complete and do all such acts and things (including executing such documents as may be required) in relation to the Proposed Renewal of IDRPA Authority.”

By Order of the Board of

AXIS REIT MANAGERS BERHAD (649450-W)

Management company of Axis Real Estate Investment Trust

Rebecca Leong Siew Kwan (MAICSA 7045547)

Company Secretary

Kuala Lumpur

28 February 2018

NOTICE OF SIXTH ANNUAL GENERAL MEETING

Notes:

- (1) A Unitholder shall be entitled to attend and vote at any meeting of Unitholders and shall be entitled to appoint up to two (2) persons, whether a Unitholder or not, as its proxy to attend and vote.
 - (2) Where a Unitholder is a corporation, its duly authorised representative shall be entitled to attend and vote at the meeting and shall be entitled to appoint up to two (2) persons (whether a Unitholder or not) as its proxy to attend and vote.
 - (3) Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
 - (4) If the Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Authorised Nominee"), it may appoint at least one (1) proxy (but no more than two (2)) in respect of each securities account it holds with Units of Axis-REIT standing to the credit of the said securities account.
 - (5) If the Unitholder is an exempt Authorised Nominee which holds Units for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
 - (6) Only a depositor whose name appears in the Record of Depositors of Axis-REIT as at 19 April 2018 shall be regarded as a Unitholder and entitled to attend, speak and vote at this AGM of Axis-REIT or appoint proxy(ies) to attend and vote on his/her behalf.
 - (7) The Instrument of Proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation, the Instrument of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.
 - (8) To be valid, the original Instrument of Proxy duly completed and signed must be deposited at the registered office of the Manager at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting (facsimile copy of Instrument of Proxy would be disregarded).
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NOTICE OF SIXTH ANNUAL GENERAL MEETING

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EXPLANATORY NOTES ON:

Ordinary Business

There shall be no voting on the aforesaid Ordinary Business given that the laying of the Audited Financial Statements for the financial year ended 31 December 2017 of Axis-REIT together with the Reports attached thereon, before the Unitholders at the AGM is meant for discussion only. This is in accordance with Clause 15.33A of the REIT Guidelines.

Other than the aforesaid Ordinary Business, there is no other ordinary business to be transacted at the AGM.

Special Business – Ordinary Resolution No. 1 : Proposed Authority

- (a) The Manager proposes to seek the authority from the Unitholders to allot and issue up to 20% of the approved fund size of Axis-REIT, to facilitate Axis-REIT in raising funds via the Proposed Placement. The Proposed Authority will empower the Directors with the flexibility to allot and issue new Units at any time via the Proposed Placement to any such persons, upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of new Units to be issued pursuant to the Proposed Authority does not exceed 20% of the approved fund size of Axis-REIT.
- (b) The proceeds, after deducting the estimated expenses of the Proposed Placement is expected to be used to repay Axis-REIT's existing bank financing (including finance cost payable), which were taken up to finance the acquisitions of properties as well as for capital expenditure, including development cost and working capital purposes, subject to the relevant applicable laws and regulations.

With the Proposed Authority, delays and further costs involved in convening separate Unitholders' meetings to approve such issue of the Placement Units to raise funds can be avoided. The Manager may, subject to relevant applicable laws and regulations, use the net proceeds from the issuance of the Placement Units under the Proposed Authority at its absolute discretion for other purposes as permitted under the REIT Guidelines. Any allotment and issue of the Placement Units pursuant to the Proposed Authority will be subject to the requisite approvals being obtained.

Special Business – Ordinary Resolution No. 2 : Proposed Renewal of IDRP Authority

- (c) The Manager proposes to renew the authority to allot and issue up to 143,383,961 new Units, representing approximately 11.64% of the existing issued fund size of Axis-REIT of 1,232,326,803 Units, for the purpose of the IDRP. The Proposed Renewal of IDRP Authority will empower the Directors with the flexibility to allot and issue new Units at any time under the IDRP, provided that the aggregate number of Units to be issued pursuant to the Proposed Renewal of IDRP Authority does not exceed 143,383,961 new Units.
- (d) The Unitholders had, at the Fifth AGM of Axis-REIT convened and held on 26 April 2017 approved, among others, the authority to allot and issue up to 145,537,173 new Units pursuant to the IDRP. Axis-REIT had applied the IDRP to the third interim income distribution for the period from 1 July 2017 to 30 September 2017 ("2017 Third Interim Income Distribution") which was declared on 23 October 2017 where a total of 2,153,212 new Units were issued under the IDRP on 13 December 2017. The new Units issued pursuant to the 2017 Third Interim Income Distribution were listed on the Main Market of Bursa Securities on 14 December 2017.
- (e) Taking into account the 2,153,212 Units which had been issued under the IDRP in conjunction with the 2017 Third Interim Income Distribution, the remaining number of new Units that can be allotted and issued pursuant to the Proposed Renewal of IDRP Authority will be up to 143,383,961 new Units, subject to the Unitholders' approval being obtained at the forthcoming AGM for the Proposed Renewal of IDRP Authority.

NOTICE OF SIXTH ANNUAL GENERAL MEETING

- (f) The net proceeds of a total RM 3.14 million were raised from the 2,153,212 Units which had been issued under the IDRPs in conjunction with the 2017 Third Interim Income Distribution (after deducting the related issuing expenses). The proceeds raised were utilized to refurbish and/or renovate the properties of Axis-REIT.
- (g) Any proceeds to be raised from the issuance(s) of new Units pursuant to the Proposed Renewal of IDRPs Authority, if such authority is renewed at the forthcoming AGM, shall be utilized to refurbish and/or renovate the properties of Axis-REIT.

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Personal Data Notice

In view of the enforcement of **Personal Data Protection Act 2010** ("Act") which regulates the processing of personal data in commercial transactions, the Act applies to us, **Axis REIT Managers Berhad**, being the management company of Axis-REIT.

The personal data processed by us may include your name, contact details, and mailing address and any other personal data derived from any documentation. We may use or disclose your personal data to any person we may engage for the purpose of the issuance of the Notice of AGM, despatch of the 2017 Annual Report and the convening of the AGM of Axis-REIT. As such, it is necessary for us to obtain your personal data in order to carry out the said purposes.

Subject to the requirements under the Act, if you would like to make any enquiries of your personal data, please contact us using any of the following modes:

Mailing address: Axis REIT Managers Berhad
 Penthouse, Menara Axis, No. 2, Jalan 51A/223, 46100 Petaling Jaya, Selangor Darul Ehsan

Telephone / Fax No: 603-7958 4882 /603-7957 6881

E-mail Address: pdpa@axis-reit.com.my

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REAL ESTATE INVESTMENT TRUST

(a real estate investment trust constituted under the laws of Malaysia)

INSTRUMENT OF PROXY

*I/We..... (*NRIC No. / Passport No. / Company No.)
of
being a Unitholder of Axis Real Estate Investment Trust ("Axis-REIT") hereby appoints
..... (*NRIC No. / Passport No.)

or failing him/her, *the Chairman of the meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Sixth Annual General Meeting of Axis-REIT to be held at Ballroom 1, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Thursday, 26 April 2018 at 10.00 a.m. or at any adjournment thereof.

Table with 4 columns: RESOLUTION, Proposed Authority, FOR, AGAINST. Rows include Ordinary Resolution No. 1 and Ordinary Resolution No. 2.

Please indicate with an "X" in the appropriate spaces provided above on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy may vote as he/she thinks fit.

Dated this day of 2018

Table with 2 columns: Central Depository System Account No., No. of Units held in Axis-REIT

.....
Signature of Unitholder or Common Seal

* Strike out whichever is not desired.

Notes:

- (1) A Unitholder shall be entitled to attend and vote at any meeting of Unitholders and shall be entitled to appoint up to two (2) persons, whether a Unitholder or not, as its proxy to attend and vote.
(2) Where a Unitholder is a corporation, its duly authorised representative shall be entitled to attend and vote at the meeting and shall be entitled to appoint up to two (2) persons (whether a Unitholder or not) as its proxy to attend and vote.
(3) Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
(4) If the Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Authorised Nominee"), it may appoint at least one (1) proxy (but no more than two (2)) in respect of each securities account it holds with Units of Axis-REIT standing to the credit of the said securities account.
(5) If the Unitholder is an exempt Authorised Nominee which holds Units for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
(6) Only a depositor whose name appears in the Record of Depositors of Axis-REIT as at 19 April 2018 shall be regarded as a Unitholder and entitled to attend, speak and vote at this AGM of Axis-REIT or appoint proxy(ies) to attend and vote on his/her behalf.
(7) The Instrument of Proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation, the Instrument of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.
(8) To be valid, the original Instrument of Proxy duly completed and signed must be deposited at the registered office of the Manager at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting (facsimile copy of Instrument of Proxy would be disregarded).

Fold this flap for sealing

Then fold here

**AFFIX
STAMP**

The Manager of Axis Real Estate Investment Trust
Axis REIT Managers Berhad
c/o Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur

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CALENDAR 2018

JANUARY

M	T	W	T	F	S	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

FEBRUARY

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MARCH

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APRIL

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MAY

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JUNE

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JULY

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AUGUST

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SEPTEMBER

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OCTOBER

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29	30	31				

NOVEMBER

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DECEMBER

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31						1
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PROPOSED CALENDAR OF FINANCIAL EVENTS FOR 2018

January 2018

- Announcement of the Unaudited Results for FYE2017
- Announcement of the 4Q17 Final Income Distribution

February 2018

- Book Closure date to determine the entitlement to the 4Q17 Final Income Distribution
- Payment of the 4Q17 Final Income Distribution
- Release of the 2017 Annual Report

April 2018

- Announcement of the Unaudited Results for 1Q18
- Announcement of the 1Q18 Interim Income Distribution
- Annual General Meeting

May 2018

- Book Closure date to determine the entitlement to the 1Q18 Interim Income Distribution

June 2018

- Payment of the 1Q18 Interim Income Distribution

July 2018

- Announcement of the Unaudited Results for 2Q18
- Announcement of the 2Q18 Interim Income Distribution

August 2018

- Book Closure date to determine the entitlement to the 2Q18 Interim Income Distribution
- Payment of the 2Q18 Interim Income Distribution

October 2018

- Announcement of the Unaudited Results for 3Q18
- Announcement of the 3Q18 Interim Income Distribution

November 2018

- Book Closure date to determine the entitlement to the 3Q18 Interim Income Distribution

December 2018

- Payment of the 3Q18 Interim Income Distribution

January 2019

- Announcement of the Unaudited Results for FYE2018
- Announcement of the 4Q18 Final Income Distribution

www.axis-reit.com.my

Prepared by:

AXIS REIT MANAGERS BERHAD (649450-W)

As the Manager of Axis-REIT

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

Tel : +603 7958 4882 / 4881 / 4886 Fax : +603 7957 6881

E-mail : info@axis-reit.com.my