



ATRIUM REAL ESTATE INVESTMENT TRUST



ATRIUM REAL ESTATE INVESTMENT TRUST

**ANNUAL REPORT
2012**

ANNUAL REPORT 2012

Contents

02	OUR MISSION
03	PROFILE OF ATRIUM REIT
04	FINANCIAL HIGHLIGHTS
07	SALIENT FEATURES OF THE FUND
08	CHAIRMAN'S STATEMENT
10	PROPERTY PORTFOLIO
15	STRUCTURE OF ATRIUM REIT
16	PERFORMANCE DATA
18	BOARD OF DIRECTORS AND MANAGEMENT/ CORPORATE DIRECTORY
19	PROFILE OF DIRECTORS
20	PROFILE OF CHIEF EXECUTIVE OFFICER
21	CORPORATE GOVERNANCE
25	STATEMENT OF INTERNAL CONTROL
26	FINANCIAL STATEMENTS <ul style="list-style-type: none">• MANAGER'S REPORT• STATEMENT BY DIRECTORS OF THE MANAGER• STATUTORY DECLARATION• TRUSTEE'S REPORT• INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS• STATEMENT OF FINANCIAL POSITION• STATEMENT OF COMPREHENSIVE INCOME• STATEMENT OF CHANGES IN NET ASSET VALUE• STATEMENT OF CASH FLOWS• NOTES TO THE FINANCIAL STATEMENTS• SUPPLEMENTARY INFORMATION ON REALISED AND UNREALISED PROFITS OR LOSSES
67	ANALYSIS OF UNITHOLDINGS

OUR MISSION

To maximise income in order to reward Unitholders with a competitive rate of return for their investments through regular and stable distributions and achieving long-term growth in distributions and Net Asset Value per Unit.

PROFILE OF ATRIUM REAL ESTATE INVESTMENT TRUST

Atrium REIT is an industrial asset focused real estate investment trust constituted by a Trust Deed entered into on 20 November 2006 and amended by the Supplementary Deed dated 25 November 2008 between CIMB Commerce Trustee Berhad (formerly known as BHLB Trustee Berhad) as the Trustee and Atrium REIT Managers Sdn Bhd as the Manager. Atrium REIT was listed on Main Board of Bursa Malaysia Securities Berhad on 2 April 2007.

Atrium REIT's property portfolio consists of five industrial properties located in prime locations in the Klang Valley, namely, Atrium Shah Alam 1, Atrium Shah Alam 2, Atrium Puchong, Atrium Rawang and Atrium USJ.



FINANCIAL HIGHLIGHTS

6.82%¹

Gross Dividend
Yield per annum

8.80sen

Distribution Per Unit
per annum

100%

Occupancy

29.28%

Gearing Level

1.00%

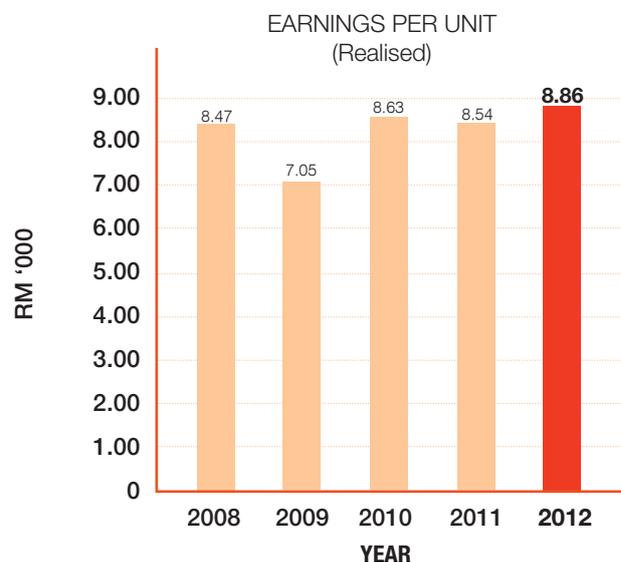
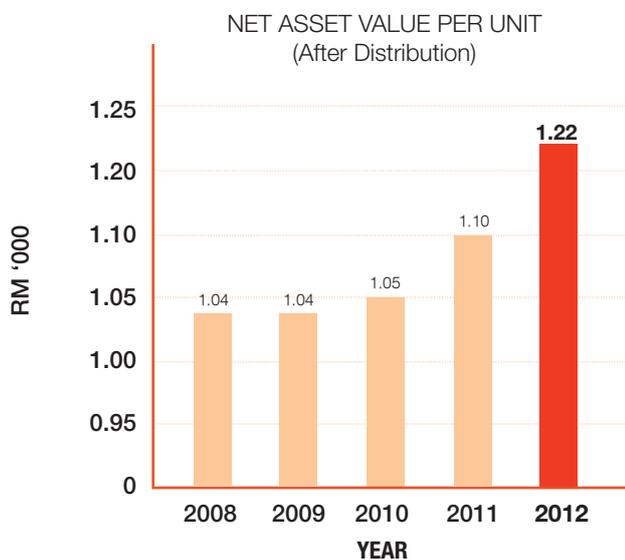
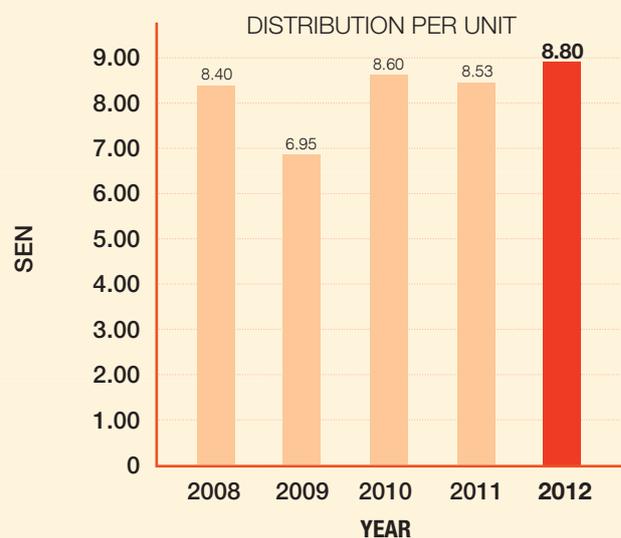
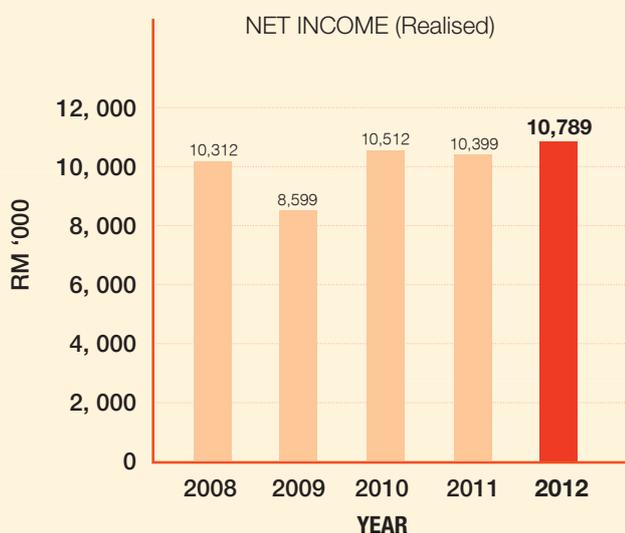
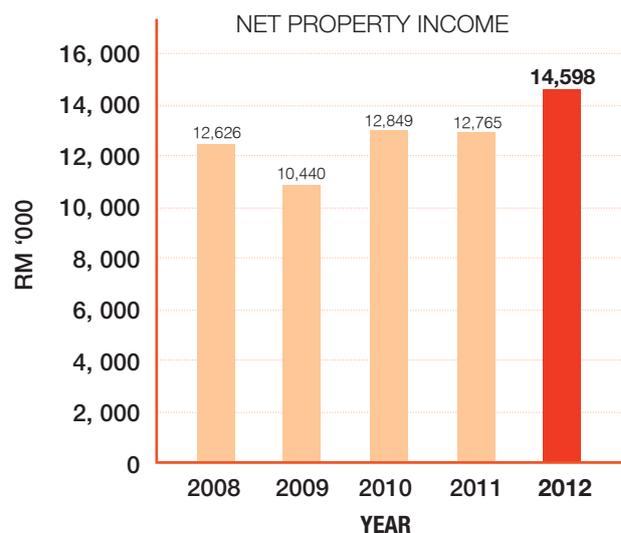
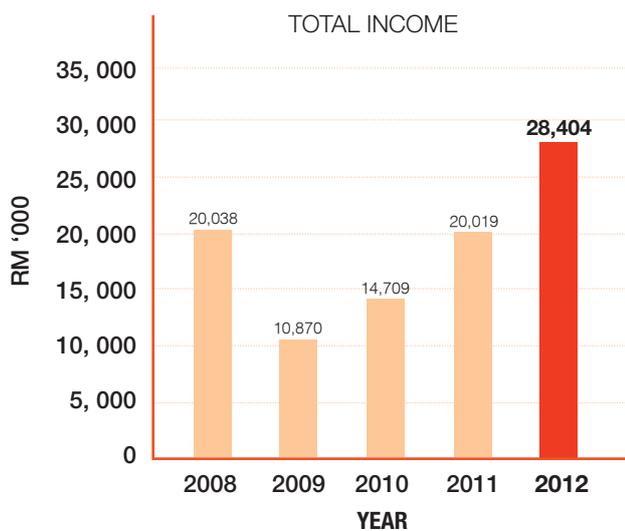
Management
Expense Ratio

RM1.22

Net Asset Value

1. Based on closing market price as at 31 December 2012

FINANCIAL HIGHLIGHTS

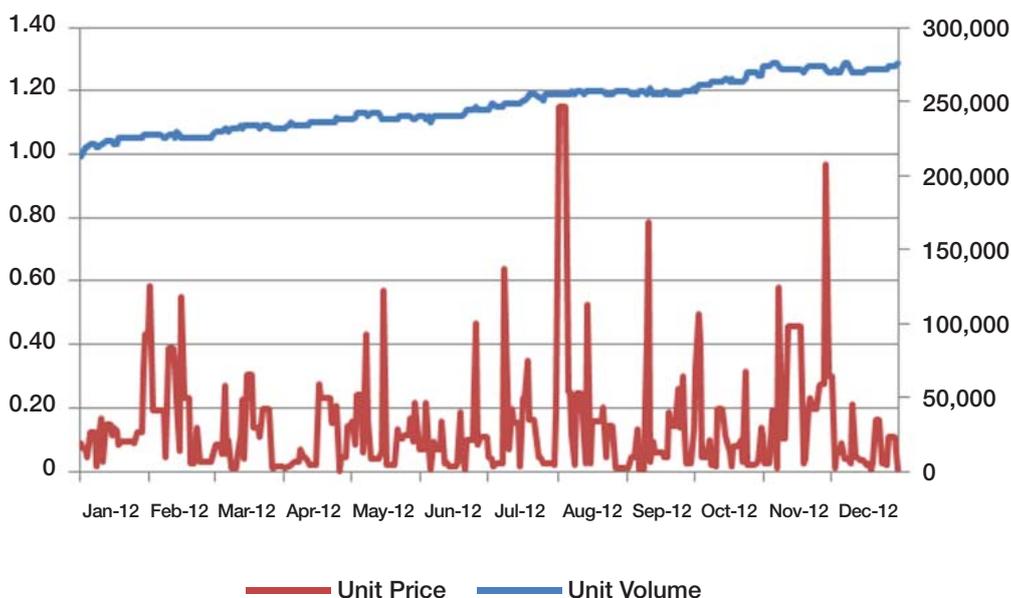


FINANCIAL HIGHLIGHTS

ATRIUM REIT'S UNIT PRICE VS FBM KLCI



UNIT PRICE VS VOLUME



	2012	2011	2010	2009	2008
Asset Under Management (RM'000)	208,100	194,700	163,000	161,600	161,600
Total Borrowings (RM'000)	65,000	65,000	45,000	45,000	45,000
Total Unitholders Funds (RM'000)	150,706	137,151	130,527	129,212	128,895
Market Capitalisation² (RM'000)	157,123	130,327	129,109	112,057	74,299
Unit Price² (RM)	1.29	1.07	1.06	0.92	0.61
Units in Circulation ('000)	121,801	121,801	121,801	121,801	121,801

2. Based on respective closing prices on 31 December.

SALIENT FEATURES OF THE FUND

Name of fund	: Atrium REIT
Fund category	: Real Estate
Fund type	: Growth and income
Investment objectives	: To maximise income in order to reward Unitholders with annual stable distributions of income and to acquire quality assets to achieve long-term growth in the Net Asset Value per Unit of the Fund.
Fund investment strategy	: Aim to achieve the primary objectives of the Fund by implementing investment and growth strategies such as organic growth strategies, acquisition strategies and financing strategies.
Term of the Trust	: Atrium REIT will continue its operation until such time as determined by the Trustee and the Manager as provided under the provision of Clause 19 of the Trust Deed dated 20 November 2006.
Approved size of Fund	: 121,801,000 Units
Authorised investments	: <ul style="list-style-type: none"> - Invest in real estates, single-purpose companies, real estate-related assets, non-real estate-related assets and liquid assets; - At least 50% of the total asset value of Atrium REIT must be invested in real estate assets and/or single-purpose companies at all times; and - Investment in non-real estate-related assets and/or cash, deposits and money market instruments must not exceed 25% of Atrium REIT's total asset value.
Financial year end	: 31 December
Distribution policy	: At least 90% of the distributable income of Atrium REIT shall be distributed semi-annually or at such other intervals as determined by the Manager in its absolute discretion; in arrears.
Borrowing limitations	: Up to 50% of the total asset value of the Fund at the time the borrowing is incurred.
Revaluation policy	: The real estates shall be revalued at least once every (3) years from the date of the last valuation (or such other times as required under the Securities Commission Guidelines on REITs), or at any time where the Trustee, the Manager or the independent auditor appointed by Atrium REIT reasonably believes that there has been a significant change in the value of real estates.
Redemption policy	: Unitholders have no right to request the Fund to repurchase their Units while the Units are listed.
Minimum initial investment	: Minimum of 100 Units
Minimum additional investments	: Multiples of 100 Units
Investor profile	: Suitable for investors who understand the risks related to the real estate industry and expect to benefit from the periodic distribution of income and long term growth of the Fund.
Board lot	: 100 Units per board lot
Quotation	: Main Board of Bursa Malaysia Securities Bhd
Bursa Malaysia Stock Number	: ATRIUM 5130



Dear Unitholders,

On behalf of the Board of Directors of Atrium REIT Managers Sdn Bhd ("Manager"), I have the pleasure of presenting to you the Annual Report of the Atrium Real Estate Investment Trust ("Atrium REIT" or "Trust") for the financial year ended 31 December 2012 ("FY 2012").

Overview

We are pleased to report that Atrium REIT has achieved a commendable result for FY2012, in which strategies implemented and executed by the Manager have delivered stable and attractive distributions for the Trust's unitholders. This reflects the fundamentals of the portfolio and the quality of Atrium REIT's assets.

Atrium REIT's distribution per unit ("DPU") increased by 3.17% to 8.80 sen as compared to 8.53 sen in the previous financial year. The total assets increased to RM221.98 million while the gearing level reduced to 29.28% for FY2012.

Financial Performance

For FY2012, Atrium REIT recorded a 15.71% increase in gross revenue to RM16.35 million as compared to RM14.13 million for the previous corresponding financial year ended 31 December 2011 ("FY2011"). Correspondingly, net income (realised) for the year rose from RM10.40 million to RM10.79 million for FY2012, representing an increase of 3.75%. The Trust's financial performance was further boosted by positive changes in the fair value of its investment properties of RM13.40 million, contributing to a 9.88% increase in Net Asset Value ("NAV") from RM137.15 million as at 31 December 2011 to RM150.71 million as at 31 December 2012.

Distribution to Unitholders

Atrium REIT has consistently demonstrated its ability to deliver sustainable and stable distributable income since its listing in 2007. The Board of Directors of the Manager has declared a final income distribution of 2.20 sen per unit for the period from 1 October 2012 to 31 December 2012, which will be payable on 28 February 2013. The final income distribution, coupled with the aggregate interim income distributions of 6.60 sen per unit, represents a total DPU of 8.80 sen for FY2012 (FY2011: 8.53 sen). The distribution yield for FY2012 is a creditable 6.82% based on the Atrium REIT's closing market price of RM1.29 per unit as at 31 December 2012 (FY2011: 7.97%).

Operations Review

The tenancies for Atrium Shah Alam 2 and Atrium USJ-Block B which expired during the financial year under review, were successfully renewed for another 2 years and approximately 1 year 11 months respectively. As for Atrium USJ-Block C, the Manager managed to replace the outgoing tenant with a new tenant with minimal rental void on the changeover. All the new tenancies were renewed/signed with positive rental reversions. I am proud to note that currently all of Atrium REIT's properties enjoy 100% occupancy and majority of its tenants are established market leaders in their respective industries, an indication of the quality of the tenants and properties owned by Atrium REIT.

ATRIUM

CHAIRMAN'S STATEMENT

Operations Review (continued)

For FY2012, a revaluation exercise was also carried out on the Atrium REITs' properties to comply with Clause 10.03 of the Securities Commission's REITs Guidelines where the Trust's properties were required to be revalued once in every 3 years and for accounting purposes pursuant to the fair value method recommended by the Malaysian Financial Reporting Standard 140 which states that the fair value of the investment property shall reflect market conditions at the end of the reporting period. The positive change in the fair value of investment properties arising from the surplus of the appraised values performed by independent registered valuers over the last valuation conducted in the preceding year amounted to RM13.40 million, the same having been duly reflected in the financial statements.

For 2013, the Manager will continue to explore new acquisition opportunities, with focus on industrial properties that meet our investment criteria i.e. located in prime locations with good infrastructures and tenanted by leading businesses on long term leases to enhance the asset values and income growth of the Trust.

However, yield accretive acquisitions will be a challenge as market prices of prime industrial properties in the Klang Valley are expected to further appreciate in 2013 due to greater demand and scarcity in supply. In fact, compression in yields for new acquisitions is expected as the rate of appreciation of industrial property prices is not matched by the rate of appreciation of the rental rates. Against the backdrop of such market environment, investment opportunities for REITs are expected to be more restricted as a result of the substantial gap between market valuations and the asking prices demanded by vendors.

Economic Overview

Growth of the world economy has weakened considerably in 2012 and is expected to remain subdued in the coming two years due to weaknesses in the major developed economies. The U.S. economy slowed significantly during 2012 and recovery remains fragile against a backdrop of a worsening of the Euro Zone crisis even though the "fiscal cliff" crisis has been averted for now. The news out of the Euro Zone have also not been positive with most of the economies in the Euro Zone trapped in a vicious cycle of high unemployment, financial sector fragility, heightened sovereign risks, fiscal austerity and low growth. Several European economies and the Euro Zone as a whole are already in recession, and Euro Zone unemployment increased further to a record high of almost 12.00% this year while deflationary conditions continue to prevail in Japan.

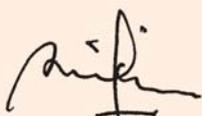
The larger developing economies such as China are now also facing intensified adverse spillover effects from the slowdown in the major developed economies. While the Chinese economy continues to register growth, the country's full-year economic growth is expected to be its softest showing since 1999 as a result of softening domestic demand and slower export growth.

As the major economies of the world continue to falter, Malaysian economy nonetheless continues to be resilient in 2012. Despite the challenging environment, Malaysian economy expanded by 5.20% in the third quarter of 2012 compared to 5.40% in second quarter 2012 and 4.90% for first quarter 2012. The growth was driven by strong domestic demand, growth in private and public consumption and investment outlays amid moderation in external demand due to the slow down in global economy.

Despite the moderation expected for the next few quarters due to renewed weaknesses in global trade following the Euro Zone crisis, Malaysia's economic outlook is expected to remain stable next year with continued support from strong domestic consumption and investments.

Appreciation

On behalf of the Board of Directors of Atrium REIT Managers Sdn Bhd, I would like to thank my fellow Board members for their advice and contributions throughout the year, our tenants and business associates, the regulatory authorities, investors and Unitholders, for their strong support. I would also like to thank the management team for the concerted effort and hardwork in 2012 and I look forward to another fruitful year ahead in the Year of the Snake with the continued support of my fellow Board members and our valued stakeholders.



DATO' DR IR MOHAMAD KHIR BIN HARUN

Chairman

Atrium REIT Managers Sdn Bhd

Date : 19 February 2013

PROPERTY PORTFOLIO

Atrium Shah Alam 1



Property	: Atrium Shah Alam 1
Address	: Lot 1-8, Persiaran Jubli, Perak Seksyen 22, 40300 Shah Alam, Selangor Darul Ehsan, Malaysia
Title details	: GRN 177482 (formerly known as H.S.(D) No. 80053) for Lot No. 38264 (formerly known as P.T. 14366), Pekan Baru Hicom (formerly known as Mukim of Damansara), District of Petaling, State of Selangor Darul Ehsan.
Property type	: Industrial
Description	: A single storey warehouse and a four storey office building with a total Net Lettable Area measuring approximately 311,736 sq.ft.
Year of completion	: 2005
Tenure	: Freehold
Existing use	: Warehouse and office
Parking spaces	: 191 car bays 105 motorcycle bays 30 lorry bays
Date of acquisition	: 2 April 2007
Cost of acquisition	: RM57,200,000
Tenant	: DHL Properties (Malaysia) Sdn Bhd
Occupancy	: 100%
Tenancy Period	: 3 years, expiring on 31 December 2013
Major capital expenditure	: Nil
Encumbrances	: The property is charged to a financial institution to secure a Short Term Revolving Credit facility of RM 45 million
Limitation in title/ interest	: None
Latest valuation	: RM69,700,000
Date of last valuation	: 31 December 2012
Valuer	: Raine & Horne International Zaki + Partners Sdn Bhd
Fair Value adjustment	: RM5,100,000
Net book value	: RM64,600,000

PROPERTY PORTFOLIO

Atrium Shah Alam 2



Property	:	Atrium Shah Alam 2
Address	:	Lot 7A, Persiaran Jubli Perak, Seksyen 22, 40300 Shah Alam, Selangor Darul Ehsan, Malaysia
Title details	:	Lot No. P.T. 90 held under H.S.(D) No. 188265, Pekan Baru Hicom (formerly Mukim of Damansara), District of Petaling, State of Selangor Darul Ehsan.
Property type	:	Industrial
Description	:	A single storey warehouse and a double storey office building with a total Net Lettable Area measuring approximately 258,702 sq.ft.
Year of completion	:	2004
Tenure	:	Freehold
Existing use	:	Warehouse and office
Parking spaces	:	125 car bays 129 motorcycle bays 20 lorry bays
Date of acquisition	:	2 April 2007
Cost of acquisition	:	RM49,100,000
Tenant	:	CEVA Logistics (Malaysia) Sdn Bhd
Occupancy	:	100%
Tenancy Period	:	2 years, expiring on 31 May 2014
Major capital expenditure	:	Nil
Encumbrances	:	None
Limitation in title/ interest	:	None
Latest valuation	:	RM57,000,000
Date of last valuation	:	31 December 2012
Valuer	:	Raine & Horne International Zaki + Partners Sdn Bhd
Fair Value adjustment	:	RM1,000,000
Net book value	:	RM56,000,000

PROPERTY PORTFOLIO

Atrium Puchong



Property	:	Atrium Puchong
Address	:	No.2 Jalan PPU 1, Taman Perindustrian Puchong Utama, Batu 12 ½ Jalan Puchong 47100 Puchong, Selangor Darul Ehsan, Malaysia
Title details	:	Lot No. 65108 held under Geran No. 44178, Pekan Puchong Perdana (formerly Mukim of Petaling), District of Petaling, State of Selangor Darul Ehsan.
Property type	:	Industrial
Description	:	A single storey warehouse and a four storey office building with a total Net Lettable Area measuring approximately 203,994 sq.ft.
Year of completion	:	2002
Tenure	:	Freehold
Existing use	:	Warehouse and office
Parking spaces	:	129 car bays 110 motorcycle bays 30 lorry bays
Date of acquisition	:	2 April 2007
Cost of acquisition	:	RM38,500,000
Tenant	:	DHL Supply Chain (Malaysia) Sdn Bhd
Occupancy	:	100%
Lease Period	:	4 years, expiring on 18 September 2014
Major capital expenditure	:	Nil
Encumbrances	:	None
Limitation in title/ interest	:	None
Latest valuation	:	RM43,600,000
Date of last valuation	:	31 December 2012
Valuer	:	Raine & Horne International Zaki + Partners Sdn Bhd
Fair Value adjustment	:	RM3,300,000
Net book value	:	RM40,300,000

PROPERTY PORTFOLIO

Atrium Rawang



Property	: Atrium Rawang
Address	: Lot 23, Rawang Integrated Industrial Park, Jalan Batu Arang, 48000 Rawang, Selangor Darul Ehsan, Malaysia
Title details	: Geran 205542, Lot 19007, Section 20, Town of Rawang (formerly Mukim of Rawang), District of Gombak, State of Selangor Darul Ehsan.
Property type	: Industrial
Description	: A double storey office and factory building with a total Net Lettable Area measuring approximately 35,236 sq.ft.
Year of completion	: 2001
Tenure	: Freehold
Existing use	: Factory and office
Parking spaces	: 23 car bays 15 motorcycle bays 3 lorry bays
Date of acquisition	: 2 April 2007
Cost of acquisition	: RM10,000,000
Tenant	: Unilever Foods (Malaysia) Sdn Bhd
Occupancy	: 100%
Tenancy Period	: 2 years, expiring on 31 October 2013
Major capital expenditure	: Nil
Encumbrances	: The property is charged to a financial institution to secure a Short Term Revolving Credit facility of RM 45 million
Limitation in title/ interest	: None
Latest valuation	: RM8,800,000
Date of last valuation	: 31 December 2012
Valuer	: Raine & Horne International Zaki + Partners Sdn Bhd
Fair Value adjustment	: RM200,000
Net book value	: RM8,600,000

PROPERTY PORTFOLIO

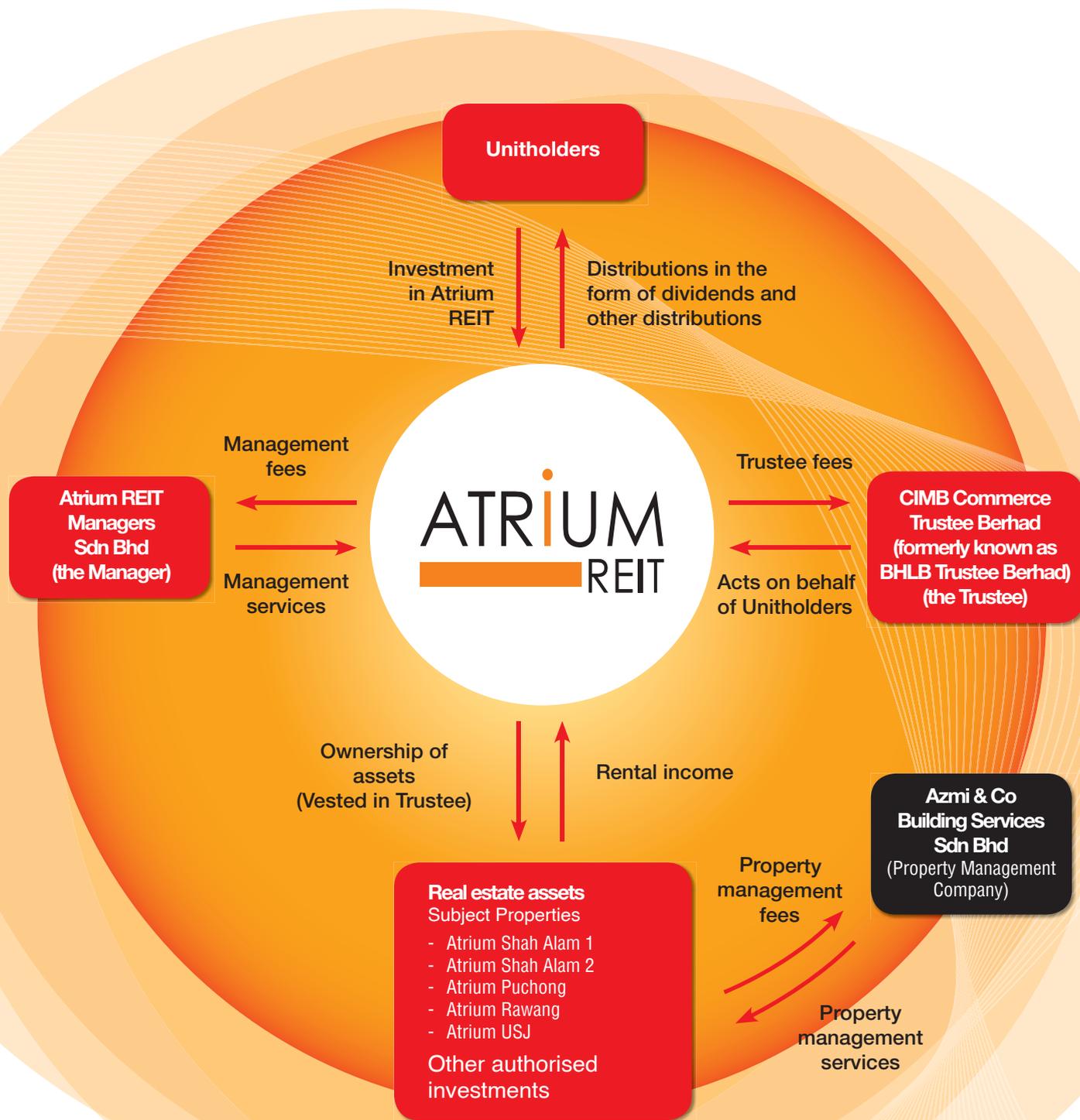
Atrium USJ



Property	: Atrium USJ
Address	: No.16, Jalan TP 6, Taman Perindustrian UEP, 47620 Subang Jaya, Selangor Darul Ehsan, Malaysia
Title details	: Geran 75650 Lot 46914 Mukim Damansara, Daerah Petaling, Negeri Selangor.
Property type	: Industrial
Description	: A single storey warehouse with annexed double storey office building (Block A), a single storey warehouse (Block B) and a single storey warehouse with annexed double storey office building (Block C); with a total Net Lettable Area measuring approximately 128,085 sq.ft.
Year of completion	: 2008
Tenure	: Freehold
Existing use	: Warehouse and office
Parking spaces	: 122 car bays 39 motorcycle bays 5 lorry bays
Date of acquisition	: 22 December 2011
Cost of acquisition	: RM25,000,000
Tenant	: 1) SAF-Holland (Malaysia) Sdn Bhd (Block A) 2) Century Total Logistics Sdn Bhd (Block B) 3) 20 Cube Logistics Sdn Bhd (Block C)
Occupancy	: 100%
Lease/Tenancies Period	: Block A - 6 years, expiring on 31 August 2014 Block B - approximately 1 year 11 months expiring 31 December 2013 Block C - 3 years, expiring 31 October 2015
Major capital expenditure	: Nil
Encumbrances	: The property is charged to a financial institution to secure a Term Loan and Bank Guarantee Facilities of RM20,300,000
Limitation in title/ interest	: None
Latest valuation	: RM29,000,000
Date of last valuation	: 31 December 2012
Valuer	: Raine & Horne International Zaki + Partners Sdn Bhd
Fair Value adjustment	: RM3,800,000
Net book value	: RM25,200,000

STRUCTURE OF ATRIUM REIT

The following diagram illustrates the structure of Atrium REIT and indicates the relationships between Atrium REIT, the Manager, the Property Management Company, the Trustee and the Unitholders:



PERFORMANCE DATA

I) Portfolio Composition of the Trust

	2012 %	2011 %	2010 %	2009 %	2008 %
Atrium Shah Alam 1	31	31	34	34	34
Atrium Shah Alam 2	26	27	30	30	30
Atrium Puchong	20	19	21	21	22
Atrium Rawang	4	4	4	4	4
Atrium USJ	13	12	-	-	-
	94	93	89	89	90
Deposits with financial institutions	6	7	11	11	10
	100	100	100	100	100

II) Asset Value, Unit and Market Price information

	2012	2011	2010	2009	2008
Asset under management (RM'000)	208,100	194,700	163,000	161,600	161,600
Total asset value (RM'000)	221,975	211,469	183,904	182,350	182,123
Net asset value (NAV) (RM'000)	150,706	137,151	130,527	129,212	128,895
Units in circulation ('000)	121,801	121,801	121,801	121,801	121,801
NAV per unit - after proposed distribution					
- As at 31 December (RM)	1.22	1.10	1.05	1.04	1.04
- Highest NAV for the year (RM)	1.22	1.10	1.05	1.04	1.04
- Lowest NAV for the year (RM)	1.12	1.05	1.04	1.04	0.98
Market price per unit					
- as at 31 December (RM)	1.29	1.07	1.06	0.92	0.61
- Highest traded for the year (RM)	1.30	1.12	1.10	0.93	1.00
- Lowest traded for the year (RM)	1.07	1.00	0.88	0.61	0.60

III) Distributions for Last 5 Years

	Distribution Per Unit (Sen)	Date	Net Asset Value Per Unit (RM) Before Distribution	After Distribution
2008				
1st Quarter	2.05	30 May 08	1.00	0.98
2nd Quarter	2.10	29 Aug 08	1.00	0.98
3rd Quarter	2.10	28 Nov 08	1.00	0.98
4th Quarter	2.15	6 Mar 09	1.06	1.04
2009				
1st Quarter	1.65	5 Jun 09	1.05	1.04
2nd Quarter	0.80	11 Sep 09	1.05	1.04
3rd Quarter	2.20	30 Nov 09	1.06	1.04
4th Quarter	2.30	25 Feb 10	1.06	1.04
2010				
1st Quarter	2.10	27 May 10	1.06	1.04
2nd Quarter	2.15	27 Aug 10	1.06	1.04
3rd Quarter	2.15	30 Nov 10	1.06	1.04
4th Quarter	2.20	4 Mar 11	1.07	1.05
2011				
1st Quarter	2.15	31 May 11	1.07	1.05
2nd Quarter	2.15	26 Aug 11	1.07	1.05
3rd Quarter	2.10	30 Nov 11	1.07	1.05
4th Quarter	2.13	29 Feb 12	1.13	1.10
2012				
1st Quarter	2.20	31 May 12	1.13	1.11
2nd Quarter	2.20	30 Aug 12	1.13	1.11
3rd Quarter	2.20	30 Nov 12	1.13	1.11
4th Quarter	2.20	28 Feb 13	1.24	1.22

PERFORMANCE DATA

IV) Performance of the Trust

	2012	2011	2010	2009	2008
Total return (%)	26.83	9.95	23.88	55.68	(28.76)
- Capital growth (%)	19.44	1.90	15.22	46.03	(39.00)
- Income distribution (%)	7.39	8.05	8.66	9.65	10.24
Income distribution per unit (sen)					
- Gross	8.80	8.53	8.60	6.95	8.40
- Net	8.80	8.53	8.60	6.95	8.40
Management expense ratio (%)	1.00	0.85	0.94	0.72	0.89
Portfolio turnover ratio (times)	-	0.19	-	-	-

V) Average Annual Return For Financial Year Ended 31 December 2012

	Atrium REIT (%)	KLCI (%)
One year	26.83	11.59
Since launch (2 April 2007)	16.25	6.17

Total return is based on the actual gross income distribution and net change in market price at the beginning and end of the financial year, over the average market price of Atrium REIT for the respective financial years.

Average Annual Return is computed based on the total return per unit for the period, averaged over the number of years for the period.

The calculation of MER is based on total fees of Atrium REIT incurred, including the Manager's fees, Trustee's fees, audit fees, tax agent's fees, administrative and other expenses, to the average net asset value of the Trust for the financial year calculated on a daily basis.

The calculation of PTR is based on the average of total acquisition and total disposal of investments in Atrium REIT for the financial year to the average net asset value of the Trust for the financial year calculated on a daily basis.

Past performance is not necessarily indicative of future performance and that unit prices and investment returns may fluctuate.

BOARD OF DIRECTORS AND MANAGEMENT/ CORPORATE DIRECTORY

BOARD OF DIRECTORS AND MANAGEMENT OF THE MANAGER

BOARD OF DIRECTORS

Dato' Dr Ir Mohamad Khir Bin Harun	<i>Chairman and Non-Independent Non-Executive Director</i>
Wong Sui Ee	<i>Executive Director</i>
How Hu Son	<i>Independent Non-Executive Director</i>
Tor Peng Sie	<i>Independent Non-Executive Director</i>
Soong Kwong Heng	<i>Independent Non-Executive Director</i>

MANAGEMENT

Wong Sui Ee
Executive Director

Chan Kum Chong
Chief Executive Officer

Chan Kum Cheong
Chief Operating Officer

Lee Hooi Hoong
Chief Financial Officer

COMPANY SECRETARY

Ng Yen Hoong (LS 008016)
Lim Poh Yen (MAICSA 7009745)

CORPORATE DIRECTORY

MANAGER

Atrium REIT Managers Sdn Bhd (710526-V)

Principal place of business:
36-2, Jalan 5/101C, Off Jalan Kaskas
Jalan Cheras
56100 Kuala Lumpur
Tel: 03-9132 2810
Fax: 03-9132 9810
Website: www.atriumreit.com.my

REGISTERED OFFICE

Level 18, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel: 03-2264 8888
Fax: 03-2282 2733, 03-2264 8997

TRUSTEE

CIMB Commerce Trustee Berhad
(formerly known as BHLB Trustee Berhad) (313031-A)

Principal place of business
Level 7, Wisma Amanah Raya Berhad
Jalan Semantan, Damansara Heights
50490 Kuala Lumpur
Tel: 03-2084 8888
Fax: 03-2095 5473

AUDITORS

BDO (AF 0206)
Chartered Accountants

PROPERTY MANAGEMENT COMPANY

Azmi & Co Building Services Sdn Bhd (475267-U)
A9-1-1, Jalan Ampang Utama 2/2
One Ampang Business Avenue
68000 Ampang, Selangor
Tel: 03-4256 6868 Fax: 03-4256 2266

REGISTRAR

Tricor Investor Services Sdn Bhd (118401-V)
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel: 03-2264 3883
Fax: 03-2282 1886

PRINCIPAL BANKERS

Malayan Banking Berhad
Public Bank Berhad

BURSA MALAYSIA STOCK NAME AND CODE

ATRIUM 5130

PROFILE OF DIRECTORS

Dato' Dr Ir Mohamad Khir Bin Harun

Chairman

Malaysian, aged 62, was appointed to the Board on 5 October 2009. Dato' Dr Ir Mohamad Khir obtained his BSc (Hons) in Electrical Engineering from Brighton Polytechnic in 1973, MSc in Communications Engineering from Brunel University, London in 1978 and PhD in Electrical Engineering from University of Manchester, United Kingdom in 1982. Dato' Dr. Ir. Mohamad Khir has accumulated a vast pool of knowledge on the communications and information industry. Starting his career as a young engineer way back in 1973, Dato' Dr Khir had successfully made the transition to a business-savvy technocrat when the Telecom Department was corporatised in 1987. He had risen quickly in his career, taking on wide-ranging responsibilities and was holding the position of Chief, Group Business Restructuring, the second highest position in Telekom Malaysia or TM, prior to his retirement. He was President of the Senior Officer associations of Telekom Malaysia from 1985 to 1996 where he has initiated programs on executive development and health awareness which were later adopted by the company. He was active in sports having held positions as vice and deputy presidents of the company's sport club from 1982 to 1995. His other experiences in the industry include 5 years in the regulatory bodies as Advisor to the Minister of Energy, Telecommunications and Posts from 1983 to 1985 and then as Advisor to the Chairman of the Malaysian Communications and Multimedia Commission from 2006 to 2008.

Wong Sui Ee

Executive Director

Malaysian, aged 43, was appointed to the Board on 22 September 2005. Ms Wong graduated with a Bachelor of Arts majoring in Accounting and Finance from Middlesex University, London, in 1991. She is an Associate member of the Institute of Chartered Accountants in England and Wales (ICAEW) since 1994. Ms Wong began her career in KPMG, United Kingdom in 1991 as an Auditor. In 1996, she joined Perdana Merchant Bank Berhad as Assistant Vice President for two (2) years. She then joined Glory Blitz Industries Sdn Bhd ("GBISB") and its related companies in 1998. During her 8-year tenure with GBISB and its group of companies, she formed the team to develop built to suit industrial properties in the Klang Valley for the group's multinational clients including CEVA Logistics (formerly known as TNT Logistics), Exel Logistics (now part of the DHL Group), Danzasmal (now part of the DHL Group), Unilever Malaysia, Silverstone Tyres and others. Currently, she is also on the Board of Directors of Alpha Netrise (M) Sdn Bhd, Ample Cosmos Sdn Bhd and Kilat Idam Sdn Bhd.

Tor Peng Sie

Independent Non-Executive Director

Malaysian, aged 54, was appointed to the Board on 17 November 2006. Mr Tor graduated with a Bachelor of Science from Campbell University, North Carolina, United States of America in 1982. He is a holder of the Real Estate Agent Licence from the Board of Valuers, Appraisers and Estate Agents Malaysia since 1993. Mr Tor has over twenty (20) years experience in the real estate industry, where he began his career in Rahim & Co. Chartered Surveyor Sdn Bhd in 1984 as a Valuation Executive and was subsequently promoted as a Real Estate Negotiator. In 1988, he worked with The Golden Triangle Real Estate Agents initially as a Real Estate Agent and later became a Director of the said company. In 1999, he joined Pacific Landmark Real Estate Agents. He is currently the Principal of Pacific Landmark Real Estate Agents.

How Hu Son

Independent Non-Executive Director

Malaysian, aged 63, was appointed to the Board on 17 November 2006. Mr How graduated from Brighton Polytechnic, United Kingdom with a Bachelor of Science (Hons) in Civil Engineering in 1975. In 1976, he obtained his Master of Science from Imperial College of Science & Technology, London. He is a member of the Institution of Engineers, Malaysia and is a registered professional Engineer with the Board of Engineers, Malaysia. He began his career in 1977 as a Structural Engineer with Jabatan Kerja Raya for two (2) years. Thereafter, he joined Tahir Wong Sdn Bhd as its Senior Structural Engineer and was subsequently promoted to Senior Associate. During his 14 years in Tahir Wong Sdn Bhd, he was involved in projects such as Subang Parade, the Royal Malaysian Navy Base in Sarawak, Puteri Pan Pacific Hotel, Johor and the Selangor Turf Club. Currently, he is a Director of Pakatan Cergas Sdn Bhd, a consultancy company involved in civil and structural engineering. Some of the projects that he was involved in are the construction of Bukit Ceylon Condominium, CP Tower, Eastin Hotel and Phileo Damansara. He is also a Director of Yong Peng Batu Bata Berhad.

PROFILE OF DIRECTORS

Soong Kwong Heng

Independent Non-Executive Director

Malaysian, aged 63, was appointed to the Board on 17 November 2006. Mr. Soong graduated with a Bachelor of Economics from Universiti Malaya in 1972. Mr Soong has more than thirty (30) years experience in tax related issues. After his graduation, he began his career in the Department of Inland Revenue Malaysia for three (3) years. In 1975, he joined Chan King Sang & Co. as its Tax Manager for ten (10) years. Since 1985, he served as a Tax Principal for K. S. Taxation Services Sdn Bhd. Currently, he is also on the Board of Directors of Global Gain Sdn Bhd, Segamat Holdings Sdn Bhd and Compagnie Du Monde Sdn Bhd, which are companies involved in property and equity investments.

PROFILE OF CHIEF EXECUTIVE OFFICER

Chan Kum Chong

Chief Executive Officer

Malaysian, aged 57, was appointed as Chief Executive Officer on 1 April 2010. Mr. Chan graduated from Portsmouth Polytechnic (now known as University of Portsmouth) in 1980 with a Bachelor of Science in Quantity Surveying. Mr. Chan began his career as a Graduate Quantity Surveyor with a consultant quantity surveying firm, Juru Ukur Bahan Malaysia Sdn. Bhd. assisting the senior quantity surveyor in pre and post contract administration in the completion of Menara Maybank, redevelopment of Subang International Airport, Telekom Training Centre, amongst others. Mr. Chan then joined TTDI Development Sdn.Bhd. in 1984 and has successfully managed and completed housing schemes in Taman Tun Dr. Ismail, Taman TTDI Jaya, Desa Pandan and Desa Bakti. In June 1995, he was assigned to oversee the operation of the in-house construction company, Panelex Sdn.Bhd. as General Manager - Operation. He then joined Syarikat T. D. Sdn. Bhd. in 1999 as a Project Director looking after several building and turnkey projects. Thereafter, he joined Vistanet (M) Sdn.Bhd. in 2002, an in-house construction company of Mayland Properties Sdn. Bhd., to manage all their in-house construction projects with Gross Development Values in excess of RM300 million, comprising of service apartments, shop offices and a shopping complex. In October 2003 he joined Score Option Sdn. Bhd. as a Project Director, managing a 200 acres development in Puchong comprising a mixed residential and commercial development, a J.V. project with Glomac Alliance Sdn.Bhd., a subsidiary of Glomac Berhad. In 2005, he joined EC Alamjaya Sdn. Bhd. as its Chief Executive Officer to oversee a shopping complex and hotel development totalling RM100million.

Other Directorship of Public Companies

Mr Chan has no other directorship with any public companies.

Family Relationship with Director and/or Major Unitholder

Mr Chan is the brother of Mr Chan Kam Tuck, who is a major unitholder of the Atrium REIT. Save as disclosed, Mr Chan does not have any family relationship with any director and/or major unitholder of Atrium REIT.

Conflict of Interest

Save for Mr Chan's interest in Atrium REIT (as disclosed under Unitholdings of Directors and Related Parties in the notes to the financial statements), no conflict of interest has arisen during the financial year under review.

Conviction of Offences

Mr Chan has not been convicted of offences within the past 10 years.

CORPORATE GOVERNANCE

Atrium REIT Managers Sdn Bhd, the Manager of Atrium Real Estate Investment Trust (“Atrium REIT”) has adopted an overall corporate governance framework designed to meet best practice principles. The Manager also recognises that an effective corporate governance culture is critical to its performance and consequently, the success of Atrium REIT, which it manages. In particular, the Manager has an obligation to act honestly, with due care and diligence, and in the best interest of the unitholders of Atrium REIT.

The following segments describe the Manager’s main corporate governance policies and practices which are guided by the measures recommended in the Securities Commission (“SC”) Guidelines on Real Estate Investment Trusts (“REITs Guidelines”), the Main Market Listing Requirements (“Listing Requirement”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) and the Malaysian Code on Corporate Governance.

ROLE OF MANAGER

Manager of Atrium REIT

The Manager has general powers of management over the assets of Atrium REIT. The Manager’s main responsibility is to manage Atrium REIT’s assets and liabilities in the best interest of Unitholders.

The primary role of the Manager is to set the strategic direction of Atrium REIT and give recommendations to CIMB Trustee Berhad (formerly known as BHLB Trustee Berhad), as Trustee of Atrium REIT on the acquisition, divestment and enhancement of assets of Atrium REIT in accordance with its stated investment strategy.

Amongst others, the general functions, duties and responsibilities of the Manager include the following:

- (a) to carry out the activities in relation to the management of Atrium REIT and its portfolio of assets in accordance with the provisions of the Trust Deed dated 20 November 2006 and amended by the Supplementary Deed dated 25 November 2008 (collectively known as “the Deed”);
- (b) to use its best endeavours to ensure that the business of Atrium REIT is carried out and conducted in a proper and efficient manner and to conduct all transactions with or for Atrium REIT at arm’s length and on normal commercial terms;
- (c) to issue the annual report of Atrium REIT to Unitholders within two (2) months of its financial year end;
- (d) to attend to all enquiries from Unitholders, tenants, media, government bodies, etc;
- (e) to supervise the Property Manager, Azmi & Co Building Services Sdn Bhd, which provides property management services in relation to Atrium REIT’s properties pursuant to the property management agreement; and
- (f) to ensure that Atrium REIT is in compliance with the applicable provisions of the Securities Commission Acts, REITs Guidelines, other securities laws, the Listing Requirements of Bursa Securities, and other applicable laws.

Atrium REIT is externally managed by the Manager and accordingly, Atrium REIT has no personnel of its own. The Manager appoints experienced and well-qualified management personnel to handle the day-to-day operations. All Directors and employees of the Manager are remunerated by the Manager and not by Atrium REIT.

Atrium REIT Managers Sdn Bhd is the appointed Manager of Atrium REIT in accordance with the terms of the Deed which outlines the circumstances under which the Manager can be retired.

DIRECTORS OF THE MANAGER

The Board

The Board is entrusted with the responsibility of overall management and corporate governance of the Manager including establishing goals for management and monitoring the achievement of these goals. The Board is also responsible for charting the strategic direction, development and control of the Manager and has adopted the primary responsibilities as listed in the REITs Guidelines as well as the roles and duties set out in the REITs Guidelines, which facilitate the discharge of the Directors’ stewardship responsibilities.

CORPORATE GOVERNANCE

Board Composition

The Board presently consists of five (5) members comprising one (1) Non-Independent Non-Executive Director, one (1) Executive Director and three (3) Independent Non-Executive Directors. The diverse background of the members who come from various fields such as engineering, financial, real estate and management provide broad spectrum of skills, experience and invaluable perspectives to overseeing the management of the Manager. The profiles of the members of the Board are provided in pages 19 to 20 of the Annual Report.

The Board is of the view that its current members who, as a group provide the necessary core competencies is adequate and that the current Board size is appropriate, taking into consideration the nature, size and scope of Atrium REIT's operations.

The Chairman of the Board is responsible for the conduct of the Board and ensures that the Board's discussions are conducted in such a way that all views are taken into account before a decision is made. The Executive Director and the Chief Executive Officer, supported by the management team are responsible for running the business on a day-to-day basis, organizational effectiveness and implementation of the Board's policies, strategies and decisions as planned and in accordance with the Deed, Securities Commission Act and REITs Guidelines. This clear separation of roles between Chairman and Chief Executive Officer, provides a healthy, independent and professional relationship between the Board and Management.

The Board focuses mainly on strategy, financial performance and critical business issues, including:-

- The strategic business plans
- Key financial performance indicators
- Principal risks and their management
- Succession planning for senior management
- Investors and unitholders relations programmes
- Systems of internal control

Independent Non-Executive Directors have the responsibility to ensure that the strategies proposed by the Executive Director, Chief Executive Officer and management are fully discussed and examined, taking account of the long term interest, not only of the Unitholders, but also of employees, customers, suppliers, and the many communities in which Atrium REIT conducts its business.

Board Meetings

Board meetings are scheduled at least four (4) times per annum to review the operations of Atrium REIT and to approve the quarterly and annual financial statements of Atrium REIT. Additional meetings are held as and when urgent issues and important decisions need to be taken between the scheduled meetings.

The Board met four (4) times during the financial year ended 31 December 2012. The number of meetings attended by each Director is as follows:

Directors	Designation	Attendance
Dato' Dr Ir Mohamad Khir Bin Harun	Non-Independent Non-Executive Chairman	4/4
Wong Sui Ee	Executive Director	3/4
How Hu Son	Independent Non-Executive Director	3/4
Tor Peng Sie	Independent Non-Executive Director	4/4
Soong Kwong Heng	Independent Non-Executive Director	4/4

CORPORATE GOVERNANCE

Access to and Supply of Information and Advice

All Board members are supplied with information on a timely manner in order to discharge its responsibilities. The Agenda together with the full set of Board papers containing information relevant to the Board meeting are circulated to the Directors prior to the Board meetings. There is sufficient time for the Directors to review and seek clarification where necessary prior to meeting being held and this process enables the Directors to make better and informed decisions.

There is a schedule of matters reserved specifically for the Board's decision, including the approval of the Manager's strategic plans and budgets for both Managers and Atrium REIT which includes acquisition and disposal of major assets, major investments, review and approve the key policies, procedures and authority limits.

All Directors have access to the advice and services of the Company Secretary and has the right to seek independent professional advice when necessary in discharging their duties, making acquisition decisions and complying with relevant legislations and regulations.

Appointments to the Board

The Executive Director makes recommendations on the requirement and suitability of candidates nominated for appointment to the Board and the final decision lies with the entire Board to ensure that the resulting mix of experience and expertise of members of the Board is balanced with representation from the relevant sectors of industry to provide optimal inputs to address the issues affecting the Manager and Atrium REIT.

Directors' Remuneration

The objective of the remuneration policy is to attract, retain and motivate the Directors to successfully carry on the Manager's and Atrium REIT's operations. The Board believes that remuneration should be sufficient to attract, retain and motivate the Directors of the necessary caliber, expertise and experience to manage the Manager's and Atrium REIT's operations.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for ensuring that the financial statements give a true and fair view of the financial position of Atrium REIT as at 31 December 2012 and of its financial performance, the changes in net asset value and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Relationship with Auditors

The Board maintains a transparent relationship throughout their association with the external auditors. The appointment of external auditors, who may be nominated by the Manager, is approved by the Trustee. The auditors appointed must be independent of the Manager and Trustee. The remuneration of the Auditor is approved by the Trustee.

Internal Control

The Board acknowledges its responsibility for the Manager's system of internal controls which covers financial control, operational and compliance controls as well as risk management.

The Statement of Internal Control furnished on page 25 of the Annual Report provides an overview of the state of control within the Manager.

MANAGEMENT OF BUSINESS RISK

Recognising and managing risk is central to the business and to protecting Unitholders' interests and value. The Manager operates within overall guidelines and specific parameters set by the Board. Each transaction is comprehensively analysed to understand the risks involved. Responsibility of managing risks lies initially with the business unit concerned, working within the overall strategy outlined by the Board.

The Board meets quarterly or more often, if necessary and reviews the financial performance of the Manager and Atrium REIT against a previously approved budget. The Board will also review the business risks of Atrium REIT and will act upon any comments from the auditor. In assessing business risk, the Board considers the economic environment and risks relevant to the property industry. The Board reviews management reports and feasibility studies on proposed property acquisition prior to approving the transaction.

CORPORATE GOVERNANCE

RELATED PARTY TRANSACTIONS

The Manager will comply with all requirements as laid out in the REITs Guidelines, the Deed and the Listing Requirements of Bursa Securities.

The Manager has established procedures that will ensure that all related party transactions undertaken are in full compliance to the REITs Guidelines as detailed below:

- (a) on an arm's length basis;
- (b) in the best interests of Unitholders;
- (c) in relation to a real estate transaction:
 - (i) transacted at a price that is equivalent to the value assessed in the independent valuation report;
 - (ii) consented by the Trustee; and
 - (iii) consistent with the investment objectives and strategies of the Atrium REIT; and
- (d) adequately disclosed to Unitholders.

Where the transaction value with related parties in relation to a real estate is equal to or greater than 5% of the total asset value of the fund (after acquisition), the prior approval of the Unitholders by way of an ordinary resolution is required. However, if the transaction value does not exceed 5% of the total asset value of the fund (after acquisition), the Trustee must provide a written confirmation that the transaction is based on normal commercial terms, at arm's length, and not prejudicial to the Unitholders' interests.

WHISTLE BLOWING POLICY

The Board has put in place procedures to provide employees of the Manager with defined and accessible channels to report on suspected fraud, corruption, dishonest practices or other similar matters relating to Atrium REIT or the Manager, and for the independent investigation of any reports by employees and appropriate follow up action.

The aim of the whistle blowing policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will be treated fairly, and to the extent possible, be protected from reprisal.

COMMUNICATION WITH UNITHOLDERS AND INVESTORS

The Board acknowledges the importance of regular communication with Unitholders and investors to ensure that they are well informed of the activities and performance of Atrium REIT. The communication channels are via annual reports, quarterly financial reports and the various disclosures and announcements on the Bursa Securities' website.

Atrium REIT has also established a corporate website, www.atriumreit.com.my, for Unitholders and the public to access for corporate information and latest business development of Atrium REIT.

OTHER INFORMATION

Family Relationship with any Director and/or Major Unitholder

None of the Directors of the Manager has any family relationship with any other Directors or major Unitholders.

Conflict of Interest

Save for the Directors of the Manager's interest in Atrium REIT (as disclosed under Directors' Interest in the Manager's Report), no conflict of interest has arisen during the financial year under review.

Convictions for Offences

None of the Directors of the Manager have been convicted for offences within the past 10 years.

Material Contracts

There were no material contracts entered by the Trust that involved the Directors of the Manager or substantial Unitholders of the Trust during the financial year under review.

Directors' Training

The Directors are encouraged to attend briefings and seminars to keep abreast with the latest developments in the industry.

During the year, the directors attended various courses/seminars in related to their responsibilities and developments in the industry. Among courses / seminars attended includes Investor Relation and Financial Communications, Malaysian Annual Property Investment Summit 2012, Practitioners' Updates/Strategies for Turbulent Times 2012 and CIMB ASEAN SME Forum 2012.

STATEMENT OF INTERNAL CONTROL

The Board of Directors (“the Board”) of Atrium REIT Managers Sdn Bhd, the Manager of Atrium Real Estate Investment Trust (“Atrium REIT”) has voluntarily adopted the best practices in corporate governance by setting up an Internal Audit function, which had been outsourced to an independent professional firm, although it is not compulsory for Atrium REIT, to comply with such requirements under the Securities Commission Malaysia Guidelines on Real Estate Investment Trusts (“REIT Guidelines”) and Main Market Listing Requirements (“Listing Requirement”) of Bursa Malaysia Securities Berhad.

The Board has prepared a statement on the state of the Manager’s internal controls for inclusion in this Annual Report for the financial year ended 31 December 2012 (“FY2012”)

Responsibility

The Board acknowledges that it has a responsibility to maintain a sound and effective system of internal control and risk management practices within the Manager in order to meet the business objectives of the Manager. The business objectives, amongst others, is to manage Atrium REIT by achieving its mission, i.e. to maximise income in order to reward unitholders with a competitive rate of return for their investments through regular and stable distributions and achieving long-term growth in distributions and Net Asset Value per unit.

As there are inherent limitations in any system of internal controls, such systems are designed to reduce rather than eliminate all risks that may impede the achievement of Manager’s business objectives. Therefore, the internal control system can only provide a reasonable and not absolute assurance against material misstatement or loss.

Key Features of the Internal Control System Established

Control Environment

- **Organisation Structure and Authorisation Procedures**

The Manager maintains a formal organisation structure with well-defined delegation of responsibilities and accountability within the Manager’s Senior Management. It sets out the roles and responsibilities, appropriate authority limits, review and approval procedures in order to enhance the internal control system of the Manager’s various operations.

- **Company Policies and Procedures**

The Manager has documented policies and procedures that are to be regularly reviewed and updated to ensure that it maintains its effectiveness and continues to support the business activities of the Manager and Atrium REIT at all times.

Monitoring and Review

Management meetings are scheduled to be held on a regular basis to discuss and review the business planning, budgeting, financial and operational performances.

- **Financial and Operational Review**

The monthly management accounts and the quarterly financial statements of the Manager and Atrium REIT containing key financial results, operational performance results and comparisons of performance against budget are presented to the Board for their review, consideration and approval.

- **Business Planning and Budgeting Review**

The Board plays an active role in discussing and reviewing the business plans, strategies, performance and risks faced by the Manager and Atrium REIT.

Internal Audit Function

The internal audit function is outsourced to PKF Advisory Sdn Bhd. The outsourced internal auditors are engaged to assist the Board in providing independent assessment of the adequacy, efficiency and effectiveness of the Manager’s internal control systems.

The internal auditors, after their review on the internal control systems of the Manager, will table the results of their review of the business processes of different operating units to the Board at their scheduled meetings. The internal auditors are also tasked to follow up on the status of the implementation of corrective actions to address control weaknesses to ensure that these actions have been satisfactorily implemented.

The scope of the internal audit function for FY2012 entailed the following:

- Conducting scheduled internal audit engagements, focusing primarily on the effectiveness of internal controls and recommending improvements where necessary; and
- Reporting to the Board of Directors of the Manager on key findings and agreed management’s actions.

During the financial year under review, there was no control deficiencies noted which had a material impact on the Manager’s and Atrium REIT’s financial performance or operations. Non material deficiencies in internal controls which were identified by the outsourced internal auditors were promptly addressed by the Management.

FINANCIAL STATEMENTS

MANAGER'S REPORT	27
STATEMENT BY DIRECTORS OF THE MANAGER	34
STATUTORY DECLARATION	34
TRUSTEE'S REPORT	35
INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS	36
STATEMENT OF FINANCIAL POSITION	37
STATEMENT OF COMPREHENSIVE INCOME	38
STATEMENT OF CHANGES IN NET ASSET VALUE	40
STATEMENT OF CASH FLOWS	41
NOTES TO THE FINANCIAL STATEMENTS	42
SUPPLEMENTARY INFORMATION ON REALISED AND UNREALISED PROFITS OR LOSSES	66

MANAGER'S REPORT

Atrium REIT Managers Sdn Bhd, the Manager of Atrium Real Estate Investment Trust ("Atrium REIT" or "Trust"), is pleased to present the Manager's Report together with the audited financial statements of Atrium REIT for the financial year ended 31 December 2012 (FY2012).

ABOUT THE MANAGER

Atrium REIT Managers Sdn Bhd ("Manager") was established in 2005 and is a subsidiary of Glory Blitz Industries Sdn Bhd. The Manager's Board of Directors and key personnel comprise experienced individuals in their respective fields of expertise.

PRINCIPAL ACTIVITY OF THE MANAGER

The principal activity of the Manager is the management of real estate investment trusts. There has been no significant change in the nature of this activity during the financial year.

THE TRUST AND ITS PRINCIPAL ACTIVITY

Atrium REIT was established by a trust deed entered into on 20 November 2006 and amended by the Supplementary Deed dated 25 November 2008 (collectively known as "the Deed") between the Manager and BHLB Trustee Berhad (now known as CIMB Commerce Trustee Berhad) ("Trustee"). Atrium REIT was listed on the Main Board of Bursa Malaysia Securities Berhad on 2 April 2007.

The principal activity of Atrium REIT is to own and invest in real estate and real estate-related assets, whether directly or indirectly through the ownership of single-purpose companies whose principal assets comprise real estate. As at 31 December 2012, Atrium REIT's portfolio comprises logistics warehouses known as Atrium Shah Alam 1, Atrium Shah Alam 2, Atrium Puchong, Atrium USJ and a factory complex known as Atrium Rawang (collectively called the "Properties"). These Properties are located at prime sites and tenanted by subsidiaries of multinational companies and established local logistics provider.

MANAGER'S INVESTMENT OBJECTIVES AND STRATEGIES

The Manager's investment objectives are to maximise income in order to reward Unitholders annually with a stable distribution of income and to acquire quality assets to achieve long term growth in the Net Asset Value ("NAV") per unit. The Manager has achieved its objective of rewarding Unitholders with stable and attractive return through consistent distribution of income for every quarter since the listing of the Trust on 2 April 2007.

The Manager intends to achieve Atrium REIT's investment objectives through three key strategies:-

(i) Organic Growth Strategy

The Manager's strategy involves proactive asset management, maximising tenant retention and creating leasing opportunities and strong budgetary controls to maximize returns.

(ii) Acquisition Strategy

The Manager seeks to increase cashflows and yields, together with growth in distribution per unit and NAV per unit through selective acquisitions.

In evaluating acquisition opportunities, the Manager adopts the following investment criteria:

- yield accretive;
- quality of tenant;
- location;
- capital appreciation;
- land tenure;
- building designs and specifications; and
- nature of the tenant's business.

The Manager intends to hold the properties on a long-term basis. However, as and when appropriate, the Manager may dispose the properties and such proceeds may be reinvested in new real estates with better yields and growth potential and/or distributed to Unitholders.

MANAGER'S REPORT

MANAGER'S INVESTMENT OBJECTIVES AND STRATEGIES (continued)

(iii) Financing Strategy

The Manager will comply with the provisions of the Deed and the Securities Commission ('SC') Guidelines on Real Estate Investment Trusts ('REITs Guidelines') in relation to the maximum level of permitted borrowings which is set at 50% or any other percentage as stipulated by the SC Guidelines on REITs from time to time, of its total asset value.

The Manager intends to use a combination of debt and equity to fund future acquisitions. If it is deemed appropriate and in compliance with the REITs Guidelines, a hedging strategy to manage the risks associated with changes in interest rates relating to its borrowings may be adopted. Borrowings can be in the form of bank borrowings or through the issuance of commercial papers/bonds where Atrium REIT will have to be credit-rated.

INVESTMENT POLICIES AND COMPLIANCE WITH REIT GUIDELINES

(i) Investment Limits and Restrictions

Atrium REIT's investments may be allocated in the following manner, as prescribed by REITs Guidelines:

- (a) At least 50% of the total asset value of Atrium REIT must be invested in real estate assets and/or single purpose companies at all times; and
- (b) Investment in non-real estate related assets and/or cash, deposits and money market instruments must not exceed 25% of Atrium REIT's total asset value.

(ii) Authorised Investments

Atrium REIT is allowed to invest in real estates, single-purpose companies whose principal assets comprise real estate, real estate-related or non real estate-related assets, liquid assets, asset-backed securities, listed or unlisted debt securities, and any other investments which are permissible under the REITs Guidelines or otherwise permitted by the SC.

Atrium REIT invests primarily in strategically located properties tenanted to logistics companies and manufacturers and will continue to look for opportunities in these types of properties. However, Atrium REIT does not intend to limit itself to logistics and industrial properties and may consider other types of properties which meet its investment criteria.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Performance

	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Net asset value (RM'000)	150,706	137,151	130,527
Units in circulation ('000)	121,801	121,801	121,801
Net asset value per unit (RM)	1.22	1.10	1.05
Market price per unit (RM)	1.29	1.07	1.06
Highest traded price per unit during the year (RM)	1.30	1.12	1.10
Lowest traded price per unit during the year (RM)	1.07	1.00	0.88

Comparison of Results

	FY 2012 RM'000	FY 2011 RM'000	FY 2010 RM'000
Gross rental income	16,348	14,134	14,170
Net income (realised)	10,789	10,399	10,512
Distributable income (realised)	10,789	10,399	10,512
Income distribution	10,718	10,390	10,475
Distribution per unit (sen)	8.80	8.53	8.60
Distribution yield (%)			
- based on IPO price (RM1.00)	8.80	8.53	8.60
- based on market price as at 31 December	6.82	7.97	8.11
Management Expense Ratio (%)	1.00	0.85	0.94

MANAGER'S REPORT

Comparison of Results (continued)

Net income (realised) for the financial year under review increased 3.74% to RM10,788,604 from RM10,399,160 achieved in the last financial year. The increase is due mainly to additional contribution from Atrium USJ. Correspondingly, the property operating expenses and the finance costs have increased as a result of Atrium USJ. Interest income decreased due to a reduction in deposits with licensed financial institutions as part of the funds were used for financing the acquisition of Atrium USJ and also for refunding the excess security deposits back to the tenant/lessee.

The increase in Trust expenses is due to the increase in Manager's fees, Trustee's fees, administrative expenses and finance costs. The Manager's and Trustee's fees increased to 0.8% and 0.065% respectively with effect from 1 April 2012. The increase in administrative expenses is due to the incidental costs incurred to secure a new tenant for Atrium USJ-Block C.

The finance costs for FY2012 have increased as compared to the last financial year mainly due to the increase in bank borrowings via a new RM20,000,000 Term Loan facility from Public Bank Berhad, secured to part finance the acquisition of Atrium USJ.

Maintenance Costs and Major Capital Expenditure

Atrium Shah Alam 2

Since the remedial works carried out in 2009 on the warehouse floor slab due to soil settlement, the Manager has been closely monitoring the state and condition of the affected area. There appears to be some soil movement which however, is not significant enough to render damage to the floor slab.

No major capital expenditure was incurred by Atrium REIT during the financial year under review.

Capital Management

The Manager understands that an effective capital structure is crucial to the performance of the Trust. In view of this, the Manager has adopted and maintained an appropriate debt-equity structure to meet the Trust's funding needs whilst ensuring that Unitholders' returns are sustainable and optimized.

Both the Term Loan ("TL") and Short Term Revolving Credit ("STRC") are secured facilities based on floating rates. The variable rates for the TL and STRC ranged from 4.09% to 4.43% per annum during FY2012.

Summary of Atrium REIT's current and historical gearing is as shown below

	2012	2011	2010	2009	2008
Total Borrowings (RM'000)	65,000	65,000	45,000	45,000	45,000
- STRC (RM'000)	45,000	45,000	45,000	45,000	45,000
- TL (RM'000)	20,000	20,000	-	-	-
Total Asset (RM'000)	221,975	211,469	183,904	182,350	182,123
Gearing (%)	29.28	30.74	24.47	24.68	24.71
Interest Rate (%)	4.09 to 4.43	3.79 to 4.26	3.06 to 3.82	2.69 to 4.25	4.03 to 4.25

Based on its current conservative gearing ratio, Atrium REIT is able to leverage on further borrowings to make opportunistic acquisitions that fit its investment criteria which will enhance the returns to Unitholders, before reaching the 50% threshold under the REITs Guidelines.

Distribution of Income

Atrium REIT's portfolio of properties has been consistently delivering stable and competitive rate of return to its Unitholders since its listing in 2007. The total distribution paid and declared for the financial year under review is 8.80 sen per unit, totaling RM10,718,488, which translates to a yield of 6.82% based on the the closing market price of RM1.29 as at 31 December 2012.

MANAGER'S REPORT

Distribution of Income (continued)

The effect of the income distribution in terms of NAV per unit is as follows:

	As at 31 December 2012 RM	As at 31 December 2011 RM
NAV per unit - before distribution	1.2373	1.1260
NAV per unit - after distribution	1.2153	1.1047

Changes in the Fair Value Of Investment Properties

A revaluation exercise was carried out on the Trust's property portfolio during the financial year in pursuant to Clause 10.03 of the REITs Guidelines and MFRS 140. Based on the appraised values conducted by independent registered valuers, we are pleased to report that the portfolio registered an increase in the fair value of investment properties for FY2012 amounting to RM13,400,000.

Investments of Atrium REIT

Atrium REIT's composition of investments as at 31 December 2012 is as follows:

	RM Million	%
Atrium Shah Alam 1	69.70	31
Atrium Shah Alam 2	57.00	26
Atrium Puchong	43.60	20
Atrium Rawang	8.80	4
Atrium USJ	29.00	13
	<hr/> 208.10	<hr/> 94
Deposits with financial institution	13.10	6
	<hr/> 221.20	<hr/> 100

Portfolio Review

As at 31 December 2012, Atrium REIT has a portfolio of five (5) properties with a total net lettable area area of 937,753 sq ft. Atrium REIT's gross revenue grew by 15.66% from RM14,134,235 in FY2011 to RM16,348,321 in FY2012. The main reason for the growth in the gross revenue is due to the full year contribution from Atrium USJ while another factor which also contributed is the positive rental reversions for Atrium Shah Alam 2 and Atrium USJ Block B and C.

Currently, most of Atrium REIT's properties are tenanted by companies which are established market leaders in their respective industries, an indication of the quality of the tenants and properties owned by Atrium REIT.

REVIEW OF THE PROPERTY MARKET

Overall Economic Overview

The Malaysian economy registered a year on year GDP growth of 5.2% in the third quarter of 2012 with domestic demand fuelling the economic growth and compensating for the slowdown in external demand by major trading partners. Domestic demand in the third quarter increased 11.4% year on year, spurred by strong public and private sector investments.

Private sector investments were primarily driven by capital spending in the services sector while public sector investments were mainly capital spending in services, education and oil and gas sectors. Bank Negara expects the growth to continue in the fourth quarter of 2012 with the overall GDP growth for 2012 to be at least 5% amid the uncertainties in the export sector. The Euro Zone is expected to see a contraction for 2012 and 2013 due to the lingering Euro Zone crisis while the United States is forecast to grow at a lower rate as she battles to revive her economy.

MANAGER'S REPORT

REVIEW OF THE PROPERTY MARKET (continued)

Overall Economic Overview (continued)

The World Bank, in its recent Malaysia Economic Monitor Report forecasted that Malaysia's growth would likely weather a weak global environment and would grow robustly in 2013 due to the continued strong domestic consumption and public and private investments.

Overall 2012 Property Market Outlook

For 2012, the Malaysian property market continued to grow albeit at a slower pace. The volume and value of transactions for the 1st half of 2012 recorded a moderate increase of 1.1% and 6.5% respectively against the corresponding period. The reasons for the moderation in market activity are due to weaker consumer sentiment amid heightened economic uncertainties, dented affordability following the sharp appreciation in property prices over the past three years, and stricter bank lending following Bank Negara's Responsible Lending Guidelines effective 1 January 2012.

Going forward, demands for luxury segment condominiums and office segment are expected to remain weak. In certain locations, prices and rental rates for the two segments are expected to trend downward due to the oversupply situation. However, the demand for residential landed properties in prime areas is expected to remain healthy due to their scarce supply.

Industrial Property Sector Highlights and Outlook

The outlook of the industrial property market remains positive due to strong domestic demand which is the major contributor to Malaysia's Industrial Production growth, despite the economic slowdown in the United States and the lingering Euro Zone Crisis. However, demand for industrial properties will remain selective with demand concentrated mainly in prime and established industrial parks whilst some newer industrial parks are yet to be fully occupied, suggesting overall demand is still being outpaced by supply. In the Klang Valley, industrial activities will still be concentrated in Petaling Jaya, Shah Alam, Klang, Subang Jaya, Glenmarie and Puchong areas due to their good infrastructure network systems, established industrial areas and a wide range of manufacturing and supporting industries. However, with the construction of the MRT rail system, industrial properties in areas such as Sungai Buloh and Kajang are expected to be more sought after as the improved public transportation system will greatly enhance accessibility for the population within as well as outside these areas, thus creating a ready source of labour for the surrounding industries. Furthermore, the prices of industrial land and correspondingly the rental rates are comparatively lower in these areas, making them attractive for investors and industrialist to set up/shift their operations to these areas.

Overall, market prices for industrial properties and vacant industrial lands in the Klang Valley are expected to remain stable with prices of properties and lands in prime industrial areas expected to appreciate further in 2013, albeit at a slower rate than that recorded in the last three years. However, industrial properties and vacant industrial lands in areas such as Sungai Buloh and Kajang are also expected to appreciate due to the improved transport linkages with the on-going construction of the MRT rail system.

DIRECTORS OF THE MANAGER

The names of the Directors of the Manager who served on the Board since the date of last report are:

Dato' Dr Ir Mohamad Khir Bin Harun (Chairman)
Wong Sui Ee
Tor Peng Sie
How Hu Son
Soong Kwong Heng

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangement subsisted to which the Manager is a party with the object or objects of enabling the Directors to acquire benefits by means of acquisition of units in or debentures of Atrium REIT or any other body corporate.

Since the establishment of the Trust, no Director has received or become entitled to receive any benefits by reason of a contract made by the Manager for Atrium REIT or a related corporation with any Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the notes to the financial statements.

MANAGER'S REPORT

DIRECTORS' INTERESTS

According to the register of Directors' unitholdings in Atrium REIT, the interests of Directors of the Manager in office at the end of the financial year ended 31 December 2012 are as follows:

	At 1 January 2012	Bought	Sold	At 31 December 2012
Direct Interest				
Dato' Dr Ir Mohamad Khir Bin Harun	-	-	-	-
Wong Sui Ee	308,000	15,000	-	323,000
Tor Peng Sie	100,000	-	-	100,000
How Hu Son	100,000	-	-	100,000
Soong Kwong Heng	55,000	-	-	55,000

MANAGER'S FEES AND COMMISSION

Pursuant to the Deed, for the financial year ended 31 December 2012, the Manager received a fee of 0.8% (with effect from 1 April 2012) per annum of the Net Asset Value of the Trust even though the Manager is entitled to a fee of up to 1.0% per annum of the Net Asset Value of the Trust.

During the financial year, the Manager did not receive any soft commission (i.e. goods and services) from brokers or agents by virtue of transactions conducted by Atrium REIT.

OTHER STATUTORY INFORMATION

Before the Statement of Comprehensive Income and Statement of Financial Position of the Trust were made out, the Manager took reasonable steps:

- (i) to ascertain that proper action has been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary; and
- (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

- (i) it necessary to write off any bad debts or to make any provision for doubtful debts in respect of the financial statements of the Trust; and
- (ii) the values attributed to the current assets in the financial statements of the Trust misleading.

At the date of this report, the Manager is not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Trust misleading or inappropriate.

At the date of this report, the Manager is not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Trust which would render any amount stated in the financial statements misleading.

MANAGER'S REPORT

OTHER STATUTORY INFORMATION (continued)

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

- (i) any charge on the assets of the Trust which has arisen since the end of the financial year which secures the liability of any other person; or
- (ii) any contingent liability of the Trust which has arisen since the end of the financial year.

In the opinion of the Directors of the Manager:

- (i) the results of the operations of Atrium REIT during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (ii) 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 which is likely to affect substantially the results of the operations of the Trust for the financial year in which this report is made.

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



Dato' Dr Ir Mohamad Khir Bin Harun



Wong Sui Ee

Kuala Lumpur, Malaysia
Date: 19 February 2013

STATEMENT BY DIRECTORS OF THE MANAGER

In the opinion of the Directors of Atrium REIT Managers Sdn. Bhd. ("the Manager"), the financial statements set out on pages 37 to 66 have been drawn up in accordance with the provisions of the Trust Deed dated 20 November 2006 and the Supplementary Trust Deed dated 25 November 2008, the Securities Commission's Guidelines on Real Estate Investment Trusts, applicable securities laws and Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of Atrium Real Estate Investment Trust ("Atrium REIT" or "Trust") as at 31 December 2012 and of the financial performance and cash flows of the Trust for the financial year then ended.

Signed on behalf of the Manager,

Atrium REIT Managers Sdn. Bhd.
in accordance with a resolution of the Directors of the Manager



.....
Wong Sui Ee

Kuala Lumpur
19 February 2013



.....
Dato' Dr. Ir. Mohamad Khir bin Harun

STATUTORY DECLARATION

I, Wong Sui Ee, being the Director of the Manager, Atrium REIT Managers Sdn. Bhd. primarily responsible for the financial management of Atrium Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 37 to 66 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 in)
Kuala Lumpur in the Federal)
Territory on 19 February 2013)



.....
Wong Sui Ee

Before me:-

Commissioner for Oaths



Tkt. 18, Wisma Sime Darby
Jalan Raja Laut
50350 Kuala Lumpur

TRUSTEE'S REPORT

We, CIMB Commerce Trustee Berhad (formerly known as BLHB Trustee Berhad), have acted as Trustee of Atrium Real Estate Investment Trust ("Atrium REIT" or "Trust") for the financial year ended 31 December 2012. In our opinion and to the best of our knowledge:

- a) Atrium REIT Managers Sdn. Bhd. ("the Manager") has managed Atrium REIT in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Trust Deed dated 20 November 2006 and the Supplementary Trust Deed dated 25 November 2008, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Capital Markets and Services Act 2007 and other applicable laws during the financial year then ended; and
- b) the procedures and processes employed by the Manager to value and price the units of Atrium REIT are adequate and that such valuation/pricing is carried out in accordance with the Trust Deed, Supplementary Trust Deed and other regulatory requirements.

We also confirm that the income distributions declared and paid during the financial year ended 31 December 2012 are in line with and are reflective of the objectives of Atrium REIT. Distributions that have been paid or proposed for the financial year ended 31 December 2012 are as follows:

- 1) First interim income distribution of 2.20 sen paid on 31 May 2012.
- 2) Second interim income distribution of 2.20 sen paid on 30 August 2012.
- 3) Third interim income distribution of 2.20 sen paid on 30 November 2012.
- 4) Proposed fourth and final income distribution of 2.20 sen payable on 28 February 2013.

For and on behalf of the Trustee,
CIMB Commerce Trustee Berhad (Company No.313031-A)
(Formerly known as BHLB Trustee Berhad)



Liew Pik Yoong
Head of Trustee Services

Kuala Lumpur, Malaysia
19 February 2013

INDEPENDENT AUDITORS' REPORT

TO THE UNITHOLDERS OF ATRIUM REAL ESTATE INVESTMENT TRUST

Report on the Financial Statements

We have audited the financial statements of Atrium Real Estate Investment Trust ("Atrium REIT" or "Trust"), which comprise the statement of financial position as at 31 December 2012 of Atrium REIT, and statement of comprehensive income, statement of changes in net asset value and statement of cash flows of Atrium REIT for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 37 to 65.

Directors of Atrium REIT Managers Sdn. Bhd.'s Responsibility for the Financial Statements

The Directors of Atrium REIT Managers Sdn. Bhd. ("the Manager") of Atrium REIT are responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Trust Deed dated 20 November 2006 and the Supplementary Trust Deed dated 25 November 2008, the Securities Commission's Guidelines on Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors of the Manager are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Atrium REIT's preparation of financial statements that give a true and fair view 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 Atrium REIT's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors of the Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Atrium REIT as at 31 December 2012 and of its financial performance, the changes in net asset value and the cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Other Reporting Responsibilities

The supplementary information set out in Note 29 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

As stated in Note 3 to the financial statements, Atrium REIT adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These Standards were applied retrospectively by Directors of the Manager to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in net asset value and statement of cash flows for the financial year then ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information, and it is unaudited. Our responsibilities as part of our audit of the financial statements of Atrium REIT for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

This report is made solely to the unitholders of Atrium REIT, as a body, in accordance with the Securities Commission's Guidelines on Real Estate Investment Trust and for no other purpose. We do not assume responsibility to any other person for the content of this report.

BDO
AF : 0206
Chartered Accountants

Kuala Lumpur
19 February 2013

Rejeesh A/L Balasubramaniam
2895/08/14 (J)
Chartered Accountant

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	NOTE	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
ASSETS				
Non-current assets				
Investment properties	6	208,100,000	194,700,000	163,000,000
Current assets				
Trade and other receivables	7	587,616	1,488,420	579,254
Deposits placed with licensed financial institutions	8	13,095,751	14,546,371	19,803,050
Cash and bank balances		191,795	734,298	521,830
		<u>13,875,162</u>	<u>16,769,089</u>	<u>20,904,134</u>
TOTAL ASSETS		<u>221,975,162</u>	<u>211,469,089</u>	<u>183,904,134</u>
LIABILITIES				
Non-current liabilities				
Trade and other payables	9	2,585,611	2,713,839	3,442,602
Borrowings	10	20,000,000	20,000,000	-
		<u>22,585,611</u>	<u>22,713,839</u>	<u>3,442,602</u>
Current liabilities				
Trade and other payables	9	3,683,257	6,604,332	4,934,888
Borrowings	10	45,000,000	45,000,000	45,000,000
		<u>48,683,257</u>	<u>51,604,332</u>	<u>49,934,888</u>
TOTAL LIABILITIES		<u>71,268,868</u>	<u>74,318,171</u>	<u>53,377,490</u>
NET ASSET VALUE ("NAV")		<u>150,706,294</u>	<u>137,150,918</u>	<u>130,526,644</u>
FINANCED BY:				
UNITHOLDERS' FUNDS				
Unitholders' capital	11	119,351,580	119,351,580	119,351,580
Distributable income		<u>31,354,714</u>	<u>17,799,338</u>	<u>11,175,064</u>
TOTAL UNITHOLDERS' FUNDS		<u>150,706,294</u>	<u>137,150,918</u>	<u>130,526,644</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)				
	11	121,801,000	121,801,000	121,801,000
NAV PER UNIT (RM)				
- before income distribution		1.2373	1.1260	1.0716
- after income distribution		1.2153	1.1047	1.0496

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 RM	2011 RM
Gross revenue	13	16,348,321	14,134,235
Property operating expenses	14	<u>(1,750,715)</u>	<u>(1,369,666)</u>
Net rental income		14,597,606	12,764,569
Interest income		406,711	548,554
Changes in fair value of investment properties	6	13,400,000	6,700,000
Other income		<u>-</u>	<u>5,873</u>
Total income		<u>28,404,317</u>	<u>20,018,996</u>
Trust expenses			
Manager's fees	15	(1,023,701)	(775,303)
Trustee's fees	16	(80,248)	(51,687)
Auditors' fee		(18,000)	(18,000)
Tax agent's fee		(5,050)	(4,950)
Finance costs	17	(2,833,984)	(1,823,439)
Valuation fees		(50,000)	(55,000)
Administrative expenses		(204,657)	(135,001)
Others		(74)	(56,456)
Total expenses		<u>(4,215,714)</u>	<u>(2,919,836)</u>
Income before taxation		24,188,603	17,099,160
Income tax expense	18	-	-
Net income/Total comprehensive income for the financial year		<u>24,188,603</u>	<u>17,099,160</u>
Net income for the financial year is made up as follows:			
Realised		10,788,603	10,399,160
Unrealised - changes in fair value of investment properties		13,400,000	6,700,000
		<u>24,188,603</u>	<u>17,099,160</u>
Earnings per unit (sen)	19		
- before manager's fees		20.70	14.68
- after manager's fees		<u>19.86</u>	<u>14.04</u>

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	NOTE	2011 RM	2010 RM
Net income distributions*	20		
- First interim income distribution of 2.20 sen paid on 31 May 2012 (2011: 2.15 sen paid on 31 May 2011)		2,679,622	2,618,721
- Second interim income distribution of 2.20 sen paid on 30 August 2012 (2011: 2.15 sen paid on 26 August 2011)		2,679,622	2,618,721
- Third interim income distribution of 2.20 sen paid on 30 November 2012 (2011: 2.10 sen paid on 30 November 2011)		2,679,622	2,557,822
- Proposed final income distribution of 2.20 sen payable on 28 February 2013 (2011: 2.13 sen paid on 29 February 2012)		<u>2,679,622</u>	<u>2,594,361</u>
		<u>10,718,488</u>	<u>10,389,625</u>
Income distribution per unit*			
- First interim income distribution		2.20	2.15
- Second interim income distribution		2.20	2.15
- Third interim income distribution		2.20	2.10
- Proposed final income distribution		<u>2.20</u>	<u>2.13</u>
		<u>8.80</u>	<u>8.53</u>

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

	Withholding tax rate	
	2012	2011
Resident corporate	Nil [^]	Nil [^]
Resident non-corporate	10%	10%
Non-resident individual	10%	10%
Non-resident corporate	25%	25%
Non-resident institutional	10%	10%

[^] No withholding tax; tax at prevailing tax rate

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSET VALUE

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	----- Undistributed income -----			Unitholders' funds RM
	Unitholders' capital RM	Realised RM	Unrealised RM	
At 1 January 2012	119,351,580	2,899,338	14,900,000	137,150,918
Operations for the financial year ended 31 December 2012				
Total comprehensive income for the financial year	-	10,788,603	13,400,000	24,188,603
Increase in net assets resulting from operations	-	10,788,603	13,400,000	24,188,603
Unitholders' transactions				
Distributions to unitholders:				
- 2012 interim	-	(8,038,866)	-	(8,038,866)
- 2011 final	-	(2,594,361)	-	(2,594,361)
Decrease in net assets resulting from unitholders' transactions	-	(10,633,227)	-	(10,633,227)
At 31 December 2012	119,351,580	3,054,714	28,300,000	150,706,294
At 1 January 2011	119,351,580	2,975,064	8,200,000	130,526,644
Operations for the financial year ended 31 December 2011				
Total comprehensive income for the financial year	-	10,399,160	6,700,000	17,099,160
Increase in net assets resulting from operations	-	10,399,160	6,700,000	17,099,160
Unitholders' transactions				
Distributions to unitholders:				
- 2011 interim	-	(7,795,264)	-	(7,795,264)
- 2010 final	-	(2,679,622)	-	(2,679,622)
Decrease in net assets resulting from unitholders' transactions	-	(10,474,886)	-	(10,474,886)
At 31 December 2011	119,351,580	2,899,338	14,900,000	137,150,918

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM	2011 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxation		24,188,603	17,099,160
Adjustments for:			
Changes in fair value of investment properties	6	(13,400,000)	(6,700,000)
Interest income		(406,711)	(548,554)
Finance costs		<u>2,833,984</u>	<u>1,823,439</u>
Operating income before working capital changes		13,215,876	11,674,045
Decrease/(Increase) in trade and other receivables		900,804	(909,166)
(Decrease)/Increase in trade and other payables		<u>(3,049,303)</u>	<u>940,681</u>
Net cash from operating activities		11,067,377	11,705,560
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment property	6	-	(25,000,000)
Interest received		<u>406,711</u>	<u>548,554</u>
Net cash from/(used in) investing activities		406,711	(24,451,446)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(2,833,984)	(1,823,439)
Drawdown of term loan		-	20,000,000
Distributions paid to unitholders			
- In respect of current financial year		(8,038,866)	(7,795,264)
- In respect of previous financial year		<u>(2,594,361)</u>	<u>(2,679,622)</u>
Net cash (used in)/from financing activities		<u>(13,467,211)</u>	<u>7,701,675</u>
Net decrease in cash and cash equivalents		(1,993,123)	(5,044,211)
Cash and cash equivalents at beginning of financial year		<u>15,280,669</u>	<u>20,324,880</u>
Cash and cash equivalents at end of financial year		<u>13,287,546</u>	<u>15,280,669</u>
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the statement of financial position:			
Deposits placed with licensed financial institutions		13,095,751	14,546,371
Cash and bank balances		<u>191,795</u>	<u>734,298</u>
		<u>13,287,546</u>	<u>15,280,669</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

1. CORPORATE INFORMATION

Atrium Real Estate Investment Trust (“Atrium REIT” or “Trust”) is a Malaysia-domiciled real estate investment trust constituted pursuant to the Trust Deed dated 20 November 2006 and the Supplementary Trust Deed dated 25 November 2008 (collectively referred to as “Deed”) between Atrium REIT Managers Sdn. Bhd. (“the Manager”) and CIMB Commerce Trustee Berhad (“Trustee”). Atrium REIT is listed on the Main Market of Bursa Malaysia Securities Berhad.

The registered office of Atrium REIT is located at Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

The principal place of business of the Trust is located at 36-2, Jalan 5/101C, Off Jalan Kaskas, Jalan Cheras, 56100 Kuala Lumpur.

The principal activity of Atrium REIT is investment in real estate and real estate-related assets used whether directly or indirectly through the ownership of single-purpose companies which wholly own real estate. There has been no significant change in the nature of this activity during the financial year.

The financial statements are presented in Ringgit Malaysia (“RM”), which is the Trust’s functional currency.

The financial statements were authorised for issue in accordance with a resolution by the Board of Directors of the Manager, Atrium REIT Managers Sdn. Bhd., on 19 February 2013.

2. TERM OF THE TRUST

Atrium REIT will continue its operation until such time as determined by the Trustee and the Manager as provided under the provision of Clause 19 of the Trust Deed dated 20 November 2006.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The financial statements of Atrium REIT have been prepared in accordance with Malaysian Financial Reporting Standards (‘MFRSs’) and International Financial Reporting Standards (‘IFRSs’).

These are the Trust’s first financial statements prepared in accordance with MFRSs, and MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards has been applied. In the previous financial years, the financial statements of the Trust were prepared in accordance with Financial Reporting Standards (‘FRSs’) in Malaysia.

The Trust has consistently applied the same accounting policies in its opening MFRS statements of financial position as at 1 January 2011 and throughout all financial years presented, as if these policies had always been in effect. Note 28 to the financial statements discloses the impact of the transition to MFRS on the Trust’s reported financial position, financial performance and cash flows for the financial year then ended.

However, Note 29 to the financial statements set out on page 66 has been prepared in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants (‘MIA Guidance’) and the directive of Bursa Malaysia Securities Berhad.

3.2 Basis of accounting

The financial statements of Atrium REIT have been prepared under the historical cost convention except as otherwise stated in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

3. BASIS OF PREPARATION (continued)

3.2 Basis of accounting (continued)

The preparation of financial statements requires the Directors of the Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors of the Manager are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Note 3.3 and Note 3.4 to the financial statements. Although these estimates and assumptions are based on the Manager's best knowledge of current events and actions, actual results could differ from those estimates.

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

3.3 Judgement made in applying the accounting policies

There are no judgements made by management in the process of applying the Trust's accounting policies that have the most significant effect on the amounts recognised in the financial statements apart from those involving estimates, which are dealt with below.

3.4 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Fair values of investment properties

The fair values of investment properties are determined by independent firms of professional valuers. Significant judgements are involved in determining the fair values by using the various methods of valuation as disclosed in Note 6 to the financial statements.

(ii) Fair values of borrowings

The fair values of borrowings are estimated by discounting future contractual cash flows at the current market interest rates available to the Trust for similar financial instruments. It is assumed that the effective interest rates approximate the current market interest rates available to the Trust based on its size and its business risk.

(iii) Impairment of receivables

The Trust makes impairment of receivables based on an assessment of the recoverability of receivables. Impairment is applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the impairment of receivables. Where expectations differ from the original estimates, the differences will impact the carrying amount of receivables.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

4. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs

4.1 New MFRSs adopted during the current financial year

The Trust adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ('MASB') during the financial year.

Title	Effective Date
MFRS 1 <i>First-time Adoption of Malaysian Financial Reporting Standards</i>	1 January 2012
MFRS 2 <i>Share-based Payment</i>	1 January 2012
MFRS 3 <i>Business Combinations</i>	1 January 2012
MFRS 4 <i>Insurance Contracts</i>	1 January 2012
MFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 January 2012
MFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>	1 January 2012
MFRS 7 <i>Financial Instruments: Disclosures</i>	1 January 2012
MFRS 8 <i>Operating Segments</i>	1 January 2012
MFRS 101 <i>Presentation of Financial Statements</i>	1 January 2012
MFRS 102 <i>Inventories</i>	1 January 2012
MFRS 107 <i>Statement of Cash Flows</i>	1 January 2012
MFRS 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	1 January 2012
MFRS 110 <i>Events After the Reporting Period</i>	1 January 2012
MFRS 111 <i>Construction Contracts</i>	1 January 2012
MFRS 112 <i>Income Taxes</i>	1 January 2012
MFRS 116 <i>Property, Plant and Equipment</i>	1 January 2012
MFRS 117 <i>Leases</i>	1 January 2012
MFRS 118 <i>Revenue</i>	1 January 2012
MFRS 119 <i>Employee Benefits</i>	1 January 2012
MFRS 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	1 January 2012
MFRS 121 <i>The Effects of Changes in Foreign Exchange Rates</i>	1 January 2012
MFRS 123 <i>Borrowing Costs</i>	1 January 2012
MFRS 124 <i>Related Party Disclosures</i>	1 January 2012
MFRS 126 <i>Accounting and Reporting by Retirement Benefit Plans</i>	1 January 2012
MFRS 127 <i>Consolidated and Separate Financial Statements</i>	1 January 2012
MFRS 128 <i>Investments in Associates</i>	1 January 2012
MFRS 129 <i>Financial Reporting in Hyperinflationary Economies</i>	1 January 2012
MFRS 131 <i>Interests in Joint Ventures</i>	1 January 2012
MFRS 132 <i>Financial Instruments: Presentation</i>	1 January 2012
MFRS 133 <i>Earnings Per Share</i>	1 January 2012
MFRS 134 <i>Interim Financial Reporting</i>	1 January 2012
MFRS 136 <i>Impairment of Assets</i>	1 January 2012
MFRS 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 January 2012
MFRS 138 <i>Intangible Assets</i>	1 January 2012
MFRS 139 <i>Financial Instruments: Recognition and Measurement</i>	1 January 2012
MFRS 140 <i>Investment Property</i>	1 January 2012
MFRS 141 <i>Agriculture</i>	1 January 2012
Improvements to MFRSs (2008)	1 January 2012
Improvements to MFRSs (2009)	1 January 2012
Improvements to MFRSs (2010)	1 January 2012
IC Interpretation 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 January 2012
IC Interpretation 2 <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 January 2012
IC Interpretation 4 <i>Determining Whether an Arrangement Contains a Lease</i>	1 January 2012
IC Interpretation 5 <i>Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Fund</i>	1 January 2012
IC Interpretation 6 <i>Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment</i>	1 January 2012
IC Interpretation 7 <i>Applying the Restatement Approach under MFRS 129 Financial Reporting in Hyper inflationary Economies</i>	1 January 2012
IC Interpretation 9 <i>Reassessment of Embedded Derivatives</i>	1 January 2012
IC Interpretation 10 <i>Interim Financial Reporting and Impairment</i>	1 January 2012

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

4. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (continued)

4.1 New MFRSs adopted during the current financial year (continued)

Title	Effective Date
IC Interpretation 12 Service Concession Arrangements	1 January 2012
IC Interpretation 13 Customer Loyalty Programmes	1 January 2012
IC Interpretation 14 MFRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2012
IC Interpretation 15 Agreements for the Construction of Real Estate	1 January 2012
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 January 2012
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 January 2012
IC Interpretation 18 Transfers of Assets from Customers	1 January 2012
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 January 2012
IC Interpretation 107 <i>Introduction of the Euro</i>	1 January 2012
IC Interpretation 110 <i>Government Assistance – No Specific Relation to Operating Activities</i>	1 January 2012
IC Interpretation 112 <i>Consolidation – Special Purpose Entities</i>	1 January 2012
IC Interpretation 113 <i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i>	1 January 2012
IC Interpretation 115 <i>Operating Leases – Incentives</i>	1 January 2012
IC Interpretation 125 <i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i>	1 January 2012
IC Interpretation 127 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	1 January 2012
IC Interpretation 129 <i>Service Concession Arrangements: Disclosures</i>	1 January 2012
IC Interpretation 131 <i>Revenue – Barter Transactions Involving Advertising Services</i>	1 January 2012
IC Interpretation 132 <i>Intangible Assets – Web Site Costs</i>	1 January 2012

4.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2013

The following are accounting standards, amendments and interpretations of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board ('MASB') but have not been adopted by the Trust.

Title	Effective Date
Amendments to MFRS 1 <i>Government Loans</i>	1 January 2013
Amendments to MFRS 101 <i>Clarification of the Requirements for Comparative Information</i>	1 January 2013
Amendments to MFRS 101 <i>Presentation of Items of Other Comprehensive Income</i>	1 July 2012
MFRS 10 <i>Consolidated Financial Statements</i>	1 January 2013
MFRS 11 <i>Joint Arrangements</i>	1 January 2013
MFRS 12 <i>Disclosure of Interests in Other Entities</i>	1 January 2013
MFRS 13 <i>Fair Value Measurement</i>	1 January 2013
MFRS 119 <i>Employee Benefits (revised)</i>	1 January 2013
MFRS 127 <i>Separate Financial Statements</i>	1 January 2013
MFRS 128 <i>Investments in Associates and Joint Ventures</i>	1 January 2013
Amendments to MFRS 7 <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i>	1 January 2013
Amendments to MFRSs <i>Annual Improvements 2009 – 2011 Cycle</i>	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12 <i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i>	1 January 2013
IC Interpretation 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	1 January 2013
Amendments to MFRS 132 <i>Offsetting Financial Assets and Financial Liabilities</i>	1 January 2014
<i>Mandatory Effective Date of MFRS 9 and Transition Disclosures</i>	1 January 2015
MFRS 9 <i>Financial Instruments</i>	1 January 2015

The Trust is in the process of assessing the impact of implementing these standards, amendments and interpretations since the effects would only be observable for the financial year ending 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 Investment properties

Investment properties are properties, which are held to earn rental yields or for capital appreciation or for both and are not occupied by the Trust. Investment properties also include properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, which includes transaction costs. After initial recognition, investment properties are stated at fair value.

The fair value of investment properties are the prices at which the properties could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of investment properties reflect market conditions at the end of reporting period, without any deduction for transaction costs that may be incurred on sales or other disposal.

Fair value of investment properties are arrived at by reference to market evidence of transaction prices for similar properties. It is performed by registered independent valuers with appropriate recognised professional qualification and has recent experience in the location and category of the investment properties being valued.

A gain or loss arising from a change in the fair value of investment properties is recognised in profit or loss for the period in which it arises.

Investment properties are derecognised when either they have been disposed off or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The gains or losses arising from the retirement or disposal of investment properties is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss in the period of the retirement or disposal.

5.2 Leases

(a) Finance leases and hire purchase

Assets acquired under finance leases and hire purchase, which transfer substantially all the risks and rewards of ownership to the Trust are recognised initially at amounts equal to the fair value of the leased assets or, if lower, the present value of minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the leases, if this is practicable to determine; if not, the Trust's incremental borrowing rate is used. Any initial direct costs incurred by the Trust are added to the amount recognised as an asset. The assets are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are recognised in profit or loss over the period of the lease term so as to produce a constant periodic rate of interest on the remaining lease and hire purchase liabilities.

(b) Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Assets leased out under operating lease are presented on the statement of financial position according to the nature of the assets.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Trust.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Trust.

Financial instruments are recognised on the statement of financial position when the Trust has become a party to the contractual provisions of the instrument. At initial recognition, a financial instrument is recognised at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial instrument.

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative is not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative meets the definition of a derivative, and the hybrid instrument is not measured at fair value through profit or loss.

(a) Financial assets

A financial asset is classified into the following four (4) categories after initial recognition for the purpose of subsequent measurement:

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

Financial assets at fair value through profit or loss comprise financial assets that are held for trading (i.e. financial assets acquired principally for the purpose of resale in the near term), derivatives (both, freestanding and embedded) and financial assets that were specifically designated into this classification upon initial recognition.

Subsequent to initial recognition, financial asset classified as at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial asset classified as at fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial asset classified as at fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such items are recognised separately in profit or loss as components of other income or other operating losses.

However, derivatives that is linked to and must be settled by delivery of unquoted equity instruments that do not have a quoted market price in an active market are recognised at cost.

(ii) Held-to-maturity investments

Financial assets classified as held-to-maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Trust has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, financial assets classified as held-to-maturity are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as held-to-maturity are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Financial instruments (continued)

(a) Financial assets (continued)

(iii) Loans and receivables

Financial assets classified as loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, financial assets classified as loans and receivables are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as loan and receivables are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

(iv) Available-for-sale financial assets

Financial assets classified as available-for-sale comprise non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, financial assets classified as available-for-sale are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss whilst dividends on available-for-sale equity instruments are recognised in profit or loss when the Trust's right to receive payment is established.

Cash and cash equivalents include cash and bank balances, bank overdrafts, deposits and other short term, highly liquid investments with original maturities of three (3) months or less, which are readily convertible to cash and are subject to insignificant risk of changes in value.

A financial asset is derecognised when the contractual right to receive cash flows from the financial asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised directly in other comprehensive income shall be recognised in profit or loss.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or marketplace convention.

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting.

(b) Financial liabilities

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. A financial liability is classified into the following two (2) categories after initial recognition for the purpose of subsequent measurement:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are held for trading, derivatives (both, freestanding and embedded) and financial liabilities that were specifically designated into this classification upon initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Financial instruments (continued)

(b) Financial liabilities (continued)

(i) Financial liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, financial liabilities classified as at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial liabilities classified as at fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial liabilities classified as at fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such items are recognised separately in profit or loss as components of other income or other operating losses.

(ii) Other financial liabilities

Financial liabilities classified as other financial liabilities comprise non-derivative financial liabilities that are neither held for trading nor initially designated as at fair value through profit or loss.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains or losses on other financial liabilities are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

A financial liability is derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired. An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Any difference between the carrying amount of a 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.

5.4 Impairment of financial assets

The Trust assesses whether there is any objective evidence that a financial asset is impaired at each reporting period.

Loans and receivables

The Trust collectively considers factors such as the probability of bankruptcy or significant financial difficulties of the receivable, and default or significant delay in payments by the receivable to determine whether there is objective evidence that an impairment loss on loans and receivables has occurred. Other objective evidence of impairment include historical collection rates determined on an individual basis and observable changes in national or local economic conditions that are directly correlated with the historical default rates of receivables.

If any such objective evidence exists, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of loans and receivables are reduced through the use of an allowance account.

If in a subsequent period, the amount of the impairment loss decreases and it objectively relates to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of impairment reversed is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 Income taxes

Income taxes include all taxes on taxable profit. Income taxes also include other taxes, such as withholding taxes and real property gains taxes payable on disposal of properties.

Taxes in the statement of comprehensive income comprise current and deferred tax.

(a) Current tax

Current tax is the amount of income taxes payable in respect of the taxable profit or loss for a period.

Current tax for the current and prior periods is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted by the reporting period.

(b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority on either:

- (i) the same taxable entity; or
- (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax would be recognised as income or expense and included in the profit or loss for the year unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax will be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the announcement of tax rates and tax laws by the Government in the annual budgets which have the substantial effect of actual enactment by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.6 Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, the amount of a provision will be discounted to its present value at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision will be reversed.

Provisions are not recognised for future operating losses. If the Trust has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

5.7 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Trust or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Trust does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Trust. The Trust does not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

5.8 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Trust, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Trust's activity as follows:

(a) Rental income

Rental income is accounted for on a straight line basis over the lease term of an ongoing lease. The aggregate cost of incentives provided to the lessee is recognised as reduction of rental income over the lease term on a straight line basis.

(b) Interest income

Interest income is recognised as it accrues, using the effective interest method.

5.9 Expenses

(a) Property operating expenses

Property operating expenses consist of property management fees, quit rent, assessment and other outgoings in relation to investment properties where such expenses are the responsibility of the Trust. Property management fees are recognised on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.9 Expenses (continued)

(b) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualified asset is capitalised as part of the cost of the asset until when substantially all the activities necessary to prepare the asset for its intended use or sale are complete, after which such expense is charged to profit or loss. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing cost is suspended during extended periods in which active development is interrupted.

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on the borrowing during the period less any investment income on the temporary investment of the borrowing.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(c) Manager's and Trustee's fees

The Manager's and Trustee's fees are recognised on an accrual basis.

6. INVESTMENT PROPERTIES

	2012	2011
	RM	RM
At 1 January	194,700,000	163,000,000
Changes in fair value	13,400,000	6,700,000
Acquisition of investment property	-	25,000,000
	<u>208,100,000</u>	<u>194,700,000</u>
At 31 December	<u>208,100,000</u>	<u>194,700,000</u>
Included in the above are:		
Land and buildings	<u>208,100,000</u>	<u>194,700,000</u>

Direct operating expenses arising from investment properties generating rental income during the financial year are as follows:

	2012	2011
	RM	RM
Repairs and maintenance	730,772	528,000
Quit rent and assessment	<u>500,909</u>	<u>419,521</u>

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

6. INVESTMENT PROPERTIES (continued)

2012

Description of property	Tenure of land	Location	Existing use	Occupancy rate as at 31 December 2012 %	Date of valuation	Fair value as at 31 December 2012 RM	Acquisition cost as at 31 December 2012 RM	Percentage of fair value over Net Asset Value as at 31 December 2012 %
Atrium Shah Alam 1 *	Freehold	Shah Alam	Industrial	100	31.12.2012	69,700,000	57,200,000	46.2
Atrium Shah Alam 2	Freehold	Shah Alam	Industrial	100	31.12.2012	57,000,000	49,100,000	37.8
Atrium Puchong	Freehold	Puchong	Industrial	100	31.12.2012	43,600,000	38,500,000	28.9
Atrium Rawang*	Freehold	Rawang	Industrial	100	31.12.2012	8,800,000	10,000,000	5.8
Atrium USJ*	Freehold	Subang	Industrial	100	31.12.2012	29,000,000	25,000,000	19.2
						208,100,000	179,800,000	

The properties were valued by Raine & Horne International Zaki & Partners Sdn. Bhd., an independent firm of professional valuers registered with the Board of Valuers, Appraisers & Estates Agents Malaysia, using investment, cost and comparison methods of valuation.

* The properties are charged to a financial institution for banking facilities granted to the Trust.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

6. INVESTMENT PROPERTIES (continued)

2011

Description of property	Tenure of land	Location	Existing use	Occupancy rate as at 31 December 2011 %	Date of valuation	Fair value as at 31 December 2011 RM	Acquisition cost as at 31 December 2011 RM	Percentage of fair value over Net Asset Value as at 31 December 2011 %
Atrium Shah Alam 1*	Freehold	Shah Alam	Industrial	100	31.12.2011	64,600,000	57,200,000	47.1
Atrium Shah Alam 2	Freehold	Shah Alam	Industrial	100	31.12.2011	56,000,000	49,100,000	40.8
Atrium Puchong	Freehold	Puchong	Industrial	100	31.12.2011	40,300,000	38,500,000	29.4
Atrium Rawang*	Freehold	Rawang	Industrial	100	31.12.2011	8,600,000	10,000,000	6.3
Atrium USJ*	Freehold	Subang	Industrial	100	31.12.2011	25,200,000	25,000,000	18.4
						194,700,000	179,800,000	

The properties were valued by First Pacific Valuers Property Consultants Sdn. Bhd. and Raine & Horne International Zaki & Partners Sdn. Bhd., independent firm of professional valuers registered with the Board of Valuers, Appraisers & Estates Agents Malaysia, using investment, cost and comparison methods of valuation.

* The properties are charged to a financial institution for banking facilities granted to the Trust.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

7. TRADE AND OTHER RECEIVABLES

	2012 RM	2011 RM
Trade receivables	42,506	384,514
Other receivables, deposits and prepayments		
Other receivables	89,032	643,258
Deposits	368,820	363,320
Prepayments	87,258	97,328
	545,110	1,103,906
	<u>587,616</u>	<u>1,488,420</u>

(a) The credit terms granted to trade receivables is 30 days (2011: 30 days).

(b) Trade and other receivables are denominated in Ringgit Malaysia ("RM").

(c) The ageing analysis of trade receivables of the Trust are as follows:

	2012 RM	2011 RM
Neither past due nor impaired	42,506	-
Past due not impaired		
Less than 30 days	-	167,704
31 to 60 days	-	96,810
61 to 90 days	-	-
91 to 120 days	-	-
121 to 150 days	-	-
More than 151 days	-	120,000
	-	384,514
Past due and impaired	-	-
	<u>42,506</u>	<u>384,514</u>

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Trust.

None of the trade receivable of the Trust that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

Based on past experience, the Manager believes that no allowance for impairment is necessary in respect of these balances. As at the end of the previous financial year, trade receivables were past due but not impaired related to debtors with good track record with the Trust.

8. DEPOSITS PLACED WITH LICENSED FINANCIAL INSTITUTIONS

The deposits are placed with financial institutions at interest rates ranging from 2.80% to 3.10% (2011: 2.60% to 3.25%) per annum.

Information on financial risks of cash and cash equivalents are disclosed in Note 25 to the financial statements.

The deposits are denominated in Ringgit Malaysia ("RM").

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

9. TRADE AND OTHER PAYABLES

	2012 RM	2011 RM
Non-current liability		
Tenants' deposits	2,585,611	2,713,839
Current liabilities		
Trade payables	120,553	73,721
Other payables and accrued expenses	1,274,729	4,688,257
Tenants' deposits	2,287,975	1,842,354
	<u>3,683,257</u>	<u>6,604,332</u>
	<u>6,268,868</u>	<u>9,318,171</u>

Included in other payables and accrued expenses are amounts owing to the Manager and the Trustee of RM93,362 (2011: RM66,759) and RM7,586 (2011: RM4,434) respectively, which are unsecured, interest free and payable monthly in arrears.

10. BORROWINGS

	2012 RM	2011 RM
<u>Short Term Financing</u>		
Short Term Revolving Credit ("STRC")	45,000,000	45,000,000
<u>Long Term Financing</u>		
Term Loan ("TL")	<u>20,000,000</u>	<u>20,000,000</u>
	<u>65,000,000</u>	<u>65,000,000</u>

- (a) The STRC facility is secured by way of a first party legal charge over the investment properties, Atrium Shah Alam 1 and Atrium Rawang, as discussed in Note 6 to the financial statements. This financing facility is renewable on a yearly basis subject to the bank's review.

The STRC facility bears interest ranging from 4.09% to 4.20% (2011: 3.79% to 4.20%) per annum during the financial year.

- (b) The term loan bears interest rate at cost of fund plus 0.725% (2011: 0.725%) per annum and is repayable in one lump sum in October 2018.

The term loan is secured by way of first legal charge over the investment property, Atrium USJ, as disclosed in Note 6 to the financial statements.

Information on financial risks of borrowings and their remaining maturity are disclosed in Note 25 to the financial statements.

The borrowings are denominated in Ringgit Malaysia ("RM").

11. UNITHOLDERS' CAPITAL

	2012		2011	
	Number of units	RM	Number of units	RM
Authorised	<u>121,801,000</u>	<u>121,801,000</u>	<u>121,801,000</u>	<u>121,801,000</u>
Issued and fully paid	<u>121,801,000</u>	<u>119,351,580</u>	<u>121,801,000</u>	<u>119,351,580</u>

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

12. UNITHOLDINGS OF DIRECTORS AND THEIR RELATED PARTIES

- (a) As at the end of the financial year, the Manager, Directors of the Manager and related parties who held units in Atrium REIT are as follows:

2012

	Number of unit held	Percentage of total units %	Market value RM
Direct unitholdings in Atrium REIT			
Atrium REIT Manager Sdn. Bhd.	454,800	0.37	586,692
Directors of the Manager:			
Wong Sui Ee	323,000	0.27	416,670
Tor Peng Sie	100,000	0.08	129,000
How Hu Son	100,000	0.08	129,000
Soong Kwong Heng	55,000	0.05	70,950
Related parties of the Manager:			
Glory Blitz Industries Sdn. Bhd.	20,024,800	16.44	25,831,992
Sparkle Skyline Sdn. Bhd.	9,258,900	7.60	11,943,981
Chan Kam Tuck	15,664,500	12.86	20,207,205
Chan Kum Chong	70,000	0.06	90,300

2011

	Number of unit held	Percentage of total units %	Market value RM
Direct unitholdings in Atrium REIT			
Atrium REIT Manager Sdn. Bhd.	322,100	0.26	344,647
Directors of the Manager:			
Wong Sui Ee	308,000	0.25	329,560
Tor Peng Sie	100,000	0.08	107,000
How Hu Son	100,000	0.08	107,000
Soong Kwong Heng	55,000	0.05	58,850
Related parties of the Manager:			
Glory Blitz Industries Sdn. Bhd.	20,024,800	16.44	21,426,536
Sparkle Skyline Sdn. Bhd.	9,258,900	7.60	9,907,023
Chan Kam Tuck	15,383,200	12.63	16,460,024
Chan Kum Chong	70,000	0.06	74,900

- (b) The market value is determined by using the closing market price of the Trust as at 31 December 2012 of RM1.29 (2011: RM1.07).

13. GROSS REVENUE

Gross rental revenue represents rental income received from the rental of investment properties.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

14. PROPERTY OPERATING EXPENSES

	2012 RM	2011 RM
Property management fees	234,136	201,240
Quit rent and assessment	500,909	419,521
Repairs and maintenance	730,772	528,000
Insurance	255,147	220,905
Other operating expenses	29,751	-
	<u>1,750,715</u>	<u>1,369,666</u>

For the financial year ended 31 December 2012, property management fees were paid to the property management company, Azmi & Co. Building Services Sdn. Bhd. in accordance to the Valuers, Appraisers and Estate Agent Act 1981 with permissible discounts.

15. MANAGER'S FEES

Pursuant to the Deed, the Manager is entitled to receive a fee of up to a maximum of 1.0% per annum of the Net Asset Value of Atrium REIT. The Manager's fee is payable in arrears, calculated and accrued daily. However, the Manager has only been charging its fees at the rate of 0.8% (2011: 0.6%) per annum of the Net Asset Value.

16. TRUSTEE'S FEES

Pursuant to the Deed, the Trustee is entitled to receive a fee of up to a maximum of 0.4% per annum of the NAV of the Trust, subject to a minimum fee of RM40,000 per annum. The Trustee's fee is payable in arrears, calculated and accrued daily. However, the Trustee has only been charging its fees at the rate of 0.065% (2011: 0.040%) per annum of the Net Asset Value.

17. FINANCE COSTS

	2012 RM	2011 RM
Interest expense on:		
- short term revolving credit facility	1,888,077	1,821,887
- term loan	945,907	1,552
	<u>2,833,984</u>	<u>1,823,439</u>

18. INCOME TAX EXPENSE

	2012 RM	2011 RM
Current tax expense	-	-

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate of the Trust are as follows:

	2012 RM	2011 RM
Income before taxation	<u>24,188,603</u>	<u>17,099,160</u>
Income tax using Malaysian tax rate of 25% (2011: 25%)	6,047,151	4,274,790
Non-deductible expenses	46,251	75,262
Effect of changes in fair value of investment properties not subject to tax	(3,350,000)	(1,675,000)
Effect of income exempted from tax	(2,743,402)	(2,675,052)
Tax expense	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

18. INCOME TAX EXPENSE (continued)

Pursuant to Section 61A(1) of Income Tax Act, 1967 under the Finance Act, 2006, where in the basis period for a year of assessment, 90% or more of the total income of the Trust is distributed to its unitholders, the total income of the Trust for that year of assessment shall be exempted from tax.

The Trust distributed approximately 99% (2011: 100%) of the realised and distributable income and thus, its total income for the year is exempted from tax.

19. EARNINGS PER UNIT

- (a) The earnings per unit before Manager's fees of 20.70 sen (2011: 14.68 sen) is calculated by dividing the net income after taxation but before deduction of Manager's fees for the financial year of RM25,212,304 (2011: RM17,874,463) and by the number of units in circulation during the financial year of 121,801,000 (2011: 121,801,000).
- (b) The earnings per unit after Manager's fees of 19.86 sen (2011: 14.04) has been calculated based on net income after taxation of RM24,188,603 (2011: RM17,099,160) for the financial year and on the number of units in circulation during the financial year of 121,801,000 (2011: 121,801,000).

20. DISTRIBUTIONS TO UNITHOLDERS

Distributions to unitholders are from the following sources:

	2012	2011
	RM	RM
Net rental income	14,597,606	12,764,569
Interest income	406,711	548,554
Other income	-	5,873
	<hr/>	<hr/>
	15,004,317	13,318,996
Less: Expenses	(4,215,714)	(2,919,836)
	<hr/>	<hr/>
	10,788,603	10,399,160
Less: Income distributed	(8,038,866)	(7,795,264)
Less: Proposed final income distribution	(2,679,622)	(2,594,361)
	<hr/>	<hr/>
Balance undistributed income	70,115	9,535
	<hr/>	<hr/>

21. PORTFOLIO TURNOVER RATIO

	2012	2011
Portfolio Turnover Ratio ("PTR") (times)	<hr/> -	<hr/> 0.19

PTR is the ratio of the average of total acquisitions and total disposals of investments in Atrium REIT for the financial year ended 31 December 2012 to the average net asset value of the Trust for the financial year calculated on a daily basis.

Since the basis of calculating PTR may vary among real estate investment trusts, comparison of PTR of Atrium REIT with other real estate investment trusts may not be an accurate comparison.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

22. MANAGEMENT EXPENSE RATIO

	2012	2011
Management expense ratio ("MER")(%)	<u>1.00</u>	<u>0.85</u>

MER is calculated based on total fees of Atrium REIT incurred, including the Manager's fees, Trustee's fees, audit fees, tax agent's fees, administrative and other expenses, to the average net asset value of the Trust for the financial year calculated on a daily basis.

Since the basis of calculating MER may vary among real estate investment trusts, comparison of MER of Atrium REIT with other real estate investment trusts may not be an accurate comparison.

23. TRANSACTIONS WITH BROKERS/DEALERS

There were no transactions made with brokers/dealers during the financial year.

24. FINANCIAL INSTRUMENTS

(a) Capital management

The primary objective of the Manager is to ensure that the Trust would be able to continue as a going concern while maximising the returns to unitholders through a balance of issuance of new units and loan financing. The overall strategy of the Manager remains unchanged from the financial year ended 31 December 2011.

The Manager manages the capital structure of the Trust and makes adjustments to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Manager may adjust the income distribution to unitholders or issue new units. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2012 and 31 December 2011.

The Manager will also comply with the provisions of the Deed and all applicable rules and guidelines prescribed by the Securities Commission relating to the financing of the Trust.

The Manager monitors capital using a gearing ratio, which is total borrowings divided by total assets of the Trust pursuant to Securities Commission's Guidelines on Real Estate Investment Trusts.

	2012 RM	2011 RM
Total borrowings	<u>65,000,000</u>	<u>65,000,000</u>
Total assets	<u>221,975,162</u>	<u>211,469,089</u>
Gearing ratio	<u>29.28%</u>	<u>30.74%</u>

(b) Financial instruments

(i) Categories of financial instruments

	Loans and receivables RM
2012	
Financial assets	
Trade and other receivables	587,616
Cash and cash equivalents	13,287,546
	<u>13,875,162</u>

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

24. FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments (continued)

(i) Categories of financial instruments (continued)

	Other financial liabilities RM
2012	
Financial liabilities	
Borrowings	65,000,000
Trade and other payables	6,268,868
	<hr/> 71,268,868 <hr/>
	Loans and receivables RM
2011	
Financial assets	
Trade and other receivables	1,488,420
Cash and cash equivalents	15,280,669
	<hr/> 16,769,089 <hr/>
	Other financial liabilities RM
Financial liabilities	
Borrowings	65,000,000
Trade and other payables	9,318,171
	<hr/> 74,318,171 <hr/>

(c) Methods and assumptions used to estimate fair value

The fair value of financial assets and financial liabilities are determined as follows:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value.

The carrying amounts of financial assets and liabilities, such as trade and other receivables, trade and other payables under current assets and current liabilities, are reasonable approximation of fair value, due to their short-term nature.

- (ii) Borrowings

The fair value of bank borrowings is determined using estimated future cash flows discounted at market related rate for similar instruments at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

25. FINANCIAL RISKS MANAGEMENT OBJECTIVE AND POLICIES

The Trust's financial risk management objective is to optimise value creation for unitholders whilst minimising the potential adverse impact arising from fluctuations in interest rates and the unpredictability of the financial markets.

The Trust has informal risk management policies and clearly defined guidelines which set out its overall business strategies and general risk management philosophy. The Trust is exposed mainly to credit risk, liquidity and cash flow risk, and interest rate risk, which arises in the normal course of the Trust's business. Information on the Trust of the related exposures is detailed below:

(i) Credit risk

The Trust is exposed to credit risk mainly from receivables. The Trust extends credit to its tenants based upon established credit evaluation and credit control and monitoring guidelines.

The Trust has no major concentration of credit risk as at end of the reporting period. The Trust does not anticipate the carrying amount of the receivable at the end of the reporting period to be significantly different from the values that would eventually be received as the Trust has the right to deduct from the security deposit in the event of default in payment.

The Trust seeks to invest cash assets safely and profitably with placement of such assets with creditworthy licensed banks and financial institutions. In respect of deposits placed in financial institutions in Malaysia, the Directors of the Manager believe that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

Exposure to credit risk

At the end of the reporting period, the maximum exposure of the Trust to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 7 to the financial statements.

(ii) Liquidity and cash flow risk

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

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Trust's liabilities at the end of the financial year based on contractual undiscounted repayment obligations.

	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
2012				
Financial liabilities				
Trade and other payables	3,683,257	2,585,611	-	6,268,868
Borrowings	47,769,960	24,405,000	-	72,174,960
Total undiscounted financial liabilities	51,453,217	26,990,611	-	78,443,828

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

25. FINANCIAL RISKS MANAGEMENT OBJECTIVE AND POLICIES (continued)

(ii) Liquidity and cash flow risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
2011				
Financial liabilities				
Trade and other payables	6,604,332	2,713,839	-	9,318,171
Borrowings	47,739,570	4,255,000	20,851,000	72,845,570
Total undiscounted financial liabilities	<u>54,343,902</u>	<u>6,968,839</u>	<u>20,851,000</u>	<u>82,163,741</u>

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Trust's financial instruments will fluctuate because of changes in market interest rates.

The Trust's exposure to fluctuation in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates. Interest rate exposure which arises from borrowing is managed through the use of fixed rate debt with long term tenure. On the other hand, the management has considered the impact arising from interest income as not significant.

In respect of interest-bearing financial assets and financial liabilities, the following tables set out the carrying amounts, the weighted average effective interest rates as at the end of the reporting period and the remaining maturities of the Trust's financial instruments that are exposed to interest rate risk:

	Note	Weighted average effective interest (per annum)	Within one year RM	Over five years RM	Total RM
2012					
Floating rates					
Deposits placed with licensed financial institutions	8	3.07	13,095,751	-	13,095,751
Term Loan	10	4.41	-	20,000,000	20,000,000
Short Term Revolving Credit	10	4.15	45,000,000	-	45,000,000

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

25. FINANCIAL RISKS MANAGEMENT OBJECTIVE AND POLICIES (continued)

(iii) Interest rate risk (continued)

Sensitivity analysis for interest rate risk (continued)

2011	Note	Weighted average effective interest (per annum)	Within one year RM	Over five years RM	Total RM
Floating rates					
Deposits placed with licensed financial institutions	8	3.10	14,546,371	-	14,546,371
Term loan	10	4.26	-	20,000,000	20,000,000
Short Term Revolving Credit	10	4.01	45,000,000	-	45,000,000

Sensitivity analysis for interest rate risk

As at 31 December 2012, if interest rates at the date had been 10 basis points lower or higher with all other variables held constant, post-tax profit for the financial year would have been RM51,179 (2011: RM37,825) higher or lower, arising mainly as a result of lower or higher interest expense on variable borrowings and interest income from deposits. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

26. OPERATING SEGMENT

As the principal activity of Atrium REIT is to invest in properties, which all are located in Malaysia with the primary objective to derive rental income, there are no risks and returns distinguishable between business and geographical segments. No operating segment is thus presented.

27. OPERATING LEASES

Leases whereby Atrium REIT is the Lessor

Atrium REIT leases out its investment properties under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2012 RM	2011 RM
Less than one year	16,255,047	12,128,052
Between one and five years	6,754,091	11,801,961
	<u>23,009,138</u>	<u>23,930,013</u>

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

28. EXPLANATION OF TRANSITION TO MFRSs

The Trust is a non-transitioning entity as defined by the MASB, and has adopted the MFRS Framework during the financial year ended 31 December 2012. Accordingly, these are the first financial statements of the Trust prepared in accordance with MFRSs.

The accounting policies set out in Note 5 to the financial statements have been applied in preparing the financial statements of the Trust for the financial year ended 31 December 2012, as well as comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening MFRS statements of financial position at 1 January 2011 (the date of transition of the Trust to MFRSs).

The Trust has not adjusted amounts previously reported in the financial statements that were prepared in accordance with the previous FRS Frameworks. In preparing the opening statements of financial position at 1 January 2011, there is no impact arising from the transition from FRSs to MFRSs on the Trust's financial position, financial performance and cash flows.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

29. SUPPLEMENTARY INFORMATION ON REALISED AND UNREALISED PROFITS OR LOSSES

The undistributed income as at the end of the reporting period may be analysed as follows:

	2012	2011
	RM	RM
Total undistributed income of the Trust		
- Realised	3,054,714	2,899,338
- Unrealised	28,300,000	14,900,000
	<u>31,354,714</u>	<u>17,799,338</u>

The unrealised income relates to the cumulative net change arising from the fair value adjustments to the investment properties.

The supplementary information on realised and unrealised profits or losses has been prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ('MIA Guidance') and the directive of Bursa Malaysia Securities Berhad.

ANALYSIS OF UNITHOLDINGS

AS AT 31 DECEMBER 2012

SIZE OF HOLDINGS	NO. OF UNITHOLDERS	NO. OF UNITS	%
1 - 99	7	205	0.00
100 - 1,000	428	354,795	0.29
1,001 - 10,000	1,078	5,789,400	4.76
10,001 - 100,000	589	19,283,100	15.83
100,001 to less than 5% of approved fund size	117	61,609,000	50.58
5% and above of approved fund size	2	34,764,500	28.54
TOTAL	2,221	121,801,000	100.00

THIRTY (30) LARGEST UNITHOLDERS AS AT 31 DECEMBER 2012

Name	No. of units	%
1) PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GLORY BLITZ INDUSTRIES SDN BHD (TCS)	19,100,000	15.68
2) CHAN KAM TUCK	15,664,500	12.86
3) MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SPARKLE SKYLINE SDN BHD (DLR 060-MARGIN)	5,379,000	4.42
4) KURNIA INSURANS (MALAYSIA) BERHAD	5,000,000	4.11
5) SOH KAM ENG	4,995,000	4.10
6) SPARKLE SKYLINE SDN BHD	3,879,900	3.19
7) SENTINEL PORTFOLIO SDN. BHD	3,000,000	2.46
8) STEPHEN EDWARD BLACKBURN	1,806,500	1.48
9) CITIGROUP NOMINEES (TEMPATAN) SDN BHD MCIS ZURICH INSURANCE BERHAD (LIFE PAR FD)	1,690,000	1.39
10) AMSEC NOMINEES (TEMPATAN) SDN BHD ENG GUAN CHAN SDN BERHAD (9613-1101)	1,150,000	0.94
11) CHRISTINA CHONG YOKE LENG	1,141,000	0.94
12) CITIGROUP NOMINEES (TEMPATAN) SDN BHD MCIS ZURICH INSURANCE BERHAD (GEN FD)	1,126,500	0.92
13) WIBANAS SDN. BHD.	1,050,000	0.86
14) CITIGROUP NOMINEES (TEMPATAN) SDN BHD MCIS ZURICH INSURANCE BERHAD (ANN FD)	1,036,800	0.85
15) DETIK LEGASI SDN. BHD.	950,000	0.78
16) BEVERLY TOWER DEVELOPMENT SDN BHD	940,000	0.77

ANALYSIS OF UNITHOLDINGS

AS AT 31 DECEMBER 2012

THIRTY (30) LARGEST UNITHOLDERS AS AT 31 DECEMBER 2012 (continued)

Name	No. of units	%
17) HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MAAKL PROGRESS FUND (4082)	880,000	0.72
18) GOH MENG KEONG	869,700	0.71
19) GLORY BLITZ INDUSTRIES SDN BHD	841,800	0.69
20) REALCO SDN BHD	722,300	0.59
21) PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEE SENG HOOI @ LEE HOI (E-SS2)	720,000	0.59
22) LEONG AH MENG @ LEONG MEE	631,000	0.52
23) HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MAAKL DIVIDEND FUND (5311-401)	606,000	0.50
24) DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTS EQUITY INCOME FUND	590,000	0.48
25) LAW YOCK HUAT	531,200	0.44
26) REALCO SDN BHD	517,300	0.42
27) HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR RAMPAI DEDIKASI SDN BHD	500,000	0.41
28) OSK NOMINEES (TEMPATAN) SDN BERHAD OSK TRUSTEES BERHAD FOR THE DIVINE VISION TRUST	500,000	0.41
29) CITIGROUP NOMINEES (TEMPATAN) SDN BHD MCIS ZURICH INSURANCE BERHAD (SHH FD)	477,700	0.39
30) CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR LOH POH CHOO (PB)	469,800	0.39
	<hr/>	
	76,766,000	63.01

LIST OF SUBSTANTIAL UNITHOLDERS (5% AND ABOVE)

1) GLORY BLITZ INDUSTRIES SDN BHD	20,024,800	16.44
2) CHAN KAM TUCK	15,664,500	12.86
3) SPARKLE SKYLINE SDN BHD	9,258,900	7.60
	<hr/>	
	44,948,200	36.90