

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

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

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

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

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

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

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

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

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

INTEGRATED SUSTAINABILITY REPORT

OUR COMMITMENT TO SUSTAINABILITY

VALUE CREATION FOR SUSTAINABLE GROWTH

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



CEO's Message on Sustainability

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

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

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

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

INTEGRATED SUSTAINABILITY REPORT

About this Report

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

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

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

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

Operating Context

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

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

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

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

INTEGRATED SUSTAINABILITY REPORT

Value Creation Story

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



OUTCOMES

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

Stakeholders Goals

**Tenants**

- Forge strong relationships
- Satisfy business space needs

**Unitholders**

- Proactive engagement and transparency

**Investment Community**

- Timely and transparent disclosure

**Local Communities**

- Fulfil role as a good corporate citizen

**Employees**

- Provide an equal opportunity work environment
- Recognise deserving talent

**Professional and Regulatory Bodies**

- Take industry lead
- Compliance with all rules and regulations

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

INTEGRATED SUSTAINABILITY REPORT

Stakeholder Engagement

Axis-REIT's stakeholder engagement table

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

INTEGRATED SUSTAINABILITY REPORT

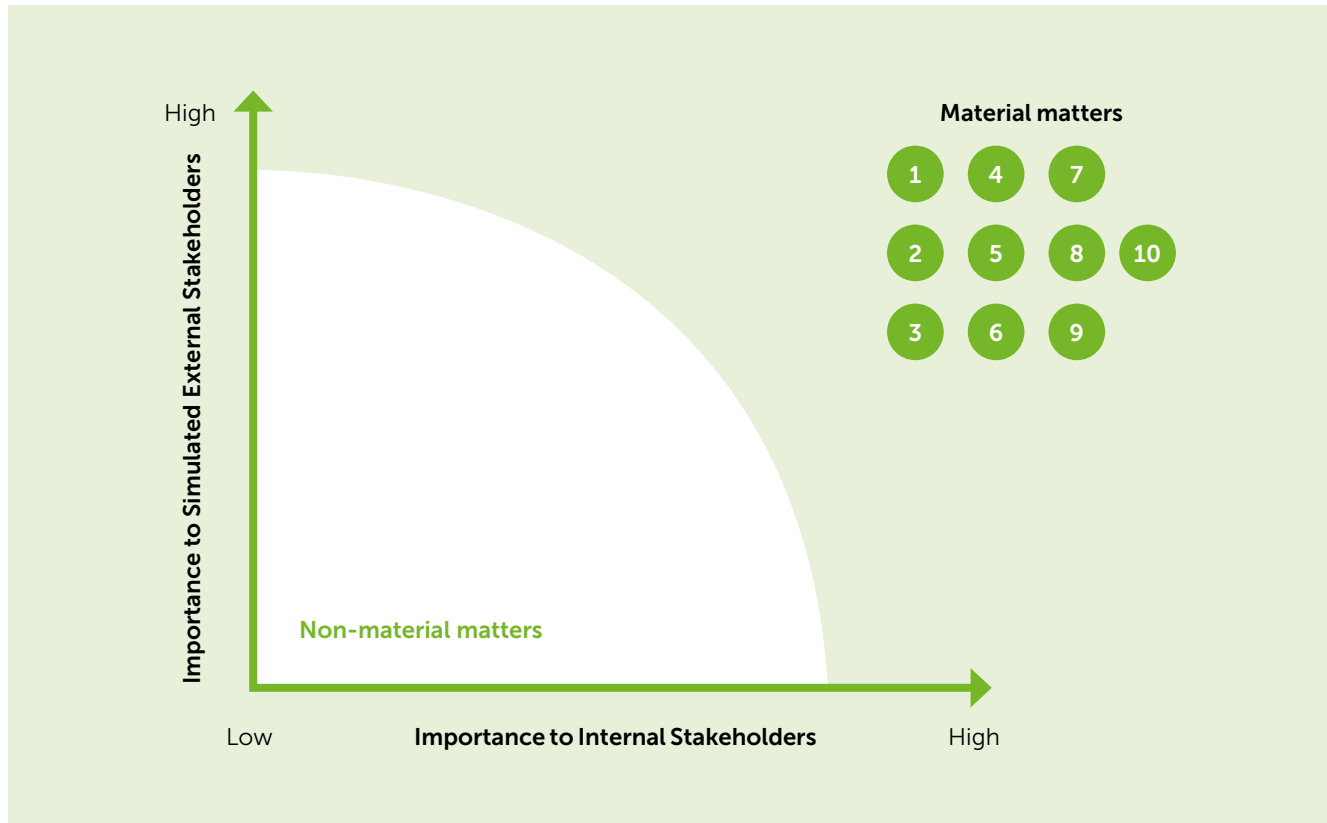
Stakeholder Group	Axis-REIT's goal	Mode	Frequency	Stakeholder's key concerns	Axis-REIT's response
Local Communities	Fulfil the role of a good corporate citizen by partnering with local NGOs and charities	• Promote employee volunteer programmes	• As appropriate	• Long-term support from the business community to help address issues faced or support causes championed	<ul style="list-style-type: none"> • Engaging with various community organisations to keep abreast with issues faced by local communities • Supporting projects that are relevant to the Manager's mission and within its financial means
		• Cash compensation for emergency situations	• As appropriate		
Industry Associations and Professional Bodies	Keep abreast with changes and updates in the market. Where possible, Axis-REIT also takes the lead in lobbying new amendments that could take the industry forward	• Attending regular meetings and events organised	• When required	<ul style="list-style-type: none"> • Providing updates on changes in laws and regulations • Fair representation of the industry's needs and demands to regulators 	<ul style="list-style-type: none"> • Attending meetings and events to stay abreast on industry developments and to understand new practices in the industry • Providing feedback when necessary
Regulatory Bodies	Engage with regulatory bodies to ensure that the Manager complies with rules and regulations, and is up to date with new amendments	• One-on-one meetings	• When required	• Regulatory compliance	• Attending meetings and events to stay abreast on regulatory developments and to understand new regulations
		• Attending talks and conferences organised by regulators	• When required		
Media	To provide timely and accurate information to members of the media	• One-on-one meetings	• When required	• Receiving the latest updates and news from Axis-REIT	• Engaged a public relations consultant to manage engagement with the press, and to ensure press releases are shared in a timely manner and to field requests for interviews
		• Press briefings	• When required		
		• Annual gathering	• Annually		
Suppliers	To engage with credible and reliable suppliers	• Tenders	• When required	<ul style="list-style-type: none"> • To have a clear understanding of the scope of work expected • To adhere to timelines • To ensure payments are received on time 	<ul style="list-style-type: none"> • Work closely with suppliers to ensure clear understanding of the scope of works and timelines • Progress meetings with suppliers
		• One-on-one meetings	• When required		

INTEGRATED SUSTAINABILITY REPORT

Materiality Assessment

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

Axis-REIT's materiality matrix



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

¹ Not mapped to any GRI Topic-specific Standard Disclosures

INTEGRATED SUSTAINABILITY REPORT

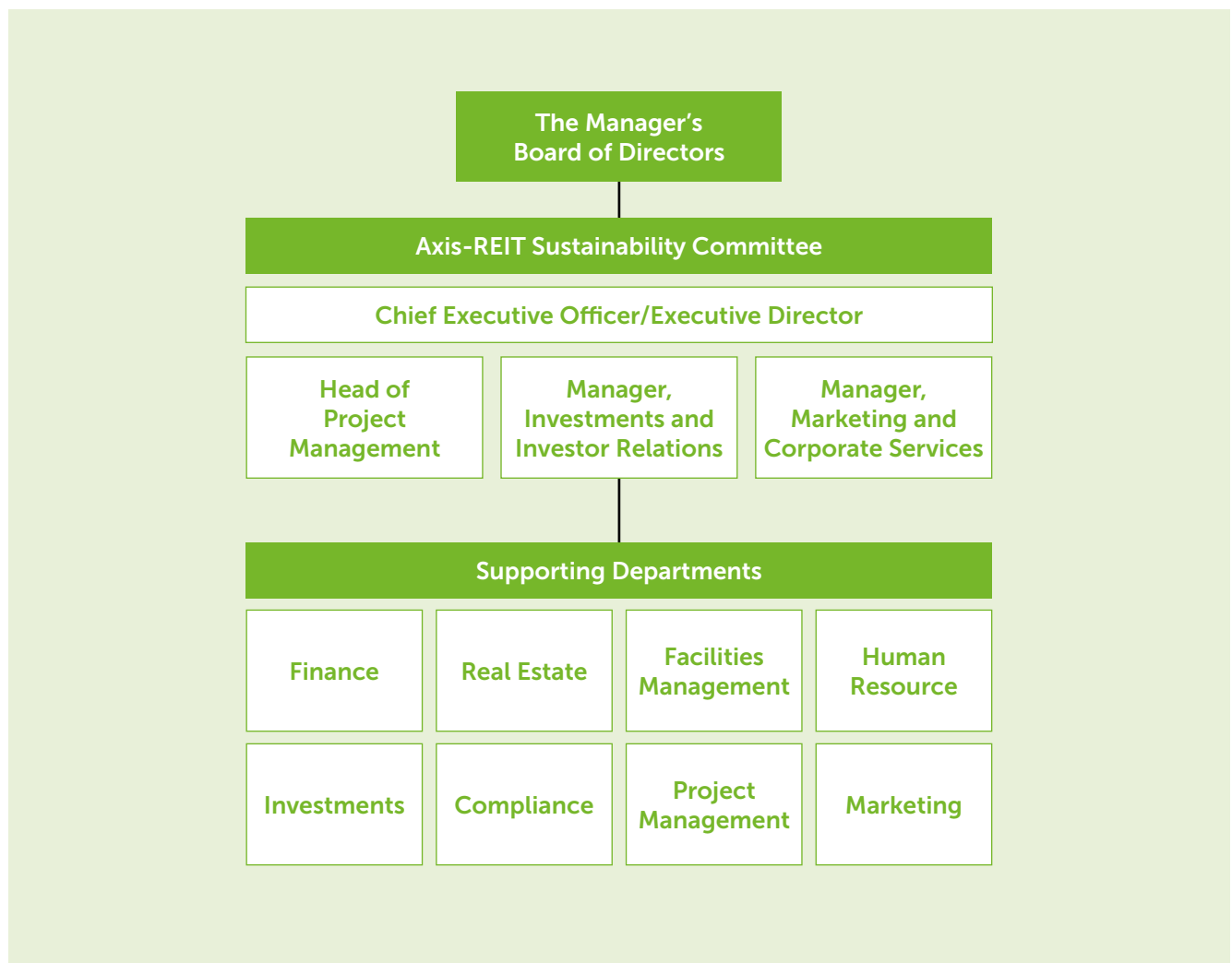
Governance and Culture**Governance, ethics and integrity**

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

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

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

Axis-REIT's Sustainability Committee



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Enterprise Risk Management

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

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

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

Axis-REIT’s significant risks and responses:

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

INTEGRATED SUSTAINABILITY REPORT

Whistle-blowing Channel

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



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Financial Capital



Economic performance

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

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

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

Manufactured Capital



Quality of assets and services

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

New asset acquisitions and development

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

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

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

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

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

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

INTEGRATED SUSTAINABILITY REPORT

Existing assets and services

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

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

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

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

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

Target for FYE2019

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



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Responsible supply chain management

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

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



INTEGRATED SUSTAINABILITY REPORT

Social and Relationship Capital



Tenant satisfaction

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

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



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

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

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

helloaxis.com.my – Facility Management Portal – As at 31 December 2018				
Building Type	Online Service Requests by Tenants			Satisfaction Rating by Tenants
	Tickets Raised	Resolved	Outstanding	
Single-Tenant	114	108	6	3.75
Multi-Tenant	461	454	7	3.86
TOTAL / AVERAGE	575	562	13	3.80

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

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

Results of Axis-REIT's tenant satisfaction survey:

How would you rate Axis-REIT's services?
Scale of 1 (very unhappy) to 10 (extremely happy)

● ● ● ● ● ● ● ● ● ● **6.87**

Would you recommend Axis-REIT's portfolio of properties and services to your friends and business partners?
Scale of 1 (very unlikely) to 10 (definitely)

● ● ● ● ● ● ● ● ● ● **6.91**

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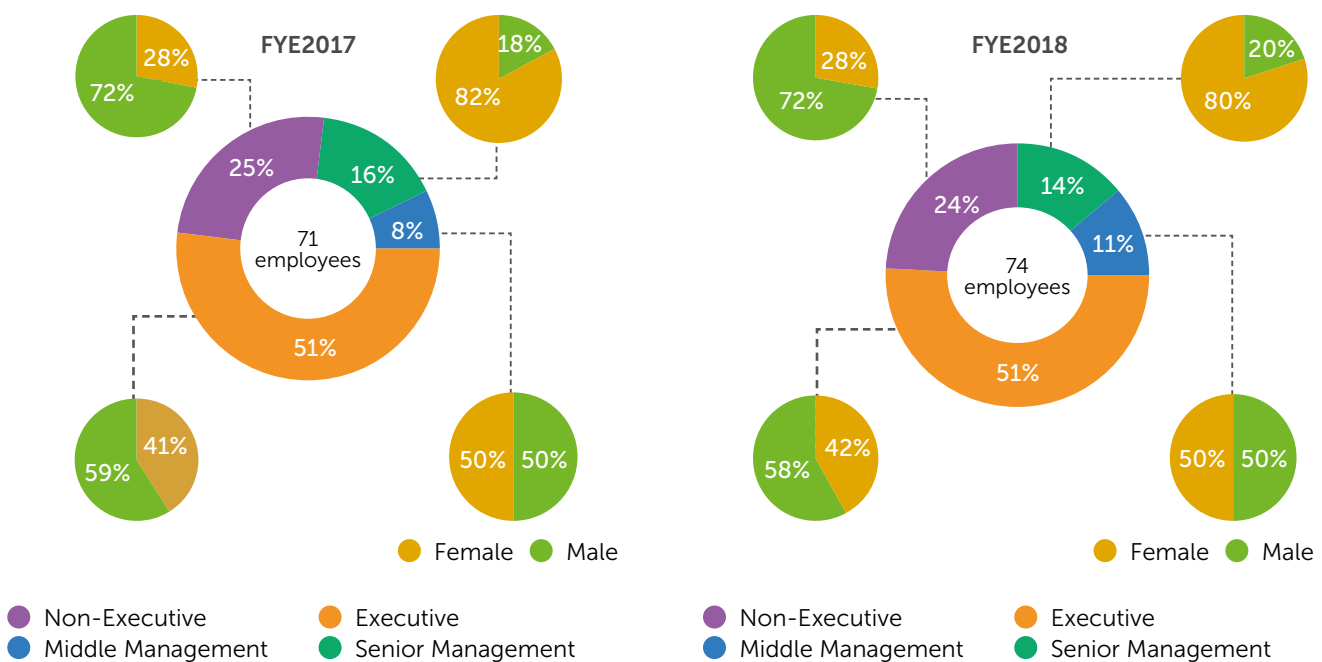
In FYE2018, the Manager achieved a 74% tenant retention rate based on the portfolio's Net Lettable Area ("NLA"), a significant improvement from FYE2017's tenant retention rate of 45%. The Manager hopes to maintain this rate through active engagement with its tenants. The Manager is also proactive in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

Workforce profile

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

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

BREAKDOWN BY EMPLOYMENT CATEGORY & BY GENDER



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

Occupational health and safety

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



INTEGRATED SUSTAINABILITY REPORT

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

Target for FYE2019

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



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

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

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

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

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

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

Employee wellness and engagement

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

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

Community activity and partnership

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

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

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

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

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

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

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

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

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



Amount
Contributed

RM25,000



No. of Staff
Involved

13
employees



Employee
Volunteer Hours

53
hours



INTEGRATED SUSTAINABILITY REPORT

NOVEMBER 2018 – BACK TO SCHOOL PROGRAMME

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

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

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

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



Amount
Contributed

RM22,410



No. of Staff
Involved

20
employees



Employee
Volunteer Hours

70
hours



INTEGRATED SUSTAINABILITY REPORT

JUNE AND NOVEMBER 2018 - BLOOD DONATION DRIVES

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

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



**No. of Staff
Involved**

20
employees



**Employee
Volunteer Hours**

25
hours

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

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



**No. of Staff
Involved**

1
employee



**Employee
Volunteer Hours**

8
hours



INTEGRATED SUSTAINABILITY REPORT

DECEMBER 2018 - CHARITY BAZAAR

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

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

Amount
Raised

RM5,600



No. of Staff
Involved

42
employees



Employee
Volunteer Hours

260
Hours



INTEGRATED SUSTAINABILITY REPORT

Intellectual Capital



Embracing innovation and technology

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

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



INTEGRATED SUSTAINABILITY REPORT

Human Capital



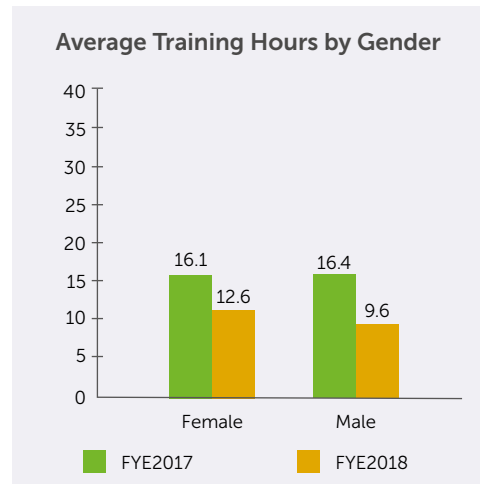
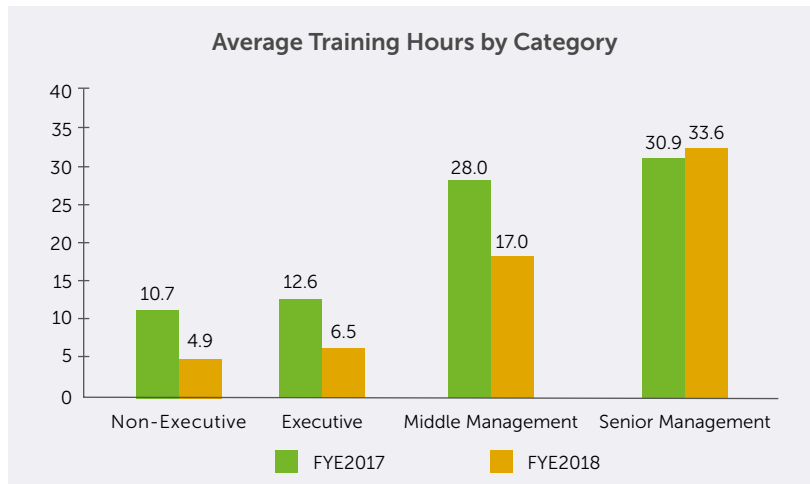
Training and Education

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

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



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



Natural Capital



Energy and carbon footprint

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

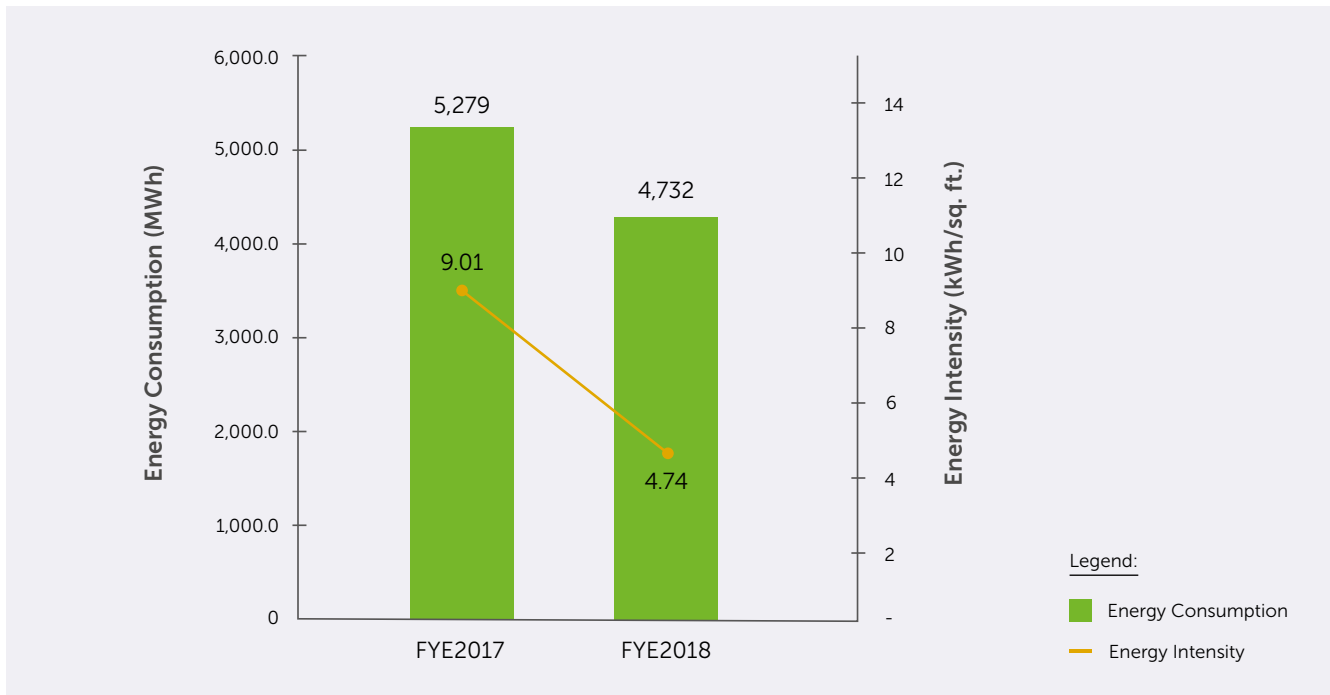
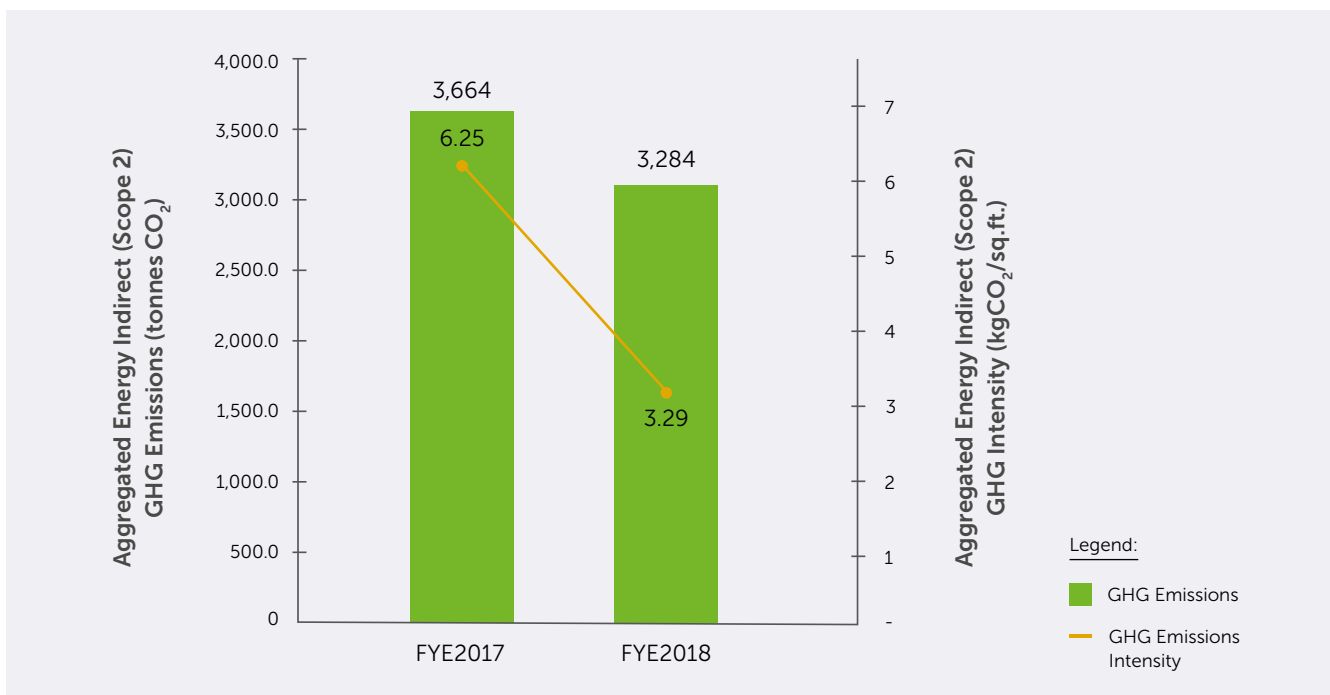
Perpetual Target	Performance for FYE2018
The Manager's goal is to constantly seek ways to reduce GHG emissions and improve energy efficiency throughout its premises	Achieved To refer below for explanation

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

- Changing of conventional lighting to LED lighting in common areas
- Installation of sensors for lighting in toilets and lobbies
- Joint inspection with TNB for housekeeping of electric meters in our multi tenanted properties. This is to check on double billings between tenant spaces and common areas.

⁵ Environmental scope of reporting is restricted to Axis-REIT's energy consumption in common non-lettable areas that are under the Manager's operational control

INTEGRATED SUSTAINABILITY REPORT

Axis-REIT's energy consumption and GHG emissions [GRI 302-1, 302-4]⁶Axis-REIT's energy consumption and GHG emissions [GRI 305-2, 305-4]^{7,8}

⁶ The energy intensity for FYE2017 has been restated

⁷ The emission factor used is taken from the emission factor of Peninsular Malaysia Grid from Malaysian Green Technology Corporation (GreenTech Malaysia) Study on Grid Connected Electricity Baselines in Malaysia (Year: 2014) dated April 2016 which is the latest version at the time of reporting

⁸ The GHG emissions and GHG emissions intensity for FYE2017 has been restated

INTEGRATED SUSTAINABILITY REPORT

GRI Content Index

GRI Standard	Disclosure		Section of Report/Reason(s) for Omission	Page Reference
General Disclosures				
GRI 102: General Disclosures 2016	Organisational profile			
	102-1	Name of the organisation	About Axis-REIT	3
	102-2	Activities, brands, products, and services	Real Estate Report, Project Management Report and Property Manager’s Report	55-82
	102-3	Location of headquarters	Corporate Information	7
	102-4	Location of operations	About Axis-REIT	3
	102-5	Ownership and legal form	About Axis-REIT	3
	102-6	Markets served	About Axis-REIT	3
	102-7	Scale of the organisation	Real Estate Report and Project Management Report Workforce Profile Statement of Financial Position	55-77 144 190
	102-8	Information on employees and other workers	Workforce profile	144
	102-9	Supply chain	Responsible supply chain management	142
	102-10	Significant changes to the organisation and its supply chain	Letter from the Chairman and the CEO	8
	102-11	Precautionary Principle or approach	Enterprise Risk Management	138
	102-12	External initiatives	Axis-REIT does not adopt the Tripartite Alliance for Fair and Progressive Employment Practices	
	102-13	Membership of associations	Founding member of: • Malaysian REIT Managers Association Corporate member of: • The Malaysian Investor Relations Association • Malaysia Australia Business Council • British Malaysia Chamber of Commerce • Malaysian German Chamber of Commerce & Industry • Malaysian Dutch Business Council • Malaysian Norway Business Council	

INTEGRATED SUSTAINABILITY REPORT

GRI Standard	Disclosure		Section of Report/Reason(s) for Omission	Page Reference
GRI 102: General Disclosures 2016	Strategy			
	102-14	Statement from senior decision-maker	CEO's Message on Sustainability	130
	Ethics and integrity			
	102-16	Values, principles, standards, and norms of behavior	Governance, ethics and integrity	137
	Governance			
	102-18	Governance structure	Governance, ethics and integrity Corporate Governance	137 159-172
	Stakeholder engagement			
	102-40	List of stakeholder groups	Stakeholder Engagement	134-135
	102-41	Collective bargaining agreements	None of the employees are covered by collective bargaining agreements.	
	102-42	Identifying and selecting stakeholders	Stakeholder Engagement	134-135
	102-43	Approach to stakeholder engagement	Stakeholder Engagement	134-135
	102-44	Key topics and concerns raised	Stakeholder Engagement	134-135
	Reporting practice			
	102-45	Entities included in the consolidated financial statements	Notes to Financial Statements	197
	102-46	Defining report content and topic boundaries	About this Report	131
	102-47	List of material topics	Materiality Assessment	136
	102-48	Restatements of information	Energy and carbon footprint	152-153
	102-49	Changes in reporting	CEO's Message on Sustainability	130
	102-50	Reporting period	About this Report	131
	102-51	Date of most recent report	Annual Report FYE2017	
	102-52	Reporting cycle	Annually	
	102-53	Contact point for questions regarding the report	About this Report	131
	102-54	Claims of reporting in accordance with the GRI Standards	About this Report	131

INTEGRATED SUSTAINABILITY REPORT

GRI Standard	Disclosure		Section of Report/Reason(s) for Omission	Page Reference
GRI 102: General Disclosures 2016	Reporting practice			
	102-55	GRI content index	GRI Content Index	154-158
	102-56	External assurance	About this Report	131
Topic-specific GRI Standard Disclosures				
ECONOMIC PERFORMANCE				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Economic performance	140
	103-3	Evaluation of the management approach	Economic performance	140
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	Economic performance	140
QUALITY OF ASSETS & SERVICES				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Quality of assets and services	140-141
	103-3	Evaluation of the management approach	Quality of assets and services	140-141
RESPONSIBLE SUPPLY CHAIN MANAGEMENT				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Responsible supply chain management	142
	103-3	Evaluation of the management approach	Responsible supply chain management	142
GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria	Responsible supply chain management	142
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	Responsible supply chain management	142

INTEGRATED SUSTAINABILITY REPORT

GRI Standard	Disclosure		Section of Report/Reason(s) for Omission	Page Reference
TENANT SATISFACTION				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Tenant satisfaction	143
	103-3	Evaluation of the management approach	Tenant satisfaction	143
OCCUPATIONAL HEALTH AND SAFETY				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Occupational health and safety	144-146
	103-3	Evaluation of the management approach	Occupational health and safety	144-146
GRI 403: Occupational Health and Safety 2016	403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	Occupational health and safety	144-146
EMPLOYEE WELLNESS AND ENGAGEMENT				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Employee wellness and engagement	146
	103-3	Evaluation of the management approach	Employee wellness and engagement	146
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	Workforce profile	144
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employee wellness and engagement	146
	401-3	Parental leave	Employee wellness and engagement	146
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	Employee wellness and engagement	146

INTEGRATED SUSTAINABILITY REPORT

GRI Standard	Disclosure		Section of Report/Reason(s) for Omission	Page Reference
COMMUNITY ACTIVITY & PARTNERSHIP				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Community activity and partnership	146-150
	103-3	Evaluation of the management approach	Community activity and partnership	146-150
EMBRACING INNOVATION AND TECHNOLOGY				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Embracing innovation and technology	151
	103-3	Evaluation of the management approach	Embracing innovation and technology	151
TRAINING AND EDUCATION				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Training and Education	152
	103-3	Evaluation of the management approach	Training and Education	152
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	Training and Education	152
	404-3	Percentage of employees receiving regular performance and career development reviews	Employee wellness and engagement	146
ENERGY AND CARBON FOOTPRINT				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	Materiality Assessment	136
	103-2	The management approach and its components	Energy and carbon footprint	152-153
	103-3	Evaluation of the management approach	Energy and carbon footprint	152-153
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	Energy and carbon footprint	152-153
	302-3	Energy intensity	Energy and carbon footprint	152-153
GRI 305: Emissions 2016	305-2	Energy indirect (Scope 2) GHG emissions	Energy and carbon footprint	152-153
	305-4	GHG Emissions intensity	Energy and carbon footprint	152-153

The image shows a modern, multi-story office building with a curved facade and large glass windows. The building is partially obscured by a semi-transparent red overlay. A white-bordered inset on the left side of the image contains the text 'CORPORATE GOVERNANCE'. On the roof of the building, the 'SR Technics' logo is visible, featuring the company name in a stylized font and a circular emblem with a stylized 'S' and 'R'. Below the logo, the words 'PUSAT SERVIS' are written in a smaller font. The foreground shows a paved parking lot with white parking lines.

CORPORATE GOVERNANCE

SR Technics

PUSAT SERVIS



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

REBECCA LEONG

Company Secretary & Head of Compliance

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

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

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

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

The Manager of Axis-REIT and the Board of Directors

ARMB is the appointed Manager of Axis-REIT in accordance with the terms of the trust deed constituting Axis-REIT (“Deed”), restated as the Third Principal Deed on 28 November 2013. Pursuant to the Deed, the Manager has the duty to act honestly, with due care and diligence, and in the best interest of the Unitholders of Axis-REIT.

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

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

The overview of the Board’s responsibilities in carrying out the duties of the Manager in accordance with the Deed, is as follows:

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Composition

As at 31 December 2018, the Board of Directors comprised the following:

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

The composition of the Board was reduced from ten directors to nine during the financial year ended 31 December 2018 ("FYE2018") with the resignation of Mr Yeoh Chong Keat as a Non-Independent Non-Executive Director on 30 April 2018.

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

Independent Directors made up one-third of the Board and this complies with the requirement prescribed under the SC's new Guidelines on Listed Real Estate Investment Trusts ("Listed REIT Guidelines") that came into effect on 9 April 2018. The Board considers the current composition to be satisfactory, and any proposed change to the composition will require a careful and in-depth review based on the size, requisite mix of skill and competency of the Board.

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

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

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

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

Axis-REIT continued to pursue its property development strategy, and in April 2018, embarked on its second project, developing a facility in Subang known as the Axis Aerotech Centre. The CEO is actively leading and monitoring this project with a team of contractors, project managers and consultants.

Strategic Planning and Target Setting

At the beginning of FYE2018, the Board reviewed and approved the budget of Axis-REIT, which provided the financial roadmap and targets for each department in executing the business plans of the Manager and Axis-REIT. The Manager is also guided by Axis-REIT's 2021 Strategy Plan, which was approved by the Board in August 2016. This 2021 Strategy Plan, which sets out the long-term, five-year initiatives towards growing the Fund's Assets Under Management to RM5 billion by 2021, was reassessed at the Strategy Planning Session of the Manager conducted in September 2018. Management under the leadership of the CEO was refocused on the agreed initiatives formulated under the 2021 Strategy Plan.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Meetings and Procedures

The Board met every quarter in FYE2018 to review, discuss and approve the release of Axis-REIT's quarterly and annual financial results. It also reviewed proposed acquisitions and disposals, corporate plans and the annual budget, capital management proposals, property reports, investor relations reports, as well as the performance of the Manager and Axis-REIT against the previously approved budget, together with other proposals tabled by Management. The CEO led the business performance reporting at each Board meeting. The Chief Financial Officer, Head of Real Estate, Head of Investments and the Investments & Investor Relations Manager, who are heads of departments of the Manager, were also present at the Board meetings to present their reports and to facilitate the review and deliberation of issues and matters presented to the Directors at such meetings. Via such conduct at Board meetings, the Board is able to oversee, assess and monitor Management's performance in administering the business of the Manager and Axis-REIT.

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

All meeting dates are determined and fixed in advance so that all Directors are able to schedule and commit their time effectively. This is governed under the Board Charter where expectations on time commitment are set. Directors who are travelling will have the option of participating in meetings via telephone and video conference arrangements.

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

Access to Information and Advice

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

Company Secretary and Head of Compliance

The Board is supported by a professionally-qualified and competent Company Secretary who is also the Head of Compliance of the Manager. She is responsible for ensuring that the Board, Board Committees and shareholder/unitholder meeting procedures, corporate policies and procedures, and applicable rules and regulations are adhered to. The Company Secretary attended every Board meeting and Board Committee meeting held in FYE2018, and thereafter prepared the minutes of proceedings for approval by the respective Chairmen. The Company Secretary also kept the Board abreast of all relevant regulatory updates to laws and requirements at physical meetings, as well as via email. As the Head of Compliance of the Manager, she also assists the CEO in legal and corporate compliance matters by liaising and working closely with the appointed external solicitors and professional advisers.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

In FYE2018, the most notable regulatory changes were the SC's new Listed REIT Guidelines and the revamped Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Company Secretary ensured that she briefed both Management and the Board on the key changes arising from the Listed REIT Guidelines and the revamped MMLR on a timely basis. The Company Secretary had, among others, carried out/facilitated the following action plans to comply with the latest prescribed rules:

- Advising the Board and Management on the liberalised rules relating to development activities, acquisition of real estate via lease arrangements, capital raising, and other pertinent matters;
- Reviewing existing procedures relating to related party transactions ("RPT") and recurrent RPT ("RRPT"), and formulating the standard operating procedures for RPT and RRPT in the Manager's Operations Manual;
- Working closely with the Finance team to identify and compile information on all RPT and RRPT of Axis-REIT, and advising the Finance team on the computation of percentage ratios and transaction thresholds prescribed under the revamped MMLR;
- Advising the Property Manager on the change in the frequency of required property revaluations, from once every three years to an annual revaluation;
- Assessing the compliance level of the Audit Committee to ensure that the Audit Committee complies with the relevant provisions contained in the revamped MMLR;
- Facilitating the Internal Auditors' review of the Manager's compliance with the SC's new Listed REIT Guidelines and Bursa Securities' revamped MMLR;
- Updating the internal checklist for contents of the Annual Report and advising Management on the relevant changes to the said contents.

Board Charter, Code of Conduct and Whistle-Blowing Policy

Policies	Scope
Board Charter	Provides a clear description of the responsibilities of the Board, its Directors and the Board Committees
Code of Conduct	Outlines the rules of professional conduct, proper practices and ethical behaviour expected of the Manager and its personnel
Whistle-Blowing Policy	Facilitates the management of reports and claims filed in relation to possible improprieties in matters relating to financial reporting, compliance, misconduct and other malpractices

The Board Charter, Code of Conduct and Whistle-Blowing Policy are some of the main corporate policies that reinforce the standards of corporate governance within the Manager. These policies are essential in safeguarding the organisation and its employees from implications which may arise from non-compliance. These policies were reviewed by the Board and no revisions were recommended in FYE2018. These policies can be accessed on Axis-REIT's corporate website.

Board Remuneration and Remuneration Policy

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

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

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

There was no change in the Board's remuneration policy in FYE2018, and this policy is documented in the Board Charter of the Manager.

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

A brief overview of the Directors' remuneration (comprising salaries, other emoluments, fees, meeting allowances and benefits-in-kind) in respect of FYE2018 is presented below:

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

Note: Details of Directors' and senior management's individual remunerations are not disclosed as the Directors and senior management are remunerated by the Manager, which is a privately-owned company. The Manager believes that the overview presented above is sufficient for public disclosure, and that the non-disclosure of individual remunerations is essential to protect the interests of the Manager and its officers.

Board Committees and their Roles

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

EXECUTIVE COMMITTEE	AUDIT COMMITTEE
<ul style="list-style-type: none"> Manages the business of the Manager and Axis-REIT in accordance with the vision and mission established and approved by the Board Oversees and monitors the day-to-day business activities of the Manager and Axis-REIT Oversees the internal talent and senior leadership/key management team and its succession planning 	<ul style="list-style-type: none"> Assists the Board in ensuring that a balanced and understandable assessment of Axis-REIT's financial position and prospects is presented to the investing public Assists the Board in the areas of internal controls, risk management and governance processes of Axis-REIT and the Manager
REMUNERATION COMMITTEE	NOMINATION COMMITTEE
<ul style="list-style-type: none"> Recommends to the Board the policy framework for the remuneration of the Executive and Non-Executive Directors of the Board, as well as key management officers (if any) Reviews the remuneration framework from time to time, to ensure that the Manager attracts and retains individuals of the highest calibre 	<ul style="list-style-type: none"> Ensures that the Manager recruits, retains and develops the best available executive and non-executive directors Reviews succession at Board level Assesses the Board's structure, size and composition Evaluates the Directors' mix of skills, expertise and level of competencies

All the above Board Committees are guided by their respective Terms of Reference. The Terms of Reference of the Audit Committee, Nomination Committee and Remuneration Committee are available for reference on Axis-REIT's corporate website.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Audit Committee

The Audit Committee has the oversight duty to ensure that the financial reporting systems, internal controls and risk management systems of the Manager are robust.

The Audit Committee Report, which contains the summary of activities carried out by this Committee during FYE2018, is set out as a separate section in this Annual Report.

**Remuneration Committee**

As the Directors of the Manager are remunerated by the Manager and not by the Fund, the Executive Committee of the Manager plays an important role in presenting proposals to the Remuneration Committee. In this regard, Dato' Abas Carl Gunnar Bin Abdullah and Mr Stephen Tew Peng Hwee @ Teoh Peng Hwee have the task of representing the Executive Committee in the Remuneration Committee, given that they are members of both these Board Committees. The Executive Committee proposes to the Remuneration Committee the remuneration package of the Directors and senior management personnel (where applicable), taking into consideration, among others, the level of performance against agreed targets. All proposals presented by the Executive Committee are considered carefully by the Remuneration Committee, drawing from outside advice as necessary, in accordance with the Board's remuneration policy described above.

During FYE2018, the Remuneration Committee reviewed the remuneration package of the CEO based on the proposal presented by the Executive Committee, and made recommendations to the Board accordingly. Directors' fees were also reviewed, taking into consideration market factors. The Board ultimately made the final decisions in respect of the remunerations of the Executive and Non-Executive Directors. Each Director had accordingly abstained from deliberation and voting on their own respective remuneration.

Nomination Committee

The chair of the Nomination Committee is the Senior Independent Director of the Board. He plays an important support role to the Chairman in fostering strong relationships and balance across the Board.

The Nomination Committee undertook the following activities in FYE2018, which were the annual affairs of this Committee:

- Reviewed the performance evaluation carried out on the Board, Directors and Board Committees. The performance evaluation was facilitated by the Company Secretary and the results were reported to the Nomination Committee for its onward review. The Nomination Committee had expressed satisfaction as to the level of corporate governance values/practices which are embedded in the functions of the Board, operations and management processes of the Manager;
- Enhanced the existing recruitment criteria of the Manager to be aligned with the SC's new Listed REIT Guidelines;
- Considered and made no recommendation to revise the criteria for the annual assessment of Directors (including the assessment of independence and the assessment of Directors whose tenures had exceeded nine years) in view that the existing criteria remain relevant to the Directors of the Manager;
- Reviewed the existing composition of the Board, as well as the effectiveness of the Board and Board Committees. No change to the Board's composition was recommended by the Committee;
- Considered the gender diversity of the Manager, bearing in mind the recommendation to have 30% female board representation pursuant to the CG Code. The Board is of the opinion that the selection of suitable candidates for appointment to the Board must be based on merit;
- Assessed the training needs of the Directors. The Manager is committed to arranging annual in-house training sessions for the Directors and senior management of the Manager;
- Reviewed the term of office and performance of the Audit Committee in accordance with Paragraph 15.20 of the MMLR. No exception was noted from the assessment results;

CORPORATE GOVERNANCE OVERVIEW STATEMENT

- Assessed the retiring Directors in accordance with the Constitution of the Manager and recommended to the Board their respective re-elections.

Assessment of Independent Directors

The Board had undertaken an annual assessment of its three Independent Directors, namely YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin, Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor and Encik Mohd Sharif Bin Hj Yusof, based on the criteria approved by the Nomination Committee. The three Independent Directors of the Manager had confirmed their independence in writing to the Board. All three Independent Directors of the Manager were also subject to additional evaluation, given that they had served on the Board as Independent Directors for more than nine years. Accordingly, the Board assessed the three Independent Directors and considered them still independent based on their respective written assessments submitted.

The Board was of the opinion that their independence would not be materially compromised by the length of their service as Independent Directors of the Board. The mechanism provided under the CG Code in relation to the two-tier voting process for the re-appointment of Independent Directors is not applicable to the Manager because the Manager is a wholly-owned subsidiary of a private company. In accordance with best practices, the Board will be seeking the approval from the sole shareholder of the Manager at the Manager's 2019 annual general meeting for the retention of all three Independent Directors.

Attendances at Board and Board Committee Meetings

The attendance of the Directors at the Board and Board Committee meetings held during FYE2018 is presented below:

Board of Directors	Designation	Attendance (No. of meetings held: 4)
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Independent Non-Executive Chairman	4/4
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Executive Deputy Chairman	4/4
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Non-Independent Non-Executive Director	4/4
Leong Kit May	Chief Executive Officer/ Executive Director	4/4
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Independent Non-Executive Director	4/4
Mohd Sharif Bin Hj Yusof	Senior Independent Non-Executive Director	4/4
Alvin Dim Lao (Alternate Director: Jancis Anne Que Lao)	Non-Independent Non-Executive Director	3/4
Yeoh Chong Keat (Resigned w.e.f. 30 April 2018)	Non-Independent Non-Executive Director	1/2

Executive Committee Members	Designation	Attendance (No. of meetings held: 5)
Dato' Abas Carl Gunnar Bin Abdullah (Alternate Director: Alex Lee Lao)	Chairman	4/5
Stephen Tew Peng Hwee @ Teoh Peng Hwee	Member	5/5
Leong Kit May	Member	5/5

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

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

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

Directors' Training

The Board ensures that its members have access to appropriate continuing education programmes to stay updated on relevant developments, and to enhance their skills and strengthen their participation in Board deliberations.

Details of training programmes attended by Directors in FYE2018 were compiled by the Company Secretary for reporting to the Nomination Committee and Board accordingly. An in-house training session on the implementation of the Sales and Service Tax, conducted by PWC, was also organised for all the Directors in October 2018.

All the Directors of the Manager have attended training programmes during FYE2018 in compliance with the MMLR. Some of the Directors remain actively involved in speaking engagements and presented talks at conferences and seminars. The details are as follows:

Director	Date	Events
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	22 October 2018	Sales and Service Tax by PWC
Dato' Abas Carl Gunnar bin Abdullah	22 October 2018	Sales and Service Tax by PWC
Stephen Tew Peng Hwee @ Teoh Peng Hwee	2 – 3 March 2018	Malaysian Annual Real Estate Convention 2018 – Embracing Changes with Innovation
	30 April 2018	Strata Management Act 2013 (Act 757) and SM Regulations 2015

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Director	Date	Events
Leong Kit May	24 January 2018	Invest Malaysia Conference 2018
	30 April 2018	Strata Management Act 2013 (Act 757) and SM Regulations 2015
	14 May 2018	Hong Leong Investment Bank REIT Day
	17 July 2018	Maybank IB REITs Corporate Day
	26 July 2018	Sharpen Your Skills on Listing Requirement Compliance
	2 August 2018	5th Edition REITS Asia Pacific 2018, Singapore
	24 September 2018	REHDA Annual Property Developers Conference
	22 October 2018	Sales and Service Tax by PWC
	27 November 2018	Property Portfolio Management of a REIT
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	9–21 January 2018	CES 2018, Las Vegas, USA
	24 January 2018	EdgeProp Malaysia's Best Managed Property Awards 2018 Supporters and Partners Official Handshake Ceremony
	1 February 2018	JUDANREN Delegation Meeting
	2 March 2018	ASEAN Real Estate Network Alliance (ARENA) Meeting
	29 March 2018	Strata Handbook Launching
	27 April 2018	MAPEX APRIL 2018
	7 May 2018	Malaysia's Best Managed Property Award 2018
	1 June 2018	Property Insight Awards 2018
	12 July 2018	Majlis Konsultasi Bajet 2019
	14 July 2018	REHDA : Annual Delegates' Conference
	16 August 2018	Sustainable Housing Futures Conference, The New Urban Agenda
	28 August 2018	Directors Duties and Obligations
	12 October 2018	MAPEX OCTOBER 2018
	29 October 2018	TEPEA2018-Top Property Developers Awards
	22 November 2018	GreenRE's Sustainable Design Awards 2018
Mohd Sharif bin Hj Yusof	5 July 2018	Sustainability Engagement Series for Directors / Chief Executive Officers
	22 October 2018	Sales and Service Tax by PWC
Alvin Dim Lao	15–18 January 2018	D&L Industries Lao Family Workshop
	22–23 January 2018	JP Morgan Manila Conference, Philippines
	6–7 February 2018	DB Corporate Day, Hong Kong
	28 February–1 March 2018	UBS Manila Conference
	21–22 August 2018	Nomura Conference, Japan
	23–24 August 2018	Nomura Conference, Hong Kong
	3–4 September 2018	DB Philippine Corporate Day, London
	25 September 2018	JP Morgan Rising Dragon Conference, Singapore
	27 September 2018	JP Morgan Rising Dragon Conference, Hong Kong
	3–4 October 2018	Deutsche's Corporate Day, Philippines
	22 October 2018	Sales and Service Tax by PWC
	8 November 2018	Corporate Governance

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Director	Date	Events
Alex Lee Lao	15–18 January 2018	D&L Industries Lao Family Workshop
	8 November 2018	Corporate Governance
Jancis Anne Que Lao	15–18 January 2018	D&L Industries Lao Family Workshop
	22 October 2018	Sales and Service Tax by PWC

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT**An Effective Audit Committee**

The Audit Committee plays an important role in the governance structure of the Manager and this Committee had discharged its duties in accordance with its Terms of Reference throughout FYE2018.

More details on how the Audit Committee had discharged its duties in FYE2018 are presented in the Audit Committee Report.

**Assessment of the External Auditors**

The assessment of the External Auditors of Axis-REIT for re-engagement is an annual affair for the Manager. The Audit Committee had evaluated the External Auditors of Axis-REIT in April 2018 in order to determine their independence, as well as their suitability for re-appointment. The assessment on suitability, objectivity and independence was carried out against criteria adopted by the Audit Committee, such as the adequacy and experience of the firm, its resources and the experience of the professional staff assigned to the audit of Axis-REIT.

Upon due assessment, the Audit Committee recommended to the Board the re-engagement of Messrs KPMG PLT as the External Auditors for Axis-REIT in respect of FYE2018 for onward recommendation to the Trustee of Axis-REIT for approval. The re-appointment of the External Auditors of Axis-REIT is not subject to the approval of the Unitholders of Axis-REIT.

The private engagements held between the Audit Committee and the External Auditors without the presence of Management also provided a platform for the Audit Committee to gauge the working relationship between the External Auditors and Management, as well as the level of independence demonstrated by the External Auditors.

Risk Management and Internal Control Systems

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



Further details on the risk management framework of the Manager are contained in the Statement on Risk Management and Internal Control.



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The internal audit function is outsourced to an independent consultancy firm, Baker Tilly Monteiro Heng Governance Sdn Bhd, that carries out the audit review based on an approved internal audit plan. The Internal Auditors report directly to the Audit Committee and attend the quarterly Audit Committee meetings where internal audit reports are presented and discussed. The Audit Committee has the delegated function of monitoring the performance of the internal audit function and its effectiveness for reporting to the Board on a quarterly basis.

Further details on the internal audit activities are also contained in the Statement on Risk Management and Internal Control.



Assessment of the effectiveness and independence of the Internal Audit Function

The Audit Committee conducted its annual assessment on the effectiveness and independence of the internal audit function, and was satisfied that:

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

The engagement of the Internal Auditors, including their professional fees, are also reviewed and renewed annually where the Audit Committee, in its review, would take into account the performance of the Internal Auditors' past services, their level of independence in carrying out their internal audit work and their working relationship with Management.

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

Disclosure and Communication with Unitholders and the Investing Community

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

Management has also implemented improvements to Axis-REIT's corporate website based on the guidance provided by Bursa Securities via the Issuers Communication – Corporate Website for Listed Issuers (ICN 1/2018) issued on 31 October 2018.

The Board is committed to promoting effective communication and proactive engagements with Unitholders and the investing community, through the Investor Relations department of the Manager. This department is guided by the Investor Relations and Corporate Disclosure Policy ("IR & CD Policy") which is also accessible on Axis-REIT's corporate website. The IR & CD Policy, which was reviewed and updated in October 2018, sets the guidelines for effective communication channels, and sets the boundaries for the handling and management of confidential information. Pursuant to the updated IR & CD Policy, the CEO and the Chief Financial Officer are the designated primary spokespersons with all audiences, including Unitholders, press, analysts and potential investors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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



Other Stakeholder Engagements and Relationship Management

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

More details on ARMB's efforts in engaging the various stakeholders are contained in the Marketing Report.



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

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

The Sixth AGM of Axis-REIT was convened and held on 26 April 2018 with the AGM Notice being issued together with the 2017 Annual Report on 28 February 2018. Ample time was allocated to the Unitholders to read through the 2017 Annual Report and consider the resolutions that would be tabled at the AGM. Sufficient explanatory notes were also given in the AGM Notice to facilitate Unitholders' consideration of the resolutions for which their approval was sought.

At the AGM, the Manager presented an update on Axis-REIT's financial performance for the financial year ended 31 December 2017, as well as its activities, progress and prospects. The Board provided opportunities for Unitholders present at the meeting to raise questions pertaining to the business activities of Axis-REIT. The Chairman, CEO and other Directors of the Manager were present at the AGM to answer queries posed. The senior management team including the Company Secretary, played an important part in facilitating the smooth running of the AGM.

Two Ordinary Resolutions were tabled to Unitholders for approval at the Sixth AGM. The first was the Proposed Authority to allot and issue new units in Axis-REIT, and the second was the Proposed Renewal of the Income Distribution Reinvestment Plan Authority. Both Ordinary Resolutions were passed by Unitholders via a systemised polling exercise conducted at the AGM. Symphony Share Registrars Sdn Bhd was appointed as the poll administrator to conduct the polling process and Deloitte Enterprise Risk Services Sdn Bhd was the appointed independent scrutineer to verify the poll results. The voting results, which had been verified by the independent scrutineer, are contained in the summary of minutes of the Sixth AGM, which is available on Axis-REIT's corporate website.

Save for the AGM, there were no other Unitholders' meetings held in FYE2018.

Compliance Statement

The Board is satisfied that the Manager has substantially applied the principles and best practice recommendations prescribed under the CG Code in its management of Axis-REIT during FYE2018. This Statement has been tabled and approved by the Board of Directors on 22 January 2019.

AUDIT COMMITTEE REPORT

Recognising the critical role of an audit committee in the corporate governance process of an organisation, the Board of Directors ("Board") of Axis REIT Managers Berhad ("ARMB" or "Manager") voluntarily established an Audit Committee since its listing in 2005. With the revamped Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") that came into effect on 9 April 2018, the establishment of an audit committee in a management company of a REIT is now mandatory.

The Audit Committee has the delegated oversight responsibilities from the Board to ensure that the interests of the Unitholders of Axis Real Estate Investment Trust ("Axis-REIT" or "Fund") are safeguarded.

1. Composition of the Audit Committee

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

The composition of the Audit Committee in respect of the financial year ended 31 December 2018 ("FYE2018") was as follows:

Chairman:

- (a) Mohd Sharif Bin Hj Yusof
- Senior Independent Non-Executive Director

Members:

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

On 1 January 2018, YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin, who is also the Chairman of the Board, relinquished his chairmanship of the Audit Committee to Encik Mohd Sharif Bin Hj Yusof, but remained on the Audit Committee as a member. The change is in compliance with the Malaysian Code on Corporate Governance issued on 26 April 2017 ("CG Code"), that recommends that the Chairman of the Board should not also hold the position of Chairman of the Audit Committee.

2. Audit Committee Meetings

The Audit Committee held four meetings during FYE2018. Details of the attendance of the Audit Committee members are set out in the Corporate Governance Overview Statement of this Annual Report. The meeting dates were pre-determined in advance in order to ensure availability of each member. Meeting papers were circulated to all the Audit Committee members prior to the meetings by way of electronic means and hard copy.

AUDIT COMMITTEE REPORT

3. Terms of Reference

The Audit Committee has a set of Terms of Reference that guides the discharge of its roles and responsibilities.

Following the revamped MMLR, a review of the existing Terms of Reference was conducted in October 2018 to ensure compliance with the relevant provisions governing audit committees.

Details of the Terms of Reference are available on the corporate website of Axis-REIT at www.axis-reit.com.my



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

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

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

Financial Reporting:

- (a) Reviewed at every quarterly meeting held in FYE2018, the quarterly financial results for public release to ensure adherence to legal and regulatory reporting requirements before recommending the same to the Board for approval.
- (b) Reviewed the audited financial statements of Axis-REIT for the financial year ended 31 December 2017 ("FYE2017"), which were prepared in accordance with the Deed of Axis-REIT, the applicable Securities Commission Malaysia ("SC") rules and guidelines, Malaysian Financial Reporting Standards and International Financial Reporting Standards, prior to recommending the same to the Board for approval. The audited financial statements of Axis-REIT for FYE2017 were issued and circulated to the Unitholders in February 2018 in line with the prescribed requirements.

At the meeting held on 23 January 2018, the External Auditors presented to the Audit Committee the results of the FYE2017 audit conducted on Axis-REIT, where significant audit matters such as valuation of investment properties, revenue recognition and compliance with the Sukuk covenants, were discussed.

- (c) Reviewed the key audit matter and other audit focus areas in respect of FYE2017. There was no change to the key audit matter in the audited financial statements for FYE2017 as compared to the previous year. Valuation of investment properties was the most significant audit area for Axis-REIT given that investment properties represented the single largest category of assets on the Fund's statement of financial position as at 31 December 2017. The Auditors had, in their audit review procedures, among others, tested the valuation processes adopted by the Manager and reviewed the valuation methodologies used.
- (d) Kept abreast on the application of the new accounting standards, i.e. Malaysian Financial Reporting Standard ("MFRS") 15 (Revenue from Contracts with Customers), MFRS 9 (Financial Instruments) and MFRS 16 (Leases). The Audit Committee was satisfied that adequate impact assessment had been carried out by Management and the accounting policies (MFRS 9 and MFRS 15) had been appropriately updated in the financial statements of Axis-REIT for FYE2018. MFRS 16 will become applicable in the financial year 2019.

AUDIT COMMITTEE REPORT

External Audit:

- (a) Evaluated the suitability and independence of the External Auditors at the meeting held on 25 April 2018 against evaluation criteria established. Following a satisfactory assessment, the Audit Committee recommended to the Board their re-appointment as Auditors of Axis-REIT in respect of FYE2018 for onward recommendation to the Trustee of Axis-REIT. The evaluation criteria included, among others, the adequacy and experience of the firm, its resources, and the experience of the professional staff assigned to the audit of Axis-REIT.
- (b) Noted the External Auditors' confirmation of their firm's independence in accordance with the terms of all relevant professional and regulatory requirements.
- (c) Ensured that Axis-REIT's appointed External Auditors were duly registered with the Audit Oversight Board ("AOB") of the SC based on the verification carried out by the Company Secretary on the AOB's Register of Auditors as at 28 February 2018 available on the SC's website.
- (d) Reviewed with the External Auditors, at the meeting held on 22 October 2018, their audit plan for FYE2018, audit approach, and reporting requirements prior to the commencement of audit works for the year under review. The valuation of investment properties is the potential key audit matter in the audit process for FYE2018.

The SC's new Guidelines on Listed REITs, which came into effect on 9 April 2018 replacing the previous SC's Guidelines on REITs, had changed the property revaluation frequency requirement from every three years to an annual revaluation. Management has revised its revaluation practices accordingly to comply with the annual revaluation requirement prescribed by the SC, and this change was reported to and endorsed by the Audit Committee and the Board on 25 April 2018 at their respective meetings.

Given that there were 44 properties in the portfolio of Axis-REIT as at 22 October 2018, i.e. the meeting where the aforesaid audit plan was reviewed, Management had given assurance to the Audit Committee that adequate assistance would be extended to the External Auditors to facilitate their audit review of all the valuation reports.

- (e) Reviewed the FYE2018 audit fees of Axis-REIT and its wholly-owned subsidiary, Axis REIT Sukuk Berhad (a special-purpose vehicle established for issuance of Sukuk, an Islamic financing instrument), for recommendation to the Board, prior to seeking the approval from the Trustee of Axis-REIT.

The Audit Committee also considered the non-audit fees applicable to Axis-REIT and Axis REIT Sukuk Berhad for FYE2018, and was satisfied that the non-audit fees were not of significant nature and were necessary compliance costs in order for Axis-REIT and Axis REIT Sukuk Berhad to comply with the relevant requirements.

The details of the audit and non-audit fees for FYE2018 are disclosed below:

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

[^] Fee for the review of the Financial Service Coverage Ratio in relation to the Sukuk Programme established under Axis REIT Sukuk Berhad

Internal Audit:

- (a) Reviewed on a quarterly basis, the internal audit reports with the Internal Auditors, and ensured that action plans recommended are agreed upon and implemented by Management on a timely basis.

A summary of the activities of the internal audit function (out-sourced) carried out in FYE2018 are contained in the Statement on Risk Management and Internal Control of this Annual Report



AUDIT COMMITTEE REPORT

- (b) Evaluated the Internal Auditors and recommended to the Board their re-engagement to carry out the internal audit function in respect of the year 2018/2019, at the meeting held on 25 April 2018. The Audit Committee also reviewed the internal audit fees applicable for the audit cycles under engagement for the year 2018/2019 before the same was approved by the Board.
- (c) Reviewed with the Internal Auditors, the internal audit plan for the year 2018/2019 which covers four audit cycles, and agreed with the methodologies (risk-driven approach) employed by the Internal Auditors.

Areas to be covered under the 2018/2019 internal audit cycles include reviews of the Fund's compliance with the SC's new Guidelines on Listed REITs and the revamped MMLR, a review of tenant procedures in the leasing department, a review of assessment procedures involving vendors/contractors, and a review of building security and safety controls.

Risk Management and Others:

- (a) Reviewed the Risk Management Report containing the Risk Register, prepared by Management, on a quarterly basis.

Details of the risk management processes of the Manager are contained in the Statement on Risk Management and Internal Control of this Annual Report



- (b) Reviewed on a quarterly basis, the list of RPTs and recurrent RPTs ("RRPTs") involving interests of related parties who are Directors of the Manager, substantial Unitholders of Axis-REIT and ultimate major shareholders of the Manager or persons connected to them (more details relating to this responsibility are presented in section 5 below).
- (c) Reviewed and recommended for the Board's approval, at the meeting held on 23 January 2018, the Audit Committee Report and Statement on Risk Management and Internal Control for inclusion in the 2017 Annual Report of Axis-REIT, issued in February 2018, ensuring that these reports contained informative and meaningful disclosures in line with prescribed regulatory requirements.
- (d) Reviewed, at each quarterly meeting, the income distributions of Axis-REIT which were made in accordance with the distribution policy of Axis-REIT, in order to ensure the adequacy of the realised income for each distribution prior to recommending the proposal to the Board. At the last quarterly meeting held in FYE2018, i.e. on 22 October 2018, the Audit Committee also reviewed the implementation of the income distribution reinvestment plan in conjunction with the 2018 third interim income distribution of Axis-REIT. The said 2018 third interim income distribution was implemented and completed on 11 December 2018 with the issuance and listing of 4,958,485 new units of Axis-REIT on the Main Market of Bursa Securities.

5. Review of Related Party Transactions

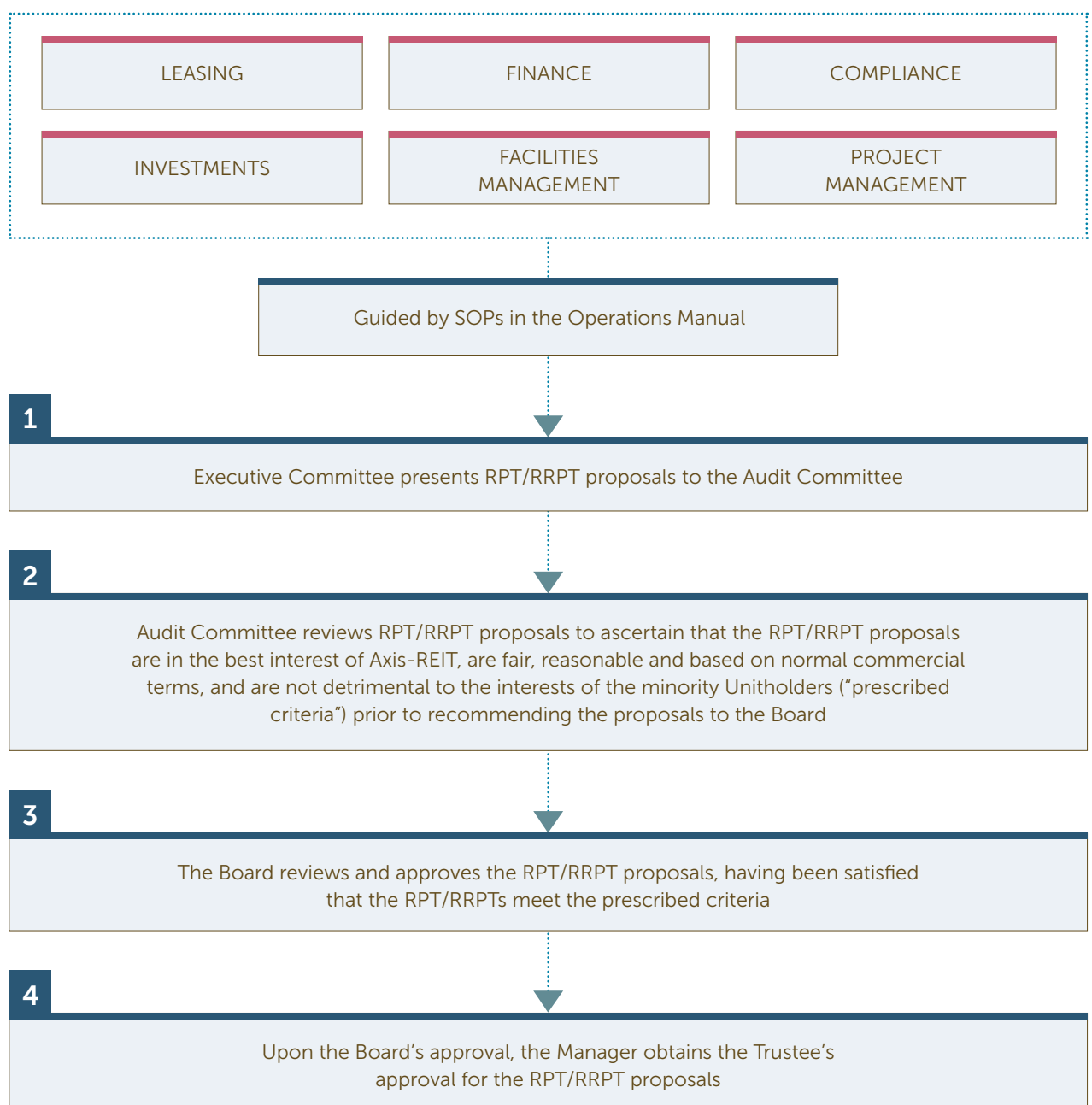
The Audit Committee considers RPTs to be the most affected area following the implementation of the SC's new Guidelines on Listed REITs and the revamped MMLR, which became effective and applicable to REITs since 9 April 2018. The revamped MMLR imposes additional obligations on the Manager to monitor the compliance of RRPTs and the adherence to the applicable percentage ratios. Transaction rules prescribed under the revamped MMLR, which were previously not applicable to REITs, became applicable from 9 April 2018. This change in regulatory requirements called for a review of the existing procedures and disclosures by Management. In addition, a compliance review on the updated procedures put in place by Management was carried out by the Internal Auditors during the August 2018 audit cycle in order to ensure that the updated internal procedures and reporting obligations comply with the prescribed requirements governing RPTs and RRPTs.

AUDIT COMMITTEE REPORT

The Manager's Operations Manual was updated to incorporate the standard operating procedures ("SOPs") governing RPTs and RRPTs. These SOPs were reviewed by the Audit Committee at its meeting on 22 October 2018, and were recommended to the Board for approval and adoption on the same date.

Principally and pursuant to the SC's Guidelines on Listed REITs, the Manager has the duty to ensure that all RPTs, dealings, investments and appointments are made on terms which are the best available for the REIT and which are no less favourable to the REIT than an arm's length transaction between independent parties. The Manager must also manage any and all situations where a conflict of interest arises.

The diagram below depicts the control mechanism that is governed by the SOPs contained in the Manager's Operations Manual:



AUDIT COMMITTEE REPORT

Each department of the Manager has the duty to identify the existence of RPTs/RRPTs (as guided by the SOPs contained in the Operations Manual) and RPT/RRPT proposals will be discussed at the Executive Committee level first. The Executive Committee will present the RPT/RRPT proposals to the Audit Committee for review. The Audit Committee then reviews the terms of the transactions and makes enquiries with Management in order for the Audit Committee to be satisfied that the proposed RPT/RRPT meets the prescribed criteria. If any Audit Committee member is an interested party, such member will abstain from deliberation and voting on the proposed RPT/RRPT under review. Once satisfied that the proposed RPT/RRPT meets the prescribed criteria, a recommendation will then be made to the Board for consideration and approval.

Following the recommendation of the Audit Committee, the Board will deliberate on the proposed RPT/RRPT. The Board is also obliged to ensure that the proposed RPT/RRPT satisfies the prescribed criteria. The nature of interest will be fully disclosed by the interested Director and such declaration will be recorded in the minutes of meeting by the Company Secretary. Such interested Directors will also abstain from deliberation and voting at Board level. With the Board's approval, Management will seek approval from the Trustee of Axis-REIT prior to execution/implementation of the duly reviewed RPT/RRPT proposals.

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

On 7 June 2018, the Manager announced to Bursa Securities, for and on behalf of Axis-REIT, an RPT for the acquisition of properties known as Beyonics i-Park Campus Block E and Indahpura Facility 1, which was disclosed in accordance with the transaction requirements prescribed under the revamped MMLR.

6. Relationship with the External Auditors and Internal Auditors

The Board, via the Audit Committee, maintains a formal and transparent relationship with the External Auditors as well as the Internal Auditors. The Audit Committee has direct and unrestricted access to both the External and Internal Auditors. The Audit Committee had, during the year, met twice, on 23 January 2018 and 22 October 2018, with the External Auditors without the presence of Management, to discuss issues, problems and reservations (if any) that the External Auditors wished to highlight to the Committee. A private session was also held between the Audit Committee and the Internal Auditors on 22 October 2018 for the same purpose.

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



AUDIT COMMITTEE REPORT

7. Annual Assessment of the Audit Committee

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

This annual assessment process was carried out on 22 October 2018 by the Audit Committee, the Nomination Committee and the Board, in compliance with Paragraph 15.20 of the MMLR.

8. Internal Audit Function

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

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



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

Introduction

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

Key Elements of the Risk Management and Internal Control System

Operations Manual

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

The Manager had, during the financial year ended 31 December 2018 ("FYE2018"), updated the Operations Manual. The major updates pertained to the realignment of the current processes and procedures to the new Guidelines on Listed Real Estate Investment Trusts ("REITs") issued by the Securities Commission Malaysia ("SC") and the revamped Listing Requirements of Bursa Malaysia Securities Berhad, both of which became effective from 9 April 2018 onwards. The Operations Manual now includes, among others, development activities, project management and treatment of related party transactions.

Financial Controls and Business Management

The Board of the Manager had, at its meeting held in January 2018, approved the annual budget for FYE2018 which underwent a target-setting process carried out by each department with detailed reviews at all levels of operations. The Manager had been guided by the approved budget in managing Axis-REIT throughout FYE2018. Monthly financial updates had also been provided to the Directors in order to give timely assessments of the Fund's performance and prospects. Management closely monitored actual financial performance at all levels on a monthly basis. The Manager is still committed to the implementation of the 2021 Strategy Plan encompassing the Manager's long term 5-year initiatives for Axis-REIT in the pursuit of its corporate objectives. A strategic planning session was conducted in September 2018 where the 2021 Strategy Plan was revisited and Management refocused its action plans.

The Manager also has a policy on financial limits and approving authority for its operating and capital expenditure. All major operating and capital expenditure in respect of FYE2018 had been recommended by the Executive Committee of the Manager and approved by the Board of the Manager prior to implementation. There has been no change in the authority limits established by the Manager in respect of FYE2018.

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

The Executive Committee of the Manager met with the Management on a quarterly basis to review, assess and discuss business updates, investment proposals, financial performance and to resolve key operational, financial and other key management issues faced by the Management during FYE2018. Significant issues were highlighted and discussed at Board meetings for the Board's ultimate decisions.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Yardi Voyager system is a synchronised platform for capturing and processing data covering tenant and debt management, payment processing, financial reporting, advanced budgeting and finance as well as job costing. The Management has carried out tests on improvements made to the system to ensure that the processes are effective in generating timely and accurate information for Management's action and decision making, operationally and financially.

During the year, the Manager had successfully updated the accounting system to be Sales and Services Tax ("SST")-compliant pursuant to the Government's decision to implement the SST following the repeal of the Goods and Services Tax. The SST-compliant system ensures that accurate accounting information is captured, processed and produced for tax reporting purposes.

In accordance with the Manager's capital management strategy, a total of RM265 million in nominal value Islamic Medium Term Notes ("Sukuk"), pursuant to an Islamic Medium Term Notes Programme ("Sukuk Programme") of up to RM3 billion in nominal value with perpetual tenure, had been issued in 2012 and 2013 via Axis-REIT's wholly-owned subsidiary, Axis REIT Sukuk Berhad. The RM265 million Sukuk issuances comprises RM110 million (10 years tenure), RM 70 million (7 years tenure) and RM85 million (5 years tenure). Out of the total of RM265 million Sukuk, the 5-year Sukuk amounting to RM85 million had matured and was redeemed at full face value with existing short term financing facilities during the financial year. Following the redemption of 5-year Sukuk, the remaining RM180 million Sukuk provided Axis-REIT a blended financing rate of 4.18% (7 years) to 4.61% (10 years) per annum.

Investment Controls

The Board of the Manager reviews, evaluates and decides on strategic investment proposals covering acquisitions and disposals as recommended by the Executive Committee of the Manager. Management has in place systematic procedures to identify potential acquisitions and assess the viability of the proposed acquisitions prior to recommending such proposals to the Board for consideration and decision. Due diligence processes are also in place to ensure that Axis-REIT acquires yield-accretive assets that will enhance the property portfolio of the Fund. Disposal processes are also in place to ensure that the interests of the Unitholders of Axis-REIT are safeguarded at all times. Management also monitors the performance of each property in the portfolio of Axis-REIT, on a quarterly basis, in terms of property yield, portfolio efficiency and occupancy levels.

In the previous financial year, Axis-REIT embarked on its second built-to-suit project, which is located within the proposed Malaysia International Aerospace Centre Technology Park, Sultan Abdul Aziz Shah Airport. As of the date of this Statement, the development of Axis Aerotech Centre @ Subang ("the Project") had been substantially completed. The rental commencement date was on 16 December 2018. However, the handover date has been changed to 31 March 2019 due to variations in technical specifications of the Project as requested by the tenant.

Tenant Relationship Management

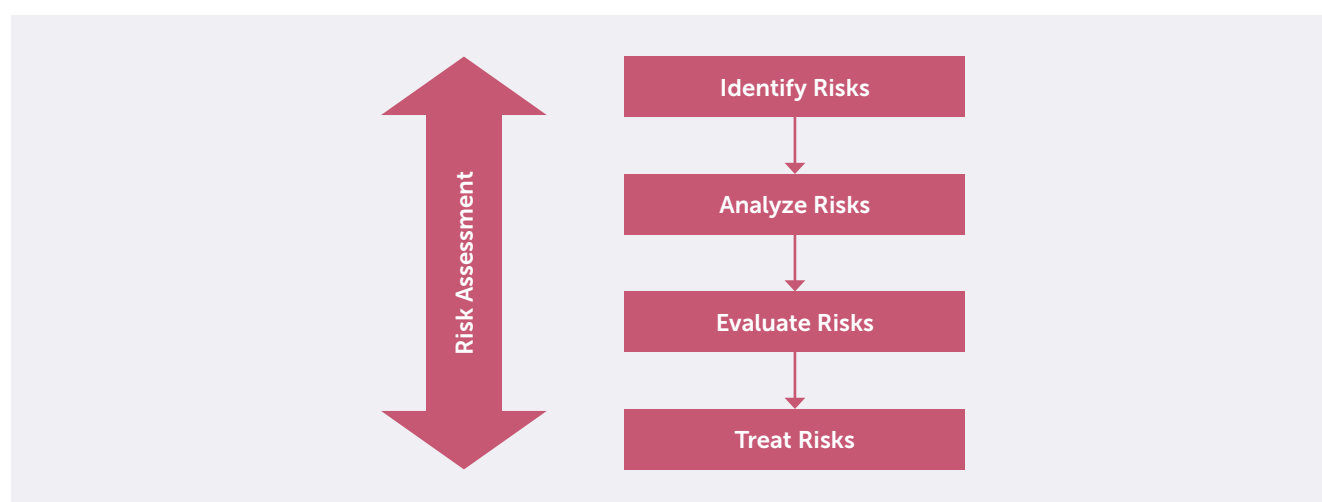
In the previous financial year, the Manager introduced "helloaxis.com.my", an online customised customer relationship portal that facilitates announcements, general feedback, property maintenance and form downloads by tenants. This tenant portal reduces the manual paper flow between landlord and tenant and is a green initiative towards environmental sustainability. It provides a platform for the facilities and leasing teams to track feedback and complaints from tenants, to address and rectify issues raised by tenants, and to ensure action plans and follow up measures are carried out to a satisfactory level and in a timely manner. During the year under review, Axis-REIT had embarked on a tenant satisfaction survey via a third party service provider, to understand tenants' awareness of its efforts to continuously improve tenant relationships. These initiatives were taken by the Manager to improve the facility management services rendered to tenants as well as to strengthen tenant relationships as it recognises the importance of strong tenant relationships as a factor in safeguarding the future rental income of Axis-REIT.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Risk Register

Risk management is part of Management's day-to-day operations that facilitates the timely response to evolving business risks, whether arising from factors within Axis-REIT or from changes in the business environment in which Axis-REIT operates. The Manager has in place a Risk Register that assists Management in its risk management processes to identify risks, consider the likelihood of a risk occurring and the impact if a particular risk materialises and the action plans to mitigate the identified risks.

The Risk Register which is the result of the Manager's execution of the risk management processes adopted by the Manager, follows the relevant guidance from the International Standards Organization (ISO) 31000 – Risk Management-Principles & Guidelines. The diagram below shows the risk management processes as encapsulated in the underlying procedures Risk Register:



The Manager carried out a quarterly update of the Risk Register which focuses on business, real estate management, financial, compliance, information technology and risk management systems. The Risk Register segregates risk areas based on departmental components. All HODs are responsible for their respective risk components and report directly to the CEO on risk issues and mitigating factors. Updates were made to the Risk Register on a quarterly basis capturing data arising from management analysis, management action plans and monitoring activities undertaken by each HOD on an on-going basis. All updates were compiled by the Head of Compliance, who assists the CEO in this area, for reporting purposes. The Risk Management Report, comprising an executive summary and the detailed Risk Register were presented to the Audit Committee and the Board at their quarterly meetings. The Audit Committee reviewed the Risk Management Report at each of its meetings held in FYE2018 and the same was tabled to the Board. There was no significant issue arising from the risk management review in respect of FYE2018.

The following descriptions provide some insights into how the Manager monitored and managed identified key risks affecting Axis-REIT, on an on-going basis during FYE2018:

- The general mandate to issue new units of up to 20% of the issued units in Axis-REIT is part of the capital management strategy to address gearing risks. With the new Guidelines on Listed REITs and the revamped Listing Requirements, the SC's approval is no longer required for the issuance of new units, hence, time-to-market has been shortened making it more time effective for capital raising. This enables the Manager to implement capital raising within a shorter timeframe when such needs arise;
- One of the action plans to address health and safety risks includes the appointment of a Health, Safety, Security and Environment Officer who will be responsible for health, safety and environment matters relating to the property portfolio of Axis-REIT;
- CTOS checks were incorporated in the vendor/contractor evaluation process with the aim of achieving cost effectiveness in asset enhancement initiatives and project management; CTOS check were also incorporated in the financial due diligence processes of the Manager's leasing and investment activities. These action plans are put in place to address credit, tenant and investment risks;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- A review was conducted on the existing processes and procedures relating to related party transactions and the outcome of the review resulted in the updating of such processes and procedures to comply with the transaction rules prescribed by the revamped Listing Requirements. The review was essential to ensure compliance risks are properly addressed; and
- The Manager had implemented certain information technology controls i.e. strengthening system login mechanisms, firewall preventive maintenance and anti-virus protection, to address information technology risks.

The key risks and their corresponding monitoring action plans are documented in the Risk Register maintained by the Manager.

Internal Audit Function and its Activities

Based on the agreed internal audit plan, the outsourced Internal Auditors had assisted the Manager in reviewing the internal control systems relating to Axis-REIT's operations, procedures and processes. The Internal Auditors had reviewed and reported the results of the audit to the Audit Committee on the following internal audit work carried out during FYE2018:

1. Internal audit review on Asset Enhancements and Refurbishment and Financial Controls on Payment Process where certain administrative procedures under project management were improved;
2. Internal audit review on Billing & Collection Procedures, Debts Monitoring & Controls and Car Park Management & Collection, in which the Internal Auditors were of the opinion that the overall internal control systems of the reviewed areas were satisfactory, without any findings raised to the Audit Committee;
3. Internal audit review on compliance with the SC's Listed REIT Guidelines which became effective on 9 April 2018. The Internal Auditors were of the opinion that the overall procedures and reporting practices set in place were consistent with the requirements stipulated in the said Guidelines;
4. Internal audit review on transactions with related parties under the revamped Listing Requirements which also became effective on 9 April 2018. The Internal Auditors were of the view that the overall procedures and reporting practices set in place by the Manager were consistent with the requirements stipulated in the revamped Listing Requirements in all major aspects; and
5. Internal audit review on Tenant Assessment and Termination Process where certain administrative procedures required Management's attention for improvement.

The costs incurred by the Manager for the outsourced Internal Audit Function in respect of FYE2018 amounted to RM63,000. The Audit Committee, in its review of this Statement, was satisfied that there were no significant control deficiencies noted during the financial year under review that had a material impact on Axis-REIT's financial performance or business operations.

Appraisal of the System of Risk Management and Internal Controls

The Board of the Manager had appraised the adequacy, effectiveness and integrity of the system of risk management and internal controls framework that was in place during the financial year under review up to the date of approval of this Statement. The Board of the Manager has received assurance from the CEO and Chief Financial Officer that the risk management and internal control systems set in place by the Manager, in relation to managing the operations of Axis-REIT, is operating adequately and effectively, in all material aspects.

Review of This Statement

The Board of the Manager has ensured that this Statement is reviewed in accordance with Paragraph 15.23 of the Main Market Listing Requirements for inclusion in the annual report of Axis-REIT for FYE2018.

This Statement has been tabled and approved by the Board on 22 January 2019.

DIRECTORS' RESPONSIBILITY STATEMENT

In Preparing the Annual Audited Financial Statements

In accordance with Paragraph 15.26(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of Axis REIT Managers Berhad, the management company of Axis Real Estate Investment Trust ("Axis-REIT"), is pleased to report that the financial statements of Axis-REIT for the financial year ended 31 December 2018 have been drawn up in accordance with the provisions of the Third Principal Deed constituting Axis-REIT dated 28 November 2013, the Securities Commission Malaysia's Guidelines on Listed Real Estate Investment Trusts which came into effect on 9 April 2018, applicable securities laws and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of Axis-REIT as at 31 December 2018 and of the results of its operations and cash flows for the year then ended.

The Directors have:

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

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

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THE MANAGER'S REPORT

Axis REIT Managers Berhad, the management company ("Manager") of Axis Real Estate Investment Trust ("Axis-REIT" or "Fund"), has the pleasure of presenting this report together with the audited financial statements of Axis-REIT for the financial year ended 31 December 2018 ("FYE2018").

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

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

The Manager is pleased to report that the Fund has been successful in achieving its investment objectives as set out above and there was no change in the investment objectives of Axis-REIT in respect of FYE2018. There was also no significant change in the state of affairs of Axis-REIT during the financial year under review up to the date of this report.

The Manager is committed in its pursuit of the Fund's investment objectives via the following management strategies:

- a) Facilities management strategy
- b) Real estate strategy
- c) Development strategy
- d) Capital management strategy
- e) Investment strategy

There was no change in the strategies and policies employed during the financial year under review as compared to that of the preceding year.

Directors

The Directors of the Manager who have held office during FYE2018 until the date of this report are as follows:

YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin
 Dato' Abas Carl Gunnar Bin Abdullah
 Tew Peng Hwee @ Teoh Peng Hwee
 Leong Kit May
 Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor
 Mohd Sharif Bin Hj Yusof
 Alvin Dim Lao
 Alex Lee Lao (Alternate Director to Dato' Abas Carl Gunnar Bin Abdullah)
 Jancis Anne Que Lao (Alternate Director to Alvin Dim Lao)
 Yeoh Chong Keat (resigned with effect from 30 April 2018)

Directors' Benefits

As at the end of FYE2018, there did not subsist any arrangement to which the Manager is a party, where the arrangement enables any Director or all Directors of the Manager to acquire benefits by way of the acquisition of units in, or debentures of Axis-REIT, nor did such arrangement subsist at any time during the financial year.

Since the end of the previous financial year, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Fund or a related corporation with the Director, or with a firm in which the Director is a member, or with a company in which the Director has a substantial financial interest, except as disclosed in Note 24 of the audited financial statements of Axis-REIT.

THE MANAGER'S REPORT

Directors' Interests

The interests of the Directors of the Manager in the units of Axis-REIT in respect of the FYE2018 are as follows:

	Number of units			
	As at 1.1.2018 '000 Units	Acquired '000 Units	Sold '000 Units	As at 31.12.2018 '000 Units
Direct Interest:				
- Dato' Abas Carl Gunnar Bin Abdullah	25,280	174	1,200	24,254
- YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	20	-	-	20
- Tew Peng Hwee @ Teoh Peng Hwee	55,684	866	-	56,550
- Alex Lee Lao	55,151	1,236	-	56,387
- Leong Kit May	42	1	-	43
- Jancis Anne Que Lao	839	5	-	844
- Yeoh Chong Keat [^]	19	N/A	N/A	N/A
Indirect Interest:				
- Dato' Abas Carl Gunnar Bin Abdullah*	10,231	73	-	10,304
- Alex Lee Lao [#]	3,112	41	-	3,153

Notes:

- (i) The information above was prepared based on the Directors' disclosures made pursuant to the provisions of the Third Principal Deed dated 28 November 2013 constituting Axis-REIT ("Deed")
- (ii) Save as disclosed above, the other Directors of the Manager did not have any interest, whether direct or indirect, in the units of Axis-REIT
- (iii) * Deemed interested in the direct unitholdings of his spouse, Datin Kuyas Emiloglu (also known as Ka Ya-Shih), and daughter, Amanda Tan Myhre
- (iv) # Deemed interested in the direct unitholdings of his brothers, Lao, Yin Yong Lee and Leon Lee Lao
- (v) ^ Resigned with effect from 30 April 2018

Manager's Fees

The Manager receives a fee of 1.0% per annum of the NAV of Axis-REIT, calculated on a monthly basis and payable to the Manager monthly in arrears. There will be no payment due to the Manager by way of remuneration for its services upon the subscription for the purchase or sale of units in Axis-REIT or upon any distribution of income and capital.

Any increase in the Manager's fee above 1.0% per annum must be approved by the Trustee of Axis-REIT and Unitholders by way of a majority resolution (consisting of not less than 2/3 of Unitholders voting thereat) passed at a Unitholders' meeting convened in accordance with the Deed.

For the financial year under review, the total Manager's fee was RM16,188,142, representing 1.0% per annum of the NAV of Axis-REIT for the period from 1 January 2018 to 31 December 2018.

The Manager is also entitled to an acquisition and disposal fee of 1.0% and 0.5% respectively based on the purchase and disposal considerations of real estate assets upon the completion of such transactions. For the financial year under review, there were five acquisitions completed by Axis-REIT resulting in a total acquisition fee of RM1,951,000 being paid to the Manager.

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

THE MANAGER'S REPORT

Soft Commission

The Manager did not receive any soft commissions from any dealer or broker by virtue of transactions conducted for the Fund during the financial year under review.

Other Information

Before the financial statements of Axis-REIT were prepared, the Manager took reasonable steps:

- i) to ascertain that appropriate action had been taken in relation to writing off bad debts and making provisions for doubtful debts and was satisfied that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- ii) to ensure that all current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of Axis-REIT, had been stated at the lower of cost and net realisable value.

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

- i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to a substantial extent; and
- ii) that would render the values attributed to the current assets in Axis-REIT's financial statements misleading; and
- iii) which have arisen that would render adherence to the existing method of valuation of assets or liabilities of Axis-REIT misleading or inappropriate; and
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of Axis-REIT misleading.

As at the date of this report, there does not exist:

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

In the opinion of the Manager:

- i) no contingent liability or other liability of Axis-REIT has become enforceable, or is likely to become enforceable within the 12-month period after the end of FYE2018 which, in the opinion of the Manager, will or may affect the ability of Axis-REIT to meet its obligations as and when they fall due; and
- ii) the results of the operations of Axis-REIT for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature; and
- iii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report, that is likely to substantially affect the results of the operations of Axis-REIT for the financial year in which this report is made.

THE MANAGER'S REPORT

Auditors

The auditors, KPMG PLT, have indicated their willingness to continue in office.

Signed for and on behalf of the Manager of Axis-REIT, Axis REIT Managers Berhad in accordance with a resolution of the Board of Directors.

Tew Peng Hwee @ Teoh Peng Hwee

Director

Leong Kit May

Chief Executive Officer/Executive Director

Date: 14 February 2019

STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Non-current assets			
Investment properties	4	2,798,500	2,482,200
Equipment	5	3,021	2,477
		2,801,521	2,484,677
Current assets			
Receivables, deposits and prepayments	6	20,928	30,063
Cash and cash equivalents	7	18,014	34,869
Total current assets		38,942	64,932
Total assets		2,840,463	2,549,609
Financed by:			
Unitholders' funds			
Unitholders' capital	8	1,247,069	1,240,253
Reserves		417,012	350,883
Total unitholders' funds		1,664,081	1,591,136
Non-current liabilities			
Tenants' deposits	9	57,706	43,998
Deferred tax liability	10	4,402	-
Financing	11	245,867	245,830
		307,975	289,828
Current liabilities			
Payables and accruals	9	54,907	71,881
Financing	11	813,500	596,764
Total current liabilities		868,407	668,645
Total liabilities		1,176,382	958,473
Total unitholders' funds and liabilities		2,840,463	2,549,609
Net asset value ("NAV")		1,664,081	1,591,136
Number of units in circulation ('000 units)		1,237,285	1,232,327
NAV per unit (RM)			
- Before income distribution		1.3449	1.2912
- After income distribution		1.3204 [#]	1.2820

NAV per unit after reflecting realised income to be distributed as final 2018 income distribution of 2.45 sen per unit payable on 28 February 2019.

The notes on pages 197 to 247 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Revenue	12	210,588	172,715
Property operating expenses	13	(27,827)	(26,512)
Net property income		182,761	146,203
Profit income		725	984
Net loss on disposal of investment property		-	(419)
Change in fair value of investment properties	4.1.1	35,607	25,441
Fair value change on Islamic derivatives		(306)	206
Net gain on financial liabilities measured at amortised cost		3,687	1,163
Net property and investment income		222,474	173,578
Manager's fees	1(b)	16,188	14,278
Trustee's fees	1(c)	857	755
Auditor's fees			
- audit		121	121
- other services		17	15
Tax agent's fees		17	15
Net impairment losses/(reversal of impairment losses) on trade receivables		215	(369)
Depreciation of equipment	5	472	422
Administrative expenses		2,498	2,518
Islamic financing costs		41,754	32,453
Valuation fees		887	810
Non-property expenses		63,026	51,018
Net income before tax		159,448	122,560
Tax expense	14	(4,469)	-
Net income for the year and total comprehensive income for the year attributable to unitholders		154,979	122,560

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Net income for the year is made up as follows:			
Realised		113,442	90,796
Unrealised			
- Change in fair value of investment properties, as per valuation	4.1	42,558	30,395
- Net gain on financial liabilities measured at amortised cost		3,687	1,163
- Provision for deferred tax on change in fair value of investment properties		(4,402)	-
Fair value change on Islamic derivatives		(306)	206
		41,537	31,764
		154,979	122,560
Earnings per unit (sen)	15	12.57	10.97
Number of units in circulation ('000 units)		1,237,285	1,232,327
Earnings per unit (before Manager's fees)			
- Gross (sen)		13.89	12.25
- Net (sen)		13.89	12.25
Net income distribution			
First, Second and Third interim income distributions totalling 6.29 sen per unit paid on 4 June 2018, 7 September 2018 and 10 December 2018 (2017: First, Second, Third and Fourth income distributions totalling 7.34 sen per unit paid on 31 May 2017, 30 August 2017, 13 December 2017 and 22 December 2017), respectively.		77,512	81,119
Final income distribution of 2.45 sen per unit payable on 28 February 2019 (2017: Final income distribution of 0.92 sen per unit paid on 28 February 2018).		30,313	11,338
	16	107,825	92,457

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018	2017
Distribution per unit			
- Gross (sen) - interim		6.29	7.34
- final		2.45	0.92
	16	8.74	8.26
- Net (sen) * - interim		6.29	7.34
- final		2.45	0.92
	16	8.74	8.26

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

	Withholding tax rate	
	2018	2017
Resident corporate	N/A [^]	N/A [^]
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	24%	24%
Non-resident institutional	10%	10%

[^] to tax at prevailing rate

The notes on pages 197 to 247 are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSET VALUE

for the year ended 31 December 2018

		Distributable	Non-distributable	
	Total unitholders' capital	Realised income	Unrealised income	Total unitholders' funds
	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	1,060,320	19,368	313,283	1,392,971
Net income for the year	-	90,796	31,764	122,560
Realisation of unrealised income	-	1,764	(1,764)	-
Total comprehensive income for the year	-	92,560	30,000	122,560
<i>Contributions by and distributions to unitholders</i>				
Issuance and placement of units	181,958	-	-	181,958
Issuing expenses	(2,025)	-	-	(2,025)
Distributions to unitholders	-	(104,328)	-	(104,328)
Total transactions with unitholders	179,933	(104,328)	-	75,605
At 31 December 2017/1 January 2018	1,240,253	7,600	343,283	1,591,136
Net income for the year	-	113,442	41,537	154,979
Total comprehensive income for the year	-	113,442	41,537	154,979
<i>Contributions by and distributions to unitholders</i>				
Issuance of units	6,892	-	-	6,892
Issuing expenses	(76)	-	-	(76)
Distributions to unitholders	-	(88,850)	-	(88,850)
Total transactions with unitholders	6,816	(88,850)	-	(82,034)
At 31 December 2018	1,247,069	32,192	384,820	1,664,081

Note 8

The notes on pages 197 to 247 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
Net income before tax		159,448	122,560
<i>Adjustments for:</i>			
Islamic financing costs		41,526	32,453
Amortisation of transaction costs		228	247
Profit income		(725)	(984)
Net loss on disposal of investment property		-	419
Change in fair value of investment properties	4.1	(42,558)	(30,395)
Depreciation of equipment	5	472	422
Net gain on financial liabilities measured at amortised cost		(3,687)	(1,163)
Net impairment losses/(reversal of impairment losses) on trade receivables		215	(369)
Fair value change on Islamic derivatives		306	(206)
Operating income before changes in working capital		155,225	122,984
Changes in working capital:			
Receivables, deposits and prepayments		10,228	(19,760)
Payables and accruals		8,920	39,850
Tenants' deposits		(10,113)	6,760
Cash generated from operations		164,260	149,834
Tax paid		(67)	-
Net cash from operating activities		164,193	149,834
Cash flows from investing activities			
Profit income received		725	984
Acquisition of investment properties	4	(198,787)	(155,660)
Enhancement of investment properties	4	(74,955)	(152,996)
Net proceeds from disposal of investment property		-	54,581
Acquisition of equipment	5	(1,016)	-
Decrease in pledged Islamic deposits		3,437	1,462
Net cash used in investing activities		(270,596)	(251,629)
Cash flows from financing activities			
Islamic financing cost paid		(41,526)	(32,453)
Net proceeds from financing		301,851	61,993
Redemption of Islamic Medium Term Notes ("Sukuk")		(85,000)	-
Payment of finance lease liabilities		(306)	(311)
Income distribution paid to unitholders		(88,850)	(104,328)
Proceeds from issue of units		6,892	181,958
Issuing expenses		(76)	(2,025)
Net cash from financing activities		92,985	104,834

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Net (decrease)/increase in cash and cash equivalents		(13,418)	3,039
Cash and cash equivalents at 1 January		23,037	19,998
Cash and cash equivalents at 31 December	(i)	9,619	23,037

(i) Cash and cash equivalents

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

	Note	2018 RM'000	2017 RM'000
Cash and bank balances	7	8,314	10,028
Islamic deposits placed with licensed banks	7	9,700	24,841
		18,014	34,869
Less: Islamic deposits placed with licensed banks			
- pledged	7	(8,395)	(11,832)
		9,619	23,037

The notes on pages 197 to 247 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General

Axis Real Estate Investment Trust ("Axis-REIT") is a Malaysia-domiciled real estate investment trust constituted pursuant to the Third Principal Deed dated 28 November 2013 ("the Deed") between Axis REIT Managers Berhad ("the Manager") and RHB Trustees Berhad ("the Trustee"). The Deed is regulated by the Securities Commission Act, 1993, the Securities Commission's Guidelines on Listed Real Estate Investment Trusts, the Listing Requirements of Bursa Malaysia Securities Berhad, the Rules of the Depository and taxation laws and rulings. Axis-REIT will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of Clause 26 of the Deed. The addresses of its registered office and principal place of business are as follows:

Registered office

Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur

Principal place of business

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

The financial statements as at and for the financial year ended 31 December 2018 comprise the financial statements of Axis-REIT and its wholly owned subsidiary, Axis REIT Sukuk Berhad, a company incorporated in Malaysia, whose principal activity is to raise financing on behalf of Axis-REIT.

Axis-REIT is principally engaged in investing in a diverse portfolio of properties with the primary objective of achieving an attractive level of return from rental income and long-term capital growth. There has been no significant change in the nature of this activity during the year.

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

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

(a) Property management fees

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

(b) Manager's fees

Pursuant to the Deed, the Manager is entitled to receive a fee of up to a maximum of 1% (2017: 1%) per annum of the Net Asset Value of Axis-REIT, calculated on a monthly accrual basis and payable monthly in arrears. The Manager's fees for the year ended 31 December 2018 of RM16,188,142 (2017: RM14,278,494) is 1% (2017: 1%) of the monthly Net Asset Value.

The Manager is also entitled to receive an acquisition fee or a disposal fee of 1% or 0.5% (2017: 1% or 0.5%) of the purchase price or the disposal price, respectively, of any investment property purchased or disposed directly or indirectly by Axis-REIT which is payable after the completion of the acquisition or the disposal. The acquisition fees for the financial year ended 31 December 2018 is RM1,951,000 (2017: RM1,530,000) which was 1% of the purchase price. The acquisition fees are included in the acquisition cost of the investment properties acquired (Note 4).

There was no disposal fee for the year ended 31 December 2018 (2017: RM280,660).

NOTES TO THE FINANCIAL STATEMENTS

1. General (continued)

(c) Trustee's fees

Pursuant to the Deed, the Trustee is entitled to receive a fee of 0.05% (2017: 0.05%) per annum of the Net Asset Value of Axis-REIT calculated on a monthly accrual basis and payable monthly in arrears. The Trustee's fees for the year ended 31 December 2018 is RM857,000 (2017: RM755,000).

These financial statements were approved by the Board of Directors of the Manager on 14 February 2019.

2. Basis of preparation

(a) Statement of compliance

The financial statements of Axis-REIT have been prepared in accordance with the Deed, the Securities Commission's Guidelines on Listed Real Estate Investments Trusts, applicable securities laws, Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)**(a) Statement of compliance (continued)**

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

- from the annual period beginning on 1 January 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for amendments and interpretations which are not applicable to Axis-REIT.
- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020, except for amendments which are not applicable to Axis-REIT.

MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 is not applicable to Axis-REIT.

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impact to the current period and prior period financial statements of Axis-REIT, except as mentioned below:

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

Axis-REIT has preliminary assessed the impact that the initial application of MFRS 16 will have on its financial statements for the year ended 31 December 2018 and the beginning of the earliest period presented, 1 January 2018, and does not expect the impact to be material.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except as otherwise stated in the financial statements.

(c) Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than as disclosed in Note 4 – Investment properties.

3. Significant accounting policies

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

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

- i) financial instruments;
- ii) revenue recognition; and
- iii) impairment losses of financial instruments

as compared to those adopted in the previous financial statements. The impacts arising from the changes are disclosed in Note 26.

(a) Basis of consolidation

(i) Subsidiaries

Axis-REIT has established a special purpose company, Axis REIT Sukuk Berhad, for the purpose of raising financing on behalf of Axis-REIT. Axis REIT Sukuk Berhad is consolidated as if it is a subsidiary of Axis-REIT.

Subsidiaries are entities, including structured entities, controlled by Axis-REIT. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Axis-REIT controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive.

Axis-REIT also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the financial statements of Axis-REIT.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments**

Unless specifically disclosed below, Axis-REIT generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, Axis-REIT has elected not to restate the comparatives. The financial effect of the change in accounting policies are disclosed in Note 26 to the financial statements.

(i) Initial recognition and measurement

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

Current financial year

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a financing component is initially measured at the transaction price.

Previous financial year

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

(ii) Financial instrument categories and subsequent measurement**Financial assets****Current financial year**

Axis-REIT categorises financial instruments as follows:

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless Axis-REIT changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment losses. Profit income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial assets (continued)******Current financial year (continued)*****(a) Amortised cost (continued)**

Profit income is recognised by applying the effective profit rate to the gross carrying amount except for credit impaired financial assets (see note 3(g)(i)) where the effective profit rate is applied to the amortised cost.

(b) Fair value through profit or loss

All financial assets not measured at amortised cost as described above are measured at fair value through profit or loss. This includes Islamic derivative financial assets. On initial recognition, Axis-REIT may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values. Net gains or losses, including any profit or dividend income, are recognised in the profit or loss.

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

Previous financial year

In the previous financial year, financial assets of Axis-REIT were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

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

Fair value through profit or loss category comprised financial assets that were held for trading, including Islamic derivatives or financial assets that were specifically designated into this category upon initial recognition.

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial assets (continued)******Previous financial year (continued)*****(b) Loans and receivables**

Loans and receivables category comprised debt instruments that were not quoted in an active market.

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

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

Financial liabilities***Current financial year***

The categories of financial liabilities at initial recognition are as follows:

(a) Fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are Islamic derivatives and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, Axis-REIT may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

- (i) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
- (ii) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about Axis-REIT is provided internally on that basis to Axis-REIT's key management personnel; or
- (iii) if a contract contains one or more embedded Islamic derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded Islamic derivatives significantly modifies the cash flows and separation is not prohibited.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial liabilities (continued)*****Current financial year (continued)****(a) Fair value through profit or loss (continued)**

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any Islamic financing costs, recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, Axis-REIT recognises the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

(b) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective profit method.

Islamic financing costs and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

Previous financial year

In the previous financial year, financial liabilities of Axis-REIT were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were Islamic derivatives or financial liabilities that were specifically designated into this category upon initial recognition.

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

(iii) Derecognition

A financial asset or a part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(iii) Derecognition (continued)**

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Investment properties**Investment properties carried at fair value**

Investment properties are properties which are owned under a freehold interest or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(d) Equipment**(i) Recognition and measurement**

Items of equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

The gain and loss on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of equipment and is recognised net within profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(d) Equipment (continued)****(ii) Subsequent costs**

The cost of replacing a component of an item of equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to Axis-REIT, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of equipment. The estimated useful lives for the current and comparative periods are as follows:

• Office equipment, furniture and fittings	10 years
• Car park machines	10 years
• Software	10 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(e) Leases**(i) Finance lease**

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

Leasehold land which in substance is a finance lease is classified as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

Leases, where Axis-REIT does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on Axis-REIT's statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and Islamic deposits placed with banks and highly liquid Shariah-compliant investments which have an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged Islamic deposits, if any.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(g) Impairment****(i) Financial assets**

Unless specifically disclosed below, Axis-REIT generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, Axis-REIT elected not to restate the comparatives.

Current financial year

Axis-REIT recognises loss allowances for expected credit losses on financial assets measured at amortised cost and tenancy contracts assets. Expected credit losses are a probability-weighted estimate of credit losses.

Axis-REIT measures loss allowances at an amount equal to lifetime expected credit loss, except for cash and bank balance for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables and tenancy contracts assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, Axis-REIT considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Axis-REIT's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which Axis-REIT is exposed to credit risk.

Axis-REIT estimates the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, Axis-REIT assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when Axis-REIT determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Axis-REIT's procedures for recovery of amounts due.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(g) Impairment (continued)****(i) Financial assets (continued)****Previous financial year**

All financial assets (except for financial assets categorised as fair value through profit or loss) were assessed at each reporting date whether there was any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, were not recognised. If any such objective evidence exists, then the impairment loss of the financial asset was estimated.

An impairment loss in respect of loans and receivables was recognised in profit or loss and was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The carrying amount of the asset was reduced through the use of an allowance account.

(ii) Other assets

The carrying amounts of other assets (except for investment properties that are measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

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

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(h) Provisions**

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

(i) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issuing expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Units

Units are classified as equity.

(j) Revenue**(i) Rental income**

Rental income consists of income from the leasing of investment properties.

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives are recognised as an integral part of the total rental income, over the term of the lease.

(ii) Car Park income

Car park income is recognised upon collection for daily parking and over time when services are delivered for season parking.

(iii) Other income

Other income consists of income from services, signage rental, compensation charges and other associated income. Other income is recognised over time when services are delivered.

(iv) Profit income

Profit income is recognised as it accrues using the effective profit method in profit or loss.

(k) Expenses**(i) Property expenses**

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(k) Expenses (continued)****(ii) Manager's fees**

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

(iii) Trustee's fees

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

(l) Islamic financing costs

Islamic financing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective profit method.

Islamic financing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of Islamic financing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, Islamic financing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of Islamic financing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific Islamic financing pending their expenditure on qualifying assets is deducted from the Islamic financing costs eligible for capitalisation.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 3(c), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)**(m) Income tax (continued)**

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(n) Earnings per unit

Axis-REIT presents basic and diluted earnings per unit ("EPU").

Basic EPU is calculated by dividing the net income for the year attributable to unitholders of Axis-REIT by the weighted average number of units in circulation during the year.

Diluted EPU is determined by adjusting the net income for the year attributable to unitholders and the weighted average number of units in circulation, for the effects of all dilutive potential units.

(o) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, Axis-REIT uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that Axis-REIT can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

Axis-REIT recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties

	2018 RM'000	2017 RM'000
Land and buildings at fair value:		
At 1 January	2,482,200	2,143,149
Acquisitions	198,787	155,660
Enhancements	74,955	152,996
Change in fair value	42,558	30,395
At 31 December	2,798,500	2,482,200

Included in the acquisitions during the year is RM1,951,000 (2017: RM1,530,000) which relates to acquisition fees paid to the Manager (Note 1(b)).

Included in enhancements are development costs amounting to RM24,629,000 (2017: RM143,623,000) incurred on Nestlé Distribution Centre at Axis Mega Distribution Centre, of which RM422,000 (2017: RM2,098,000) is related to capitalisation of financing costs and RM42,806,000 (2017: Nil) incurred on Axis Aerotech Centre @ Subang, of which RM457,000 (2017: Nil) is related to capitalisation of financing costs, respectively.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2018

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2018 %	Fair value as at 31.12.2018 RM'000	Cost of investment as at 31.12.2018 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2018 %
Menara Axis (e) ^^	Leasehold	99	47	Petaling Jaya	Commercial office	68.4	110,000	87,898	6.6
Crystal Plaza (a) ^^	Leasehold	99	41	Petaling Jaya	Commercial office	70.8	113,500	67,734	6.8
Axis Business Park (c) ^^	Leasehold	99	42	Petaling Jaya	Office/Industrial	68.4	120,600	101,692	7.2
Infinite Centre (a) ^	Leasehold	99	47	Petaling Jaya	Office/Industrial	87.0	42,500	35,825	2.6
Wisma Kemajuan (e) ^	Leasehold	99	47	Petaling Jaya	Office/Industrial	71.7	65,400	37,744	3.9
Axis Business Campus (i) ^	Leasehold	99	49	Petaling Jaya	Office/Industrial	68.5	80,000	62,804	4.8
Axis Shah Alam DC 1 (f)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	32,700	22,507	2.0
Giant Hypermarket (g) ^	Freehold	-	-	Sungai Petani	Hypermarket	100.0	49,000	38,973	2.9
FCI Senai (f) ^	Leasehold	60	49	Senai, Johor	Manufacturing facilities	100.0	22,000	12,693	1.3
Fonterra HQ (c)	Freehold	-	-	Shah Alam	Office/Industrial	84.7	19,000	11,196	1.1
Quattro West (a) ^^	Leasehold	99	54	Petaling Jaya	Commercial office	50.2	56,000	51,126	3.4
Strateq Data Centre (f) ^	Leasehold	99	50	Petaling Jaya	Office/Industrial	100.0	57,000	42,729	3.4
D21 Logistics Warehouse (h) y	Leasehold	60	37	Tanjung Pelepas	Warehouse/Logistics	100.0	29,000	28,413	1.7
Niro Warehouse (d)	Leasehold	60	33	Pasir Gudang	Warehouse/Logistics	100.0	20,000	15,234	1.2
Pasir Gudang Logistic Warehouse 1 (d)	Leasehold	60	49	Pasir Gudang	Warehouse/Logistics	100.0	17,000	13,731	1.0
Axis Vista (e) ^^	Leasehold	99	48	Petaling Jaya	Office/Industrial	100.0	57,300	34,256	3.4
Axis Steel Centre (h) ^^	Leasehold	99	84	Klang	Warehouse/Logistics	100.0	78,000	66,877	4.7
Bukit Raja Distribution Centre (a) ^^	Freehold	-	-	Klang	Warehouse/Logistics	100.0	105,000	78,203	6.3

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2018

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2018 %	Fair value as at 31.12.2018 RM'000	Cost of investment as at 31.12.2018 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2018 %
Seberang Prai Logistic Warehouse 1 (c) ^	Leasehold	60	35	Seberang Prai	Warehouse/Logistics	100.0	20,500	17,821	1.2
Seberang Prai Logistic Warehouse 2 (c) ^	Leasehold	60	35	Seberang Prai	Warehouse/Logistics	100.0	8,200	7,384	0.5
Tesco Bukit Indah (k) ^^	Freehold	-	-	Johor Bahru	Hypermarket	100.0	97,000	76,924	5.8
Axis Mega Distribution Centre (a) ^ ^^	Leasehold	99	73	Kuala Langat	Warehouse/Logistics	100.0	300,000	258,373	18.0
Axis Technology Centre (e) ^	Leasehold	99	49	Petaling Jaya	Office/Industrial	48.0	55,000	50,464	3.3
D8 Logistics Warehouse (d) ^	Leasehold	60	37	Johor Bahru	Warehouse/Logistics	100.0	33,000	30,689	2.0
Bayan Lepas Distribution Centre (e) ^	Leasehold	60	44	Bayan Lepas	Warehouse/Logistics	100.0	60,000	50,142	3.6
Seberang Prai Logistic Warehouse 3 (g)	Leasehold	60	34/50	Seberang Prai	Warehouse/Logistics	100.0	67,000	62,353	4.0
Emerson Industrial Facility Nilai (j) ^	Leasehold	99	77	Nilai	Manufacturing facilities	100.0	32,800	27,443	2.0
Wisma Academy Parcel (a) ^	Leasehold	99	44	Petaling Jaya	Office/Industrial	77.2	73,000	75,869	4.4
The Annex (a) ^	Leasehold	99	44	Petaling Jaya	Office/Industrial	60.4	20,000	13,439	1.2
Axis MRO Hub (e)	Leasehold	99	67	Shah Alam	Manufacturing facilities	100.0	53,300	53,539	3.2
Axis Shah Alam DC 3 (a)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	185,500	187,011	11.1
Axis Steel Centre @ SILC (k) ^	Freehold	-	-	Nusajaya	Manufacturing facilities	100.0	163,000	155,949	9.8
Axis Shah Alam DC 2 (e)	Leasehold	99	48	Shah Alam	Warehouse/Logistics	100.0	47,200	45,782	2.8

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2018

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2018 %	Fair value as at 31.12.2018 RM'000	Cost of investment as at 31.12.2018 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2018 %
Beyonics i-Park Campus Block A (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	16,000	14,469	1.0
Beyonics i-Park Campus Block B (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	14,500	13,115	0.9
Beyonics i-Park Campus Block C (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	13,000	11,934	0.8
Beyonics i-Park Campus Block D (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	23,800	22,504	1.4
Scomi Facility @ Rawang (b)	Freehold	-	-	Rawang	Manufacturing facilities	100.0	44,000	42,696	2.6
Kerry Warehouse (b)	Leasehold	60	55	Johor Bahru	Warehouse/Logistics	100.0	34,000	33,633	2.0
Wasco Facility @ Kuantan (c)	Leasehold	99	91	Kuantan	Manufacturing facilities	100.0	155,000	157,619	9.3
Axis Aerotech Centre @ Subang (h) *	Leasehold	49	48	Subang	Manufacturing facilities	100.0	64,700	63,357	3.9
Axis Shah Alam DC 4 (h)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	83,000	84,270	5.0
Indahpura Facility 1 (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	8,000	7,343	0.5
Beyonics i-Park Campus Block E (d)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	32,000	32,099	1.9
Senawang Industrial Facility (e)	Freehold	-	-	Senawang	Warehouse/Logistics	100.0	21,000	18,933	1.3
Total							2,798,500	2,424,789	

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

- (a) Crystal Plaza, Infinite Centre, Quattro West, Bukit Raja Distribution Centre, Axis Mega Distribution Centre, Wisma Academy Parcel, The Annex and Axis Shah Alam DC 3 were valued on 27 August 2018, 20 August 2018, 11 October 2018, 11 October 2018, 7 November 2018, 5 July 2018, 5 July 2018 and 13 November 2018, respectively by Savills (Malaysia) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation except The Annex which use comparison method of valuation.
- (b) Scomi Facility @ Rawang and Kerry Warehouse were valued on 28 August 2018 and 3 December 2018, respectively by PA International Property Consultants Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (c) Axis Business Park, Fonterra HQ, Seberang Prai Logistics Warehouse 1, Seberang Prai Logistics Warehouse 2 and Wasco Facility @ Kuantan were valued on 30 August 2018, 12 October 2018, 16 October 2018, 16 October 2018 and 4 December 2018, respectively by Rahim & Co. International Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation except for Seberang Prai Logistic Warehouse 1 and 2 which use the cost method of valuation.
- (d) Niro Warehouse, Pasir Gudang Logistic Warehouse 1, D8 Logistics Warehouse, Beyonics i-Park Campus Block A, B, C, D and E and Indahpura Facility 1 were valued on 10 July 2018, 10 July 2018, 20 August 2018, 13 July 2018, 4 December 2018 and 4 December 2018, respectively by C H Williams Talhar & Wong Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (e) Wisma Kemajuan, Axis Vista, Axis Technology Centre, Bayan Lepas Distribution Centre, Axis MRO Hub, Axis Shah Alam DC 2, Menara Axis and Senawang Industrial Facility were valued on 30 August 2018, 11 October 2018, 9 November 2018, 9 November 2018, 5 November 2018, 5 November 2018, 19 December 2018 and 17 December 2018, respectively by First Pacific Valuers Property Consultants Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (f) Axis Shah Alam DC 1, FCI Senai and Strateq Data Centre were valued on 28 August 2018, 6 July 2018 and 11 October 2018, respectively by KGV International Property Consultants (M) Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (g) Giant Hypermarket and Seberang Prai Logistic Warehouse 3 were valued on 29 August 2018 and 31 October 2018, respectively by Henry Butcher Malaysia (Penang) Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment and cost methods of valuation.
- (h) D21 Logistics Warehouse, Axis Steel Centre, Axis Shah Alam DC 4 and Axis Aerotech Centre @ Subang were valued on 16 July 2018, 14 December 2018, 24 December 2018 and 21 December 2018, respectively by PPC International Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation except Axis Aerotech Centre @ Subang and Axis Shah Alam DC 4 which use cost method of valuation and comparison method of valuation.
- (i) Axis Business Campus was valued on 21 August 2018, by Nawawi Tie Leung Property Consultants Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the cost method of valuation.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

- (j) Emerson Industrial Facility Nilai was valued on 14 December 2018, by Knight Frank Malaysia Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (k) Tesco Bukit Indah and Axis Steel Centre @ SiLC were valued on 2 November 2018 and 18 December 2018, respectively by Savills (Johor) Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^ These properties are charged to financial institutions for revolving credit and term financing facilities granted to Axis-REIT (Note 11).
- ^^ These properties are charged to the Sukukholders for Islamic Medium Term Notes ("Sukuk") (Note 11 and Note 25).
- γ Fixed land lease of 30 years until 23 March 2025 with an option to renew for a further term of 30 years.
- * Fixed land lease of 30 years with an automatic renewal and/or extension for a further 19 years up to 31 December 2066.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2017

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2017 %	Fair value as at 31.12.2017 RM'000	Cost of investment as at 31.12.2017 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2017 %
Menara Axis (b) ^^	Leasehold	99	48	Petaling Jaya	Commercial office	86.4	123,600	86,868	7.8
Crystal Plaza (a) ^^	Leasehold	99	42	Petaling Jaya	Commercial office	81.4	112,000	66,436	7.0
Axis Business Park (c) ^^	Leasehold	99	43	Petaling Jaya	Office/Industrial	59.2	120,000	101,124	7.5
Infinite Centre (a) ^	Leasehold	99	48	Petaling Jaya	Office/Industrial	62.8	42,000	35,593	2.6
Wisma Kemajuan (e) ^	Leasehold	99	48	Petaling Jaya	Office/Industrial	83.67	64,100	37,521	4.0
Axis Business Campus (i) ^	Leasehold	99	50	Petaling Jaya	Office/Industrial	26.2	73,700	61,967	4.6
Axis Shah Alam DC 1 (f)	Freehold	-	-	Shah Alam	Warehouse/ Logistics	100.0	31,500	22,472	2.0
Giant Hypermarket (g) ^	Freehold	-	-	Sungai Petani	Hypermarket	100.0	46,000	38,973	2.9
FCI Senai (f) ^	Leasehold	60	50	Senai, Johor	Manufacturing facilities	100.0	20,000	12,693	1.3
Fonterra HQ (c)	Freehold	-	-	Shah Alam	Office/Industrial	84.9	16,700	11,069	1.0
Quattro West (a) ^^	Leasehold	99	55	Petaling Jaya	Commercial office	50.2	55,800	51,126	3.5
Strateq Data Centre (f) ^	Leasehold	99	51	Petaling Jaya	Office/Industrial	100.0	57,000	42,729	3.6
D21 Logistics Warehouse (h) (formerly known as BMW Centre PTP) y	Leasehold	60	38	Tanjung Pelepas	Warehouse/ Logistics	-	29,000	28,413	1.8
Niro Warehouse (d)	Leasehold	60	34	Pasir Gudang	Warehouse/ Logistics	100.0	19,000	15,234	1.2
Pasir Gudang Logistic Warehouse 1 (d) (formerly known as Delfi Warehouse)	Leasehold	60	50	Pasir Gudang	Warehouse/ Logistics	100.0	16,000	13,731	1.0
Axis Vista (e) ^^	Leasehold	99	49	Petaling Jaya	Office/Industrial	100.0	56,300	34,111	3.5
Axis Steel Centre (d) ^^	Leasehold	99	85	Klang	Warehouse/ Logistics	100.0	70,500	66,686	4.4

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2017

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2017 %	Fair value as at 31.12.2017 RM'000	Cost of investment as at 31.12.2017 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2017 %
Bukit Raja Distribution Centre (a) ^ ^	Freehold	-	-	Klang	Warehouse/ Logistics	100.0	103,000	76,325	6.5
Seberang Prai Logistic Warehouse 1 (c) ^	Leasehold	60	36	Seberang Prai	Warehouse/ Logistics	100.0	20,500	17,821	1.3
Seberang Prai Logistic Warehouse 2 (c) ^	Leasehold	60	36	Seberang Prai	Warehouse/ Logistics	100.0	8,200	7,384	0.5
Tesco Bukit Indah (j) ^ ^	Freehold	-	-	Johor Bahru	Hypermarket	100.0	97,000	76,924	6.1
Axis Mega Distribution Centre (a) ^ (formerly known as Axis PDI Centre)	Leasehold	99	74	Kuala Langat	Warehouse/ Logistics	-	261,000	233,744	16.4
Axis Technology Centre (e) ^	Leasehold	99	50	Petaling Jaya	Office/Industrial	73.8	54,900	50,380	3.5
D8 Logistics Warehouse (d) ^	Leasehold	60	38	Johor Bahru	Warehouse/ Logistics	100.0	33,000	30,689	2.1
Bayan Lepas Distribution Centre (e) ^	Leasehold	60	45	Bayan Lepas	Warehouse/ Logistics	100.0	60,000	50,082	3.8
Seberang Prai Logistic Warehouse 3 (g)	Leasehold	60	35/51	Seberang Prai	Warehouse/ Logistics	100.0	66,000	61,920	4.1
Emerson Industrial Facility Nilai (a) ^	Leasehold	99	78	Nilai	Manufacturing facilities	100.0	30,500	27,317	1.9
Wisma Academy Parcel (b) ^	Leasehold	99	45	Petaling Jaya	Office/Industrial	81.0	72,600	75,869	4.6
The Annex (b) ^	Leasehold	99	45	Petaling Jaya	Office/Industrial	100.0	19,600	13,352	1.2
Axis MRO Hub (e)	Leasehold	99	68	Shah Alam	Manufacturing facilities	100.0	53,000	53,375	3.3
Axis Shah Alam DC 3 (a)	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	185,000	187,008	11.6
Axis Steel Centre @ SILC (j) ^	Freehold	-	-	Nusajaya	Manufacturing facilities	100.0	157,000	155,949	9.9

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

2017

Property	Tenure of land	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2017 %	Fair value as at 31.12.2017 RM'000	Cost of investment as at 31.12.2017 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2017 %
Axis Shah Alam DC 2 (e)	Leasehold	99	49	Shah Alam	Warehouse/Logistics	100.0	46,600	45,782	2.9
Beyonics i-Park Campus Block A (j)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	14,700	14,470	0.9
Beyonics i-Park Campus Block B (j)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	13,400	13,115	0.8
Beyonics i-Park Campus Block C (j)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	12,200	11,934	0.8
Beyonics i-Park Campus Block D (j)	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	22,800	22,504	1.4
Scomi Facility @ Rawang (b)	Freehold	-	-	Rawang	Manufacturing facilities	100.0	44,000	42,696	2.8
Kerry Warehouse (b)	Leasehold	60	56	Johor Bahru	Warehouse/Logistics	100.0	34,000	33,633	2.1
Wasco Facility @ Kuantan (c)	Leasehold	99	92	Kuantan	Manufacturing facilities	100.0	120,000	122,027	7.5
Total							2,482,200	2,151,046	

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

- (a) Crystal Plaza, Infinite Centre, Quattro West, Bukit Raja Distribution Centre, Axis Mega Distribution Centre (formerly known as Axis PDI Centre), Emerson Industrial Facility Nilai and Axis Shah Alam DC 3 were valued on 5 December 2017, 4 December 2017, 5 December 2017, 30 November 2017, 29 December 2017, 29 November 2017 and 3 July 2017, respectively by Savills (Malaysia) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (b) Menara Axis, Wisma Academy Parcel, The Annex, Scomi Facility @ Rawang and Kerry Warehouse were valued on 7 December 2017, 4 December 2017, 27 November 2017, 4 December 2017 and 29 November 2017, respectively by PA International Property Consultants (KL) Sdn Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation except for The Annex which uses the cost method of valuation.
- (c) Axis Business Park, Fonterra HQ, Seberang Prai Logistics Warehouse 1, Seberang Prai Logistics Warehouse 2 and Wasco Facility @ Kuantan were valued on 5 December 2017, 13 December 2017, 5 December 2017, 5 December 2017 and 4 May 2017, respectively by Rahim & Co Chartered Surveyors Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (d) Niro Warehouse, Pasir Gudang Logistic Warehouse 1 (formerly known as Delfi Warehouse), Axis Steel Centre and D8 Logistics Warehouse were valued on 5 December 2017, 6 December 2017, 12 December 2017 and 4 December 2017, respectively by C H Williams Talhar & Wong Sdn Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (e) Wisma Kemajuan, Axis Vista, Axis Technology Centre, Bayan Lepas Distribution Centre, Axis MRO Hub and Axis Shah Alam DC 2 were valued on 20 November 2017, 5 July 2017, 11 December 2017, 17 August 2017, 30 June 2017 and 6 July 2017, respectively by First Pacific Valuers Property Consultants Sdn Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (f) Axis Shah Alam DC 1, FCI Senai and Strateq Data Centre were valued on 7 December 2017, 2 December 2017 and 29 November 2017, respectively by KGV International Property Consultants (M) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (g) Giant Hypermarket and Seberang Prai Logistic Warehouse 3 were valued on 6 December 2017 and 4 July 2017, respectively by Henry Butcher Malaysia (Penang) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment and cost methods of valuation.
- (h) D21 Logistics Warehouse (formerly known as BMW Centre PTP) was valued on 28 December 2017 by PPC International Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- (i) Axis Business Campus was valued on 7 December 2017, by W.M. Malik & Kamaruzaman, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the cost method of valuation.

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

(j) Tesco Bukit Indah, Axis Steel Centre @ SiLC and Beyonics i-Park Campus Block A, B, C and D were valued on 29 November 2017, 28 August 2017 and 30 November 2017, respectively by Savills (Johor) Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.

^ These properties are charged to financial institutions for revolving credit and term financing facilities granted to Axis-REIT (Note 11).

^^ These properties are charged to the Sukukholders for Islamic Medium Term Notes ("Sukuk") (Note 11).

y Fixed land lease of 30 years until 23 March 2025 with an option to renew for a further term of 30 years.

The following are recognised in profit or loss in respect of investment properties:

	Note	2018 RM'000	2017 RM'000
Revenue	12	210,588	172,715
Property operating expenses	13	(27,827)	(26,512)
Net loss on disposal of investment property		-	(419)
Change in fair value of investment properties	4.1.1	35,607	25,441

4.1 Fair value information

As at 31 December 2018, the fair value of investment properties amounting to RM2,798,500,000 (2017: RM2,482,200,000) is categorised as Level 3 in accordance with MFRS 13, using unobservable inputs.

Level 3 fair value

The following table shows a reconciliation of Level 3 fair value:

	Note	2018 RM'000	2017 RM'000
At 1 January		2,482,200	2,143,149
Acquisitions		198,787	155,660
Enhancements		74,955	152,996
		2,755,942	2,451,805
Gains and losses recognised in profit or loss Change in fair value - unrealised	4.1.1	42,558	30,395
At 31 December		2,798,500	2,482,200

4.1.1 The change in fair value as presented in the profit or loss of RM35,607,000 (2017 : RM25,441,000) is after offsetting unbilled lease income receivable amounting to RM6,951,000 (2017: RM4,954,000).

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

4.1 Fair value information (continued)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
a) The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates to income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.	<ul style="list-style-type: none"> • Risk-adjusted capitalisation rates ranging from 6.00% - 7.50% (2017: 6.50% - 7.50%). • Risk-adjusted discount rate of 6.50% - 8.00% (2017: 6.70% - 8.00%). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Risk-adjusted capitalisation rates were lower (higher). • Risk-adjusted discount rates were lower (higher).
b) The comparison method considers the sales of similar or substitute properties and related market data, and establishes a value estimate by processes involving comparison. In general, the property being valued is compared with sales of similar properties that have been transacted in the open market. Listing and offering may also be considered. Valuation under this method may be significantly affected by the timing and the characteristics (such as location, accessibility, design, size and condition) of the property transactions used for comparison.	<ul style="list-style-type: none"> • Adjusted land value ranging from RM145 per sq. ft. to RM300 per sq. ft. (2017: There was no investment property valued using the comparison method). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Adjusted land value per sq. ft. was higher (lower).
c) The cost method considers the summation of the value components of the land and cost of building. The value components of land are estimated based on location, plot size, accessibility and other relevant factors. The cost of building is determined based on current estimates of size, reconstruction cost less depreciation or replacement cost less depreciation, obsolescence and existing physical condition of the building. The reconstruction or replacement cost of building is derived from estimates of current market prices for materials, labour and present construction techniques. Valuation under this method may be significantly affected by the location of the property and the market prices for materials and labour.	<ul style="list-style-type: none"> • Land value ranging from RM45 per sq. ft. to RM243 per sq. ft. (2017: RM41 per sq. ft. to RM250 per sq. ft.). • Main floor area cost ranging from RM70 per sq. ft. to RM320 per sq. ft. (2017: RM70 per sq. ft. to RM160 per sq. ft.). • Depreciation rates ranging from 2% to 5% (2017: 2% to 50%). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Land value were higher (lower). • Main floor area cost were higher (lower). • Depreciation rates were lower (higher).

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties (continued)

4.1 Fair value information (continued)

Valuation processes applied by Axis-REIT for Level 3 fair value

The fair value of investment properties is determined by external, independent registered valuers approved by the Securities Commission, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. A valuation is carried out on each property within Axis-REIT's investment property portfolio once every calendar year.

Highest and best use

Axis-REIT's current use of the investment properties are their highest and best uses as there are no other factors to suggest that a different use would maximise the value of the investment properties.

5. Equipment

	Office equipment, furniture and fittings RM'000	Car park machines RM'000	Software RM'000	Total RM'000
Cost				
At 1 January 2017/ 31 December 2017/				
1 January 2018	30	3,394	795	4,219
Additions	913	103	-	1,016
At 31 December 2018	943	3,497	795	5,235
Accumulated depreciation				
At 1 January 2017	12	1,050	258	1,320
Depreciation for the year	3	339	80	422
At 31 December 2017/1 January 2018	15	1,389	338	1,742
Depreciation for the year	44	348	80	472
At 31 December 2018	59	1,737	418	2,214
Carrying amounts				
At 31 December 2018	884	1,760	377	3,021
At 31 December 2017	15	2,005	457	2,477

Leased equipment

At 31 December 2018, the net carrying amount of leased equipment was RM1,760,000 (2017: RM2,005,000).

NOTES TO THE FINANCIAL STATEMENTS

6. Receivables, deposits and prepayments

	Note	2018 RM'000	2017 RM'000
Trade			
Trade receivables		4,630	2,628
Tenancy contract assets	6.1	6,396	-
		11,026	2,628
Non-trade			
Other receivables		5,130	14,486
Deposits		2,524	10,551
Prepayments		2,248	2,384
Islamic derivative asset		-	14
		9,902	27,435
		20,928	30,063

- 6.1 Tenancy contract assets relate to Axis-REIT's rights to rental income for premises that have been occupied by tenants but not yet billed at the reporting date. Rental income is recognised on a straight line basis including rent free period. Rental will be billed in accordance with the billing terms as set out in the tenancy agreements.

7. Cash and cash equivalents

	2018 RM'000	2017 RM'000
Cash and bank balances	8,314	10,028
Islamic deposits placed with licensed banks	9,700	24,841
	18,014	34,869

Included in Islamic deposits placed with licensed banks is an amount of RM300,000 (2017: RM300,000) which is pledged for banking facilities granted to Axis-REIT (Note 11) and RM8,095,000 (2017: RM11,532,067) which is maintained in a Finance Service Reserve Account with a licensed bank to cover a minimum of 12 months' financing costs for Sukuk issued by Axis-REIT's special purpose company, Axis REIT Sukuk Berhad (Note 11).

NOTES TO THE FINANCIAL STATEMENTS

8. Total unitholders' funds

8.1 Unitholders' capital

	2018 Number of units '000	2017 Number of units '000
Issued and fully paid up:		
At 1 January	1,232,327	1,105,174
Issued for cash	-	125,000
Issued under Income Distribution Reinvestment Plan ("IDRP")	4,958	2,153
At 31 December	1,237,285	1,232,327

	2018 RM'000	2017 RM'000
Issued and fully paid up:		
At 1 January	1,240,253	1,060,320
Issues of new units:		
4,958,485 units @ RM1.39 per unit (2017: 125,000,000 units @ RM1.43 per unit and 2,153,212 units @ RM1.49 per unit)	6,892	181,958
Issuing expenses	(76)	(2,025)
At 31 December	1,247,069	1,240,253

NOTES TO THE FINANCIAL STATEMENTS

8. Total unitholders' funds (continued)

8.2 Unitholdings of substantial unitholders, Directors of the Manager and their related parties

The following are the details of the units and value held by the substantial unitholders, the Directors of the Manager and the related parties of the Manager.

	2018		2017	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
Axis-REIT's substantial unitholders' direct unitholding:				
Lembaga Tabung Haji	71,996	112,314	67,047	100,571
Kumpulan Wang Persaraan (Diperbadankan)	97,580	152,225	98,671	148,007
Employees Provident Fund Board	198,262	309,289	172,890	259,335
Amanahraya Trustees Berhad				
- Amanah Saham Bumiputera	110,000	171,600	100,000	150,000
Axis-REIT's substantial unitholders' indirect unitholding:				
Kumpulan Wang Persaraan (Diperbadankan) (i)	35,077	54,720	29,962	44,943
Directors of the Manager - direct unitholding:				
Dato' Abas Carl Gunnar Bin Abdullah	24,254	37,836	25,280	37,920
YAM Tunku Dato' Seri Shahabuddin				
Bin Tunku Besar Burhanuddin	20	31	20	30
Tew Peng Hwee @ Teoh Peng Hwee	56,550	88,218	55,684	83,526
Alex Lee Lao (ii)	56,387	87,964	55,151	82,727
Leong Kit May	43	67	42	63
Jancis Anne Que Lao (iii)	844	1,317	839	1,259
Directors of the Manager - indirect unitholding:				
Dato' Abas Carl Gunnar Bin Abdullah (iv)	10,304	16,074	10,231	15,347
Alex Lee Lao (v)	3,153	4,919	3,112	4,668
Direct unitholdings of close family members of the Manager's Directors:				
Datin Kuyas Emiloglu (also known as Ka Ya-Shih)	10,231	15,960	10,159	15,239
Leon Lee Lao	2,307	3,599	2,277	3,416
Lao, Yin Yong Lee	846	1,320	835	1,252
Tan Siew Geok	925	1,443	919	1,379
Jeanette Ivy Robertson Lomax	515	803	515	773
Amanda Tan Myhre	73	114	72	108
John Lee Lao	1,187	1,852	1,172	1,758
Dean Lee Lao	2,403	3,749	2,372	3,558
Edward Teoh Eu Shang	6	9	-	-
Maxine Teoh Sui Vern	7	11	-	-
Adrian Teoh Eu Min	12	19	-	-

NOTES TO THE FINANCIAL STATEMENTS

8. Total unitholders' funds (continued)

8.2 Unitholdings of substantial unitholders, Directors and their related parties (continued)

Notes:

- (i) Held by fund managers of Kumpulan Wang Persaraan (Diperbadankan).
- (ii) Alex Lee Lao is an alternate director to Dato' Abas Carl Gunnar Bin Abdullah.
- (iii) Jancis Anne Que Lao is an alternate director to Alvin Dim Lao.
- (iv) Deemed interested in the direct unitholdings of his spouse, Datin Kuyas Emiloglu (also known as Ka Ya-Shih) and his daughter, Amanda Tan Myhre.
- (v) Deemed interested in the direct unitholdings of his brothers, Lao, Yin Yong Lee and Leon Lee Lao.

The market value of the units was determined by multiplying the number of units with the market price as at 31 December 2018 of RM1.56 (2017: RM1.50).

9. Payables and accruals

	2018 RM'000	2017 RM'000
Non-current		
Non-trade		
Tenants' deposits - payable after 12 months	57,706	43,998
Current		
Trade		
Trade payables	9,657	34,375
Non-trade		
Tenants' deposits - payable within 12 months	4,704	11,872
Other payables and accrued expenses	40,254	25,634
	44,958	37,506
Islamic derivative liability	292	-
	45,250	37,506
	54,907	71,881
	112,613	115,879

Included in other payables and accrued expenses are amounts due to the Manager and the Property Manager of RM1,608,000 (2017: RM2,884,000) and RM652,000 (2017: RM527,000), respectively. These amounts are unsecured, interest-free and payable monthly in arrears.

NOTES TO THE FINANCIAL STATEMENTS

10. Deferred tax liability

Under the Finance Act 2018, the Real Property Gain Tax ("RPGT") rate for disposal of real property which have been held for more than 5 years for entities other than company, non-citizen and non-permanent resident individual has been changed from 0% to 5%.

It is the business model of Axis-REIT to hold investment properties to earn rental income and for long-term capital growth. Hence, there are no expected disposals of investment properties held for less than 5 years.

As a result of this, Axis-REIT has recognised RM4,402,000, as disclosed in Note 14 to the financial statements, being the deferred tax liability for the RPGT exposure on the cumulative fair value gain of investment properties that are expected to be realised through sale.

11. Financing

	Note	2018 RM'000	2017 RM'000
Non-current			
Islamic Medium Term Notes ("Sukuk")	11.1	180,000	180,000
Finance lease liabilities	11.2	55	211
Term financing	11.3	66,500	66,500
Transaction costs			
- Sukuk	11.1	(500)	(661)
- Term financing	11.3	(188)	(220)
		245,867	245,830
Current			
Secured revolving credit	11.4	813,344	511,493
Finance lease liabilities	11.2	156	306
Islamic Medium Term Notes ("Sukuk")	11.1	-	85,000
Transaction costs			
- Sukuk	11.1	-	(35)
		813,500	596,764
		1,059,367	842,594

11.1 Islamic Medium Term Notes ("Sukuk")

Axis-REIT's wholly owned subsidiary, Axis REIT Sukuk Berhad, has an Islamic Medium Term Note Programme ("Sukuk Programme") of up to RM3.0 billion in nominal value. It is a perpetual programme that commenced on 13 July 2012. Details of the Sukuk issued are set out below.

First Sukuk

On 13 July 2012, Axis REIT Sukuk Berhad issued RM110.0 million Sukuk in nominal value pursuant to the Sukuk Programme.

The First Sukuk of RM110.0 million was issued to re-finance Axis-REIT's existing financing facilities. The First Sukuk, which comprises four tranches have obtained long-term ratings of AAA, AA1, AA2 and AA3, respectively from RAM Rating Services Berhad ("RAM") on 4 July 2012. The expected maturity date is 10 years from the issuance date and the legal maturity date is 12 years from the issuance date.

NOTES TO THE FINANCIAL STATEMENTS

11. Financing (continued)

11.1 Islamic Medium Term Notes ("Sukuk") (continued)

The transaction costs relating to the First Sukuk issuance of RM110.0 million which amounted to RM1.277 million are amortised and charged to profit or loss over the expected tenure of the First Sukuk of 10 years.

The First Sukuk is secured over the investment properties as indicated in Note 4 to the financial statements and other securities as advised by the legal counsel of CIMB Investment Bank Berhad ("the Lead Manager") and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

Second Sukuk

On 15 August 2013, Axis REIT Sukuk Berhad, issued RM155.0 million Sukuk in nominal value pursuant to the Sukuk Programme.

The Second Sukuk of RM155.0 million was issued to re-finance Axis-REIT's existing financing facilities. The Second Sukuk, which comprises five tranches have obtained long-term ratings of AAA, AAA, AA1, AA2 and AA3, respectively from RAM on 25 July 2013. The expected maturity dates are 7 years for RM70.0 million and 5 years for RM85.0 million from the issuance date and the legal maturity dates are 9.5 years and 7.5 years, respectively from the issuance date.

The transaction costs relating to the Second Sukuk issuance of RM155.0 million which amounted to RM525,000 are amortised and charged to profit or loss over the expected tenures of the Second Sukuk of 7 years and 5 years.

During the financial year, Axis-REIT had redeemed the 5 year Second Sukuk amounting to RM85.0 million using its existing revolving credit facilities.

The Second Sukuk is secured over the investment properties as indicated in Note 4 to the financial and other securities as advised by the legal counsel of the Lead Manager and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

11.2 Finance lease liabilities

Finance lease liabilities are subject to financing costs at 3.5% (2017: 3.5%) per annum.

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2018 RM'000	Finance costs 2018 RM'000	Present value of minimum lease payments 2018 RM'000	Future minimum lease payments 2017 RM'000	Finance costs 2017 RM'000	Present value of minimum lease payments 2017 RM'000
Less than one year	177	21	156	359	53	306
Between one and five years	71	16	55	248	37	211
	248	37	211	607	90	517

NOTES TO THE FINANCIAL STATEMENTS

11. Financing (continued)**11.3 Term financing**

The term financing is secured over investment properties as indicated in Note 4 to the financial statements and is payable on 28 January 2025. The transaction costs related to the term financing amounted to RM314,000 is amortised and charged to profit and loss over the expected tenure of 10 years.

11.4 Secured revolving credit

The secured revolving credit is secured over the investment properties as indicated in Note 4 to the financial statements.

11.5 Reconciliation of movement of liabilities to cash flows arising from financing activities

	At 1.1.2017 RM'000	Net changes from financing cash flows RM'000	Others RM'000	At 31.12.2017/ 1.1.2018 RM'000	Net changes from financing cash flows RM'000	Others RM'000	At 31.12.2018 RM'000
Sukuk	264,088	-	216	264,304	(85,000)	196	179,500
Finance lease liabilities	828	(311)	-	517	(306)	-	211
Term financing	66,249	-	31	66,280	-	32	66,312
Secured revolving credit	449,500	61,993	-	511,493	301,851	-	813,344
Total liabilities from financing activities	780,665	61,682	247	842,594	216,545	228	1,059,367

12. Revenue

	Note	2018 RM'000	2017 RM'000
Rental income from investment properties	12.1	199,527	159,491
Car park income		5,890	7,817
Other income		5,171	5,407
		210,588	172,715

12.1 Included in the rental income from investment properties is unbilled lease income receivable amounting to RM6,951,000 (2017: RM4,954,000).

NOTES TO THE FINANCIAL STATEMENTS

13. Property operating expenses

	Note	2018 RM'000	2017 RM'000
Assessment		4,169	3,950
Service contracts and maintenance		7,295	7,865
Property management fees	1(a)	3,960	3,355
Property management reimbursements		2,940	2,550
Utilities		3,630	3,773
Others		5,833	5,019
		27,827	26,512

14. Tax expense

	2018 RM'000	2017 RM'000
Current tax expense		
- Under provision in prior year	67	-
Deferred tax expense		
- Effect of changes in real property gain tax rate	4,402	-
Total tax expense	4,469	-

Reconciliation of tax expense

	Note	2018 RM'000	2017 RM'000
Net income before tax		159,448	122,560
Income tax using Malaysian tax rate of 24%		38,268	29,414
Non-deductible expenses		983	713
Effect of fair value change on investment properties which is not subject to tax		(10,205)	(7,295)
Effect of exemption from income tax	14.1	(29,046)	(22,832)
Under provision in prior year		67	-
		67	-
Cumulative fair value gain on investment properties subject to Real Property Gains Tax	10	4,402	-
		4,469	-

NOTES TO THE FINANCIAL STATEMENTS

14. Tax expense (continued)

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

15. Earnings per unit

The calculation of earnings per unit is based on the net income for the year of RM154,979,000 (2017: RM122,560,000) and the weighted average number of units in circulation during the year of 1,232,612,086 (2017: 1,116,923,612).

16. Distribution to unitholders

Distribution to unitholders is from the following sources:

	2018 RM'000	2017 RM'000
Net property income		
- current year	182,761	146,203
- prior year (already subject to tax)	211	55
Realisation of unrealised income	-	1,764
Net loss on disposal of investment property	-	(419)
Profit income	725	984
	183,697	148,587
Less: Non-property expenses	(63,026)	(51,018)
	120,671	97,569
Adjustments to earnings available for distribution:		
- depreciation of equipment	472	422
- net impairment losses/(reversal of impairment losses) on trade receivables	215	(369)
- other non-cash items	(13,347)	(4,954)
	108,011	92,668
Less: Undistributed income	(186)	(211)
	107,825	92,457
Gross distribution per unit (sen)	8.74	8.26
Net distribution per unit (sen)	8.74	8.26

17. Portfolio Turnover Ratio

	2018	2017
Portfolio Turnover Ratio ("PTR") (times)	0.01	0.02

The calculation of PTR is based on the average of total acquisitions and total disposals of investment properties in Axis-REIT for the year to the average Net Asset Value during the year calculated on a quarterly basis.

Since the basis of calculating PTR can vary among real estate investment trusts, there is no sound basis for providing an accurate comparison of Axis-REIT's PTR against other real estate investment trusts.

NOTES TO THE FINANCIAL STATEMENTS

18. Management Expense Ratio

	2018	2017
Management Expense Ratio ("MER") (%)	1.30	1.31

The calculation of MER is based on the total fees incurred by Axis-REIT, including Manager's fees, Trustee's fees, auditor's fees, tax agent's fees and administrative expenses, to the average Net Asset Value during the year calculated on a quarterly basis. Comparison of the MER of Axis-REIT with other real estate investment trusts which use different bases of calculation may not be an appropriate comparison.

19. Operating segments

Segment information is presented based on the information reviewed by Axis-REIT's Board of Directors of the Manager for performance assessment and resource allocation. For the purpose of the assessment of segment performance, the Board of Directors of the Manager have focused on its investment properties. This forms the basis of identifying the operating segments of Axis-REIT under MFRS 8, *Operating Segments*.

As the investment properties are similar in terms of economic characteristics and nature of services, the Board of Directors of the Manager are of the view that Axis-REIT only has one reportable segment – leasing of investment properties as already presented in the statement of financial position and statement of profit or loss and other comprehensive income.

Accordingly, no operating segment information has been prepared as Axis-REIT only has one reportable segment.

No geographical segment information has been prepared as all the investment properties of Axis-REIT are located in Malaysia.

20. Financial instruments

20.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised under MFRS 9 as follows:

- (a) Financial assets measured at amortised cost ("FAAC");
- (b) Financial liabilities measured at amortised cost ("FLAC"); and
- (c) Fair value through profit or loss ("FVTPL").

	Carrying amount RM'000	FAAC/FLAC RM'000	FVTPL RM'000
2018			
Financial assets			
Receivables and deposits	12,284	12,284	-
Cash and cash equivalents	18,014	18,014	-
	30,298	30,298	-
Financial liabilities			
Payables and accruals	112,613	112,312	292
Financing	1,059,367	1,059,367	-
	1,171,980	1,171,679	292

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)**20.1 Categories of financial instruments (continued)**

The table below provides an analysis of financial instruments categorised under MFRS 139 as follows:

- (a) Loans and receivables ("L&R"); and
- (b) Financial liabilities measured at amortised cost ("FL").

	Carrying amount RM'000	L&R/FL RM'000
2017		
Financial assets		
Receivables and deposits	13,796	13,796
Cash and cash equivalents	34,869	34,869
	48,665	48,665
Financial liabilities		
Payables and accruals	115,879	115,879
Financing	842,594	842,594
	958,473	958,473

20.2 Net gains and losses arising from financial instruments

	2018 RM'000	2017 RM'000
Net gains/(losses) on:		
Fair value through profit or loss	(306)	206
Loans and receivables	-	1,353
Financial assets measured at amortised cost	510	-
Financial liabilities measured at amortised cost	(38,067)	(31,290)
Total	(37,875)	(29,731)

20.3 Financial risk management

Axis-REIT has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

20.4 Credit risk

Credit risk is the risk of a financial loss to Axis-REIT if the tenants or counterparty to a financial instrument fails to meet its contractual obligations. Axis-REIT's exposure to credit risk arises principally from its receivables from tenants. Axis-REIT performs annual credit evaluation of its tenants and generally does not require collateral other than tenants' deposits.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.4 Credit risk (continued)

Receivables*Risk management objectives, policies and processes for managing the risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At each reporting date, Axis-REIT assesses whether any of the trade receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or in full after taking into consideration tenants' deposits) when there is no realistic prospect of recovery. This is generally the case when Axis-REIT determines the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

There are no significant changes as compared to the previous year.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amount in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. Axis-REIT uses ageing analysis to monitor the credit quality of receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables as at the end of the reporting period amounts to RM4,630,000 (2017: RM2,628,000) which are collateralised by tenants' deposits.

Recognition and measurement of impairment losses

The following table provides information about the exposure to credit risk and expected credit losses ("ECLs") for receivables as at 31 December 2018.

	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2018			
Past due 1 - 30 days	2,825	-	2,825
Past due 31 - 60 days	359	-	359
Past due 61 - 90 days	306	-	306
	3,490	-	3,490
Credit impaired			
Past due more than 90 days	1,815	(675)	1,140
	5,305	(675)	4,630

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.4 Credit risk (continued)

Receivables (continued)

Recognition and measurement of impairment losses (continued)

There are trade receivables where Axis-REIT has not recognised any loss allowance as they are collateralised by tenants' deposits.

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	2018	
	Credit impaired	Total
	RM'000	RM'000
Balance at 1 January as per MFRS 139/9	460	460
Net remeasurement of loss allowance	215	215
Balance at 31 December	675	675

Trade receivables that are individually determined to be impaired relate to tenants who are in significant financial difficulties and have defaulted in payments. For the purpose of quantifying individual impairment, Axis-REIT utilises the deposits received to first off-set against the longest outstanding receivables then the remaining balance is impaired in full. The allowance account in respect of receivables is used to record impairment losses. Unless Axis-REIT is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement

The ageing of trade receivables as at 31 December 2017 was as follows:

	Gross	Individual impairment	Net
	RM'000	RM'000	RM'000
2017			
Past due 1 - 30 days	1,119	-	1,119
Past due 31 - 60 days	454	-	454
Past due 61 - 90 days	305	-	305
Past due more than 90 days	1,210	(460)	750
	3,088	(460)	2,628

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.4 Credit risk (continued)

Receivables (continued)

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement (continued)

The movements in the allowance for impairment losses of receivables during the financial year ended 2017 were:

	2017 RM'000
At 1 January	829
Impairment loss recognised	59
Impairment loss reversed	(428)
At 31 December	460

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

These banks and financial institutions have low credit risks. Consequently, Axis-REIT are of the view that the loss allowance is not material and hence, it is not provided for.

20.5 Liquidity risk

Liquidity risk is the risk that Axis-REIT will not be able to meet its financial obligations as they fall due. Axis-REIT's exposure to liquidity risk arises principally from its payables and accruals, tenants' deposits and financing.

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

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of Axis-REIT's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual profit rate %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Financial liabilities							
2018							
Payables and accruals	49,911	-	49,911	49,911	-	-	-
Tenants' deposits*	62,410	-	78,214	4,704	25,810	12,423	35,277
Islamic derivative liability	292	-	292	292	-	-	-
Revolving credit	813,344	4.14 - 4.46	816,263	816,263	-	-	-
Term financing	66,312	4.15	82,116	2,567	2,567	7,701	69,281
Finance lease liabilities	211	3.50	248	177	71	-	-
Sukuk	179,500	4.18 - 4.61	201,563	7,974	76,454	117,135	-
	1,171,980		1,228,607	881,888	104,902	137,259	104,558
2017							
Payables and accruals	60,009	-	60,009	60,009	-	-	-
Tenants' deposits*	55,870	-	67,985	11,872	11,295	18,911	25,907
Revolving credit	511,493	3.86 - 4.26	513,228	513,228	-	-	-
Term financing	66,280	3.86	84,682	2,567	2,567	7,700	71,848
Finance lease liabilities	517	3.50	607	359	173	75	-
Sukuk	264,304	4.13 - 4.61	301,113	94,662	7,968	86,509	111,974
	958,473		1,027,624	682,697	22,003	113,195	209,729

* The carrying amount of tenants' deposits has been discounted using the imputed profit rate of 4.24% (2017: 4.18%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.6 Market risk

Market risk is the risk that changes in market prices such as interest rates that will affect Axis-REIT's financial position or cash flows.

The interest rate is a general economic indicator that will have an impact on Axis-REIT's financial position or cash flows regardless whether it is an Islamic real estate investment trust or otherwise.

Interest rate risk

Axis-REIT's exposure to changes in interest rates relates primarily to its financial assets which have an exposure to interest rates, such as Islamic deposits and interest related financial liabilities such as Sukuk, term financing, revolving credit and finance lease liabilities. Interest rate risk is managed by the Manager on an on-going basis with the primary objective of limiting the extent to which the profit income and financing costs could be affected by adverse movements in interest rates.

Risk management objectives, policies and processes for managing the risk

Axis-REIT has profit rate swaps with notional contract amounts of RM50,000,000 and RM100,000,000, respectively (2017: a profit rate swap with notional contract amount of RM50,000,000) in order to achieve an approximate mix of fixed and floating rates exposure that is deemed acceptable for Axis-REIT. The swaps mature in May 2020 and April 2021, respectively.

Exposure to interest rate risk

The interest rate profile of Axis-REIT's financial instruments which have an exposure to interest rates, based on carrying amounts as at the end of the reporting period was:

	2018 RM'000	2017 RM'000
Financial assets		
<i>Fixed rate instrument</i>		
Islamic deposits placed with licensed banks	9,700	24,841
Financial liabilities		
<i>Fixed rate instruments</i>		
Finance lease liabilities	211	517
Sukuk	179,500	264,304
	179,711	264,821
<i>Floating rate instruments</i>		
Term financing	66,312	66,280
Revolving credit	813,344	511,493
	879,656	577,773

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.6 Market risk (continued)

Interest rate risk (continued)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis

Axis-REIT does not account for any fixed rate financial liabilities at fair value through profit or loss, and Axis-REIT does not designate Islamic derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) Cash flow sensitivity analysis

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/ (decreased) unitholders' funds and profit or loss by the amounts shown below.

	Unitholders' funds		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	RM'000	RM'000	RM'000	RM'000
2018				
Floating rate instruments	-	-	(8,797)	8,797
Profit rate swaps	-	-	1,500	(1,500)
2017				
Floating rate instruments	-	-	(5,778)	5,778
Profit rate swap	-	-	500	(500)

20.7 Fair value information

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

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)

20.7 Fair value information (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
2018										
Financial liabilities										
Tenants' deposits	-	-	-	-	-	-	62,410	62,410	62,410	62,410
Islamic derivative liability	-	292	-	292	-	-	-	-	292	292
Financing	-	-	-	-	-	177,400	843,498	1,020,898	1,020,898	1,059,156
Finance lease liabilities	-	-	-	-	-	-	250	250	250	211
	-	292	-	292	-	177,400	906,158	1,083,558	1,083,850	1,122,069
2017										
Financial liabilities										
Tenants' deposits	-	-	-	-	-	-	55,870	55,870	55,870	55,870
Financing	-	-	-	-	-	261,765	554,353	816,118	816,118	842,077
Finance lease liabilities	-	-	-	-	-	-	600	600	600	517
	-	-	-	-	-	261,765	610,823	872,588	872,588	898,464

NOTES TO THE FINANCIAL STATEMENTS

20. Financial instruments (continued)**20.7 Fair value information (continued)****Level 2 fair value*****Islamic derivative***

The fair value of profit rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market profit rates for similar instruments at the measurement date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the market profit rate at the end of the reporting period.

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2017: no transfer in either directions).

Level 3 fair value

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

Financial instruments not carried at fair value

Type	Description of valuation technique and inputs used
Tenants' deposits, financing and finance lease liabilities	Discounted cash flows using a rate based on the current market rate of Islamic financing facilities of Axis-REIT at the reporting date.

The discount rates used above have incorporated credit risk of Axis-REIT and liquidity risk of the instruments. The inputs for these risks are unobservable because there are no identical or similar instruments to benchmark to.

NOTES TO THE FINANCIAL STATEMENTS

21. Capital management

Axis-REIT's objectives when managing capital is to maintain a strong capital base and safeguard Axis-REIT's ability to continue as a going concern, so as to maintain the confidence of unitholders, creditors and the market; and to sustain future development of the business. The Directors of the Manager monitor and maintain an optimal gearing ratio that complies with regulatory requirements.

During the year 2018, Axis-REIT's strategy was unchanged from 2017. The Directors of the Manager continuously monitors the gearing level and considers undertaking a new placement exercise to raise capital and when it anticipates the need for funding, taking into consideration the investor appetite in the capital market. This internal gearing threshold is below that allowed by the Securities Commission's Guidelines on Listed Real Estate Investment Trusts of 50%. The gearing ratio at the end of the reporting period were as follows:

	Note	2018 RM'000	2017 RM'000
Total financing	11	1,059,367	842,594
Total assets		2,840,463	2,549,609
Gearing ratio (%)		37.30	33.05

There was no change in Axis-REIT's approach to capital management during the financial year.

22. Operating leases**Leases as lessor**

Axis-REIT leases out its investment properties (Note 4) under operating leases. The future minimum lease receivable under non-cancellable leases is as follows:

	2018 RM'000	2017 RM'000
Less than one year	188,045	172,481
Between one and five years	438,717	405,421
More than five years	684,616	624,185
	1,311,378	1,202,087

NOTES TO THE FINANCIAL STATEMENTS

23. Capital commitments

	2018 RM'000	2017 RM'000
Capital expenditure commitments		
Investment properties		
<i>Contracted but not provided for and payable:</i>		
- Within one year	26,831	231,876

24. Related parties

For the purposes of these financial statements, parties are considered to be related to Axis-REIT if Axis-REIT has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Axis-REIT and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of Axis-REIT either directly or indirectly. The key management personnel include all the Directors of the Manager and the Trustees, and certain members of senior management of the Manager and the Trustees.

Significant related party transactions

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

Significant related party transactions other than those disclosed elsewhere in the financial statements are as follows:

	Note	2018 RM'000	2017 RM'000
Acquisition of investment properties from related parties of the Directors of the Manager	24.1	(38,700)	-
Rental income received and receivable from companies controlled by the Directors of the Manager		5,526	9,308

24.1 During the financial year ended 31 December 2017, letters of offer were accepted for the proposed acquisition of 3 properties for a total purchase price of RM45,150,000. Axis-REIT subsequently pursued the acquisition of 2 properties. These were completed during the current financial year, for a total purchase price of RM38,700,000.

NOTES TO THE FINANCIAL STATEMENTS

25. Subsequent event

On 7 January 2019, Axis REIT Sukuk Berhad issued RM240.0 million Sukuk in nominal value ("Third Sukuk") pursuant to the Sukuk Programme.

The Third Sukuk of RM240.0 million was issued to re-finance Axis-REIT's existing financing facilities. The expected maturity date is 7 years from the issuance date and the legal maturity date is 9 years from the issuance date.

The transaction costs relating to the Third Sukuk issuance of RM240.0 million which amounted to RM598,000 will be amortised and charged to profit or loss over the expected tenure of the Third Sukuk of 7 years.

The Third Sukuk is secured over the investment property as indicated in Note 4 to the financial statements and other securities are as advised by the legal counsel of the Lead Manager and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

26. Significant changes in accounting policies

During the year, Axis-REIT adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on their financial statements. Axis-REIT generally applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, Axis-REIT has elected not to restate the comparatives.

26.1 Impacts on financial statements

There was no material impact arising from the adoption of MFRS 15 and MFRS 9 on Axis-REIT's financial statements.

26.2 Accounting for financial instruments

(a) Transition

In the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

- (i) Axis-REIT has not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.
- (ii) The assessment on the determination of the business model within which a financial asset is held has been made based on the facts and circumstances that existed at the date of initial application.
- (iii) Loss allowance for receivables (other than trade receivables) is recognised at the amount equal to lifetime expected credit losses until the receivable is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

26. Significant changes in accounting policies (continued)

26.2 Accounting for financial instruments (continued)

(b) Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

The following table shows the measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of Axis-REIT's financial assets and financial liabilities as at 1 January 2018:

		31 December 2017 RM'000	1 January 2018 Reclassification to new MFRS 9 category Amortised cost ("AC") RM'000
	Note		
Category under MFRS 139			
Financial assets			
Loans and receivables			
Receivables and deposits	20.1	13,796	13,796
Cash and cash equivalents	20.1	34,869	34,869
		48,665	48,665
Financial liabilities			
Financial liabilities measured at amortised cost			
Payables and accruals	20.1	115,879	115,879
Financing	20.1	842,594	842,594
		958,473	958,473

Reclassification from loans and receivables to amortised cost

Receivables and deposits that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.

26.3 Accounting for revenue

The revenue of Axis-REIT consists of income from leasing of investment properties, including car parks, and other associated income.

There were no significant changes in revenue recognition from the adoption of MFRS 15 and no practical expedients relating to MFRS 15 were applied.

STATEMENT BY THE MANAGER

In the opinion of the Directors of the Manager, the financial statements set out on pages 190 to 247 are drawn up in accordance with the Third Principal Deed dated 28 November 2013, the Securities Commission's Guidelines on Listed Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of Axis Real Estate Investment Trust at 31 December 2018 and of its financial performance and cash flows for the financial year ended on that date.

For and on behalf of the Manager,
Axis REIT Managers Berhad,

Signed on behalf of the Board of Directors of the Manager in accordance with a resolution of the Directors of the Manager:

Tew Peng Hwee @ Teoh Peng Hwee
Director

Leong Kit May
Director

Kuala Lumpur,

Date: 14 February 2019

STATUTORY DECLARATION

I, **Ng Choy Tip**, the Officer of Axis REIT Managers Berhad primarily responsible for the financial management of Axis Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 190 to 247, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Ng Choy Tip (MIA Number: 40667), at Petaling Jaya in the state of Selangor Darul Ehsan on 14 February 2019.

Ng Choy Tip

Before me:

TRUSTEE'S REPORT

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

We have acted as Trustee of Axis Real Estate Investment Trust ("Axis-REIT") for the financial year ended 31 December 2018. In our opinion and to the best of our knowledge, Axis REIT Managers Berhad ("the Manager") has managed Axis-REIT in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Third Principal Deed ("the Deed") dated 28 November 2013, the Securities Commission's Guidelines on Listed Real Estate Investment Trusts and applicable securities laws during the financial year then ended.

We have ensured that valuation has been carried out on all the properties of Axis-REIT in accordance with the Deed and other regulatory requirements.

We also confirm that the income distributions declared and paid during the financial year ended 31 December 2018 are in line with and are reflective of the objectives of Axis-REIT. Four distributions have been declared for the financial year ended 31 December 2018 as follows:

- 1) 1st interim income distribution of 1.94 sen per unit paid on 4 June 2018;
- 2) 2nd interim income distribution of 2.00 sen per unit paid on 7 September 2018;
- 3) 3rd interim income distribution of 2.35 sen per unit paid on 10 December 2018; and
- 4) Final income distribution of 2.45 sen per unit payable on 28 February 2019.

For and on behalf of the Trustee,
RHB Trustees Berhad
(Company No.: 573019-U)

Tony Chieng Siong Ung

Director

Kuala Lumpur,

Date: 14 February 2019

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Axis Real Estate Investment Trust ("Axis-REIT"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in net asset value and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 190 to 247.

In our opinion, the financial statements give a true and fair view of the financial position of Axis-REIT as of 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of Axis-REIT in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

Key audit matter

Key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements of Axis-REIT for the current financial year. This matter was addressed in the context of our audit of the financial statements of Axis-REIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of investment properties

Refer to Note 4 to the financial statements.

The key audit matter

Axis-REIT owns a portfolio of 45 investment properties comprising office/industrial buildings and logistics warehouses located in Malaysia. Investment properties represent the single largest category of assets on the statement of financial position at RM2,798,500,000 as at 31 December 2018.

These investment properties are stated at their fair values based on independent external valuations.

The valuation process involves judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied i.e. a small change in the assumptions can have a significant impact to the valuation. This is a key audit matter as some of the key assumptions are based on unobservable inputs and hence, significant judgement is required to evaluate the unobservable inputs.

INDEPENDENT AUDITORS' REPORT

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

How the matter was addressed in our audit:

We assessed the processes of Axis-REIT Managers Berhad ("the Manager") for the selection of the external valuers, the determination of the scope of work of the valuers, and the review and acceptance of the valuations reported by the external valuers.

We evaluated the qualifications and competence of the external valuers based on their membership of recognised professional body. We also examined the terms of engagement the valuers entered into with the Manager to determine whether there were any matters that might have affected the valuers' objectivity or placed limitations on their scope of work.

We assessed the appropriateness of the valuation methodologies used by considering their respective merits based on the occupancy status and/or condition of each property. We checked the data applied in the projected cash flows used in the valuation by agreeing them to the lease agreements and title deeds. We challenged the capitalisation rates used in the valuation by comparing them against historical rates and available industry data. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the valuers.

We also considered the adequacy of disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.

Information Other than the Financial Statements and Auditors' Report Thereon

The Manager is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditors' report thereon) which we obtained prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the Financial Statements of Axis-REIT

The Manager is responsible for the preparation of the financial statements of Axis-REIT so as to give a true and fair view in accordance with the Third Principal Deed dated 28 November 2013, the Securities Commission's Guidelines on Listed Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of Axis-REIT that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of Axis-REIT, the Manager is responsible for assessing Axis-REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate Axis-REIT or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT

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

Auditors' Responsibilities for the Audit of the Financial Statements of Axis-REIT

Our objectives are to obtain reasonable assurance about whether the financial statements of Axis-REIT as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of Axis-REIT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Axis-REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of Axis-REIT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Axis-REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of Axis-REIT, including the disclosures, and whether the financial statements of Axis-REIT represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Axis-REIT to express an opinion on the financial statements of Axis-REIT. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT

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

From the matters communicated with the Manager, we determine those matters that were of most significance in the audit of the financial statements of Axis-REIT of the current year and is therefore the key audit matter. We describe this matter in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

This report is made solely to the unitholders of Axis-REIT in accordance with the trust deed of Axis-REIT and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT

(LLP0010081-LCA & AF 0758)
Chartered Accountants

Chan Chee Keong

Approval Number: 03175/04/2019 J
Chartered Accountant

Petaling Jaya,

Date: 14 February 2019

UNITHOLDERS' STATISTICS

BREAKDOWN OF UNITHOLDINGS AS PER RECORD OF DEPOSITORS

As at 31 January 2019

Issued and fully paid up

1,237,285,288 Units (voting right: 1 vote per Unit)

DISTRIBUTION OF UNITHOLDINGS

Size of Unitholdings	No. of Unitholders	% of Unitholders	No. of Units Held	% of Unitholdings
Less than 100	531	11.70%	9,931	Neg
100 - 1,000	790	17.41%	383,116	0.03%
1,001 - 10,000	1,912	42.12%	8,285,188	0.67%
10,001 - 100,000	981	21.61%	28,156,527	2.28%
100,001 to less than 5% of issued units	322	7.09%	839,817,540	67.88%
5% and above of issued units	3	0.07%	360,632,986	29.15%
	4,539	100.00%	1,237,285,288	100.00%

30 LARGEST UNITHOLDERS

Name of Unitholders	No. of Units	%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD	142,312,991	11.50%
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA	120,000,000	9.70%
KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	98,319,995	7.95%
LEMBAGA TABUNG HAJI	60,038,100	4.85%
TEW PENG HWEE @ TEOH PENG HWEE	56,550,010	4.57%
ALEX LEE LAO	52,645,267	4.25%
PERMODALAN NASIONAL BERHAD	42,500,000	3.43%
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM MALAYSIA 3	26,515,914	2.14%
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA 2	25,067,800	2.03%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC SMALLCAP FUND	23,477,412	1.90%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ITTIKAL SEQUEL FUND	20,611,710	1.67%
MAYBANK NOMINEES (TEMPATAN) SDN BHD - MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	20,263,300	1.64%
AMANAHRAYA TRUSTEES BERHAD - ASN UMBRELLA FOR ASN EQUITY 3	18,369,662	1.48%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD (ABERDEEN)	17,472,731	1.41%
ABAS CARL GUNNAR BIN ABDULLAH	14,332,650	1.16%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EXEMPT AN FOR AIA BHD.	12,737,222	1.03%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC STRATEGIC SMALLCAP FUND	12,605,995	1.02%
CARTABAN NOMINEES (TEMPATAN) SDN BHD - RHB TRUSTEES BERHAD FOR MANULIFE INVESTMENT SHARIAH PROGRESS FUND	12,074,432	0.98%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ISLAMIC SELECT TREASURES FUND	12,033,598	0.97%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD (ASIANISLAMIC)	10,670,400	0.86%
AMANAH RAYA BERHAD - KUMPULAN WANG BERSAMA SYARIAH	10,666,294	0.86%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (ABERDEEN)	10,411,725	0.84%

UNITHOLDERS' STATISTICS

Name of Unitholders	No. of Units	%
CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD (ABERISLAMIC)	10,345,112	0.84%
AMANAHRAYA TRUSTEES BERHAD - ASN UMBRELLA FOR ASN IMBANG (MIXED ASSET BALANCED) 2	10,287,989	0.83%
KA, YA-SHIH ALSO KNOWN AS MYHRE, KUYAS	10,231,119	0.83%
AMANAHRAYA TRUSTEES BERHAD - PUBLIC ISLAMIC OPPORTUNITIES FUND	10,229,050	0.83%
AMANAHRAYA TRUSTEES BERHAD - ASN IMBANG (MIXED ASSET BALANCED) 1	9,863,570	0.80%
HSBC NOMINEES (TEMPATAN) SDN BHD - HSBC (M) TRUSTEE BHD FOR ZURICH LIFE INSURANCE MALAYSIA BERHAD (LIFE PAR)	9,636,831	0.78%
MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD - GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (DR)	9,561,891	0.77%
AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITY ACCOUNT - AMBANK (M) BERHAD FOR ABAS CARL GUNNAR BIN ABDULLAH	9,369,288	0.76%
	899,202,058	72.68%

SUBSTANTIAL UNITHOLDERS (5% and above)

Name of Substantial Unitholders	Direct Interest		Indirect Interest*	
	No. of Units	%	No. of Units	%
EMPLOYEES PROVIDENT FUND BOARD	201,277,312	16.27	-	-
KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	98,576,725	7.97%	35,500,262^	2.87%
AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM BUMIPUTERA	120,000,000	9.70%	-	-
LEMBAGA TABUNG HAJI	72,692,606	5.88%	-	-

^ Held by Fund Managers of Kumpulan Wang Persaraan (Diperbadankan)

DIRECTORS' INTERESTS

Name of Directors/Alternate Directors	Direct Interest		Indirect Interest	
	No. of Units	%	No. of Units	%
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin (Director)	20,000	Neg	-	-
Dato' Abas Carl Gunnar Bin Abdullah (Director)	24,254,426	1.96	10,303,759*	0.83
Tew Peng Hwee @ Teoh Peng Hwee (Director)	56,550,010	4.57	-	-
Leong Kit May (Director)	42,614	Neg	-	-
Mohd Sharif Bin Hj Yusof (Director)	-	-	-	-
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor (Director)	-	-	-	-
Alvin Dim Lao (Director)	-	-	-	-
Alex Lee Lao (Alternate Director)	56,386,865	4.56	3,153,025**	0.25
Jancis Anne Que Lao (Alternate Director)	844,012	0.07	-	-

Notes:

* Deemed interested in the direct unitholdings of his spouse and daughter, Datin Kuyas Emiloglu (also known as Ka Ya-Shih) and Amanda Tan Myhre in Axis-REIT

** Deemed interested in the direct unitholdings of his brothers, Lao, Yin Yong Lee and Leon Lee Lao in Axis-REIT

Remarks:

This Unitholders' Statistics have been prepared as at 31 January 2019 in line with the requirement of Bursa Securities where such information is to be made up to a date not earlier than 6 weeks from the date of the AGM notice

FREQUENTLY ASKED QUESTIONS (FAQ)

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

Effective 1 January 2009, Axis-REIT changed its income distribution policy from semi-annual payment to quarterly payments payable within one month of the book closure date. In the event of IDRPs being applied in conjunction with an income distribution, the income distribution will be paid no later than five market days after one month of the book closure date. However, in certain circumstances such as the issuance of new Units by Axis-REIT during the year, it may be necessary for a special income distribution to be declared and paid at different periods in order to attribute the income distribution to existing Unitholders. This is to avoid any dilution as a result of the enlarged Unitholders' capital.

2. How is this income distribution paid?

Payments are made via direct credit / cheques to each Unitholder with an attached Distribution Tax Voucher detailing the entitlement and gross/net amounts payable.

3. Are there different types of income distributions?

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

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

4. What is the tax treatment of Unitholders?

Pursuant to the amended Section 109D (2) of the Income Tax Act, 1967 under the Finance Act 2009 which was gazetted on 8 January 2009, the following withholding tax rates would be applicable on any distribution of income, which is tax exempt at Axis-REIT's level:

Withholding tax will be deducted for distributions made to the following categories of Unitholders:

Type of Unitholder	Withholding tax rate		
	2018	2017	2016
Resident corporate	Nil [^]	Nil [^]	Nil [^]
Resident non-corporate	10%	10%	10%
Non-resident individual	10%	10%	10%
Non-resident corporate	24%	24%	24%
Non-resident institution	10%	10%	10%

[^] Resident corporate Unitholders will enjoy tax transparency but will be subject to the prevailing corporate tax rate.

FREQUENTLY ASKED QUESTIONS (FAQ)

5. How do I calculate my distribution?

For the financial year ended 31 December 2018, the total income distribution was 8.74 sen per Unit. Of this amount, 3.41 sen was derived from the utilisation of capital allowances, industrial building allowances, and tax exempt profit income, and is therefore not subject to tax.

Type of Unitholder	Assumption: 10,000 Axis-REIT Units	
	Gross distribution	Net distribution to Unitholders after deduction of withholding tax
Resident corporate*	874.00	874.00
Resident individual/institution	874.00	820.70
Foreign corporate	874.00	746.08
Foreign institution	874.00	820.70
Foreign individual	874.00	820.70

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

6. What is my net distribution yield for 2018?

For the financial year ended 31 December 2018, the total distribution was 8.74 sen per Unit.

Type of Unitholder	Net Distribution based on IPO price of RM0.625*	Net distribution based on closing price of RM1.56 on 31 December 2018
Resident corporate	13.98%	5.60%
Resident individual/institution	13.13%	5.26%
Foreign corporate	11.94%	4.78%
Foreign institution	13.13%	5.26%
Foreign individual	13.13%	5.26%

* Restated from RM1.25 to reflect the Unit Split

7. Where can a Unitholder view the Deed of Axis-REIT?

The Deed is available for inspection during ordinary business hours at the principal place of business of the Manager and at the principal place of business of the Trustee

8. What is the total number of Axis-REIT Units currently in issue?

A total of 1,237,285,288 Units are in circulation

9. How can new Units be issued?

The Manager may from time to time recommend an increase in the number of Units by way of a rights or bonus issue to existing Unitholders in proportion to their holding of Units, or by way of placement to any person; as consideration issue for subscription or such other methods as may be permitted under the SC's Guidelines on Listed REITs.

Issuance of new Units in Axis-REIT will be subject to the prior approval of the Trustee, Bursa Securities and Unitholders in the manner as stipulated in the Deed and subject to the applicable laws and requirements.

FREQUENTLY ASKED QUESTIONS (FAQ)

10. What are my rights as a Unitholder?

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

11. How can the Deed be amended?

Any amendment to the Deed involving material change to the investment objectives of Axis-REIT; or any amendment may materially or adversely affect the rights of the Unitholders, may only be approved by way of a resolution of not less than 2/3 of the Unitholders passed at a meeting of Unitholders duly convened and held in accordance with the Deed. In cases where the amendment to the Deed does not require Unitholders' approval, the amendment may only be made if the Trustee and the Manager certify, in their opinion, that such amendment does not materially prejudice the interests of Unitholders and does not operate to release (to any material extent) the Trustee or the Manager from any responsibility to the Unitholders.

12. When does Axis-REIT need to hold its AGM?

The AGM of Axis-REIT shall be held once in every calendar year and not more than 15 months after the last preceding AGM. At the AGM, the Manager shall lay before the Unitholders, the annual audited financial statements of Axis-REIT made up to a date that is not more than four months before the date of the AGM.

13. Who may convene a meeting of Unitholders?

Either the Trustee or the Manager may convene a meeting of Unitholders at any time, subject to the provisions of the Deed. Unitholders may request for a meeting of Unitholders by submitting to the Manager an application to be made by not fewer than 50, or one tenth, whichever is lesser, of all the Unitholders. Subject to the provisions of the Deed, the Manager will have to convene a meeting of Unitholders within 21 days after such requisition is submitted to the Manager at its registered office.

14. Can the Manager vote at Unitholders' meetings of Axis-REIT?

No. However related parties (as defined in the Deed) of the Manager may vote provided that they have no interest in the outcome of the transaction laid before the meeting for approval.

15. Why was Axis-REIT reclassified into an Islamic REIT?

Axis-REIT was reclassified into an Islamic REIT:

- a. To widen its investor base to include local Islamic funds and also to develop investors interest from Islamic foreign funds;
- b. To expedite its asset growth with new strategic partners;
- c. To become the first Office/Industrial REIT on a global platform which complies with the applicable Shariah principles, concepts and rulings endorsed by the Shariah Advisory Council.

FREQUENTLY ASKED QUESTIONS (FAQ)

16. What are the salient compliance requirements of an Islamic REIT pursuant to the SC's Guidelines on Listed REITs?

The salient compliance requirements are:

- a. An Islamic REIT is permitted to own real estate where:
 - i. all the tenants operate fully Shariah compliant activities; or
 - ii. some of the tenants operate Shariah non-compliant activities, provided the percentage of rental received from all Shariah non-compliant activities ("Shariah Non-Compliant Rental") is less than 20% of the total turnover of the Islamic REIT ("20% Threshold").
- b. An Islamic REIT must reduce the 20% Threshold to less than 5% of the Islamic REIT's total turnover by the end of the 10th financial year. For the purpose of computation of the 10th financial year, the first financial year commences the next financial year subsequent to the SC's Guidelines on Listed REITs taking effect i.e. 9 April 2018.
- c. An Islamic REIT is not permitted to own real estate where all the tenants operate fully Shariah non-compliant activities, even if the percentage of the Shariah Non-Compliant Rental after the acquisition is less than the 20% Threshold.
- d. All forms of investments, deposits, money market instruments and financing facilities of an Islamic REIT must comply with the Shariah principles.
- e. An Islamic REIT must use Takaful schemes to insure its real estate.

17. Is an Islamic REIT permitted to own (purchase) real estate in which the tenant(s) operate(s) mixed activities that are permissible and non-permissible according to the Shariah rules?

An Islamic REIT is permitted to own (purchase) real estate in which its tenant(s) operate(s) mixed activities that are permissible and non-permissible, according to the Shariah rules. However, the management company of the Islamic REIT must perform additional compliance assessments before acquiring real estate that has tenant(s) who operate(s) mixed activities.

18. What are non-permissible activities?

Rental activities that are classified as non-permissible as decided by the SAC are:

- a. Conventional banking;
- b. Conventional insurance;
- c. Gambling;
- d. Liquor and liquor-related activities;
- e. Pork and pork-related activities;
- f. Non-halal food and beverages;
- g. Tobacco and tobacco-related activities;
- h. Stockbroking or share trading in Shariah non-compliant securities;
- i. Shariah non-compliant entertainment; and
- j. Other activities deemed non-compliant according to Shariah.

GLOSSARY

AGM	:	Annual General Meeting
AUM	:	Assets Under Management
Axis-REIT / the Trust / the Fund	:	Axis Real Estate Investment Trust
Bursa Securities / the Exchange	:	Bursa Malaysia Securities Berhad
CDS	:	Central Depository System
Deed	:	The Third Principal Deed dated 28 November 2013 executed between the Trustee and the Manager constituting Axis-REIT
DPU	:	Distribution per Unit
FYE	:	Financial Year Ended/Ending
GST	:	Goods and Services Tax
Gearing	:	Financing to Total Assets
Gross Revenue	:	Gross rental income and other income earned from the properties including car park income, utilities and miscellaneous income
IDRP	:	Income Distribution Reinvestment Plan
Islamic REITs	:	REITs that comply with the applicable Shariah principles, concepts and rulings endorsed by the SAC
MER	:	Management Expense Ratio
Manager	:	Axis REIT Managers Berhad, being the Manager of Axis-REIT
NAV	:	Net Asset Value
NLA	:	Net Lettable Area, which consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
PTR	:	Portfolio Turnover Ratio
Property Manager	:	Axis Property Services
REIT(s)	:	Real Estate Investment Trust(s)
RM and sen	:	Ringgit Malaysia and sen, respectively
SAC	:	Shariah Advisory Council
SC	:	Securities Commission Malaysia
SC's Guidelines on Listed REITs	:	Guidelines on Listed Real Estate Investment Trusts issued by the SC on 15 March 2018 and effective on 9 April 2018, as amended from time to time
Sq. ft.	:	Square feet
Sqm	:	Square meters
Trustee of Axis-REIT/Trustee	:	RHB Trustees Berhad, being the Trustee of Axis-REIT
Unit(s)	:	Undivided interest(s) in Axis-REIT as constituted by the Deed
Unitholder(s)	:	Holder(s) of the Units
Unit Split	:	Subdivision of every one existing Unit into two Units that was completed on 9 September 2015
VWAMP	:	Volume weighted average market price
WALE	:	Weighted Average Lease Expiry

NOTICE OF SEVENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Seventh Annual General Meeting ("AGM") of Axis Real Estate Investment Trust ("Axis-REIT") will be convened and held at Ballroom 1, Sheraton Petaling Jaya Hotel, Jalan Utara C, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 30 April 2019 at 10.00 a.m. or at any adjournment thereof, for the following purposes:

ORDINARY BUSINESS

To receive the Audited Financial Statements for the financial year ended 31 December 2018 of Axis-REIT together with the Reports attached thereon.

SPECIAL BUSINESS

To consider and if thought fit, to pass, with or without modifications, the following resolutions as Ordinary Resolutions of Axis-REIT:

ORDINARY RESOLUTION NO. 1

PROPOSED RENEWAL OF THE AUTHORITY TO ALLOT AND ISSUE NEW UNITS IN AXIS-REIT ("UNITS") OF UP TO 20% OF THE ISSUED FUND SIZE OF AXIS-REIT, TO FACILITATE A PLACEMENT EXERCISE ("PROPOSED RENEWAL OF AUTHORITY")

"THAT pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), and subject to requisite approvals being obtained, approval be hereby given to the Directors of Axis REIT Managers Berhad ("Manager") to allot and issue new Units, to facilitate Axis-REIT in raising funds via a placement exercise ("Proposed Placement"), at any time to any such persons, upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of new Units to be issued pursuant to this resolution, when aggregated with the number of Units issued during the preceding 12 months, does not exceed 20% of the issued fund size of Axis-REIT;

THAT such authority, once renewed, shall continue to be in force until:

- (i) the conclusion of the next AGM of Axis-REIT following this AGM where the Proposed Renewal of Authority is passed, at which time the authority will lapse, unless by a resolution passed by the Unitholders at that AGM, such authority is renewed; or
- (ii) the Proposed Renewal of Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders' meeting,

whichever is the earliest;

THAT such new Units to be issued under the Proposed Placement ("Placement Units") shall, upon allotment and issue, rank equally in all respects with the Units already in existence except that the Placement Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared, made or paid before the date of allotment and issue of the Placement Units;

AND THAT authority be and is hereby given to the Directors of the Manager and RHB Trustees Berhad ("Trustee") (acting for and on behalf of Axis-REIT), to give effect to the Proposed Renewal of Authority including but not limited to the creation of the requisite new Units and with full powers to assent to any condition, modification, variation, arrangement and/or amendment in relation to the Proposed Renewal of Authority as they may deem fit in the best interest of Axis-REIT and/or as may be imposed by the relevant authorities **AND FURTHER THAT** the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), are to implement, finalise, complete and do all such acts and things (including executing such documents as may be required) in relation to the Proposed Renewal of Authority."

NOTICE OF SEVENTH ANNUAL GENERAL MEETING

ORDINARY RESOLUTION NO. 2

PROPOSED RENEWAL OF THE AUTHORITY TO ALLOT AND ISSUE UP TO 138,425,476 NEW UNITS IN AXIS-REIT FOR THE PURPOSE OF THE INCOME DISTRIBUTION REINVESTMENT PLAN ("IDRP") THAT PROVIDES THE UNITHOLDERS OF AXIS-REIT THE OPTION TO REINVEST THEIR INCOME DISTRIBUTION IN NEW UNITS ("PROPOSED RENEWAL OF IDRPAUTHORITY")

"THAT pursuant to the approval from the Unitholders obtained on 21 August 2015 for, among others, the renewal of the authority to allot and issue new Units for the purpose of the IDRPA, approval be and is hereby given to the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), to renew the authority in order to empower the Board to allot and issue new Units from time to time pursuant to the IDRPA upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of the new Units to be issued pursuant to this resolution does not exceed 138,425,476 new Units;

THAT such authority, once renewed, shall continue to be in force until:

- (i) the conclusion of the next AGM of Axis-REIT following this AGM where the Proposed Renewal of IDRPA Authority is passed, at which time the authority will lapse, unless by a resolution passed by the Unitholders at that AGM, such authority is renewed; or
- (ii) the Proposed Renewal of IDRPA Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders' meeting,

whichever is the earliest;

THAT such new Units to be issued under the Proposed Renewal of IDRPA Authority shall, upon allotment and issue, rank equally in all respects with the Units already in existence except that the Units will not be entitled to any distributable income, right, benefit, entitlement and/or any other distributions that may be declared, made or paid before the date of allotment and issue of such Units;

AND THAT authority be and is hereby given to the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), to give effect to the Proposed Renewal of IDRPA Authority including but not limited to the creation of the requisite new Units and with full powers to assent to any condition, modification, variation, arrangement and/or amendment in relation to the Proposed Renewal of IDRPA Authority as they may deem fit in the best interest of Axis-REIT and/or as may be imposed by the relevant authorities **AND FURTHER THAT** the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), are to implement, finalise, complete and do all such acts and things (including executing such documents as may be required) in relation to the Proposed Renewal of IDRPA Authority."

By Order of the Board of

AXIS REIT MANAGERS BERHAD (649450-W)

Management company of Axis Real Estate Investment Trust

Rebecca Leong Siew Kwan (MAICSA 7045547)

Company Secretary

Kuala Lumpur

28 February 2019

NOTICE OF SEVENTH ANNUAL GENERAL MEETING

Notes:

- (1) A Unitholder shall be entitled to attend and vote at any meeting of Unitholders and shall be entitled to appoint up to two (2) persons, whether a Unitholder or not, as its proxy to attend and vote.
- (2) Where a Unitholder is a corporation, its duly authorised representative shall be entitled to attend and vote at the meeting and shall be entitled to appoint up to two (2) persons (whether a Unitholder or not) as its proxy to attend and vote.
- (3) Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
- (4) If the Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Authorised Nominee"), it may appoint at least one (1) proxy (but no more than two (2)) in respect of each securities account it holds with Units of Axis-REIT standing to the credit of the said securities account.
- (5) If the Unitholder is an exempt Authorised Nominee which holds Units for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
- (6) Only a depositor whose name appears in the Record of Depositors of Axis-REIT as at 23 April 2019 shall be regarded as a Unitholder and entitled to attend, speak and vote at this AGM of Axis-REIT or appoint proxy(ies) to attend and vote on his/her behalf.
- (7) The Instrument of Proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation, the Instrument of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.
- (8) To be valid, the original Instrument of Proxy duly completed and signed must be deposited at the registered office of the Manager at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting (facsimile copy of Instrument of Proxy would be disregarded).

EXPLANATORY NOTES ON:

Ordinary Business

There shall be no voting on the Ordinary Business of this AGM given that the laying of the Audited Financial Statements for the financial year ended 31 December 2018 of Axis-REIT together with the Reports attached thereon, before the Unitholders at this AGM is meant for discussion only. This is in accordance with Paragraph 13.18(b) of the Guidelines on Listed Real Estate Investment Trusts ("Listed REIT Guidelines") issued by the Securities Commission Malaysia.

Other than the aforesaid Ordinary Business, there is no other ordinary business to be transacted at this AGM.

Special Business – Ordinary Resolution No. 1 : Proposed Renewal of Authority

- (a) The Manager proposes to renew the authority to allot and issue up to 20% of the issued fund size of Axis-REIT, to facilitate Axis-REIT in raising funds via the Proposed Placement. The Proposed Renewal of Authority will empower the Directors with the flexibility to allot and issue new Units at any time via the Proposed Placement to any such persons, upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of new Units to be issued pursuant to the Proposed Renewal of Authority, when aggregated with the number of Units issued during the preceding 12 months, does not exceed 20% of the issued fund size of Axis-REIT.
- (b) As of the date of this notice of AGM, the Directors of the Manager have not issued any new Units pursuant to the general mandate which was procured and approved by the Unitholders in the preceding year 2018.

NOTICE OF SEVENTH ANNUAL GENERAL MEETING

- (c) With the Proposed Renewal of Authority, delays and further costs involved in convening separate Unitholders' meetings to approve such issue of new Units to raise funds can be avoided. The Manager will have the flexibility to raise funds via the Proposed Placement for Axis-REIT, as and when such need arises. The proceeds, after deducting the estimated expenses, to be raised from the issuance of the Placement Units, may be used, at the Directors' absolute discretion, for:
- (i) repayment of Axis-REIT's existing bank financing (including finance cost payable), which are taken up to finance acquisitions of real estate;
 - (ii) future investments;
 - (iii) capital expenditure, including development costs; and
 - (iv) working capital purposes.

Special Business – Ordinary Resolution No. 2 : Proposed Renewal of IDR P Authority

- (a) The Manager proposes to renew the authority to allot and issue up to 138,425,476 new Units, representing approximately 11.19% of the existing issued fund size of Axis-REIT of 1,237,285,288 Units, for the purpose of the IDR P. The Proposed Renewal of IDR P Authority will empower the Directors with the flexibility to allot and issue new Units at any time under the IDR P, provided that the aggregate number of Units to be issued pursuant to the Proposed Renewal of IDR P Authority does not exceed 138,425,476 new Units.
- (b) The Unitholders had, at the Sixth AGM of Axis-REIT convened and held on 26 April 2018 approved, among others, the authority to allot and issue up to 143,383,961 new Units pursuant to the IDR P. Axis-REIT had applied the IDR P to the third interim income distribution for the period from 1 July 2018 to 30 September 2018 ("2018 Third Interim Income Distribution") which was declared on 22 October 2018 where a total of 4,958,485 new Units were issued under the IDR P on 10 December 2018. The new Units issued pursuant to the 2018 Third Interim Income Distribution were listed on the Main Market of Bursa Securities on 11 December 2018.
- (c) Taking into account the 4,958,485 Units which had been issued under the IDR P in conjunction with the 2018 Third Interim Income Distribution, the remaining number of new Units that can be allotted and issued pursuant to the Proposed Renewal of IDR P Authority will be up to 138,425,476 new Units, subject to the Unitholders' approval being obtained at the forthcoming AGM for the Proposed Renewal of IDR P Authority.
- (d) The net proceeds of a total RM6.82 million were raised from the 4,958,485 Units which had been issued under the IDR P in conjunction with the 2018 Third Interim Income Distribution (after deducting the related issuing expenses). The proceeds raised were utilized to refurbish and/or renovate the properties of Axis-REIT.
- (e) Any proceeds to be raised from the issuance(s) of new Units pursuant to the Proposed Renewal of IDR P Authority, if such authority is renewed at the forthcoming AGM, shall be utilized to refurbish and/or renovate the properties of Axis-REIT.

Personal Data Notice

In view of the enforcement of **Personal Data Protection Act 2010** ("Act") which regulates the processing of personal data in commercial transactions, the Act applies to us, **Axis REIT Managers Berhad**, being the management company of Axis-REIT.

The personal data processed by us may include your name, contact details, and mailing address and any other personal data derived from any documentation. We may use or disclose your personal data to any person we may engage for the purpose of the issuance of the Notice of AGM, despatch of the 2018 Annual Report and the convening of the AGM of Axis-REIT. As such, it is necessary for us to obtain your personal data in order to carry out the said purposes.

Subject to the requirements under the Act, if you would like to make any enquiries of your personal data, please contact us using any of the following modes:

Mailing address : Axis REIT Managers Berhad
Penthouse, Menara Axis, No. 2, Jalan 51A/223,
46100 Petaling Jaya, Selangor Darul Ehsan

Telephone / Fax No : 603-7958 4882 / 603-7957 6881

E-mail Address : pdpa@axis-reit.com.my

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REAL ESTATE INVESTMENT TRUST

(A real estate investment trust constituted under the laws of Malaysia)

INSTRUMENT OF PROXY

*I/We..... (*NRIC No. / Passport No. / Company No.)
of
being a Unitholder of **Axis Real Estate Investment Trust ("Axis-REIT")** hereby appoints
..... (*NRIC No. / Passport No.)
of

or failing him/her, *the Chairman of the meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Seventh Annual General Meeting of Axis-REIT to be held at Ballroom 1, Sheraton Petaling Jaya Hotel, Jalan Utara C, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 30 April 2019 at 10.00 a.m. or at any adjournment thereof.

RESOLUTION		FOR	AGAINST
Ordinary Resolution No. 1	Proposed Renewal of Authority		
Ordinary Resolution No. 2	Proposed Renewal of IDRP Authority		

Please indicate with an "X" in the appropriate spaces provided above on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy may vote as he/she thinks fit.

Dated this day of 2019

Central Depository System Account No.	No. of Units held in Axis-REIT

.....
Signature of Unitholder or Common Seal

* *Strike out whichever is not desired.*

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- (4) If the Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("**Authorised Nominee**"), it may appoint at least one (1) proxy (but no more than two (2)) in respect of each securities account it holds with Units of Axis-REIT standing to the credit of the said securities account.
- (5) If the Unitholder is an exempt Authorised Nominee which holds Units for multiple beneficial owners in one securities account ("**Omnibus Account**"), there is no limit to the number of proxies which the exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
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- (7) The Instrument of Proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation, the Instrument of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.
- (8) To be valid, the original Instrument of Proxy duly completed and signed must be deposited at the registered office of the Manager at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting (facsimile copy of Instrument of Proxy would be disregarded).

Fold this flap for sealing

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Management Company of Axis Real Estate Investment Trust
Axis REIT Managers Berhad
c/o Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur

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LOCATIONS OF INVESTMENT PROPERTIES

CENTRAL REGION

Petaling Jaya

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

Shah Alam/Klang

- 13) Axis Aerotech Centre @ Subang
- 14) Axis Mega Distribution Centre
- 15) Axis MRO Hub
- 16) Axis Shah Alam Distribution Centre 1
- 17) Axis Shah Alam Distribution Centre 2
- 18) Axis Shah Alam Distribution Centre 3
- 19) Axis Shah Alam Distribution Centre 4
- 20) Axis Steel Centre
- 21) Bukit Raja Distribution Centre
- 22) Fonterra HQ

Rawang

- 23) Scomi Facility @ Rawang

Nilai

- 24) Emerson Industrial Facility Nilai

Senawang

- 25) Senawang Industrial Facility

NORTHERN REGION

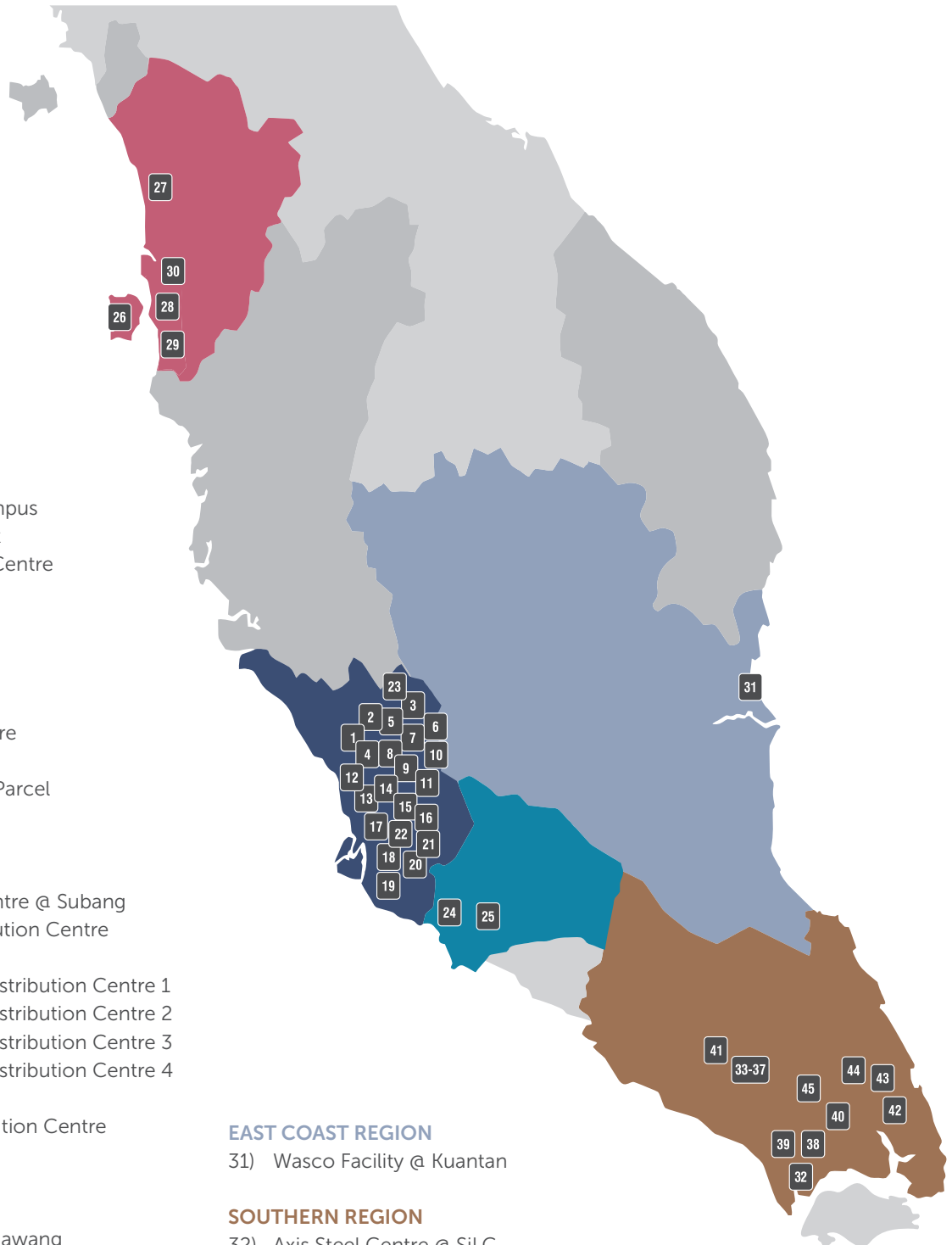
- 26) Bayan Lepas Distribution Centre
- 27) Giant Hypermarket
- 28) Seberang Prai Logistics Warehouse 1
- 29) Seberang Prai Logistics Warehouse 2
- 30) Seberang Prai Logistics Warehouse 3

EAST COAST REGION

- 31) Wasco Facility @ Kuantan

SOUTHERN REGION

- 32) Axis Steel Centre @ SiLC
- 33) Beyonics i-Park Campus Block A
- 34) Beyonics i-Park Campus Block B
- 35) Beyonics i-Park Campus Block C
- 36) Beyonics i-Park Campus Block D
- 37) Beyonics i-Park Campus Block E
- 38) D8 Logistics Warehouse
- 39) D21 Logistics Warehouse
- 40) FCI Senai
- 41) Indahpura Facility 1
- 42) Kerry Warehouse
- 43) Niro Warehouse
- 44) Pasir Gudang Logistics Warehouse 1
- 45) Tesco Bukit Indah



www.axis-reit.com.my

Prepared by:

AXIS REIT MANAGERS BERHAD (649450-W)

As the Manager of Axis-REIT

Penthouse Menara Axis,

No. 2 Jalan 51A/223,

46100 Petaling Jaya,

Selangor, Malaysia

Tel : +603 7958 4882

Fax : +603 7957 6881

E-mail : info@axis-reit.com.my

