



MANAGER'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

AXIS BUSINESS CAMPUS



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

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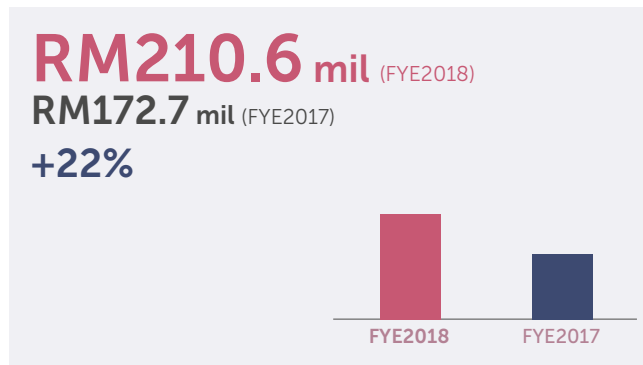
Chief Financial Officer

MANAGER'S DISCUSSION AND ANALYSIS

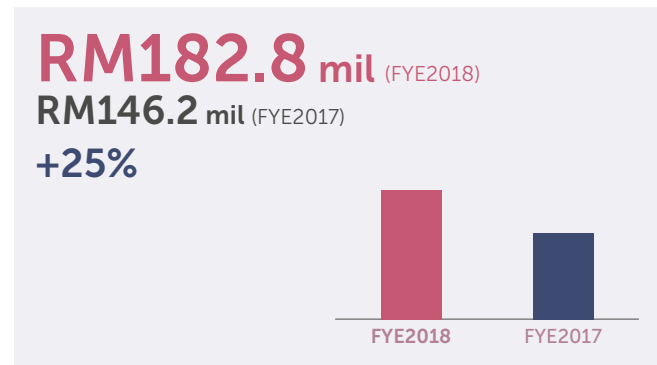
FINANCIAL REVIEW

As at 31 December 2018

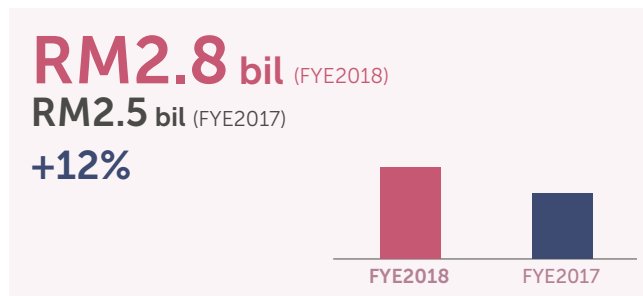
REVENUE



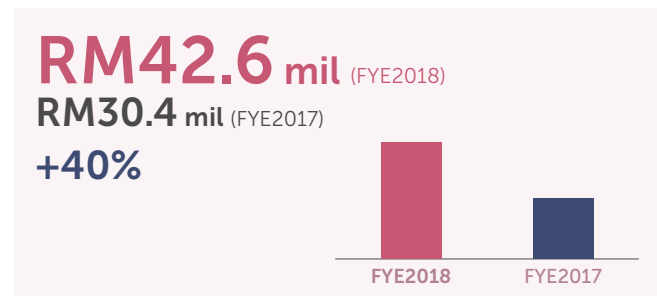
NET PROPERTY INCOME



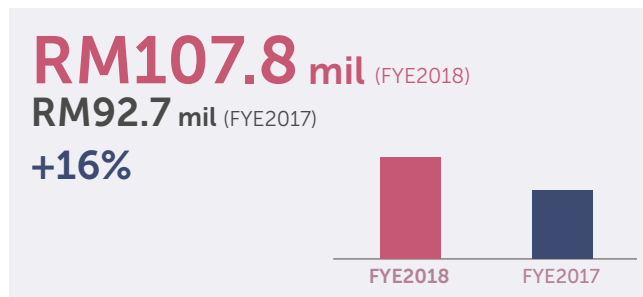
ASSETS UNDER MANAGEMENT



FAIR VALUE GAIN ON INVESTMENT PROPERTIES



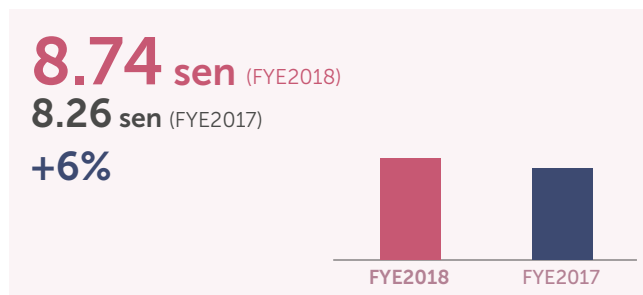
DISTRIBUTABLE INCOME



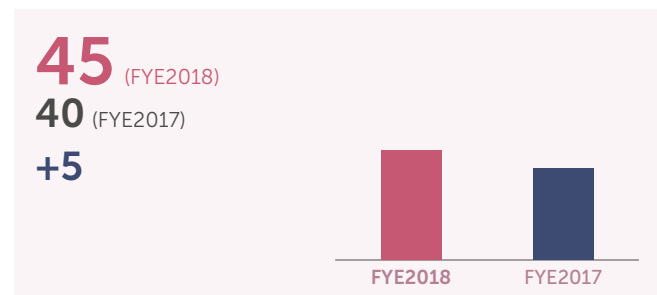
TOTAL ACQUISITIONS



DISTRIBUTION PER UNIT



NO. OF PROPERTIES



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Highlights

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

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

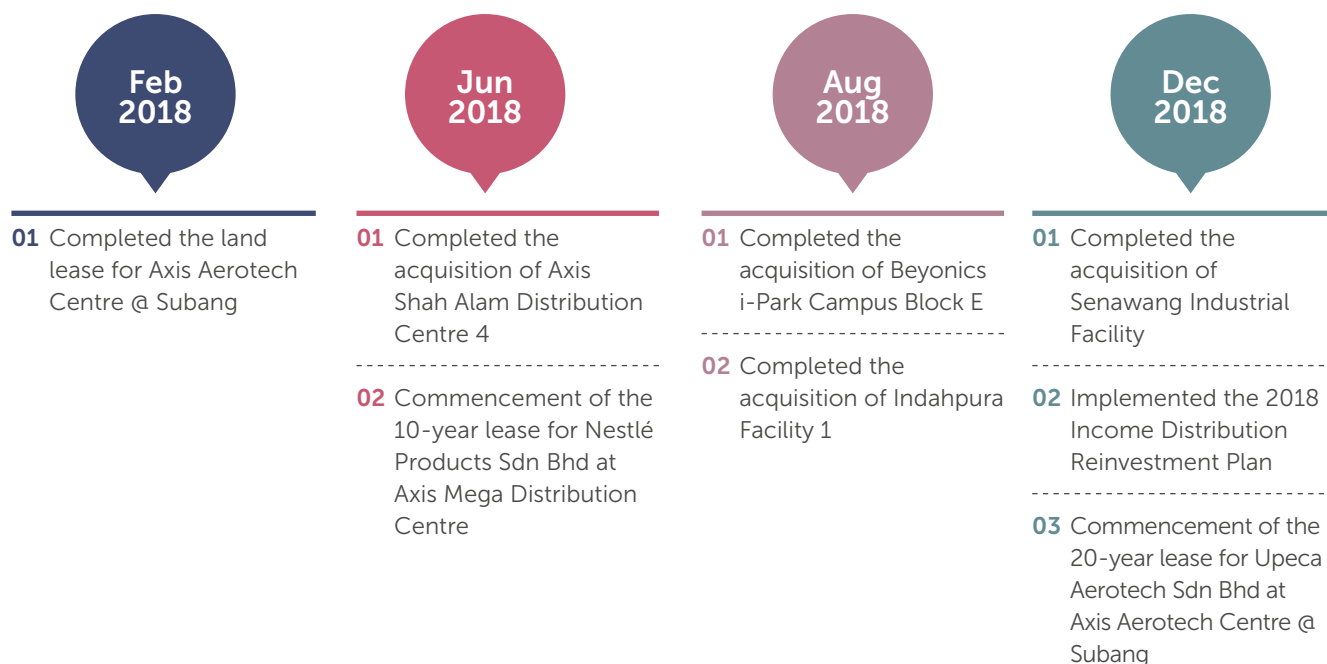
	FYE2017	FYE2018
Total realised net income after taxation (RM'000)	90,796	113,442
DPU (sen)	8.26 sen *	8.74 sen

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

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

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

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



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Income Distribution

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

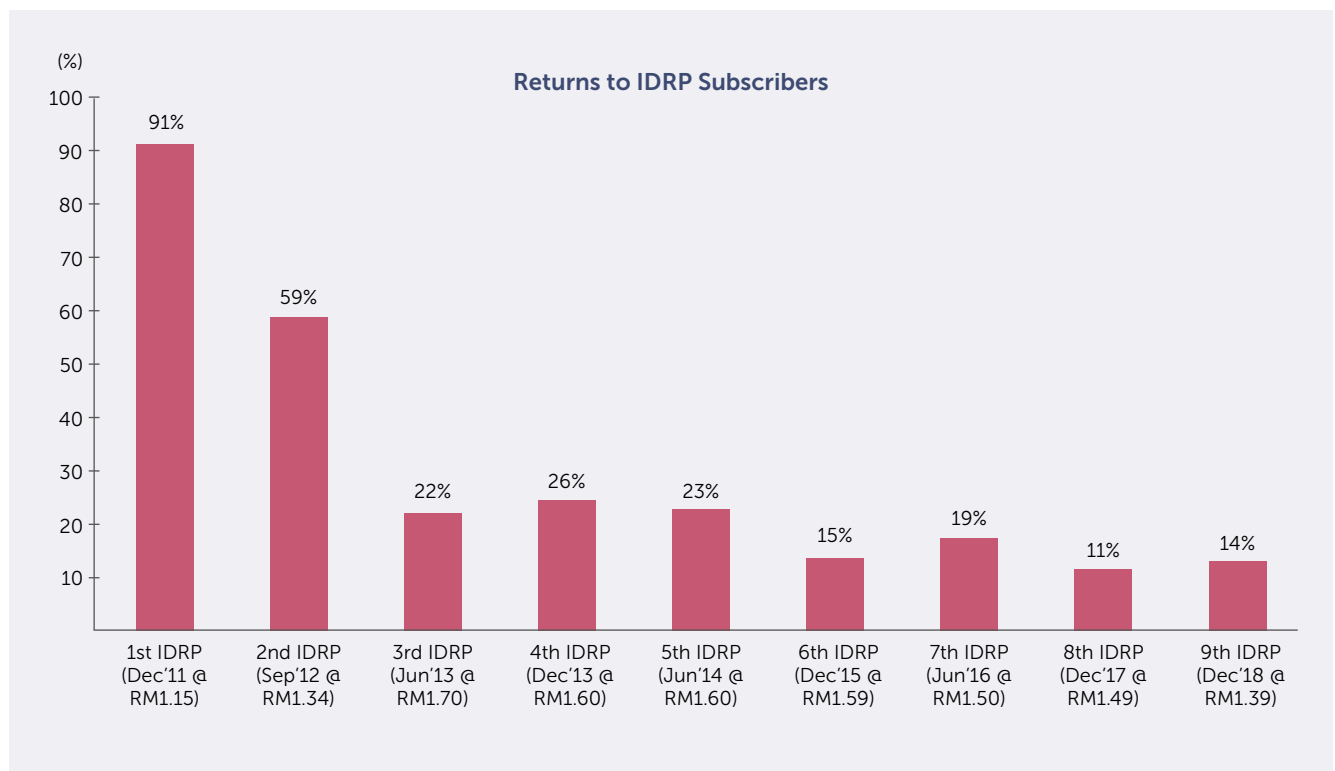
The aggregate DPU translated to a distribution yield of 5.6%, based on the Fund's closing unit price of RM1.56 as at 31 December 2018.

2018 IDRPs Successfully Implemented

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

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

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



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Acquisition of Yield-Accretive Properties

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

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

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

Summary of Performance

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

* Adjusted to reflect the effect of Unit Split

Summary of Results

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

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

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

After offsetting unbilled lease income receivable.

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

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

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

Increase in Gross Revenue with Recent Acquisitions

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

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

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

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

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

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

Property Yields

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

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

Management of Property Operating Expenses

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

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

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Overall Financial Results

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

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

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

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

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

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

* Land lease completed on 7 February 2018

** Acquisition completed on 4 June 2018

*** Acquisition completed on 9 August 2018

^ Acquisition completed on 5 December 2018

Unbilled Lease Income Receivables

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

Profit Income

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

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Portfolio Valuation

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

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

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

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

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

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

Note:

* Carrying value based on valuations conducted by independent registered valuers

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

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

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Valuation Analysis

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

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

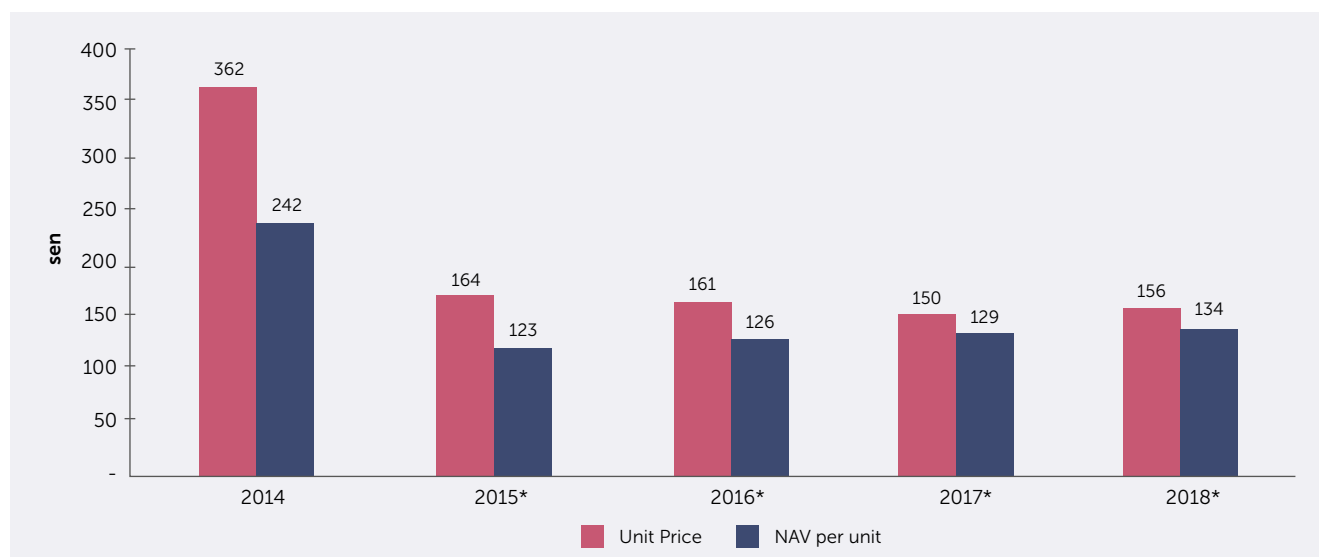
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Properties		Market Value (RM'000)	Total Investment Outlay (including enhancements) (RM'000)	Accumulated Revaluation Gain (RM'000)
30	Axis MRO Hub	53,300	53,539	(239)
31	Axis Shah Alam Distribution Centre 3	185,500	187,011	(1,511)
32	Axis Steel Centre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

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

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



* unit prices adjusted to reflect the effect of Unit Split

MANAGER'S DISCUSSION AND ANALYSIS

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Non-Property Expenses

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

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

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

Administrative and Professional Fees

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

Islamic Financing Costs

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

Alignment of Interests Between the Manager and the Fund

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

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

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

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

General Mandate to Issue New Units in Axis-REIT

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

MANAGER'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Sukuk Programme

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

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

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

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financing Profile

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

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

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

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

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

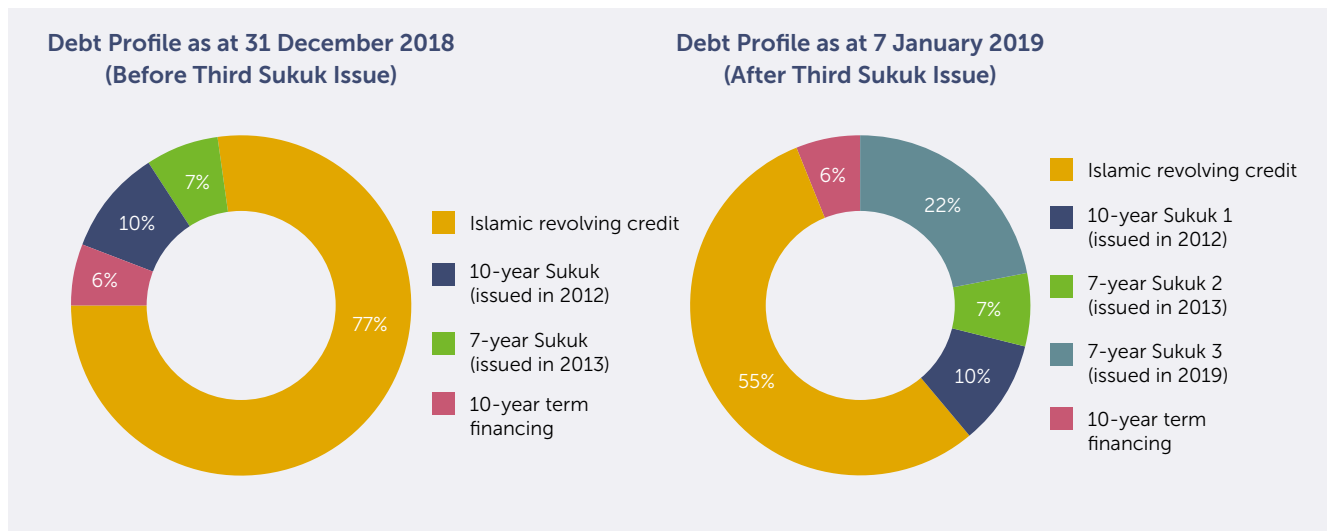
The financing cost for approximately 14% of the Fund's outstanding financing, to an aggregate amount of RM150.0 million, was hedged through Islamic Profit Rate Swaps ("IPRS").

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

MANAGER'S DISCUSSION AND ANALYSIS

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



Risk Management

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

Liquidity Risk

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

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

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

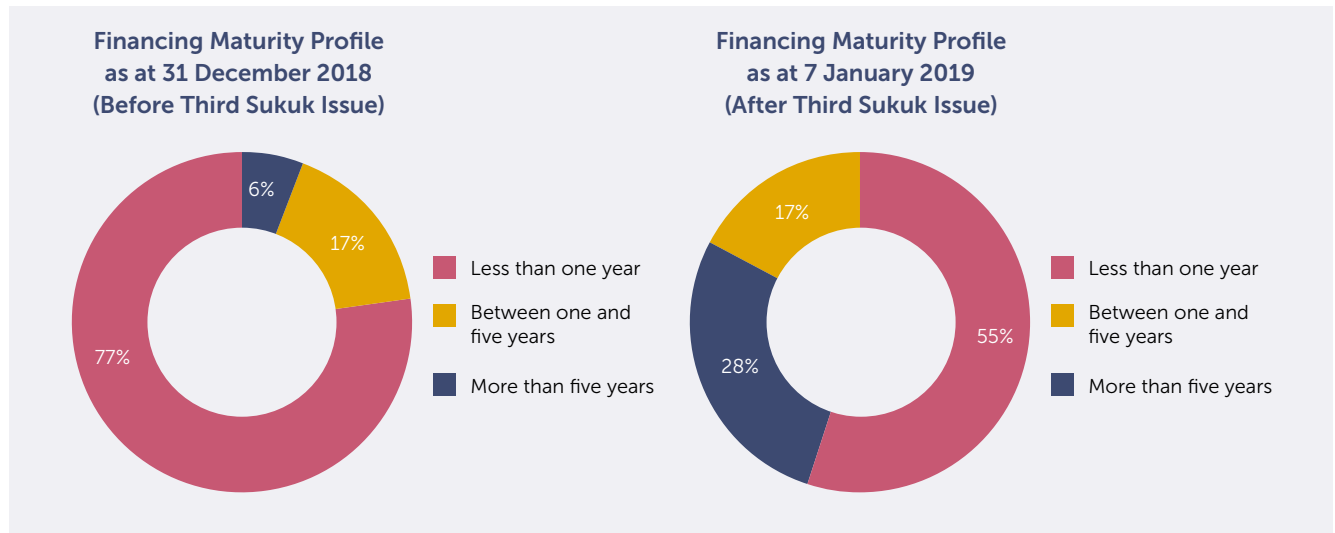
The Fund had a total of RM18 million in cash balances and short-term Islamic deposits, as well as committed but undrawn revolving credit facilities of RM113 million as at 31 December 2018.

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

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

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

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

**Interest Rate Risk**

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

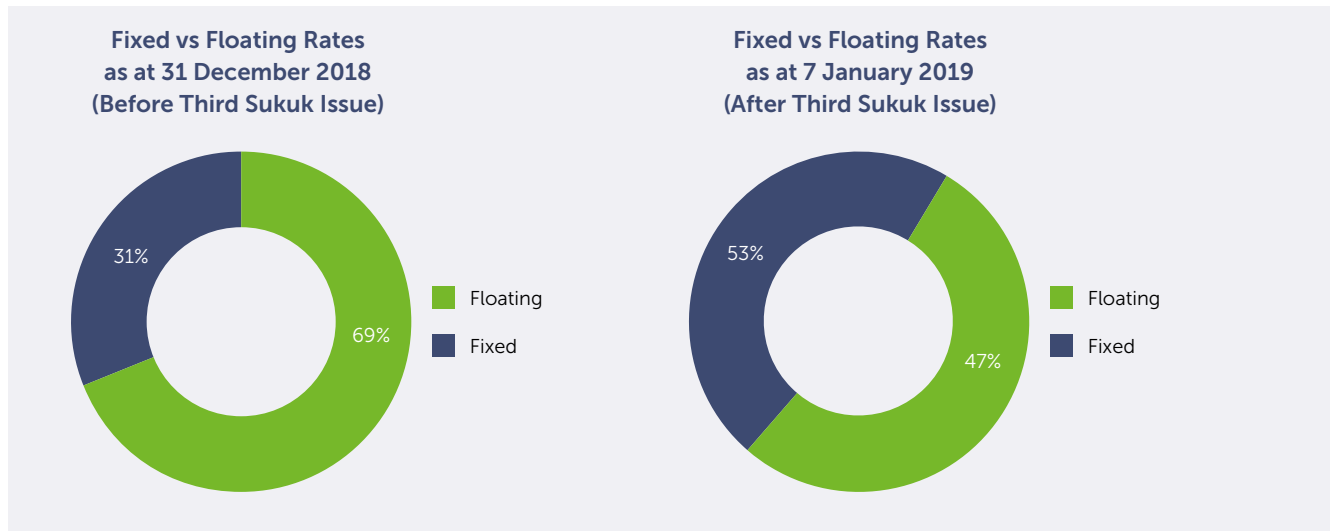
The Fund's gearing ratio was 37% as at 31 December 2018. Of its total financing facilities, RM180 million are in Sukuk with fixed rates. Some financing facilities carry floating rates and are subject to fluctuations in profit rates.

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

MANAGER'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

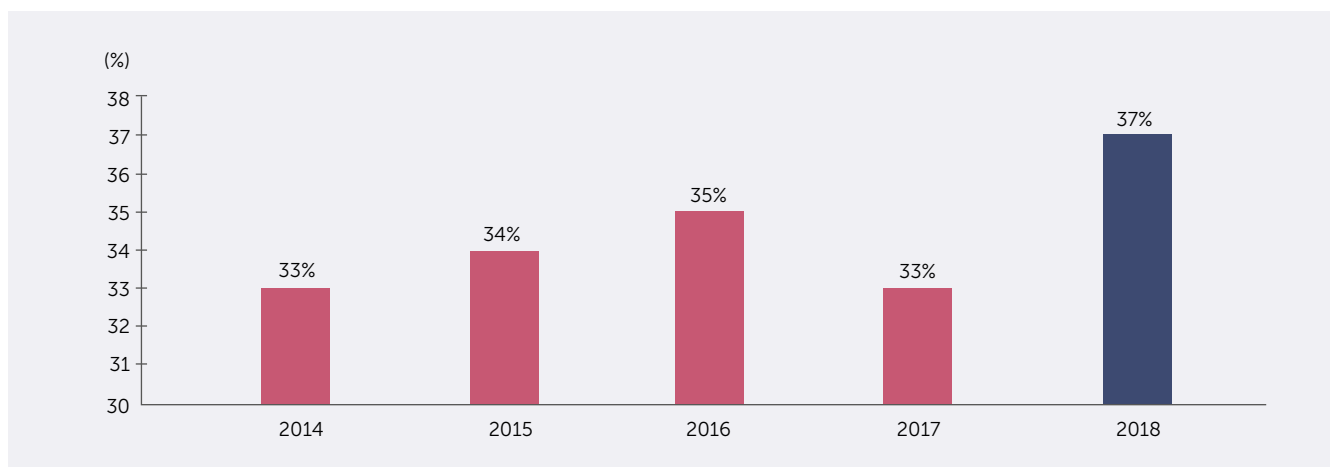


The Fund will continue to monitor the market, watching closely for opportunities to further increase the fixed rate portion of its outstanding financing.

Gearing Risk

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

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



MANAGER'S DISCUSSION AND ANALYSIS

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Valuation

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

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

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

Tenant and Credit Risk

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

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

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

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

Doubtful Debt Provision and Impairment Losses on Trade Receivables

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

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

* Including unbilled lease income receivable

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

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

Risk Management Framework

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

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

MANAGER'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

A Snapshot in USD

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

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

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

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

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

Summary of Results – in USD

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

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Direct Method Statement of Cash Flows

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

REPORT ON SHARIAH COMPLIANCE



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

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

IBFIM's services include:

- Providing expertise and guidance to the Manager in all matters relating to Shariah requirements, including Axis-REIT's structure, investment process, and other operational and administrative matters;
- Assessing any new tenant(s) and/or new property to be acquired by Axis-REIT to ensure that all the activities of the new tenant(s) and/or composition/contribution of non-permissible activities stay within the tolerable benchmark set by the Shariah Advisory Council ("SAC") of the SC;
- Providing certification in annual report on Axis-REIT's ability to remain as an Islamic REIT in accordance with the provisions prescribed by the SC's Guidelines on Listed Real Estate Investment Trusts;

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

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

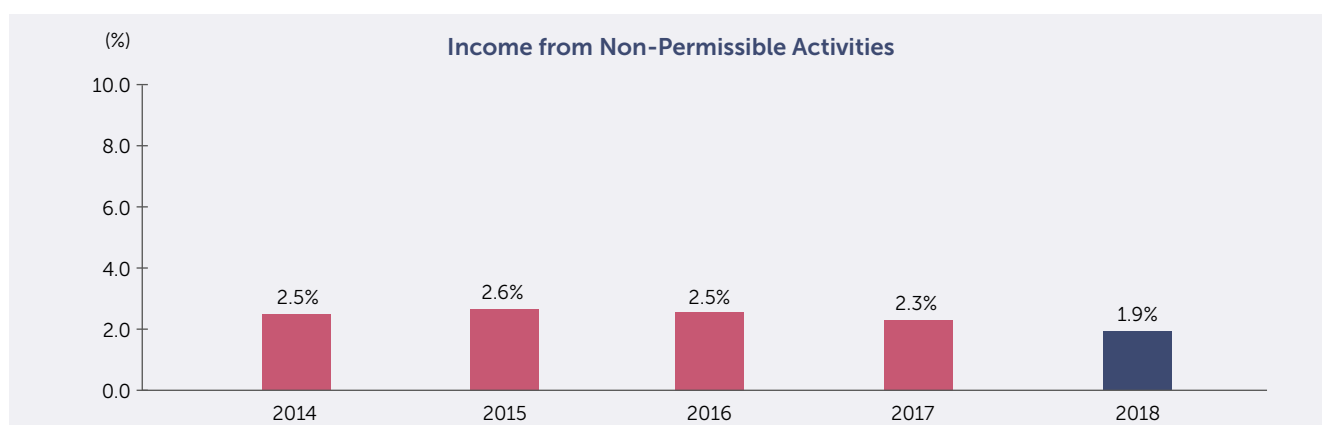
The Manager is pleased to report that:

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

Based on confirmation obtained from the Shariah Adviser:

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

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



MANAGER'S DISCUSSION AND ANALYSIS

SHARIAH ADVISER'S REPORT

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

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

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

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

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

For and on behalf of the Shariah Adviser
IBFIM

NAZMI ASHRAF BIN MOHD NAZIM

Consultant (Shariah)/Designated Person Responsible for Shariah Advisory

Kuala Lumpur
Date: 14 February 2019



MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT



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

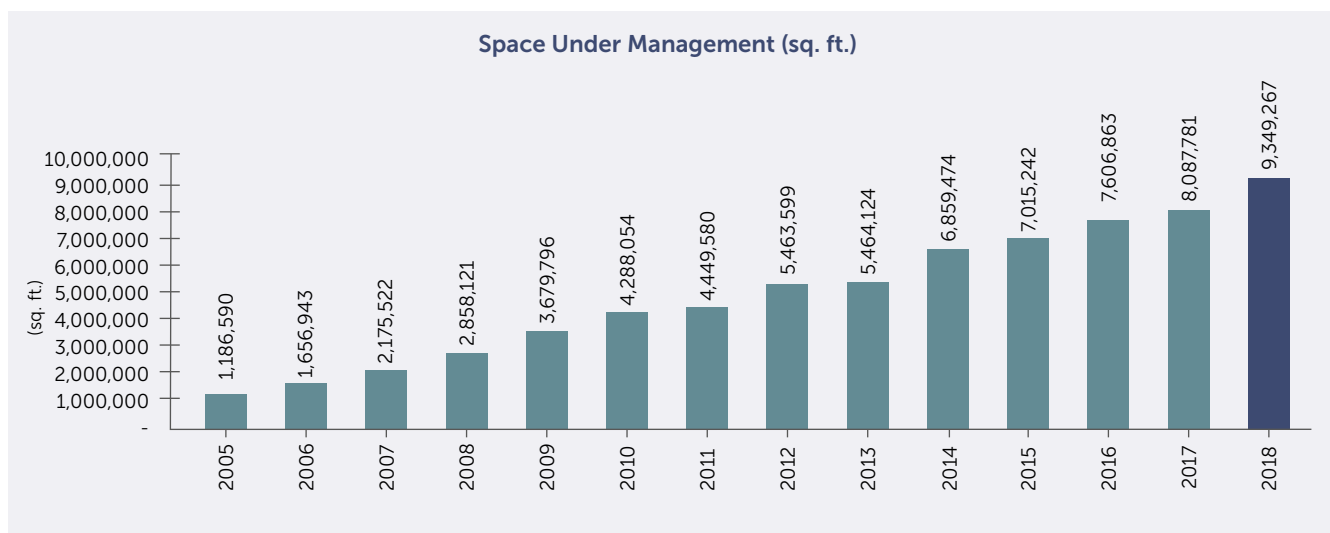
JACKIE LAW
Head of Real Estate

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

PORTFOLIO OVERVIEW

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



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

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

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

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

- Positive Revenue Contribution from Newly-Added Space**

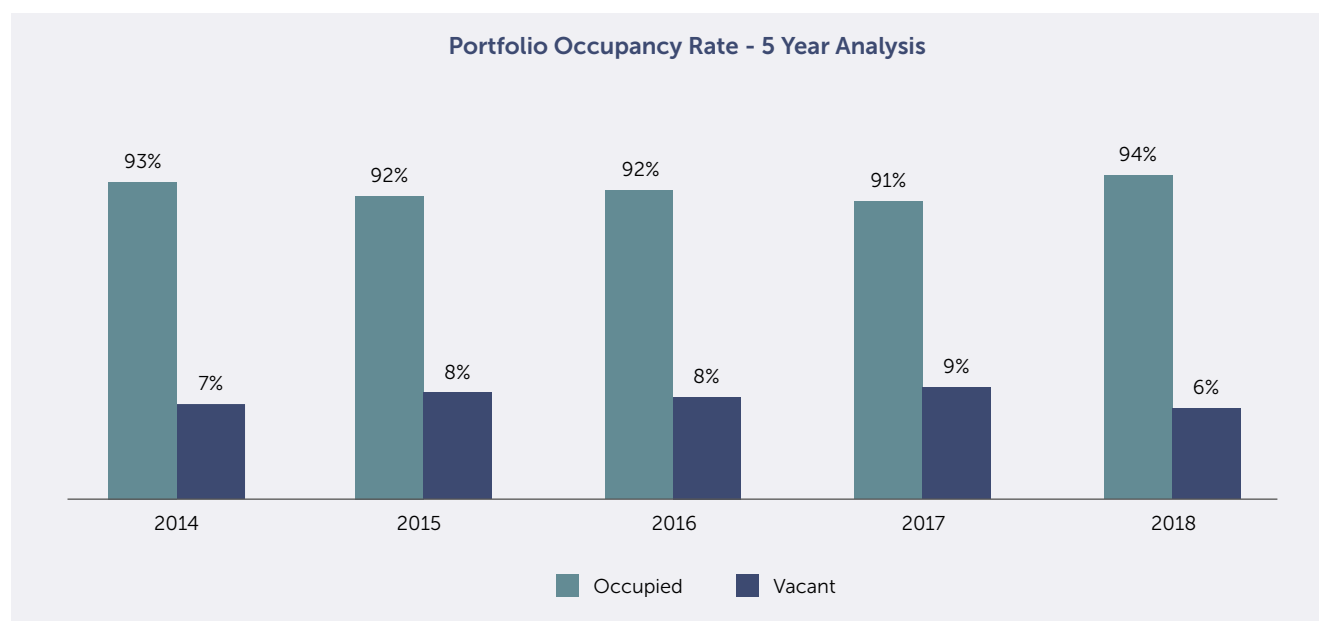
The 1,262,377 sq. ft. of space that was added to the portfolio in 2018 generated an additional RM2.9 million in monthly rental revenue for the Fund. The positive earnings contribution was achievable as Axis-REIT's asset acquisitions and built-to-lease developments typically come with 100% occupancy rates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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

- Improved Portfolio Occupancy**

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



- Positive Rental Reversion and Improvement in WALE**

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

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

RISK MANAGEMENT

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

- Tenant Credit Worthiness**

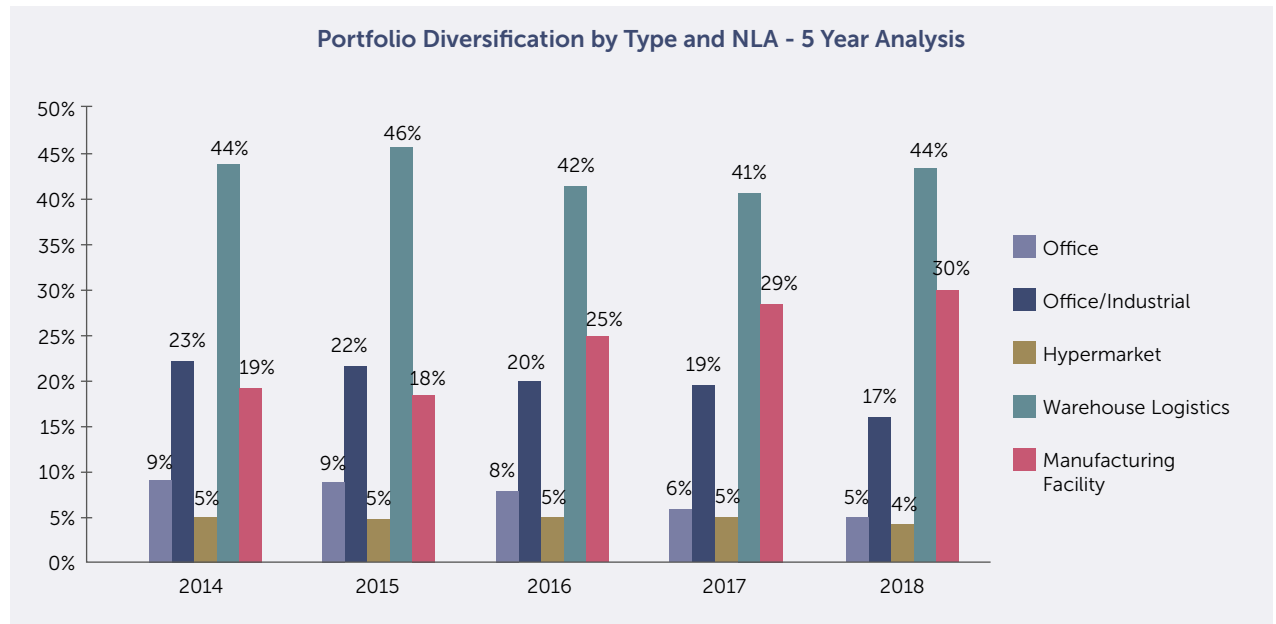
To minimise tenant credit risk, a stringent credit evaluation process is conducted before a prospective tenant is offered tenancy within the Fund's portfolio. The evaluation process is repeated annually to monitor each tenant's credit worthiness. The Finance Team also vigilantly tracks rental collections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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

- Maintaining a Diverse Tenant Base**

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



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

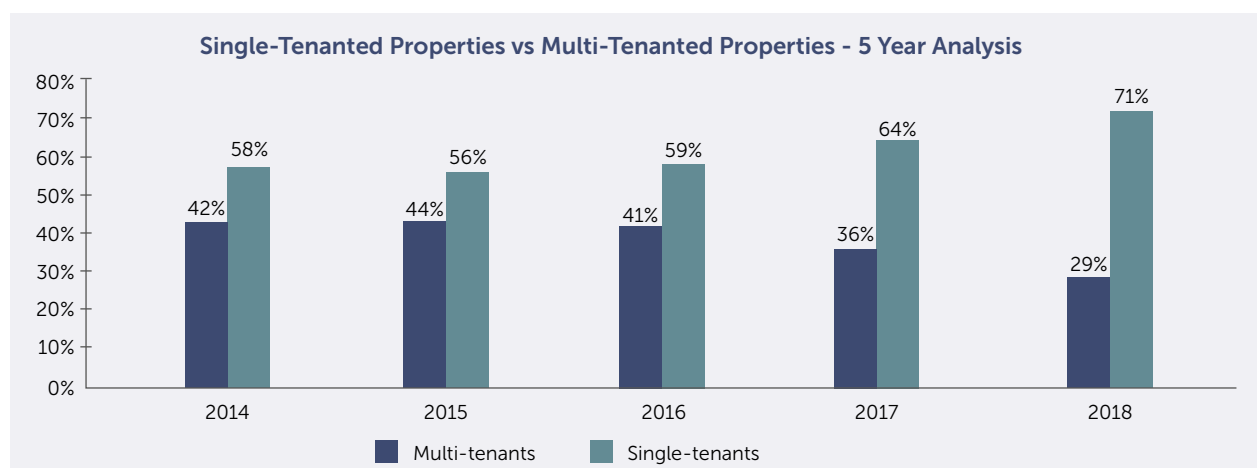
Nine of the Fund's top 10 tenants occupy single-tenanted properties. All single-tenanted properties feature high-quality tenants that have signed long-term lease agreements. These properties also generally have much lower maintenance costs as a proportion of income. Two of the tenants in this group,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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT



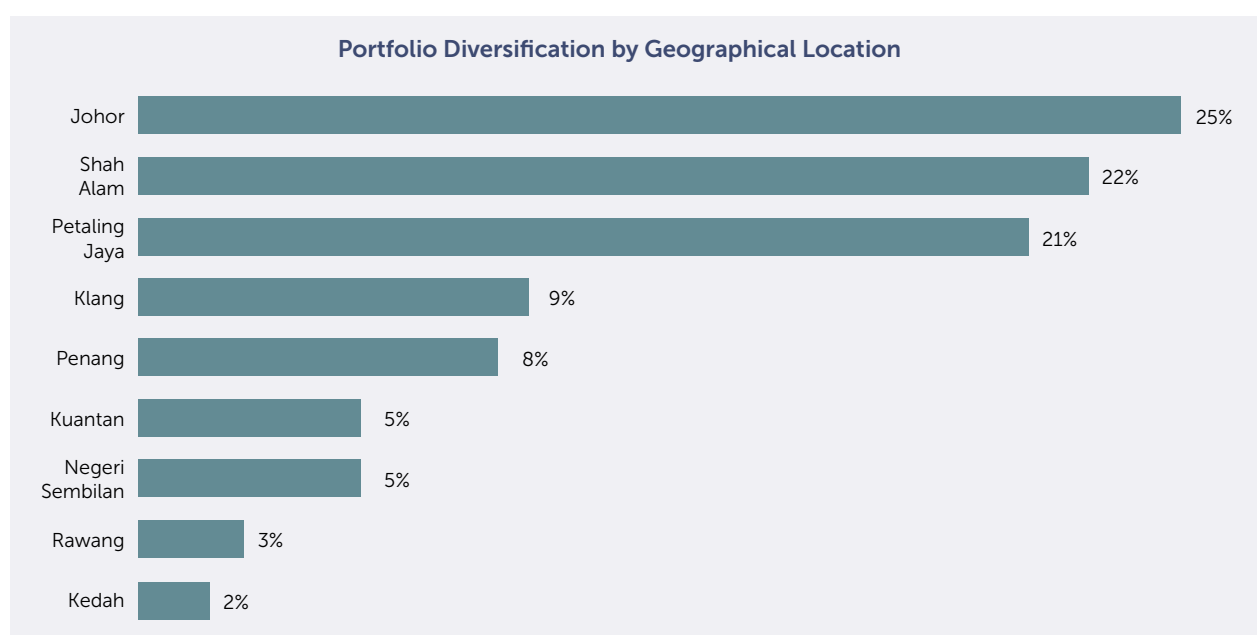
With the addition of industrial properties and two built-to-specification facilities in 2018, the proportion of single-tenanted properties grew to make up 71% of Axis-REIT's property portfolio as at 31 December 2018. These single-tenanted properties provide stable, long-term, organic rental income growth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

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

- Keeping the Portfolio Geographically Diversified**

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

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



MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

- Managing Lease Expiry Profiles**

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

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

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

Portfolio Lease Expiry Profile by Location, 2019-2021

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

Portfolio Lease Expiry Profile by Property Type, 2019-2021

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

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

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

Portfolio WALE – 5 Year Analysis

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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

• Land Tenure Management

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

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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

CENTRAL REGION - SELANGOR

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

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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

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

■ Services
 ■ Logistics
 ■ Consumer products
 ■ Manufacturing

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

CENTRAL REGION - SELANGOR

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

[#] Land lease

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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

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

■ Services
 ■ Logistics
 ■ Consumer products
 ■ Manufacturing

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

CENTRAL REGION - NEGERI SEMBILAN

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancements as of 31/12/18 (RM'000)	Carrying Value based on latest valuation (RM'000)
24 Emerson Industrial Facility Nilai	30/08/2012	26,500	27,443	32,800
25 Senawang Industrial Facility	05/12/2018	18,500	18,933	21,000

NORTHERN REGION

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

EAST COAST REGION

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

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

■ Services
 ■ Logistics
 ■ Consumer products
 ■ Manufacturing

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

SOUTHERN REGION

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

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

MANAGER'S DISCUSSION AND ANALYSIS

REAL ESTATE REPORT

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



MANAGER'S DISCUSSION AND ANALYSIS

PROJECT
MANAGEMENT
REPORT



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

LOH YEN FERN
Head of Project Mangement

MANAGER'S DISCUSSION AND ANALYSIS

PROJECT MANAGEMENT REPORT

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

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

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

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

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



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

Details of the project are as follows:

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

MANAGER'S DISCUSSION AND ANALYSIS

PROJECT MANAGEMENT REPORT



Aerial view of the completed Axis Aerotech Centre @ Subang

ASSET ENHANCEMENT INITIATIVES ("AEIs") IN 2018

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

**AEIs ensure
our properties
remain
relevant and
competitive**



The AEIs implemented in FYE2018 are as follows:

Axis Business Campus

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



MANAGER'S DISCUSSION AND ANALYSIS

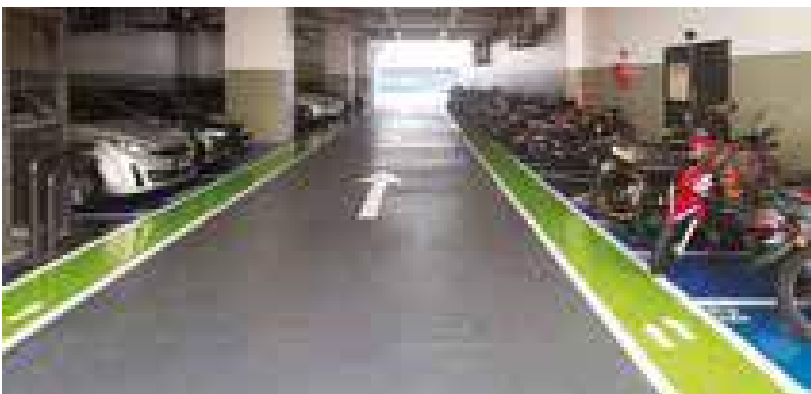
PROJECT MANAGEMENT REPORT



Crystal Plaza

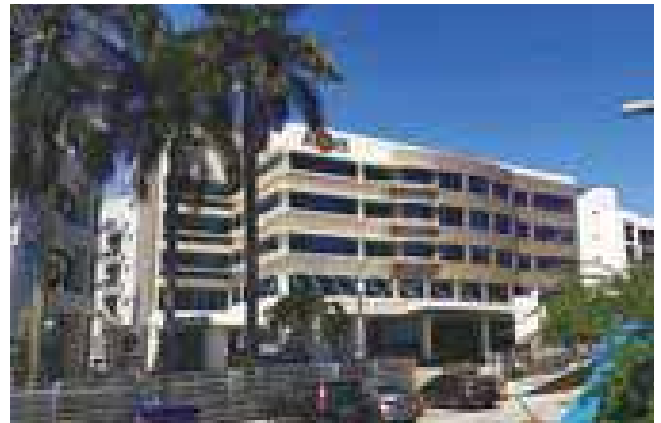
Enhancement works were carried out to waterproof and reconfigure existing mechanical & electrical services on the building's roof top.

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



MANAGER'S DISCUSSION AND ANALYSIS

PROJECT MANAGEMENT REPORT



Building Signage

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

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

Engineering Due Diligence on New Acquisitions

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

Future Development

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

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





MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY
MANAGER'S
REPORT



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

SIVA SHANKAR PALANY
Head of Facilities Management

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MANAGER'S REPORT

Maintaining a Superior Built Environment

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

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

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

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

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

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

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

Expense Management

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

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

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

* excluding unbilled lease income receivable

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MANAGER'S REPORT

Valuation

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

Code Compliance

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

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

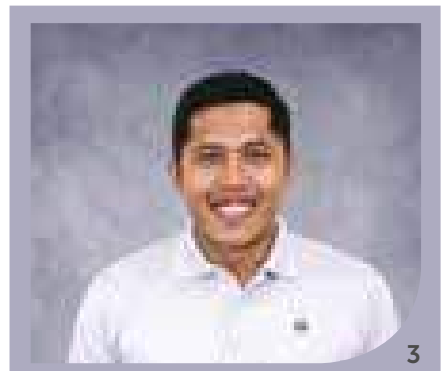
FACILITIES MANAGEMENT TEAM



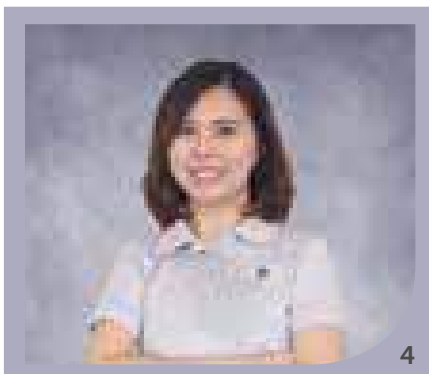
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- 1. SIVA SHANKAR**
Head of Facilities Management
- 2. SARAVANAKUMARAN**
Senior Facility Manager
- 3. NAQUIUDDIN BIN YAHYA**
HSSE Manager
- 4. LOH WAI YAN**
Senior Property Executive
- 5. KATHERINE LIM**
Administrative Assistant

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MANAGER'S REPORT



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9

PETALING JAYA

6. V. KAMALAHASAN

Facility Manager

- Menara Axis
- Crystal Plaza
- Quattro West

8. LIEW LEE TACK

Facility Manager

- Infinite Centre

10. ISHAK ABU BAKAR

Facility Manager

- Axis Technology Centre
- Axis Business Campus
- Axis Vista

7. JAMALUDDIN ATAN

Facility Manager

- Axis Business Park
- Strateq Data Centre

9. SIVAKUMAR

Facility Manager

- Wisma Kemajuan
- Wisma Academy Parcel
- The Annex



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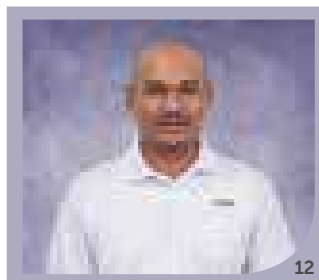
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11. NORHIDAYAH SALLEH

Facility Manager

SHAH ALAM/ KLANG/NILAI

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



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12. MOHD AZMI YAACOB

Facility Manager

JOHOR

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



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13. SUHAIMI MAT ISA

Facility Manager

PENANG & KEDAH

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

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018



MARKET INDICATIONS

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

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

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

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

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

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

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

INDUSTRIAL SECTOR OVERVIEW

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

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

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

Source: Department of Statistics, Malaysia

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

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

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

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

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

Source: Malaysian Investment Development Authority (MIDA)

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

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

INDUSTRIAL MARKET

1.0 GREATER KUALA LUMPUR

1.1 Industrial Sector

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

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

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

Source: Malaysia Investment Development Authority (MIDA)

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

1.2 Industrial Property Market

1.2.1 Overview

WP Kuala Lumpur and Selangor: Volume & Value of Industrial Property Transactions, 2016 to Jan-Sept 2018

Federal Territory / State	Industrial Property Type	2016		2017		Jan-Sept 2018	
		Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)	Volume (No.)	Value (RM million)
WP Kuala Lumpur	Terraced	21	73.83	33	98.13	43	66.45
	Semi-detached	6	42.50	7	72.13	9	51.70
	Detached	10	151.10	7	94.28	5	33.93
	Others ⁽¹⁾	81	130.47	30	14.37	49	52.93
	Total	118	397.90	77	278.91	106	205.01
Selangor	Terraced	782	654.68	771	682.92	628	600.89
	Semi-detached	298	1,016.66	404	1,481.35	273	1,008.37
	Detached	192	2,163.97	211	2,445.29	136	2,855.79
	Others ⁽¹⁾	366	2,056.08	571	1,559.34	334	1,948.58
	Total	1,638	5,891.39	1,957	6,168.90	1,371	6,413.63
Greater Kuala Lumpur	Terraced	803	728.51	804	781.05	671	667.34
	Semi-detached	304	1,059.16	411	1,553.48	282	1,060.07
	Detached	202	2,315.07	218	2,539.57	141	2,889.72
	Others ⁽¹⁾	447	2,186.55	601	1,573.71	383	2,001.51
	Total	1,756	6,289.29	2,034	6,447.81	1,477	6,618.64

Source: National Property Information Centre (NAPIC)

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

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

1.2.2 Supply: Existing and Future

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

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

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

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

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

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

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

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

1.2.3 Capital Values

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

Selangor: Selected Industrial Property Transactions, 2018

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

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

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

Source: Bursa Malaysia / Knight Frank Research, Dec 2018

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

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

1.2.4 Rental Values

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

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

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

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

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

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

2.0 JOHOR

2.1 Industrial Sector

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

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

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

Source: Malaysia Investment Development Authority (MIDA)

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

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

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

2.2 Industrial Property Market

2.2.1 Overview

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

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

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

Source: National Property Information Centre (NAPIC)

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

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

2.2.2 Supply: Existing and Future

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

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

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

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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

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

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

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

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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

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

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2.2.3 Capital Values

There were several notable transactions of industrial premises in 2018.

Johor: Selected Industrial Property Transactions, 2018

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

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

Source: Bursa Malaysia / Knight Frank Research

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

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2.2.4 Rental Values

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

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

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

3.0 PENANG

3.1 Industrial Sector

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

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

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

Source: Malaysia Investment Development Authority (MIDA)

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

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

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3.2 Industrial Property Market

3.2.1 Overview

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

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

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

Source: National Property Information Centre (NAPIC)

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

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

3.2.2 Supply: Existing and Future

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

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

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

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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

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

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

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

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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

3.2.3 Capital Values

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

Penang: Selected Industrial Property Transactions, 2018

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

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

Source: Bursa Malaysia / Knight Frank Research

3.2.4 Rental Values

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

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

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

4.0 PAHANG

4.1 Industrial Sector

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

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

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

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

Source: Malaysia Investment Development Authority (MIDA)

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

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

4.2 Industrial Property Market

4.2.1 Overview

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

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

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

Source: National Property Information Centre (NAPIC)

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

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

4.2.2 Supply: Existing and Future

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

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

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

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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

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

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

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

Source: National Property Information Centre (NAPIC)

Note: (p) = Preliminary

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

4.2.3 Capital Values

There was no significant transaction in Pahang during 2018.

4.2.4 Rental Values

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

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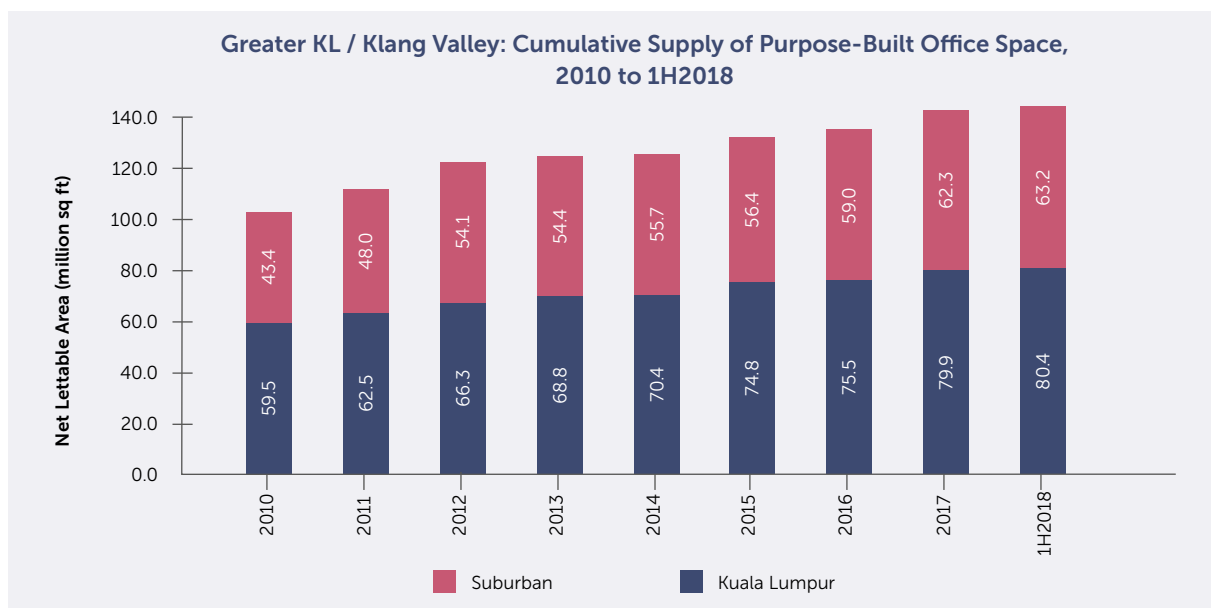
OFFICE MARKET

5.0 GREATER KUALA LUMPUR / KLANG VALLEY

5.1 Supply: Existing and Future

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

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



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

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

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

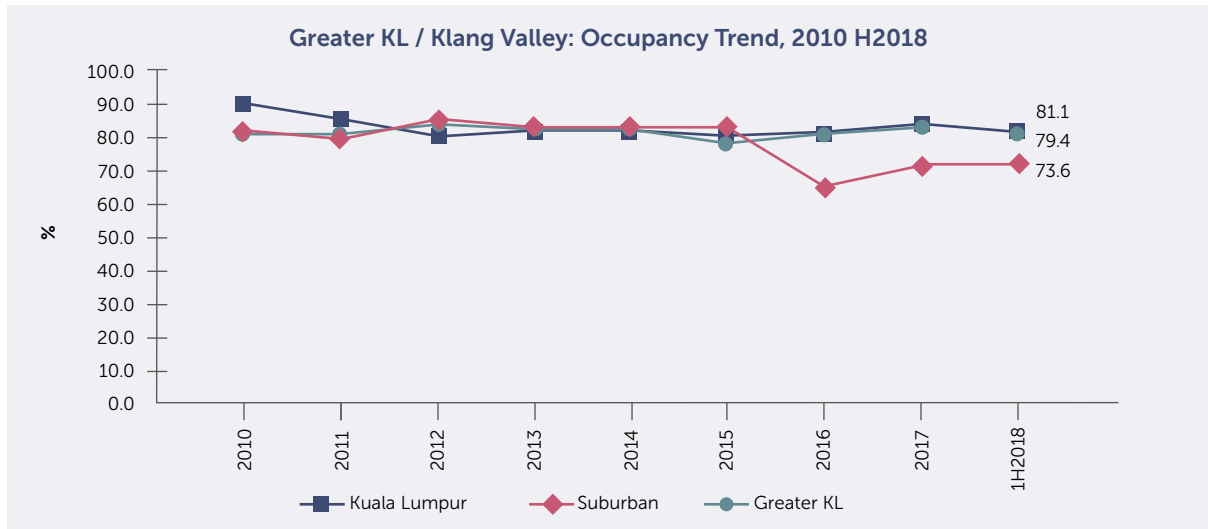
Notable office buildings slated for completion in 2019 include The Exchange 106, Menara Prudential and Equatorial Plaza in KL City; and Menara Star 1, 1Powerhouse and Symphony Square in Suburban locations.

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5.2 Occupancy Rates

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



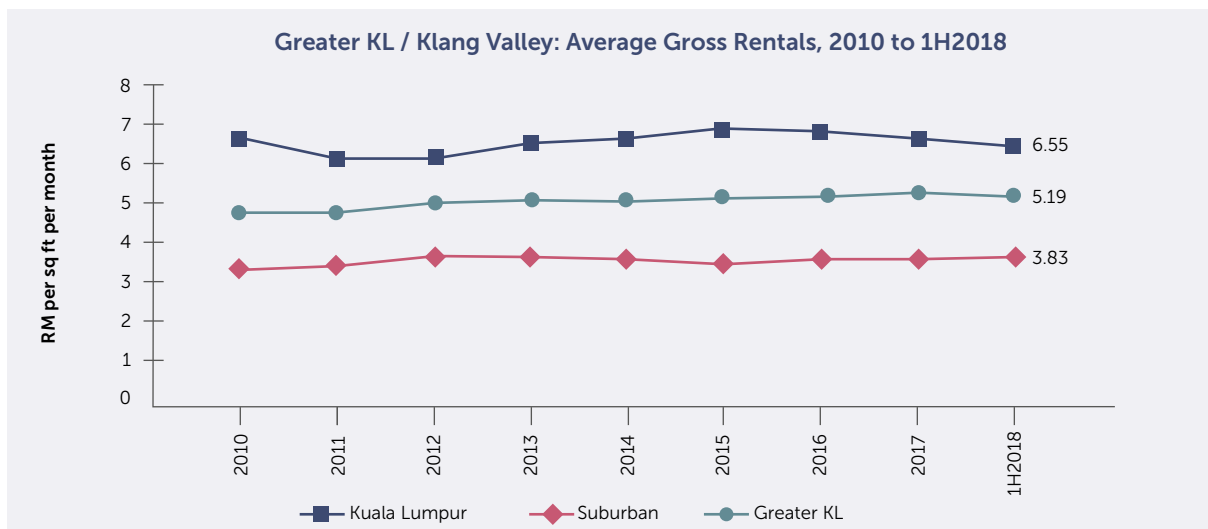
Source: National Property Information Centre (NAPIC) / Knight Frank Research

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

5.3 Rental Rates

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

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



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

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5.4 Capital Values

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

Greater KL / Klang Valley: Notable Office Transactions, 2018

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

Source: Knight Frank Research

Notes:

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

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

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

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

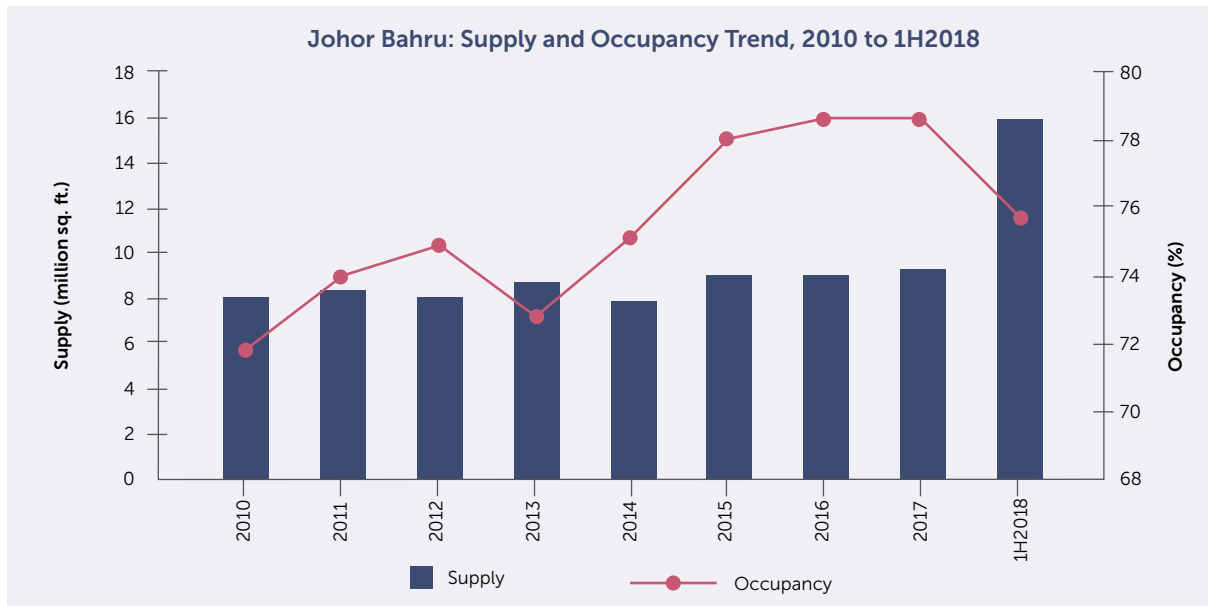
PROPERTY MARKET OVERVIEW 2018

6.0 JOHOR

6.1 Supply & Occupancy

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

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



Source: National Property Information Centre (NAPIC)

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

PROPERTY MARKET OVERVIEW 2018

6.2 Rental Rates

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

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

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

Source: Knight Frank Research

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

7.0 PENANG

7.1 Supply & Occupancy

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

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

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

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

7.2 Rental Rates

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

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



MANAGER'S DISCUSSION AND ANALYSIS

INVESTMENTS REPORT



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

SIVA SHANKER
Head of Investments

MANAGER'S DISCUSSION AND ANALYSIS

INVESTMENTS REPORT

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

Enhanced Asset Evaluation Process

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

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

Acquisitions of Properties

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

Land Lease

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

MANAGER'S DISCUSSION AND ANALYSIS

INVESTMENTS REPORT

SALIENT DETAILS OF ACQUISITIONS COMPLETED IN 2018:

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

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



MANAGER'S DISCUSSION AND ANALYSIS

INVESTMENTS REPORT

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

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



MANAGER'S DISCUSSION AND ANALYSIS

INVESTMENTS REPORT

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

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



MANAGER'S DISCUSSION AND ANALYSIS

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



MANAGER'S DISCUSSION AND ANALYSIS

INVESTMENTS REPORT

Disposals

There were no property disposals in FYE2018.

Looking Ahead

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

The selection of assets remains focused on:

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

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

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

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

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

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



MANAGER'S DISCUSSION AND ANALYSIS

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

CHAN TZE WEE

Manager, Investments and Investor Relations

MANAGER'S DISCUSSION AND ANALYSIS

INVESTOR RELATIONS REPORT

Bi-annual Results Briefings

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



Briefing and presentation of results



Foreign Investors Outreach Programme

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

One-on-one Meetings / Site Visits

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

Annual General Meeting 2018

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



Presentation during the AGM



MANAGER'S DISCUSSION AND ANALYSIS

INVESTOR RELATIONS REPORT

Channels of Communication

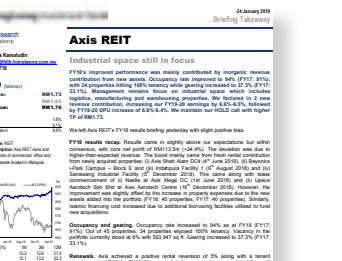
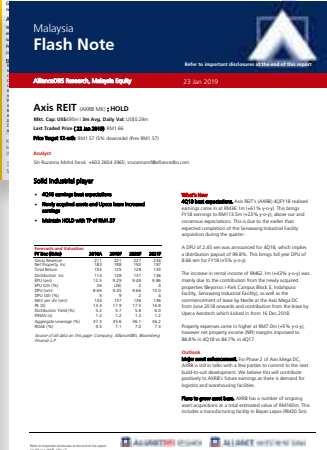
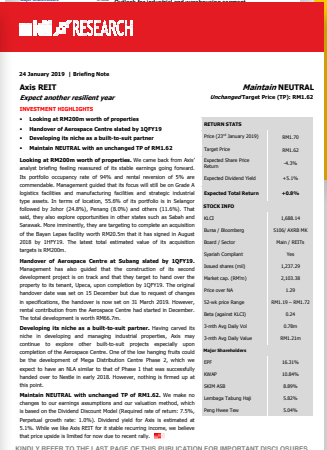
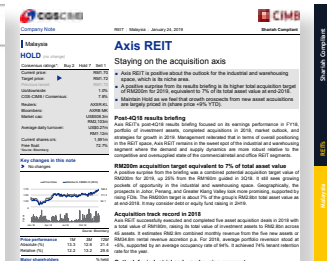
A host of other non-direct communication methods are utilised to support the usual events mentioned above, to promote effective engagement and to provide balanced, timely and understandable information about the business and financial performance of Axis-REIT. The Axis-REIT website and Bursa Securities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

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

Media Coverage

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



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

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

MANAGER'S DISCUSSION AND ANALYSIS

INVESTOR RELATIONS REPORT

Awards and Recognition

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

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

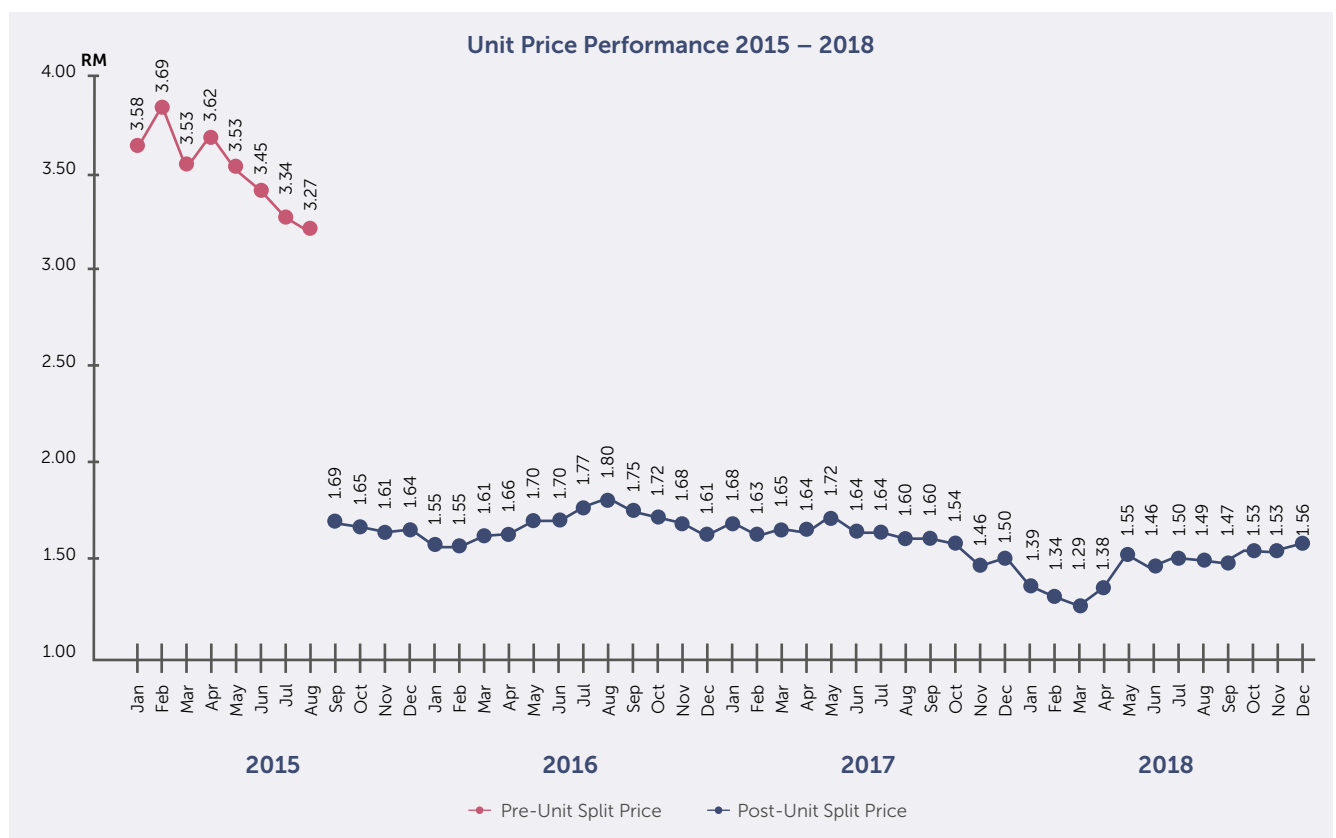
Unit Price and Volume Overview

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

5-Year Unit Price Performance Highlights

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

* Unit prices adjusted to reflect the Unit Split



MANAGER'S DISCUSSION AND ANALYSIS

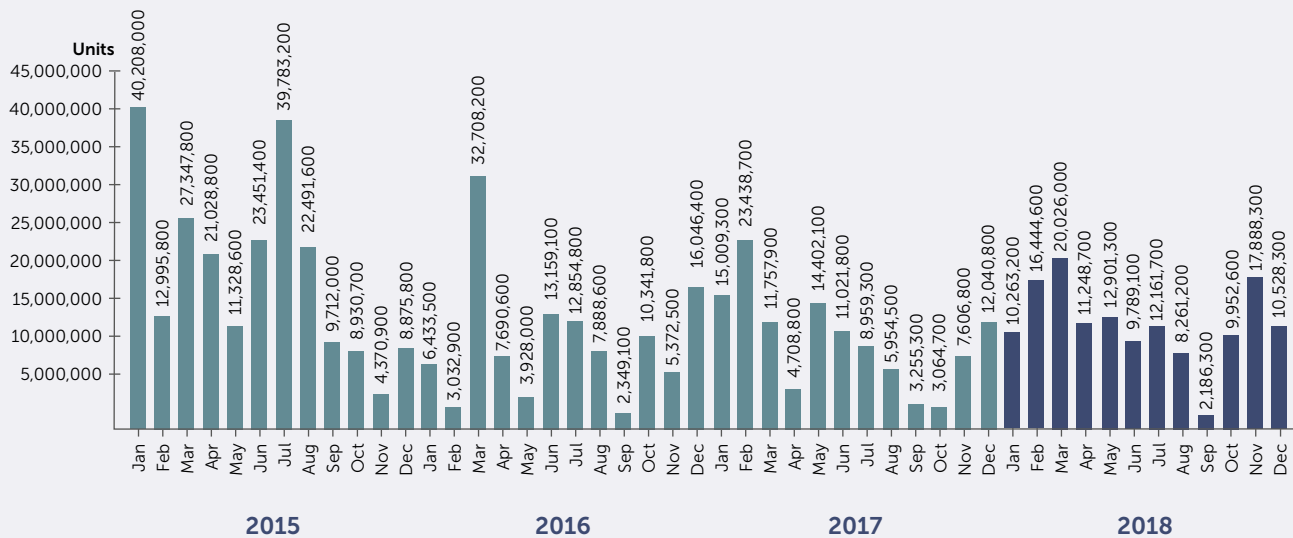
INVESTOR RELATIONS REPORT

Transaction Volume Highlights

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

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

Monthly Trading Volume 2015 - 2018



CDS Account Highlights

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

CDS Accounts 2008 - 2018

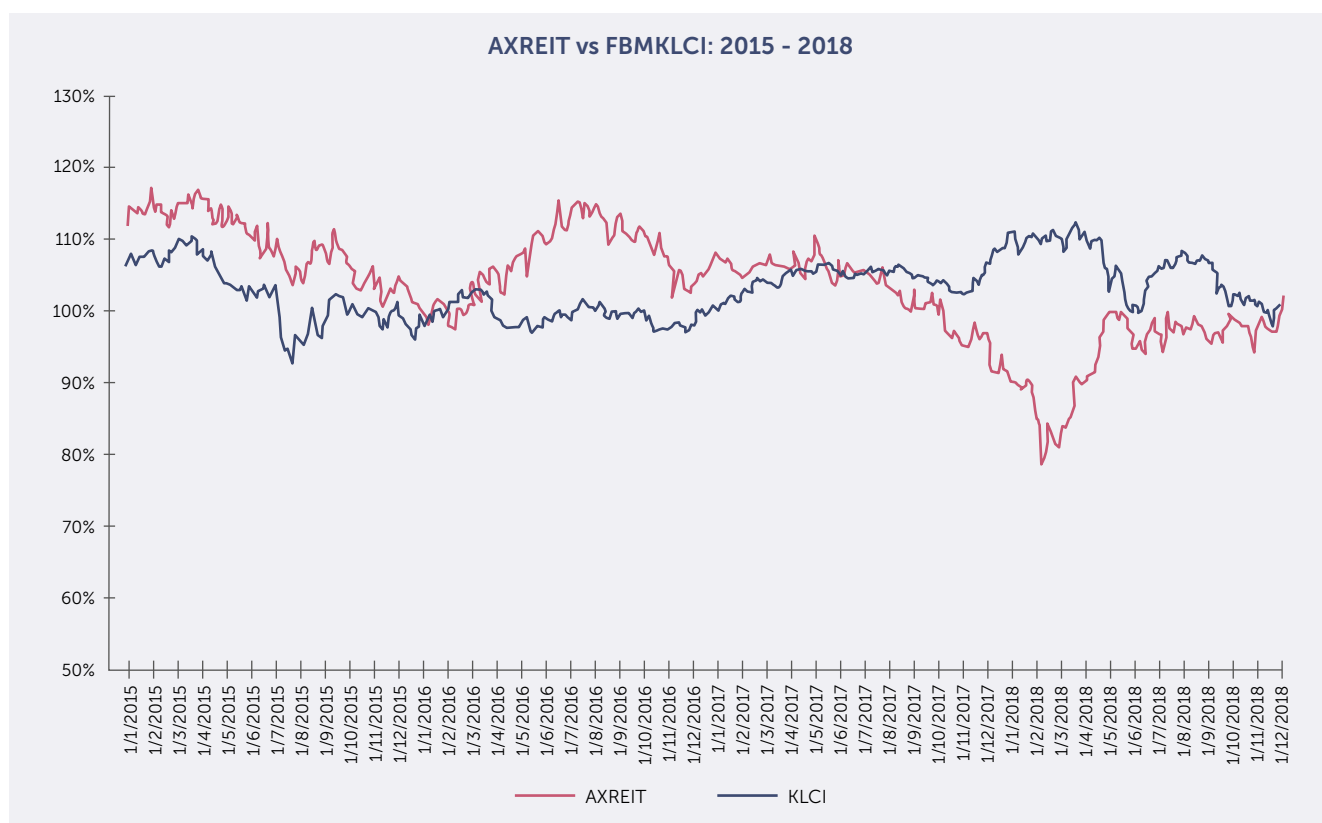


MANAGER'S DISCUSSION AND ANALYSIS

INVESTOR RELATIONS REPORT

Price Performance vs FBMKLCI

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



Annual Returns Highlights

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





MANAGER'S DISCUSSION AND ANALYSIS

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

SIVA SHANKER
Head of Investments

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

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

IMPACT ON EFFECTIVE BRANDING ON OUR BUSINESS SPACE PARTNERS

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

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

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

Activities and Initiatives 2018

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

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

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

Branding

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

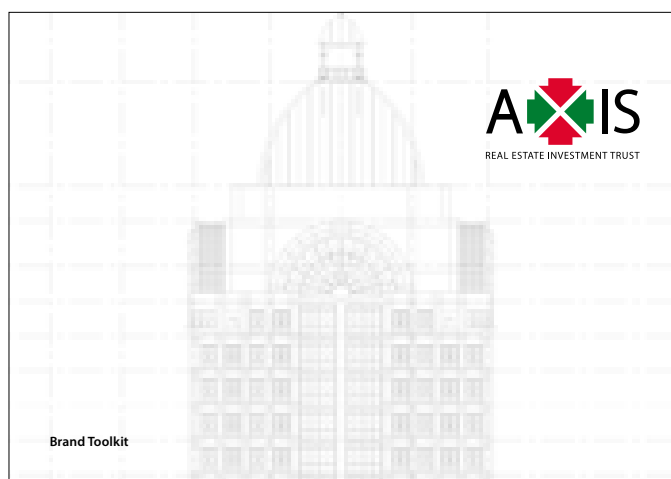
Following the launch of the brand toolkit, the team developed and refreshed a range of marketing collaterals for the year. These include diaries, pens, envelopes, letterheads powerpoint presentations and folders.



Axis-REIT 2019 diary



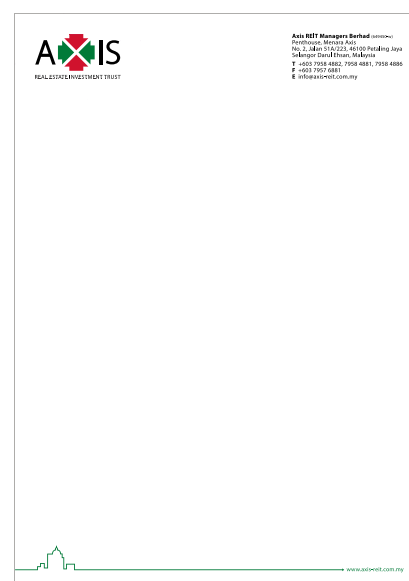
Axis-REIT folder



Axis-REIT brand toolkit



Axis-REIT envelope



Axis-REIT letterhead

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

Marketing

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

Digital Marketing

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

- Google
- Facebook
- Property Guru
- Propwall

Direct Marketing via the WhatsApp platform

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

Communications

Website revamp

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

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

Axis Link

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



Mobile view of website



Desktop view of website

helloaxis.com.my

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

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

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

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

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

Axis-REIT Events

MAREC, 2-3 March 2018

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



Axis-REIT's booth at MAREC

InvestSmart Fest, 12 -14 October 2018

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



Axis-REIT's booth at Invest Smart Fest

Real Estate Agent Events

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

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

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



Agent's Night, Kuala Lumpur

Media Night, 30 November 2018

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

MANAGER'S DISCUSSION AND ANALYSIS

MARKETING REPORT

Upeca Aerotech Ground Breaking Ceremony, 13 March 2018

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

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

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



Groundbreaking Ceremony for development of Axis Aerotech Centre @ Subang

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

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



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