

A background image showing two hands, one from the left and one from the right, cupping a bright, glowing light source. The light creates a lens flare effect and illuminates the hands. The overall color scheme is warm, with shades of orange and yellow.

# EMBRACING OPPORTUNITIES

ANNUAL REPORT

# 2016

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

# AXIS-REIT HIGHLIGHTS

Market Capitalisation

**RM1,779,329,000**

Total Assets Under Management

**RM2,244,274,000**

Total Space Under Management

**7,606,863 sq. ft.**

Revaluation Gain for 2016

**RM29,861,000**

Total Acquisitions for 2016

**RM103,000,000**

Weighted Average Lease Expiry (based on rental)

**4.45 years**

# About **AXIS-REIT**

Axis Real Estate Investment Trust is Malaysia's first and largest Islamic business space and industrial REIT, listed on Bursa Securities. It has a diverse portfolio of 39 properties that are located in the Klang Valley, Johor, Penang, Negeri Sembilan and Kedah.

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

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

Following the successful reclassification of Axis-REIT as an Islamic REIT on 11 December 2008, the Manager and the Trustee entered into an amended and restated Deed dated 3 April 2009, which was modified and streamlined to comply with, among others, the SC's Guidelines on Islamic REITs.

The Deed was subsequently supplemented by a Supplemental Deed dated 15 December 2011, which included, among others, an amendment to incorporate a provision for the issuance of new Units to the Manager as payment of management fees. On 28 November 2013, the Manager and the Trustee entered into a Third Principal Deed to consolidate all the previous amendments as well as to incorporate therein the latest provisions in the SC's Guidelines on REITs (updated on 28 December 2012), as well as the Listing Requirements of Bursa Securities, as updated on 15 November 2013.

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

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

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

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

# MISSION

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

# VISION

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

# SIX PRINCIPLES OF MANAGEMENT

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

- Prudent capital and risk management
- Yield-accretive asset purchases
- Excellent investor relations
- Maintaining the highest levels of corporate governance
- Proactive asset and tenant management
- Development of human capital

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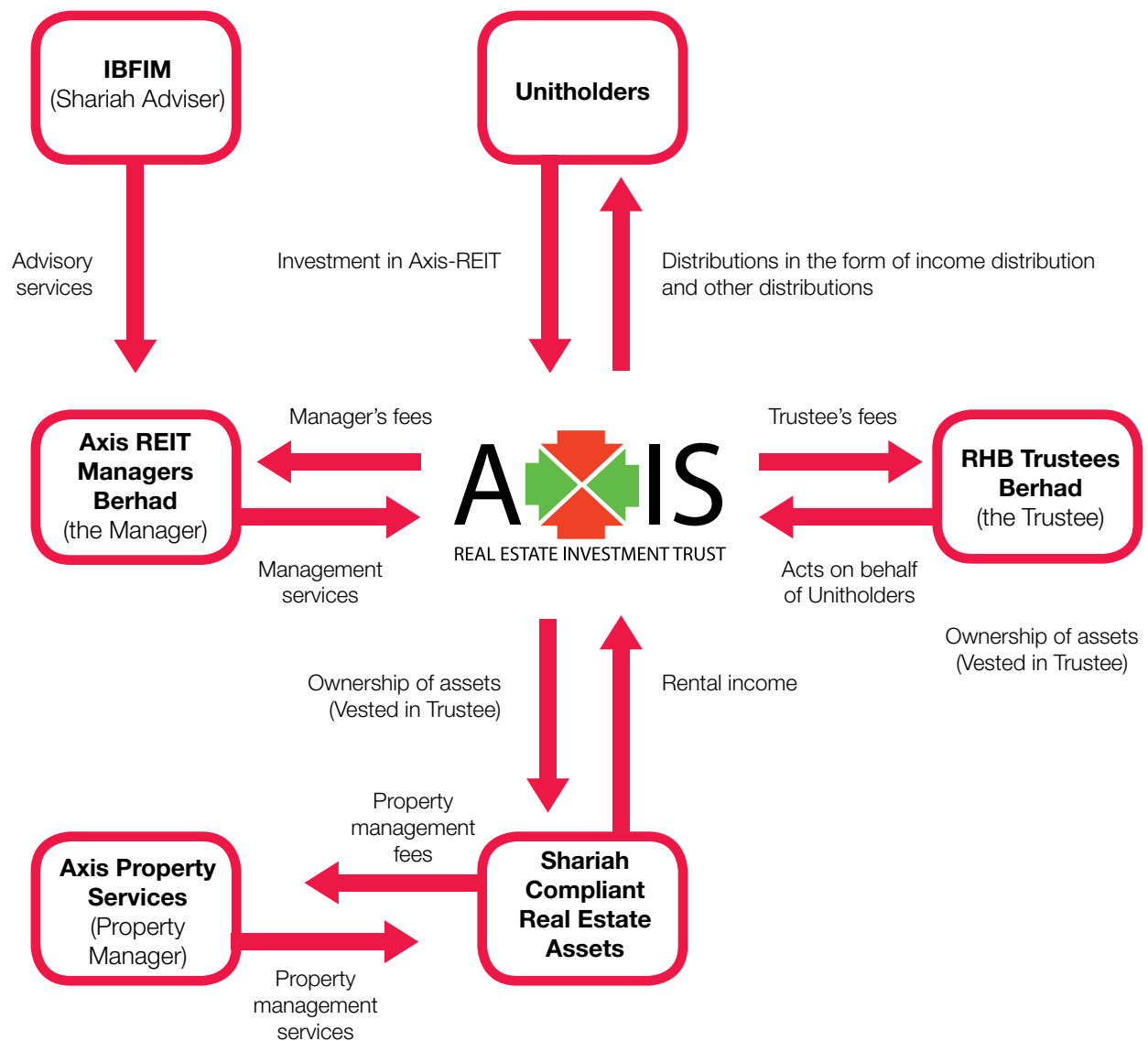
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# Salient Features of Axis-REIT

<b>Fund Category</b>	Real Estate Investment Trust
<b>Fund Type</b>	Income and Growth
<b>Mission of the Fund</b>	To provide consistent distributions to Unitholders through growing the property portfolio, displaying the highest level of corporate governance, excellent capital and risk management, and preserving capital values
<b>Vision of the Fund</b>	To successfully benchmark Axis-REIT against the world's most successful REITs in terms of total returns to Unitholders and be the REIT of choice for Shariah and non-Shariah investors
<b>Issued Fund Size</b>	1,105,173,591 Units
<b>Market Capitalisation</b>	RM1,779,329,000
<b>Assets Under Management</b>	RM2,244,274,000
<b>Authorised Investments</b>	At least 50% of the Fund's total asset value must be invested in real estate and / or single purpose companies at all times
<b>Initial Public Offering Retail Price</b>	RM1.25 per Unit (equivalent to RM0.625 per Unit of the enlarged unit base after adjusting for unit split exercise)
<b>Financial Year End</b>	31 December
<b>Distribution Policy</b>	Quarterly income distribution:  1st, 2nd and 3rd quarter – at least 95% of the current year-to-date distributable income  4th quarter – at least 99% of the current year-to-date distributable income
<b>Financing Limitations</b>	Not exceeding 50% of the total assets value of the Fund
<b>Revaluation Policy</b>	The investment properties shall be revalued at least once every year by independent registered valuers
<b>Minimum Initial Investment</b>	Minimum of 100 Units
<b>Quotation</b>	Main Market of Bursa Securities
<b>Bursa Securities Stock Number</b>	AXREIT 5106

# Axis-REIT Structure





# Corporate Information

**MANAGER:**

Axis REIT Managers Berhad,  
The Manager of Axis-REIT

**MANAGER'S PRINCIPAL PLACE OF BUSINESS:**

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

**MANAGER'S REGISTERED OFFICE:**

Suite 11.1A Level 11, Menara Weld  
76 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel No : 603-2031 1988  
Fax No : 603-2031 9788

**BOARD OF DIRECTORS OF THE MANAGER:**

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

**Y Bhg Dato' Abas Carl Gunnar  
Bin Abdullah**  
Executive Deputy Chairman

**Leong Kit May**  
Chief Executive Officer/Executive Director

**Stephen Tew Peng Hwee  
@ Teoh Peng Hwee**  
Non-Independent Non-Executive Director

**Y Bhg Datuk Seri Fateh Iskandar Bin Tan  
Sri Dato' Mohamed Mansor**  
Independent Non-Executive Director

**Mohd Sharif Bin Hj Yusof**  
Senior Independent Non-Executive Director

**Alvin Dim Lao**  
Non-Independent Non-Executive Director

**Alex Lee Lao**  
Alternate Director to Y Bhg Dato' Abas Carl  
Gunnar Bin Abdullah

**Jancis Anne Que Lao**  
Alternate Director to Alvin Dim Lao

**AUDIT COMMITTEE OF THE MANAGER:**

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

**EXECUTIVE COMMITTEE OF THE MANAGER:**

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

**REMUNERATION COMMITTEE OF THE MANAGER:**

Y Bhg Datuk Seri Fateh Iskandar Bin Tan Sri  
Dato' Mohamed Mansor (Chairman)  
Y Bhg Dato' Abas Carl Gunnar Bin Abdullah  
Stephen Tew Peng Hwee @ Teoh Peng Hwee

**NOMINATION COMMITTEE OF THE MANAGER:**

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

**COMPANY SECRETARIES OF THE MANAGER:**

Rebecca Leong Siew Kwan  
(MAICSA 7045547)  
Tan Fong Shian @ Lim Fong Shian  
(MAICSA 7023187)

**TRUSTEE FOR AXIS-REIT:**

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

**SHARIAH ADVISER FOR AXIS-REIT:**

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

**REGISTRARS OF AXIS-REIT:**

Symphony Share Registrars Sdn Bhd  
Level 6, Symphony House  
Pusat Dagangan Dana 1, Jalan PJU 1A/46  
47301 Petaling Jaya, Selangor Darul Ehsan  
Tel No : 603-7841 8000  
Fax No : 603-7841 8151  
Website: www.symphony.com.my

**PROPERTY MANAGER OF AXIS-REIT:**

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

**AUDITORS OF AXIS-REIT:**

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

**INTERNAL AUDITORS OF AXIS-REIT:**

Baker Tilly Monteiro Heng Governance  
Sdn Bhd  
Baker Tilly MH Tower, Level 10, Tower 1  
Avenue 5, Bangsar South City  
59200 Kuala Lumpur

**TAX AGENTS OF AXIS-REIT:**

PricewaterhouseCoopers Taxation Services  
Sdn Bhd  
Level 10, 1 Sentral, Jalan Rakyat  
Kuala Lumpur Sentral, P.O. Box 10192  
50706 Kuala Lumpur

**PRINCIPAL BANKERS OF AXIS-REIT:**

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

**STOCK NAME AND STOCK CODE:**

AXREIT 5106

**WEBSITE:**

www.axis-reit.com.my

**INVESTOR RELATIONS:**

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

**Leong Kit May**

Chief Executive Officer/Executive Director

Or

**Chan Tze Wee**

Manager, Investments and Investor Relations

**Contact Details:**

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



# Chairman's Message



## “Embracing Opportunities”

### Dear Unitholders,

On behalf of the Board of Directors of Axis REIT Managers Berhad (“ARMB” or “Manager”), it gives me great pleasure to present to you the 12th Annual Report of Axis Real Estate Investment Trust (“Axis-REIT” or “Fund”) for the financial year ended 31 December 2016.

2016 was another landmark year for Axis-REIT, when it embarked on its inaugural property development project, following its agreement to build and lease the 515,000 sq. ft. Nestlé Distribution Centre for Nestlé Products Sdn Bhd. Axis-REIT had received a waiver from the Securities Commission Malaysia, allowing it to undertake property development activities for up to 10% of its enlarged total assets value, which opened up a new avenue of growth for the Fund. Thus, “Embracing Opportunities”, the theme for our 2016 Annual Report, reflects Axis-REIT’s efforts to seek out and capitalise on new opportunities that may arise from this venture, in its pursuit of maximising returns to Unitholders, providing Unitholders with stable income distributions and achieving sustainable growth in the Fund’s net asset value (“NAV”).

### Milestones Accomplished

Axis-REIT has stayed on track in pursuing yield-accretive asset acquisitions throughout 2016. In January 2016, the Fund completed the acquisition of a collection of four single-storey industrial warehouses located in Indahpura, Johor, known as the Beyonics i-Park Campus Blocks A, B, C and D. Thereafter, on 15 November 2016, it completed the acquisition of a manufacturing facility in Rawang, Selangor, known as the Scomi Facility @ Rawang. These acquisitions added five properties to Axis-REIT’s property portfolio, bringing its total number of properties to 39 as at 31 December 2016. In the first quarter of 2017, Axis-REIT targets to complete the disposal of Axis Eureka, a four-storey office building located in Cyberjaya. The disposal will result in a net gain of approximately RM1.2 million, which translates into an incremental income distribution of 0.11 sen per unit that will be recognised in the current financial year.

**RM2.24**  
billion

from  
**RM296**  
million

Assets under management

**7,606,863**  
sq. ft.

from  
**978,000**  
sq. ft.

Space under management

**39**  
properties

from  
**5**

Properties

# Chairman's Message

## Continued Leadership

2016 also saw a smooth and professionally executed CEO succession plan, with Leong Kit May taking the reins as CEO of the Manager on 1 January 2016 and seamlessly assuming the executive duties of the role. We are pleased to note that under her stewardship, the entire management team and employees have remained focused on implementing and executing the strategies and targets that had been set by the Board, and the interests and confidence of all stakeholders remain safeguarded.

## Distributions, Unitholders' Funds and NAV

On behalf of the Board of Directors, I am pleased to announce a total income distribution of 8.25 sen per unit for the financial year ended 31 December 2016. This amounts to a total income distribution of RM91,067,000 for the year, which has been paid or is payable as follows:

- First Interim Income Distribution of 2.05 sen per unit, paid on 16 June 2016;
- Second Interim Income Distribution of 2.05 sen per unit, paid on 9 September 2016;
- Third Interim Income Distribution of 2.05 sen per unit, paid on 30 November 2016; and
- Final Income Distribution of 2.10 sen per unit, payable on 28 February 2017.

The Income Distribution Reinvestment Plan ("IDRP") was applied to the First Interim Income Distribution, where 5,380,523 new units in Axis-REIT were issued and allotted on 16 June 2016, and listed on Bursa Malaysia on 17 June 2016. Gross proceeds of RM8,070,785 were raised from the issuance of IDRP units, and were used to finance the Fund's property enhancement initiatives. Following the IDRP, the Fund's issued size grew from 1,099,793,068 units to 1,105,173,591 units.

I am also pleased to report that the NAV of the Fund rose to RM1,392.97 million as at 31 December 2016, up by 3% from 2015. Meanwhile, the Fund recorded a RM29.86 million revaluation gain in 2016, which brings cumulative revaluation gains since listing to RM303 million.

## Annual Forum with Unitholders

The Fourth Annual General Meeting ("AGM") of Axis-REIT was held on 29 April 2016 to present Axis-REIT's audited financial statements for the financial year ended 31 December 2015 to Unitholders. Two Ordinary Resolutions were also tabled at the AGM, and I am pleased to note that both resolutions (i) the renewal of the general mandate to issue new units in Axis-REIT and (ii) the renewal of the mandate for the IDRP, were approved by Unitholders.

## Staying Ahead through Sustainability

# MISSION

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

In pursuit of the Fund's primary objectives and long-term mission, we believe sustainability is the key pillar that upholds our "People, Planet, Profit" triple bottom line. Elements of sustainability are embedded in our operations, and this year, we have adopted detailed sustainability reporting in compliance with Bursa Malaysia's Listing Requirements. With guidance from industry experts, we have prepared Axis-REIT's Sustainability Report in accordance with the Global Reporting Initiative G4 Guidelines, and have included it in this Annual Report. The Sustainability Report presents in detail, the governance structure put in place to manage our economic, environmental and social risks and opportunities during the financial year 2016.

## 2017: The Outlook of the Malaysian Economy

Malaysia's economy has been resilient in the face of significant headwinds in 2016, with GDP growth for the year projected at between 4.0% and 4.5%. Growth is forecast to continue at a moderate pace in 2017, underpinned by a recovery in energy prices, the government's pro-growth initiatives that are supportive of private consumption, as well as on-going big-ticket infrastructure projects, which will sustain the momentum of public and private investments.

However, there are still external headwinds to contend with. These include uncertainties over global trade policies, as well as downside risks to the macroeconomic outlooks of some of our key trading partners, which could negatively impact Malaysia's economy given its high trade dependence.

## 2017: Prospects

As the year progresses, the Manager will continue to be guided by its long term strategy, while building on the key successes of recent years. The Fund is on track to complete the construction of Nestlé Distribution Centre by the end of the year, and expects to complete one previously announced property acquisition in 2017.

While the overall property market generally remains soft, Axis-REIT's portfolio of properties will continue to appeal to tenants who demand good facilities in strategic locations at reasonable prices. Current market conditions also present favourable acquisition opportunities, and the Manager will continue to actively seek and evaluate suitable yield-accretive assets for inclusion in Axis-REIT's portfolio of properties.

Notwithstanding the conditions of the property market and broader economy, we remain confident that the Fund will deliver satisfactory results in the coming year.

## In Appreciation

2016 was an important year for us: from the seamless transition in ARMB's key management team, to Axis-REIT's maiden foray into property development, the Manager has continued to lay a strong foundation for growth, and will continue to capitalise on new opportunities while maintaining a sustainable footprint in all aspects of its operations.

These achievements are the result of the continued commitment and dedication of the team behind Axis-REIT, and I would like to take this opportunity to thank the entire team, from our distinguished Board members, to the management team and operations staff, who continuously strive to deliver their best.

On behalf of the Manager, I would also like to express our appreciation to our business partners, tenants and Unitholders, who continue to work with us, and place their trust in our ability to steer the Fund through an ever-changing business environment. We would also like to thank members of the media and the investment community for their coverage and support of the Fund and the broader REIT sector. We look forward to our continued collaboration in the years to come.

**YAM Tunku Dato' Seri Shahabuddin  
Bin Tunku Besar Burhanuddin**

Chairman

15 February 2017

## Board of Directors



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



**Y Bhg Dato' Abas Carl  
Gunnar Bin Abdullah**  
Executive Deputy Chairman



**Leong Kit May**  
Chief Executive Officer /  
Executive Director



**Stephen Tew Peng Hwee  
@ Teoh Peng Hwee**  
Non-Independent  
Non-Executive Director



**Y Bhg Datuk Seri Fateh Iskandar  
Bin Tan Sri Dato' Mohamed Mansor**  
Independent Non-Executive Director



**Alvin Dim Lao**  
Non-Independent  
Non-Executive Director



**Mohd Sharif Bin Hj Yusof**  
Senior Independent  
Non-Executive Director



## Directors' Profile



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

**Nationality/Age/Gender**

Malaysian/81/Male

**Date first appointed to the Board**

10 August 2007

**Board Committee Membership**

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

**Academic/Professional Qualifications**

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

**Working Experience/Occupation**

Tunku Shahabuddin started his career as an economist with Esso (M) Ltd. He later moved into the finance industry as a manager of a finance company within the Malayan Banking Group. Tunku Shahabuddin then started his own businesses, which spanned involvement in the manufacturing, production, trading, construction, finance services and information technology sectors, among others. He currently serves as the Executive Chairman of Strateq Group and Strateq Systems Sdn. Bhd.

**Present Directorships in public companies and/or listed issuers**

- Berjaya Assets Berhad

**Other Memberships/Appointments/Involvements**

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



**Y Bhg Dato' Abas Carl Gunnar Bin Abdullah**  
Executive Deputy Chairman

**Nationality/Age/Gender**

Norwegian/Permanent Resident of Malaysia/57/Male

**Date first appointed to the Board**

15 March 2005

**Board Committee Membership**

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

**Academic/Professional Qualifications**

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

**Working Experience/Occupation**

From 1985 to 1993, he was the Managing Director of Jotun Powder Coatings (M) Sdn. Bhd. In 1989, he embarked on a build and lease project with the multinational APV Hills & Mills. In 1992, he teamed up with Stephen Tew Peng Hwee and other investors to build Crystal Plaza. This was followed with the building of Axis Business Park, Axis Plaza and Menara Axis, all of which formed the core property portfolio of Axis Real Estate Investment Trust upon listing. He is also a director and shareholder of a number of private companies which are involved in property development and property investment.

**Present Directorships in public companies and/or listed issuers**

None

**Other Memberships/Appointments/Involvements**

None

**Other information**

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



**Leong Kit May**

Chief Executive Officer/Executive Director

**Nationality/Age/Gender**

Malaysian/40/Female

**Date first appointed to the Board**

15 November 2011

**Board Committee Membership**

- Member of the Executive Committee

**Academic/Professional Qualifications**

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

**Working Experience/Occupation**

Kit May started her career in the audit industry with Ernst & Young, where she gained audit and accounting experience. In 2001, she joined the UOA group of companies and was involved in the various areas of the group's property sector operations such as development, construction and investment. She was also involved in the successful listing of UOA Real Estate Investment Trust in 2005. Kit May joined Axis REIT Managers Berhad ("ARMB") in 2006, and in 2008, was promoted to Chief Financial Officer. In the same year, she spearheaded the project of converting Axis Real Estate Investment Trust ("Axis-REIT") into the world's first Islamic Office/Industrial REIT. She continued to climb the corporate ladder and was appointed to the Board of ARMB as an Executive Director in November 2011. In 2012 and 2013, Kit May led the issuance of Axis-REIT's first Islamic Medium Term Notes (Sukuk) programme. The Sukuk, which had an initial nominal value of RM300 million, was subsequently upsized to RM3 billion in 2015. As part of the Board's succession plans, Kit May was groomed to be the next Chief Executive Officer ("CEO") of ARMB. In preparation for this, she took on the position of Chief Operating Officer of ARMB in 2015, before assuming the role of CEO on 1 January 2016.

**Present Directorships in public companies and/or listed issuers**

- Axis REIT Sukuk Berhad

**Other Memberships/Appointments/Involvements**

Vice Chairman of the Malaysian REIT Managers Association



**Stephen Tew Peng Hwee @ Teoh Peng Hwee**

Non-Independent Non-Executive Director

**Nationality/Age/Gender**

Malaysian/55/Male

**Date first appointed to the Board**

25 October 2004

**Board Committee Membership**

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

**Academic/Professional Qualifications**

- Diploma from the Institute of Marketing, United Kingdom

**Working Experience/Occupation**

In 1982, he started his career as a real estate agent and today owns the real estate agency, Hectares & Stratas. He had purpose-built many buildings for investment income which had housed multinationals. In 1992, he teamed up with Dato' Abas Carl Gunnar Bin Abdullah and other investors to build Crystal Plaza. This was followed with the building of Axis Business Park, Axis Plaza and Menara Axis, all of which formed the core property portfolio of Axis Real Estate Investment Trust upon listing. He is also a director and shareholder of a number of private companies which are mainly principally involved in investment holding.

**Present Directorships in public companies and/or listed issuers**

- Axis REIT Sukuk Berhad

**Other Memberships/Appointments/Involvements**

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



## Directors' Profile



**Datuk Seri Fateh Iskandar Bin Tan Sri  
Dato' Mohamed Mansor**  
Independent Non-Executive Director

**Nationality/Age/Gender**  
Malaysian/48/Male

**Date first appointed to the Board**  
20 November 2006

**Board Committee Membership**

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

**Academic/Professional Qualifications**

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

**Working Experience/Occupation**  
Better known as Datuk Seri FD Iskandar, he is currently the Group Managing Director/Chief Executive Officer of Glomac Berhad ("Glomac"), a property company listed on the Main Market of Bursa Malaysia Securities Berhad, a position he has held since June 2000. Prior to joining Glomac, he practised law in Australia before returning back to Malaysia to join Kumpulan Perangsang Selangor Berhad ("KPS") as its Corporate Manager. He left KPS to join Glomac in 1992 as the General Manager for Business Development and then appointed to the Board of Directors of Glomac in February 1997.

**Present Directorships in public companies and/or listed issuers**

- Glomac Berhad and Group of Companies
- Media Prima Berhad
- Telekom Malaysia Berhad
- Vads Berhad

**Other Memberships/Appointments/Involvements**

- City Advisory Board Member for Dewan Bandaraya Kuala Lumpur
- President of the Real Estate & Housing Developer's Association ("REHDA") Malaysia
- Immediate Past Chairman of REHDA Selangor Branch
- Former Deputy Chairman of the Malaysian Australian Business Council
- Co-Chair of the Special Taskforce to Facilitate Business Group (PEMUDAH) on legal and services
- Founding Director of Malaysian Property Incorporated
- Awards bestowed:
  - Malaysian Business Award in Property 2012
  - Property Excellence Award by Asean Business Council (2013)
  - Entrepreneurship Award – Property & Real Estate by Asia Pacific Entrepreneurship Malaysia (2013)
  - Global Leadership Awards 2014 – Commercial Property Development by The Leaders International
  - The Brand Laureate Corporate Leader Brand Icon Award by Asia Pacific Brands Foundation
  - Global Leadership Awards 2015 Masterclass Developer of the Year by The Leaders International



**Alvin Dim Lao**  
Non-Independent Non-Executive Director

**Nationality/Age/Gender**  
Filipino/45/Male

**Date first appointed to the Board**  
30 December 2011

**Board Committee Membership**

- Member of the Audit Committee

**Academic/Professional Qualifications**

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

**Working Experience/Occupation**  
He is currently the President and Chief Executive Officer of D&L Industries Inc. ("D&L"), a position he assumed in August 2016. Prior to this, he was the Chief Financial Officer and Executive Vice-President of D&L, a public company engaged in product customisation and specialisation for food, plastics and aerosol industries. D&L is listed on the Philippine Stock Exchange. Before joining D&L and its group of companies, he worked for the Singapore National Computer Board and was also subsequently seconded to the Supreme Court. Alvin Lao is also the Chief Financial Officer of LBL Industries Inc. ("LBL") where he is in charge of the financing, development and leasing of the property portfolio of LBL. LBL is a multi-faceted property development company with industrial and commercial projects focused in the Manila region. He also sits on the board of Xurpas, Inc., a public company listed on the Philippine Stock Exchange, as an independent director.

**Present Directorships in public companies and/or listed issuers**  
None

**Other Memberships/Appointments/Involvements**

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

**Family relationship & other information**  
Alvin Lao represents the interests of the Lao family, including that of Alex Lee Lao, who is an ultimate major shareholder of Axis REIT Managers Berhad ("ARMB"), on the Board of ARMB. He is a nephew of Alex Lee Lao.

Alvin Lao's alternate director is Jancis Anne Que Lao, who is a daughter of Alex Lee Lao.



**Mohd Sharif Bin Hj Yusof**

Senior Independent Non-Executive Director

**Nationality/Age/Gender**

Malaysian/77/Male

**Date first appointed to the Board**

10 August 2007

**Board Committee Membership**

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

**Academic/Professional Qualifications**

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

**Working Experience/Occupation**

He had served the Selangor State Government from 1967 until 1971. He then became the Senior Accountant of Anglo Oriental Sdn Bhd from 1972 until 1973 and subsequently moved on to be the Corporate Finance Officer of Bumiputera Merchant Bankers Berhad from 1973 until 1977. This was followed by a 12-year career as Senior Vice-President and Company Secretary of Manulife Insurance Malaysia Berhad (formerly known as British American Life & General Insurance Company Berhad). He is also a Director of Setia Raya Sdn Bhd, a family-owned company since 1989.

**Present Directorships in public companies and/or listed issuers**

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

**Other Memberships/Appointments/Involvements**

None

**Other Disclosures**

1. Except as disclosed above, none of the Directors of ARMB has any family relationship with any Director of ARMB and/or major shareholder of ARMB, and/or major unitholder of Axis-REIT.
2. None of the Directors of ARMB has any conflict of interest with Axis-REIT.
3. None of the Directors of ARMB has been convicted of any offence (other than traffic offences) within the past ten (10) years.
4. The details of the attendance of each Director of ARMB at Board meetings held in the financial year 2016 are contained in the Corporate Governance Statement of this Annual Report.
5. The details of the unitholdings held by each Director of ARMB in Axis-REIT are contained in Note 9 to the Financial Statements.

# MANAGER'S DISCUSSION AND ANALYSIS

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# Manager's Discussion and Analysis

## Letter from the CEO

### Dear Unitholders,

2016 was an eventful year by any measure, and an exciting one for Axis-REIT. Amid the many surprising global political and economic developments, Axis-REIT remained focussed on its mission of delivering consistent distributions to Unitholders through growing its property portfolio while maintaining the highest level of corporate governance, excellent capital and risk management and preserving capital values.

I am pleased to report that the Fund has grown from strength to strength, with its Assets Under Management ("AUM") and Net Asset Value ("NAV") reaching RM2,244,274,000 and RM1,392,971,000 respectively as at the end of 2016.

### Highlights for 2016

Completed the acquisition of five industrial properties.

Signed the Sale & Purchase Agreement for the acquisition of Kerry Warehouse, located in Pasir Gudang, Johor for RM33.0 million on 23 May 2016.

Entered into a build-and-lease agreement for the development of the Nestlé Distribution Centre, which will occupy half of the Axis PDI Centre site, with a lease term of 10+3+3 years.

Signed the Sale & Purchase Agreement for the disposal of Axis Eureka for RM56.1 million on 24 October 2016.

Recorded a total revaluation gain of RM29.9 million in 2016.

Declared a total distribution per unit ("DPU") of 8.25 sen for the financial year ended 31 December 2016.

Successfully implemented the Income Distribution Reinvestment Plan (IDRP) in conjunction with the payment of the First Interim Income Distribution of 2016, with a 79% subscription rate.

Closed trading on 31 December 2016 at a 28% premium to NAV.



# Manager's Discussion and Analysis

## Letter from the CEO

### Development of the Nestlé Distribution Centre

Axis-REIT reached a major milestone in 2016 when it entered into a build-and-lease agreement with Nestlé Products Sdn Bhd to develop the latter's 515,000 sq. ft. Nestlé Distribution Centre. This is the Fund's maiden development project, having been granted a special waiver by the Securities Commission Malaysia to embark on property development activities.

The Nestlé Distribution Centre kicks off the first phase of development of Axis PDI Centre, and will take up 24.78 acres of the 50-acre property. Construction commenced in December 2016 and is on schedule to be completed by end-2017.

The agreement with Nestlé Products Sdn Bhd includes an initial lease term of 10 years, plus an option to renew for two further terms of three years each. We expect the Fund to derive an annual rental income of about RM19.2 million initially, with a step-up every three years. The venture is expected to increase the Fund's gross revenue, net property income and income distribution to its Unitholders, while growing its total assets under management.

### An Eventful Year

The world saw a slew of economic and political upheavals in 2016 that had sent shockwaves through the global financial markets. These included moderate economic growth in China and Japan, the UK's surprising Brexit vote, Donald Trump's unexpected triumph in the US presidential elections, and the US Federal Reserve's rate hike.

On the home front, these events also weighed on Malaysia's economic outlook and dampened investors' sentiment, which was already grappling with stalling domestic corporate earnings growth and the depreciating ringgit. Consumers and businesses remained subdued, with the MIER Consumer Sentiment and Business Conditions Indices closing the year with pessimistic readings.

Although investor sentiment was partly revived following the OPEC-led agreement to cut oil production (which lifted oil prices back up above the US\$50 per barrel level), the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) still closed the year lower, shedding 3% year-on-year to close at 1,641.73 on 31 December 2016.

### Portfolio Management

Despite the challenging economic conditions, Axis-REIT turned in a commendable performance, maintaining its portfolio occupancy rate at 92% with a stable weighted average lease expiry period of 4.45 years (based on rental). The Manager also achieved an 86% tenant retention rate and a positive rental reversion of 3% across its entire portfolio in 2016.

The Manager secured 667,919 sq. ft. of new lease commitments in 2016. This includes the 515,000 sq. ft. Nestlé Distribution Centre that will be completed by end 2017 and handed over in 2018, as well as 53,252 sq. ft. of additional space taken up by several existing tenants, namely Fuji Xerox, Montreal Trading, Brightstar, Computer Asia, Achieva, Quantum Diagnostics and Hitachi eBworx. In addition, the team also secured new tenants to occupy 99,667 sq. ft. of space.

Looking ahead, 2017 will see tenancies for 1,353,271 sq. ft. of space, representing 17.8% of the portfolio, coming up for renewal. Out of this, 21.4% or 290,048 sq. ft. has already been renewed, thanks to the proactive marketing and leasing efforts of the Manager.

The office market is expected to remain challenging in 2017. Demand-supply dynamics continue to favour tenants, and this is further exacerbated by the cautious business and consumer sentiment. Prospective tenants continue to seek rental savings, but in this regard, Axis-REIT's office properties are well-positioned to benefit, given their strategic locations, with good proximity to public transportation and easy access to amenities. We are confident that the Fund's office portfolio will continue to appeal to companies that are expanding or relocating from properties with higher rental rates.

We also expect our industrial portfolio to continue to perform very well. The segment has benefited from rising demand for industrial and warehousing space, and continues to command good rental yields. Our growth strategy continues to focus on the industrial sector, having concluded the acquisition of five industrial properties in 2016, and as work progresses on the development of the Nestlé Distribution Centre.



## Portfolio Rejuvenation

In addition to acquiring new properties, our portfolio management strategy also includes assessing divestment opportunities, and on 24 October 2016, Axis-REIT executed a sale and purchase agreement for the disposal of Axis Eureka, which is the Fund's only property in Cyberjaya. The disposal is aligned with the Fund's objectives, as the Manager believes it has maximised the income-generating potential of the property. The favourable disposal consideration presented a good opportunity for the Fund to exit its investment and redeploy its resources on other yield-accretive assets.

## Commitment to Sustainability

As Malaysia's first and largest business space and industrial real estate investment trust, we aim to be at the forefront of adopting the industry's best practices. In line with this goal, we are pleased to include the Fund's inaugural sustainability report as part of this 2016 Annual Report.

The Manager's primary objective is to ensure that the Fund provides a regular and stable income distribution to Unitholders and to ensure long-term growth in the NAV of the Fund. In the pursuit of these objectives, we are cognizant that the practice of good corporate governance is imperative to protect the interests of the Fund's Unitholders.

As a responsible corporate citizen, we are also committed to upholding sustainable practices, safeguarding our internal and external stakeholders as well as the environment, and supporting a responsible social development agenda. Our Sustainability Report documents our commitment, strategy and progress in managing our economic, environmental and social risks.

During the first half of 2016, our key management team initiated a strategy planning and discussion workshop to review the Fund's strengths and weaknesses, identify key opportunities and formulate strategies that would carry us towards our long-term goals in a sustainable manner. The findings have been encapsulated in our 2021 Strategy Plan, a five-year plan that outlines our mid- to long-term strategies and targets to ensure the continuity and sustainability of our efforts. For our internal stakeholders, we established a "buddy system" among all employees to ensure backup support across all departments and managerial levels, which we believe will promote internal efficiency, business continuity and improved productivity. The team also maintains open channels of communication, engaging in weekly cross-departmental meetings to ensure the leasing, facilities and engineering departments are united in the management of the Fund's portfolio of properties.

## Accolades to the "A Team"

The A Team has been instrumental in driving the Fund's success, coming together with the highest level of cohesion to ensure the continuous delivery of strong results to Unitholders, even in challenging times. I am proud to be a part of this team, which remains steadfast in its commitment to Axis-REIT's mission. We will continue to endeavour to formulate and implement prudent and effective strategies and deliver the best possible returns to our Unitholders.

## Embracing Opportunities

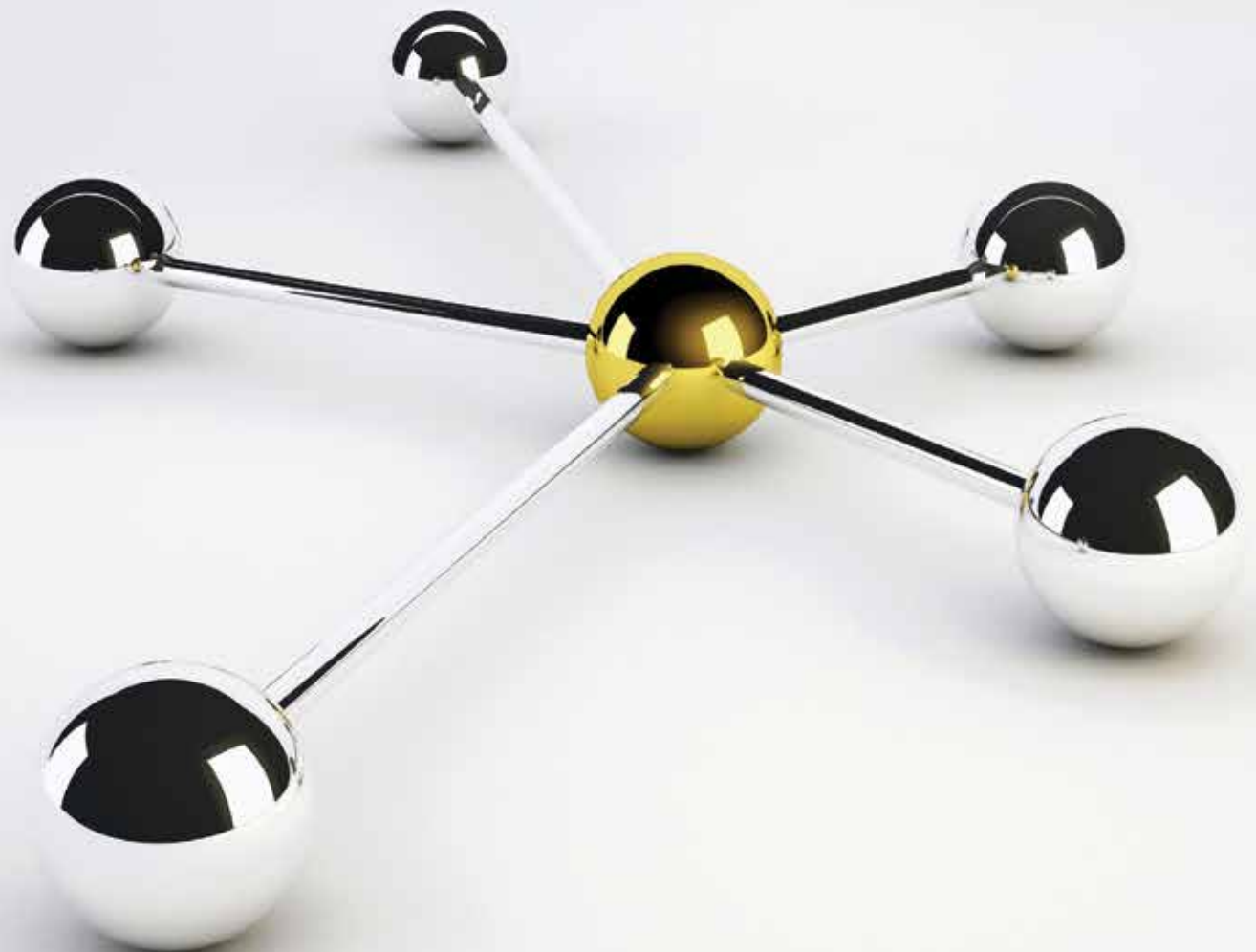
2017 is shaping up to be another challenging year. While a sustained recovery in crude oil prices would bode well for Malaysia's economy and the ringgit, we expect downside risks to growth emerging from volatile external demand in light of uncertainties over trade policies, and amid slower economic growth particularly in China and Japan.

**Against this backdrop, we are committed to being open, adaptable and resilient in seeking out and capitalising on new opportunities for the Fund. "Embracing Opportunities" – the theme for our 2016 annual report, encapsulates this stance and, guided by our six principles of management, we remain focused on delivering the best returns to our Unitholders.**

On behalf of the Manager, I am pleased to submit our report and audited financial statements to the Unitholders of Axis Real Estate Investment Trust (Axis-REIT) for the year ended 31 December 2016.

**Leong Kit May**  
Chief Executive Officer  
15 February 2017

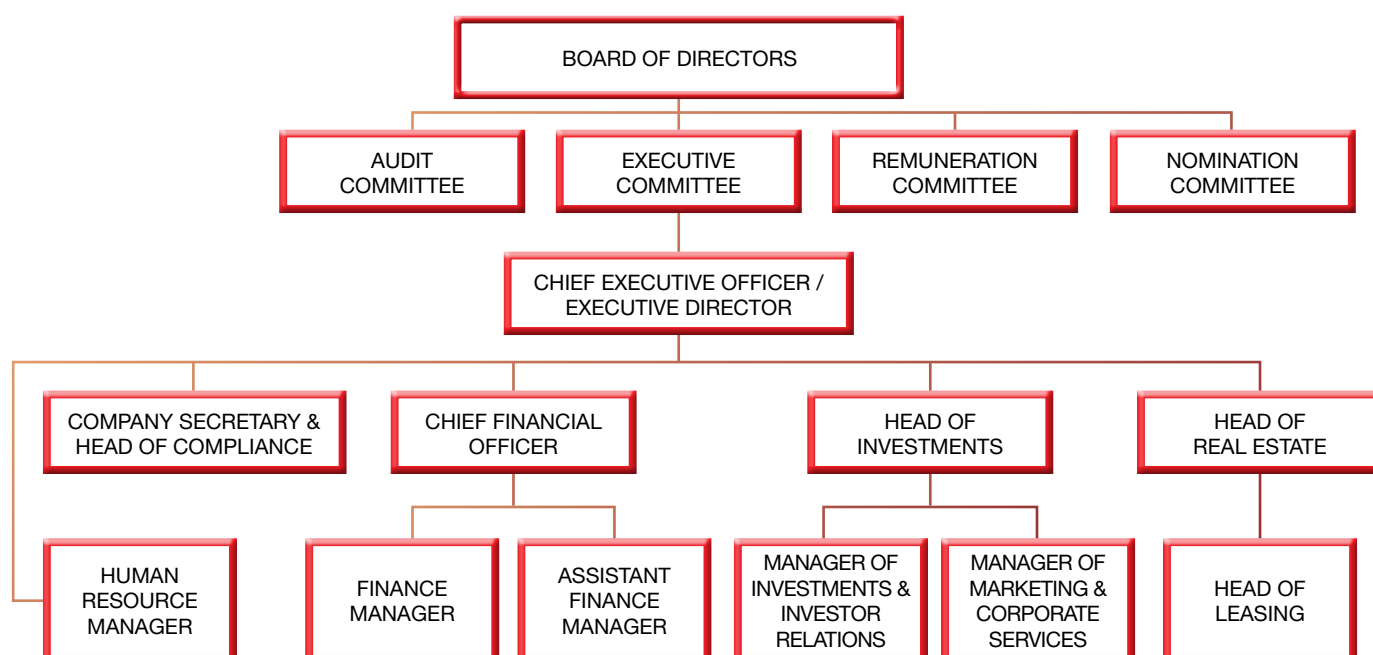
# THE A TEAM



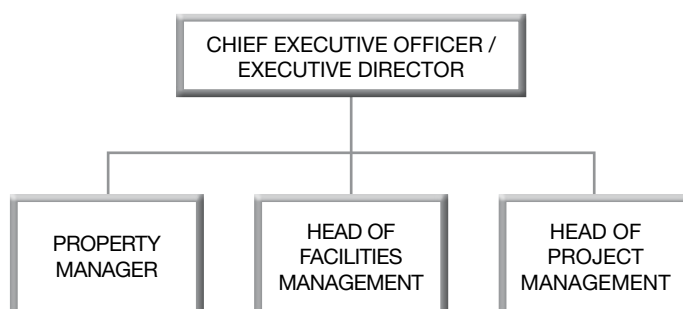


# The A Team's Organisational Structure

## CORPORATE DIVISION



## PROPERTY MANAGEMENT DIVISION



## The A Team Profile



### **Leong Kit May**

Chief Executive Officer/Executive Director

### **Nationality/Age/Gender**

Malaysian/40/Female

### **Date first appointed to the Board**

15 November 2011

### **Academic/Professional Qualifications**

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

### **Working Experience**

Kit May is the Chief Executive Officer/Executive Director of Axis REIT Managers Berhad. Please refer to her profile contained in the Directors' Profile section for more details

### **Present Directorships in public companies and/or listed issuers**

- Axis REIT Sukuk Berhad

### **Other Memberships/Appointments/Involvements**

Vice Chairman of the Malaysian REIT Managers Association



### **Nikki Ng**

Chief Financial Officer

### **Nationality/Age/Gender**

Malaysian/39/Female

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

1 June 2012

### **Academic/Professional Qualifications**

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

### **Working Experience**

Nikki joined Axis REIT Managers Berhad ("ARMB") as an Accountant, and was subsequently re-designated as the Head of Credit Control in 2012. She was promoted to the position of Acting Financial Controller in 2015, and thereafter to Financial Controller in the following year. She assumed her current position as the Chief Financial Officer of ARMB on 18 January 2017. Her responsibilities involve overseeing all the day-to-day operations in the finance department of ARMB, including management reporting, credit control, as well as budgetary control. She works closely with the Chief Executive Officer/Executive Director in matters related to corporate finance, capital management, regulatory compliance and treasury functions. Before joining ARMB, she was the Finance Manager of Paxelent Corporation Berhad, where she gained exposure in financial management and corporate planning. Prior to that, she was attached to IGB Corporation Berhad for 6 years.

### **Present Directorships in public companies and/or listed issuers**

None



**Siva Shanker**

Head of Investments

**Nationality/Age/Gender**

Malaysian/54/Male

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

1 January 2016

**Academic/Professional Qualifications**

- Diploma in Estate Agency, Board of Valuers, Appraisers & Estate Agents Malaysia ("Board of VAEA")
- Member of the Council of Management of Malaysian Institute of Estate Agents
- Registered Estate Agent with the Board of VAEA
- Member of Royal Institution of Surveyors Malaysia
- Member of the International Real Estate Federation (FIABCI) Malaysian Chapter

**Working Experience**

Siva is the Head of Investments of Axis REIT Managers Berhad ("ARMB"), where he is responsible for the investment strategies and property portfolio planning of Axis Real Estate Investment Trust. He also oversees the marketing activities of ARMB. He has more than 30 years' experience in the property industry, having worked in both large international property consultancies, as well as small local outfits. Siva has been an active member of Malaysian Institute of Estate Agents for many years, and served as its President for the 2013/2015 term. In recognition of his excellent services to the industry, Siva was awarded the Estate Agent of the Year 2014 award by the Board of VAEA. Siva is also an accomplished speaker and real estate trainer. He was instrumental in the massive registration exercise for Real Estate Negotiators, and was personally responsible for training more than 12,000 negotiators in 2013 and 2014.

**Present Directorships in public companies and/or listed issuers**

None

**Rebecca Leong**

Company Secretary & Head of Compliance

**Nationality/Age/Gender**

Malaysian/38/Female

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

1 November 2016

**Academic/Professional Qualifications**

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

**Working Experience**

Rebecca held office as external Company Secretary of Axis REIT Managers Berhad ("ARMB") since 20 April 2006 when she was employed under Archer Corporate Services Sdn Bhd ("Archer"), a corporate secretarial firm. During her tenure with Archer, an employment she commenced in February 2004, she handled the corporate secretarial matters for a portfolio of public and private companies ranging from corporate advisory, corporate governance and administration, to corporate compliance with statutory and regulatory requirements, as well as listing obligations. Prior to joining Archer, Rebecca was attached to Signet & Co Sdn Bhd, also a corporate secretarial firm, where she gained her initial exposure and experience in corporate secretarial practice. After a 12-year tenure with Archer, ARMB hired her in-house, and she took on the role of Company Secretary and Head of Compliance. She is responsible for the corporate compliance matters of ARMB and Axis Real Estate Investment Trust.

**Present Directorships in public companies and/or listed issuers**

None



## The A Team Profile

### Jackie Law

Head of Real Estate

### Nationality/Age/Gender

Malaysian/52/Female

### Date first appointed as key senior management personnel

1 December 2012

### Academic/Professional Qualifications

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

### Working Experience

Jackie has held office as Head of Real Estate of Axis REIT Managers Berhad ("ARMB") since 1 December 2012. In this capacity, she is responsible for the asset management strategies and operations of Axis Real Estate Investment Trust's property portfolio, including leasing, marketing, evaluation of potential acquisitions, as well as recommending and analysing potential asset enhancement initiatives with a view to enhance the properties in the portfolio. In addition, she oversees the property management aspects covering the delivery of tenant care and services, and has the responsibility of maximising tenant retention, loyalty and satisfaction. Jackie has extensive experience in various areas of real estate management and operations spanning across marketing, lease management, project management and facilities management. She has served in several administrative roles in the Axis group of companies since 1994 in the areas of property development and management.

### Present Directorships in public companies and/or listed issuers

None

### Lynn Chia

Head of Leasing

### Nationality/Age/Gender

Malaysian/35/Female

### Date first appointed as key senior management personnel

15 February 2016

### Academic/Professional Qualifications

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

### Working Experience

Lynn joined Axis REIT Managers Berhad ("ARMB") as the Head of Leasing in 2016, where she is responsible for the leasing administration of Axis Real Estate Investment Trust's property portfolio. She works closely with the Head of Real Estate of ARMB in leasing matters and management of tenant care. She has 10 years of working experience in leasing. Prior to joining ARMB, she worked for CapitaLand Malaysia Mall Trust as Leasing Manager, and Tesco Stores (M) Sdn Bhd as Property Acquisition Manager.

### Present Directorships in public companies and/or listed issuers

None



### **Chan Tze Wee**

Manager, Investments & Investor Relations

### **Nationality/Age/Gender**

Malaysian/37/Female

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

1 January 2016

### **Academic/Professional Qualifications**

- Law (LLB), University of Manchester
- Master's degree in Marketing, University of Manchester, United Kingdom

### **Working Experience**

Tze Wee joined Axis REIT Managers Berhad ("ARMB") in July 2014. As part of the Investments team that sources for new asset acquisitions for Axis Real Estate Investment Trust ("Axis-REIT"), her key responsibilities include the identification, evaluation and completion of such asset acquisitions through engagement with prospective parties such as real estate consultants, property developers, business councils, as well as industry associations. She also heads the Investor Relations department of ARMB, where she is responsible for the investor relations activities of Axis-REIT with a view to maintain stakeholder engagement through open communication and continuous disclosure with Unitholders of Axis-REIT, analysts and potential investors. Tze Wee began her career in the advertising industry in Saatchi & Saatchi and the Ogilvy Group. She was vice president of investment promotions at Malaysia Property Incorporated, where she led the formation of the market intelligence division and headed the business development agenda for China and new markets. Prior to joining ARMB, she spent two years setting up and running the Shanghai office of a cloud computing software startup with Workflow International Limited.

### **Present Directorships in public companies and/or listed issuers**

None



### **Low Ay Kean**

Human Resource Manager

### **Nationality/Age/Gender**

Malaysian/42/Female

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

1 December 2015

### **Academic/Professional Qualifications**

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

### **Working Experience**

Ay Kean joined Axis REIT Managers Berhad ("ARMB") as the Human Resource Manager on 1 December 2015. Prior to her employment with ARMB, she had served in the human resource departments of several organisations, including Malaysian Bulk Carriers Berhad, Zelan Berhad, Kurihara and Cybervision Sdn Bhd. She is responsible for the full spectrum of human resource and administrative functions in ARMB, which encompass manpower, recruitment and selection, compensation and benefits, training, employee welfare, industrial relation matters and general office administration.

### **Present Directorships in public companies and/or listed issuers**

None



## The A Team Profile



### **Selina Khor**

Property Manager of Axis Real Estate Investment Trust

### **Nationality/Age/Gender**

Malaysian/58/Female

### **Academic/Professional Qualifications**

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

### **Working Experience**

Selina is the registered owner of Axis Property Services, the appointed Property Manager of Axis Real Estate Investment Trust ("Axis-REIT") since 1 January 2007. She is responsible for the management of all the properties in Axis-REIT's portfolio, and works closely with the property management company, Axis Facilities Management Sdn Bhd, in the provision of property management services ranging from property maintenance and management, fit-out projects and enhancement initiatives. She has more than 25 years of experience in the property industry, having been attached to Rahim & Co Chartered Surveyors Sdn Bhd, where she had undertaken various roles such as registered valuer, estate agent and property manager.

### **Present Directorships in public companies and/or listed issuers**

None



### **Siva Shankar Palany**

Head of Facilities Management, Axis Facilities Management Sdn Bhd

### **Nationality/Age/Gender**

Malaysian/44/Male

### **Academic/Professional Qualifications**

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

### **Working Experience**

Siva Shankar is the Head of Facilities Management of Axis Facilities Management Sdn Bhd ("AFM"), where he is responsible for the facilities management and operations of all the properties in the portfolio of Axis Real Estate Investment Trust. He has had more than 20 years of working experience in real estate professional services in Malaysia and Brunei, which include property management, project management, property due diligence and building code compliance. He was previously attached to Jones Lang Wootton Malaysia as a Senior Property Manager, and with Jerudong Park Medical Centre, Brunei, as a Real Estate Manager, before joining AFM in 2011.

### **Present Directorships in public companies and/or listed issuers**

None



**Loh Yen Fern**

Head of Project Management, Axis Facilities Management Sdn Bhd

**Nationality/Age/Gender**

Malaysian/45/Female

**Academic/Professional Qualifications**

- Bachelor of Construction Economics, Royal Melbourne Institute of Technology University, Australia

**Working Experience**

Yen Fern is the Head of Project Management of Axis Facilities Management Sdn Bhd ("AFM"). She is responsible for project management, planning, costing and enhancement work for the properties in Axis Real Estate Investment Trust's portfolio. She has more than 20 years of working experience in the construction and building industry in Malaysia, where she has specialised in project planning, management, and facilities management. Prior to joining AFM, she was attached to Syarikat Pembinaan Woh Heng Sdn Bhd as a Quantity Surveyor, and FSBM Holdings Berhad, where she started as a Business Analyst before being promoted to be the Head of Business Unit (Properties).

**Present Directorships in public companies and/or listed issuers**

None



## Manager's Discussion and Analysis

### Our Competitive Advantage

Since the listing of Axis Real Estate Investment Trust ("Axis-REIT" or "the Fund" or "the Trust") on Bursa Malaysia Securities Berhad ("Bursa Securities") on 3 August 2005, the Manager has provided the Fund's Unitholders with consistently rising income distributions and a strong unit price performance. This momentum has been built on a well-defined strategy with a strong focus on innovation and transparency.

Looking back at where we were in 2005, we had five (5) properties with a total asset size of RM296.0 million. Now, we have thirty nine (39) properties worth RM2.2 billion. The Manager believes that the Fund could not have arrived at this point without the core value of putting people first.

We attribute our competitive advantage to the following:

#### Our People - The A Team

Our strength lies in our people - a highly experienced group of professionals who have a track record of excellence and who have delivered consistently over the years on the Manager's promise to provide long-term sustainable distributions and capital stability through its six (6) principles of management, namely:

- Prudent capital and risk management;
- Yield-accretive asset purchases;
- Excellent investor relations;
- Maintaining the highest levels of corporate governance;
- Proactive asset and tenant management; and
- Development of human capital.

Since listing, we have managed the Fund's assets with teams dedicated to a culture of comprehensive financial and capital management, business development, investor relations, asset enhancement initiatives and facilities management, leasing and project management. By leveraging on our in-house and affiliated resources, we ensure that the management of the Fund's assets is aligned with the interests and expectations of Unitholders.

In keeping pace with the rapid growth of the Fund's asset base, the calibre of the facilities management team has also grown to that of a world-class property manager. The property team oversees the strategic management of the Fund's assets, ensuring that tenants are kept happy, space is leased out and buildings are operating efficiently. We are committed to improving tenant satisfaction, increasing income and growing value from our property portfolio.

The Manager focuses on revenue management through optimising occupancy and rental rates; acquiring the highest quality and sustainable properties with strong growth prospects at an attractive price; expense management in improving building efficiency and managing our suppliers; facilities management in the maintenance of the buildings in our portfolio; tenant-care to ensure tenant retention and satisfaction; and lastly, efficient project management of all the enhancement projects undertaken by the Manager.

This focus has enabled us to increase the Fund's returns from organic growth.

As part of its effort to maintain and strengthen the Fund's competitiveness, the Manager continues to improve profitability and expand the property portfolio through the acquisition of new properties. The Manager ensures proper timing for growth by investing in a variety of business sectors.

The growth in the size of our portfolio through new acquisitions further enhances the income distribution to Unitholders and refreshes the property portfolio.

The Manager remains focused on increasing returns and creating value for Unitholders as we continue to manage through the current challenging operating environment. Our achievements in 2016 clearly demonstrate our commitment of continuously delivering a superior performance for the Fund.

#### Succession Planning

The process of identifying and developing internal talent to assume leadership positions is critical in ensuring a smooth transition and continuity in an organisation's leadership. Recognising its importance, the Board of the Manager has put in place a succession plan, which facilitated the seamless transition in our Chief Executive Officer ("CEO") position in 2016. We continue to invest in our people to identify and develop their knowledge, skills and competencies, and in so doing, prepare them for progression into leadership positions.

In this regard, we are pleased to report that on 18 January 2017, Ms Nikki Ng was promoted to the position of Chief Financial Officer. Nikki, who was previously Axis REIT Managers Berhad's Financial Controller, has also worked closely with the CEO on various strategic and operational aspects of the Fund, in addition to her finance-related duties.

### Market Leadership and Innovation

The Manager takes pride in having built its reputation as one of Malaysia's leading REITs. Since the Fund's listing, we:

- Continue to provide increasing annual income distributions and strong total returns to Unitholders;
- Successfully introduced the innovative Income Distribution Reinvestment Plan (IDRP) - the only Malaysian REIT ("MREIT") to have done so;
- Have led the MREIT sector in Sukuk issuances, being one of the first listed entities on Bursa Securities to have upsized its Sukuk programme from RM300 million to RM3 billion;
- Are the first MREIT to adopt cloud computing solutions for finance and property management;
- Were instrumental in the formation of the Malaysian REIT Managers Association ("MRMA"), which today has 20 members, of which 16 are MREIT Managers;
- Established an informative and dynamic website, publishing a Chinese version of our Annual Report in digital format that is available for downloading from our website, in addition to publishing the Annual Report in English;
- Expanded our portfolio from five (5) to 39 assets, and have grown our assets under management over seven times to RM2.2 billion - the highest growth rate registered among MREITs;
- Continue to have a disposal strategy as part of our business plan to reward Unitholders with the distribution of capital gains derived thereof as tax-free distributions; and
- Are one of the first Malaysian REITs to undertake property development.

### Our Strategic Direction

Axis-REIT has built a strong track record since its listing in 2005. Since its formation, the Fund has successfully increased in size and profitability. In order to have a clear direction, the Fund is guided by a forward-looking strategy, as well as an innovative and flexible action plan. Given the current volatility in the capital markets, we believe it is important that we remain vigilant in order to anticipate and respond quickly to changes.

The Management team held its annual Strategy Workshop from 9 to 11 May 2016 to update and set the strategic direction of the Fund for the next five (5) years. Following this year's workshop, we revised our strategic goals and made adjustments to our existing plans, taking into account the changing landscape of the domestic and regional economies, property markets and human capital.

Our Vision and Mission Statement remains unchanged.

Our core strategy is:

- To target growth in our asset class, shifting our focus onto logistics and industrial asset classes as well as business parks, given the limited opportunities in the office market at this time;
- To build on our Sukuk presence in the market in order to diversify our sources of capital;
- To continue to enhance existing assets to drive value and income;
- To dispose of assets where the potential has been fully optimised, to reward our Unitholders;
- To embrace best practices and the highest standards of corporate governance as core management values;
- To set standards as a world-class asset management company; and
- To leverage on technology and sustainability.

### Prime Locations

The Manager has always done well in selecting assets that are very well located. The Fund's revaluation reserve of RM303.0 million in its books as at 31 December 2016 attests to this, with many of the assets that were purchased since listing having registered strong revaluation gains. The Fund recorded a RM29.9 million revaluation gain for the financial year 2016 ("FYE2016").

Looking forward, our primary choice of locations will continue to be the Klang Valley, Johor and Penang.

We will continue our aggressive approach in seeking quality asset acquisitions for the financial year ending 31 December 2017 ("FYE2017").

# Manager's Discussion and Analysis

## Our Competitive Advantage

### Adding Value via Asset Enhancement Initiatives

The Manager is committed in continuously enhancing our portfolio. We have, since listing, invested in Asset Enhancement Initiatives ("AEIs") to improve and upgrade our buildings to meet the current and future expectations of the rental market.

Over the years, in our effort to raise the value of our portfolio, our ongoing AEIs have supported our asset management strategy in terms of trade mix and customer service, through improving layouts, efficiency and facilities of the properties.

We will continue to develop our asset enhancement pipeline and upgrade partially renovated properties to further fulfil the needs of the market.

### Creating New Deal Flows

Part of our strategy has been to establish our Investment Team to create current and future deal flows for the Fund, and we are expanding this team for the purpose of business intelligence. We are currently mapping all opportunities in the market for potential acquisition targets and are pursuing all suitable leads.

The Investment Team also works with the promoters of Axis-REIT as well as other developers to look at development opportunities to encourage private equity initiatives to build and stabilise new products for injection into the Fund.

### Engaging Regulators

We continue to work with the Securities Commission Malaysia ("SC") and Bursa Securities, through the MRMA, to enable timely reviews of the REIT regulations in order to keep the industry competitive within the region. During 2016, there was a lot of effort by the MRMA, particularly in providing feedback on the recent proposed amendments to the REIT Guidelines as well as Bursa Securities' Listing Requirements. MRMA is fully supportive of the SC's proposed amendments to the SC's Guidelines on REITs that aim to further liberalise the MREIT sector.

### Disposal Strategy

Refreshing the portfolio through a disposal strategy for mature or underperforming assets has always been part of the Manager's strategy to give superior returns to our Unitholders.

Apart from continuing to grow the Fund's property portfolio, the Manager believes that Unitholders should reap and benefit from capital gains from time to time. The Fund has the flexibility to review the portfolio and dispose of those properties that have matured in their capacity for organic growth, or are consistently underperforming.

One criterion for disposal is that these assets must have achieved a significant capital gain such that while the gain is distributed back to Unitholders, the investment cost recovered can be redeployed in new properties with higher growth potential. For the Unitholders, this distribution of capital gains is an added bonus, greatly enhancing their returns and ensuring a refreshed portfolio that consistently outperforms the market.

At the point of reporting, the Manager is in the process of disposing of Axis Eureka. The disposal is expected to result in a net gain of approximately RM1.2 million, which translates into an additional income distribution of 0.11 sen per unit.

### Capital Management

In 2015, Axis-REIT received approval from the SC to upsize the current Sukuk Programme from RM300 million to RM3 billion. The purpose of the exercise was for the Fund to further reduce the percentage of short-term financing in its financing profile.

We continue to maintain an optimum mix of long- and short-term financing, targeting an average cost of funds of approximately 4.25% per annum. We continue to use the model of raising equity to pare down financing and leveraging up for future acquisitions.

Our policy of maintaining the Fund's gearing at around 35% remains, and we continuously stress-test our cash flow in a hypothetical environment of rising interest rates, monitor the capital markets and keep close contact with our financiers.

We also minimise the risk of bad debt through the efficient collection of rental and tenant monitoring.

We will continue to raise capital and grow the Fund through placements, and leverage on our Islamic credentials to attract both local and foreign Islamic capital.

## Risk Mitigation and Stability

Axis-REIT's portfolio has 7,606,863 sq. ft. of space under management, spread over 39 properties and five (5) asset classes. The Fund's assets are in choice locations, with a high quality and diverse tenant base in terms of origin and business sectors. The property portfolio is characterised by a mix of single- and multi-tenanted buildings with a Weighted Average Lease Expiry (WALE) of 4.45 years (based on rental), underscoring the stability of the Fund.

Tenant and lease management is core to the stability and performance of the Fund, and the Manager therefore focuses on excellence in our lease and facilities management. With occupancy at 92% as at 31 December 2016, filling vacancies and building a team to execute this will be a priority for the Manager in 2017.

In line with this goal, we will work to retain our current tenants and continue to reposition our properties through timely upgrades and redesign to attract new tenants, command higher rental rates and improve valuations.

We also endeavour to reduce risks by embracing new technologies to enhance service delivery and cost control. The implementation of the state-of-the-art, cloud-based Yardi Voyager Property Management software has helped us make huge productivity gains.

We also address issues raised in the Risk Register, a risk management framework adopted by the Manager, and ensure that action is taken to resolve all matters to minimise risk.

## Development of Human Capital

Our people are our most important asset and the development of our human capital is the cornerstone of our success.

The Manager continues to invest heavily in training its workforce at all levels. Many key managers have successfully completed the Certificate in Real Estate Investment Finance (CREIF) training conducted by Oxford Brookes University. The CREIF programme has been offered in Asia since 2007, and is a unique programme, combining distance learning with case study-based workshops conducted by leading industry practitioners. In addition, we send our key management staff on structured short-course training programmes to improve their knowledge and skills in their respective areas of responsibility.

We ensure that we have an effective recruitment policy so that the Manager has the necessary resources to continue to perform by employing the most suitable candidates when recruiting for new positions.

## Conclusion

Many of our productivity gains in recent years are attributable to the initiatives mentioned above.

A primary benefit, however, is the reduction in the Fund's cost of capital through enhanced transparency and comparability. Since sustainable buildings operate at a higher level of efficiency, energy and water use is reduced, resulting in lower operational and maintenance costs over time, thus improving the Fund's profitability. Such buildings are also able to attract and retain tenants even in highly competitive markets, and earn higher net operating revenues. In some cases, they may also reduce Takaful contributions and facilitate financing, potentially at a lower cost of capital.

We have taken steps to introduce and execute a comprehensive strategy for sustainability in all our current and future enhancement projects, as well as for the organisation as a whole, in managing the operations of Axis-REIT. We have embarked on detailed sustainability reporting with the following material sustainability issues being identified:

- Employee wellness and engagement
- Occupational health and safety
- Tenant engagement
- Energy and carbon footprint
- Community partnership and activities

Looking ahead, Axis-REIT will continue to build on its success, leveraging on innovation, technology and its people to drive growth in the Fund's size and returns to Unitholders.



# FINANCE TEAM



# Manager's Discussion and Analysis

## Financial Review

### Financial Highlights for 2016

**RM 166.7**  
million

#### Total Revenue

Grew 2.2% due to incremental rental income from newly acquired properties, as well as from positive rental reversions achieved during the year

**RM 91.1**  
million

#### Distributable Income

Distributable income stood at RM91.1 million despite the loss of income from Axis PDI Centre, which is undergoing development

**5.12%**

#### Annual Distribution Yield

Based on Axis-REIT's closing price of RM1.61 per unit on 31 December 2016 and the DPU of 8.25 sen for FYE2016

**RM 2.2**  
billion

#### Assets Under Management

Grew 4.8% following the addition of 5 new properties to the portfolio and a higher capital value of existing properties following revaluation in 2016

**RM 29.9**  
million

#### Fair Value of Investment Properties

Increased in fair value of investment properties for FYE 2016

**RM 103**  
million

#### Total Acquisitions

Completed 5 acquisitions in FYE2016 with a total consideration of RM103.0 million

**4.25%**  
p. a.

#### Effective Financing Cost

Maintained a healthy all-in-financing cost rate of 4.25%

# Manager's Discussion and Analysis

## Financial Review

Axis Real Estate Investment Trust (“Axis-REIT” or “the Fund”) delivered a commendable performance in 2016, despite the uncertain economic outlook and market volatility, achieving a distribution per unit (“DPU”) of 8.25 sen for the financial year ended 31 December 2016 (“FYE2016”).

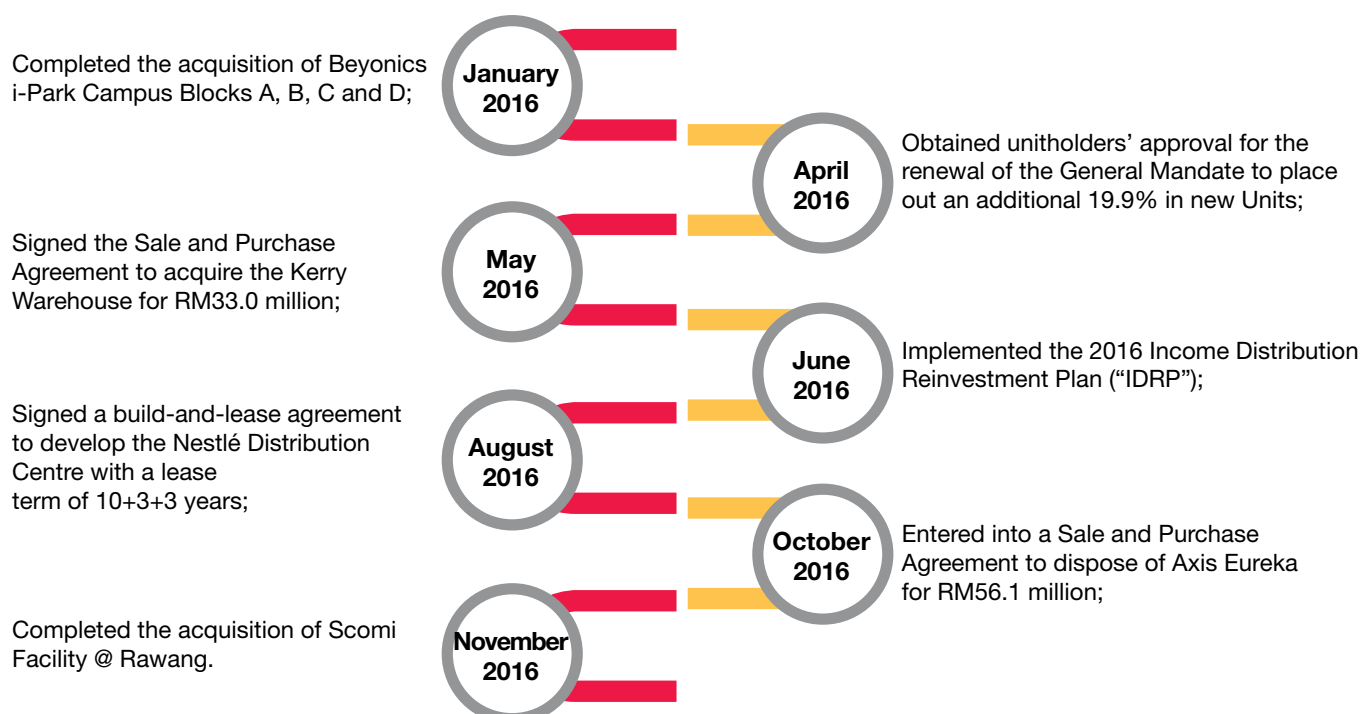
### Highlights

The Manager actively sought suitable investment opportunities for Axis-REIT through the year. These efforts resulted in the Fund's successful acquisition of five properties, namely Beyonics i-Park Campus Blocks A, B, C and D, and Scomi Facility @ Rawang, for a total consideration of RM103.0 million, which were completed during FYE2016. With these acquisitions, Axis-REIT's property portfolio increased from 34 properties to 39 properties as at 31 December 2016.

During the year, the Trustee entered into a build-and-lease agreement with Nestlé Products Sdn Bhd to develop the Nestlé Distribution Centre, which will occupy half of the Axis PDI Centre site. The agreement includes an initial lease term of 10 years with the option to renew the lease for two (2) additional terms of three (3) years each. Axis-REIT expects to derive an initial annual rental income of RM19.2 million upon completion of the project.

The Trustee also signed a Sale and Purchase Agreement for the disposal of Axis Eureka for a total disposal consideration of RM56.1 million. The disposal is expected to be completed in the first quarter of 2017.

Some of the significant events for the year are summarised below:





## Income Distribution

Every year, the net income of the Fund is distributed to Unitholders. The income available for distribution for FYE2016 was RM91,122,000.

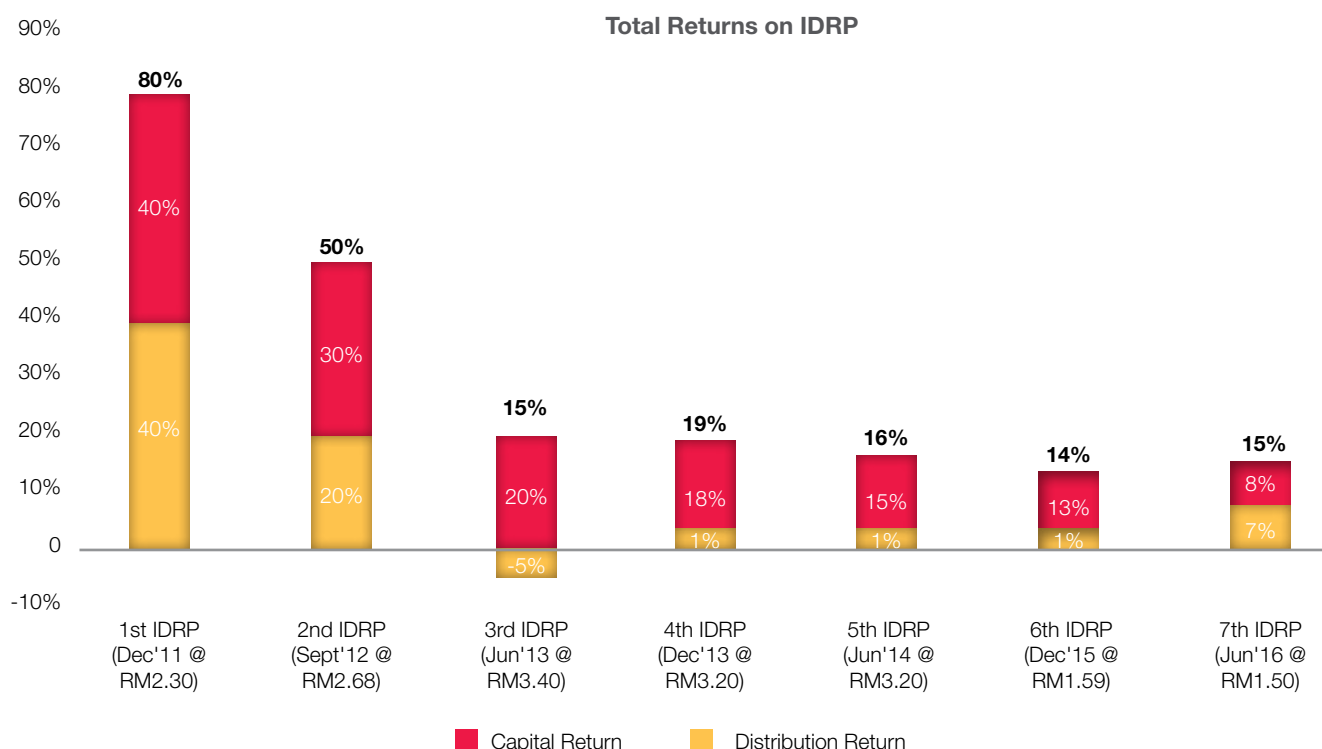
In FYE2016, the Fund declared a total income distribution of 8.25 sen per unit, based on a payout ratio of 99.94%. The total DPU represents an annual distribution yield of 5.12% based on Axis-REIT's closing unit price of RM1.61 on 31 December 2016.

## 2016 IDRP Successfully Implemented

The application of the IDRP in conjunction with the payment of the First Interim Income Distribution was successfully completed in June 2016, with a subscription rate of 79%. A total of 5,380,523 IDRP units were listed on the Main Market of Bursa Securities on 17 June 2016. Consequently, the total number of units in issue increased from 1,099,793,068 to 1,105,173,591 as at 31 December 2016.

The IDRP was offered to Unitholders at a price of RM1.50 per unit, effectively pricing it at an 8.35% discount to the five-day volume weighted average market price ("VWAMP"). There had been strong participation by the Unitholders since the first IDRP implemented. Similar to the experience of the 2015 IDRP, Unitholders who participated in the 2016 IDRP recorded a total return of 15% in the six-month period from the IDRP issuance date to 31 December of the year.

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



# Manager's Discussion and Analysis

## Financial Review

### Acquisition of Yield-Accretive Properties

Axis-REIT has built a strong track record of executing yield-accretive acquisitions, having grown its value of investment properties from RM2.05 billion in FYE2015 to RM2.2 billion as at 31 December 2016.

In line with our strategy to pursue investment opportunities that will improve the current and future returns to Unitholders, we completed five (5) acquisitions in FYE2016.

On 28 January 2016, we completed the acquisition of Beyonics i-Park Campus Blocks A, B, C and D for RM61 million, and subsequently, on 15 November 2016, we completed the acquisition of Scomi Facility @ Rawang for RM42 million. These acquisitions were fully debt-funded, utilising existing available banking facilities, and immediately began contributing to Axis-REIT's FYE2016 income upon their completion.

Axis-REIT also entered into a Sale and Purchase Agreement in May 2016 to acquire a single-storey warehouse for RM33.0 million, located in Pasir Gudang, Johor. The proposed acquisition is still pending completion, and is expected to be completed in the first half of 2017.

The Manager will continue to proactively seek yield-accretive investment opportunities that can expand the scale of Axis-REIT's portfolio and provide stable income growth and capital appreciation in the long term.

### Upgrading Property Management and Accounting Platforms

The Yardi system is constantly being improved and tested to ensure that our processes are effective in generating timely and accurate information for management action and decision-making, operationally and financially.

During the year, the Manager successfully enhanced the purchase order process to ensure the timeliness and efficiency of the workflow.

### Disposal of Axis Eureka

On 24 October 2016, the Trustee signed a Sale and Purchase Agreement for the disposal of Axis Eureka, the details of which, are available in our Investment Report.

Upon completion of the disposal, the Fund will recognise an estimated gain on disposal of approximately RM1.2 million, which will be distributed to Unitholders in FYE2017 in the form of a tax-exempt income distribution. The gain will translate into an incremental DPU of 0.11 sen to Axis-REIT's FYE2017 income distribution, while the balance proceeds of approximately RM53.2 million will be redeployed into future acquisitions.

## Summary of Performance

	2012	2013	2014	2015	2016
Total Asset Value (RM'000)	1,589,408	1,616,523	2,085,883	2,141,493	<b>2,244,274</b>
Total Net Asset Value (RM'000)	989,705	1,028,640	1,326,369	1,352,485	<b>1,392,971</b>
Units in Circulation (Units)	456,517,221	461,239,089	547,522,040	1,099,793 *	<b>1,105,174 *</b>
<b>Net Asset Value per Unit (RM)</b>					
- As at 31 December	2.17	2.23	2.42	1.22 *	<b>1.26 *</b>
- Lowest NAV during the year	2.09	2.14	2.22	1.22 *	<b>1.23 *</b>
- Highest NAV during the year	2.17	2.24	2.42	1.25 *	<b>1.26 *</b>
<b>Market Value per Unit (RM)</b>					
- As at 31 December	3.13	2.93	3.62	1.64 *	<b>1.61 *</b>
- Highest Traded Price for the year	3.22	4.02	3.70	1.85 *	<b>1.81 *</b>
- Lowest Traded Price for the year	2.62	2.93	2.80	1.55 *	<b>1.50 *</b>

\* Unit prices adjusted to reflect the effect of a 2-for-1 Unit Split in September 2015.

## Summary Of Results

	2012	2013	2014	2015	2016
Gross Revenue (RM'000)	132,673	141,314	137,625	163,077	<b>166,685</b>
Unrealised Rental Revenue (RM'000)	3,568	2,271	2,424	2,598	<b>4,655</b>
Property Operating Expenses (RM'000)	(20,125)	(20,812)	(21,553)	(23,746)	<b>(27,048)</b>
Net Property Income (RM'000)	116,116	122,773	118,496	141,929	<b>144,292</b>
Profit Income (RM'000)	293	667	1,210	744	<b>678</b>
Changes in fair value of investment properties (RM'000)	24,064	27,206	25,970	5,791	<b>29,861</b>
Unbilled Lease Income Receivable (RM'000)	(3,568)	(2,271)	(2,424)	(2,598)	<b>(4,655)</b>
Net gain/(loss) on financial liabilities measured at amortised cost * (RM'000)	(598)	(86)	2,744	(683)	<b>2,446</b>
Net gain/(loss) on disposal of investment property (RM'000)	1,012	-	1,614	-	<b>-</b>
Fair value change on derivatives (RM'000)	-	(366)	455	(81)	<b>(201)</b>
Net property and investment income (RM'000)	137,319	147,923	148,065	145,102	<b>172,421</b>
Non-Property Expenses (RM'000)	(34,203)	(36,642)	(37,610)	(48,465)	<b>(50,129)</b>
Net Income before taxation (RM'000)	103,116	111,281	110,455	96,637	<b>122,292</b>
Breakdown of Net Income after taxation:					
- Realised Income after taxation (RM'000)	79,650	84,527	81,286	91,537	<b>90,186</b>
- Unrealised Income after taxation (RM'000)	23,466	26,754	29,169	5,027	<b>32,106</b>
Income available for distribution (RM'000)	84,972	84,942	92,720	92,154	<b>91,122</b>
Earnings per Unit (Realised + Unrealised) (sen)	22.68	24.30	23.64	8.81	<b>11.09</b>
Income Distribution (RM'000)	84,677	84,903	92,684	92,114	<b>91,067</b>
Distribution per unit (DPU) (sen)	18.60	18.50	19.75	8.40**	<b>8.25**</b>
Distribution yield (based on closing market price on 31 December) (%)	5.94	6.31	5.46	5.12	<b>5.12</b>
EPU yield (based on closing market price on 31 December) (%)	7.25	8.29	6.53	5.37	<b>6.89</b>
Management Expense Ratio ("MER") (%)	1.12	1.25	1.29	1.36	<b>1.25</b>
Annual total return *** (%)	26.56	-0.5	30.29	-4.75	<b>3.20</b>
Average total return (3 years) (%)	27.03	14.91	18.78	8.35	<b>9.58</b>

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

\*\* Unit prices adjusted to reflect the effect of a 2-for-1 Unit Split in September 2015.

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

# Manager's Discussion and Analysis

## Financial Review

### Increase in Gross Revenue with Recent Acquisitions

In FYE2016, Axis-REIT committed to the acquisitions of six (6) properties with a total consideration of RM136.0 million. Out of these, only one property worth RM33.0 million is pending completion at the time of this report. The five acquisitions completed during the year were Beyonics i-Park Campus Blocks A, B, C and D, and Scomi Facility @ Rawang.

Property revenue for FYE2016 increased to RM166.7 million compared with RM163.0 million in FYE2015. The increase was mainly due to the incremental revenue from the properties acquired during the year. The positive rental reversions achieved for FYE2016 also added to the growth in gross revenue.

From FYE2017 onwards, the Fund will benefit from the full-year revenue contribution of RM3.4 million from the acquisition of Scomi Facility @ Rawang, which was only completed in late November 2016.

The breakdown of total gross income is as follows:

	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000
Rental income	126,394	133,008	127,969	153,861	<b>156,546</b>
Car park income	4,284	5,572	6,283	5,800	<b>6,475</b>
Other income	1,995	2,734	3,373	3,416	<b>3,664</b>
<b>Total</b>	<b>132,673</b>	<b>141,314</b>	<b>137,625</b>	<b>163,077</b>	<b>166,685</b>
No. of properties	31	31	33	34	<b>39</b>

### Gross Property Yields

The average gross yield on the Fund's portfolio of properties is 9.50%.

Properties	Gross Yield (%)
1 Axis Business Park	9.16%
2 Crystal Plaza	14.48%
3 Menara Axis	14.21%
4 Infinite Centre	9.21%
5 Wisma Kemajuan	18.56%
6 Axis Business Campus	1.70%
7 Axis Shah Alam DC 1	9.55%
8 Giant Hypermarket	9.37%
9 FCI Senai	14.64%
10 Fonterra HQ	11.38%
11 Quattro West	9.40%
12 Strateq Data Centre	11.91%
13 Niro Warehouse	11.50%
14 BMW Centre PTP	13.75%
15 Delfi Warehouse	13.80%
16 Axis Vista	7.72%
17 Axis Steel Centre	8.87%
18 Bukit Raja Distribution Centre	9.48%
19 Seberang Prai Logistic Warehouse 1	9.64%
20 Seberang Prai Logistic Warehouse 2	9.23%
21 Tesco Bukit Indah	8.76%
22 Axis PDI Centre	Under development
23 Axis Technology Centre	7.57%
24 D8 Logistics Warehouse	12.12%
25 Axis Eureka	7.65%
26 Bayan Lepas Distribution Centre	9.84%
27 Seberang Prai Logistic Warehouse 3	10.72%
28 Emerson Industrial Facility Nilai	10.30%

	Properties	Gross Yield (%)
29	Wisma Academy Parcel	10.00%
30	The Annex	6.17%
31	Axis MRO Hub	7.82%
32	Axis Shah Alam DC 3	8.15%
33	Axis Steel Centre @ SiLC	7.46%
34	Axis Shah Alam DC 2	7.74%
35	Beyonics i-Park Campus Block A	7.96%
36	Beyonics i-Park Campus Block B	7.96%
37	Beyonics i-Park Campus Block C	7.98%
38	Beyonics i-Park Campus Block D	7.95%
39	Scomi Facility @ Rawang	7.86%

### Management of Property Operating Expenses

Property operating expenses rose 13.9% year-on-year to RM27.0 million in FYE2016. The increase was mainly due to the addition of newly-acquired properties to the portfolio, higher costs of scheduled routine maintenance work carried out during the year, and higher property management fees in line with the growth in revenue. The breakdown of property operating expenses is as follows:

	2012 (RM'000)	2013 (RM'000)	2014 (RM'000)	2015 (RM'000)	2016 (RM'000)
Assessment and quit rent	4,095	4,203	3,977	4,698	<b>4,898</b>
Property manager's fee and on-site personnel cost	4,872	5,531	5,515	6,062	<b>6,249</b>
Security	1,729	1,854	1,916	1,948	<b>1,855</b>
Takaful	934	1,080	995	1,348	<b>1,544</b>
Maintenance and others	8,495	8,144	9,150	9,690	<b>12,502</b>
<b>Total</b>	<b>20,125</b>	<b>20,812</b>	<b>21,553</b>	<b>23,746</b>	<b>27,048</b>
No. of properties	31	31	33	34	<b>39</b>

### Overall Portfolio Performance

The summary of our gross income, property operating expenses and net property income per property for FYE2016 is presented below (excluding the unrealised rental income/unbilled lease income receivable)

	Properties	Gross Revenue (RM'000)	Property Operating Expenses (RM'000)	Net Property Income (RM'000)
1	Axis Business Park	9,165	2,297	6,868
2	Crystal Plaza	9,449	1,622	7,827
3	Menara Axis	12,227	2,407	9,820
4	Infinite Centre	3,263	1,306	1,957
5	Wisma Kemajuan	6,901	1,617	5,284
6	Axis Business Campus	254	629	(375)
7	Axis Shah Alam DC 1	2,037	176	1,861
8	Giant Hypermarket	3,653	329	3,324
9	FCI Senai	1,858	179	1,679
10	Fonterra HQ	1,259	172	1,087
11	Quattro West	4,781	1,240	3,541
12	Strateq Data Centre	5,088	508	4,580
13	Niro Warehouse	1,751	151	1,600
14	BMW Centre PTP	3,871	394	3,477
15	Delfi Warehouse	1,767	373	1,394
16	Axis Vista	2,612	388	2,224

## Manager's Discussion and Analysis

### Financial Review

Properties	Gross Revenue (RM'000)	Property Operating Expenses (RM'000)	Net Property Income (RM'000)
17 Axis Steel Centre	5,908	541	5,367
18 Bukit Raja Distribution Centre	7,232	420	6,812
19 Seberang Prai Logistic Warehouse 1	1,727	91	1,636
20 Seberang Prai Logistic Warehouse 2	682	72	610
21 Tesco Bukit Indah	6,739	739	6,000
22 Axis PDI Centre	219	819	(600)
23 Axis Technology Centre	3,806	933	2,873
24 D8 Logistics Warehouse	3,718	346	3,372
25 Axis Eureka	4,074	1,523	2,551
26 Bayan Lepas Distribution Centre	4,926	556	4,370
27 Seberang Prai Logistic Warehouse 3	6,626	752	5,874
28 Emerson Industrial Facility Nilai	2,814	254	2,560
29 Wisma Academy Parcel	7,584	2,261	5,323
30 The Annex	822	206	616
31 Axis MRO Hub	4,176	359	3,817
32 Axis Shah Alam DC 3	15,150	1,921	13,229
33 Axis Steel Centre @ SiLC	11,633	562	11,071
34 Axis Shah Alam DC 2	3,543	354	3,189
35 Beyonics i-Park Campus Block A ^	1,152	125	1,027
36 Beyonics i-Park Campus Block B ^	1,044	113	931
37 Beyonics i-Park Campus Block C ^	953	107	846
38 Beyonics i-Park Campus Block D ^	1,790	187	1,603
39 Scomi Facility @ Rawang #	431	19	412
<b>Total</b>	<b>166,685</b>	<b>27,048</b>	<b>139,637</b>

^ Acquired on 28 January 2016

# Acquired on 15 November 2016

#### Unrealised Rental Income / Unbilled Lease Income Receivable

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

#### Profit Income

Axis-REIT registered a profit income of RM678,000 for FYE2016 from the placement of funds under Islamic REPO and fixed deposits.



## Portfolio Valuation

The valuation of Axis-REIT's properties was appraised at RM2,192,900,000 as at 31 December 2016 by independent registered valuers. This is a 7.1% increase from the valuation of RM2,046,990,000 in FYE2015.

Based on valuations performed by independent registered valuers during the financial year, higher valuations resulted in a revaluation gain of RM29,861,000 for FYE2016.

The revaluation on the properties below were conducted for the following purposes:-

- to comply with clause 10.03 of SC's Guidelines on REITs; and
- to ascertain the properties' current market value for accounting purposes, in line with MFRS 140.

Capital expenditure amounting to RM5,249,000 was capitalised in FYE2016, bringing total investment properties to RM2,198,149,000 as at 31 December 2016.

A summary of unrealised gains/(losses) on all investment properties during FYE2016 is as follows:

Properties	NBV before Revaluation RM	Market Value* RM	Unrealised gain / (loss)** RM
1 Axis Business Park	120,112,000	120,000,000	(112,000)
2 Crystal Plaza	109,570,000	110,000,000	430,000
3 Menara Axis	123,575,000	123,600,000	25,000
4 Infinite Centre	42,206,000	43,000,000	794,000
5 Wisma Kemajuan	62,291,000	63,900,000	1,609,000
6 Axis Business Campus	75,165,000	73,200,000	(1,965,000)
7 Axis Shah Alam DC 1	27,500,000	30,000,000	2,500,000
8 Giant Hypermarket	41,000,000	46,000,000	5,000,000
9 FCI Senai	17,000,000	20,000,000	3,000,000
10 Fonterra HQ	15,000,000	16,700,000	1,700,000
11 Quattro West	55,974,000	56,800,000	826,000
12 Strateq Data Centre	53,200,000	57,000,000	3,800,000
13 Niro Warehouse	17,700,000	19,000,000	1,300,000
14 BMW Centre PTP	30,324,000	30,400,000	76,000
15 Delfi Warehouse	15,600,000	15,800,000	200,000
16 Axis Vista	56,110,000	56,000,000	(110,000)
17 Axis Steel Centre	70,339,000	70,500,000	161,000
18 Bukit Raja Distribution Centre	97,435,000	102,000,000	4,565,000
19 Seberang Prai Logistic Warehouse 1	20,200,000	20,500,000	300,000
20 Seberang Prai Logistic Warehouse 2	8,000,000	8,200,000	200,000
21 Tesco Bukit Indah	92,000,000	96,000,000	4,000,000
22 Axis PDI Centre	85,165,000	85,000,000	(165,000)
23 Axis Technology Centre	53,215,000	54,000,000	785,000
24 D8 Logistics Warehouse	32,560,000	33,000,000	440,000
25 Axis Eureka	54,000,000	55,000,000	1,000,000
26 Bayan Lepas Distribution Centre	51,515,000	51,500,000	(15,000)
27 Seberang Prai Logistic Warehouse 3	63,544,000	65,000,000	1,456,000
28 Emerson Industrial Facility Nilai	30,010,000	30,500,000	490,000
29 Wisma Academy Parcel	80,910,000	75,500,000	(5,410,000)
30 The Annex	18,952,000	19,000,000	48,000
31 Axis MRO Hub	53,000,000	53,000,000	-
32 Axis Shah Alam DC 3	183,649,000	184,000,000	351,000
33 Axis Steel Centre @ SiLC	155,500,000	156,500,000	1,000,000
34 Axis Shah Alam DC 2	46,000,000	46,600,000	600,000
35 Beyonics i-Park Campus Block A	14,469,000	14,600,000	131,000
36 Beyonics i-Park Campus Block B	13,115,000	13,300,000	185,000
37 Beyonics i-Park Campus Block C	11,934,000	12,100,000	166,000
38 Beyonics i-Park Campus Block D	22,504,000	22,700,000	196,000
39 Scomi Facility @ Rawang	42,696,000	43,000,000	304,000
<b>Total</b>	<b>2,163,039,000</b>	<b>2,192,900,000</b>	<b>29,861,000</b>

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

\*\* The revaluation gain of RM29,861,000 contributed to a 2.7 sen increase in the Fund's NAV per Unit to RM1.26 as at 31 December 2016.

# Manager's Discussion and Analysis

## Financial Review

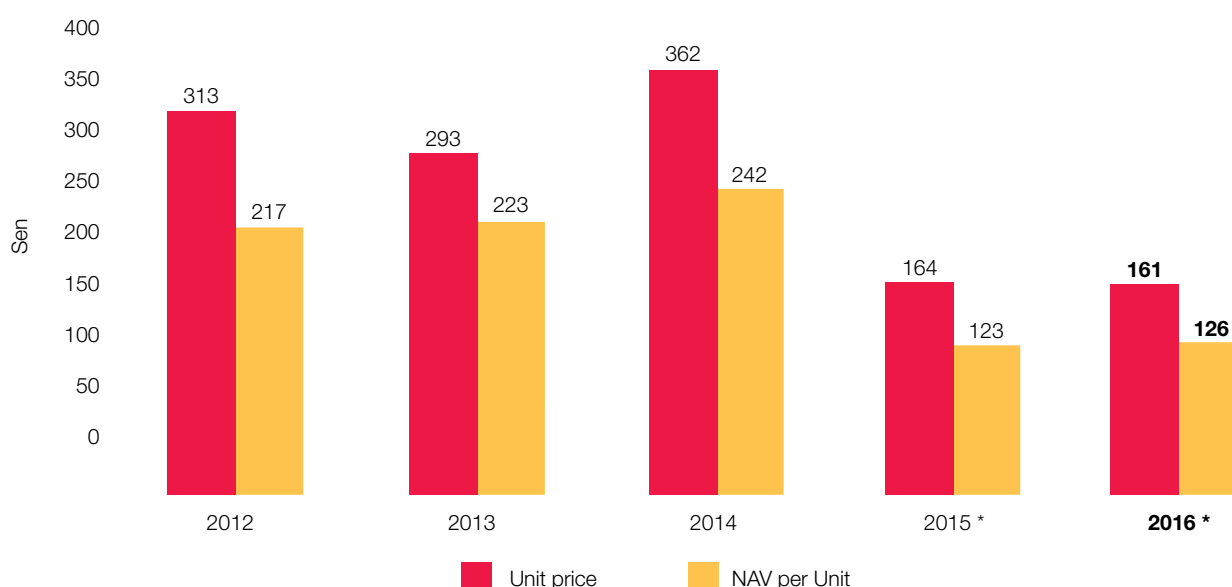
### Valuation Analysis

The following table summarises the market value, market value per sq. ft. ("psf") and the investment outlay psf of Axis-REIT on all its properties.

	Properties	Market Value RM	Market Value RM/psf	Total Investment Outlay (including enhancements) RM	Total Investment Outlay (including enhancements) RM/psf
1	Axis Business Park	120,000,000	363	100,016,000	302
2	Crystal Plaza	110,000,000	536	65,247,000	318
3	Menara Axis	123,600,000	671	86,033,000	467
4	Infinite Centre	43,000,000	300	35,443,000	247
5	Wisma Kemajuan	63,900,000	321	37,190,000	187
6	Axis Business Campus	73,200,000	483	60,359,000	398
7	Axis Shah Alam DC 1	30,000,000	272	21,387,000	194
8	Giant Hypermarket	46,000,000	333	38,973,000	282
9	FCI Senai	20,000,000	146	12,693,000	93
10	Fonterra HQ	16,700,000	460	11,068,000	305
11	Quattro West	56,800,000	545	50,876,000	488
12	Strateq Data Centre	57,000,000	543	42,729,000	407
13	Niro Warehouse	19,000,000	114	15,234,000	91
14	BMW Centre PTP	30,400,000	188	28,160,000	174
15	Delfi Warehouse	15,800,000	121	12,803,000	98
16	Axis Vista	56,000,000	475	33,859,000	287
17	Axis Steel Centre	70,500,000	192	66,611,000	182
18	Bukit Raja Distribution Centre	102,000,000	223	76,325,000	167
19	Seberang Prai Logistic Warehouse 1	20,500,000	193	17,821,000	168
20	Seberang Prai Logistic Warehouse 2	8,200,000	196	7,384,000	176
21	Tesco Bukit Indah	96,000,000	411	76,924,000	329
22	Axis PDI Centre	85,000,000	1,465	90,121,000	1,554
23	Axis Technology Centre	54,000,000	316	50,280,000	295
24	D8 Logistics Warehouse	33,000,000	193	30,689,000	179
25	Axis Eureka	55,000,000	468	53,236,000	453
26	Bayan Lepas Distribution Centre	51,500,000	251	50,082,000	244
27	Seberang Prai Logistic Warehouse 3	65,000,000	164	61,816,000	156
28	Emerson Industrial Facility Nilai	30,500,000	105	27,317,000	94
29	Wisma Academy Parcel	75,500,000	320	75,869,000	322
30	The Annex	19,000,000	419	13,322,000	293
31	Axis MRO Hub	53,000,000	329	53,375,000	331
32	Axis Shah Alam DC 3	184,000,000	269	185,935,000	271
33	Axis Steel Centre @ SiLC	156,500,000	227	155,949,000	227
34	Axis Shah Alam DC 2	46,600,000	283	45,782,000	278
35	Beyonics i-Park Campus Block A	14,600,000	217	14,469,000	215
36	Beyonics i-Park Campus Block B	13,300,000	218	13,115,000	215
37	Beyonics i-Park Campus Block C	12,100,000	218	11,934,000	215
38	Beyonics i-Park Campus Block D	22,700,000	217	22,504,000	215
39	Scomi Facility @ Rawang	43,000,000	142	42,696,000	141
	<b>Total</b>	<b>2,192,900,000</b>		<b>1, 895,626,000</b>	

### Premium to NAV Recorded for 2016

Axis-REIT traded at a 28% premium to its Net Asset Value ("NAV") per unit on 31 December 2016. The chart below shows the premium to NAV that the Fund has maintained over the past five years.



\* Unit prices adjusted to reflect the effect of a 2-for-1 Unit Split in September 2015.

### Non-Property Expenses

Details of total non-property expenses are as follows:

	2012	2013	2014	2015	2016
Administrative and professional fees *	11,858	12,835	13,725	18,342	<b>17,651</b>
Bad debts (recovered)/written off	(97)	-	-	-	<b>319</b>
Impairment/(Reversal of impairment) losses on trade receivables	188	(30)	37	188	<b>155</b>
Islamic financing costs	22,254	23,837	23,848	29,935	<b>32,004</b>
<b>Total non-property expenses</b>	<b>34,203</b>	<b>36,642</b>	<b>37,610</b>	<b>48,465</b>	<b>50,129</b>

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

### Administrative and Professional Fees

Administrative costs for FYE2016 amounted to RM17.7 million, a decrease of 3.8% compared with FYE2015. This was largely due to the consultancy fees on GST and Personal Data Protection Act compliance, and additional Corporate Social Responsibility costs that were incurred in FYE2015. The management expense ratio for FYE2016 decreased from 1.36% to 1.25% of the Fund's NAV, as compared to the preceding year.

### Islamic Financing Costs

Islamic financing costs in FYE2016 rose 6.9% to RM32.0 million, due to the additional facilities utilised to finance the five property acquisitions that were completed during the year.

# Manager's Discussion and Analysis

## Financial Review

### Alignment of Interest Between the Manager and the Fund

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

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

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

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

### General Mandate to Issue New Units in Axis-REIT

At the Unitholders' meeting on 21 August 2015, the Manager obtained, among others, approval from Unitholders for the allotment and issuance of up to 219,103,216 new units in Axis-REIT to facilitate a placement exercise ("Proposed Authority") and its corresponding increase in the fund size of Axis-REIT pursuant to the Proposed Authority. The Proposed Authority was renewed at the fourth annual general meeting of Axis-REIT convened and held on 29 April 2016.

On 21 July 2016, Axis-REIT obtained approval from Bursa Securities for an extension of time until 23 January 2017 to complete the Proposed Authority. As the Proposed Authority is yet to be implemented and had lapsed on 23 January 2017, Axis-REIT will table a fresh general mandate to Unitholders at the forthcoming fifth AGM to be convened, for the issuance of new units in Axis-REIT.

### Sukuk Programme

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

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

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

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

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

## Financing Profile

	2012	2013	2014	2015	2016
Total financing (RM'000)	549,285	528,004	683,769	731,814	<b>780,665</b>
Total assets (RM'000)	1,589,408	1,616,523	2,085,883	2,141,493	<b>2,244,274</b>
Gearing	34.56%	32.66%	32.78%	34.17%	<b>34.78%</b>
Effective profit rate *	4.58%	4.38%	4.24%	4.28%	<b>4.25%</b>
Percentage of short term financing	62%	50%	61%	55%	<b>58%</b>
Percentage of medium or long term financing	38%	50%	39%	45%	<b>42%</b>
Total unencumbered assets	6	5	5	10	<b>15</b>
Percentage of unencumbered assets/total assets	19%	16%	21%	26%	<b>30%</b>
Financing cost cover	4.6	4.5	4.5	4.1	<b>3.8</b>
Unutilised financing facilities	40,715	116,000	192,700	171,000	<b>117,000</b>

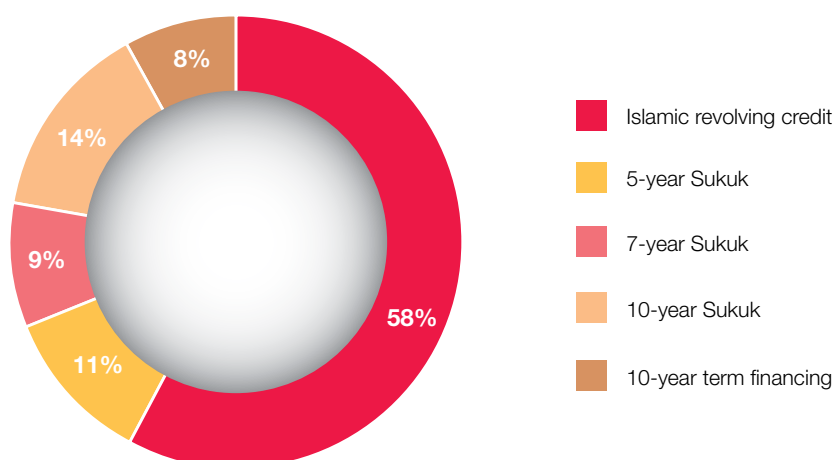
\* For comparison purposes, the effective profit rate excludes the incidental cost of financing.

Over the years, the Fund has diversified its funding sources by tapping the sukuk market, extending and upsizing existing Islamic revolving credit facilities and Islamic term financing facilities, as well as entering into new facilities. Both the Islamic revolving facilities and Islamic term financing facilities are offered by four big local and foreign Islamic financial institutions.

As at 31 December 2016, Axis-REIT had RM781.0 million in total financing facilities, with total fixed rate financing amounting to RM365.0 million, unchanged from a year ago. This translates to a gearing of 34.78%. At an average all-in cost of financing of 4.25%, the Fund's interest coverage ratio remains healthy at 3.8 times.

The financing cost for approximately 12.8% of the Fund's outstanding financing, in an aggregate amount of RM100.0 million, was hedged through an Islamic Profit Rate Swap ("IPRS"). The Fund will continue to monitor and regularly review the Fund's hedging profile.

## Type of Financing





# Manager's Discussion and Analysis

## Financial Review

### Risk Management

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

### Liquidity Risk

The Manager adopts a proactive capital management strategy that aims to provide financial stability and flexibility by mitigating exposure to interest rate risk and diversifying sources of funding. The Manager has diversified Axis-REIT's financing with four major Islamic banks and by tapping the Sukuk market. With this diversification, the Fund has achieved a lower concentration of risk among each of the lending banks, with each bank having adequate collateral for the financing they provide. Axis-REIT had started to tap into the Sukuk market in FYE2012 for long-term fixed rate financing, and subsequently upsized its Sukuk Programme to RM3 billion.

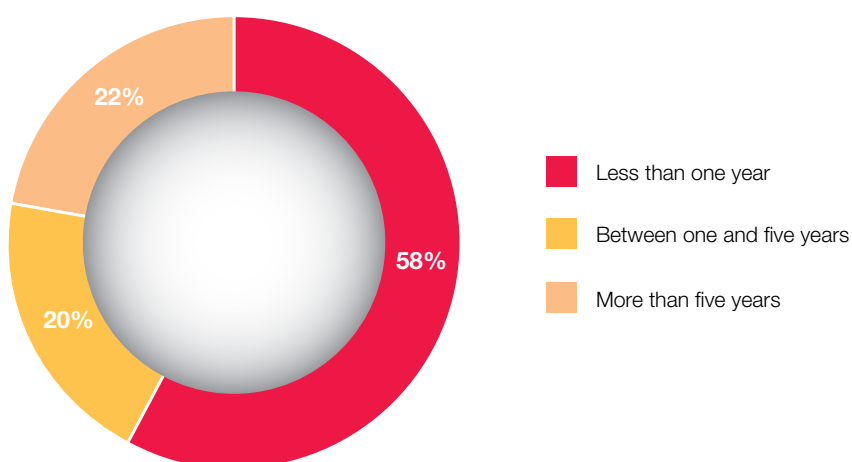
As of 31 December 2016, Axis-REIT's financing stood at RM781.0 million, comprising bank financing of RM516.0 million and RM265.0 million in Sukuk issuances. Axis-REIT has an untapped balance of RM2.7 billion in its Sukuk Programme, as well as undrawn financing facilities of RM117.0 million and a cash balance of RM33.3 million which can be utilised for future financial obligations.

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

Taking into consideration the financial resources available to the Fund, it has sufficient liquid assets to satisfy its working capital and operating requirements.

The chart below summarises the maturity profile of the Fund's financing facilities at 31 December 2016 based on contractual repayment obligations.

**Financing Maturity Profile**

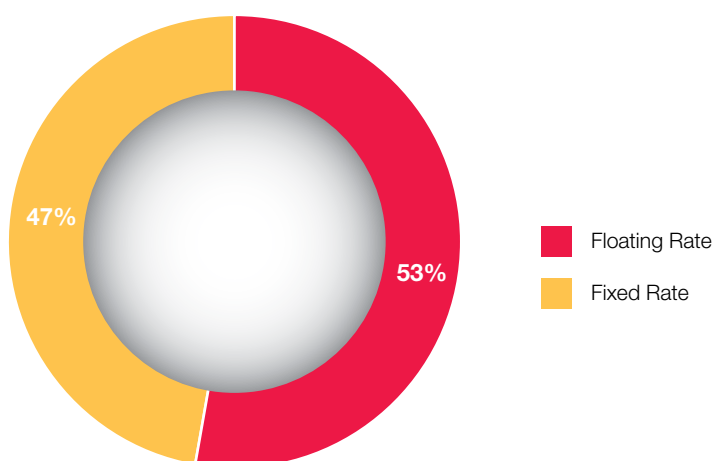


## Interest Rate Risk

The Fund had total financing facilities of RM898.0 million as at 31 December 2016, of which RM781.0 million had been utilised, representing 34.78% of total assets.

Axis-REIT manages its financing costs using a mix of fixed and floating rate facilities. Of its total financing facilities, RM265.0 million is in Sukuk with fixed rates. Some financing facilities carry floating rates and, consequently, the Fund's financing costs will be subjected to fluctuations in interest rates.

**Financing Profile : Fixed vs Floating Rate**



As part of the Fund's capital management strategy, Axis-REIT has adopted appropriate hedging strategies to manage its profit rate to ensure stability of distributions to Unitholders. As at 31 December 2016, approximately 12.8% of Axis-REIT's total financing was hedged through the use of IPRS. Consequently, the Fund's exposure to floating rates amounted to 53% of its total financing facilities.

As of 31 December 2016, the interest cost on 47% of the Fund's total financing was fixed, thereby reducing its exposure to financing rate volatility. It is estimated that a 100 basis point increase in the Fund's financing rate would result in a 4.9% reduction in its distributable income.

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

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

## Gearing Risk

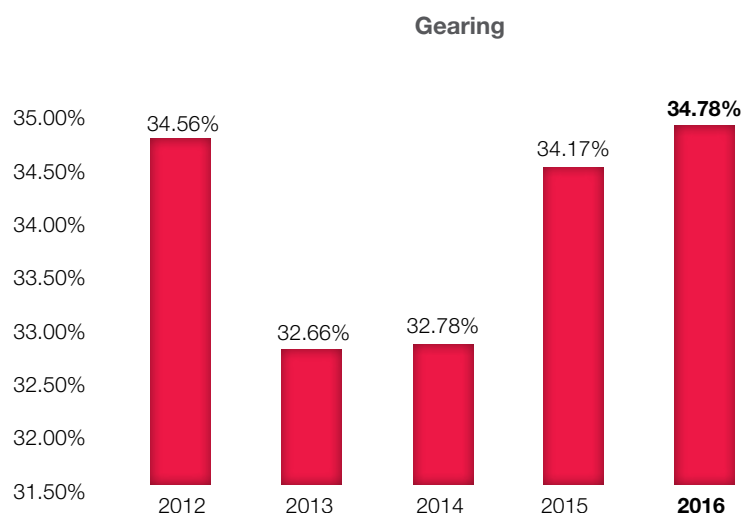
Axis-REIT ended the financial year with a gearing ratio of 34.8%, which is below the regulatory limit of 50% under the SC's Guidelines on REITs.

The Manager will maintain a conservative internal gearing threshold of 35% of the total assets of the Fund. Placement exercise will be implemented whenever the Fund anticipates that the financing of Axis-REIT will exceed the internal gearing threshold of 35% as part of its capital management strategy.

## Manager's Discussion and Analysis

### Financial Review

The chart below shows the historical gearing levels of Axis-REIT over the past five (5) years.



#### Valuation Risk

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

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

In 2016, Axis-REIT had 10 registered valuers in its panel. The Manager is looking into expanding this panel further to provide the Fund with a transparent valuation model for the benefit of Unitholders. It is the Fund's policy to ensure that no valuer may conduct more than two consecutive full comprehensive valuations on any particular property, which is consistent with the SC's Guidelines on REITs.

#### Tenant and Credit Risk

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

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

As at 31 December 2016, Axis-REIT had 39 properties and 139 tenants, many whom are multinationals and local public-listed companies with strong financial credentials.

	2012	2013	2014	2015	2016
Top 10 tenants' contribution to gross income	49%	47%	46%	53%	52%

Tenant Risk is described in greater detail in the Real Estate Report.

### Doubtful Debt Provision and Impairment Losses on Trade Receivables

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

For single-tenanted buildings arising typically from a sale and leaseback transaction or a built-to-suit arrangement, a larger security deposit may be obtained, depending on the credit standing of the tenant and commercial negotiations.

As at 31 December 2016, the total impairment loss on trade receivables amounted to RM474,000, representing 0.3% of the total annual gross revenue of the Fund. The keen focus on receivables and a well-established internal credit control process have resulted in this excellent result.

Impairment losses of trade receivables	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000
Impairment losses on trade receivables/bad debts written off/(written back)	91	(30)	37	188	<b>474</b>
Trade receivables	2,902	1,072	574	4,016	<b>1,469</b>
Total annual gross revenue	132,673	141,314	137,625	163,077	<b>166,685</b>
Impairment losses on trade receivables/bad debts written off/(written back) as a % of gross revenue	0.06	-	0.03	0.12	<b>0.28</b>

The collection of trade receivables improved in FYE2016 - total trade receivables fell by 63.4% as at 31 December 2016, compared with FYE2015, with an average collection period of three (3) days in FYE2016.

For Period Ended	Average Collection Period (in days)
31 Dec 2012	8
31 Dec 2013	3
31 Dec 2014	2
31 Dec 2015	9
31 Dec 2016	3

### Risk Management Framework

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

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

## Manager's Discussion and Analysis

### Compliance with Best Practices

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

#### A Snapshot in USD

The presentation of financial highlights in USD allows for comparison against other foreign REITs and companies. The following is an extract of Axis-REIT's financial highlights for the financial year ended 31 December 2016, presented in USD.

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

Assets Under Management (USD)	500,563,000
Total Net Asset Value (USD)	310,688,000
Number of Investment Properties	39
Units in Circulation	1,105,173,591
Total Financing (USD)	174,120,000
Total Financing to Total Assets	34.78%
Market Capitalisation (USD)	396,862,000
Net Asset Value per Unit (USD)	0.28
Unit Price as at 31 December 2016 (USD)	0.36

Notes:

1. Translated to USD equivalent based on the closing USD/MYR rate of 4.4835 (Source: [www.oanda.com](http://www.oanda.com)).
2. Translations are done purely for comparison purposes, and are not required in accordance to the provisions of the Malaysian Financial Reporting Standards.

#### Summary of Results – in USD

Gross Realised Revenue (USD)	40,262,000
Unrealised Income in Relation to Unbilled Lease Income Receivable (USD)	1,124,000
Property Operating Expenses (USD)	(6,533,000)
Net Property Income (USD)	34,853,000
Profit Income (USD)	163,000
Changes in Fair Value of Investment Properties (USD)	7,213,000
Unbilled Lease Income Receivable (USD)	(1,124,000)
Net gain on Financial Liabilities Measured at Amortised Cost* (USD)	591,000
Fair Value Change on Derivatives (USD)	(49,000)
Net Property and Investment Income (USD)	41,647,000
Non-Property Expenses (USD)	(12,108,000)
Net Income before Tax (USD)	29,539,000
Net Income after Tax (USD)	29,539,000
Breakdown of Net Income after Tax:	
- Realised Income after Tax (USD)	21,784,000
- Unrealised Income after Tax (USD)	7,755,000
Earnings per Unit (Realised + Unrealised) (USD cents)	2.68
Distribution per Unit (DPU) (USD cents)	1.99

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

Notes:

1. Translated to USD equivalent based on the average rate USD/MYR of 4.1400 (Source: [www.oanda.com](http://www.oanda.com)).
2. Translations are done purely for comparison purposes and are not required in accordance to the provisions of the Malaysian Financial Reporting Standards.



## Direct Method Statement of Cash Flows

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

### Statement of Cash Flows (Direct Method) for the financial year ended 31 December 2016

	RM'000	RM'000
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Gross Revenue Received	215,507	
Tenant Deposits Refunded	8,115	
Operating Expenses Paid	(36,703)	
<b>Net cash from operating activities</b>		<b>186,919</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Profit Income Received	678	
Enhancement of Investment Properties	(14,638)	
Acquisition of Investment Properties	(104,718)	
Acquisition of Equipment	(25)	
Pledged Deposits	(421)	
<b>Net cash used in investing activities</b>		<b>(119,124)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Islamic Financing Costs Paid	(32,004)	
Proceeds from Borrowings	49,247	
Payment of Hire Purchase Liabilities	(396)	
Income Distribution Paid to Unitholders	(89,854)	
Proceeds from Issue of Units	8,071	
Issuing Expenses	(23)	
<b>Net cash used in financing activities</b>		<b>(64,959)</b>
Net Increase in Cash and Cash Equivalents		<b>2,836</b>
Cash and Cash Equivalents at 1 January		<b>17,162</b>
Cash and cash equivalents at 31 December		<b>19,998</b>

## Manager's Discussion and Analysis Report on Shariah Compliance



*From left to right: Ustaz Ahmad Zakirullah Mohamed Shaarani, Ustaz Dato' Mohd Bakir Haji Mansor and Haji Razli Ramli*

On 11 December 2008, Axis-REIT became the world's first Islamic Office/Industrial REIT. Since its successful reclassification, we have seen strong participation by Shariah investors from both the institutional and retail sectors.

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

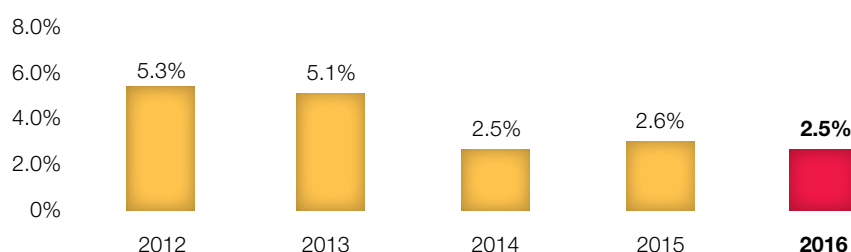
IBFIM's services include:

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

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

The Manager is pleased to report that under the guidance of IBFIM, the level of income from non-permissible activities has been reduced to 2.5% in the financial year ended 31 December 2016.

### Income from Non-Permissible Activities





# Shariah Adviser's Report

## To the Unitholders of AXIS REAL ESTATE INVESTMENT TRUST (“AXIS- REIT”)

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

In our opinion, **AXIS REIT Managers Berhad** has managed and administered **AXIS-REIT** in accordance with Shariah principles and complied with applicable guidelines, rulings and decisions issued by the Securities Commission pertaining to Shariah matters for the financial year ended 31 December 2016.

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

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

For and on behalf of the Shariah Adviser

**IBFIM**

**AHMAD ZAKIRULLAH BIN MOHAMED SHAARANI**

Managing Advisor (Shariah)/Designated Person Responsible for Shariah Advisory

Kuala Lumpur



**REAL ESTATE  
TEAM**



# Manager's Discussion and Analysis

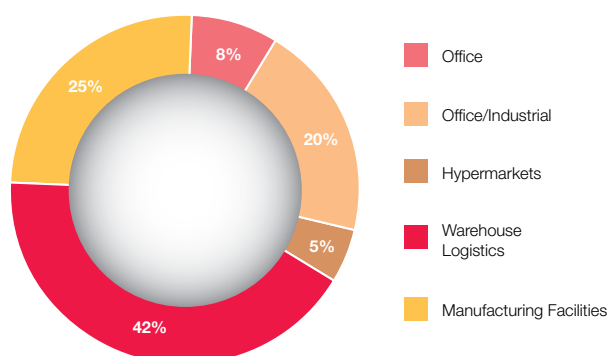
## Real Estate Report

Axis-REIT continued to grow steadily in 2016, adding five properties to its portfolio during the year, bringing the total number of properties in its portfolio to 39 as at 31 December 2016. The Real Estate Team achieved a strong tenant retention rate of 86.4% with a 3% positive rental reversion, and a healthy 92.0% occupancy rate as at 31 December 2016, despite continued economic headwinds and a soft rental market.

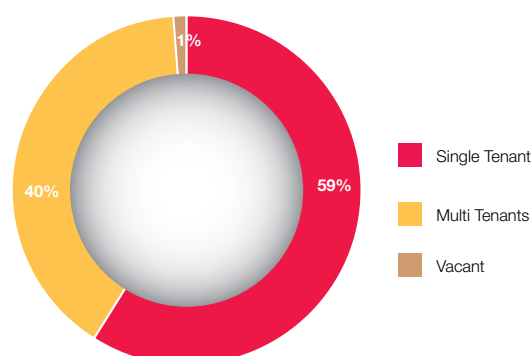
### Overview

Portfolio Size	: 39 properties
Total Space Under Management	: 7,606,863 sq. ft.
Number of Tenants	: 139
Occupancy	: 92.03%
Gross Income	: RM166,685,000
Net Operating Income (NOI)	: RM139,637,000
Average Rental	: Commercial Office: RM4.80 per sq. ft. Office/Industrial: RM2.73 per sq. ft. Warehouse/Logistics: RM1.53 per sq. ft. Manufacturing Facilities: RM1.29 per sq. ft. Hypermarkets: RM2.36 per sq. ft.

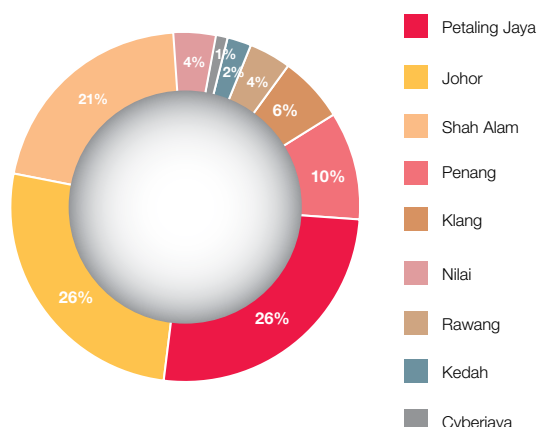
Portfolio Diversification by Asset Type by NLA



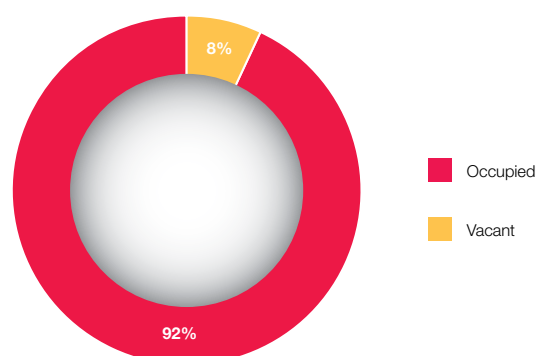
Single Tenant vs Multi Tenants



Portfolio Diversification by Geographical Location



Occupancy Rate





## Manager's Discussion and Analysis

### Real Estate Report

Total space under management in Axis-REIT's portfolio has grown from 1,186,052 sq. ft. since 2005 to 7,606,863 sq. ft. as at 31 December 2016, with the addition of 6,420,811 sq. ft. of space to the portfolio. The space under management is expected to grow further with the acquisition of new assets in 2017.

The Fund continues to consistently deliver strong results to our Unitholders annually. The team remains committed and continues to work extremely hard to deliver good results despite the soft global economic environment and the weaker Ringgit.

The Real Estate Team remains focused on its Key Performance Indicators ("KPIs") to drive its progress and performance. These KPIs are:

- Revenue growth; and
- Risk management

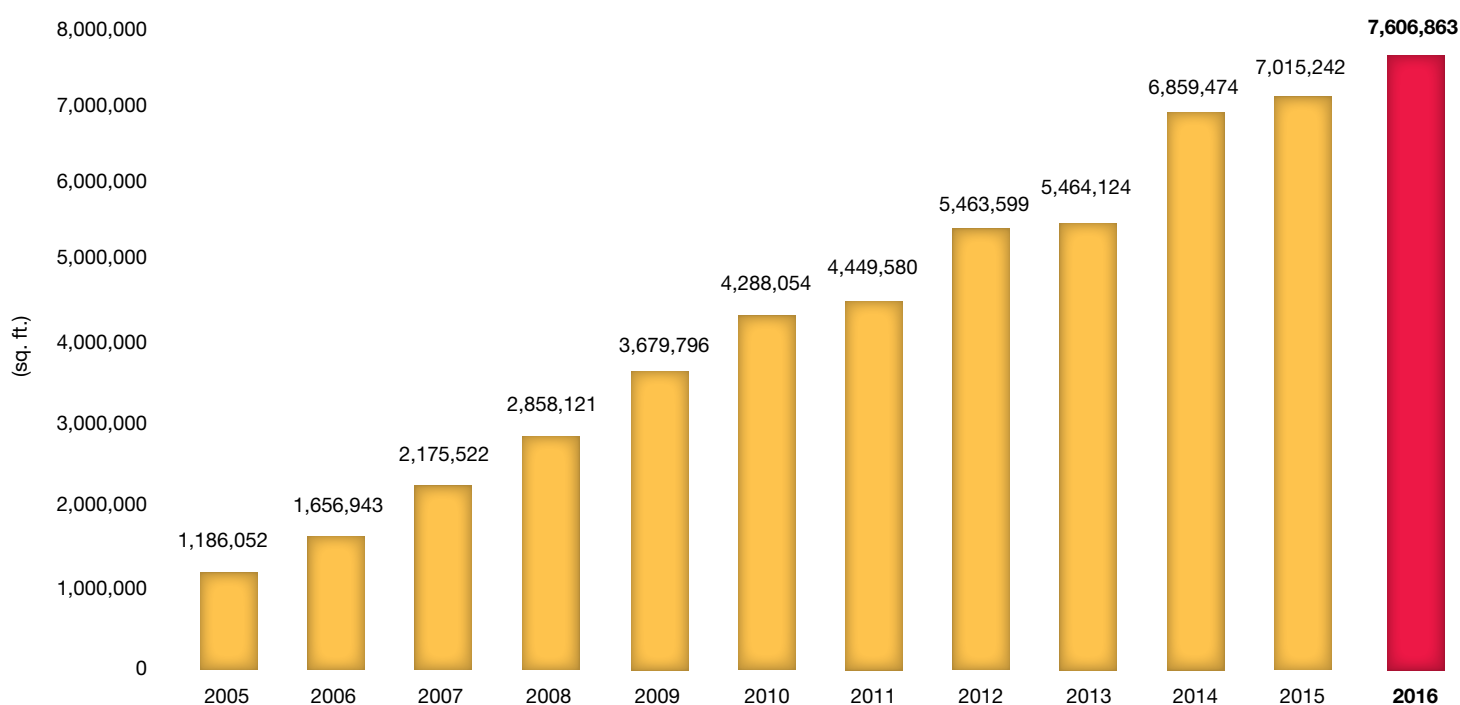
#### Revenue Growth

The Real Estate Department focuses on the following areas to drive revenue growth:

#### Acquisitions

The Manager completed the acquisitions of five properties in 2016, namely Beyonics iPark Campus Block A, Block B, Block C and Block D on 28 January 2016 and Scomi Facility @ Rawang on 15 November 2016. These acquisitions collectively added 590,930 sq. ft. of space under management and an annual gross rental revenue of RM8.2 million to the portfolio. The Manager also signed a Sale and Purchase Agreement to acquire a property in Pasir Gudang, valued at RM33.0 million, in May 2016. This transaction is expected to be completed in the first half of 2017, and will contribute an additional RM2.7 million in annual rental revenue to the Fund. The Manager is currently assessing further potential acquisitions for 2017. Through such strategic acquisitions, the Manager is able to generate additional revenues for the Fund and improve the portfolio's overall occupancy and Weighted Average Lease Expiry ("WALE"), as these asset acquisitions typically come with 100% occupancy rates and long-term leases.

#### Space Under Management



## Lease and Rent Reversion Management

In 2016, the Real Estate Team successfully renegotiated tenancies for 1,675,609 sq. ft. of space, out of the 1,938,654 sq. ft. of space that was up for renewal during the year. The Manager achieved an 86.4% tenant retention rate and an average positive rental reversion of 3% for the year. In addition, we also secured new tenancies for 667,919 sq. ft. of space. The new tenants took up a mix of office and warehouse space in multi-tenanted buildings.

### Space Renegotiated and % Rent Movement

Properties	Space Renegotiated (Sq. Ft.)	% Rent Movement as at 31 Dec 2016
1 Menara Axis	103,019	4.44%
2 Crystal Plaza	119,796	0.90%
3 Axis Business Park	43,893	1.37%
4 Infinite Centre	46,195	5.98%
5 Wisma Kemajuan	121,251	1.81%
6 Quattro West	19,004	5.29%
7 Axis Technology Centre	61,234	0%
8 Axis Eureka	15,235	6.52%
9 Wisma Academy Parcel	53,302	2.10%
10 Emerson Industrial Facility Nilai	291,642	8.03%
11 Fonterra HQ	600	5.42%
12 The Annex	43,046	0%
13 Shah Alam Distribution Centre 3	362,167	-2.32%
14 Seberang Prai Logistic Warehouse 3	395,225	0%
<b>Total</b>	<b>1,675,609</b>	
Space Due for Renewal in 2016	1,938,654	
Tenant Retention Rate	86.4%	

## Expense and Facilities Management

The Manager has appointed Axis Property Services as the property manager for the Fund. The property manager, together with service provider Axis Facilities Management Sdn. Bhd., is responsible for the day-to-day management of the portfolio. Together with a team of building managers, chargemen and technicians, they ensure that the properties are well-maintained, costs are well-controlled and that our tenants are satisfied with the building management.

# Manager's Discussion and Analysis

## Real Estate Report

### Occupancy Management

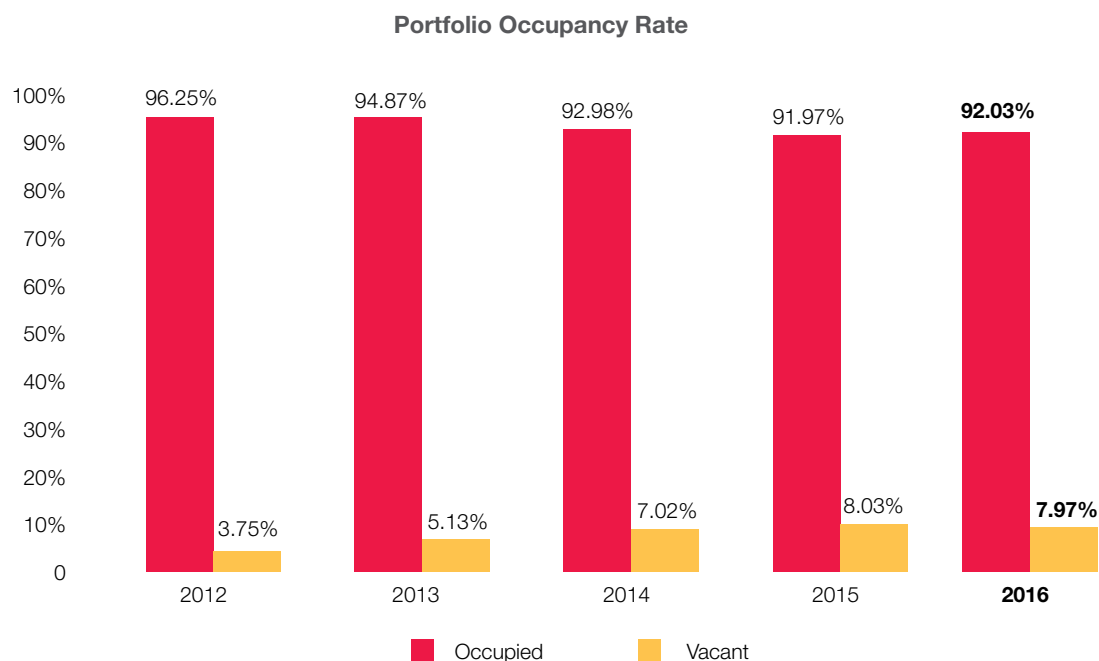
The Real Estate Team has a strong culture of cultivating good customer relationships and, to-date, we have successfully maintained a good track record of tenant retention. The percentage of leases renewed has been consistently high and well above the industry average.

The team is also proactive in securing tenancies to fill vacant spaces in our portfolio, working closely with registered real estate agents to expand our market reach. The soft economic environment in 2016 had impacted the conclusion of new tenancies, as companies were cautious in their expansion and relocation plans. That said, prospective tenants are looking to achieve rental savings in their relocation exercises and our properties, which are positioned in the affordable rental category, continue to appeal to companies that are expanding or relocating from properties with higher rental rates.

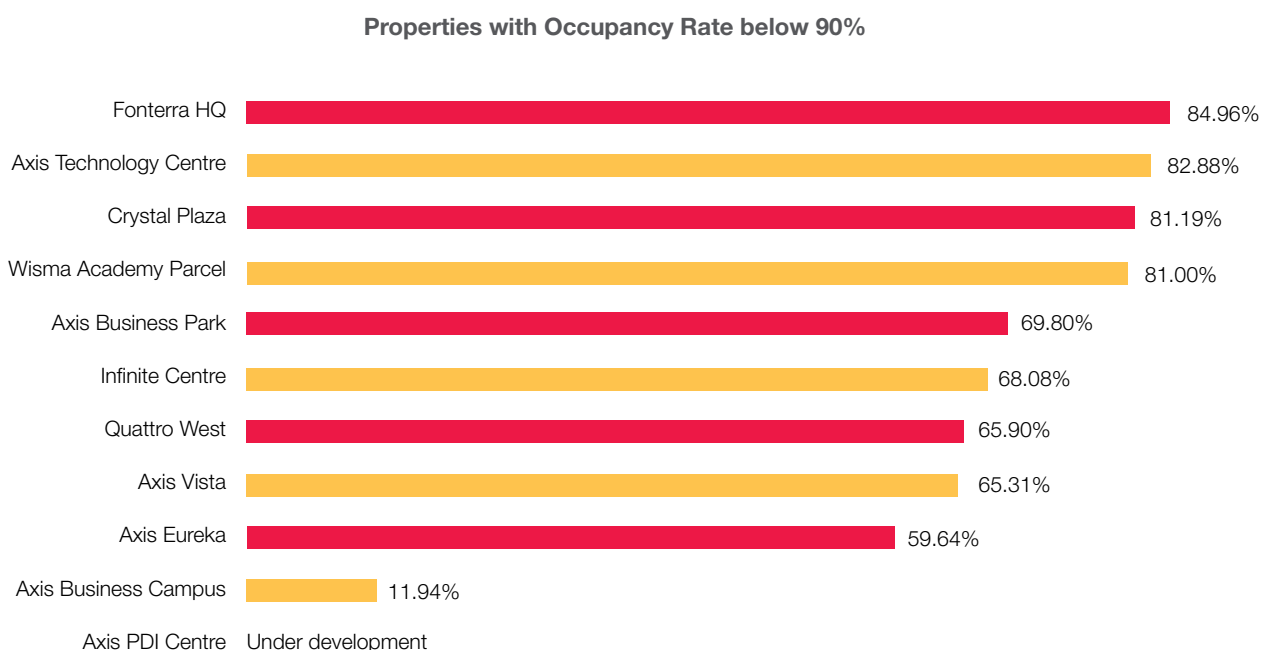
Our existing tenants continue to be supportive, taking up an additional 53,252 sq. ft. of space within our portfolio during the year. In addition, we also secured new tenants for 99,667 sq. ft. of space. Looking ahead, the Manager is pleased to report that on 19 August 2016, RHB Trustees Berhad signed an Agreement to develop Nestlé Distribution Centre, a 515,000 sq. ft. distribution warehouse facility for Nestlé Products Sdn Bhd. The lease agreement, which has an initial lease term of 10 years plus an option to renew for a further two terms of three years each, was signed in January 2017. The Nestlé Distribution Centre is the Phase 1 development at Axis PDI Centre, taking up 24.78 acres of the 50-acre property. Development work commenced in December 2016 and is on track for completion by end-2017. The balance land reserved for Phase 2 development is currently rented as a vehicle storage yard. More details on the development of Nestlé Distribution Centre are described in the Project Management Report.



Our overall portfolio occupancy rate improved slightly, from 91.97% as at 31 December 2015 to 92.03% as at 31 December 2016. The Manager is pleased to note that the overall portfolio occupancy rate has remained above 90% over the last five years.



As at 31 December 2016, 10 out of the 39 properties in the portfolio recorded occupancy rates of below 90%. These properties are listed in the following graph:



Fonterra HQ is a single-tenant property with a long-term lease. The 15% vacant space at this property is set aside for the tenant's future expansion plans. Axis PDI Centre is currently undergoing development. There are four properties that have occupancy levels of over 80%. The Manager has secured a committed tenant for Axis Vista, and the property will register 100% occupancy in the first quarter of 2017.

# Manager's Discussion and Analysis

## Real Estate Report

### Tenant Care

The Real Estate Team, together with the facilities management and project management divisions, take pride in delivering exceptional customer care to our tenants. This has resulted in high tenant satisfaction levels, which is demonstrated by our high tenant loyalty and retention rates, as well as the increased space taken up by some of our tenants within our portfolio. Our customer care efforts include:

- Regular visits;
- Monitoring tenant activity;
- Quick response to complaints;
- Managing tenants expansion and relocation of space within the buildings in our portfolio; and
- Publication of quarterly 'Axis Link' newsletters to update tenants on Axis-REIT's activities.

To further enhance our service delivery to tenants, the Manager has developed an IT platform for tenants to communicate with facility managers. This project will be launched in the first quarter of 2017.

### Risk Management

Managing a REIT involves managing various risks. At the property level, we look at the following risks that affect our performance, and take steps to mitigate them.

### Tenant Credit Worthiness

To minimise tenant credit risk, a credit evaluation process is conducted before a prospective tenant is offered tenancy within our portfolio. This is then repeated annually to ensure the business is progressing well. Our Credit Control Team keeps close track of our rental collections to ensure that collections are within the prescribed time period.

Based on standard industry practice, one month's gross rental is usually held as a security deposit for each year of the lease period. For longer-term leases in single-tenanted properties, a larger sum is held, depending on the length of the lease, credit risk of the tenant and commercial negotiations. At Axis-REIT, security deposits for multi-tenanted properties are generally the equivalent of three months' rental, and between three to six months' rental for single-tenanted properties. The average security deposit for the portfolio is approximately equivalent to three months of rental income.

In addition to the measures above, the Manager also vigilantly monitors Axis-REIT's accounts receivables. This enables us to react efficiently towards any delay in payments. We also have a seven-day payment period beyond which compensation charge applies.

### Maintaining a Diverse Tenant Base

As at 31 December 2016, Axis-REIT's tenant base consists of 139 local and international companies from a diverse range of industries and geographical locations, thereby minimising industry concentration risk.

The portfolio's tenancy profiles are dominated by office/industrial and logistics warehouse tenants, the proportion of which has remained consistent over the past seven years. These tenants are prominent local and multinational companies, as well as government-linked companies ("GLCs"), which provide the Fund a stable income with minimal risk of default. In terms of rental income, the largest contributors are from the logistics industry. The portfolio's top 10 tenants, which include four logistics providers, contributed 52% of the Fund's total revenue in 2016.

The top 10 rental income contributors by gross rental as at 31 December 2016 are:

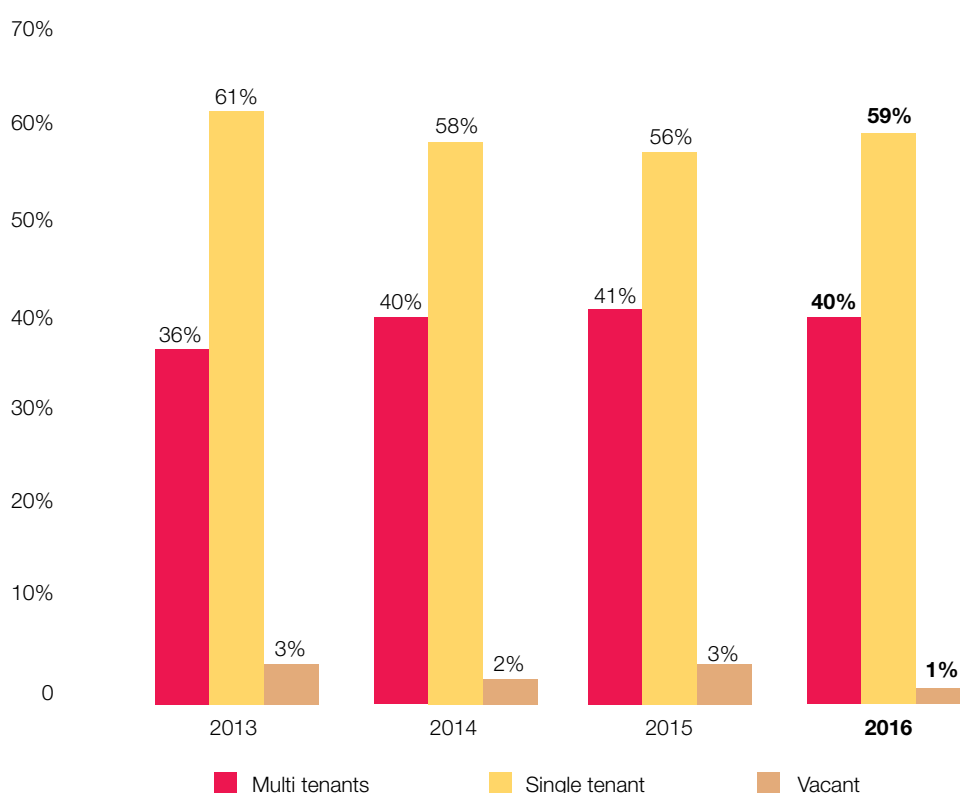
- LF Logistics Services (M) Sdn. Bhd.
- Pos Logistics Berhad (formerly known as Konsortium Logistik Berhad)
- Yongnam Engineering Sdn. Bhd.
- Tenaga Nasional Bhd.
- Tesco Stores (Malaysia) Sdn. Bhd.
- Schenker Logistics (Malaysia) Sdn. Bhd.
- Strateq Data Centre Sdn. Bhd.
- DHL Properties (Malaysia) Sdn. Bhd.
- SR Technics Malaysia Sdn. Bhd.
- GCH Retail (M) Sdn Bhd

Our portfolio risk is mitigated by maintaining a balanced structure of single- and multi-tenanted properties. The single-tenanted properties provide stable, long-term organic rental income growth as these leases have pre-agreed rental increases over the fixed period of the lease. The multi-tenanted properties generally have three-year leases, providing the Fund with rental movements at market prevailing rate, thus achieving positive rental reversions upon renewal.

The majority of our multi-tenanted properties are located in prime locations of Petaling Jaya, namely Menara Axis, Crystal Plaza, Quattro West, Axis Business Park, Infinite Centre, Wisma Kemajuan, Wisma Academy Parcel, The Annex, Axis Technology Centre, Axis Business Campus and Axis Vista.

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

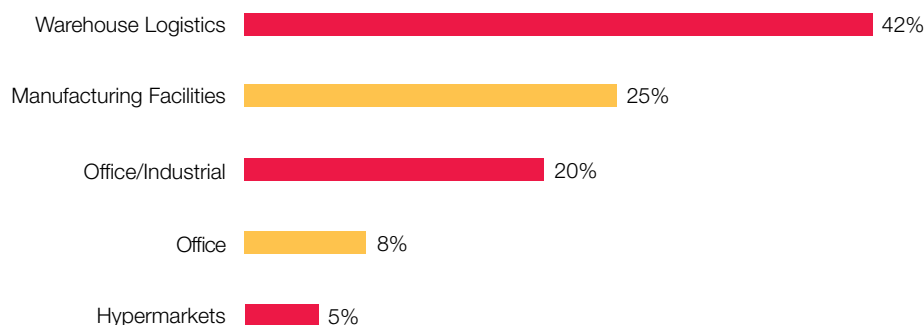
### Single-Tenanted Properties vs Multi-Tenanted Properties





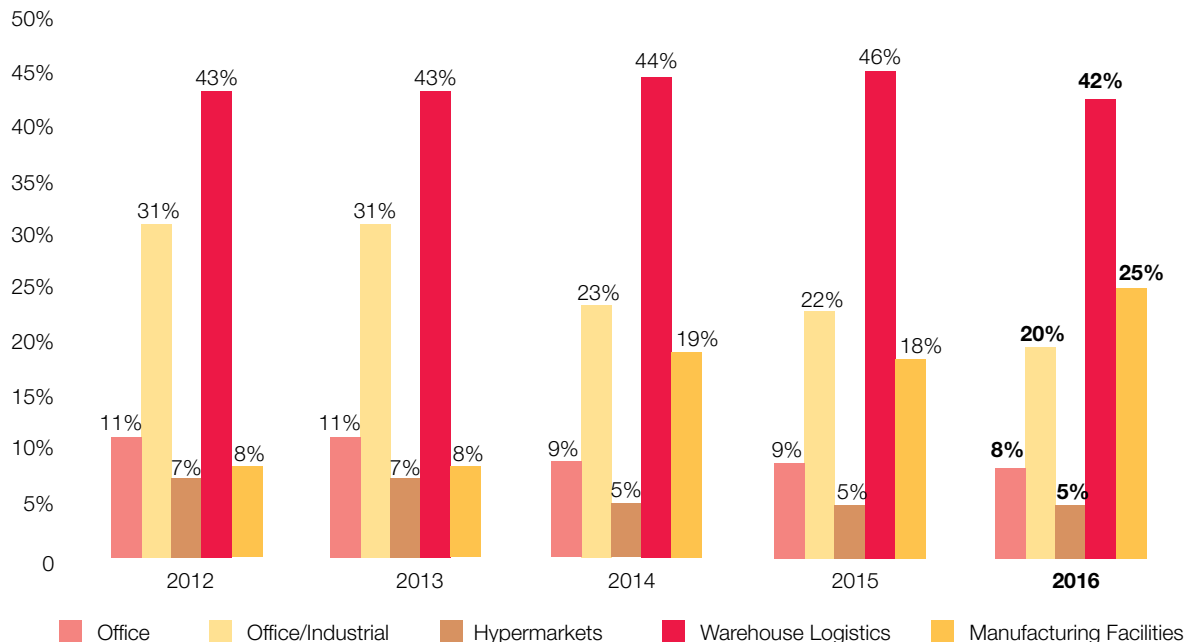
## Manager's Discussion and Analysis Real Estate Report

### Portfolio Diversification by Type and NLA



Portfolio risk is also mitigated by maintaining a diversified range of properties that include office, office/industrial, hypermarkets, warehouse/logistics and manufacturing facilities. This minimises over-exposure to any one sector.

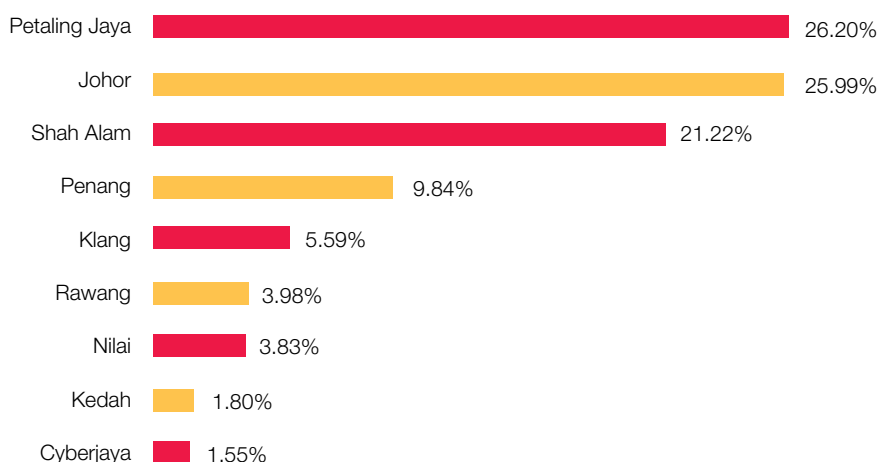
### Diversification by Property Type and NLA – 5 Year Analysis



## Keeping the Portfolio Geographically Diverse

Although the Fund's properties are entirely located in Malaysia, there is minimal location concentration risk as the properties are spread across three main geographical zones with different growth drivers, namely the Selangor, Johor and Penang. In November 2016 we completed the acquisition of the Scomi Facility located in Rawang, Selangor, and our asset acquisition targets will focus on such locations with excellent growth potential.

### Portfolio Diversification by Geographical Location



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

## Weighted Average Lease Expiry ("WALE")

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

The WALE for the portfolio for the last five years is as follows:

	2012	2013	2014	2015	2016
By NLA	4.43	3.89	4.22	3.89	<b>4.33</b>
By Rental	4.17	3.99	4.33	3.99	<b>4.45</b>

The WALE by Net Lettable Area ("NLA") and rental improved in 2016 as compared to 2015, following the acquisition of Beyonics iPark Campus Block A, Block B, Block C and Block D, which came with a 10-year lease term, and Scomi Facility @ Rawang, which has a 15-year lease term.

## Managing Lease Expiry Profiles

Expiring leases are always a concern, as failure to renew a lease will impact revenue. As a result, the Manager has taken a very proactive approach in seeking early lease renewals.

In 2016, 1,938,654 sq. ft. of the portfolio's NLA became due for renewal. The Real Estate Team successfully renegotiated tenancy renewals for 1,675,609 sq. ft. of space, achieving an 86.4% tenant retention rate. We are confident we will successfully manage the tenancy renewals in 2017.

# Manager's Discussion and Analysis

## Real Estate Report

The following table sets out information on the lease expiry profile for the next three years:

Properties	2017			2018			2019		
	NLA Due for Renewal (sq. ft)	% of Total NLA	% of Rental Income / month	NLA Due for Renewal (sq. ft)	% of Total NLA	% of Rental Income / month	NLA Due for Renewal (sq. ft)	% of Total NLA	% of Rental Income / month
1 Menara Axis	33,578	0.44	1.49	-	-	0.03	122,177	1.61	4.73
2 Crystal Plaza	47,313	0.62	1.45	-	-	-	118,981	1.56	3.93
3 Axis Business Park	154,786	2.03	3.54	17,395	0.23	0.35	44,626	0.59	0.82
4 Infinite Centre	30,383	0.40	0.46	21,096	0.28	0.38	46,195	0.61	0.98
5 Wisma Kemajuan	57,574	0.76	1.38	52,203	0.69	0.99	73,339	0.96	1.25
6 Axis Vista	77,080	1.01	1.26	-	-	-	41,477	0.55	0.58
7 Quattro West	17,422	0.23	0.57	18,160	0.24	0.54	16,607	0.22	0.68
8 Axis Technology Centre	54,072	0.71	0.72	66,374	0.87	1.19	25,616	0.34	0.48
9 Axis Eureka	54,259	0.71	1.58	-	-	-	15,235	0.20	0.56
10 Wisma Academy Parcel	65,940	0.87	1.35	84,628	1.11	1.56	43,286	0.57	0.94
11 The Annex	27,400	0.36	0.23	18,000	0.24	0.25	-	-	-
12 Emerson Industrial Facility Nilai	-	-	-	-	-	-	291,642	3.83	1.80
13 Axis Steel Centre	366,839	4.82	3.60	-	-	-	-	-	-
14 Bayan Lepas Distribution Centre	205,151	2.70	3.04	-	-	-	-	-	-
15 Seberang Prai Logistic Centre 3	-	-	-	-	-	-	395,225	5.20	4.11
16 Axis Shah Alam DC 3	-	-	-	362,167	4.76	4.13	-	-	-
17 BMW Centre PTP	161,474	2.12	2.38	-	-	-	-	-	-
18 Axis Shah Alam DC 2	-	-	-	164,400	2.16	1.95	-	-	-
19 D8 Logistics Warehouse	-	-	-	171,000	2.25	2.28	-	-	-
20 FCI Senai	-	-	-	136,619	1.80	1.16	-	-	-
21 Axis Business Campus	-	-	-	-	-	-	18,103	0.24	0.47
<b>Total</b>	<b>1,353,271</b>	<b>17.78</b>	<b>23.05</b>	<b>1,112,042</b>	<b>14.63</b>	<b>14.81</b>	<b>1,252,509</b>	<b>16.48</b>	<b>21.33</b>

## Land Tenure Management

The portfolio comprises properties which reside on a mix of freehold and leasehold land. We constantly monitor the remaining lease period on our leasehold properties to ensure renewals are done in a timely manner to avoid any risk to the valuation of our assets. The remaining of term for the leasehold properties is described in the table below.

	Properties	Land Tenure	Remaining Lease Period as at 31-12-2016 (years)
1	Axis Business Park	Leasehold	44
2	Crystal Plaza	Leasehold	43
3	Menara Axis	Leasehold	49
4	Infinite Centre	Leasehold	49
5	Wisma Kemajuan	Leasehold	49
6	Axis Business Campus	Leasehold	51
7	Axis Shah Alam DC 1	Freehold	-
8	Giant Hypermarket	Freehold	-
9	FCI Senai	Leasehold	51
10	Fonterra HQ	Freehold	-
11	Quattro West	Leasehold	56
12	Strateq Data Centre	Leasehold	52
13	Niro Warehouse	Leasehold	35
14	BMW Centre PTP	Leasehold	39
15	Delfi Warehouse	Leasehold	51
16	Axis Vista	Leasehold	50
17	Axis Steel Centre	Leasehold	86
18	Bukit Raja Distribution Centre	Freehold	-
19	Seberang Prai Logistic Warehouse 1	Leasehold	37
20	Seberang Prai Logistic Warehouse 2	Leasehold	37
21	Tesco Bukit Indah	Freehold	-
22	Axis PDI Centre	Leasehold	75
23	Axis Technology Centre	Leasehold	51
24	D8 Logistics Warehouse	Leasehold	39
25	Axis Eureka	Freehold	-
26	Bayan Lepas Distribution Centre	Leasehold	46
27	Seberang Prai Logistic Warehouse 3	Leasehold	36/52
28	Emerson Industrial Facility Nilai	Leasehold	79
29	Wisma Academy Parcel	Leasehold	46
30	The Annex	Leasehold	46
31	Axis MRO Hub	Leasehold	69
32	Axis Shah Alam DC 3	Freehold	-
33	Axis Steel Centre @ SiLC	Freehold	-
34	Axis Shah Alam DC 2	Freehold	-
35	Beyonics iPark Campus Block A	Freehold	-
36	Beyonics iPark Campus Block B	Freehold	-
37	Beyonics iPark Campus Block C	Freehold	-
38	Beyonics iPark Campus Block D	Freehold	-
39	Scomi Facility @ Rawang	Freehold	-

# Manager's Discussion and Analysis

## Real Estate Report

### Asset Enhancement Initiatives

The Manager continues to use asset enhancement initiatives as a strategy to add value to the portfolio by securing higher rents and increasing the value of the properties. Our asset enhancement activities are described in detail in the Project Management section of this Report.

The table below provides details of how the value of the portfolio has increased as a result of the Manager's active asset enhancement initiatives.

Properties	Acquisition Date	Acquisition Cost (RM'000)	Total Investment Outlay (including enhancements) (RM'000)	Fair Value Adjustments (RM'000)	Book Value as at 31-12-2016 (RM'000)	% of Total Portfolio
1 Axis Business Park	03/08/2005	84,600	100,016	20,232	120,247	5.47
2 Crystal Plaza	03/08/2005	56,400	65,247	44,754	110,000	5.01
3 Menara Axis	03/08/2005	71,440	86,033	37,617	123,649	5.63
4 Infinite Centre	03/08/2005	25,450	35,443	7,557	43,000	1.96
5 Wisma Kemajuan	16/12/2005	29,192	37,190	26,710	63,900	2.91
6 Axis Business Campus	30/06/2006	32,681	60,359	12,841	73,200	3.33
7 Axis Shah Alam DC 1	31/07/2007	18,783	21,387	9,853	31,239	1.42
8 Giant Hypermarket	07/09/2007	38,678	38,973	7,027	46,000	2.09
9 FCI Senai	15/11/2007	12,538	12,693	7,307	20,000	0.91
10 Fonterra HQ	16/11/2007	7,352	11,068	5,572	16,641	0.76
11 Quattro West	30/11/2007	40,376	50,876	5,925	56,800	2.59
12 Strateq Data Centre	25/01/2008	37,549	42,729	14,271	57,000	2.60
13 Niro Warehouse	30/04/2008	14,811	15,234	3,766	19,000	0.87
14 BMW Centre PTP	30/04/2008	27,470	28,160	2,217	30,376	1.38
15 Delfi Warehouse	04/08/2008	12,743	12,803	2,997	15,800	0.72
16 Axis Vista	09/12/2008	32,481	33,859	22,140	56,000	2.55
17 Axis Steel Centre	20/10/2009	65,882	66,611	3,888	70,500	3.21
18 Bukit Raja Distribution Centre	14/12/2009	72,636	76,325	26,073	102,397	4.66
19 Seberang Prai Logistic Warehouse 1	05/03/2010	17,695	17,821	2,678	20,500	0.93
20 Seberang Prai Logistic Warehouse 2	05/03/2010	6,981	7,384	815	8,200	0.37
21 Tesco Bukit Indah	01/10/2010	76,750	76,924	19,076	96,000	4.37
22 Axis PDI Centre	15/10/2010	86,146	90,121	(1,687)	88,435	4.03
23 Axis Technology Centre	15/11/2010	49,697	50,280	3,746	54,025	2.37
24 D8 Logistics Warehouse	01/03/2011	30,521	30,689	2,252	32,940	1.50
25 Axis Eureka	18/04/2011	52,050	53,236	1,764	55,000	2.50
26 Bayan Lepas Distribution Centre	17/01/2012	49,471	50,082	1,417	51,500	2.35
27 Seberang Prai Logistic Warehouse 3	15/02/2012	60,139	61,816	3,183	65,000	2.96
28 Emerson Industrial Facility Nilai	30/08/2012	27,011	27,317	3,183	30,500	1.39
29 Wisma Academy Parcel	01/10/2012	74,242	75,869	(369)	75,500	3.44

Properties	Acquisition Date	Acquisition Cost (RM'000)	Total Investment Outlay (including enhancements) (RM'000)	Fair Value Adjustments (RM'000)	Book Value as at 31-12-2016 (RM'000)	% of Total Portfolio
30 The Annex	01/10/2012	12,289	13,322	5,678	19,000	0.87
31 Axis MRO Hub	18/12/2014	53,357	185,935	(375)	184,000	8.38
32 Axis Shah Alam DC 3	18/12/2014	185,661	53,375	(1,936)	53,000	2.41
33 Axis Steel Centre @ SiLC	30/12/2014	155,950	155,949	551	156,500	7.13
34 Axis Shah Alam DC 2	31/03/2015	45,781	45,782	819	46,600	2.12
Beyonics iPark Campus Block A	28/01/2016	14,470	14,469	131	14,600	0.66
Beyonics iPark Campus Block B	28/01/2016	13,116	13,115	185	13,300	0.61
Beyonics iPark Campus Block C	28/01/2016	11,933	11,934	166	12,100	0.55
Beyonics iPark Campus Block D	28/01/2016	22,504	22,504	196	22,700	1.03
39 Scomi Facility @ Rawang	15/11/2016	42,696	42,696	304	43,000	1.96
<b>Total</b>		<b>1,769,522</b>	<b>1,895,626</b>	<b>302,524</b>	<b>2,198,149</b>	<b>100.00%</b>



## Central Region

### Petaling Jaya

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

### Shah Alam

- 13) Axis MRO Hub
- 14) Axis Shah Alam DC 1
- 15) Axis Shah Alam DC 2
- 16) Axis Shah Alam DC 3
- 17) Fonterra HQ

### Port Klang

- 18) Axis PDI Centre
- 19) Axis Steel Centre
- 20) Bukit Raja Distribution Centre

### Cyberjaya

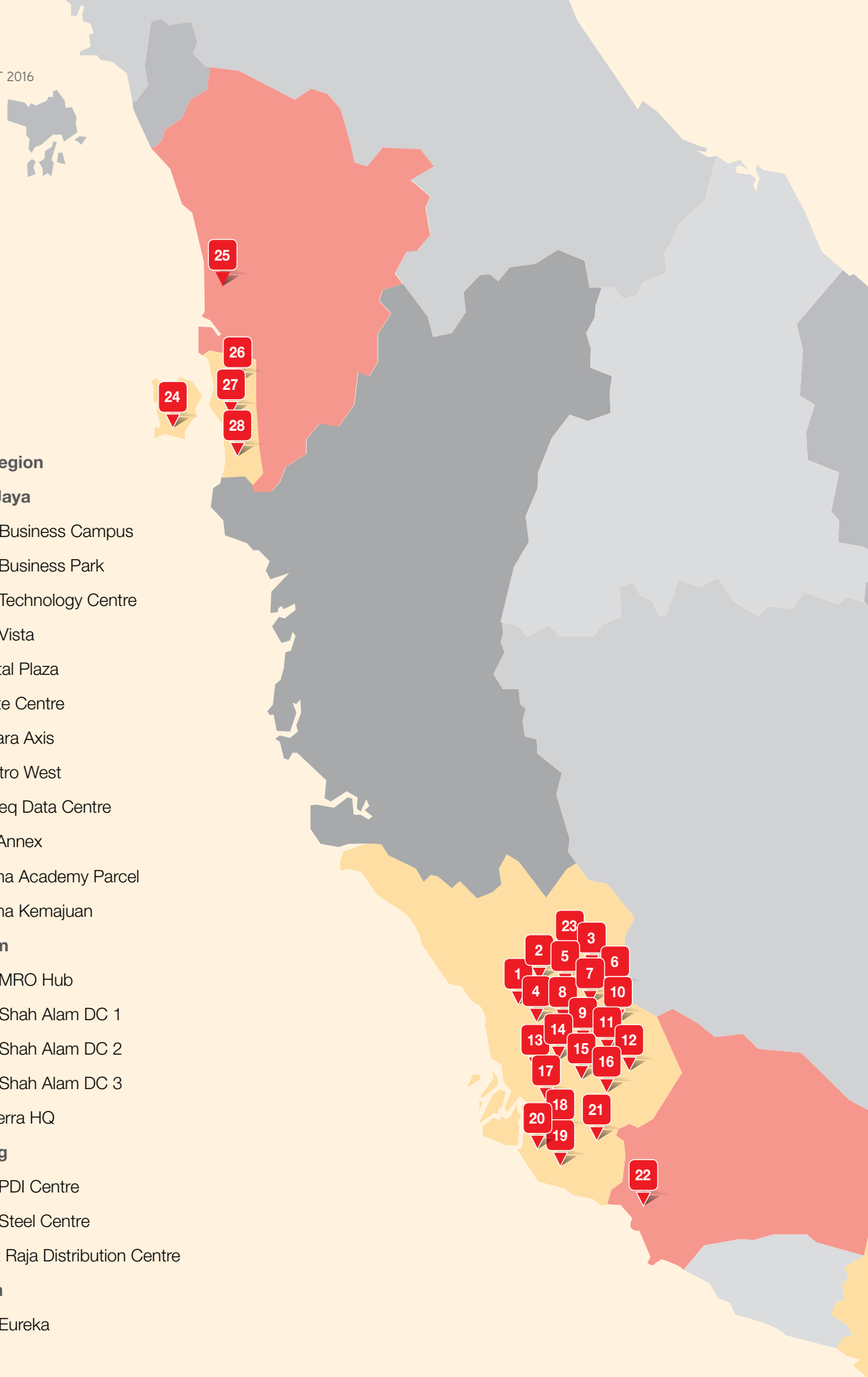
- 21) Axis Eureka

### Nilai

- 22) Emerson Industrial Facility Nilai

### Rawang

- 23) Scomi Facility @ Rawang



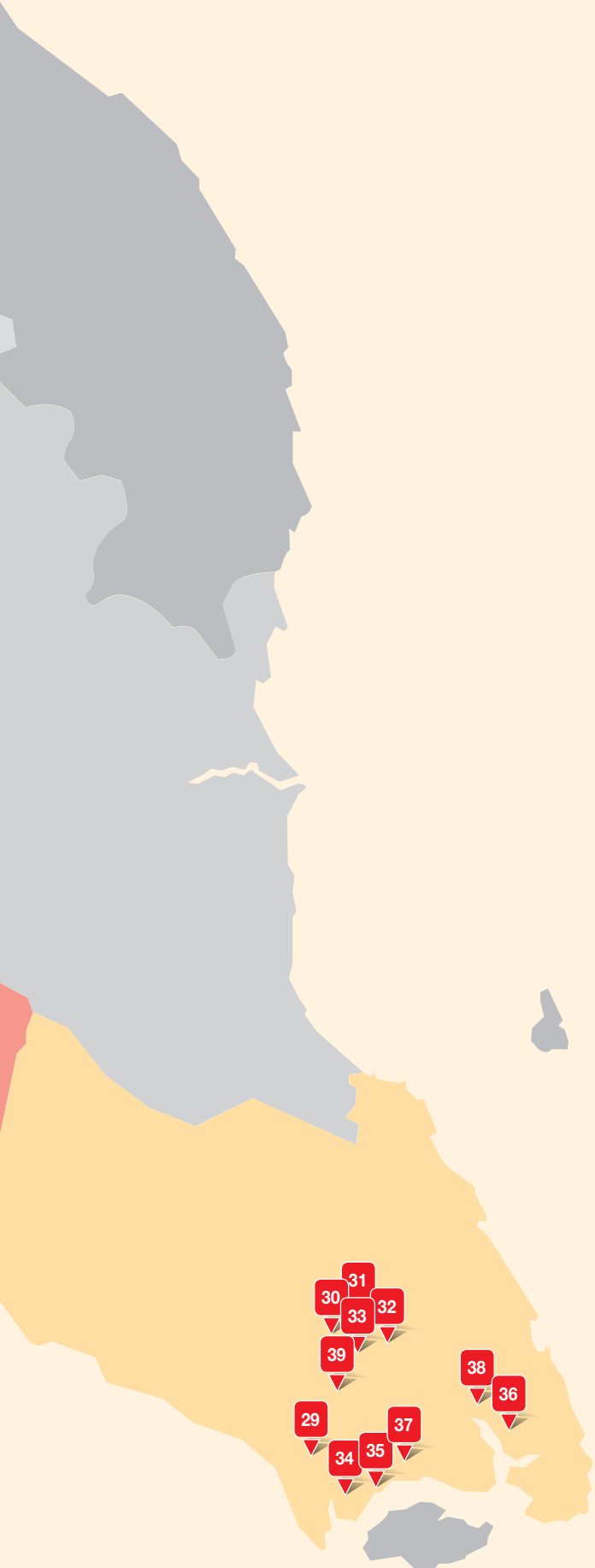
# Locations of Investment Property Portfolio as at 31 December 2016

## Northern Region

- 24) Bayan Lepas Distribution Centre
- 25) Giant Hypermarket
- 26) Seberang Prai Logistic Warehouse 1
- 27) Seberang Prai Logistic Warehouse 2
- 28) Seberang Prai Logistic Warehouse 3

## Southern Region

- 29) Axis Steel Centre @ SILC
- 30) Beyonics i-Park Campus Block A
- 31) Beyonics i-Park Campus Block B
- 32) Beyonics i-Park Campus Block C
- 33) Beyonics i-Park Campus Block D
- 34) BMW Centre PTP
- 35) D8 Logistics Warehouse
- 36) Delfi Warehouse
- 37) FCI Senai
- 38) Niro Warehouse
- 39) Tesco Bukit Indah



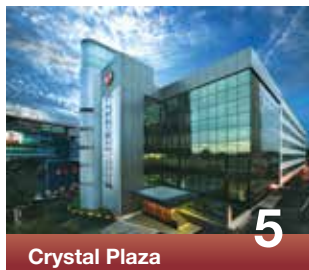
# Manager's Discussion and Analysis

## Investment Property Portfolio

as at 31 December 2016

**39**  
**Properties**  
7,606,863 sq. ft.

### Central Region - Petaling Jaya



### Central Region - Subang, Shah Alam and Klang





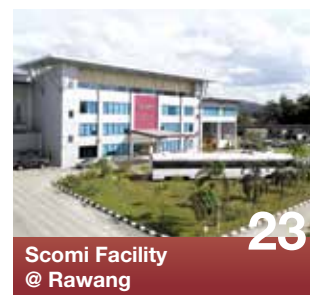
### Central Region - Cyberjaya



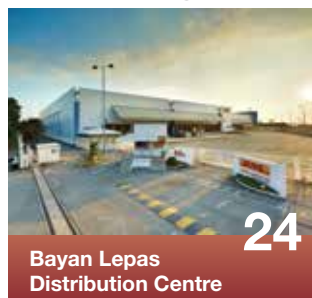
### Central Region - Nilai



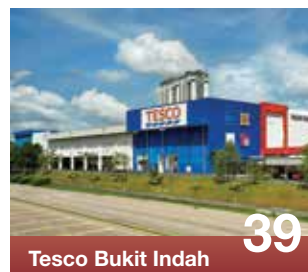
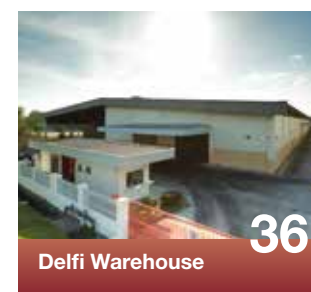
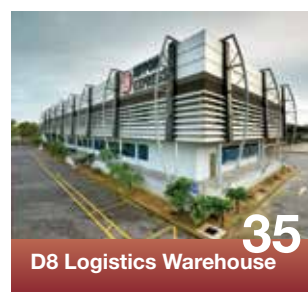
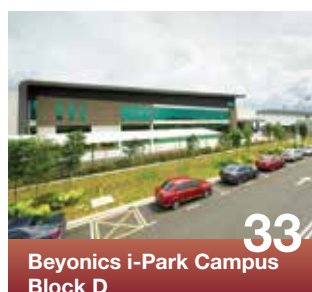
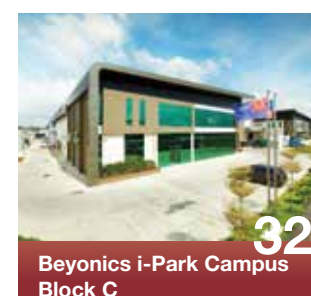
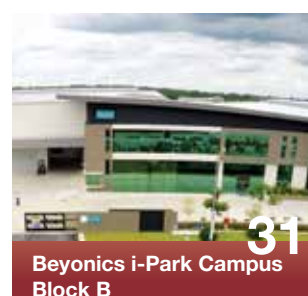
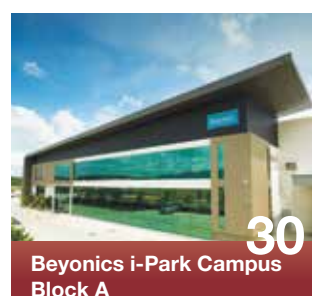
### Central Region - Rawang



### Northern Region



### Southern Region



## Manager's Discussion and Analysis

### Portfolio Details

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-16 (RM'000)	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
1 Menara Axis	03/08/2005	71,400	86,033	123,649	184,121
2 Crystal Plaza	03/08/2005	56,400	65,247	110,000	205,103
3 Axis Business Park	03/08/2005	84,600	100,016	120,247	330,725
4 Infinite Centre	03/08/2005	25,450	35,443	43,000	143,471
5 Wisma Kemajuan	16/12/2005	29,000	37,190	63,900	199,008
6 Axis Business Campus	30/06/2006	32,500	60,359	73,200	151,630
7 Axis Shah Alam DC1	31/07/2007	18,500	21,387	31,239	110,406
8 Giant Hypermarket	07/09/2007	38,000	38,973	46,000	138,000
9 FCI Senai	15/11/2007	12,300	12,693	20,000	136,619
10 Fonterra HQ	16/11/2007	7,200	11,068	16,641	36,310
11 Quattro West	30/11/2007	39,800	50,876	56,800	104,196
12 Strateq Data Centre	25/01/2008	37,000	42,729	57,000	104,903
13 BMW Centre PTP	30/04/2008	27,000	28,160	30,376	161,474
14 Niro Warehouse	30/04/2008	14,500	15,234	19,000	167,193
15 Delfi Warehouse	04/08/2008	12,500	12,803	15,800	130,743
16 Axis Vista	09/12/2008	32,000	33,859	56,000	118,017

Address	Gross Revenue for the period ended 31-12-16 (RM'000)	Occupancy Rate as at 31-12-16	Major Tenants
No. 2, Jalan 51A/223, Section 51A, 46100 Petaling Jaya, Selangor.	12,227	93.75%	Fujifilm (M) Sdn Bhd Sportathlon (M) Sdn Bhd Philips Malaysia Sdn Bhd DHL Asia Pacific Shared Services Sdn Bhd Opensys (M) Berhad
No. 4, Jalan 51A/223, Section 51A, 46100 Petaling Jaya, Selangor.	9,449	81.19%	Tenaga Nasional Bhd DHL Asia Pacific Shared Services Sdn Bhd Asiaworks Malaysia Sdn Bhd
No. 10, Jalan Bersatu 13/4, Section 13, 46200 Petaling Jaya, Selangor.	9,165	69.80%	Fuji Xerox Asia Pacific Pte Ltd Hitachi eBworx Sdn Bhd Honeywell Engineering Sdn Bhd Elitek Power (Malaysia) Sdn Bhd
Lot 1, Jalan 13/6, Section 13, 46200 Petaling Jaya, Selangor.	3,263	68.08%	Procurri Malaysia Sdn Bhd Konica Minolta Business Solutions (M) Sdn Bhd C Melchers GmbH & Co
No. 2, Jalan 19/1B, Section 19, 46300 Petaling Jaya, Selangor.	6,901	92.01%	Guocera Marketing Sdn Bhd HUME Marketing Co Sdn Bhd Hawley & Hazel Marketing Sdn Bhd Brightstar Distribution Sdn Bhd
Lot 13A & 13B, Jalan 225, Section 51A, 46100 Petaling Jaya, Selangor.	254	11.94%	Krohne (M) Sdn Bhd
Lots 2-22,2-24,2-26,2-28, Jalan SU 6A, Taman Perindustrian Subang, (Lion Industrial Park), Section 22, 40300 Shah Alam, Selangor.	2,037	100%	Upeca Aerotech Sdn Bhd
Jalan Lencongan Barat, 08000 Sungai Petani, Kedah.	3,653	100%	GCH Retail (Malaysia) Sdn Bhd
PLO 205, Jalan Cyber 14, Senai IV, Industrial Area, 81400 Johor.	1,858	100%	FCI Connectors Malaysia Sdn Bhd
No. 23, Jalan Delima 1/1, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor.	1,259	84.96%	Fonterra Brands (M) Sdn Bhd
No. 4 Lorong Persiaran Barat, 46100 Petaling Jaya, Selangor.	4,781	65.90%	Jeunesse Global Sdn Bhd Kenanga Investment Bank Bhd TNB Energy Services Sdn Bhd HSS Integrated Sdn Bhd Roca Malaysia Sdn Bhd
No. 12 Jalan Bersatu 13/4, Section 13, 46200 Petaling Jaya, Selangor.	5,088	100%	Strateq Data Centre Sdn Bhd
Lot D21, Jalan Tanjung A/3, Distripark A, Port of Tanjung Pelepas, 81560 Johor.	3,871	100%	BMW Asia Technology Centre Sdn Bhd
PLO 419-421, Jalan Emas 2, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor.	1,751	100%	Niro Ceramic (M) Sdn Bhd
PLO 563, Jalan Keluli 8, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor.	1,767	100%	Barry Callebaut Manufacturing Malaysia Sdn Bhd
No. 11, Jalan 219, Section 51A, 46100 Petaling Jaya, Selangor.	2,612	65.31%	Mitsubishi Electric Sales Malaysia Sdn Bhd Extrovest Communications Sdn Bhd



## Manager's Discussion and Analysis

### Portfolio Details

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-16 (RM'000)	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
17 Axis Steel Centre	20/10/2009	65,000	66,611	70,500	366,839
18 Bukit Raja Distribution Centre	14/12/2009	71,750	76,325	102,397	456,435
19 Seberang Prai Logistic Warehouse 1	05/03/2010	17,390	17,821	20,500	106,092
20 Seberang Prai Logistic Warehouse 2	05/03/2010	6,860	7,384	8,200	41,893
21 Tesco Bukit Indah	01/10/2010	75,600	76,924	96,000	233,579
22 Axis PDI Centre	15/10/2010	85,000	90,121	88,435	58,009
23 Axis Technology Centre	15/11/2010	49,000	50,280	54,025	170,730
24 D8 Logistics Warehouse	01/03/2011	30,000	30,689	32,940	171,000
25 Axis Eureka	18/04/2011	51,250	53,236	55,000	117,618
26 Bayan Lepas Distribution Centre	17/01/2012	48,500	50,082	51,500	205,151
27 Seberang Prai Logistic Warehouse 3	15/02/2012	59,000	61,816	65,000	395,225
28 Emerson Industrial Facility Nilai	30/08/2012	26,500	27,317	30,500	291,642
29 Wisma Academy Parcel	01/10/2012	73,000	75,869	75,500	235,629
30 The Annex	01/10/2012	12,000	13,322	19,000	45,400
31 Axis Shah Alam DC 3	18/12/2014	183,000	185,935	184,000	685,082
32 Axis MRO Hub	18/12/2014	52,500	53,375	53,000	161,280

Address	Gross Revenue for the period ended 31-12-16 (RM'000)	Occupancy Rate as at 31-12-16	Major Tenants
Lot 19, Lebuhraya Hishamuddin 1, Kawasan 20, Selat Klang Utara, 42000 Pelabuhan Klang.	5,908	100%	POS Logistics Berhad (formerly known as Konsortium Logistik Bhd)
No. 43 & 44, Lengkok Keluli 1, Kawasan Perindustrian, Bukit Raja Selatan, Sek 7, 40000 Shah Alam, Selangor.	7,232	100%	LF Logistics Services (M) Sdn Bhd
Plot 23, Tingkat Perusahaan 6, Kawasan Perusahaan Prai Phase 4, Seberang Prai Tengah, Penang.	1,727	100%	LF Logistics Services (M) Sdn Bhd
Plot 24, Tingkat Perusahaan 6, Kawasan Perusahaan Prai Phase 4, Seberang Prai Tengah, Penang.	682	100%	LF Logistics Services (M) Sdn Bhd
No 1, Jalan Bukit Indah 15, 81200 Johor.	6,739	100%	Tesco Stores (M) Sdn Bhd
Lot 7316, Off Jalan Klang / Banting, Locality of Sijangkang, 42500 Telok Panglima Garang, Selangor.	219	17.6 acres	RJH Consultants & Services Sdn Bhd
No 13, Jalan 225, Section 51A, 46100 Petaling Jaya, Selangor.	3,806	82.88%	Fresenius Kabi Malaysia Sdn Bhd Fresenius Medical Care Malaysia Sdn Bhd NZ New Image Sdn Bhd
Lot D8, Jalan Tanjung A/4, Port of Tanjung Pelepas, Gelang Patah, 81560 Johor.	3,718	100%	Nippon Express (M) Sdn Bhd
3539, Jalan Teknokrat 7, 63000 Cyberjaya, Selangor.	4,074	59.64%	Scicom (MSC) Berhad Multimedia Development Corporation Sdn Bhd FSBM Holdings Berhad
88A, Lintang Bayan 9, Lintang Bayan Lepas Industrial Park, Phase IV 11900 Bayan Lepas, Penang.	4,926	100%	DHL Properties (M) Sdn Bhd
No. 74, Lorong Perusahaan Utama 4, Bukit Tengah Industrial Park, 14000 Bukit Mertajam, Penang.	6,626	100%	Schenker Logistics (M) Sdn Bhd
Lot 13111 & Lot 13112, Mukim Labu, Kawasan Perindustrian Nilai, 71800 Negeri Sembilan.	2,814	100%	Emerson Process Management Manufacturing (M) Sdn Bhd
No 4A, Jalan 19/1, Section 19, 46300 Petaling Jaya, Selangor.	7,584	81%	Dataprep (Malaysia) Sdn Bhd Ban Leong Technologies Sdn Bhd Tenaga Nasional Berhad Ingram Micro (Malaysia) Sdn Bhd Oppo Electronics Sdn Bhd
No 4, Jalan 19/1, Section 19, 46300 Petaling Jaya, Selangor.	822	100%	Sports Garage Sdn Bhd
Lot No. 22202, Jalan Gambus 33/4, Off Jalan Bukit Kemuning, Batu 8.5, 40400 Shah Alam, Selangor.	15,150	100%	POS Logistics Berhad (formerly known as Konsortium Logistik Bhd) LF Logistics Services (M) Sdn Bhd
No. 3, Jalan Keluli 15/16, Section 15 40200 Shah Alam, Selangor.	4,176	100%	SR Technics Malaysia Sdn Bhd

## Manager's Discussion and Analysis

### Portfolio Details

Property Name	Acquisition Date	Purchase Price (RM'000)	Total Investment Outlay including enhancement as of 31-12-16 (RM'000)	Book Value based on latest valuation (RM'000)	Net Lettable Area (sq ft)
33 Axis Steel Centre @ SiLC	30/12/2014	153,500	155,949	156,500	688,011
34 Axis Shah Alam DC 2	31/03/2015	45,000	45,782	46,600	164,400
35 Beyonics i-Park Campus – Block A	28/01/2016	14,231	14,469	14,600	67,260
36 Beyonics i-Park Campus – Block B	28/01/2016	12,899	13,115	13,300	60,967
37 Beyonics i-Park Campus – Block C	28/01/2016	11,737	11,934	12,100	55,476
38 Beyonics i-Park Campus – Block D	28/01/2016	22,133	22,504	22,700	104,606
39 Scomi Facility @ Rawang	15/11/2016	42,696	42,696	43,000	302,621

Address	Gross Revenue for the period ended 31-12-16 (RM'000)	Occupancy Rate as at 31-12-16	Major Tenants
No. 27, Jalan SiLC 1/5, Kawasan Perindustrian SiLC, 79200 Nusajaya, Johor.	11,633	100%	Yongnam Engineering Sdn Bhd
Lot No. 10 & 12, Jalan Pahat 16/18A, Lot No. 11 & 13, Jalan Gudang 16/9, Section 16, 40200 Shah Alam, Selangor Darul Ehsan.	3,543	100%	Able Heights Sdn Bhd
No. 95, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, 81000 Bandar Indahpura, Kulaijaya, Johor Darul Takzim.	1,152	100%	Beyonics Technology (Senai) Sdn Bhd
No. 96, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, 81000 Bandar Indahpura, Kulaijaya, Johor Darul Takzim.	1,044	100%	Beyonics Technology (Senai) Sdn Bhd
No. 97, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, 81000 Bandar Indahpura, Kulaijaya, Johor Darul Takzim.	953	100%	Beyonics Precision Machining Sdn Bhd
No. 98, Jalan i-Park 1/10, Kawasan Perindustrian i-Park, 81000 Bandar Indahpura, Kulaijaya, Johor Darul Takzim.	1,790	100%	Beyonics Precision Machining Sdn Bhd
Lot 795 & 796 Jalan Monorail, Kawasan Industri Sungai Choh, 48000 Sungai Choh Rawang, Selangor Darul Ehsan.	431	100%	Scomi Engineering Berhad



# PROJECT MANAGEMENT TEAM

# Manager's Discussion and Analysis

## Project Management Report

### DEVELOPMENT OF NESTLÉ DISTRIBUTION CENTRE

On 19 August 2016, Axis Real Estate Investment Trust ("Axis-REIT" or "the Fund" or "the Trust") embarked on its first property development project when it entered into a "build-and-lease" agreement with Nestlé Products Sdn Bhd ("Nestlé"). The agreement involved the development of a 515,000 sq. ft. distribution warehouse facility ("Nestlé Distribution Centre") with an initial lease term of 10 years and an option to renew the lease for two further terms of three years each.

Key details of the development of Nestlé Distribution Centre can be summarized as follows:

<b>Features</b>	<p>: Basic specifications:</p> <ul style="list-style-type: none"> <li>- Distribution centre built to Nestlé's specifications</li> <li>- Long-term sustainable building design</li> <li>- Flexible modular space configurations</li> </ul> <p>Further enhancements pursuant to Nestlé's specifications</p> <ul style="list-style-type: none"> <li>- Enhanced roof truss loading and floor resistance</li> <li>- Early Suppression Fast Response (ESFR) fire fighting system</li> <li>- Compartmentalised layout configurations</li> <li>- Warehouse racking system</li> </ul>
<b>Net lettable area</b>	: Approximately 515,000 sq. ft.
<b>Tenure</b>	: Initial lease term of ten (10) years, with the option to renew for two (2) additional terms of three (3) years each
<b>Gross rental income</b>	: Approximately RM19.2 million per annum, with rental step-up in later years
<b>Estimated total development</b>	: Approximately RM210.9 million
<b>Estimated initial gross yield</b>	: Approximately 7.6% per annum
<b>Expected completion date</b>	: By end of 2017

The Nestlé Distribution Centre constitutes Phase 1 of the development of the Axis PDI Centre. It will see the construction of an industrial building with Grade A specifications and a built up area of 515,000 sq.ft., along with ancillary buildings. The Nestlé Distribution Centre will occupy 24.78 acres, which is approximately half of the land size of the 50-acre Axis PDI Centre site. The Axis PDI Centre is located close to West Port, and has good connectivity to four major highways. It is also situated close to the upcoming Johan Setia LRT station.



Artist impression of Nestlé Distribution Centre



## Manager's Discussion and Analysis

### Project Management Report

Axis-REIT acquired the Axis PDI Centre on 15 October 2010. At the point of acquisition, the entire Axis PDI Centre was leased to Konsortium Logistik Berhad as a pre-delivery inspection centre for automotive vehicles.



*Aerial view of Axis PDI Centre when it was occupied by Konsortium Logistik Berhad back in 2015*

The property fell vacant on 1 October 2015 and has remained vacant since. As the existing building on the property occupied only 58,009 sq. ft. (representing just 2.76% of the property's total land area), the Trust took the decision to further develop the site with the construction of the Nestlé Distribution Centre. The development of the remaining land area of Axis PDI Centre will be carried out in a separate phase in the future.



*Artist impression of Nestlé Distribution Centre and future phase 2 development*

Following a tender exercise, the contract for the construction of the Nestlé Distribution Centre was awarded to AME Construction Sdn Bhd, a contractor that specialises in industrial buildings. Construction works began in December 2016 and is expected to be completed by end 2017.

Our capacity to develop stems from our promoter's experience and expertise in the property development scene over the last 20 years. Axis-REIT had, on 2 August 2016, obtained a waiver from the Securities Commission Malaysia ("SC") to undertake property development activities for up to 10.0% of the enlarged totals assets value of the Fund, and the value of the development of the Nestlé Distribution Centre is within this limit.

The development would enable the Fund to maximise investment returns to its Unitholders, increasing the Fund's gross revenue, net property income and income distribution to Unitholders, while enlarging the size of its assets under management. On completion, the development is expected to transform part of the Axis PDI Centre from an open space carpark into a Grade A distribution centre.

With a long-term lease in place, Axis-REIT is expected to derive an initial rental income of approximately RM19.22 million per annum upon completion and handover of the facility, with a rental step up every three years. This is a significant increase in rental income as compared with that contributed by the property's previous tenant of RM8.58 million per annum. The initial gross yield is estimated to be approximately 7.6%.

The development will be funded by financing, and the financing cost that arises from the financing will be capitalised together with the development cost, and therefore will not have any immediate effect on Axis-REIT's earnings per Unit.



Source: TheEdge Financial Daily, 10 October 2016

## ASSET ENHANCEMENT INITIATIVES IN 2016

The Project Management team is constantly re-evaluating the portfolio in order to improve the performance and enhance the future valuation and revenue stream of our assets. Keeping our assets well maintained with planned upgrades is an important part of Axis-REIT's strategy. Our aim is to regularly conduct strategic assessments of our properties and plan for enhancements. We see this as an essential part of our strategy that will allow us to maintain our performance and achieving long term sustainability.

### Menara Axis

The Manager took the opportunity to initiate a refurbishment programme for our flagship property in 2015 as it was approaching 11 years of age. One of the major works undertaken was the upgrade of seven passenger lifts that serve the 17 storey office building. The exercise was executed one lift at a time to minimise disruption to tenants. We are pleased to announce that as of February 2017, the upgrade works have been successfully completed. The lifts are now more efficient in travel speed and also energy consumption.

The air conditioning upgrade to energy efficient and environmentally friendly Variable Refrigerant Volume (VRV) system has also been completed across 16 floors. The exercise was carried out in 3 phases over a period of 2 years.



## Manager's Discussion and Analysis

### Project Management Report

#### Axis Business Park Block C

The Manager is currently in the process of upgrading the air conditioning system on the ground and level 1 of block C which is occupied by Fuji Xerox Asia Pacific Pte Ltd. This was an extension of the refurbishment works to block C that was completed in 2015.



#### Axis Shah Alam DC 1

Axis Shah Alam DC 1 is occupied by UPECA Aerotech Sdn Bhd. The Manager undertook to upgrade the firefighting system in the property. This exercise has been completed in accordance with the Local Authority Code of Compliance.



### Axis Shah Alam DC 3

The property is occupied by LF Logistics Services (M) Sdn Bhd. This exercise was undertaken to upgrade the existing base firefighting system to cater to tenants growing business requirements. The exercise has been completed in accordance with the Local Authority Code of Compliance.



### Asset Enhancement Initiatives for 2017

The Manager will continue to plan for more upgrading and refurbishments works within our portfolio for 2017. The main driver in our strategy is our sustainability policy and also to maintain the level of tenant satisfaction as they are one of our main stakeholders.





# PROPERTY MANAGEMENT TEAM







# Manager's Discussion and Analysis

## Property Manager's Report

The Manager has appointed Axis Property Services, together with service provider Axis Facilities Management Sdn. Bhd., as the Property Manager for the Fund. The Property Manager, is entrusted with the day-to-day management of the Fund's 39 properties that collectively have approximately 7.6 million sq. ft. of space under management

Property management involves the processes, systems and manpower required to manage the lifecycle of all properties owned by the Fund. This includes managing new acquisitions, control, accountability, responsibility, maintenance, utilisation and disposals, as well as ensuring that tenants are satisfied with building management services and achieving high tenant retention and occupancy.

The key roles of the Property Manager are as follows:

### Valuation

The Property Manager coordinates valuation exercises undertaken by independent registered valuers engaged by the Trustee for new and existing properties, to ensure they reflect the properties' fair market value.

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

In addition, the Fund must ensure that update revaluation on all investment properties is carried out so as to reflect the changes in the market values in the books of the Fund as at 31 December of every year, in compliance with Malaysian Financial Reporting Standard 140.

### Facilities Management Services

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

### Expense Management

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

	2012	2013	2014	2015	2016
Efficiency Ratio (ER)	15.17%	14.73%	15.66%	14.56%	16.23%

### Code Compliance

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

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

## Car Park Management

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

The facilities management team is strategically stationed on site based on the geographical location of the 39 properties under the portfolio of the Fund as follows:

### Facilities Management Team



**SIVA SHANKAR**  
Head of Facilities  
Management



**LOH WAI YAN**  
Senior Property Executive



**KATHERINE LIM**  
Administrative Assistant

Petaling Jaya



**V. KAMALAHASAN**  
Facility Manager  
• Menara Axis  
• Crystal Plaza  
• Quattro West



**SIVAKUMAR**  
Facility Manager  
• Wisma Kemajuan  
• Wisma Academy  
• The Annex  
• Scomi Facility @ Rawang

Shah Alam / Klang /  
Cyberjaya / Nilai



**JAMALUDDIN ATAN**  
Facility Manager  
• Axis Business Park  
• Straeq Data Centre

Johor



**LIEW LEE TACK**  
Facility Manager  
• Infinite Centre

Penang & Kedah



**ISHAK ABU BAKAR**  
Facility Manager  
• Axis Technology Centre  
• Axis Business Campus  
• Axis Vista



**BOO VOON CHOY**  
Facility Manager  
• Axis Eureka  
• Emerson Industrial  
Facility Nilai  
• Fonterra HQ  
• Axis Shah Alam DC 1  
• Axis Shah Alam DC 2  
• Axis Shah Alam DC 3  
• Axis MRO Hub  
• Axis Steel Centre  
• Bukit Raja Distribution  
Centre  
• Axis PDI Centre



**MOHD AZMI YAACOB**  
Facility Manager  
• BMW Centre PTP  
• D8 Logistic Warehouse  
• Niro Warehouse  
• FCI Senai  
• Tesco Bukit Indah  
Hypermarket  
• Delfi Warehouse  
• Axis Steel Centre @ SiLC  
• Beyonics i-Park Campus  
Blocks A-D



**SUHAIMI MAT ISA**  
Facility Manager  
• Giant Hypermarket  
• Seberang Prai Logistic  
Warehouse 1  
• Seberang Prai Logistic  
Warehouse 2  
• Seberang Prai Logistic  
Warehouse 3  
• Bayan Lepas Distribution  
Centre



# Savills Market Overview 2016

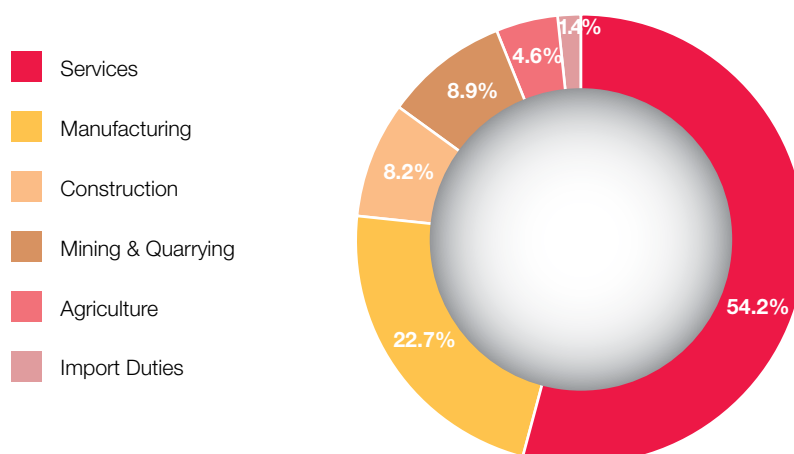
## Market Indicators

In July 2016, Bank Negara Malaysia (“BNM”) reduced the Overnight Policy Rate (“OPR”) by 25 basis points to 3.00%, and has maintained the rate at this level since. The move, which was the first OPR change since July 2014 and the first OPR reduction in seven years, resulted in banks reducing the interest rates charged on their existing floating rate loans by a similar quantum, thus providing some relief to borrowers in the form of lower monthly loan instalments. Meanwhile, as prices fully adjusted to and stabilised post the implementation of the Goods and Service Tax (GST) in 2015, inflation in 2016 is expected to be lower, at between 2% and 3%, compared with an earlier projection of 2.5% to 3.5%, according to a statement by BNM at its Monetary Policy Committee meeting.

Malaysia’s economy has been impacted by the global economic slowdown, with gross domestic product (“GDP”) growth of 4.2% in the first nine months of 2016 (“9M2016”). Full year GDP growth for 2016 is estimated at 4.2%, and is expected to remain largely domestically-driven.

The services sector will continue to be the biggest contributor to the country’s GDP, followed by the manufacturing sector. The contribution of the services sector to the country’s growth has been generally consistent, ranging between 22.7% and 23.4% per annum.

**Malaysia: Percentage Share of Total GDP as at 9M2016**



Source: Department of Statistics, Malaysian Investment Development Authority (“MIDA”)

## 1.0 GREATER KUALA LUMPUR

### 1.1 MARKET OVERVIEW

The Kuala Lumpur property market recorded transactions worth RM15.58 billion for 10,832 property units during the first nine months of 2016, a decrease of 15.1% year-on-year in terms of value, against RM18.35 billion (13,741 units) recorded in the corresponding period of 2015. Selangor recorded RM27.96 billion in transactions for 46,812 property units in the first nine months of 2016. (Source: NAPIC)

77.2% of the total volume of property transactions in Greater Kuala Lumpur (“Greater KL”) during the first nine months of 2016 involved residential properties, while the remaining transactions were for commercial (11.0%), industrial (2.3%) and other categories (9.5%). Transactions of commercial properties in Kuala Lumpur were exceptionally high compared with other states in Malaysia, accounting for 21.2% of total transactions, while only 8.7% of the transactions in Selangor involved commercial properties. (Source: NAPIC)

## 1.2 INDUSTRIAL SECTOR

Kuala Lumpur and Selangor collectively recorded a total of 224 approved manufacturing projects in 2015 with a total capital investment of RM7.97 billion. This was an improvement compared with the 235 approved manufacturing projects with a total capital investment of RM7.09 billion recorded in 2014.

### Kuala Lumpur / Selangor: Approved Manufacturing Projects, 2015 – 9M2016

	2015				9M2016			
	No	Domestic Investment (RM million)	Foreign Investment (RM million)	Total Capital Investment (RM million)	No	Domestic Investment (RM million)	Foreign Investment (RM million)	Total Capital Investment (RM Million)
Kuala Lumpur	2	1.5	2.5	4.0	9	69.5	7.4	76.9
Selangor	222	4,182.5	3,781.3	7,963.8	192	3,370.2	2,222.2	5,592.4
<b>Total</b>	<b>224</b>	<b>4,183.0</b>	<b>3,783.8</b>	<b>7,967.8</b>	<b>201</b>	<b>3,439.7</b>	<b>2,229.6</b>	<b>5,669.3</b>

Source: MIDA

Nearly 99% of the manufacturing projects approved in Greater KL involved projects located in Selangor. Foreign direct investments ("FDI") accounted for approximately 40% of the total approved capital investments in Selangor, mainly originating from Japan, the United States, Singapore, Germany, and Taiwan. The significant new major manufacturing plants and expansion plans that were unveiled in the state during 2016 included the following:

- Nestlé Products Sdn Bhd's Build & Lease agreement with Axis-REIT for the proposed development of a 515,000 sq. ft. built-to-suit single-storey warehouse, which will occupy 24.78 acres of the 50-acre Axis PDI Centre in Telok Panglima Garang. The proposed development is estimated to cost RM210.93 million.
- CCM Duophrama Biotech Bhd's plan to build a new plant and warehouse in Klang. The new purpose-designed warehouse is estimated to cost RM37.1 million, which will cater to future expansion plans and boost productivity.
- Mirus Aircraft Seating Ltd's plans to open a facility to manufacture aircraft seats in either Subang or near KLIA in the first quarter of 2017. The new facility construction cost could be in the range of RM16 million, mainly catering to its biggest customer, AirAsia Bhd.
- A RM2 billion production facility at Bukit Raja Industrial Park that will be set up by UMW Holdings Bhd and Toyota Motor Corporation. The plant, which will be Toyota's second major manufacturing plant in Malaysia, is expected to be ready in 2019.



# Savills Market Overview 2016

## 1.2.1 Existing and Future Supply

### Greater KL: Existing and Future Supply of Industrial Properties

State	Type of Property	Existing Supply			Future Supply	
		2014	2015	9M2016	Incoming Supply	Planned Supply
Kuala Lumpur	Terraced Factory	2,539	2,545	2,545	0	15
	Semi-detached Factory	424	412	412	0	0
	Detached Factory	508	511	511	0	0
	Flatted Factory	1,295	1,295	1,295	0	0
	Industrial Complex	375	375	375	0	0
	<b>TOTAL</b>	<b>5,141</b>	<b>5,138</b>	<b>5,138</b>	<b>0</b>	<b>15</b>
Selangor	Terraced Factory	26,921	26,921	27,968	625	333
	Semi-detached Factory	4,319	4,568	5,414	962	668
	Detached Factory	4,391	4,425	4,540	203	255
	Flatted Factory	272	272	263	0	0
	Industrial Complex	108	108	100	5	5
	<b>TOTAL</b>	<b>36,011</b>	<b>36,294</b>	<b>38,285</b>	<b>1,795</b>	<b>1,261</b>
Greater KL	Terraced Factory	29,460	29,466	30,513	625	348
	Semi-detached Factory	4,743	4,980	5,822	962	668
	Detached Factory	4,899	4,936	5,084	203	255
	Flatted Factory	1,567	1,567	1,567	0	0
	Industrial Complex	483	483	479	5	5
	<b>Grand Total</b>	<b>41,152</b>	<b>41,432</b>	<b>42,924</b>	<b>1,795</b>	<b>1,276</b>
<b>Growth Rate (%)</b>			<b>0.7%</b>	<b>3.6%</b>		

Source: Valuation and Property Services Department, Ministry of Finance

The cumulative supply of existing industrial properties in Kuala Lumpur and Selangor grew by 3.6% to 42,924 units in the first nine months of 2016, from end-2015. A total of 1,991 new units were added in Selangor.

Most of the existing industrial properties are terraced factories, which make up 69.8% of the combined supply of industrial properties in Kuala Lumpur and Selangor, followed by semi-detached (13.6%) and detached factories (11.8%).

The bulk of the future supply of industrial properties will be located in Selangor, mostly comprising semi-detached factories. In contrast, Kuala Lumpur has limited future supply, with only 15 industrial units planned.

## 1.2.2 Industrial Land Value and Industrial Property Rents

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

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

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

Most of the notable transactions of industrial properties in Greater KL occurred in Selangor given the scarcity of industrial land in Kuala Lumpur. The transacted prices of industrial premises located within Shah Alam, Subang Jaya, Petaling Jaya and Gombak were dependent on their location, land size, built-up area, accessibility and other salient features.

### Greater KL: Industrial Land Values in Selected Locations

Area	Transacted Price in 9M2016 (RM per sq. ft.)	
	Leasehold	Freehold
1. Klang	30 – 40	50 – 60
2. Petaling Jaya (section 51/51A)	170 – 260	-
3. Puchong	100 – 140	150 – 200
4. Rawang/Kuala Selangor	20 – 30	40 – 60
5. Shah Alam – Bukit Jelutong/Glenmarie	-	180 – 220
6. Shah Alam – other sections	70 – 100	90 – 130
7. Subang Jaya	100 – 120	140 – 160
8. Sungai Buloh	70 – 80	80 – 100
9. Gombak	90 – 130	150 – 250

Source: Savills Malaysia Research

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

### Greater KL: Estimated Range of Asking Rental Rates for Industrial Properties

No	Area	Asking Rental Rates for Industrial Properties (RM per sq. ft. per month)		
		2014	2015	2016
1.	Petaling Jaya - sections 13, 19, 51 and 51A	1.70-2.00	1.80-2.20	1.80-2.30
2.	Shah Alam - sections 15, 16, 21-27	1.10-2.10	1.10-2.10	1.30-2.20
3.	Shah Alam - Glenmarie, Temasya, Bukit Jelutong	1.60-2.20	1.70-2.20	1.80-2.30
4.	Klang - Northport, Westport	0.80-1.30	0.90-1.40	1.00-1.50
5.	Kajang	0.70-0.90	0.80-1.00	0.80-1.10
6.	Bangi	0.70-0.90	0.80-1.00	0.80-1.10
7.	Sungai Besi - Chan Sow Lin	1.70-2.30	1.80-2.40	1.90-2.50
8.	Kepong	1.10-1.60	1.20-1.60	1.30-1.80
9.	Rawang	0.60-1.10	0.60-1.20	0.80-1.30

Source: Savills Malaysia Research

Note:

- The sample of industrial properties used includes factories, warehouses and distribution centres.
- For uniformity of data, only industrial properties with over 10,000 sq. ft. of space are included.

The rental rate has been stable for the past 5 years with minimal fluctuations, ranging between RM0.10 and RM0.20 per sq. ft. per month.



# Savills Market Overview 2016



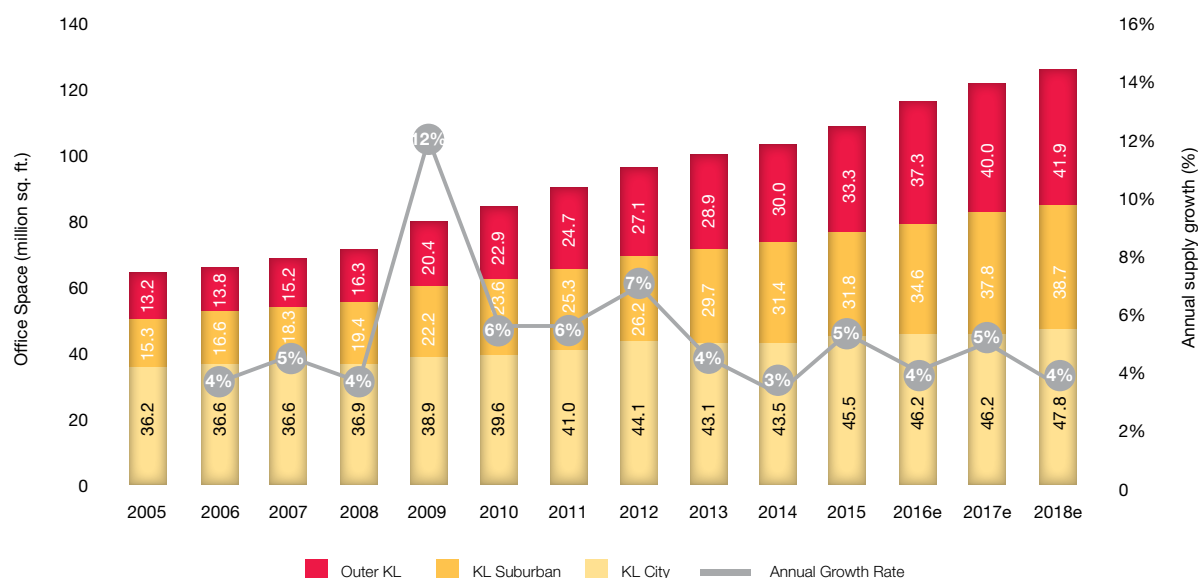
## 1.3 OFFICE SECTOR

### 1.3.1 Existing Supply

There was approximately 118 million sq. ft. of office space in Greater KL as at end-2016. The current supply comprises over 400 office buildings. About 39.1% (or 46.2 million sq. ft. of net lettable area ("NLA")) of the existing supply of office space in Greater KL is located within KL City, followed by KL Suburban with 29.3% (or 34.6 million sq. ft. of NLA), while Selangor has 31.6% (or 37.3 million sq. ft. of NLA).

New office completions in 2016 were evident in Selangor and KL Suburban, with a total combined new office space of 3.96 million sq. ft. These office buildings include Mercu Mustapha Kamal Tower 2 in Damansara Perdana, UOA Business Park in Subang and KL Eco City Strata Office Suites Tower in KL Eco City.

Greater KL: Cumulative Supply of Office Space



Source: Savills Research

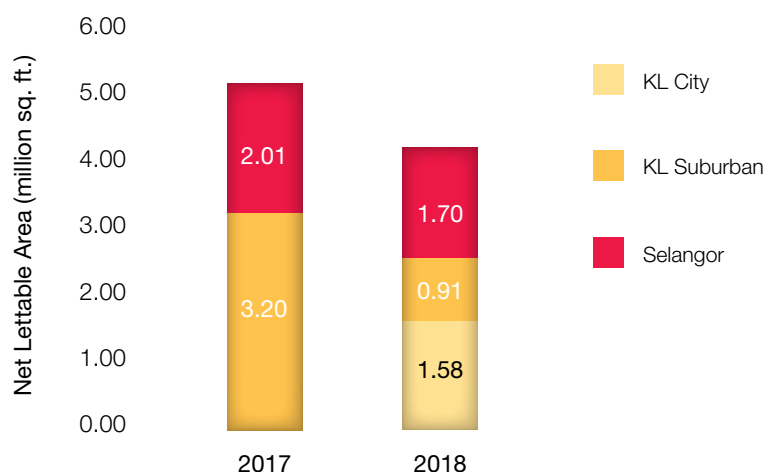
Note:

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

### 1.3.2 Future Supply

The supply of office space in Greater KL is set to grow sharply over the coming years. It is estimated that approximately 9.4 million sq. ft. of new office space will be completed by 2018. About 43.7% or 4.11 million sq. ft. of this stock will be located in KL Suburban, and 39.5% or 3.71 million sq. ft. will be in Selangor. KL City will have about 16.8% of the stock or 1.58 million sq. ft..

### Greater KL: Future Supply of Office Space



Source: Savills Research

### Greater KL: Notable Upcoming Office Buildings Slated For Completion in 2017-2018e

No.	Building Name	Location	Estimated NLA (sq. ft.)
<b>KL City</b>			
1.	JKG Tower	CBD	390,000
2.	Public Mutual Office Tower @ Jln Raja Chulan	Golden Triangle	215,000
3.	Equatorial Plaza	Golden Triangle	479,000
4.	Redevelopment of MAS Building (PNB Lot 1194)	Golden Triangle	357,000
5.	Office Tower (formerly Bombay Palace Restaurant)	Golden Triangle	331,000
6.	Tun Razak Exchange (TRX) – Plot 10.17 (Prudential)	Golden Triangle	415,000
<b>KL City - Total</b>			<b>2,187,000</b>
<b>KL Suburban</b>			
7.	KL Eco City	Mid Valley	1,750,000
8.	Mid Valley Southpoint	Mid Valley	858,000
9.	The Vertical Corporate Tower B	Bangsar South	693,000
10.	KL Gateway Corporate Office 1&2	Bangsar South	792,000
11.	Damansara City Tower A	Damansara Heights	506,000
<b>KL Suburban - Total</b>			<b>4,599,000</b>
<b>Selangor</b>			
12.	Empire City	Damansara Perdana	1,150,000
13.	Celcom Axiata @ PJ Sentral	Petaling Jaya	450,000
14.	Pinnacle Petaling Jaya	Petaling Jaya	400,000
15.	Signature Corporate Tower @ Skypark - Tower 6	Cyberjaya	175,975
16.	The Corporate Park @ Star Central - Phase 1C	Cyberjaya	138,728
17.	Office Tower @ Glomac Cyberjaya 2	Cyberjaya	165,000
<b>Selangor - Total</b>			<b>2,479,703</b>

Source: Savills Research

# Savills Market Overview 2016



## 1.3.3 Average Occupancy Rates

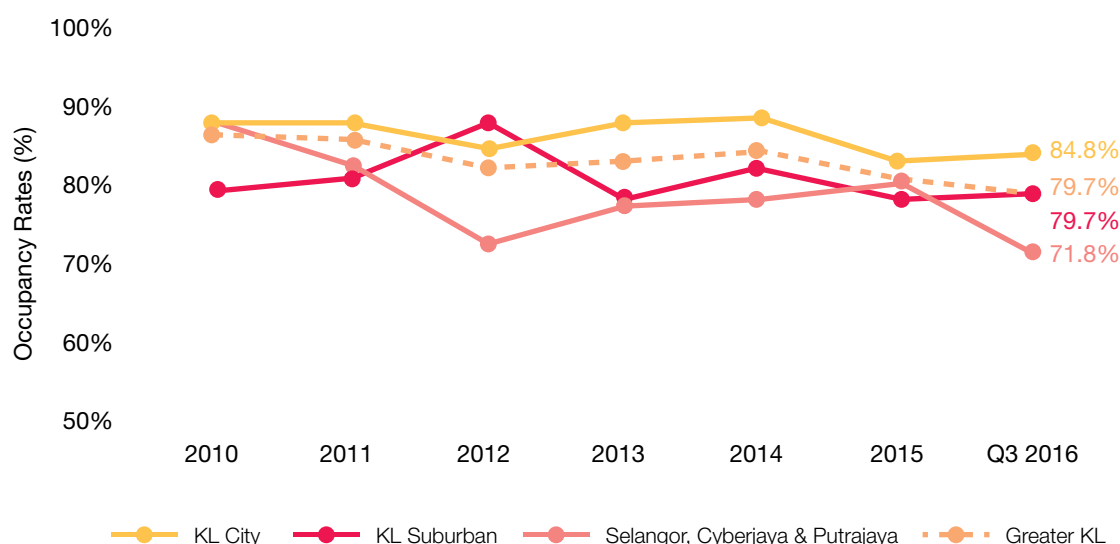
The average occupancy rate of office space in Greater KL decreased to a historical low of 79.7% as at Q3 2016. This was mainly due to a slow absorption rate, coupled with new completions of office buildings in Selangor and KL Suburban.

Both the overall occupancy rates in KL City and KL Suburban have shown a slight improvement to 84.8% and 79.7% respectively during the first nine months of 2016.

The average occupancy rate of office space in Selangor, including Cyberjaya and Putrajaya, was 71.8% - a significant decrease compared with 80.8% in 2015. This is due to the low occupancy rates of newly completed buildings in 2016.

Going forward, the overall occupancy rate of office space in Greater KL is likely to trend lower given the substantial incoming supply over the next two years.

**Greater KL: Occupancy Rates of Office Space**



Source: Savills Research

## 1.3.4 Average Asking Rental Rates

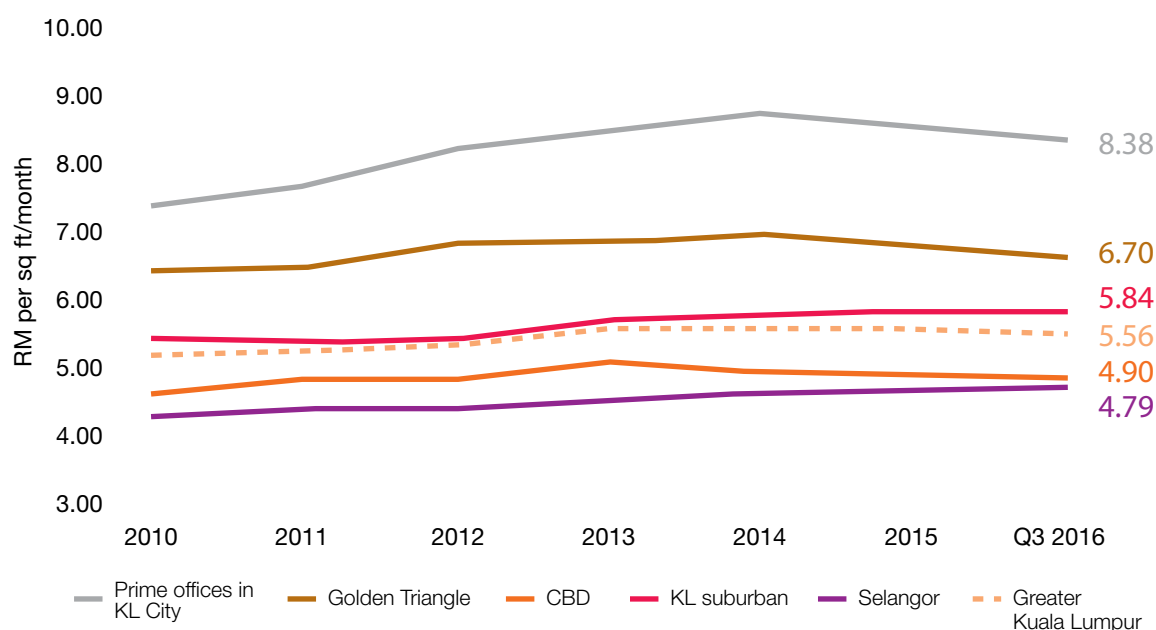
The average gross asking rent in Greater KL stabilised at RM5.56 per sq. ft. in the first three quarters of 2016.

Over the same period, the average gross asking rent in KL Golden Triangle and KL CBD decreased slightly, to RM6.70 per sq. ft. (-2.33% from 2015) and RM4.90 per sq. ft. (-1.21% from 2015), respectively.

The average gross asking rent for offices in KL Suburban and Selangor remained stable, at RM5.84 per sq. ft. and RM4.79 per sq. ft. respectively.

The market remains a tenants' market. Amid a highly competitive leasing market, landlords appear to be unable to fully pass on cost increases from inflation and GST to tenants, which in turn, may reduce the net returns for landlords.

Greater KL: Average Gross Asking Rental Rates for Office Space

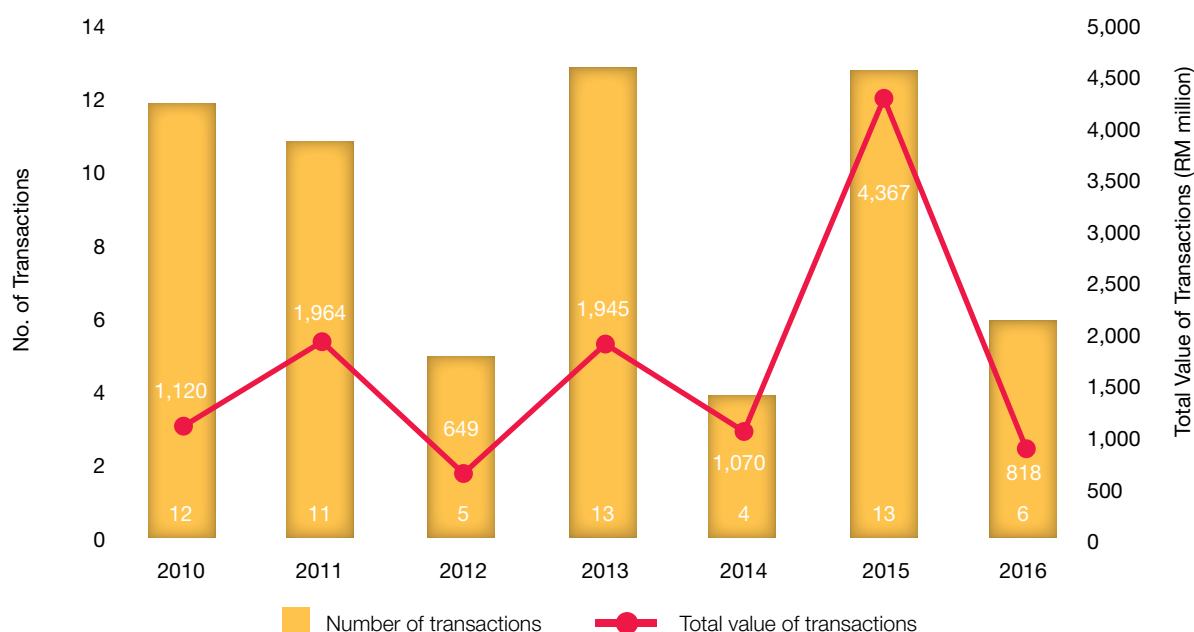


Source: Savills Research

### 1.3.5 Major Investments

The office transaction market was very active in 2015, with 13 office buildings transacted for a total consideration of RM4.37 billion. However, the market slowed in 2016 with only 6 office buildings transacted for a total consideration of RM818 million. These included Axis Eureka, Dijaya Plaza, Menara AIA Cap Square and Block N @ Empire City Damansara.

Greater KL : Notable Office Building Transactions, 2010 – 2016



Source: Savills Research

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

# Savills Market Overview 2016



## Greater KL: Major Transactions of Purpose-Built Office Buildings in 2016

Building	Location	NLA (sq .ft.)	Consideration (RM million)
<b>Kuala Lumpur</b>			
1. Dijaya Plaza	Jalan Tun Razak	156,488	140
2. Menara AIA Cap Square	Jalan Munshi Abdullah	601,574	511
<b>Selangor</b>			
3. Enterprise Building 2	Cyberjaya	93,804	40
4. Garden Office @ Encorp Strand	Kota Damansara	43,002	27
5. 7 storeys within the 45-storey Iconic Office (Block N) @ Empire City Damansara	Damansara Perdana	79,284	44
6. Axis Eureka	Cyberjaya	116,389	56

Source: Bursa Malaysia, Savills Research

## 2.0 JOHOR

### 2.1 MARKET OVERVIEW

The Johor property market recorded transactions amounting to RM14.78 billion (involving 29,520 property units) during the first nine months of 2016, against RM16.99 billion (36,280 property units) recorded in the corresponding period of 2016. This is a substantial decrease of 13.0% and 18.6% in terms of the value and volume of transactions respectively.

The total cumulative committed investment in Iskandar Malaysia from 2006 to September 2016 stood at RM218.84 billion, up 15% from RM190.29 billion as at 2015. 60% or RM132.13 billion were domestic investments, while foreign investments made up the remaining 40%, mainly originating from China, Singapore, the United States, Japan and Spain. A total of RM113.36 billion, representing about 52% of the cumulative investment commitments, have been realised as projects on the ground.

### 2.2 INDUSTRIAL SECTOR

#### Johor: Approved Manufacturing Projects, 2012 – 9M2016

	2012	2013	2014	2015	9M2016
Number of Approved Projects	184	197	179	119	137
Total Capital Investment (RM billion)	5,534.3	14,444.6	21,176.4	31,102.3	18,109.4

Source: MIDA

A number of new major manufacturing plants and expansion plans were unveiled in Johor in 2016:

- Johor Corporation's ("JCorp") plans to secure RM2 billion worth of investments from undisclosed companies involved in palm oil-based and petrochemical downstream activities for its Tanjung Langsat Industrial Complex ("TLIC") near Pasir Gudang, Johor by June 2017. The 1,400-hectare TLIC is being developed by JCorp's subsidiary, TPM Technopark Sdn Bhd. Petrochemical industries will account for 60% of its activities with 80.93 hectares being allocated for a palm oil industrial cluster ("POIC"). The remaining 40% will comprise gas production, steel-making, marine, and marine-related industries.
- Singapore-based Amity Energy Pte Ltd's Memorandum of Understanding with JCorp, signed in April 2016, to build a US\$200 million refrigerated liquefied petroleum gas ("RLPG") terminal in TLIC. The terminal is expected to be operational in the first quarter of 2018.
- Yongnam Holdings Limited, one of Singapore's leading steel construction companies, recently bought 3 parcels of freehold industrial land in Ulu Choh, Pontian. The land, stretching across 10.3 hectares, has been earmarked to be the site of one of the company's factory operations.

- In October 2016, the Volkswagen Group announced that it is relocating its Asia-Pacific regional aftersales hub from Singapore to the Port of Tanjung Pelepas ("PTP"). Work will start on the logistics centre in January 2017. It is expected that upon its completion in 2018, this regional centre in PTP will serve 28 markets in the Asia-Pacific region.

#### Johor: Transaction Volume and Value of Industrial Properties

Industrial Property Type	2015		9M2015		9M2016	
	Volume (no.)	Value (RM million)	Volume (no.)	Value (RM million)	Volume (no.)	Value (RM million)
Terraced Factory	277	157.48	220	124.46	111	63.88
Semi-detached Factory	197	387.17	156	292.08	127	229.27
Detached Factory	2,017	940.52	169	776.79	107	626.30
Others	453	845.96	378	610.49	153	571.64
<b>TOTAL</b>	<b>2,944</b>	<b>2,331.13</b>	<b>923</b>	<b>1803.82</b>	<b>498</b>	<b>1,490.82</b>

Source: NAPIC

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

In the first nine months of 2016, 498 industrial property transactions were recorded in Johor, a decline by nearly half of the 923 transactions recorded in the corresponding period of 2015. The total value of transactions decreased by 17% year-on-year to RM1.49 billion, compared with a transaction value of RM1.80 billion in the corresponding period of 2015.

Semi-detached factories surpassed terraced factories as the most actively transacted industrial property type during the first nine months of 2016, accounting for 25% of industrial property transactions by volume with a corresponding value of RM229.27 million.

Detached factories continued to record the highest value of transactions, with 107 units transacted for RM626.3 million in the first nine months of 2016. This translates to an average value per detached factory of about RM5.9 million, compared with RM4.6 million in the same period last year.

#### 2.2.1 Existing and Future Supply

##### Johor: Existing and Future Supply of Industrial Properties

Industrial Property Type	Existing Supply						Future Supply	
	2011	2012	2013	2014	2015	9M2016	Incoming	Planned
Terraced factory	7,471	7,509	7,509	7,651	7,760	7,647	487	728
Semi-detached factory	2,825	2,855	2,911	2,986	3,165	3,017	1,450	735
Detached factory	2,750	2,866	2,901	3,026	3,087	3,086	410	1,097
Flatted factory	0	0	2	0	0	0	0	0
Industrial complex	470	470	470	448	448	448	9	17
Cluster	0	0	0	48	48	48	714	69
<b>Total</b>	<b>13,516</b>	<b>13,700</b>	<b>13,793</b>	<b>14,159</b>	<b>14,508</b>	<b>14,246</b>	<b>3,070</b>	<b>2,646</b>

Source: NAPIC

Johor had a total of 14,246 industrial properties as at the third quarter of 2016. These were mostly terraced factories, which accounted for over 50% of the existing industrial properties in Johor, followed by detached factories (21.6%) and semi-detached factories (21.1%). According to government data, there are no flatted factories in Johor.





# Savills Market Overview 2016

Looking ahead, there are 5,716 units of industrial properties in the pipeline for Johor. 3,070 of these are currently being developed, while a further 2,646 units have been approved but have yet to commence construction.

Currently, Iskandar Malaysia is the main industrial area in the state of Johor, and is mainly focussed on the following zones:

- Flagship Zone C: Western Gate Development, where Tanjung Pelepas is located;
- Flagship Zone D: Eastern Gate Development, where Johor Port and Tanjung Langsat Port are located; and
- Flagship Zone E: Senai-Skudai, where Senai Airport is located.

## 2.2.2 Industrial Land Price and Industrial Property Rents

Industrial land values in Iskandar Malaysia ranged between RM20 and RM80 per sq. ft., depending on the location and tenure. Land prices exceeded RM100 per sq. ft. in some areas within the Southern Industrial and Logistics Cluster (SiLC) in Iskandar Puteri due to the strategic location as well as the freehold tenure of the land. In contrast, parcels of 30-year leasehold land in Pasir Gudang and the Senai/Kulai areas were priced at an average of RM20 per sq. ft..

Rental rates for industrial properties in Iskandar Malaysia were relatively stable, at between RM0.80 and RM1.50 per sq. ft. per month, with only properties at Tanjung Pelepas and SiLC commanding rents above that level and up to RM2.50 per sq. ft. per month, due to their strategic location and building specifications.

### Johor: Prices of Industrial Land at Selected Significant Industrial Areas

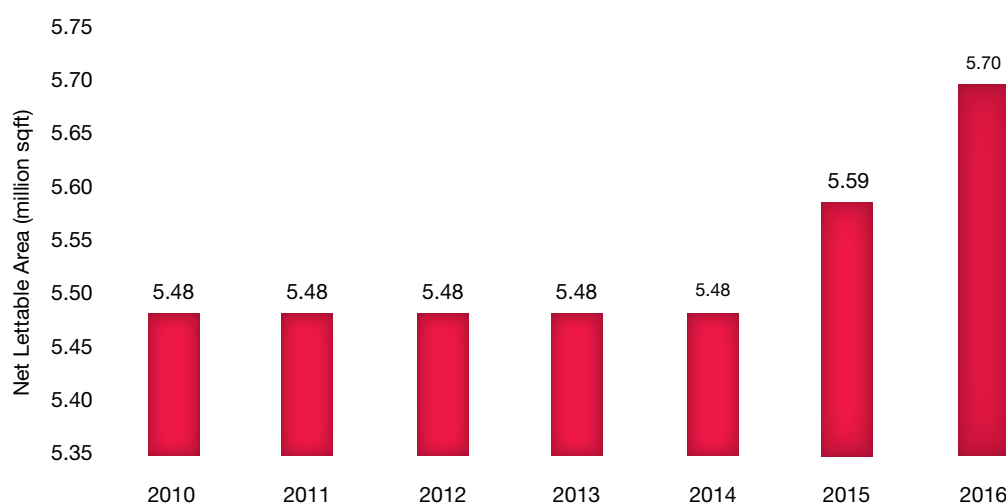
No	Location	Industrial Land Price (RM per sq. ft)		
		2014	2015	2016
1.	Southern Industrial and Logistics Cluster (SiLC)	1.70-1.90	1.80-2.00	1.80-2.00
2.	Port of Tanjung Pelepas (PTP)	1.80-2.20	1.80-2.30	2.00-2.50

Source: Savills Research

## 2.3 OFFICE SECTOR

### 2.3.1 Existing and Future Supply

#### Iskandar Malaysia: Cumulative Supply of Private Office Space, 2010 – 2016



Source: Savills Research

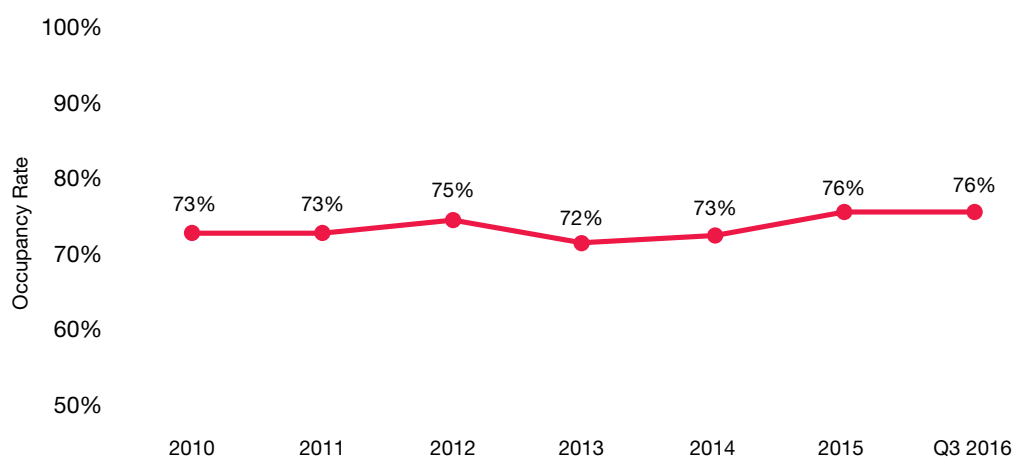
Note: Iskandar Malaysia includes Johor Bahru and Kulaijaya

As at 2016, there was 5.7 million sq. ft of private office space in Iskandar Malaysia. Most of the purpose-built offices are located in Johor Bahru City Centre. A significant increase of supply was seen in 2015 and 2016, following the completion of Medini 6 and 7, and Imperia Office Tower in Iskandar Puteri.

The incoming supply of purpose-built office buildings will mostly be located in the Medini zone within Iskandar Puteri, formerly known as Nusajaya. Notable upcoming office buildings are Medini 9 and Medini 10, which will have NLAs of about 380,000 and 415,000 sq. ft. and will form parts of the 24-acre and 43-acre cluster developments called The Pulse and The Compass respectively. Beyond Medini, significant office buildings in Johor Bahru include Menara MBBJ @ One Bukit Senyum and offices in Forest City.

### 2.3.2 Average Occupancy Rate

**Iskandar Malaysia: Average Occupancy Rates of Privately-owned Office Space, 2010 – 9M2016**



Source: NAPIC, Savills Research

The overall demand for purpose-built offices in Iskandar Malaysia remains weak, with an average vacancy rate of 27%. This is primarily because most businesses are still conveniently operated within shop offices. The office market in Iskandar Malaysia is much smaller compared with that of the Klang Valley, which has approximately 96 million sq. ft. of office space and an average occupancy rate of 87%. Nonetheless, several well-located office buildings managed to achieve occupancy rates of over 80%, such as JB City Square Tower, Menara MSC Cyberport, Menara Landmark and Public Bank Tower.

**Iskandar Malaysia: Occupancy Rates of Selected Office Buildings**

Building Name	Occupancy Rate (%)		
	2014	2015	9M2016
1. JB City Square Office Tower	94%	95%	94%
2. Menara Ansar	100%	100%	100%
3. Menara Pelangi	95%	90%	92%
4. Menara MSC Cyberport	90%	90%	95%
5. Bangunan Pelangi	80%	80%	80%
6. Public Bank Tower	80%	75%	80%
7. Bangunan ANG	80%	80%	82%
8. Menara TJB	88%	90%	88%
9. Menara Landmark	85%	85%	80%
10. Menara Komtar	100%	100%	100%

Source: Savills Research

# Savills Market Overview 2016



## 2.3.3 Average Asking Rental Rates

Rental rates for purpose-built offices were generally stable in Johor Bahru. Overall, the gross monthly rental of prime office space in Johor Bahru ranged from RM2.50 per sq. ft. to RM3.50 per sq. ft., with other offices in the city let out at between RM2.00 per sq. ft. and RM2.50 per sq. ft.. Rental rates for office space in secondary locations were generally lower, at below RM2.00 per sq. ft..

### Johor Bahru: Office Rental Rates

Building Name	Asking Rental Rate (RM per sq. ft. per month)		
	2014	2015	9M2016
1. JB City Square Office Tower	2.50 - 3.30	2.50 - 3.50	2.50 - 3.50
2. Menara Ansar	2.80 - 3.50	2.50 - 3.50	2.50 - 3.50
3. Menara Pelangi	2.30 - 3.00	2.00 - 3.00	2.00 - 3.00
4. Menara MSC Cyberport	2.80 - 3.30	2.80 - 3.30	2.80 - 3.30
5. Bangunan Pelangi	2.00 - 2.50	1.80 - 2.50	1.80 - 2.50
6. Public Bank Tower	2.00 - 2.50	2.00 - 2.50	2.00 - 2.50
7. Bangunan ANG	1.80 - 2.00	1.50 - 2.00	1.50 - 2.00
8. Menara TJB	2.00 - 3.00	2.00 - 3.00	2.00 - 3.00
9. Menara Landmark	2.50 - 3.50	2.50 - 3.50	2.50 - 3.50
10. Menara Komtar	2.50 - 3.00	2.50 - 3.00	2.50 - 3.00

Source: Savills Research

## 2.3.4 Major Investments

In 2016, the market for purpose-built office buildings in Johor was quiet compared with that of Greater KL. Only one office building transaction was recorded in Johor Bahru in 2016, which was Astaka Holdings Ltd's sale of a 15-storey grade A office building to the Johor Bahru City Council (MBJB) in November 2016. The building, which will be located in the One Bukit Senyum development and have a gross floor area of 445,848 sq. ft., was sold for RM308 million or RM690 per sq. ft.. The building will be named Menara MBJB in One Bukit Senyum, and is expected to be completed in 2021.

### Johor: Major Transactions of Purpose-Built Office Buildings in 2016

Building Name	Location	GFA (sq .ft.)	Consideration (RM million)
Menara MBJB @ 1 Bukit Senyum	Johor Bahru	445,848	308

## 3.0 PENANG

### 3.1 MARKET OVERVIEW

The Penang property market slowed in the first nine months of 2016, recording a total transaction value of RM6.85 billion for 13,539 property units. This was a significant decrease of 22.2% in value and 16.7% in volume terms, against transactions worth RM8.81 billion for 16,261 units recorded in the preceding year. (Source: JPPH).

Looking ahead however, the Penang property market will still be driven by continued business activities and the flow of foreign investments into the state. Growth is starting to be seen in the mainland, as Penang Development Corporation's ("PDC") Strategic Plan 2016-2020 includes urban and township development in Batu Kawan. New and upcoming additions in Batu Kawan include Design Village - a premium outlet mall that opened in November 2016, and the "12 Waves" warehouse, which is part of the three-phase One Auto Hub located in Batu Kawan, that is expected to be ready in the first half of 2017. One Auto Hub is envisioned to be one of the largest automotive logistics providers in Malaysia, catering to the automotive industry demand in the Northern Corridor.

Another significant development in Penang is BPO Prime - an upcoming integrated mixed-development project on a 2.7-hectare site in Bayan Baru, which is a joint venture between Penang Development Corporation ("PDC"), Temasek and Economic Development Innovation Singapore ("EDIS"). Expected to be launched in early-2017, it will provide commercial space, focusing specifically on business process outsourcing (BPO) activities, as well as residential space.

### 3.2 INDUSTRIAL SECTOR

According to the Malaysian Investment Development Authority ("MIDA"), Penang recorded 84 approved manufacturing projects with a total capital investment of RM3,881.6 billion during the first three quarters of 2016. The number of approved projects and investment value were 3.4% and 11.1% lower respectively, when compared to the corresponding period in 2015.

#### Penang: Approved Manufacturing Projects, 2012 – 9M2016

	2012	2013	2014	2015	9M2016
Number of Approved Projects	115	119	169	107	84
Total Capital Investment (RM billion)	2,471.5	3,912.3	8,162.4	6,724.4	3,881.6

Source: MIDA

A number of significant new major manufacturing plants and expansion plans were unveiled in the state during 2016. These include:

- American technology and manufacturing company Honeywell International Inc ramping up its presence in Malaysia by moving the production of its flight control system for the Boeing 787 Dreamliner from the US to Penang. This shift is targeted to be completed in the fourth quarter of 2016, and will be housed in Honeywell's existing Penang facility that was opened in January 2009.
- Global audio systems manufacturer by Bose Corporation's plan to transfer the ownership and operations of its manufacturing and development operations in Batu Kawan to Flextronics International Ltd under their new strategic partnership. Flextronics will continue to operate both the current and planned production of Bose's products at this facility.
- Global manufacturer and marketer of medical devices, Boston Scientific Corporation's expansion in Asia Pacific by embarking on its first 375,000 sq. ft. manufacturing facility in Batu Kawan Industrial Park. The facility, which will be producing medical devices for Boston Scientific's cardiology and endoscopy portfolios to cater for regional needs, is set to be completed by end-2017.
- Bosch, a German electronics and engineering giant, strengthened its commitment with a RM66 million investment to expand its product development and engineering services in Penang and boost production volumes.

#### Penang: Transaction Volume and Value of Industrial Properties

Industrial Property Type	2015		9M2015		9M2016	
	Volume (no.)	Value (RM million)	Volume (no.)	Value (RM million)	Volume (no.)	Value (RM million)
Terraced Factory	191	131.73	147	109.06	95	66.98
Semi-detached Factory	116	170.53	90	129.83	52	92.52
Detached Factory	48	253.65	43	215.16	37	390.05
Others	277	178.75	238	145.29	111	157.29
<b>TOTAL</b>	<b>632</b>	<b>734.66</b>	<b>518</b>	<b>599.34</b>	<b>295</b>	<b>706.84</b>

Source: NAPIC

Note: "Others" include vacant industrial land, industrial complexes and other types of industrial properties.



# Savills Market Overview 2016

For the first nine months of 2016, 295 industrial property transactions were recorded in Penang, about 43% lower than the 518 transactions recorded in the same period of 2015. However, the total value of transactions increased significantly to RM706.84 million, up 17.9% compared with the corresponding period in 2015.

Terraced factories remained the most actively transacted industrial property, accounting for 32% of the total volume of industrial property transactions in the first nine months of 2016, with a corresponding value of RM66.98 million.

The "Others" category recorded noticeably higher transactions, with 111 units transacted for a total consideration of RM157.29 million during the first nine months of 2016. This translates to an average consideration of about RM1.4 million per factory, from RM0.61 million in the same period last year.

## 3.2.1 Existing and Future Supply

### Penang: Existing and Future Supply of Industrial Properties

Industrial Property Type	Existing Supply (units)						Future Supply (units)	
	2011	2012	2013	2014	2015	9M2016	Incoming	Planned
Terraced Factory	4,862	4,882	4,920	4,969	4,969	4,969	16	344
Semi-detached Factory	1,109	1,109	1,121	1,154	1,164	1,164	136	550
Detached Factor	1,336	1,380	1,415	1,439	1,442	1,439	83	193
Flatted Factory	333	333	333	341	341	341	59	8
Industrial Complex	42	42	42	103	103	103	0	0
Cluster	0	0	0	0	0	0	0	0
<b>Total</b>	<b>7,682</b>	<b>7,746</b>	<b>7,831</b>	<b>8,006</b>	<b>8,019</b>	<b>8,016</b>	<b>294</b>	<b>595</b>

Source: JPPH, Ministry of Finance

The cumulative existing supply of industrial properties in Penang stood at 8,016 units as at the third quarter of 2016. These existing industrial properties are mostly terraced factories, which account for 62% of industrial properties in Penang, followed by detached (17.9%) and semi-detached factories (14.5%).

A total of 294 industrial units are currently under construction, and another 595 industrial units have been approved but have yet to commence construction.

## 3.2.2 Industrial Land Value and Industrial Property Rents

Industrial land values generally ranged between RM30 and RM50 per sq. ft. for 60-year leasehold land in Seberang Perai. A similar parcel in Bayan Lepas would range from RM80 to RM100 per sq. ft., while freehold land (which is rare) would fetch approximately RM150 per sq. ft., depending on the land size and location.

Over in Batu Kawan and Penang Science Park, a 60-year leasehold industrial plot would generally be priced at RM30 per sq. ft. to RM40 per sq. ft. depending on the land size and location.

Rent for industrial land generally ranged between RM0.70 and RM2.50 per sq. ft. per month in Seberang Perai, and between RM1.50 and RM3.50 per sq. ft. per month in Bayan Lepas.

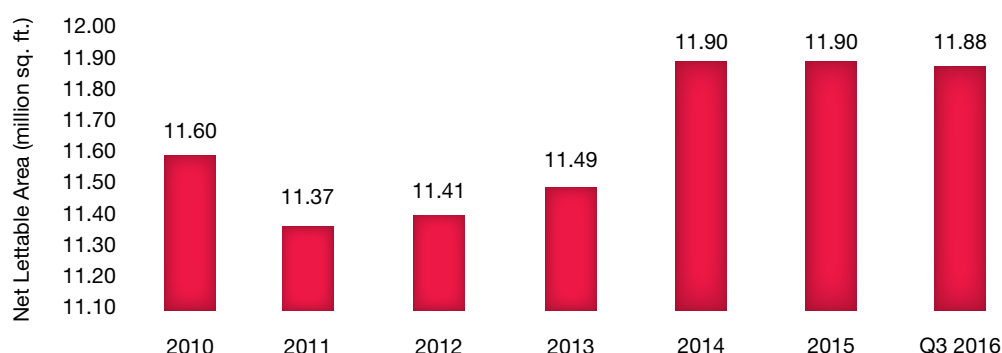
No	Location	Asking Rental Rates (RM per sq. ft. per month)		
		2014	2015	2016
1.	Penang Island - Bayan Lepas	1.70-3.00	1.70-3.20	1.80-3.40
2.	Prai Industrial Park	0.70-1.70	0.70-1.70	0.80-1.80

Source: Savills Research

### 3.3 OFFICE SECTOR

#### 3.3.1 Existing and Future Supply

Penang: Cumulative Supply of Office Space, 2010 – 9M2016



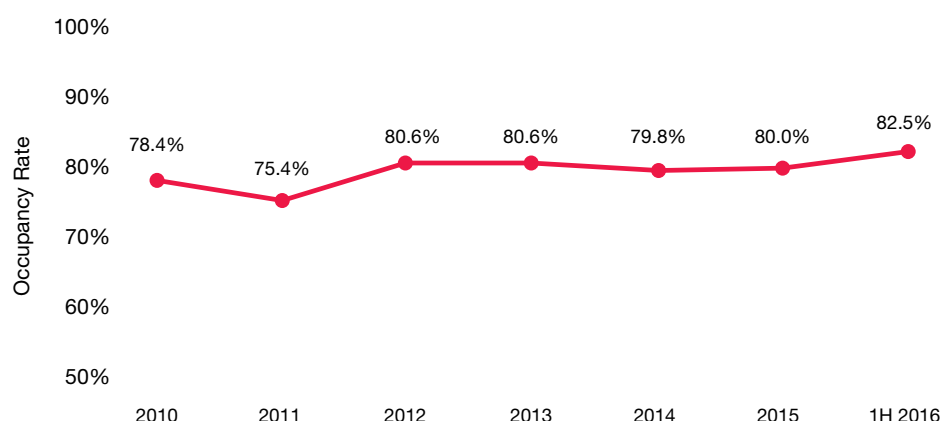
Source: NAPIC, Savills Research

The total supply of office space in Penang stood at about 11.88 million sq. ft. as at the third quarter of 2016, which includes both government and private purpose-built office buildings. The office sector in Penang remained inactive as a result of the stagnant movement of office supply since 2014. Most office space is located in Georgetown, Bukit Mertajam and Butterworth, with each having total office space of about 7.16 million sq. ft., 0.85 million sq. ft. and 0.76 million sq. ft. respectively. Some notable office buildings in Penang include Menara Boustead, Plaza WME, Menara KWSP, Menara IJM Land, Menara Northam and Suntech.

Future office space will be seen in the upcoming development of The Light Waterfront Corporate Park, which consists of three phases and will include residential, commercial, cultural, entertainment and lifestyle elements. Additionally, a mixed development by Jawatankuasa Penyertaan Bumiputera Pulau Pinang ("JKP") will include a 12-storey office building as part of its 23-storey development.

#### 3.3.2 Average Occupancy Rate

Penang: Average Occupancy Rate of Office Space, 2010 – 1H2016



Note: Data is only available up to 1H2016

Source: NAPIC, Savills Research

The overall occupancy rate of office space in Penang improved in 1H2016, rising to 82.5% compared with 80% in 2015.

Rental rates of some high-grade office buildings such as IJM Land Tower and Wisma Great Eastern are hovering at around RM3.00 per sq. ft. per month to RM3.50 per sq. ft. per month. Both of these office buildings are almost fully occupied. Rental rates for other office buildings on Penang island ranged from RM1.00 per sq. ft. per month to RM3.00 per sq. ft. per month.



# Savills Market Overview 2016



## 3.3.3 Average Asking Rental Rates

### Penang: Office Rental Rates

Office Building	Floor Level	NLA (sq. ft.)		Rental Rates in 1H2016 (RM per sq. ft. per month)	
		Min	Max	Min	Max
1. KOMTAR Tower Block	29-54		2,497		1.91
		2,497	4,994		1.85
		4,994	7,492		1.80
		7,492	10,000		1.75
		10,000	12,497		1.70
		12,497			1.66
2. Mayban Trust Fund Building	Ground		5,522		2.60
	Mezzanine		2,411		1.00
	3-12	797	2,131	1.60	2.00
3. MWE Plaza	Ground		1,991		3.52
	7-9	904	2,476	2.50	2.80
	10-15A	581	7,545	2.60	2.80
	15-21	1,087	7,545	2.60	2.80
4. Wisma Boon Siew	8-16	538	1,615	0.99	2.25
5. Asia Insurance Building	Ground & Mezzanine	4,855			3.51
	1-6	3,595	4,004	1.80	2.20
6. Bangunan Barkath	3-6	3,907	4,478	1.30	1.51
7. Mutiara I&P, Greenhall	1	786	915	1.30	1.80
	2-4	603	8,740	1.30	1.65
8. Lembaga Tabung Haji Building	Ground		3,305		1.65
	1	5,113	5,188	1.20	1.60
	2-4	237	1,324	1.25	2.10
9. Menara UMNO	Ground		3,660		4.01
	1		5,705		2.00
	7-20	1,001	2,002	1.50	1.70
	21		3,552		2.00
10. Wisma Great Eastern	Ground		6,555		4.60
	2-3	1,884	5,899	2.50	2.70

Source: NAPIC, Savills Research

There were no new office buildings on Penang island in recent years. The rental rates of high-grade office buildings for Penang island may rise due to increasing demand and a lack of incoming supply in the future.



# INVESTMENT TEAM

# Manager's Discussion and Analysis

## Investment Report

### Acquisitions

During the financial year ended 31 December 2016 ("FYE2016"), Axis-REIT completed five acquisition transactions totalling RM103 million. These acquisitions increased the portfolio's area under management by 590,930 sq. ft.. One further acquisition, of a RM33 million warehouse, is expected to be completed in the first half of 2017.



Property Name	: Beyonics iPark Campus Block A, B, C, D
Net Lettable Area	: 288,309 sq. ft.
Land Tenure	: Freehold
Occupancy	: 100%
Purchase Price	: RM61,000,000
Valuation	: RM62,700,000
Projected Initial Net Yield	: 7.12%
Overall WALE	: 10 years
Completion Date	: 28 January 2016

Property Name	: Scomi Facility @ Rawang
Net Lettable Area	: 302,621 sq. ft.
Land Tenure	: Freehold
Occupancy	: 100%
Purchase Price	: RM42,000,000
Valuation	: RM43,000,000
Projected Initial Net Yield	: 7.30%
Overall WALE	: 15 years
Completion Date	: 15 November 2016



Property Name	: Kerry Warehouse
Net Lettable Area	: 163,000 sq. ft.
Land Tenure	: Leasehold
Occupancy	: 100%
Purchase Price	: RM33,000,000
Valuation	: RM34,000,000
Projected Initial Net Yield	: 7.50%
Overall WALE	: 5 years
Expected Completion Date	: First half of 2017

## Disposals

Axis-REIT also entered into a transaction for the disposal of an office building for RM56.13 million, which is expected to be completed during the first quarter of 2017.



Property Name	: Axis Eureka
Acquisition Date	: 18 April 2011
Total Investment Outlay	: RM53,236,000
Net Lettable Area	: 117,618 sq. ft.
Occupancy Rate	: 59.64%
% of Total Portfolio	: 2.60%
Book Value (as of 31.12.16)	: RM55,000,000
SPA Disposal Value	: RM56,132,075.00
Purchaser	: Agensi Kelayakan Malaysia (MQA)
Expected Completion Date	: First quarter of 2017

## Moving Forward

The Manager continues to aggressively source and evaluate potential acquisition targets that are deemed investable for Axis-REIT. These would include properties within our preferred asset class of industrial warehouses and manufacturing facilities in prime or upcoming industrial locations that have qualified, Shariah-compliant tenants, as well as transactions that meet the Manager's required yield expectations. The key performance indicator for the Manager's acquisition objectives is the buying of assets that generate good returns to our Unitholders. Our acquisitions are financed by Islamic financing facilities.

The selection of assets will continue to focus on:

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

The Manager's acquisition strategy continues to be anchored by the following stringent requirements and corresponding risk assessments:

- Strategic key market locations with focus on the Klang Valley, Johor and Penang;
- Yield-accretive assets;
- Strong tenant covenants and lease structures;
- Land title security;
- Building age;
- Enhancement possibilities;
- Valuation;
- Capital appreciation potential; and
- Future redevelopment potential.

## Business Intelligence

We continue to seek and keep our ears to the ground for possible REIT-able assets that are available to us in the market. We do this by:

- Mapping out new and available industrial zones in key market locations;
- Networking for new prospects;
- Working with the Promoters' private equity vehicles;
- Working with real estate agents and banks; and
- Third party developers.

Through market monitoring, all indications are that the property market in 2017 will continue to soften. The third and fourth quarter of 2016 saw more opportunities for the acquisition of good assets within the industrial asset class. As prices continue to stabilise and vendors adopt a more realistic view on the business outlook, yields are expected to improve, and sale and leaseback opportunities may be the choice method of rationalisation for industrial asset owners who are increasingly open to adopting asset-light operations on their books. We also foresee further consolidation of industrial operations towards larger, centrally-located premises, and the need for multinational companies to occupy premises that are upgraded to meet higher production and safety standards, as well as for improved operational efficiencies.





# INVESTOR RELATIONS TEAM

# Manager's Discussion and Analysis

## Investor Relations Report

Stakeholder engagement is one of the key pillars within our sustainability agenda. Axis-REIT supports governance practices that are designed to promote effective engagement and to provide balanced, timely and understandable information about the business and financial performance of the Fund to retail and institutional unitholders, stakeholders and the general public.

We continue our tradition of meeting analysts, fund managers and members of the media, at every half and full year financial results release for a comprehensive results briefing. These sessions are led by the Chief Executive Officer ("CEO") as the primary spokesperson, and supported by members of the Management Team. A presentation and Question and Answer session on Axis-REIT's financial and operational performance, as well as its business outlook, is provided to allow participants to keep abreast of the Fund's latest developments. Members of the Board and senior management attend these briefings to enable participants to interact with key representatives from the Manager, and to respond to any queries relating to the Fund and its ongoing operations.

Investors' meetings and briefings (including non-deal roadshows), teleconferences, publications, annual reports and Axis-REIT's website serve as conventional channels of communication for interaction with stakeholders. The Manager also maintains an open line of communication through its general phone line and e-mail to allow better access to potential stakeholders and investors.

### Annual General Meeting 2016

The Annual General Meeting ("AGM") enables the Manager to engage Unitholders and provide them with a comprehensive report on the status of the Fund. It also gives Unitholders an opportunity to participate in a face-to-face dialogue with the CEO and senior management.

The Manager held the Fourth Annual General Meeting on 29 April 2016 at Hilton Petaling Jaya, where the Fund's Audited Financial Statements for the financial year ended 31 December 2015 ("FYE2015") were tabled to the Unitholders.

In line with best practices since 2012, the Manager has adopted the use of poll-voting at Unitholders' meetings in respect of substantial resolutions for greater transparency.

All Unitholders are given the opportunity to raise questions and seek clarification from the Board of Directors and senior management during such meetings. Results of such meetings are made available on the Bursa Securities portal on the same day.

We are committed to continue maintaining our informative channels of communication and adhering to the highest standards of timely disclosure and transparency as we move forward.

No Unitholders' Meeting was held during 2016.



*Unitholders at the Annual General Meeting*



# Manager's Discussion and Analysis

## Investor Relations Report

### Research Coverage in 2016

In 2016, Axis-REIT was covered by up to ten investment banks. A snapshot of the reports published in the fourth quarter of 2016 is provided below.

Coverage	Rating	Target Price (RM)	Coverage Period
MIDF	Hold	1.68	4Q2016
UOBKayHian	Hold	1.65	4Q2016
Maybank	Hold	1.70	4Q2016
KAF	Hold	1.65	4Q2016
Kenanga	Hold	1.58	4Q2016
RHB	Hold	1.70	4Q2016
HLIB	Hold	1.72	4Q2016
Alliance DBS	Hold	1.80	4Q2016
Nomura	Hold	1.69	4Q2016
Affin Hwang	Hold	1.67	4Q2016

### Analyst and Press Briefings

The Manager held two analyst and press briefings, which were convened on the following dates:

- 19 January 2016 - announcement of Axis-REIT's fourth quarter 2015 results; and
- 5 August 2016 - announcement of Axis-REIT's second quarter 2016 results.

### Media Engagement

Continued engagement with the media throughout the year ensured that Axis-REIT enjoyed extensive coverage in the mainstream media, namely in newspapers, radio and TV channels, and through financial blogs. Events and forums, which our CEO was invited to speak at throughout 2016, also attracted media coverage for Axis-REIT. Media values are tracked independently by a media-monitoring agency.

Axis-REIT's media engagement events in 2016 are listed below:

- Press briefing and Question and Answer sessions organised in conjunction with the Analyst briefings on 19 January 2016 and 5 August 2016; and
- Media appreciation night held on 9 December 2016 to thank members of the media for their support throughout the year.

### Investor Outreach and Public Events

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

Date	Events
29 March	Daiwa ASEAN REIT Day
30 April	The Edge Investment Forum on Real Estate 2016: Riding out the Storm - Pitfalls to Avoid
16 May	MIDA: Malaysia-UK Investors Showcase, London
17 May	Bursa Malaysia: Invest Malaysia 2016, London
29 May	Bursa Malaysia: REITs - A Defensive Investment in Volatile Times
26 July	CIMB Malaysia REITs Corporate Day

## Awards and Recognition

Axis-REIT is proud to be the recipient of the following accolades in 2016:

- 2016 Euromoney Real Estate Survey 2016: #1 in the category of Investment Managers – Malaysia;
- Malaysia Investor Relations Award 2015/2016: Shortlisted in the categories of Main Board – Mid Cap: Best Company for IR, Best CFO for IR, Best IR Professional, Best IR Website, Best Knowledge and Insights of IR Team, Best Quality of Annual Report, Best Quality of One-on-One Meetings; and
- National Annual Corporate Report Awards (NACRA) 2016 – Merit Award.

## Price and Volume Metrics Overview

- Opening price on 4 January 2016 was recorded at RM1.61 with the closing price on 30 December 2016 at RM1.61;
- 2016 price movement recorded the highest closing price at RM1.81 in August and lowest closing price at RM1.50 in March;
- Number of Unitholders increased year-on-year by 7.75%, from 3,611 to 3,891 Unitholders recorded on 31 December 2016;
- Number of unitholdings increased to 1,105,173,591 following corporate exercises such as a unit split, IDRP exercise and issuance of Manager units.
- Trading volume decreased year-on-year by 108,719,100 units.

Our top five institutional Unitholders as at 31 December 2016 are:

- Permodalan Nasional Berhad
- Employees Provident Fund
- Public Mutual
- Lembaga Tabung Haji
- Kumpulan Wang Persaraan (Diperbadankan)

## 5-Year Unit Price Performance Highlights

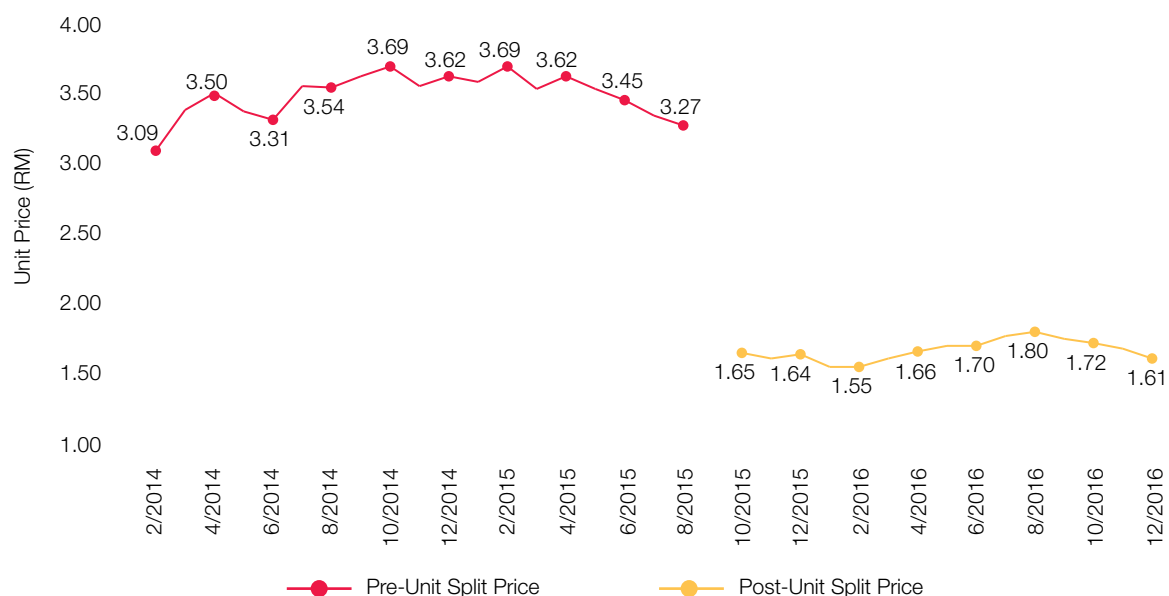
	2012	2013	2014	2015*	2016
Closing Unit Price as at 31 December (2012-2016)	3.13	2.93	3.62	1.64	<b>1.61</b>
High	3.22	4.02	3.70	1.85	<b>1.81</b>
Low	2.62	2.93	2.80	1.55	<b>1.50</b>
NAV	2.17	2.23	2.42	1.23 *	<b>1.26 *</b>
Market Capitalisation (RM million)	1,429	1,351	1,982	1,803	<b>1,779</b>

\* Unit prices adjusted to reflect the effect of a 2-for-1 Unit Split in September 2015

# Manager's Discussion and Analysis

## Investor Relations Report

Axis-REIT Unit Price



### Transaction Volume Highlights

As at 31 December 2016, Axis-REIT had shown a good momentum albeit with a lower trading volume of 121,805,500 Units in 2016.

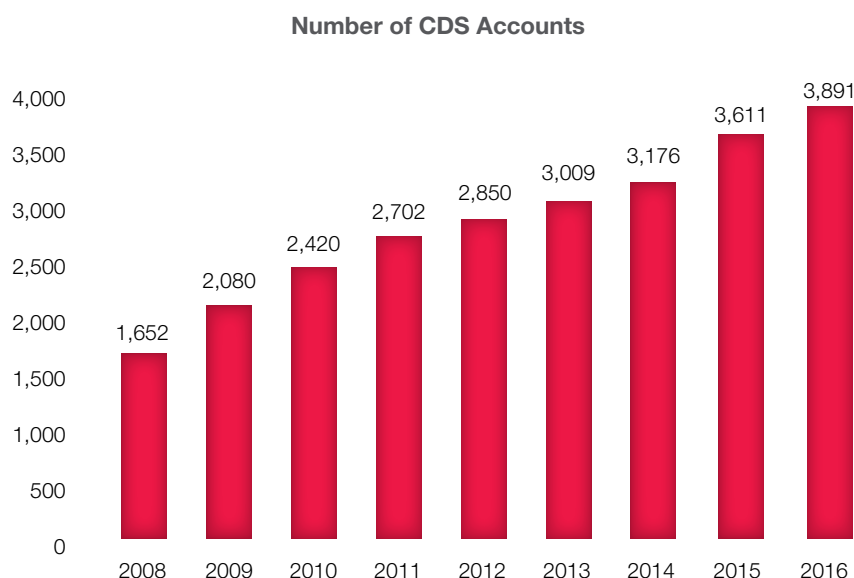
- Average Monthly Volume: 10,150,458 (1 January 2016 – 31 December 2016)
- Highest Monthly Volume: 32,708,200 (March 2016)
- Lowest Monthly Volume: 2,349,100 (September 2016)

Volume Traded



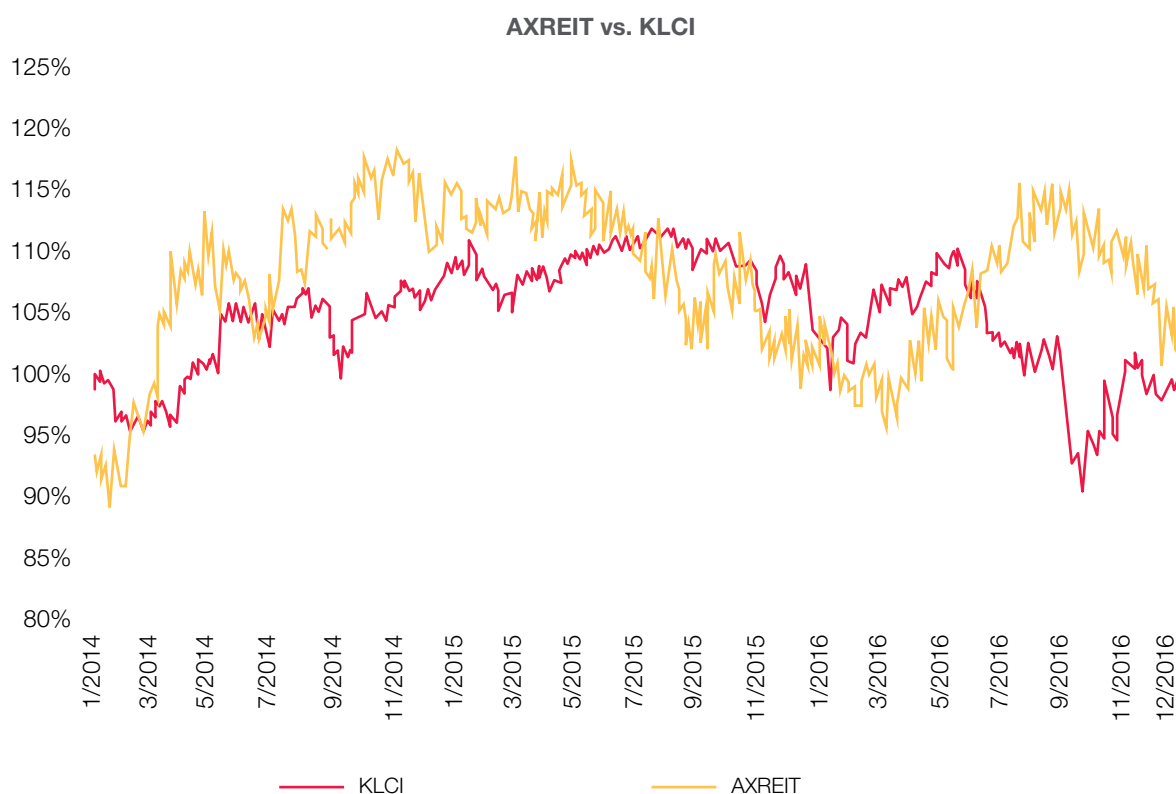
## CDS Accounts Highlights

The number of Central Depository System (CDS) accounts traded on Axis-REIT increased from 3,611 accounts in the year ended 31 December 2015 to 3,891 accounts for the year ended 31 December 2016.



## Price Performance Highlights

Indexed against the FTSE Bursa Malaysia-Kuala Lumpur Composite Index (FBM-KLCI), Axis-REIT's share price generally outperformed the market from the second half of 2016 onwards.



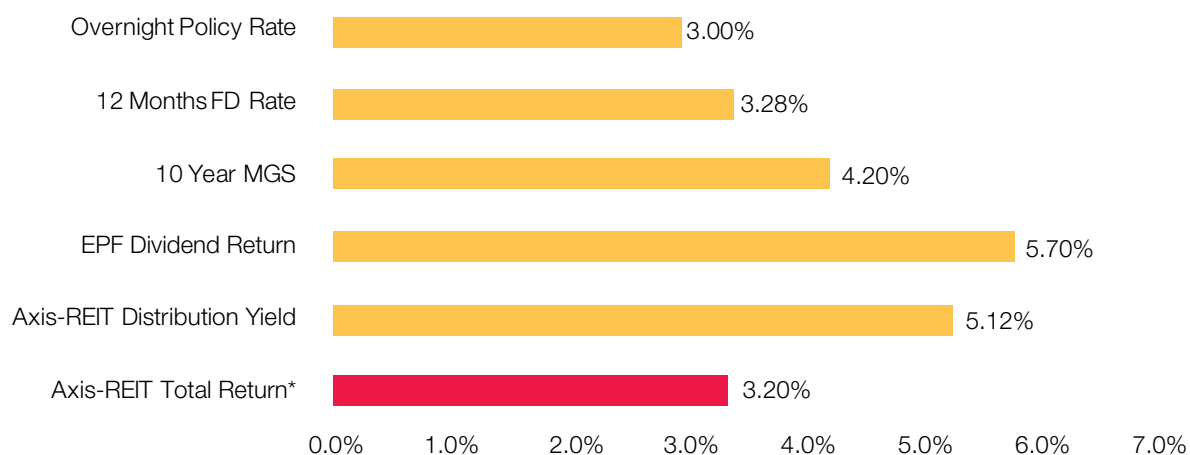
# Manager's Discussion and Analysis

## Investor Relations Report

### Annual Return Highlights

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

#### 2016 Return Comparatives



\* (Based on annualised DPU from operations + movement in market price)/opening market price as at 1 January 2016)

# Manager's Discussion and Analysis

## Details of the 2016 IDRPs

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

In 2016, Axis-REIT had applied the IDRPs to the first interim income distribution, for the period from 1 January 2016 to 31 March 2016, that was declared on 25 April 2016, in which the gross electable portion of 1.00 sen per unit (which is taxable in the hands of Unitholders) out of the first interim income distribution of 2.05 sen per Unit ("electable portion") could be elected to be reinvested in new Units and the remaining portion of 1.05 sen per Unit (of which 1.00 sen per Unit is taxable and 0.05 sen per Unit is non-taxable in the hands of Unitholders) would be paid in cash.

The new Units were issued at the issue price of RM1.50 per Unit as determined on 25 April 2016 ("price-fixing date"). The issue price of RM1.50 per Unit was based on the five-day VWAMP of the Units up to and including 22 April 2016, being the last trading day immediately prior to the price-fixing date of RM1.6366 per Unit, after adjusting for a discount of RM0.1366 per Unit, which was approximately 8.35% discount to the five-day VWAMP of RM1.6366 per Unit.

Pursuant to the IDRPs, Axis-REIT allotted 5,380,523 new Units on 16 June 2016 and these Units were listed on the Main Market of Bursa Securities on 17 June 2016. The 5,380,523 new Units represented a successful take-up rate of approximately 79% of the 6,801,969 total number of new Units that would have been issued pursuant to the IDRPs, had all entitled Axis-REIT Unitholders elected to reinvest their respective electable portion in new Units.

Axis-REIT's fund size has increased from 1,099,793,068 Units to 1,105,173,591 Units as a result of the issuance and listing of the 5,380,523 new Units under the IDRPs.

The net proceeds from the IDRPs of RM8,048,000 (after deducting expenses for the IDRPs) were utilised to refurbish and/or renovate Axis-REIT's properties. The refurbishment and/or renovation of the properties is expected to enhance the future income to be generated from the said properties moving forward.

In an effort to further enhance its attractiveness, the IDRPs has provided an exemption of RM10 stamp revenue (setem hasil) payable upon execution of each notice of election of the IDRPs for securities account holders that hold less than 16,000 Units in Axis-REIT (after the Unit Split).

Please refer to Axis-REIT's website at [www.axis-reit.com.my](http://www.axis-reit.com.my) for the frequently asked questions pertaining to the IDRPs.



# Manager's Discussion and Analysis

## Other Statutory Information

### Directors' Benefits

For the year ended 31 December 2016, no Director of the Manager has received or become entitled to receive any benefit by reason of a contract made by the Fund or a related corporation with the Director; or with a firm of which the Director is a member; or with a company in which the Director has a substantial financial interest except as disclosed in Note 25 of the financial statements of Axis-REIT.

There were no arrangements during and at the end of the 12-month period which had the object of enabling Directors of the Manager to acquire benefits by means of acquisition of Units or debentures of the Fund or any other body corporate.

### Manager's Fees

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

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

For the year under review, the total Manager's fee was RM13,744,725 representing 1.0% per annum of the NAV of Axis-REIT for the period from 1 January 2016 to 31 December 2016. The Manager did not receive any soft commissions during the period.

The Manager is also entitled to an acquisition and disposal fee of 1.0% and 0.5% respectively based on the purchase and disposal consideration price of the real estate assets upon the completion of the acquisition and disposal. For the period under review, there were five (5) acquisitions completed by Axis-REIT, which resulted in a total fee of RM1,030,000 being paid to the Manager.

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

### Other Information

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

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

- i) that would render the value attributed to the current assets in the Axis-REIT's financial statements misleading; or
- ii) which have arisen that render adherence to the existing method of valuation of assets or liabilities of Axis-REIT misleading or inappropriate; or
- iii) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of Axis-REIT misleading.

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

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

No contingent liability or other liability of Axis-REIT has become enforceable, or is likely to become enforceable within the period of 12 months after the end of the financial period which, in the opinion of the Manager, will or may substantially affect the ability of Axis-REIT to meet its obligations as and when they fall due.

In the opinion of the Manager, the results of the operations of Axis-REIT for the financial year ended 31 December 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial period and the date of this report.

#### **Auditors**

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

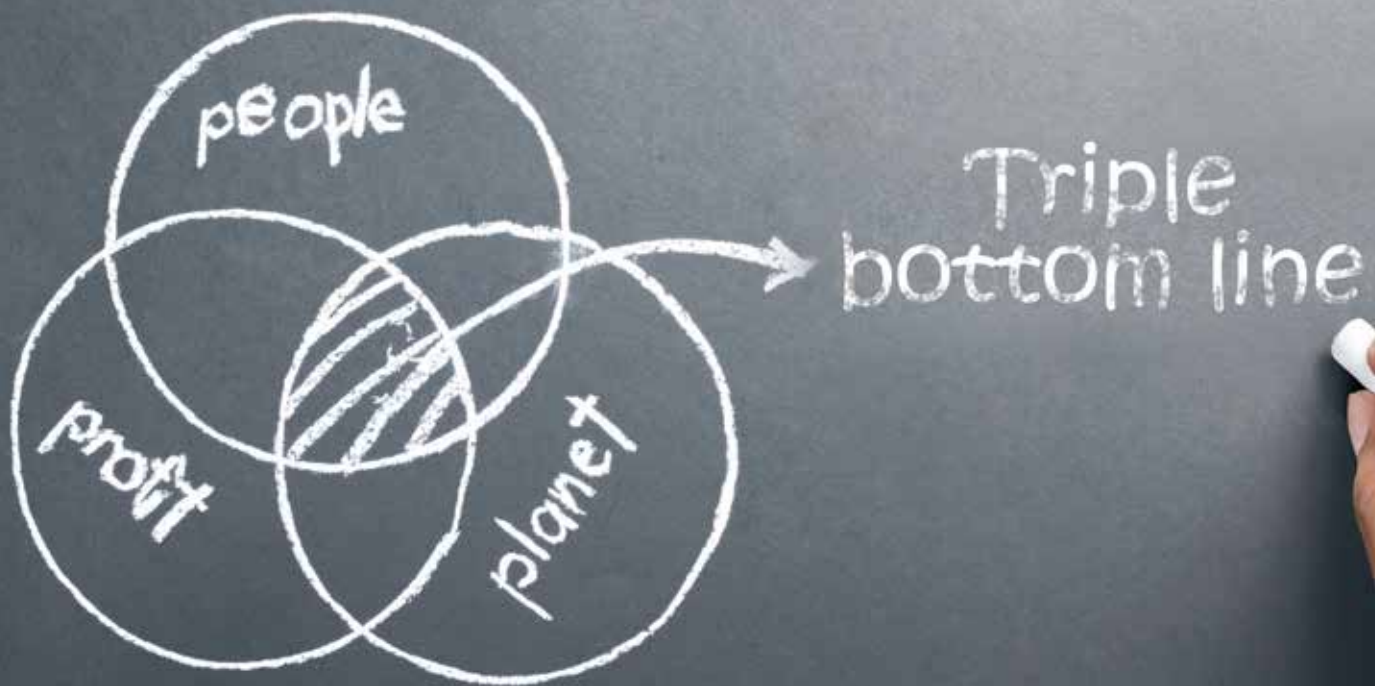
This concludes the Manager's Discussion and Analysis.

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

**Tew Peng Hwee @ Teoh Peng Hwee**  
Director

**Leong Kit May**  
Chief Executive Officer/Executive Director

Kuala Lumpur  
15 February 2017



# SUSTAINABILITY REPORT

# Sustainability Report

## CEO'S MESSAGE ON SUSTAINABILITY

Axis Real Estate Investment Trust ("Axis-REIT") is Malaysia's first and largest business space and industrial real estate investment trust in terms of space under management. It is our belief that our business operations must be sustainable both in the aspects of business performance, as well as in its long-term impact on the various stakeholders that we serve.

The Manager's primary objectives are to ensure that the Fund provides a regular and stable income distribution to Unitholders, and to ensure long-term growth in the Net Asset Value of the Fund. Key in the pursuit of these objectives are the practice of good corporate governance to protect the interests of the Fund's Unitholders, our sound asset management practices, and an incisive, forward-focused strategy. As we embark on the next decade of growth for Axis-REIT, a solid sustainability agenda will form the backbone of our forward strategy.

During the first half of 2016, our senior management team reviewed the 2021 Strategy Plan towards creating continuous value for our Unitholders. We are committed to our target of growing Axis-REIT's Asset Under Management ("AUM") to RM5 billion by 2021 through strict capital management practices and asset management strategies, as set out in the following strategic initiatives of the 2021 Strategy Plan:

Facilities Management Strategy	Implement annual asset management plans based on property life cycle planning for all 39 properties within the portfolio.  To evaluate emissions & energy consumption in existing buildings and take into the consideration energy saving and environmental friendly options.
Real Estate Strategy	Improve occupancy rates through tenant retention initiatives such as the creation of a new tenant management portal, and seeking new tenant leads.  Raise the occupancy levels of other properties within the property portfolio that have existing vacant spaces by at least 1%.  To measure tenant satisfaction levels via the new tenant portal, to be launched in 1Q2017.
Development Strategy	Complete the development of Nestlé Distribution Centre at Axis PDI Centre by the end of 2017.  To incorporate passive design techniques and green features, where possible.
Capital Management Strategy	Maintain current Sukuk ratings for both Axis-REIT's First and Second Sukuk issuances by improving occupancy levels of portfolio properties that are secured under both Sukuk issuances.
Investment Strategy	Maintain an aggressive acquisition strategy with focus on well-located industrial properties with strong tenant profiles and covenants.  Review possible disposal of assets which have fully optimised their income-generating potential such as Axis Eureka.

In the spirit of upholding sustainable business practices, we take into consideration the overall impact of our day-to-day activities on our ecosystem. The environmental and social impact of our operations are factored into our business model as we are committed, as a responsible corporate citizen, to take care of and give back to the community in which we operate. Axis-REIT's community projects focus on education and on improving the lives of the vulnerable groups in society, especially women and children. We are proud to have garnered the participation of more than 50% of our total employees in some of our CSR projects.

We have formed a sustainability steering committee that comprises key representatives from Management, the Real Estate Team, the Project Management Team and the Investment Team. The committee meets once every quarter to review the sustainability performance of our organisation, as well as our alignment with material sustainability issues. Updates are reported to the senior management and the Board.

Our key sustainability initiatives include employee wellness and engagement activities. Recognising that internal efficiency and staff support leads to improved productivity and business continuity, we established a "buddy system" in 2016 to ensure that every employee has backup support across all departments and managerial levels. Separately, Axis-REIT also fully-subsidised the university fees of two employees who had applied to undertake part-time degree courses during the year.

# Sustainability Report

Notable tenant engagement and satisfaction activities undertaken in 2016 include the preventive action of upgrading lifts in three buildings. We also took the initial steps in designing and testing Axis-REIT's tenant management mobile and desktop application, which is designed to give our tenants faster and better access to us, and enable more efficient responses from the various tenant-facing Axis-REIT teams.

Moving forward, we aim to be at the forefront of adopting the industry's best practices in sustainability measures by fulfilling the Global Reporting Initiative ("GRI") G4 guidelines and standard disclosures through more structured processes and reporting.

## INTRODUCTION

### About the Report

Axis-REIT's inaugural sustainability report has been prepared in accordance with the GRI – core, and the GRI Construction and Real Estate Sector Supplement ("CRESS"). The report covers the governance, economic, environment and social performance of all Axis-REIT properties in Malaysia from 1 January 2016 to 31 December 2016, compared against 1 January 2015 to 31 December 2015.

All environmental performance metrics are only reflective of the non-lettable (master-tenanted) building areas, which Axis-REIT has operational control of. The Manager is working to engage remaining single-tenanted assets within its portfolio for future reporting.

Going forward, the Manager will report its sustainability performance on an annual basis. The Manager has not sought external assurance for this reporting period.

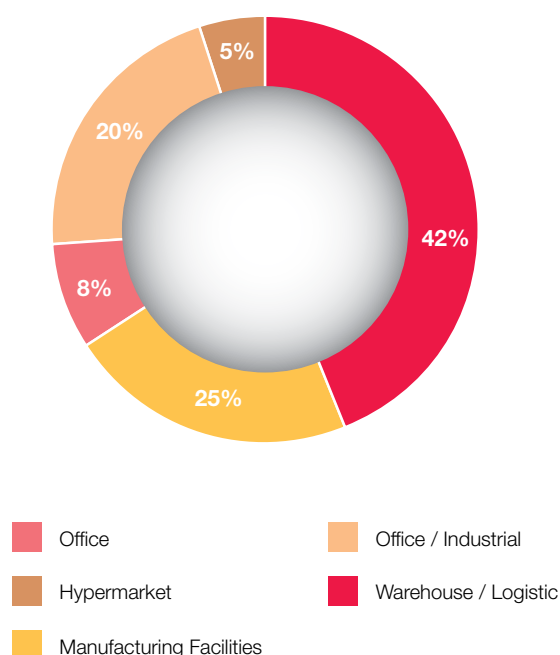
For any queries in relation to this Sustainability Report, please feel free to contact: [sustainability@axis-reit.com.my](mailto:sustainability@axis-reit.com.my)

### Our Business

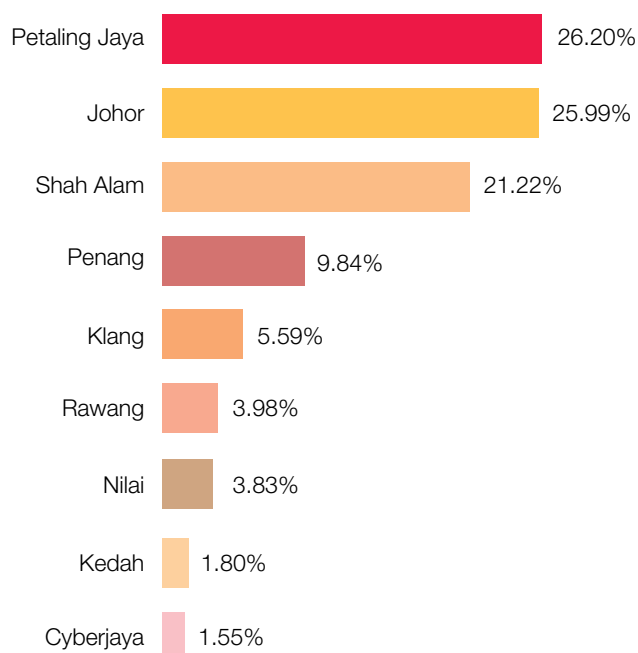
Axis-REIT is an industrial-focused real estate investment trust with a diverse portfolio of 39 properties, which are located in Selangor, Johor, Penang, Negeri Sembilan and Kedah. As at 31 December 2016, Axis-REIT's market capitalisation stood at RM1,779,329,000 with total Assets Under Management of RM2,244,274,000 and 7,606,863 sq. ft. of space under management.

In 2016, Axis-REIT acquired five (5) new properties for RM103 million, and entered into an agreement to dispose of Axis Eureka for RM56 million. The disposal is expected to be completed in the first quarter of 2017. During the year, Axis-REIT also received approval from SC to proceed with the development of Nestlé Distribution Centre. Details of this project are available in Project Management section of this Annual Report.

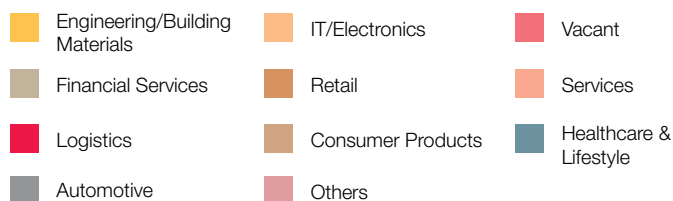
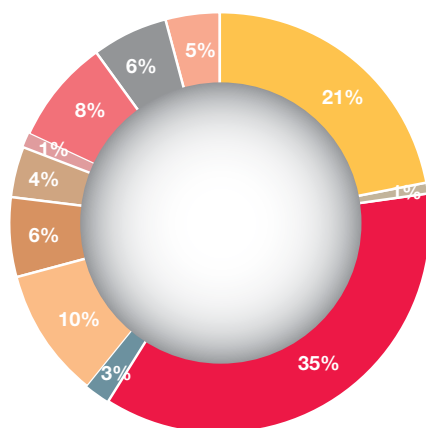
### Portfolio Diversification by Type and NLA



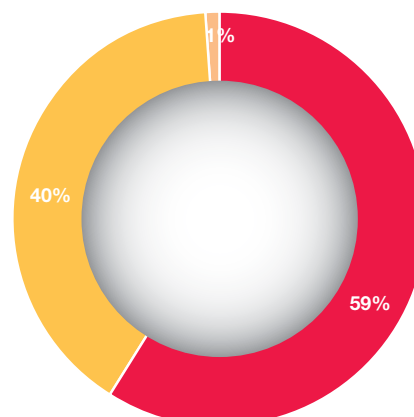
### Portfolio Diversification by Geographical Location



Portfolio Diversification by Industry Sector and NLA



Single Tenant vs Multi-Tenants



## STAKEHOLDERS' ENGAGEMENT

Stakeholder engagement is one of the key pillars within our sustainability agenda, as it allows us to understand the interests of our key stakeholders, and take the necessary actions to address these interests.

### Means of Engagement with Key Stakeholders

Stakeholders	Goals	Engagement	Stakeholder Concerns	Action
<b>Tenants</b>	To forge strong relationships	<ul style="list-style-type: none"> <li>One on one meetings</li> <li>Bi-annual newsletter to tenants</li> <li>Development of Axis Tenant Online Portal</li> </ul>	<ul style="list-style-type: none"> <li>Improve on maintenance of properties</li> <li>Quicker response to queries</li> </ul>	<ul style="list-style-type: none"> <li>Scheduled maintenance</li> <li>Prompt notification of any disruptions</li> <li>All facility managers are contactable 24/7</li> </ul>
<b>Unitholders</b>	To proactively engage with Unitholders to provide transparent and up-to-date disclosure of information	<ul style="list-style-type: none"> <li>Annual General Meeting</li> <li>Unitholders' Meeting</li> <li>Timely announcements to Bursa Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>Transparency of dealings</li> <li>Real time information on material disclosures</li> </ul>	<ul style="list-style-type: none"> <li>Adopting most current corporate governance guidelines and international reporting standards.</li> </ul>
<b>Investment Community</b>	To proactively engage with analysts and fund managers to provide up-to-date information and ensure accessibility to our Management Team	<ul style="list-style-type: none"> <li>One-on-one meetings</li> <li>Local and overseas conferences</li> <li>Briefing for analysts &amp; fund managers</li> </ul>	<ul style="list-style-type: none"> <li>Transparency of dealings</li> <li>Real time information on material disclosures</li> </ul>	<ul style="list-style-type: none"> <li>Accessibility to Management Team on queries of company performance or related matters</li> </ul>



# Sustainability Report

## Means of Engagement with Key Stakeholders

Stakeholders	Goals	Engagement	Stakeholder Concerns	Action
<b>Employees</b>	To provide an equal opportunity work environment that recognizes individual talents and helps them grow	<ul style="list-style-type: none"> <li>• Team building</li> <li>• Team activities</li> <li>• Staff appraisal</li> </ul>	<ul style="list-style-type: none"> <li>• More opportunities to interact across the organisation.</li> <li>• Competitive remuneration and benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Consistent and effective implementation of team activities and staff appraisals in order to establish employee trust and loyalty</li> </ul>
<b>Local Communities</b>	Fulfill the role of good corporate citizens by giving back to the community in which we operate	<ul style="list-style-type: none"> <li>• Improve physical buildings of selected charities.</li> <li>• Facilitate employee volunteer programmes</li> <li>• Cash contributions for emergency situations</li> </ul>	<ul style="list-style-type: none"> <li>• Long term sustained support after the completion of each CSR project.</li> </ul>	<ul style="list-style-type: none"> <li>• Proposals from charities are reviewed based on our CSR objectives.</li> <li>• Follow up with charities after project completion.</li> </ul>
<b>Industry Associations &amp; Professional Bodies</b>	To be responsible contributing members to the industry sectors' professional objectives	<ul style="list-style-type: none"> <li>• Taking on committee positions</li> <li>• Participation and feedback to regulators</li> </ul>	<ul style="list-style-type: none"> <li>• Fair representation of industry's needs and demands to regulators</li> </ul>	<ul style="list-style-type: none"> <li>• Continued active membership and contribution.</li> </ul>

## Axis-REIT's Involvement in Professional Organisations and Social Charters

Axis-REIT maintains memberships with relevant industry organisations, and holds positions within several governance bodies.



MRMA acts as a collective representation of the Malaysian real estate investment trust sector.

Ms. Leong Kit May is currently the Vice Chairman of MRMA. Axis-REIT was a founding member of MRMA and our previous CEO, Dato' Stewart Labrooy, was Chairman from 2011 to 2015.



The Asia Pacific Real Estate Association (APREA) is a non-profit industry association that represents and promotes the real estate asset class in the Asia Pacific region.

Axis-REIT is a corporate member of APREA and actively participates in association events.



MIRA is the official professional association for the investor relations practice in Malaysia, established by Bursa Malaysia (the Stock Exchange of Malaysia).

Axis-REIT is a corporate member of MIRA and actively participates in association events.

# Sustainability Report

## MATERIALITY ASSESSMENT

In August 2016, guided by our independent sustainability consultants, we conducted our first formal materiality assessment. The assessment (detailed below) consists of a four-step process that is in line with the GRI G4 reporting guidelines.

### Step 1: Identification

A long list of 32 economic, environmental, social and governance issues were identified through interviews with senior management across all business divisions.

### Step 3: Validation

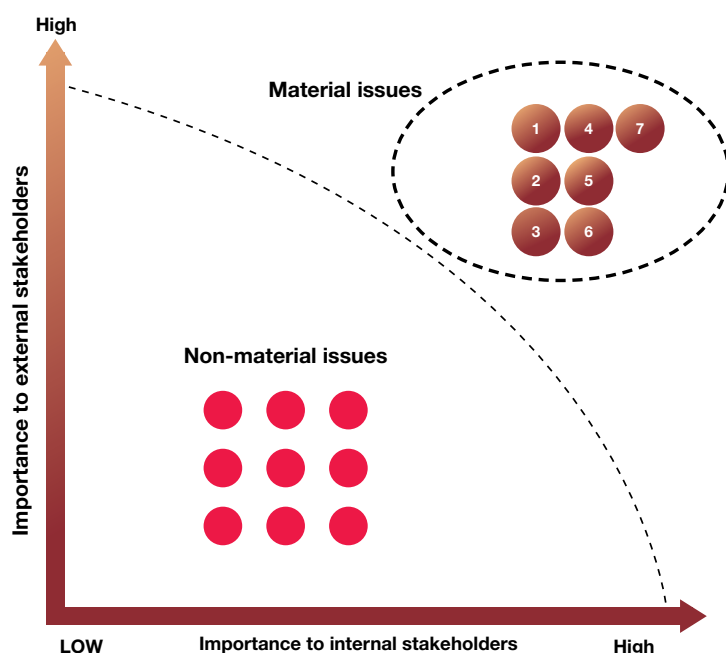
Seven key issues were selected as a result of the materiality assessment, and were presented to the Board for validation and approval.

### Step 2: Prioritisation

The identified sustainability issues were rated and prioritised through an anonymous electronic voting exercise by senior management, who were able to take into account both internal and external perspectives.

### Step 4: Review

The seven key material issues selected are the focus of the current reporting period, and will continue to be reviewed to ensure their relevance in subsequent reporting periods.



S/N	Material Sustainability Issues <sup>1</sup>
1	Community Activity and Partnership
2	Employee Wellness and Engagement
3	Energy and Carbon
4	Occupational Health and Safety
5	Quality of Assets and Services
6	Tenant Engagement
7	Tenant Satisfaction

<sup>1</sup> The material issues have been arranged in alphabetical order

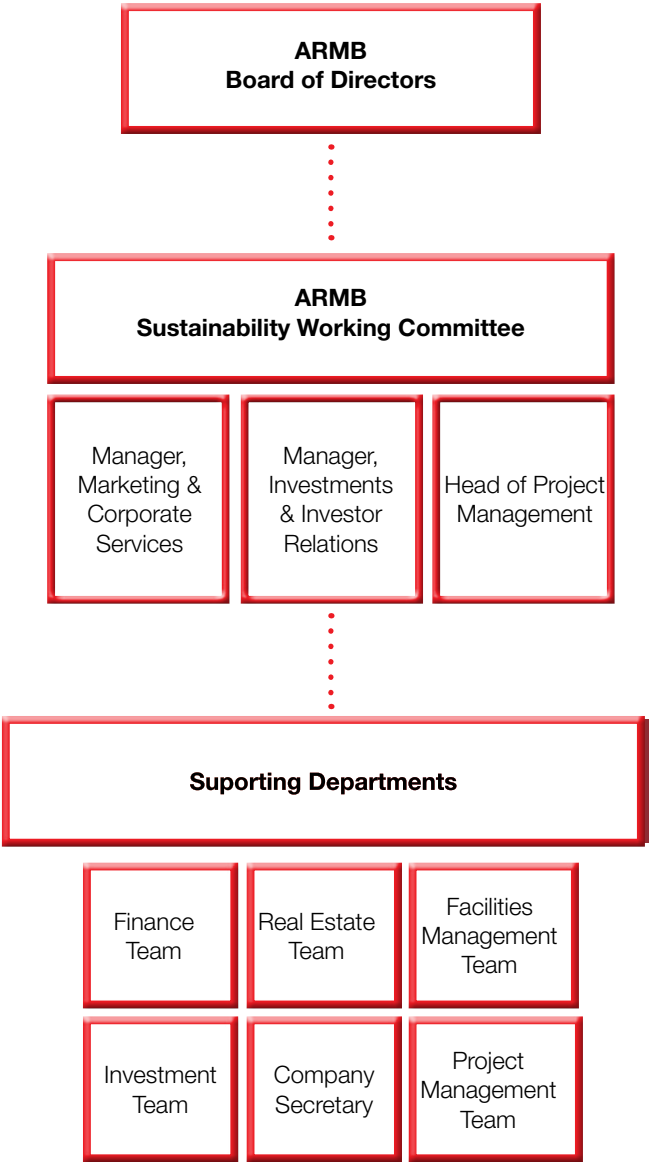
# Sustainability Report

## OUR GOVERNANCE, ETHICS AND INTEGRITY

The Manager recognises that an effective corporate governance culture is critical in managing the Economic, Environmental and Social (“EES”) risks and opportunities. With a strong Board, robust policies and sound procedures in place, we are poised to achieve continued success at Axis-REIT.

To this end, the Board has established several Board Committees to assist in discharging its duties. Each committee consists of an appointed Chairman and two or three members. Please refer to the Corporate Governance Report within our Annual Report for further details. The Board has also formalised and committed to ethical values through a Code of Conduct. The summary of this code is published on Axis-REIT’s corporate website.

In 2016, the Sustainability Committee was formed, comprising key representatives from relevant departments. The committee meets once every quarter to review the sustainability performance of our organisation, review our alignment with material sustainability issues, and report updates to senior management and the Board.



## Enterprise Risk Management

Effective risk management is a fundamental part of the Manager's business strategy. This ensures that there are no adverse disruptions to the Manager's pursuit and accomplishment of Axis-REIT's business goals and objectives that may negatively impact the Unitholders and their investments in Axis-REIT.

We have identified the significant risks to our business, and outlined the necessary actions taken to address these risks listed in the table below:

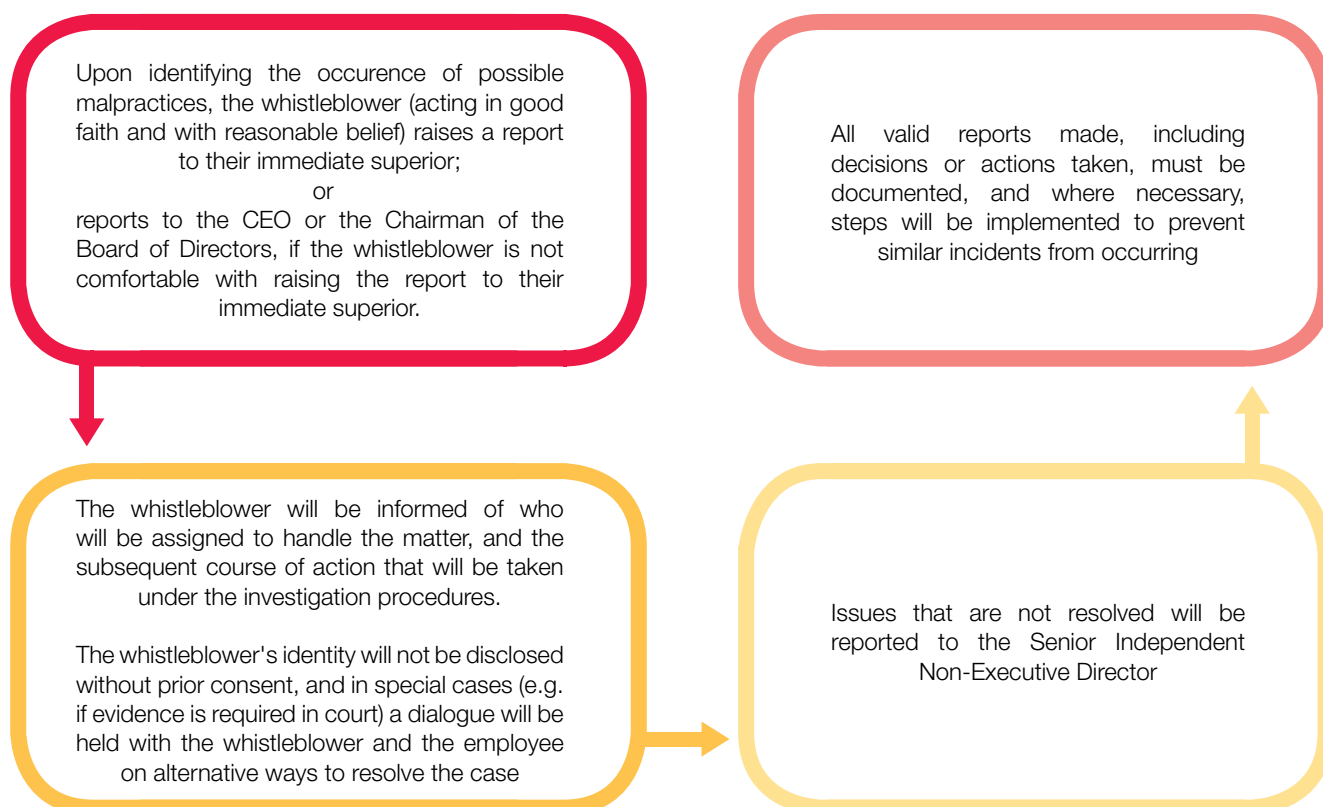
Risk Type <sup>1</sup>	Examples of Steps Taken
Corruption Risks	<ul style="list-style-type: none"> <li>• Refer to the Code of Conduct published on Axis-REIT's corporate website.</li> </ul>
Environmental Risks	<ul style="list-style-type: none"> <li>• Conducted energy audits on selected buildings to improve energy consumption.</li> </ul>
Health and Safety Risks	<ul style="list-style-type: none"> <li>• Implemented security and safety briefings for tenants.</li> <li>• Implemented safety awareness campaigns.</li> </ul>
Human Resource Risks	<ul style="list-style-type: none"> <li>• Established the Human Resource department at the end of 2015 to oversee the selection and recruitment process, compensation and benefits, employee training and welfare, as well as industrial relations.</li> </ul>
Interest Rate Risks	<ul style="list-style-type: none"> <li>• Refer to the Finance Report within Annual Report</li> </ul>
Investment Risks	<ul style="list-style-type: none"> <li>• Structuring of larger security deposits from single-tenanted buildings (for example, from sale and leaseback or build-to-suit transactions) to minimise the effects of possible default.</li> </ul>
IT Risks	<ul style="list-style-type: none"> <li>• Formulation of Cyber Risk policies and procedures to preserve confidentiality, integrity and availability of information or data.</li> </ul>
Tenant and Credit Risks	<ul style="list-style-type: none"> <li>• Refer to the Real Estate Report within this Annual Report</li> </ul>
Treasury and Financial Risks	<ul style="list-style-type: none"> <li>• Refer to the Finance Report within Annual Report</li> </ul>

<sup>1</sup> Risk Type listed in alphabetical order

# Sustainability Report

## Whistle-blowing Mechanism

All stakeholders, from directors to employees, suppliers and tenants, are encouraged to raise any genuine concerns they may have about possible improprieties in matters of financial reporting, compliance or other misconduct or malpractices at the earliest opportunity, and in an appropriate way. Our whistle-blowing process is as follows:



## OUR PEOPLE









### Employee Profile

As at 31 December 2016, the Manager had 69 full-time employees, none of whom are governed by any collective bargaining schemes. All our employees are Malaysian citizens. Recognising that internal efficiency and staff support leads to improved productivity and business continuity, we established a “buddy system” in 2016 to ensure that every employee has backup support across all departments and managerial levels.

### Staff Strength by Gender

	Female	Male	Total
2016	30	39	69
2015	30	43	73

## Composition of Total Employees by Category

	Senior Management		Middle Management		Executive		Non-Executive	
								
2016	10.0%	7.1%	26.7%	7.7%	53.3%	48.7%	10.0%	38.5%
2015	10.0%	7.0%	26.7%	7.0%	46.7%	48.8%	16.7%	37.2%

## Female Representation on the Board of Directors

One of the targets of the Government's 10th Malaysia Plan is to increase the number of women in key decision-making positions on company boards to 30%, and to boost female participation in the workforce to 55% by 2016. We are pleased to report that the Manager's Board of Directors is adequately supported by a Senior Management team that boasts 40% female representation, comprising the following Directors and representatives of Senior Management:

- i) Leong Kit May: Chief Executive Officer/Executive Director
- ii) Jancis Anne Que Lao: Alternate Director
- iii) Jackie Law Chong Lian: Head of Real Estate
- iv) Nikki Ng: Chief Financial Officer
- v) Chan Tze Wee: Manager, Investments & Investor Relations
- vi) Rebecca Leong: Company Secretary & Head of Compliance

## Employee Health and Safety

A healthy and safe workplace engenders a productive and happy workforce. Thus, our employees' health and safety is of utmost priority to us. We are committed to providing our employees and contractors a work environment that is conducive to their health and safety, and aim to achieve zero work place accidents every year through our health and safety policy (and associated practices), in line with the Occupational Safety and Health Act 1994 (Act 514).

We take every reasonable precaution for protection at the workplace. This includes:

- Providing employees with safety boots and reflective jackets.
- Ensuring that all equipment and machinery are maintained by trained and competent persons. For example, engaging a charginman who is registered with the Energy Commission (Suruhanjaya Tenaga) and renewing the licences for their respective buildings annually. The buildings are inspected by a registered and competent Supervising Engineer, who submits a monthly report with recommendations (if any) to the Landlord and the Energy Commission. Copies of this report are kept in the Building Management office. We engage only competent Servicing Contractors to undertake routine preventive maintenance, where their scope of work must comply with the building's Operation & Maintenance (O&M) manual.
- Assigning a Charginman and a Supervising Engineer to all properties in our portfolio. This is a mandatory requirement under the Electricity Act 1990 (Act 447) and the Energy Commission Act 2001 (Act 610), and is enforced by the Energy Commission.
- Conducting employee training on the following topics:
  - First Aid and CPR training
  - Emergency Management Training, which is compulsory for all Facilities Management staff. Appointed trainers must be registered with the National Institute of Occupational Safety and Health ("NIOSH").
  - Annual Emergency Evacuation Drills for all multi-tenanted buildings, conducted in collaboration with the Fire and Rescue Department of Malaysia (BOMBA). At the end of the drill, BOMBA will submit their assessment report for improvements.
  - Fire Safety training and drills conducted at 12 buildings on a regular and periodic basis.

As a result of our sound practices, we have achieved negligible workplace-related incidents during the reporting period, and we will continue to uphold our safety commitments in future years.



# Sustainability Report

## Employee Wellness and Engagement

We recognise that our people are our greatest asset, and that it is important to ensure their physical and mental well-being. Hence, we pro-actively work to strengthen our employees' loyalty and commitment, and instill positive attitudes and behaviour.

We provide benefits to all our full-time employees in the form of health care benefits, disability and invalidity coverage, as well as parental leave. Employees who joined before 2014 also enjoy a retirement provision rate that is 1% above the statutory contribution rate.

In addition to these benefits, the Manager also provides scholarships to its employees. Three (3) scholarships have been awarded from year 2014 onwards:

- Kamalahasan Velayudhan, Executive Diploma in Building and Facilities Management at Open University Malaysia.
- Chandra Seharan, Executive Diploma in Building and Facilities Management at Open University Malaysia.
- Gunalan A/L Arumugam, Penjaga Jentera Elektrik AO, Pusat Pembangunan Kemahiran Industri & Pengurusan Kedah Darulaman.



*Kamalahasan Velayudhan,  
Facilities Manager*

Axis-REIT sponsored my education fees to undertake an Executive Diploma in Building and Facilities Management at Open University. Receiving this sponsorship motivated me to work hard, and I graduated as a diploma holder in 2014. This encouraged me to continue my studies, and I completed my Executive Degree in Business Administration in Building and Facilities Management in 2016. My next goal is to become a professional in Facility and Property Management, and be able to contribute to this field and enhance my career development.

The sponsorship from Axis-REIT allowed me to concentrate on my coursework without worrying too much about my financial situation. I thank Axis-REIT for establishing this sponsorship, and hope to help others in the organisation, just as it has helped me.

In addition, we organised various employee engagement activities throughout the year, which fostered cross-departmental interaction:

1. Four day annual company trip and two day offsite team strategy meeting
2. Chinese New Year celebration and company lunch.
3. Anniversary Dinner, which is held in August every year.
4. CSR programmes and external volunteer programmes, where employees are encouraged to volunteer their time and effort for the benefit of charitable causes (e.g. Christmas Fund Raising Charity Event) – please see details in the Community Section of this report.
5. Long service staff award.

I am indeed grateful and honoured to be recognised for my years of dedicated service and commitment to Axis-REIT. I would like to thank my co-workers who have made my life here interesting and enjoyable, and my superiors for their leadership and constant support. I hope to continue to do my best for this organisation!

*Nancy Lee, Personal Assistant to General Manager*



## OUR VALUE CHAIN

### Supply Chain Responsibility

The Manager is committed to adhering to the highest standards of the industry's best practices in its engagement with various stakeholders across the supply chain. Working with capable suppliers allows the Manager to conserve resources, save costs and increase productivity. This is achieved through the implementation of a stringent supplier selection and monitoring process.

### Step 1:

#### Pre-qualification

- Potential Suppliers have to provide the following information: GST registration details, paid-up capital, authorised capital, CIDB (Construction Industry Development Board) registration grade, and track record.
- Upon approval by the selection committee and Head of Real Estate, the supplier will be added to the panel of approved vendors. Suppliers who have passed the pre-qualification stage will be given a vendor registration form.

### Step 3:

#### Review

- Annual performance assessment of existing service providers and potential alternative providers through the maintenance of a vendor list.

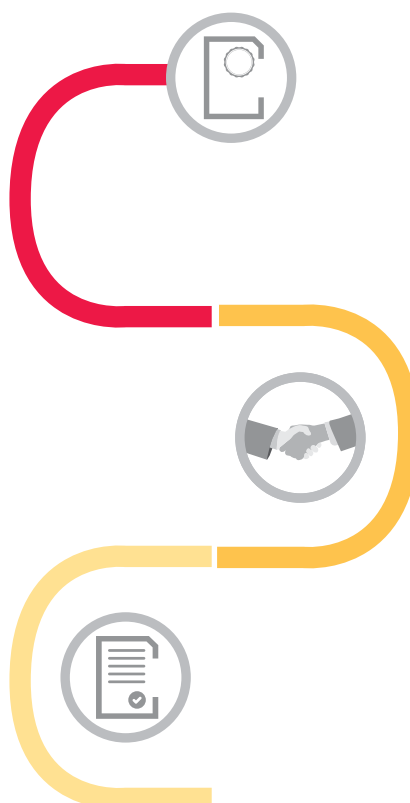
In 2016, payments to suppliers amounted to RM3.79 million. Four (4) new contractors were added to the panel of 265 approved contractors.

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

### Step 2:

#### Tender

- Invitation letters containing pertinent information of the tender and submission procedures (e.g. the closing date and time, submission in sealed envelopes with no company name) are sent to approved vendors.
- Upon receiving the tender submissions, the tender opening committee (which consists of 3 persons from different departments) opens the tender packs.
- The opened tender packs are further examined by the facilities management team, who will carry out tender interviews, where necessary.
- Recommendations will be made to management, and a purchase order will be raised once management agrees in principle to the recommendations.
- Depending on the value of the tender, the approvals required are set out below:
  - CEO <RM20,000
  - Trustee >RM20,000
  - EXCO <RM1 million
  - BOD >RM1 million
- Upon approval, a letter of award will be issued to the successful vendor.



# Sustainability Report

## Quality of Assets and Services

Quality of assets and services are critical towards both the capital value and the income generation potential of an asset, which in turn are of interest to both the Manager and Unitholders. Axis-REIT has procedures in place to maintain the quality of both its new and existing assets and services.

Existing Assets and Services	New Asset Acquisition and Development
<ul style="list-style-type: none"> <li>Maintained at the highest level to ensure that our properties remain the preferred choice of our tenants for future expansion.</li> <li>Achieved through continuous asset enhancement initiatives that incorporate energy- and water-efficient designs and fittings to help lower tenants' operating costs.</li> </ul>	<ul style="list-style-type: none"> <li>Potential acquisition targets are subject to stringent due diligence comprising several reports that include a land survey, Securities Commission-compliant valuation report, technical due diligence, legal due diligence and financial due diligence, if necessary.</li> <li>External consultants are engaged to assess building conditions, regulatory compliance, financial viability, tenant and property risk levels and other relevant criteria.</li> </ul>

In 2016, we were commissioned to develop a purpose-built warehouse for Nestlé Distribution Centre. The 515,000 sq. ft. modern warehouse is built to specifications required by Nestlé's Fast Moving Consumer Goods ("FMCG") warehouse operations. Further sustainability performance indicators of this property will be shared in future reports.

## Tenant Engagement and Satisfaction

Tenants are the main drivers of our business and we maintain strong relationships with our tenants by being accessible and responsive to their needs and queries.

We engage our tenants through the following channels:

- One-on-one meetings: Conducted with the leasing team, facilities management team and finance team. Feedback is obtained on an on-going basis.
- Email correspondence: We respond to tenants' e-mails within 24 hours. The action taken will differ according to the nature and complexity of the issues raised.
- Tenants' concerns, complaints and feedback are currently tracked through the above channels. We are in the midst of testing a mobile application-based tenant management system at three shortlisted properties, and expect to deploy the application in the first quarter of 2017. We expect to share details relating to the targeted tenants surveyed, tenant satisfaction score, and other performance metrics in future reports. As at 31 December 2016, we have received compliments, which acknowledge our efforts, as well as complaints, which we take as learning points for further improvements.

On behalf of Montreal Trading Sdn Bhd, we would like to express our deepest thanks for all the support you have given to us from Wisma Academy to our new office at Axis Business Park – Block E.

We appreciate the renovation landlord had done to uplift our office toilets, air-conditioning, warehouse toilets and compound. Overall, we are satisfied with Axis Business Park security and general maintenance and cleanliness.

I am dropping this email to personally say "Thank You" and we look forward to a great long-term partnership together.

Best,

**Eve Chan**

Senior Brand Manager (ALDO)

**MONTREAL TRADING SDN BHD**

**ALDO**

Common issues/complaints from tenants	Corrective action to address the issues
General complaints/comments pertaining to issues caused by seasonal changes or weather conditions such as water leakage, air-conditioning issues, etc.	On-site facility managers are contactable on a 24-hour basis for emergencies, and are available to attend to issues as soon as they are communicated
General complaints /comments pertaining to wear and tear issues such as occasional lift breakdowns and faulty water pipes.	

## OUR COMMUNITY

Axis-REIT's community projects focus on education and on improving the lives of the vulnerable groups in society, especially women and children. We are proud to have garnered the participation of more than 50% of our total employees in some of our CSR projects. As a REIT, we leverage on our areas of expertise (for example, improving the building conditions of the selected NGO or charity's property). We have worked with charities and NGOs such as the Malaysian Association of the Blind, The Kiwanis Downs Syndrome School, and Orang Asli families through EPIC Homes. As asset owners, we have also provided transient spaces for NGOs to carry out their activities. These include the use of the Menara Axis' concourse area for a blood donation drive by the National Blood Bank and a video shoot for the National Cancer Council of Malaysia shot on the piazza level of Menara Axis. Details of our contributions to the community are described below:

Programme	No. of employee volunteers and volunteer hours	Description of programme
The Axis-Kiwanis Youth Camp	7 employees over 3 days; 168 hours	Axis-REIT has been the main sponsor for the Kiwanis Youth Leadership Camp since its inception in 2014. The camp caters to secondary school children and is themed towards instilling leadership skills and values.
Renovation Works at The Home of Peace Kuala Lumpur	4 employees for a total of 50 hours	The Home of Peace is a girls' shelter located in Kuala Lumpur that provides refuge to 17 girls between the ages of 1 and 16 years. Axis-REIT undertook this refurbishment project with the objective of creating more useable space for the girls' home schooling needs, and reconfiguring existing services such as wiring and plumbing to help the home save on utility bills (see case study below)
2016 Charity Fundraiser	40 employees; 200 hours	Axis-REIT organised a fundraiser on 8 December 2016 to raise funds for the Home of Peace Special Education Fund.
The Edge Kuala Lumpur Rat Race	5 employees	Every year since 2011, Axis-REIT has sent a team of runners to this annual race. Funds raised are channelled to selected charities through The Edge's Education Fund.

# Sustainability Report

## Renovation Works at The Home of Peace Kuala Lumpur

Located in a three-storey semi-detached house in Taman Bukit Indah, Selangor, Home of Peace Kuala Lumpur was set up in 1993 and is registered with the Ministry of Welfare Malaysia under the registered name of Pertubuhan Rumah Kebajikan Kanak-Kanak Home of Peace Kuala Lumpur.

The home caters to girls from underprivileged backgrounds (abandoned, abused or neglected). Today the home houses and educates 17 girls between the ages of 1 and 16 years. The home does not enjoy corporate sponsorship or funding, and relies on donations from the public, as well as an annual grant from Jabatan Kebajikan Masyarakat Malaysia. Our involvement in the home began in 2012 when we came to know that the girls faced problems adjusting to the local school setting, and the home needed to expand its useable space within the house, to provide facilities such as, counselling room with privacy, as well as dedicated learning and playing spaces. Since then, we have improved the condition of the home (see pictures below) and organised fundraising events to help out further.

Before Improvement	Description	After Improvement
	<i>Created more useable space and reduced heat absorption from rooftop concrete slab to the rooms below by installing a new polycarbonate roof on the concrete flat roof.</i>	
	<i>Created larger covered area for kids to play outside by removing existing koi pond and cementing the area.</i>	
	<i>Reduced the risk of future mishaps by replacing the existing flooring in the front porch and back area with non-slip materials.</i>	





*Freed up space inside the house with the installation of an additional outdoor storage cabin.*



*Created more space by extending the office.*



*Coated the rooftop concrete slab with epoxy paint to reduce heat absorption.*



*Provided space to park a 12- seater van by covering the drain outside the main gate.*

In addition to the renovation works to the home, we also organised a charity fundraiser on 8 December 2016 at the lobby of Menara Axis. The event was a success, bringing together our people, who set up food and games stalls, with tenants and visitors, who generously patronised the stalls. Tenant representatives from OOCL and Fujifilm also participated by setting up food stalls and contributing their sales proceeds to the Fundraiser.

We raised a total of RM5,300 at this event, and invited the 17 girls from the Home of Peace for a lunch treat at our office.





# Sustainability Report

## OUR ENVIRONMENT <sup>3</sup>

<b>Electricity Consumption</b>  Own consumption: 8,488,151 kWh vs National consumption: 41,472,480,000 (equivalent to 3,566 ktce)*	<b>Electricity Consumption Intensity <sup>2</sup></b>  Own consumption: 89.2 kWh/m <sup>2</sup>
<b>CO<sub>2</sub>e Emission</b>  Own consumption: 5,678,573 kg CO <sub>2</sub> e vs. National consumption: 27,745,089,120 kg CO <sub>2</sub> e	<b>CO<sub>2</sub>e Emission Intensity</b>  Own consumption: 59.68 kg CO <sub>2</sub> e /m <sup>2</sup>

\* Source: Final electricity consumption for commercial buildings for 2014 from the Malaysia Energy Statistics Handbook 2015, published by the Energy Commission.

The building sector is one of the largest sources of carbon emissions in the country. In view of global climate change and Malaysia's commitment to reduce carbon emissions, the Manager is taking the lead in the Malaysian REIT ("M-REIT") sector by initiating active carbon reduction measures across the portfolio, that will also lower our property operating costs over the long term.

The Manager has embarked on several asset enhancement initiatives to reduce carbon emissions. These include using energy-efficient T5 Fluorescent and LED light fittings, R410A eco-friendly air-conditioning gas and water-saving tap fittings in some of our landmark buildings. In 2016, The Manager embarked on energy consumption analysis which was conducted by our in house Certified Energy Manager. The benefit of this exercise is shown below as we are now able to evaluate the existing energy consumption and intensity of each property. A pilot test case was carried in Menara Axis, a multi-tenanted office building, following an energy audit of the tenanted and common areas, the air-conditioning system was upgraded, resulting in a 27-34% savings in energy costs at the property.

Moving forward, we aim to take into considerations the buildings with high energy intensity for future refurbishment exercises. Energy audits will be carried out before and after all future refurbishments, in order to quantify the energy sustainability measures and establish potential savings

Property Name	Non-lettable Floor Area (sq. m.)	Building Energy (Kwh)	Building Energy Intensity (Kwh/m <sup>2</sup> )	Comments
Axis Business Campus	18,602	215,880	11.6	Currently 11.95% occupied
Axis Business Park	17,278	605,487	35.0	
Axis Technology Centre	5,977	304,418	50.9	Retrofitted with energy efficient fittings
Menara Axis	18,804	1,098,062	58.4	
Axis Vista	609	59,646	98.0	
Wisma Kemajuan	9,065	1,627,418	179.5	
Crystal Plaza	5,760	1,087,676	188.8	
Wisma Academy Parcel	3,057	485,598	158.8	Not retrofitted with energy efficient fittings
Quattro West	3,502	678,039	193.6	
Axis Eureka	10,064	2,045,868	203.3	

<sup>2</sup> Environmental scope of reporting has been restricted to the landlord's energy consumption for common areas under the Property Manager's operational control.

<sup>3</sup> The emission factor is taken from "International Energy Agency: CO<sub>2</sub> Emissions from Fuel Combustion Highlights: 2013"

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

General Standard Disclosures		
General standard disclosures		Section
<b>Strategy and analysis</b>		
G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy.	CEO's Message on Sustainability (page 117)
<b>Organisational profile</b>		
G4-3	Name of Organization	CEO's Message on Sustainability (page 117)
G4-4	Primary brands, products, and services	Annual Report (page 68 & 79) Our Business (page 118)
G4-5	Headquarters location	Annual Report (page 4)
G4-6	Number of countries where the organisation operates and the names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in this report.	Portfolio Diversification by Geographic (page 66 & 67)
G4-7	Nature of ownership and legal form	Annual Report (page 3)
G4-8	Markets served	Our Business (page 118)
G4-9	Scale of the organisation	Our Business (page 118)
G4-10	Total number of employees by employment type, gender, employment contract, employment contract and region	Employee Profile (page 124 & 125)
G4-11	Collective bargaining agreements	None of our employees are covered by collective bargaining agreements
G4-12	Organisation's supply chain	Our Value Chain (page 127)
G4-13	Organisation changes during the reporting period	CEO's Message on Sustainability (page 117)
G4-14	Precautionary principle or approach as addressed by the organisation	Enterprise Risk Management (page 123)
G4-15	External economic, environmental and social charters, principles or other initiatives to which the organisation subscribes to or endorses	Axis-REIT's involvement in professional organisations and social charters (page 120)
G4-16	List of memberships and/or associations	Axis-REIT's involvement in professional organisations and social charters (page 120)
<b>Identified material aspects and boundaries</b>		
G4-17	A. Entities included in financial statements B. Report on any entities included in financial statements that are not covered in the report	About the Report (Page 118)
G4-18	A. Process for defining the report boundaries and content B. How organisation has implemented the Reporting Principles for Defining Content	About the Report (Page 118)
G4-19	Material aspects included in the report	About the Report (Page 118)
G4-20	Description of material aspect boundaries within the organisation and any specific limitation regarding aspect boundary within the organisation	About the Report (Page 118)

# Sustainability Report

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

General Standard Disclosures		
General standard disclosures		Section
G4-21	Description of material aspect boundaries outside the organisation and any specific limitation regarding aspect boundary outside the organisation	About the Report (Page 118)
G4-22	Restatements of information	NA as this is the first year of reporting
G4-23	Significant changes from previous reporting periods	NA as this is the first year of reporting
<b>Stakeholder engagement</b>		
G4-24	Provide a list of stakeholder groups engaged by the organisation	Stakeholders' Engagement (Page 119-120)
G4-25	Basis for identification and selection of stakeholders with whom to engage	Stakeholders' Engagement (Page 119-120)
G4-26	Approach to stakeholder engagement including frequency of engagement by type and by stakeholder group	Stakeholders' Engagement (Page 119-120)
G4-27	Topics raised during stakeholder engagement and how the organisation has responded to those key topics and concerns	Stakeholders' Engagement (Page 119-120)
<b>Report profile</b>		
G4-28	Reporting period	1 January 2016 to 31 December 2016
G4-29	Date of most recent previous report (if any)	NA as this is the first year of reporting
G4-30	Reporting cycle	Annual
G4-31	Report contact	About the Report (Page 118)
G4-32	A. Report on 'In accordance option' chosen B. Reference to external assurance report	About the Report (Page 118)
G4-33	Policy and current practice with regard to seeking external assurance for the report	About the Report (Page 118)
<b>Governance</b>		
G4-34	Governance structure of this organization, including committees of the highest governing body. Identify any committee responsible decision making on economic, environmental and social impacts	Annual Report (Page 140), Our Governance Ethics and Integrity (Page 122)
G4-38	Composition of the board and its committees	Annual Report (Page 140), Our Governance Ethics and Integrity (Page 122)
<b>Ethics and integrity</b>		
G4-56	Organization's values, principles, standards and norms of behavior such as code of conduct and code of ethics.	Our Governance, Ethics and Integrity (page 122)

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

General Standard Disclosures		
Indicators		Section
<b>Category: Environmental</b>		
EN3	Energy consumption within the organisation	Our Environment (Page 132)
EN5/ CRE1	Energy intensity	Our Environment (Page 132)
EN6	Reduction of energy consumption	Our Environment (Page 132)
EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Our Environment (Page 132)
EN18/ CRE3	Greenhouse Gas (GHG) emissions intensity	Our Environment (Page 132)
<b>Category: Social</b>		
<b>Sub-category: Labour practices and decent work</b>		
LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Employee Wellness and Engagement (page 126)
LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender	Employee Health and Safety (Page 125)
<b>Sub-category: Product responsibility</b>		
PR5	Results of surveys measuring customer satisfaction	Tenant Engagement and Satisfaction (Page 128)



# CORPORATE GOVERNANCE

# Corporate Governance Statement

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

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

The following sections describe the Manager’s main corporate governance framework, practices and policies:

## The Manager of Axis-REIT

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

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

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

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

## Board of Directors of the Manager (“Board”)

As at 31 December 2016, the Board comprises seven (7) members, where the Executive Deputy Chairman and the Non-Independent Non-Executive Director each have an alternate director, and three (3) members of the Board are Independent Directors. There are nine (9) Directors in total, including the alternate directors. The Board consists of a mixture of Executive and Non-Executive Directors from diverse professional backgrounds, enabling Management to tap their expertise and broad business experience in deliberating issues presented to the Board. The roles and responsibilities of the Board in discharging its fiduciary leadership functions are elaborated in the Board Charter, which was adopted by the Board in 2012. The Board Charter is subject to an annual review and in October 2016, it was expanded to include a section on Investor Relations and Communication with Stakeholders, where the Board’s role in promoting effective engagement with stakeholders is documented. The latest version of the Board Charter is available on the Manager’s corporate website. The Board Charter has also set out the expectation on time commitment for its members and protocols for accepting new directorships. As the Board meeting dates were fixed in advance, each Director was able to commit their time to attend the Board meetings, and Directors who were travelling were able to participate in the deliberations via teleconference arrangements.

The Board is committed to ethical values through its Code of Conduct. Formalised in 2012, the code is available on the Manager’s corporate website. The Board undertook a review of this code in October 2016 and the code was streamlined and fine-tuned for clarity.

A Whistle-Blowing Policy was also adopted in 2012 to facilitate the management of reports and claims filed in relation to possible improprieties in matters relating to financial reporting, compliance, misconduct and other malpractices. This policy reaffirms the Manager’s commitment to safeguard those who report concerns in good faith against any form of reprisal. The Whistle-Blowing Policy was also reviewed by the Board in October 2016, and the channel of reporting procedures was updated for clarity. This Whistle-Blowing Policy is also available on the Manager’s corporate website.



# Corporate Governance Statement

## Chairman of the Board and Chief Executive Officer (“CEO”)

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

The Chairman ensures that members of the Board work together with Management in a constructive manner to address strategies, business operations, financial performance and risk management issues. The Chairman also plays a role in the Manager’s external relationship with stakeholders.

The CEO has full executive responsibilities over the execution of the agreed business policies and directions set by the Board, and over all operational decisions in managing Axis-REIT. The CEO works closely with all the heads of department through weekly cross-departmental meetings in reviewing issues relating to leasing, facilities and engineering. The Manager has embarked on property development activities during the year under review and the CEO has been actively driving the development project at Axis PDI Centre and monitoring its progress with the real estate team and the panel of consultants on a weekly basis.

## Strategic Planning and Target Setting

At the beginning of the financial year ended 31 December 2016 (“FYE2016”), the Board reviewed and approved the Budget of Axis-REIT, which provided the financial roadmap and targets for each department in executing the business plans of the Manager and Axis-REIT. In May 2016, the CEO and the key management team participated in a strategy planning and discussion workshop, and Axis-REIT’s 2021 Strategy Plan was formulated and subsequently presented to the Board for approval in August 2016. This 2021 Strategy Plan encompassed the immediate strategy for 2016, as well as long-term five (5)-year initiatives. Details of Axis-REIT’s 2021 Strategy Plan are presented in the Sustainability Report contained in this Annual Report.

## Board Meetings and Procedures

The Board met every quarter in FYE2016 to discuss and approve the release of Axis-REIT’s quarterly and annual financial results, to review acquisitions or disposals, corporate plans and the annual budget, capital management proposals, property reports, investor relations reports, the performance of the Manager and Axis-REIT against the previously approved budget, as well as other proposals tabled by Management. The CEO led the business performance reporting at each Board meeting. The Chief Financial Officer, Head of Real Estate, Head of Investments and Investments & Investor Relations Manager, who are heads of departments of the Manager, were also present at the Board meetings to present their reports and to facilitate the review and deliberation of issues and matters tabled and presented to the Directors at such meetings. Via such conduct at Board meetings, the Board is able to oversee, assess and monitor Management’s performance in administering the business of the Manager and Axis-REIT under the leadership of the CEO.

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

All meeting dates are determined and fixed in advance so that all Directors are able to schedule their time effectively. Notices of meetings and their agendas are issued to all Directors no less than seven (7) days in advance by the Company Secretary, and the relevant meeting papers are compiled and distributed to all Directors as soon as practicable after the notices of meetings have been issued. In order to keep the investing public aware of the timing of the release of the quarterly financial results of Axis-REIT, the Manager announces the targeted date for such releases within two (2) weeks prior to each Board meeting.





### **Access to Information and Advice**

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

### **Company Secretary**

The Board is supported by a professionally-qualified and competent Company Secretary, who is responsible for ensuring that Board meeting procedures, other policies and procedures, and applicable rules and regulations are adhered to. The Company Secretary attended every Board meeting and Board Committee meeting in FYE2016, and thereafter prepared the minutes of proceedings for approval by the respective Chairmen. The Company Secretary also kept the Board abreast of all relevant regulatory updates to laws and requirements. In FYE2016, the Company Secretary updated the Board on the amendments to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") in the key areas of disclosure and corporate governance, developments in Audit Committee reporting and the new Auditors' Reporting Standard, updates issued by the Companies Commission of Malaysia, as well as the consultation papers issued by both the SC and Bursa Securities on the proposed amendments to the requirements and framework applicable to real estate investment trusts ("REIT").

Recognising the need to have an effective compliance function, the Manager hired the Company Secretary, who was previously the external Company Secretary, in-house on 1 November 2016. She now oversees the corporate compliance matters of the Manager and Axis-REIT.

### **Board Remuneration and Remuneration Policy**

The remuneration of the Directors is paid by the Manager and not by the Fund. Details of the Remuneration Committee, which is responsible for the determination of the remuneration policy framework of the Manager's Directors, is set out in the Remuneration Committee section below.

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

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

# Corporate Governance Statement

## Board Remuneration and Remuneration Policy (continued)

The details of the remuneration of the Directors for FYE2016 are as follows:

Remuneration of Executive and Non-Executive Directors for FYE2016						
	Salaries and other Emoluments (RM)	Directors' Fee (RM)	Meeting Attendance Allowance (RM)	Executive Committee Allowance (RM)	Benefits in Kind (RM)	Total (RM)
Executive Directors	1, 177, 441	187, 000	17, 000	60, 000	23, 950	1, 465, 391
Non-Executive Directors	-	450, 000	55, 000	60, 000	-	565, 000

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

## Board Committees and their Roles

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

- Executive Committee
- Audit Committee
- Remuneration Committee
- Nomination Committee

## Executive Committee

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

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

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

The Executive Committee, in discharging its duties, is guided by a formal Terms of Reference.

There has been no significant change in the duties and functions of the Executive Committee as discharged in FYE2016.

## Audit Committee

The Board has an overall responsibility in ensuring that a balanced and understandable assessment of Axis-REIT's financial position and prospects is presented to the investing public. The Audit Committee plays an important role in assisting the Board in discharging this responsibility. The Audit Committee ensures that the financial statements comply with applicable accounting standards and meet financial reporting requirements. It also assists the Board in the area of internal controls, risk management and governance processes of Axis-REIT and the Manager. The Audit Committee Report, which contains the summary of activities carried out by this Committee during FYE2016, is set out as a separate section in this Annual Report.

### Audit Committee (continued)

The Audit Committee, in discharging its duties, is guided by a formal Terms of Reference. This set of Terms of Reference is available on the Manager's corporate website.

The assessment of the External Auditors of Axis-REIT for re-engagement is an annual affair for the Manager. The Audit Committee had evaluated the External Auditors of Axis-REIT during FYE2016 in order to determine their suitability for re-appointment and independence. The assessment on suitability and independence was carried out against criteria adopted by the Audit Committee. Upon due assessment, the Audit Committee recommended to the Board the re-engagement of Messrs KPMG as the External Auditors for Axis-REIT in respect of FYE2016. The Board then recommended the re-appointment of Messrs KPMG to the Trustee of Axis-REIT for approval. The re-appointment of External Auditors of Axis-REIT is not subject to the approval of the Unitholders of Axis-REIT.

The Audit Committee also independently met with the External Auditors without the presence of Executive Board members and management representatives twice in 2016. There were no concerns raised by the External Auditors during these private sessions.

The engagement of the Internal Auditors is also reviewed and renewed annually. A private session was held in 2016 between the Audit Committee and the Internal Auditors, and there were no concerns raised during this private session that required the attention of the Audit Committee, in respect of the outsourced internal control function of the Manager.

### Remuneration Committee

The Remuneration Committee is responsible for recommending to the Board the policy framework for the remuneration of the Executive and Non-Executive Directors of the Board, as well as key management officers (if any). It is also responsible for reviewing the framework from time to time, so as to ensure that the Manager attracts and retains individuals of the highest calibre. As the Directors of the Manager are remunerated by the Manager and not by the Fund, the Executive Committee of the Manager plays an important role in proposing to the Remuneration Committee the respective remuneration packages, including, but not limited to, bonuses, incentives and benefits-in-kind, taking into consideration, among others, the level of performance against agreed targets. All proposals presented by the Executive Committee are considered carefully by the Remuneration Committee, drawing from outside advice as necessary, in accordance with the Board's remuneration policy.

The Remuneration Committee, in discharging its duties, is guided by a formal Terms of Reference.

During FYE2016, the Remuneration Committee reviewed the remuneration package of the CEO based on the proposal presented by the Executive Committee, and made recommendations to the Board accordingly. Directors' Fees were also reviewed, taking into consideration market factors. The Board ultimately made the final decisions in respect of the remunerations of the Executive and Non-Executive Directors. Each Director had accordingly abstained from deliberation and voting on their own respective remuneration.

### Nomination Committee

The key function of the Nomination Committee is to ensure that the Manager recruits, retains and develops the best available executive and non-executive directors. This includes managing succession at Board level effectively. The chair of the Nomination Committee is the Senior Independent Director of the Board. The Nomination Committee, in discharging its duties, is also guided by a formal Terms of Reference, which is available on the Manager's corporate website.

The Nomination Committee had, during FYE2016, carried out the following activities:

- Reviewed the performance evaluation carried out on the Board, Directors and Board Committees. The results of the evaluation have been documented by the Company Secretary of the Manager.
- Reviewed the existing recruitment criteria of the Manager and updated the criteria to incorporate the eligibility requirements prescribed by the relevant authorities, for example, the fit and proper criteria and the independence criteria. There was no new appointment of director considered during FYE2016.
- Considered and made no recommendation to revise the criteria for the annual assessment of Directors (including the assessment of independence and the assessment of a Director whose tenure exceeds nine (9) years).
- Reviewed the existing composition of the Board, effectiveness of the Board and Board Committees.
- Considered the gender diversity of the Manager and was satisfied that the female representation both at board and senior management levels had achieved the 30% target.
- Assessed the training needs of the Directors.
- Reviewed the term of office and performance of the Audit Committee in accordance with Paragraph 15.20 of the Main Market Listing Requirements.

# Corporate Governance Statement

## Nomination Committee (continued)

The Board also undertook an annual assessment of the independence of its three (3) Independent Directors, namely YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin, Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor and Encik Mohd Sharif Bin Hj Yusof, based on the independence criteria approved by the Nomination Committee. The three (3) Independent Directors of the Manager had confirmed their independence in writing to the Board. All the three (3) Independent Directors of the Manager were also subject to the evaluation applicable to the tenure of independent directorship exceeding nine (9) years. The Board had accordingly assessed the three (3) Independent Directors and considered them still independent based on their respective written assessments submitted. The Board was of the opinion that their independence would not be materially compromised by the length of their service as Independent Directors of the Board. The Board will be seeking the approval from the sole shareholder of the Manager at the Manager's 2017 annual general meeting for their retention as Independent Directors, in line with best practices under the Malaysian Code on Corporate Governance 2012.

## Attendances at Board and Board Committee Meetings

The attendance of the Directors at the Board and Board Committee meetings held during FYE2016 are presented below:

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

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

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

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



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

### Directors' Training

The Board ensures its members have access to appropriate continuing education programmes to update their knowledge and enhance their skills in order to sustain their active participation in Board deliberations. At every Board meeting, the Directors had received a list of training programmes available for selection. Details of training programmes attended by Directors were compiled by the Company Secretary for reporting to the Nomination Committee and Board accordingly. In-house training was also organised for all the Directors on 'Proposed Amendments to the SC's Guidelines and Bursa Malaysia's Listing Requirements on REITs' in October 2016.



All the Directors of the Manager have attended training programmes during FYE2016 in compliance with the Main Market Listing Requirements of Bursa Securities. Some of the Directors had been invited to participate as speakers and presented talks at conferences and seminars. The details are as follows:

Director	Date	Events
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	26 February 2016	Improving Board Risk Oversight Effectiveness
	26 April 2016	ACI Breakfast Roundtable 2016
	27 September 2016	AsiaPAC Property Leaders Summit 2016
	24 October 2016	Proposed Amendments to the SC's Guidelines and Bursa Malaysia's Listing Requirements on REITs
Dato' Abas Carl Gunnar Bin Abdullah	24 October 2016	Proposed Amendments to the SC's Guidelines and Bursa Malaysia's Listing Requirements on REITs
Tew Peng Hwee @ Teoh Peng Hwee	11&12 March 2016	Malaysian Annual Real Estate Convention 2016 on Elevate to Differentiate
	24 October 2016	Proposed Amendments to the SC's Guidelines and Bursa Malaysia's Listing Requirements on REITs
Leong Kit May	28 January 2016	Equity Crowdfunding 101
	26 February 2016	Improving Board Risk Oversight Effectiveness
	29 March 2016	Daiwa ASEAN REIT Day
	1 April 2016	The Women Power Network
	6 April 2016	APEC Programme
	12 April 2016	The Woman in Business Perspective- Invest Malaysia 2016
	30 April 2016	The Edge Investment Forum on Real Estate 2016: Riding out the Storm: Pitfalls to Avoid
	9-10 May 2016	Strategy Planning 2016
	16 May 2016	MIDA: Malaysia-UK Investors Showcase, London
	17 May 2016	Bursa Malaysia: Invest Malaysia 2016, London
	29 May 2016	Bursa Malaysia: REITs - A Defensive Investment in Volatile Times
	20 June 2016	GST and Property Forum
	28 June 2016	AML: Advantages of Know Your Clients



# Corporate Governance Statement

## Directors' Training (continued)

Director	Date	Events
Leong Kit May	26 July 2016	CIMB Malaysia REITs Corporate Day
	10-11 August 2016	Sustainability Reporting
	16 August 2016	Advocacy Session on Management Discussion & Analysis for CEO and CFO of Listed Issuers
	17 August 2016	Technical Briefing for Company Secretaries of Listed Issuers
	27 September 2016	AsiaPAC Property Leaders Summit 2016
	24 October 2016	Proposed Amendments to the SC's Guidelines and Bursa Malaysia's Listing Requirements on REITs
	16 November 2016	CIMB Economic & Market Update
Datuk Seri Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	14 January 2016	Strata Management Seminar : The Good, The Bad and the Ugly
	27 January 2016	Engagement Session on Trans-Pacific Partnership Agreement
	9 March 2016	Rehda 2016 Property Outlook / RoundTable Session
	18 May 2016	CEO Faculty Program "Best Kept Branding Secrets"
	19 May 2016	Dean's Lecturer Series
	19 July 2016	Northgate Capital
	19 July 2016	Akamai Foster Forward : Grand Challenges Facing The Internet
	3 August 2016	TA Securities Roundtable Forum- Is There Light at the end of the Tunnel for Consumers
	8 September 2016	19th National Housing & Property Summit 2016 – Revitalising The Housing & Property Industry – What Next for the Housing & Property Sector?
	20 October 2016	CEO Faculty Program "Tea & Experience Sharing Session"
	31 October 2016	12 <sup>th</sup> Khazanah Global Lecture: "Caring for the Earth: Reasons for Hope"
	2 November 2016	Budget 2017 : Impact on Affordable Homeownership & First Home Buyers
	29 November 2016	- "The Open source Organisation - New Leadership & Management Imperatives for the Digital Age". - "Global Entertainment and Media Outlook 2016 to 2020: Capturing attention and value in today's global multi-speed media landscape".
Mohd Sharif bin Hj Yusof	24 October 2016	Proposed Amendments to the SC's Guidelines and Bursa Malaysia's Listing Requirements on REITs
	8 December 2016	Anti-corruption & Integrity – Foundation of Corporate Sustainability
Alvin Dim Lao	25-26 January 2016	Philippines 1X1 Conference, Manila
	2-3 March 2016	Philippines CEO Forum, Manila
	8-10 March 2016	Asean Access Forum, Bangkok
	16-20 May 2016	Non-Deal Roadshow, Hong Kong, Singapore, Kuala Lumpur
	12-20 June 2016	Non-Deal Roadshow, United States
	6-9 July 2016	Non-Deal Roadshow, Tokyo
	16-18 August 2016	Philippines Corporate Day, Singapore, Hong Kong
	7 November 2016	Implementing Rules of the Philippine Competition Law
	17-18, 22-25 November 2016	Asia Rising Dragons, Tokyo, Singapore, Hong Kong
	24 October 2016	Proposed Amendments to the SC's Guidelines and Bursa Malaysia's Listing Requirements on REITs
Alex Lee Lao	7 November 2016	Implementing Rules of the Philippine Competition Law

## Directors' Training (continued)

Director	Date	Events
Jancis Anne Que Lao	March 2015 – June 2016	Postgraduate Diploma in Real Estate Investment Finance (from Oxford Brookes University)
	24 October 2016	Proposed Amendments to the SC's Guidelines and Bursa Malaysia's Listing Requirements on REITs

## Disclosure and Communication with Unitholders and the Investing Community

The Manager has established a strong culture of continuous disclosure and transparent communication with Unitholders and the investing community. The Manager achieves this through timely and full disclosure of all material information relating to Axis-REIT by way of public announcements on Bursa Securities' website and through its own corporate website at [www.axis-reit.com.my](http://www.axis-reit.com.my), as well as through press releases, analyst briefings and retail roadshows. The Manager also has in place a dedicated section for corporate governance on its corporate website, which provides information such as the Board Charter, Code of Conduct, Whistle-blowing Policy and Unitholders' voting rights.

The Board is committed to promoting effective communication and proactive engagements with Unitholders and the investing community, which is represented by the Investor Relations department of the Manager. This department is guided by the Investor Relations and Corporate Disclosure Policy, which was comprehensively revised and adopted by the Board in January 2016. This policy is also accessible on the Manager's corporate website.

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



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

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

The fourth AGM of Axis-REIT was convened and held on 29 April 2016 in compliance with the requirements under the SC's REIT Guidelines. At the AGM, the Manager presented an update on Axis-REIT's financial performance for the financial year ended 31 December 2015, as well as its activities, progress and prospects. Prior to voting, all Unitholders present in person or by proxy were briefed on their voting rights by the Company Secretary.

Two (2) Ordinary Resolutions were tabled to Unitholders for approval at the fourth AGM. The first was the Proposed Renewal of the Authority to allot and issue new units in Axis-REIT, and the second was the Proposed Renewal of the Income Distribution Reinvestment Plan Authority. Both Ordinary Resolutions were passed by way of show of hands.

The Board recognises the importance of Unitholders' participation at the meetings of Unitholders and encourages such participation. At the fourth AGM, the Board provided opportunities for the Unitholders present at the meeting to raise questions pertaining to the business activities of Axis-REIT. Questions relating to acquisitions and disposals, creation of value and commitment to Unitholders, as well as the financing profile and prospects of Axis-REIT were raised and adequately responded to by the CEO.

Save for the AGM, there was no other Unitholders' Meeting held in FYE2016.

# Corporate Governance Statement

## **Risk Management and Internal Control Systems**

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

The internal audit function is outsourced to an independent consultancy firm that carries out the audit review based on an approved internal audit plan. The Audit Committee has the delegated function to monitor the performance of the internal audit function and its effectiveness for reporting to the Board on a quarterly basis. Further details on the internal audit activities are also contained in the Statement on Risk Management and Internal Control.

## **Succession Planning**

The Board's succession plan for the CEO's position took place seamlessly on 1 January 2016. The Board believes that talent management and grooming of suitable candidates for upward progression are essential for the sustainability of human capital as it is people who move the business forward. As such, the Manager has put in place career progression opportunities within the organisation for staff to develop their potential abilities for career advancement. During FYE2016, two (2) key senior management officers, Ms Nikki Ng and Ms Jackie Law, were licensed as the Capital Markets Services Representatives by the SC, allowing them to carry out the regulated operations of Axis-REIT in compliance with the CMSA. The Board had duly conducted due diligence reviews on both officers prior to making the relevant submissions to the SC, which reflects the Board's commitment to ensure that the Manager's key management officers are of sufficient calibre to represent the Manager in its fund management activities.

## **Compliance Statement**

The Board is satisfied that the Manager has applied the principles and best practice recommendations prescribed under the Malaysian Code on Corporate Governance 2012 in its management of Axis-REIT during FYE2016. This Statement has been tabled and approved by the Board on 18 January 2017.

# Audit Committee Report

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

## 1. Composition of Audit Committee

The Audit Committee comprises three (3) Non-Executive members, two of whom (including the Chairman) are Independent Non-Executive Directors of the Board. One (1) of the Audit Committee members has an alternate director.

The composition of the Committee as at 31 December 2016 is as follows:

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

The Audit Committee held four (4) meetings during the financial year ended 31 December 2016 ("FYE2016") and all members of the Audit Committee were in attendance in all the meetings. Details of the attendance of the Audit Committee members are set out in the Corporate Governance Statement of this Annual Report.

## 2. Terms of Reference

The Audit Committee has a set of Terms of Reference that guides the discharge of its roles and responsibilities. The details of the Terms of Reference are available on the corporate website of Axis-REIT at [www.axis-reit.com.my](http://www.axis-reit.com.my). There were no revisions made to the Terms of Reference of the Audit Committee during FYE2016.

## 3. Summary of Activities Carried Out by the Committee during the Financial Year

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

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

- (a) reviewed the quarterly financial results for public release to ensure adherence to legal and regulatory reporting requirements before recommending the same to the Board of Directors for approval;
- (b) reviewed the audited financial statements of Axis-REIT for the financial year ended 31 December 2015, issued in February 2016, and discussed with the External Auditors the results of the final audit conducted on Axis-REIT prior to recommending the same to the Board of Directors for approval. There were no significant audit issues raised by the External Auditors;
- (c) reviewed and recommended for the Board's approval the Audit Committee Report and Statement on Risk Management and Internal Control for inclusion into the 2015 Annual Report of Axis-REIT issued in February 2016;
- (d) reviewed with External Auditors, their audit plan for FYE2016, audit approach and reporting requirements prior to the commencement of audit works for the year under review;

# Audit Committee Report

## 3. Summary of Activities Carried Out by the Committee during the Financial Year (continued)

- (e) evaluated the suitability and independence of the External Auditors and recommended to the Board their re-appointment as Auditors of Axis-REIT in respect of FYE2016 for onward recommendation to the Trustee of Axis-REIT. The evaluation criteria included, among others, the adequacy and experience of the firm, its resources, and the experience of the professional staff assigned to the audit of Axis-REIT;
- (f) ensured that Axis-REIT's appointed External Auditors were duly registered with the Audit Oversight Board of the Securities Commission Malaysia;
- (g) kept abreast and informed of new accounting standards, particularly the new Auditors' Reporting Standard, which became effective for listed issuers with financial years ending on or after 15 December 2016. The Audit Committee had, before the end of the financial year, and in consultation with the External Auditors, reviewed the contents of the draft Independent Auditors' Report incorporating the new reporting format which also spelt out the key audit matters identified by the External Auditors which would be considered to be of most significance in the audit of the financial statements of Axis-REIT for FYE2016. The key audit matters, i.e. valuation of investment properties and revenue recognition, were finalised post the final audit and discussed at the Audit Committee meeting held in January 2017;
- (h) reviewed the audit fees for FYE2016 of Axis-REIT and its wholly-owned subsidiary, Axis REIT Sukuk Berhad, for recommendation to the Board of Directors for approval. The Audit Committee also considered the non-audit fees applicable to Axis-REIT and Axis REIT Sukuk Berhad for FYE2016 and was satisfied that the non-audit fees were not of significant nature and were necessary compliance costs in order for Axis-REIT and Axis REIT Sukuk Berhad to comply with relevant requirements;
- (i) reviewed the internal audit plan for year 2016/2017 and the internal audit reports with the Internal Auditors, and ensured that action plans recommended are agreed upon and implemented by Management on a timely basis. The summary activities of the internal audit function are contained in the Statement on Risk Management and Internal Control of this Annual Report;
- (j) evaluated the outsourced Internal Auditors and recommended to the Board of Directors their re-engagement as the Internal Auditors of Axis-REIT in respect of the year 2016/2017. The Audit Committee also reviewed the internal audit fees applicable for the audit cycles under the engagement for year 2016/2017 before the same was approved by the Board of Directors;
- (k) reviewed the Risk Register on a quarterly basis. The details of the findings/observations are contained in the Statement on Risk Management and Internal Control of this Annual Report;
- (l) reviewed on a quarterly basis, the list of related party transactions involving interests of related parties who are Directors of the Manager, substantial Unitholders of Axis-REIT and ultimate major shareholders of the Manager or persons connected to them. Other than the completion of the acquisition of Beyonics i-Park Campus Block A, B, C and D, collectively a related party acquisition that was completed at the end of January 2016, there were no other proposals on related party acquisitions or disposals presented to the Audit Committee for consideration during FYE2016;
- (m) reviewed the implementation of the income distribution reinvestment plan in conjunction with the 2016 First Interim Income Distribution of Axis-REIT, which was implemented and completed on 17 June 2016 with the issuance and listing of 5,380,523 new units on the Main Market of Bursa Malaysia Securities Berhad; and
- (n) assessed its own performance against the Terms of Reference of the Audit Committee prior to the onward assessment by the Nomination Committee of the Board and the Board of Directors. The assessment results were satisfactory.

#### **4. Relationship with the External Auditors and Internal Auditors**

The Board of Directors, via the Audit Committee, maintains a formal and transparent relationship with the External Auditors as well as the Internal Auditors, and the Audit Committee has direct and unrestricted access to both the External and Internal Auditors. The Audit Committee had, during the year, met with the External Auditors and Internal Auditors without the presence of Management, to discuss issues, problems and reservations (if any) that the External Auditors or Internal Auditors wished to highlight to the Committee. Results of those engagements were satisfactory and there were no issues of concern discussed during those private sessions.

#### **5. Internal Audit Function**

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

Details on the internal audit activities are contained in the Statement on Risk Management and Internal Control.



# Statement on Risk Management and Internal Control

Pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements

## Introduction

The Board of Directors ("Board") of Axis REIT Managers Berhad, being the management company ("Manager") of Axis Real Estate Investment Trust ("Axis-REIT" or "Fund") has voluntarily adopted the best practices in corporate governance by establishing an Audit Committee and setting up an Internal Audit Function, which had been outsourced to an independent professional firm, even though it is not compulsory for Axis-REIT, being a real estate investment trust, to comply with such requirements under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. This is because the Board of the Manager is committed to maintaining a sound and effective system of internal control to safeguard the interests of the Unitholders of Axis-REIT, the investments and assets of Axis-REIT as well as the shareholder's interests and assets of the Manager.

## Key Elements of the Risk Management and Internal Control System

### Operations Manual

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

The Manager had, during the financial year ended 31 December 2016 ("FYE2016"), updated the Operations Manual. The major updates relate to carpark system operations, financial reporting and controls, data protection and security policy, capital expenditure materiality threshold and approval processes, key personnel roles and responsibilities, whistle blowing processes and other improvements to the operational processes and procedures as recommended by the outsourced Internal Auditors.

### Financial Controls and Business Management

The Board of the Manager had approved the updated strategic business plan for Axis-REIT which comprise the immediate 2016 strategy and the long term five (5)-year initiatives. In addition to the strategic business plan, an annual budgeting and target-setting process was also carried out for each department with detailed reviews at all levels of operation in respect of FYE2016, and the budgets were approved by the Board of the Manager in January 2016. The Manager had, during the financial year under review, been guided by the approved budget in managing Axis-REIT. Monthly financial updates had also been provided to the Directors in order to give timely assessment of the Fund's performance and prospects. Management closely monitors actual financial performance at all levels on a monthly basis.

The Manager also has a policy on financial limits and approving authority for its operating and capital expenditure. All major operating and capital expenditure in respect of FYE2016 had been recommended by the Executive Committee of the Manager and approved by the Board of the Manager prior to implementation.

Weekly management meetings had been conducted to review operational activities, management issues, financial performance and business development proposals, including the deliberation of relevant strengths, weaknesses, opportunities and threats faced by the Manager in managing Axis-REIT. Meetings were also held between the Executive Committee of the Manager and the Management team to review, assess and discuss business updates, investment proposals, financial performance and to resolve key operational, financial and other key management issues faced by the Management team during FYE2016. Significant issues were highlighted and discussed at Board meetings for the Board's ultimate decisions.

The Yardi system, which is a synchronised platform for capturing and processing data covering tenant and debt management, payment processing, financial reporting, advanced budgeting and finance as well as job costing, is being improved and tested annually to ensure that the processes are effective in ensuring timely generation of accurate information for management action and decision-making, operationally and financially. During the year, the Manager had enhanced the purchase order process to ensure the timeliness and smoothness of the workflow.

## Financial Controls and Business Management (continued)

In accordance with the Manager's capital management strategy, a total of RM265 million in nominal value Islamic Medium Term Notes ("Sukuk"), pursuant to an Islamic Medium Term Notes Programme ("Sukuk Programme") of up to RM3 billion in nominal value with perpetual tenure had been issued in 2012 and 2013 via Axis-REIT's wholly-owned subsidiary, Axis REIT Sukuk Berhad. The Sukuk had provided Axis-REIT a blended financing rate of 4.13% (5 & 7 years) to 4.61% (10 years) per annum and reduced Axis-REIT's exposure to short term financing.

There has been no new issuance under the Sukuk Programme as at the date of this Annual Report. The Manager reviews the market conditions and Axis-REIT's financing needs on a quarterly basis in determining its capital management strategy.

## Investment Controls

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

## Risk Management and Risk Register

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

The Manager carried out a semi-annual update of the Risk Register which focuses on business, asset management, financial, compliance, information technology and risk management system. The Audit Committee reviews the Risk Register on a quarterly basis and the updated Risk Register was duly tabled and noted by the Audit Committee at its meetings held in FYE2016.

During FYE2016, the Risk Register had:

- captured management action plans which were formulated to improve operational procedures and tighten the security and safety measures in Axis-REIT's buildings; and
- incorporated a new component to cater for the development activities undertaken for one of the properties of Axis-REIT i.e. Axis PDI Centre.

## Internal Audit Function and its Activities

Based on the agreed internal audit plan, the outsourced Internal Auditors had assisted the Manager in reviewing the internal control systems relating to Axis-REIT's operations, procedures and processes. Follow-up reviews were carried out to ensure that the agreed action plans were implemented. The Internal Auditors had reviewed and reported the results of the audit to the Audit Committee on the following internal audit work carried out during FYE2016:

1. Internal audit review on the Personal Data Protection Act ("PDPA") to ensure compliance with PDPA principles and requirements;
2. Internal audit review on Financial Controls covering billing, collection procedures and debt monitoring;
3. Internal audit review on Rental or Lease procedures covering negotiations and authority over rental decisions, tenancies and timeliness and completeness of lease information updated to the Yardi System;
4. Internal audit review on Facilities Management covering building security and safety controls, asset enhancement and refurbishment processes; and
5. Internal audit review on Human Resource covering recruitment and resignation controls, accuracy of payroll computation and comprehensiveness of the employee handbook.

The costs incurred by the Manager for the outsourced Internal Audit Function in respect of FYE2016 amounted to RM61,500.

There were no significant control deficiencies noted during the financial year under review which had a material impact on Axis-REIT or the Manager's financial performance or business operations.

# Statement on Risk Management and Internal Control

Pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements

## **Appraisal of the System of Risk Management and Internal Controls**

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

## **Review of This Statement**

The Board of the Manager has ensured that this Statement is reviewed in accordance with Paragraph 15.23 of the Main Market Listing Requirements for inclusion in the annual report of Axis-REIT for FYE2016.

This Statement has been tabled and approved by the Board on 18 January 2017.

# Statement on Directors' Responsibility

## for Preparing the Annual Audited Financial Statements

In accordance with Paragraph 15.26(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of Axis REIT Managers Berhad, the management company of Axis Real Estate Investment Trust ("Axis-REIT"), is pleased to report that the financial statements of Axis-REIT for the financial year ended 31 December 2016 have been drawn up in accordance with the provisions of the Third Principal Deed constituting Axis-REIT dated 28 November 2013, the Securities Commission's ("SC") Guidelines on Real Estate Investment Trusts ("REITs"), the SC's Guidelines for Islamic REITs, applicable securities laws and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of Axis-REIT as at 31 December 2016 and of the results of its operations and cash flows for the year then ended. The Directors have:

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

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

# FINANCIAL STATEMENTS

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# Statement of Financial Position

As at 31 December 2016

	Note	2016 RM'000	2015 RM'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	4	2,143,149	2,048,626
Equipment	5	2,899	3,602
		<b>2,146,048</b>	2,052,228
<b>Current assets</b>			
Receivables, deposits and prepayments	6	9,934	59,230
Cash and cash equivalents	7	33,292	30,035
		<b>43,226</b>	89,265
Asset classified as held for sale	8	55,000	-
		<b>98,226</b>	89,265
<b>Total current assets</b>		<b>98,226</b>	89,265
<b>Total assets</b>		<b>2,244,274</b>	2,141,493
<b>Financed by:</b>			
<b>Unitholders' funds</b>			
Unitholders' capital		1,060,320	1,052,272
Reserves		332,651	300,213
<b>Total unitholders' funds</b>	9	<b>1,392,971</b>	1,352,485
<b>Non-current liabilities</b>			
Tenants' deposits	10	46,417	30,199
Financing	11	330,854	330,982
		<b>377,271</b>	361,181
<b>Current liabilities</b>			
Payables and accruals	10	24,221	26,995
Financing	11	449,811	400,832
<b>Total current liabilities</b>		<b>474,032</b>	427,827
<b>Total liabilities</b>		<b>851,303</b>	789,008
<b>Total unitholders' funds and liabilities</b>		<b>2,244,274</b>	2,141,493
<b>Net asset value ("NAV")</b>		<b>1,392,971</b>	1,352,485
<b>Number of units in circulation ('000 units)</b>		<b>1,105,174</b>	1,099,793
<b>NAV per unit (RM)</b>			
- Before income distribution		1.2604	1.2298
- After income distribution		1.2394#	1.2098

# NAV per unit after reflecting realised income to be distributed as final 2016 income distribution of 2.10 sen per unit payable on 28 February 2017.



# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
<b>Gross revenue</b>			
- realised		166,685	163,077
- unrealised (in relation to unbilled lease income receivable)		4,655	2,598
	12	171,340	165,675
Property operating expenses	13	(27,048)	(23,746)
<b>Net property income</b>		144,292	141,929
Profit income		678	744
Change in fair value of investment properties			
- as per valuation	4	29,861	5,791
- unbilled lease income receivable		(4,655)	(2,598)
Fair value change on derivatives		(201)	(81)
Net gain/(loss) on financial liabilities measured at amortised cost		2,446	(683)
<b>Net property and investment income</b>		172,421	145,102
Manager's fees	1(b)	13,745	13,759
Trustee's fees	1(c)	730	712
Auditor's fees			
- audit		116	113
- other services		5	5
Tax agent's fees		14	27
Net impairment losses on trade receivables being recognised		155	188
Bad debts written off		319	-
Depreciation	5	422	393
Administrative expenses		1,777	2,619
Islamic financing costs		32,004	29,935
Valuation fees		842	714
<b>Non-property expenses</b>		50,129	48,465
<b>Net income before tax</b>		122,292	96,637
Income tax expense	14	-	(73)
<b>Net income for the year attributable to unitholders</b>		122,292	96,564
<b>Other comprehensive income, net of tax</b>		-	-
<b>Total comprehensive income for the year attributable to unitholders</b>		122,292	96,564
<b>Net income for the year is made up as follows:</b>			
Realised		90,186	91,537
Unrealised			
- Unrealised rental income (in relation to unbilled lease income receivable)		4,655	2,598
- Change in fair value of investment properties			
- as per valuation	4	29,861	5,791
- unbilled lease income receivable	4	(4,655)	(2,598)
- Net gain/(loss) on financial liabilities measured at amortised cost		2,446	(683)
Fair value change on derivatives		(201)	(81)
		32,106	5,027
		122,292	96,564

**Earnings per unit (sen)**
**Number of units in circulation ('000 units)**

Earnings per unit (before Manager's fees)

- Gross (sen)

- Net (sen)

**Net income distribution**

First, Second and Third interim income distributions totalling 6.15 sen per unit paid on 16 June 2016, 9 September 2016 and 30 November 2016 (2015: 6.40 sen per unit paid on 29 May 2015, 11 September 2015 and 9 December 2015)

Final income distribution of 2.10 sen per unit payable on 28 February 2017 (2015: 2.00 sen per unit payable on 29 February 2016)

Note	2016 RM'000	2015 RM'000
	11.09	8.81
15	1,105,174	1,099,793
	12.34	10.07
	12.34	10.07
	67,858	70,118
	23,209	21,996
16	91,067	92,114

**Distribution per unit**

 - Gross (sen) - interim  
                             - final

 - Net (sen) \* - interim  
                             - final

2016	2015
6.15	6.40
2.10	2.00
8.25	8.40
6.15	6.40
2.10	2.00
8.25	8.40

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

 Resident corporate  
 Resident non-corporate  
 Non-resident individual  
 Non-resident corporate  
 Non-resident institutional

Withholding tax rate	
2016	2015
N/A^	N/A^
10%	10%
10%	10%
24%	25%
10%	10%

^ to tax at prevailing rate

# Statement of Changes in Net Asset Value

For the year ended 31 December 2016

	<i>Distributable</i>		<i>Non-distributable</i>	
	Total unitholders' capital RM'000	Realised income RM'000	Unrealised income RM'000	Total unitholders' funds RM'000
<b>At 1 January 2015</b>	1,044,664	5,555	276,150	1,326,369
Net income for the year	-	91,537	5,027	96,564
<b>Total comprehensive income for the year</b>	-	91,537	5,027	96,564
<i>Contributions by and distributions to unitholders</i>				
Issuance and placement of units	7,652	-	-	7,652
Issuing expenses	(44)	-	-	(44)
Distributions to unitholders	-	(78,056)	-	(78,056)
<b>Total transactions with unitholders</b>	7,608	(78,056)	-	(70,448)
<b>At 31 December 2015/1 January 2016</b>	1,052,272	19,036	281,177	1,352,485
Net income for the year	-	90,186	32,106	122,292
<b>Total comprehensive income for the year</b>	-	90,186	32,106	122,292
<i>Contributions by and distributions to unitholders</i>				
Issuance and placement of units	8,071	-	-	8,071
Issuing expenses	(23)	-	-	(23)
Distributions to unitholders	-	(89,854)	-	(89,854)
<b>Total transactions with unitholders</b>	8,048	(89,854)	-	(81,806)
<b>At 31 December 2016</b>	<b>1,060,320</b>	<b>19,368</b>	<b>313,283</b>	<b>1,392,971</b>

Note 9

# Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
<b>Cash flows from operating activities</b>			
Net income before tax		122,292	96,637
Adjustments for:			
Islamic financing costs		32,004	29,935
Profit income		(678)	(744)
Change in fair value of investment properties	4	(29,861)	(5,791)
Depreciation of equipment	5	422	393
Net (gain)/loss on financial liabilities measured at amortised cost		(2,446)	683
Net impairment loss on trade receivables being recognised		155	188
Bad debts written off		319	-
Fair value change on derivatives		201	81
<b>Operating income before changes in working capital</b>		122,408	121,382
Changes in working capital:			
Receivables, deposits and prepayments		48,822	(49,059)
Payables and accruals		7,574	(7,034)
Tenants' deposits		8,115	(12,281)
<b>Cash generated from operations</b>		186,919	53,008
Tax paid		-	(73)
<b>Net cash from operating activities</b>		186,919	52,935
<b>Cash flows from investing activities</b>			
Profit income received		678	744
Acquisition of investment properties	4	(104,718)	(45,781)
Acquisition of equipment	5	(25)	(1,174)
Enhancement of investment properties	4	(14,638)	(14,467)
Increase in pledged deposits		(421)	(377)
<b>Net cash used in investing activities</b>		(119,124)	(61,055)
<b>Cash flows from financing activities</b>			
Islamic financing cost paid		(32,004)	(29,935)
Net proceeds from financing		49,247	47,952
Net (repayment of)/proceeds from finance lease liabilities		(396)	93
Income distribution paid to unitholders		(89,854)	(78,056)
Proceeds from issue of units		8,071	7,652
Issuing expenses	17	(23)	(44)
<b>Net cash used in financing activities</b>		(64,959)	(52,338)
Net increase/(decrease) in cash and cash equivalents		2,836	(60,458)
Cash and cash equivalents at 1 January		17,162	77,620
<b>Cash and cash equivalents at 31 December</b>	(i)	19,998	17,162

## (i) Cash and cash equivalents

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

	Note	2016 RM'000	2015 RM'000
Cash and bank balances	7	13,896	9,063
Islamic deposits placed with licensed banks	7	19,396	20,972
		33,292	30,035
Less: Islamic deposits placed with licensed banks - pledged	7	(13,294)	(12,873)
		19,998	17,162

The notes on pages 160 to 192 are an integral part of these financial statements.

# Notes to the Financial Statements

## 1. General

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

<b>Registered office</b>	<b>Principal place of business</b>
Suite 11.1A Level 11	Penthouse, Menara Axis
Menara Weld	No. 2, Jalan 51A/223
76 Jalan Raja Chulan	46100 Petaling Jaya
50200 Kuala Lumpur	Selangor Darul Ehsan

The financial statements as at and for the financial year ended 31 December 2016 comprise the financial statements of Axis-REIT and its special purpose company, Axis REIT Sukuk Berhad, a company incorporated in Malaysia, whose principal activity is to raise financing on behalf of Axis-REIT.

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

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

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

### (a) Property management fees

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

### (b) Manager's fees

Pursuant to the Deed, the Manager is entitled to receive a fee of up to a maximum of 1% (2015: 1%) per annum of the Net Asset Value of Axis-REIT, calculated on a monthly accrual basis and payable monthly in arrears. The Manager's fees for the year ended 31 December 2016 of RM13,744,725 (2015: RM13,758,239) is 1% (2015: 1%) of the monthly Net Asset Value.

The Manager is also entitled to receive an acquisition fee or a disposal fee of 1% or 0.5% (2015: 1% or 0.5%) of the purchase price or the disposal price, respectively, of any investment property purchased or disposed directly or indirectly by Axis-REIT which is payable after the completion of the acquisition or the disposal. The acquisition fees for the financial year ended 31 December 2016 is RM1,030,000 (2015: RM450,000) which was 1% of the purchase price. The acquisition fees are included in the acquisition cost of the investment properties acquired (Note 4).

### (c) Trustee's fees

Pursuant to the Deed, the Trustee is entitled to receive a fee of 0.05% (2015: 0.05%) per annum of the Net Asset Value of Axis-REIT calculated on a monthly accrual basis and payable monthly in arrears. The Trustee's fees for the year ended 31 December 2016 is RM729,985 (2015: RM712,228).

These financial statements were approved by the Board of Directors of the Manager on 15 February 2017.

## 2. Basis of preparation

### (a) Statement of compliance

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

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

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017**

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018**

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

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

- MFRS 16, *Leases*

#### **MFRSs, Interpretations and amendments effective for a date yet to be confirmed**

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

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

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 1, 2, 4, 128 and IC Interpretation 22 which are not applicable to Axis-REIT.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.



# Notes to the Financial Statements

## 2. Basis of preparation (continued)

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

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

#### (i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

Axis-REIT is currently assessing the financial impact that may arise from the adoption of MFRS 15.

#### (ii) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

Axis-REIT is currently assessing the financial impact that may arise from the adoption of MFRS 9.

#### (iii) MFRS 16, *Leases*

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

Axis-REIT is currently assessing the financial impact that may arise from the adoption of MFRS 16.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgements

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

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

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

### 3. Significant accounting policies

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

#### (a) Basis of consolidation

##### (i) Subsidiaries

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

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

Axis-REIT controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. Axis-REIT also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

##### (ii) Transactions eliminated on consolidation

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

#### (b) Financial instruments

##### (i) Initial recognition and measurement

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

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

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

##### (ii) Financial instrument categories and subsequent measurement

Axis-REIT categorises financial instruments as follows:

##### *Financial assets*

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

Fair value through profit or loss category comprises financial assets that are held for trading, including Shariah-compliant derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

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

# Notes to the Financial Statements

## 3. Significant accounting policies (continued)

### (b) Financial instruments (continued)

#### (ii) Financial instrument categories and subsequent measurement (continued)

##### (b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

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

Axis-REIT does not have or provide any loans.

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

#### **Financial liabilities**

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are Shariah-compliant derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

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

#### (iii) Derecognition

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

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### (c) Investment properties

#### **Investment properties carried at fair value**

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

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

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

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

### 3. Significant accounting policies (continued)

#### (d) Equipment

##### (i) Recognition and measurement

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

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

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

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

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

##### (ii) Subsequent costs

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

##### (iii) Depreciation

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

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

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

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

#### (e) Leases

##### (i) Finance lease

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

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

# Notes to the Financial Statements

## 3. Significant accounting policies (continued)

### (e) Leases (continued)

#### (ii) Operating lease

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

### (f) Cash and cash equivalents

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

### (g) Impairment

#### (i) Financial assets

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

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account. Axis-REIT does not have or provide any loans.

#### (ii) Other assets

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

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

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

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

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

### 3. Significant accounting policies (continued)

#### (h) Asset held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets are remeasured in accordance with the applicable accounting policies. Thereafter, on initial classification as held for sale, the assets are measured at the lower of carrying amount and fair value less cost to sell. Any differences are charged to the profit or loss.

#### (i) Provisions

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

#### (j) Equity instruments

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

##### (i) Issuing expenses

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

##### (ii) Units

Units are classified as equity.

#### (k) Revenue

##### (i) Rental income

Rental income consists of income from the letting of investment properties including lots and car parks, and other associated income.

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

##### Profit income

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

#### (l) Expenses

##### (i) Property expenses

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

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



# Notes to the Financial Statements

## 3. Significant accounting policies (continued)

### (l) Expenses (continued)

#### (ii) Manager's fees

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

#### (iii) Trustee's fees

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

#### (iv) Islamic financing costs

Islamic financing costs incurred in connection with financing are expensed using the effective profit method, in the period in which they are incurred.

### (m) Income tax

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

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

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

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

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

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

### 3. Significant accounting policies (continued)

#### (n) Fair value measurement

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

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

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

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

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

### 4. Investment properties

#### Land and buildings at fair value:

At 1 January	
Acquisitions	
Enhancements#	
Change in fair value	
Reclassification from equipment	
Reclassification as asset held for sale	
At 31 December	

2016 RM'000	2015 RM'000
<b>2,048,626</b>	1,982,587
<b>104,718</b>	45,781
<b>14,638</b>	14,467
<b>29,861</b>	5,791
<b>306</b>	-
<b>(55,000)</b>	-
<b>2,143,149</b>	2,048,626

# Included in the enhancements is RM3,600,000 (2015: NIL) which relates to the development cost incurred for Axis PDI Centre.

# Notes to the Financial Statements

## 4. Investment properties (continued)

2016

Description of property	Tenure of land (Years)	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Fair value as at 31.12.2016 RM'000	Initial acquisition cost as at 31.12.2016 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2016 %
Menara Axis ^###	Leasehold	99	49	Petaling Jaya	Commercial office	93.8	123,649	8.9
Crystal Plaza *###	Leasehold	99	43	Petaling Jaya	Commercial office	81.2	56,400	7.9
Axis Business Park ^^##	Leasehold	99	44	Petaling Jaya	Office/Industrial	69.8	84,600	8.6
Infinite Centre *#	Leasehold	99	49	Petaling Jaya	Office/Industrial	68.1	25,450	3.1
Wisma Kemajuan ^ #	Leasehold	99	49	Petaling Jaya	Office/Industrial	92.0	63,900	4.6
Axis Business Campus ^^^^##	Leasehold	99	51	Petaling Jaya	Office/Industrial	11.9	73,200	5.3
Axis Shah Alam DC 1 ***	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	31,239	2.2
Giant Hypermarket ~#	Freehold	-	-	Sungai Petani	Hypermarket	100.0	46,000	3.3
FCI Senai ~~#	Leasehold	60	51	Senai, Johor	Manufacturing facilities	100.0	20,000	1.4
Fonterra HQ ^^	Freehold	-	-	Shah Alam	Office/Industrial	85.0	16,641	1.2
Quattro West *##	Leasehold	99	56	Petaling Jaya	Commercial office	65.9	56,800	4.1
Stratseq Data Centre ***#	Leasehold	99	52	Petaling Jaya	Office/Industrial	100.0	57,000	4.1
BMW Centre PTP **# Δ	Leasehold	60	39	Tanjung Pelepas	Warehouse/Logistics	100.0	30,376	2.2
Niro Warehouse ^^^	Leasehold	60	35	Pasir Gudang	Warehouse/Logistics	100.0	19,000	1.4
Delfi Warehouse ^^^	Leasehold	60	51	Pasir Gudang	Warehouse/Logistics	100.0	15,800	1.1
Axis Vista ^^ ##	Leasehold	99	50	Petaling Jaya	Office/Industrial	65.3	32,481	4.0
Axis Steel Centre ^^^ ##	Leasehold	99	86	Klang	Warehouse/Logistics	100.0	70,500	5.1
Bukit Raja Distribution Centre *##	Freehold	-	-	Klang	Warehouse/Logistics	100.0	102,397	7.4
Seberang Prai Logistic Warehouse 1 ^^#	Leasehold	60	37	Seberang Prai	Warehouse/Logistics	100.0	20,500	1.5
Seberang Prai Logistic Warehouse 2 ^^#	Leasehold	60	37	Seberang Prai	Warehouse/Logistics	100.0	8,200	0.6
Tesco Bukit Indan **##	Freehold	-	-	Johor Bahru	Hypermarket	100.0	96,000	6.9
Axis PDI Centre *	Leasehold	99	75	Kuala Langat	Warehouse/Logistics	-	88,435	6.3
Axis Technology Centre ^^^^#	Leasehold	99	51	Petaling Jaya	Office/Industrial	82.9	54,025	3.9
D8 Logistics Warehouse ^^^#	Leasehold	60	39	Johor Bahru	Warehouse/Logistics	100.0	32,940	2.4
Bayan Lepas Distribution Centre ^^#	Leasehold	60	46	Bayan Lepas	Warehouse/Logistics	100.0	51,500	3.7
Seberang Prai Logistic Warehouse 3 ****	Leasehold	60	36/52	Seberang Prai	Warehouse/Logistics	100.0	65,000	4.7
Emerson Industrial Facility Nilai *#	Leasehold	99	79	Nilai	Manufacturing facilities	100.0	30,500	2.2

## 4. Investment properties (continued)

2016

Description of property	Tenure of land (Years)	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Fair value as at 31.12.2016 RM'000	Initial acquisition cost as at 31.12.2016 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2016 %
Wisma Academy Parcel ^	Leasehold	99	46	Petaling Jaya	Office/Industrial	81.0	75,500	5.4
The Annex ^#	Leasehold	99	46	Petaling Jaya	Office/Industrial	100.0	19,000	1.4
Axis MRO Hub ^^^^	Leasehold	99	69	Shah Alam	Manufacturing facilities	100.0	53,000	3.8
Axis Shah Alam DC 3 ***	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	184,000	13.2
Axis Steel Centre @ SILC ** #	Freehold	-	-	Nusajaya	Manufacturing	100.0	156,500	11.2
Axis Shah Alam DC 2 ^^^^	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	46,600	3.3
Beyonics i-Park Campus Block A **	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	14,470	1.0
Beyonics i-Park Campus Block B **	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	13,300	1.0
Beyonics i-Park Campus Block C **	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	12,100	0.9
Beyonics i-Park Campus Block D **	Freehold	-	-	Johor Bahru	Manufacturing facilities	100.0	22,700	1.6
Soomi Facility @ Rawang ^	Freehold	-	-	Rawang	Manufacturing facilities	100.0	43,000	3.1
Axis Eureka *	Freehold	-	-	Cyberjaya	Commercial office	59.6	55,000	3.9
Investment property classified as held for sale (Note 8)						2,198,149	1,769,522	
Investment properties						(55,000)	(52,050)	
						2,143,149	1,717,472	

# Notes to the Financial Statements

## 4. Investment properties (continued)

- \* Quattro West, Bukit Raja Distribution Centre, Axis PDI Centre, Crystal Plaza, Infinite Centre, Emerson Industrial Facility Nilai and Axis Eureka were valued on 6 May 2016, 3 June 2016, 2 May 2016, 1 August 2016, 5 August 2016, 21 December 2016 and 24 November 2016, respectively, by Savills (Malaysia) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\* Axis Steel Centre @ SiLC, Beyonics i-Park Campus, BMW Centre PTP and Tesco Bukit Indah were valued on 14 December 2016, 15 December 2016, 3 June 2016 and 29 July 2016 respectively, by Savills (Johor) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\*\* Strateq Data Center, Axis Shah Alam DC1 and Axis Shah Alam DC 3 were valued on 10 September 2016, 10 March 2016 and 15 December 2016 respectively by KGV International Property Consultants (M) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment methods of valuation.
- \*\*\*\* Seberang Prai Logistic Warehouse 3 was valued on 13 December 2016 by Knight Frank Malaysia Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^ Menara Axis, Scomi Facility @ Rawang, Wisma Kemajuan, Wisma Academy Parcel and The Annex were valued on 2 August 2016, 1 June 2016, 19 December 2016, 29 December 2016 and 8 December 2016 respectively, by PA International Property Consultants (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment and cost methods of valuation.
- ^^ Fonterra HR, Seberang Prai Logistics Warehouse 1, Seberang Prai Logistics Warehouse 2, Axis Business Park, Axis Vista and Bayan Lepas Distribution Centre were valued on 3 May 2016, 3 June 2016, 3 June 2016, 5 August 2016, 27 December 2016 and 15 December 2016 respectively, by Rahim & Co Chartered Surveyors Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment, cost and comparison methods of valuation.
- ^^^ D8 Logistics Warehouse, Niro Warehouse, Delfi Warehouse and Axis Steel Centre, were valued on 4 April 2016, 13 September 2016, 13 September 2016 and 31 December 2016 respectively, by CH Williams Talhar & Wong Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^^^ Axis Technology Centre and Axis Shah Alam DC 2 were valued on 3 May 2016 and 16 December 2016 respectively, by First Pacific Valuers Property Consultants Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation.
- ^^^^^ Axis MRO Hub was valued on 22 December 2016, by VPC Alliance (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation.
- ^^^^^^ Axis Business Campus was valued on 21 December 2016, by W.M. Malik & Kamaruzaman, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the comparison method of valuation.
- ~ Giant Hypermarket was valued on 30 May 2016, by Henry Butcher Malaysia (Penang) Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation.
- ~~ FCI Senai was valued on 3 July 2016, by KGV International Property Consultants (Johor) Sdn Bhd, an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation.

#### 4. Investment properties (continued)

- # These properties are charged to financial institutions for revolving credit and term financing facilities granted to Axis-REIT (Note 11).
- ## These properties are charged to the Sukukholders for Islamic Medium Term Notes ("Sukuk") of RM110.0 million in nominal value (Note 11).
- ### These properties are charged to the Sukukholders for Sukuk of RM155.0 million in nominal value (Note 11).
- Δ Fixed land lease of 30 years until 23 March 2025 with an option to renew for a further term of 30 years.

Included in the acquisition cost of investment properties is RM1,030,000 (2015: RM450,000) which relates to acquisition fees paid to the Manager (Note 1(b)).

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

	Note	2016 RM'000	2015 RM'000
Gross revenue			
- realised		166,685	163,077
- unrealised (in relation to unbilled lease income receivable)		4,655	2,598
	12	171,340	165,675
Property operating expenses	13	(27,048)	(23,746)
Net property income		144,292	141,929

#### 4.1 Fair value information

As at 31 December 2016, fair value of investment properties amounting to RM2,143,149,000 (2015: RM2,048,626,000) is categorised as Level 3 in accordance to MFRS13, using unobservable inputs.

##### Level 3 fair value

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

	2016 RM'000	2015 RM'000
At 1 January	2,048,626	1,982,587
Additions	119,662	60,248
Reclassification as asset held for sale	(55,000)	-
	2,113,288	2,042,835
Gains and losses recognised in profit or loss		
Change in fair value - unrealised	29,861	5,791
At 31 December	2,143,149	2,048,626



# Notes to the Financial Statements

## 4. Investment properties (continued)

### 4.1 Fair value information (continued)

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

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
a) The investment method considers income and expense data relating to the subject property being valued and estimates value through a capitalisation process. Capitalisation relates to income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.	<ul style="list-style-type: none"> <li>• Risk-adjusted capitalisation rates ranging from 6.50% - 8.50% (2015: 6.50% - 8.50%).</li> <li>• Risk-adjusted discount rate of 6.70% - 8.00% (2015: 6.70% - 8.50%).</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Risk-adjusted capitalisation rates were lower (higher).</li> <li>• Risk-adjusted discount rates were lower (higher).</li> </ul>
b) The comparison method considers the sales of similar or substitute properties and related market data, and establishes a value estimate by processes involving comparison. In general, the property being valued is compared with sales of similar properties that have been transacted in the open market. Listing and offering may also be considered. Valuation under this method may be significantly affected by the timing and the characteristics (such as location, accessibility, design, size and condition) of the property transactions used for comparison.	<ul style="list-style-type: none"> <li>• Adjusted land value ranging from RM200 per sq. ft. - RM370 per sq. ft. (2015: RM200 per sq. ft. - RM370 per sq. ft.).</li> <li>• Weighted average value: RM389 per sq. ft. (2015: RM372 per sq. ft.).</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Adjusted land value per sq. ft. was higher (lower).</li> <li>• Weighted average value per sq. ft. was higher (lower).</li> </ul>
c) The cost method considers the summation of the value components of the land and cost of building. The value components of land are estimated based on location, plot size, accessibility and other relevant factors. The cost of building is determined based on current estimates of size, reconstruction cost less depreciation or replacement cost less depreciation, obsolescence and existing physical condition of the building. The reconstruction or replacement cost of building is derived from estimates of current market prices for materials, labour and present construction techniques. Valuation under this method may be significantly affected by the location of the property and the market prices for materials and labour.	<ul style="list-style-type: none"> <li>• Land value ranging from RM87 per sq. ft. (2015: RM85 per sq. ft.) to RM235 per sq. ft. (2015: RM217 per sq. ft.).</li> <li>• Main floor area cost ranging from RM130 per sq. ft. (2015: RM130 per sq. ft.), to RM150 per sq. ft. (2015: RM150 per sq. ft.).</li> <li>• Depreciation rates ranging from 24% (2015: 22%), to 45% (2015: 40%).</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Land value were higher (lower).</li> <li>• Main floor area cost were higher (lower).</li> <li>• Depreciation rates were lower (higher).</li> </ul>

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

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

#### Highest and best use

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

## 4. Investment properties (continued)

2015

Description of property	Tenure of land (Years)	Term of lease (Years)	Remaining term of lease (Years)	Location	Existing use	Occupancy rates as at 31.12.2015 %	Fair value as at 31.12.2015 RM'000	Initial acquisition cost as at 31.12.2015 RM'000	Percentage of fair value to Net Asset Value as at 31.12.2015 %
Menara Axis * ###	Leasehold	99	50	Petaling Jaya	Commercial office	93.7	120,000	71,440	8.9
Crystal Plaza ^ ###	Leasehold	99	44	Petaling Jaya	Commercial office	81.3	109,400	56,400	8.1
Axis Business Park ^ ###	Leasehold	99	45	Petaling Jaya	Office/Industrial	64.0	119,000	84,600	8.8
Infinite Centre ^^ #	Leasehold	99	50	Petaling Jaya	Office/Industrial	71.5	42,000	25,450	3.1
Wisma Kemajuan ^ #	Leasehold	99	50	Petaling Jaya	Office/Industrial	95.4	62,000	29,192	4.6
Axis Business Campus ^ #	Leasehold	99	52/56	Petaling Jaya	Office/Industrial	-	73,538	32,681	5.4
Axis Shah Alam DC 1 *	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	27,500	18,783	2.0
Giant Hypermarket ^^ #	Freehold	-	-	Sungai Petani	Hypermarket	100.0	41,000	38,678	3.0
FCI Senai ^^^ #	Leasehold	60	52	Senai, Johor	Manufacturing facilities	100.0	17,000	12,538	1.3
Fonterra HQ *	Freehold	-	-	Shah Alam	Office/Industrial	85.0	15,000	7,352	1.1
Quattro West ^^ ###	Leasehold	99	57	Petaling Jaya	Commercial office	84.2	55,800	40,376	4.1
Strateq Data Centre ^^^^ #	Leasehold	99	53	Petaling Jaya	Office/Industrial	100.0	53,200	37,549	3.9
BMW Centre PTP ^^^ # Δ	Leasehold	60	40	Tanjung Pelepas	Warehouse/Logistics	100.0	30,300	27,470	2.2
Niro Warehouse **	Leasehold	60	36	Pasir Gudang	Warehouse/Logistics	100.0	17,700	14,811	1.3
Delfi Warehouse **	Leasehold	60	52	Pasir Gudang	Warehouse/Logistics	100.0	15,600	12,743	1.2
Axis Vista ^^ ##	Leasehold	99	51	Petaling Jaya	Office/Industrial	100.0	56,000	32,481	4.1
Axis Steel Centre ^^ ##	Leasehold	99	87	Klang	Warehouse/Logistics	100.0	70,016	65,882	5.2
Bukit Raja Distribution Centre ^^^ #	Freehold	-	-	Klang	Warehouse/Logistics	100.0	97,000	72,636	7.2
Seberang Prai Logistic Warehouse 1 *** #	Leasehold	60	38	Seberang Prai	Warehouse/Logistics	100.0	20,200	17,695	1.5
Seberang Prai Logistic Warehouse 2 *** #	Leasehold	60	38	Seberang Prai	Warehouse/Logistics	100.0	8,000	6,981	0.6
Tesco Bukit Indah ^^^ #	Freehold	-	-	Johor Bahru	Hypermarket	100.0	92,000	76,750	6.8
Axis PDI Centre ^^^^	Leasehold	99	76	Kuala Langat	Warehouse/Logistics	-	85,000	86,146	6.3
Axis Technology Centre *	Leasehold	99	52	Petaling Jaya	Office/Industrial	81.0	53,200	49,697	3.9
D8 Logistics Warehouse ** #	Leasehold	60	40	Johor Bahru	Warehouse/Logistics	100.0	32,500	30,521	2.4
Axis Eureka ^^^^ #	Freehold	-	-	Cyberjaya	Commercial office	59.1	54,000	52,050	4.0
Bayan Lepas Distribution Centre ^^ #	Leasehold	60	47	Bayan Lepas	Warehouse/Logistics	100.0	51,500	49,471	3.8
Seberang Prai Logistic Warehouse 3 *****	Leasehold	60	37/53	Seberang Prai	Warehouse/Logistics	100.0	63,500	60,139	4.7
Emerson Industrial Facility Nilai **** #	Leasehold	99	80	Nilai	Manufacturing facilities	100.0	30,009	27,011	2.2
Wisma Academy Parcel ^ #	Leasehold	99	47	Petaling Jaya	Office/Industrial	86.4	79,905	74,242	5.9
The Annex ^ #	Leasehold	99	47	Petaling Jaya	Office/Industrial	100.0	18,868	12,289	1.4
Axis MRO Hub ^^^^	Leasehold	99	70	Shah Alam	Manufacturing facilities	100.0	53,000	53,357	3.9
Axis Shah Alam DC 3 ****	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	183,390	185,661	13.6
Axis Steel Centre @ SILC * #	Freehold	-	-	Nusajaya	Manufacturing facilities	100.0	155,500	156,020	11.5
Axis Shah Alam DC 2 ^^^^	Freehold	-	-	Shah Alam	Warehouse/Logistics	100.0	46,000	45,781	3.4
							2,048,626	1,664,873	

# Notes to the Financial Statements

## 4. Investment properties (continued)

- \* Menara Axis, Axis Shah Alam DC 1, Fonterra HQ, Axis Technology Centre and Axis Steel Centre @ SiLC were valued on 11 November 2015, 12 November 2015, 12 November 2015, 10 November 2015 and 15 August 2015 respectively, by CB Richard Ellis (Malaysia) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\* Niro Warehouse, Delfi Warehouse and D8 Logistics Warehouse were valued on 10 November 2015, 11 November 2015 and 11 November 2015 respectively, by CB Richard Ellis (Johor) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\*\* Seberang Prai Logistic Warehouse 1 and Seberang Prai Logistic Warehouse 2 were valued on 10 November 2015 by CB Richard Ellis (Penang) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- \*\*\*\* Emerson Industrial Facility Nilai and Axis Shah Alam DC 3 were valued on 21 October 2015 and 2 July 2015 respectively, by KGV International Property Consultants (M) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the comparison and investment methods of valuation, respectively.
- \*\*\*\*\* Seberang Prai Logistic Warehouse 3 was valued on 4 July 2015 by Knight Frank Malaysia Sdn Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^ Crystal Plaza, Axis Business Park, Wisma Kemajuan, Axis Business Campus, Wisma Academy Parcel and The Annex were valued on 5 November 2015, 31 December 2015, 18 November 2015, 5 November 2015, 6 November 2015 and 6 November 2015 respectively, by PA International Property Consultants (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment and cost methods of valuation.
- ^^ Infinite Centre, Giant Hypermarket, Quattro West, Axis Vista, Axis Steel Centre and Bayan Lepas Distribution Centre were valued on 12 November 2015, 11 November 2015, 7 November 2015, 7 July 2015, 13 November 2015 and 6 August 2015 respectively, by Rahim & Co Chartered Surveyors Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment and comparison methods of valuation.
- ^^^ FCI Senai, BMW Centre PTP, Bukit Raja Distribution Centre and Tesco Bukit Indah were valued on 13 November 2015, 14 November 2015, 6 November 2015 and 11 November 2015 respectively, by CH Williams Talhar & Wong Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers & Estate Agents Malaysia using the investment method of valuation.
- ^^^^ Strateq Data Centre, Axis PDI Centre and Axis Eureka were valued on 19 November 2015 by First Pacific Valuers Property Consultants Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation.
- ^^^^^ Axis MRO Hub was valued on 30 June 2015 by VPC Alliance (KL) Sdn. Bhd., an independent firm of professional valuers, registered with the Board of Valuers, Appraisers and Estate Agents Malaysia using the investment method of valuation.
- # These properties are charged to financial institutions for revolving credit facilities granted to Axis-REIT (Note 11).
- ## These properties are charged to the Sukukholders for Islamic Medium Term Notes ("Sukuk") of RM110.0 million in nominal value (Note 11).
- ### These properties are charged to the Sukukholders for Sukuk of RM155.0 million in nominal value (Note 11).
- Δ Fixed land lease of 30 years until 23 March 2025 with an option to renew for a further term of 30 years.

## 5. Equipment

	Office equipment, furniture and fittings RM'000	Car park machines RM'000	Software RM'000	Work-in-progress RM'000	Total RM'000
<b>Cost</b>					
At 1 January 2015	15	2,603	708	-	3,326
Additions	15	766	87	306	1,174
At 31 December 2015/1 January 2016	30	3,369	795	306	4,500
Additions	-	25	-	-	25
Reclassification as investment properties	-	-	-	(306)	(306)
At 31 December 2016	<b>30</b>	<b>3,394</b>	<b>795</b>	<b>-</b>	<b>4,219</b>
<b>Accumulated depreciation</b>					
At 1 January 2015	3	401	101	-	505
Depreciation for the year	6	310	77	-	393
At 31 December 2015/1 January 2016	9	711	178	-	898
Depreciation for the year	3	339	80	-	422
At 31 December 2016	<b>12</b>	<b>1,050</b>	<b>258</b>	<b>-</b>	<b>1,320</b>
<b>Carrying amounts</b>					
At 31 December 2016	18	2,344	537	-	2,899
At 31 December 2015	<b>21</b>	<b>2,658</b>	<b>617</b>	<b>306</b>	<b>3,602</b>

### Leased equipment

At 31 December 2016, the net carrying amount of leased equipment was RM2,344,000 (2015: RM2,658,000).

## 6. Receivables, deposits and prepayments

	2016 RM'000	2015 RM'000
<b>Trade</b>		
Trade receivables	<b>1,469</b>	4,016
<b>Non-trade</b>		
Other receivables	<b>262</b>	952
Prepayments	<b>1,975</b>	824
Deposits	<b>6,228</b>	53,370
Shariah-compliant derivative asset	-	68
	<b>8,465</b>	55,214
	<b>9,934</b>	59,230

# Notes to the Financial Statements

## 7. Cash and cash equivalents

	2016 RM'000	2015 RM'000
Cash and bank balances	13,896	9,063
Islamic deposits placed with licensed banks	19,396	20,972
	<b>33,292</b>	30,035

Included in Islamic deposits placed with licensed banks is an amount of RM300,000 (2015: RM300,000) which is pledged for banking facilities granted to Axis-REIT (Note 11) and RM12,994,000 (2015: RM12,573,000) which is maintained in a Finance Service Reserve Account with a licensed bank to cover a minimum of 3 months' financing cost for Sukuk issued by Axis-REIT's special purpose company, Axis REIT Sukuk Berhad. (Note 11).

## 8. Asset classified as held for sale

On 24 October 2016, Axis REIT entered into a sale and purchase agreement for the disposal of an investment property, Axis Eureka for a total consideration of RM56,132,075. As at 31 December 2016, the disposal has yet to be completed pending the fulfillment of certain conditions precedent as set out in the sale and purchase agreement.

As at 31 December 2016, Axis Eureka has a carrying value of RM55,000,000 (Note 4). The carrying value of Axis Eureka approximates its fair value less costs to sell being reclassified to asset held for sale.

## 9. Total unitholders' funds

### 9.1 Unitholders' capital

	2016 Number of units '000	2015 Number of units '000
Authorised:		
At 1 January	1,099,793	547,522
Increase during the year	5,381	552,271
At 31 December	1,105,174	1,099,793
Issued and fully paid up:		
At 1 January	1,099,793	547,522
Issued for cash	-	236
Unit Split	-	547,758
Issued under Income Distribution Reinvestment Plan ("IDRP")	5,381	4,277
At 31 December	1,105,174	1,099,793
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	1,052,272	1,044,664
Issue of new units:		
5,380,523 units @ RM1.50 per unit, (2015: 236,000 units @ RM3.61 per unit, 4,276,988 units @ RM1.59 per unit)	8,071	7,652
Issuing expenses (Note 17)	(23)	(44)
At 31 December	1,060,320	1,052,272

## 9. Total unitholders' funds (continued)

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

As at 31 December 2016, the Manager does not hold units in Axis-REIT (2015: 962,012). The units previously held by the Manager had been disposed of during the financial year. The Directors of the Manager and their related parties held units in Axis-REIT, details of which are as follows:

	2016		2015	
	Number of units '000	Market value RM'000	Number of units '000	Market value RM'000
Direct unitholdings of the Manager:				
Axis REIT Managers Berhad ^	-	-	962	1,578
Axis-REIT's substantial unitholder's direct unitholdings in Axis-REIT:				
Tew Peng Hwee @ Teoh Peng Hwee	55,684	89,651	54,985	90,175
Alex Lee Lao #	53,719	86,488	50,433	82,710
The Manager's Directors' direct unitholdings in Axis-REIT:				
Dato' Abas Carl Gunnar Bin Abdullah	27,729	44,644	28,667	47,014
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	20	32	20	33
Tew Peng Hwee @ Teoh Peng Hwee	55,684	89,651	54,985	90,175
Alex Lee Lao #	53,719	86,488	50,433	82,710
Leong Kit May	42	68	42	69
Jancis Anne Que Lao ##	835	1,344	835	1,369
The Manager's Directors' indirect unitholdings in Axis-REIT:				
Dato' Abas Carl Gunnar Bin Abdullah *	10,169	16,372	11,071	18,156
Tew Peng Hwee @ Teoh Peng Hwee **	-	-	962	1,578
Alex Lee Lao ***	3,112	5,010	4,056	6,652
Direct unitholdings of close family members of the Manager's Directors:				
Datin Kuyas Emiloglu (also known as Ka Ya-Shih)	10,098	16,258	10,038	16,462
Leon Lee Lao	2,277	3,666	2,264	3,713
Yin-Yong Lee Lao	835	1,344	830	1,361
Tan Siew Geok	819	1,319	714	1,171
Jeanette Ivy Robertson Lomax	515	829	515	845
Amanda Tan Myhre	71	114	71	116
John Lee Lao	672	1,082	612	1,004
Dean Lee Lao	1,372	2,209	1,214	1,991

#### Notes:

# Alex Lee Lao is an alternate director to Dato' Abas Carl Gunnar Bin Abdullah.

## Jancis Anne Que Lao is an alternate director to Alvin Dim Lao.

\* Deemed interested in the direct unitholdings of his spouse, Datin Kuyas Emiloglu (also known as Ka Ya-Shih) and his daughter, Amanda Tan Myhre, and the direct unitholdings held by the Manager pursuant to Section 6A(4) of the Companies Act, 1965.

\*\* Deemed interested in the direct unitholdings held by the Manager pursuant to Section 6A(4) of the Companies Act, 1965.

\*\*\* Deemed interested in the direct unitholdings of his brothers, Yin-Yong Lee Lao and Leon Lee Lao, and the direct unitholdings held by the Manager pursuant to Section 6A(4) of the Companies Act, 1965.

^ The Manager is a company indirectly controlled by Dato' Abas Carl Gunnar Bin Abdullah, Tew Peng Hwee @ Teoh Peng Hwee and Alex Lee Lao.

The market value of the units was determined by multiplying the number of units with the market price as at 31 December 2016 of RM1.61 (2015: RM1.64).



# Notes to the Financial Statements

## 9. Total unitholders' funds (continued)

### 9.3 Breakdown of realised and unrealised net income

The breakdown of the undistributed income of Axis-REIT as at 31 December 2016, into realised and unrealised net income, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	2016 RM'000	2015 RM'000
<b>Total undistributed income of Axis-REIT</b>		
- realised	<b>19,368</b>	19,036
- unrealised	<b>313,283</b>	281,177
Total undistributed income	<b>332,651</b>	300,213

The determination of realised and unrealised net income is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The unrealised net income relates to the cumulative fair value adjustment to investment properties (Note 4), net gain or loss on financial liabilities measured at amortised cost, fair value change on derivatives and unbilled lease income receivable.

## 10. Payables and accruals

	2016 RM'000	2015 RM'000
<b>Non-Current</b>		
<b>Non-trade</b>		
Tenants' deposits - payable after 12 months	<b>46,417</b>	30,199
<b>Current</b>		
<b>Trade</b>		
Trade payables	<b>7,021</b>	3,167
<b>Non-trade</b>		
Tenants' deposits - payable within 12 months	<b>3,856</b>	14,405
Other payables and accrued expenses	<b>13,152</b>	9,363
Shariah-compliant derivative liability	<b>192</b>	60
	<b>24,221</b>	26,995
	<b>70,638</b>	57,194

Included in other payables and accrued expenses are amounts due to the Manager and the Property Manager of RM1,258,000 (2015: RM1,214,000) and RM544,000 (2015: RM515,000) respectively, which are unsecured, interest-free and payable monthly in arrears.

## 11. Financing

	Note	2016 RM'000	2015 RM'000
<b>Non-current</b>			
Islamic Medium Term Notes ("Sukuk")	11.1	<b>265,000</b>	265,000
Finance lease liabilities	11.2	<b>517</b>	892
Term financing	11.3	<b>66,500</b>	66,500
Transaction costs			
- Sukuk	11.1	<b>(912)</b>	(1,127)
- Term financing	11.3	<b>(251)</b>	(283)
		<b>330,854</b>	330,982
<b>Current</b>			
Secured revolving credit	11.4	<b>449,500</b>	400,500
Finance lease liabilities	11.2	<b>311</b>	332
		<b>449,811</b>	400,832
		<b>780,665</b>	731,814

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

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

#### First Sukuk

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

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

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

The First Sukuk is secured inter-alia by the following:

1. A first ranking third party legal charge over the following properties of Axis-REIT:
  - (i) H.S.(D) 77831, Lot Plot 19, Bandar Sultan Sulaiman, Daerah Klang, State of Selangor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Axis Steel Centre");
  - (ii) H.S.(D) 159847, Lot PT 11, Bandar Petaling Jaya, Daerah Petaling, State of Selangor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Axis Vista");
  - (iii) GRN 59001, Lot 26028 and H.S.(D) 99548, PT 48025, both in Mukim Kapar, Daerah Klang, State of Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Bukit Raja Distribution Centre"); and
  - (iv) GRN 427597, Lot 138207, Mukim Pulai, Daerah Johor Bahru, State of Johor together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Tesco Bukit Indah").

# Notes to the Financial Statements

## 11. Financing (continued)

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

2. Other securities as advised by the legal counsel of CIMB Investment Bank Berhad ("the Lead Manager") and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

#### Second Sukuk

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

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

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

The Second Sukuk is secured inter-alia by the following:

1. A first ranking third party legal charge over the following properties of Axis-REIT:
  - (i) PN 12419, Lot No. 91, Seksyen 13, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Axis Business Park");
  - (ii) PN 50492, Lot No. 1476, Seksyen 14, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Crystal Plaza");
  - (iii) PN 6871, Lot No. 309, Seksyen 14, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Menara Axis"); and
  - (iv) H.S.(D) 59450, PT No. 4, Seksyen 26, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor, together with all building(s) erected or to be erected on all or any part thereof and all fixtures affixed or to be affixed on all or any part thereof ("Quattro West").
2. Other securities as advised by the legal counsel of the Lead Manager and mutually agreed between Axis-REIT, Axis REIT Sukuk Berhad and the Lead Manager.

### 11.2 Finance lease liabilities

Finance lease liabilities are subject to financing costs at 3.5% (2015: 3.5%) per annum.

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2016 RM'000	Finance costs 2016 RM'000	Present value of minimum lease payments 2016 RM'000	Future minimum lease payments 2015 RM'000	Finance costs 2015 RM'000	Present value of minimum lease payments 2015 RM'000
Less than one year	365	54	311	390	58	332
Between one and five years	607	90	517	1,002	149	853
More than five years	-	-	-	47	8	39
	972	144	828	1,439	215	1,224

## 11. Financing (continued)

### 11.3 Term financing

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

### 11.4 Secured revolving credit

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

## 12. Gross revenue

	2016 RM'000	2015 RM'000
Rental income from investment properties		
- realised	156,546	153,861
- unrealised (in relation to unbilled lease income receivable)	4,655	2,598
Car park income	6,475	5,800
Other income	3,664	3,416
	<b>171,340</b>	165,675

## 13. Property operating expenses

	Note	2016 RM'000	2015 RM'000
Assessment		3,882	3,705
Service contracts and maintenance		7,638	5,427
Property management fees	1(a)	3,362	3,328
Property management reimbursements		2,887	2,734
Utilities		4,163	3,666
Others		5,116	4,886
		<b>27,048</b>	23,746

## 14. Income tax expense

### Recognised in profit or loss

#### Current tax expense

Malaysian - current year  
- under provision in prior year

#### Deferred tax expense

Origination and reversal of temporary differences  
Total income tax expense

### Reconciliation of income tax expense

Net income before tax  
Income tax using Malaysian tax rate of 24% (2015: 25%)  
Non-deductible expenses  
Effect of fair value change on investment properties which is not subject to tax  
Effect of income exempted from tax  
Under provision in prior year

	2016 RM'000	2015 RM'000
	-	-
	-	73
	-	73
	-	-
	-	73
	<b>122,292</b>	96,637
	<b>29,350</b>	24,159
	<b>768</b>	1,129
	<b>(7,167)</b>	(1,448)
	<b>(22,951)</b>	(23,840)
	-	73
	-	73

# Notes to the Financial Statements

## 14. Income tax expense (continued)

Pursuant to the amendment to Section 61A of the Income Tax Act, 1967 under the Finance Act 2006 which was gazetted on 31 December 2006, where in the basis period for a year of assessment, 90% (2015: 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.

## 15. Earnings per unit

The calculation of earnings per unit is based on the net income for the year of RM122,292,000 (2015: RM96,564,000) and on the weighted average number of units in circulation during the year of 1,102,718,544 (2015: 1,095,750,674).

## 16. Distribution to unitholders

Distribution to unitholders is from the following sources:

	2016 RM'000	2015 RM'000
Net realised rental income		
- current year	139,637	139,331
- prior year (already subject to tax)	40	36
Profit income	678	744
	140,355	140,111
Less : Non-property expenses	(50,129)	(48,465)
Income tax expense	-	(73)
	90,226	91,573
Adjustments to earnings available for distribution:		
- depreciation	422	393
- net impairment losses on trade receivables	155	188
- bad debts written off	319	-
	91,122	92,154
Less: Undistributed income	(55)	(40)
	91,067	92,114
Gross distribution per unit (sen)	8.25	8.40
Net distribution per unit (sen)	8.25	8.40

## 17. Issuing expenses

	Note	2016 RM'000	2015 RM'000
Miscellaneous expenses	9.1	23	44

## 18. Portfolio Turnover Ratio

	2016	2015
Portfolio Turnover Ratio ("PTR") (times)	<b>0.02</b>	0.03

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

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

## 19. Management Expense Ratio

	2016	2015
Management Expense Ratio ("MER") (%)	<b>1.25</b>	1.36

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

## 20. Financial instruments

### 20.1 Categories of financial instruments

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

	Carrying amount RM'000	Loans and receivables* RM'000	Fair value through profit or loss - held for trading RM'000
<b>Financial assets</b>			
<b>2016</b>			
Receivables and deposits	<b>7,959</b>	<b>7,959</b>	-
Cash and cash equivalents	<b>33,292</b>	<b>33,292</b>	-
	<b>41,251</b>	<b>41,251</b>	-
<b>2015</b>			
Receivables and deposits	58,406	58,338	68
Cash and cash equivalents	30,035	30,035	-
	88,441	88,373	68

\* Axis-REIT does not have or provide any loans



# Notes to the Financial Statements

## 20. Financial instruments (continued)

### 20.1 Categories of financial instruments (continued)

#### Financial liabilities 2016

Payables and accruals
Tenants' deposits
Financing
Finance lease liabilities

Carrying amount RM'000	Financial liabilities measured at amortised cost RM'000	Fair value through profit or loss - held for trading RM'000
20,365	20,173	192
50,273	50,273	-
779,837	779,837	-
828	828	-
<b>851,303</b>	<b>851,111</b>	<b>192</b>

#### 2015

Payables and accruals
Tenants' deposits
Financing
Finance lease liabilities

12,590	12,530	60
44,604	44,604	-
730,590	730,590	-
1,224	1,224	-
<b>789,008</b>	<b>788,948</b>	<b>60</b>

### 20.2 Net gains and (losses) arising from financial instruments

Net (losses)/gains on:
Fair value through profit or loss – held for trading
Loans and receivables*
Financial liabilities measured at amortised cost

2016 RM'000	2015 RM'000
(201)	(81)
204	556
(29,558)	(30,618)
<b>(29,555)</b>	<b>(30,143)</b>

#### Total

\* Axis-REIT does not have or provide any loans

### 20.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

### 20.4 Credit risk

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

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

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

## 20. Financial instruments (continued)

### 20.4 Credit risk (continued)

#### *Exposure to credit risk, credit quality and collateral*

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

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

The exposure of credit risk for trade receivables as at the end of the reporting period amounts to RM1,469,000 (2015: RM4,016,000) which are secured by tenants' deposits.

#### *Impairment*

Axis-REIT maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
<b>2016</b>			
Past due 1-30 days	299	-	299
Past due 31-60 days	192	-	192
Past due 61-90 days	154	-	154
Past due more than 90 days	1,653	(829)	824
	<b>2,298</b>	<b>(829)</b>	<b>1,469</b>
<b>2015</b>			
Past due 1-30 days	1,600	-	1,600
Past due 31-60 days	1,488	-	1,488
Past due 61-90 days	155	-	155
Past due more than 90 days	1,447	(674)	773
	<b>4,690</b>	<b>(674)</b>	<b>4,016</b>

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

	2016 RM'000	2015 RM'000
At 1 January	674	486
Impairment loss recognised	577	224
Impairment loss reversed	(422)	(36)
At 31 December	<b>829</b>	674

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

# Notes to the Financial Statements

## 20. Financial instruments (continued)

### 20.5 Liquidity risk

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

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

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

#### Maturity analysis

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

	Carrying amount RM'000	Contractual profit rate %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
<b>Financial liabilities 2016</b>							
Payables and accruals	20,365	-	20,365	20,365	-	-	-
Tenants' deposits	*50,273	-	61,225	3,856	10,701	23,001	23,667
Revolving credit	449,500	3.86 – 4.25	451,038	451,038	-	-	-
Term financing	66,249	4.04 – 4.19	88,044	2,693	2,693	8,079	74,579
Finance lease liabilities	828	3.50	972	365	359	248	-
Sukuk	264,088	4.13 - 4.61	325,181	11,466	11,466	185,380	116,869
	<b>851,303</b>		<b>946,825</b>	<b>489,783</b>	<b>25,219</b>	<b>216,708</b>	<b>215,115</b>

\* The carrying amount of tenants' deposits has been discounted using the imputed profit rate of 4.14% per annum.

	Carrying amount RM'000	Contractual profit rate %	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
<b>Financial liabilities 2015</b>							
Payables and accruals	12,590	-	12,590	12,590	-	-	-
Tenants' deposits	*44,604	-	53,109	14,405	9,494	8,871	20,339
Revolving credit	400,500	3.61 – 4.40	401,862	401,862	-	-	-
Term financing	66,217	4.04 – 4.19	90,737	2,693	2,693	8,079	77,272
Finance lease liabilities	1,224	3.50	1,439	390	365	637	47
Sukuk	263,873	4.13 – 4.61	323,946	11,460	11,460	179,258	121,768
	<b>789,008</b>		<b>883,683</b>	<b>443,400</b>	<b>24,012</b>	<b>196,845</b>	<b>219,426</b>

\* The carrying amount of tenants' deposits has been discounted using the imputed profit rate of 4.26% per annum.

### 20.6 Market risk

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

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

#### Interest rate risk

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

## 20. Financial instruments (continued)

### 20.6 Market risk (continued)

#### Interest rate risk (continued)

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

Axis-REIT entered into two profit rate swaps with a total notional contract amount of RM50,000,000 each (2015: two profit rate swaps with a total notional contract amount of RM50,000,000) in order to achieve an approximate mix of fixed and floating rates exposure that is deemed acceptable for Axis-REIT. The swaps mature in January 2017 and September 2017 respectively.

##### *Exposure to interest rate risk*

The interest rate profile of Axis-REIT's significant interest related financial instruments, based on carrying amounts at the end of the reporting period was:

	2016 RM'000	2015 RM'000
<b>Financial assets</b>		
<i>Fixed rate instrument</i>		
Islamic deposits placed with licensed banks	19,396	20,972
<b>Financial liabilities</b>		
<i>Fixed rate instruments</i>		
Finance lease liabilities	828	1,224
Sukuk	264,088	263,873
	264,916	265,097
<i>Floating rate instruments</i>		
Term financing	66,249	66,217
Revolving credit	449,500	400,500
	515,749	466,717

##### *Interest rate risk sensitivity analysis*

###### (a) Fair value sensitivity analysis

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

###### (b) Cash flow sensitivity analysis

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

	Unitholders' funds		Profit or loss	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
<b>2016</b>				
Floating rate instruments	-	-	(3,772)	3,772
Profit rate swaps	-	-	(760)	760
<b>2015</b>				
Floating rate instruments	-	-	(3,343)	3,343
Profit rate swaps	-	-	(750)	750

# Notes to the Financial Statements

## 20. Financial instruments (continued)

### 20.7 Fair value information

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

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

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
<b>2016</b>										
<b>Financial liabilities</b>										
Tenants' deposits	-	-	-	-	-	-	(50,273)	(50,273)	(50,273)	(50,273)
Financing	-	-	-	-	-	(268,540)	(495,817)	(764,357)	(764,357)	(779,837)
Finance lease liabilities	-	-	-	-	-	-	(796)	(796)	(796)	(828)
Shariah-compliant derivative liability	-	(192)	-	(192)	-	-	-	-	(192)	(192)
	-	(192)	-	(192)	-	(268,540)	(547,025)	(815,565)	(815,757)	(831,130)
<b>2015</b>										
<b>Financial asset</b>										
Shariah-compliant derivative asset	-	68	-	68	-	-	-	-	68	68
	-	68	-	68	-	-	-	-	68	68
<b>Financial liabilities</b>										
Tenants' deposits	-	-	-	-	-	-	(44,604)	(44,604)	(44,604)	(44,604)
Financing	-	-	-	-	-	(261,340)	(447,741)	(709,081)	(709,081)	(730,590)
Finance lease liabilities	-	-	-	-	-	-	(1,349)	(1,349)	(1,349)	(1,224)
Shariah-compliant derivative liability	-	(60)	-	(60)	-	-	-	-	(60)	(60)
	-	(60)	-	(60)	-	(261,340)	(493,694)	(755,034)	(755,094)	(776,478)

## 20. Financial instruments (continued)

### 20.7 Fair value information (continued)

#### Level 2 fair value

##### *Shariah-compliant derivatives*

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

##### *Non-derivative financial liabilities*

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

#### *Transfer between Level 1 and Level 2 fair values*

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2015: no transfer in either directions).

#### Level 3 fair value

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

#### Financial instruments not carried at fair value

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

## 21. Capital management

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

During 2016, Axis-REIT's strategy, which was unchanged from 2015, is to implement a placement exercise whenever the Axis-REIT anticipates that its financing will exceed 35% of its total assets. This internal gearing threshold is below that allowed by the Securities Commission's Guidelines on Real Estate Investment Trusts of 50%. The gearing ratio at 31 December 2016 and at 31 December 2015 were as follows:

	Note	2016 RM'000	2015 RM'000
Total financing	11	780,665	731,814
Total assets		2,244,274	2,141,493
Gearing ratio (%)		34.78	34.17

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



# Notes to the Financial Statements

## 22. Operating leases

### Leases as lessor

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

	2016 RM'000	2015 RM'000
Less than one year	123,682	136,159
Between one and five years	244,336	255,308
More than five years	177,464	365,113
	<b>545,482</b>	<b>756,580</b>

## 23. Operating segments

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

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

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

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

## 24. Capital commitments

### Capital expenditure commitments

#### Investment properties

*Contracted but not provided for and payable:*

- Within one year

	2016 RM'000	2015 RM'000
	182,872	54,481

## 25. Related parties

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

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

### Significant related party transactions

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

Significant related party transaction other than those disclosed elsewhere in the financial statements is as follows:

	2016 RM'000	2015 RM'000
Acquisition cost of investment properties payable to related parties of the Directors of the Manager	-	106,000

# Statement by the Manager

In the opinion of the Directors of the Manager, the financial statements set out on pages 155 to 192 are drawn up in accordance with the Third Principal Deed dated 28 November 2013, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws, Malaysian Financial Reporting Standards and International Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of Axis Real Estate Investment Trust at 31 December 2016 and of its financial performance and cash flows for the financial year ended on that date.

In the opinion of the Directors of the Manager, the information set out in the statement of changes in net asset value and Note 9.3 to the financial statements has been compiled in accordance with the Guidance of 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*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

.....  
**Stephen Tew Peng Hwee**  
Director

.....  
**Leong Kit May**  
Director

Kuala Lumpur,

Date: 15 February 2017

## Statutory Declaration

I, **Leong Kit May**, the Director of Axis REIT Managers Berhad primarily responsible for the financial management of Axis Real Estate Investment Trust, do solemnly and sincerely declare that the financial statements set out on pages 155 to 192, 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 Leong Kit May, at Kuala Lumpur on 15 February 2017.

.....  
**Leong Kit May**

Before me:

# Trustee's Report

## to the Unitholders of Axis Real Estate Investment Trust

(Established in Malaysia)

We have acted as Trustee of Axis Real Estate Investment Trust ("Axis-REIT") for the financial year ended 31 December 2016. In our opinion and to the best of our knowledge, Axis REIT Managers Berhad ("the Manager") has managed Axis-REIT in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Third Principal Deed ("the Deed") dated 28 November 2013, the Securities Commission's Guidelines on Real Estate Investment Trusts, the Securities Commission's Guidelines for Islamic Real Estate Investment Trusts, applicable securities laws and other applicable laws during the financial year then ended.

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

We also confirm that the income distributions declared and paid during the financial year ended 31 December 2016 are in line with and are reflective of the objectives of Axis-REIT. Four distributions have been declared for the financial year ended 31 December 2016 as follows:

- 1) 1st interim income distribution of 2.05 sen per unit paid on 16 June 2016;
- 2) 2nd interim income distribution of 2.05 sen per unit paid on 9 September 2016;
- 3) 3rd interim income distribution of 2.05 sen per unit paid on 30 November 2016; and
- 4) Final income distribution of 2.10 sen per unit payable on 28 February 2017

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

.....  
**Tony Chieng Siong Ung**  
Director

Kuala Lumpur,

Date: 15 February 2017

# Independent Auditors' Report

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

### Opinion

We have audited the financial statements of Axis Real Estate Investment Trust ("Axis-REIT"), which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in net asset value and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 155 to 192.

In our opinion, the financial statements give a true and fair view of the financial position of Axis-REIT as of 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

### Basis for Opinion

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

### Independence and Other Ethical Responsibilities

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

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of Axis-REIT for the current financial year. These matters were addressed in the context of our audit of the financial statements of Axis-REIT as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of investment properties

Refer to Note 4 to the financial statements.

### The key audit matter

Axis-REIT owns a portfolio of 39 investment properties comprising office/industrial buildings and logistics warehouses located in Malaysia. Investment properties represent the single largest category of assets on the statement of financial position, at RM2,143,149,000 as at 31 December 2016.

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

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

### How the matter was addressed in our audit:

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

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

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

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

## Information Other than the Financial Statements and Auditors' Report Thereon

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing Axis-REIT's financial reporting process.

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

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

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

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



# Independent Auditors' Report

to the Unitholders of Axis Real Estate Investment Trust

(Established in Malaysia)

(continued)

## *Auditors' Responsibilities for the Audit of the Financial Statements of Axis-REIT (continued)*

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

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

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

## *Report on Other Legal and Regulatory Requirements*

Our audit was made for the purpose of forming an opinion on the financial statements of Axis-REIT taken as a whole. The information on the breakdown of realised and unrealised profits or losses included in the statement of changes in net asset value and Note 9.3 to the financial statements of Axis-REIT have been compiled by the Manager as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

**KPMG PLT**  
(LLP0010081-LCA & AF 0758)  
Chartered Accountants

**Chan Chee Keong**  
Approval Number: 3175/04/17(J)  
Chartered Accountant

Petaling Jaya,

Date: 15 February 2017

# Unitholders' Statistics

## ANALYSIS OF UNITHOLDINGS AS AT 31 DECEMBER 2016

Size of Holdings	Number of Unitholders	%	Number of Units Helds	%
1 - 99	455	11.69	7,547	0.00
100 - 1000	569	14.62	270,402	0.02
1,001 - 10,000	1,629	41.87	7,486,137	0.68
10,001 - 100,000	924	23.75	27,817,510	2.52
100,001 – 55,258,680 (*)	310	7.97	740,327,660	66.99
55,258,680 and above (**)	4	0.10	329,264,335	29.79
<b>Total</b>	<b>3,891</b>	<b>100.00</b>	<b>1,105,173,591</b>	<b>100.00</b>

\* less than 5% of total issued holdings

\*\* 5% and above of issued holdings

## TOP 30 UNITHOLDERS AS AT 31 DECEMBER 2016 AS LISTED IN THE RECORD OF DEPOSITORS

No.	Unitholders	@ 31 Dec 2016	% of Total Issued Units
1	EMPLOYEES PROVIDENT FUND BOARD	113,542,242	10.27
2	AMANAH SAHAM BUMIPUTERA	100,000,000	9.05
3	LEMBAGA TABUNG HAJI	60,038,100	5.43
4	TEW PENG HWEE @ TEOH PENG HWEE	55,683,993	5.04
5	ALEX LEE LAO	50,026,550	4.53
6	PERMODALAN NASIONAL BERHAD	43,646,000	3.95
7	AMANAH SAHAM MALAYSIA	31,388,080	2.84
8	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	30,771,006	2.78
9	AMANAH SAHAM DIDIK	28,787,186	2.60
10	AMANAH SAHAM BUMIPUTERA 2	25,000,000	2.26
11	AMANAH SAHAM WAWASAN 2020	24,000,000	2.17
12	PUBLIC SMALLCAP FUND	22,507,408	2.04
13	AS 1MALAYSIA	22,070,314	2.00
14	MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	20,120,000	1.82
15	PAMB FOR PRULINK EQUITY FUND	18,163,956	1.64
16	EXEMPT AN FOR AIA BHD.	18,101,208	1.64
17	ABAS CARL GUNNAR BIN ABDULLAH	17,938,642	1.62
18	PUBLIC ITTIKAL SEQUEL FUND	16,659,810	1.51
19	PUBLIC ISLAMIC SELECT TREASURES FUND	12,033,598	1.09
20	AMANAH SAHAM NASIONAL 3 IMBANG	11,265,470	1.02
21	GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 2)	10,967,689	0.99
22	AMANAH SAHAM GEMILANG FOR AMANAH SAHAM PENDIDIKAN	10,795,989	0.98
23	PUBLIC ISLAMIC OPPORTUNITIES FUND	10,229,050	0.93
24	KA, YA-SHIH ALSO KNOWN AS MYHRE, KUYAS	10,097,773	0.91
25	AMANAH SAHAM NASIONAL 2	9,843,058	0.89

## Unitholders' Statistics

### TOP 30 UNITHOLDERS AS AT 31 DECEMBER 2016 AS LISTED IN THE RECORD OF DEPOSITORS

No.	Unitholders	@ 31 Dec 2016	% of Total Issued Units
26	PLEDGED SECURITIES ACCOUNT - AMBANK (M) BERHAD FOR ABAS CARL GUNNAR BIN ABDULLAH	9,247,175	0.84
27	PUBLIC STRATEGIC SMALLCAP FUND	9,081,981	0.82
28	KUMPULAN WANG BERSAMA SYARIAH	8,700,092	0.79
29	KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (I-VCAP)	7,610,630	0.69
30	AMANAH SAHAM GEMILANG FOR AMANAH SAHAM KESIHATAN	7,327,462	0.66

#### Notes:

- (i) Unitholders No. 1 to 4 are the major Unitholders of Axis-REIT (direct interests only) as at 31 December 2016.
- (ii) The names of the top 30 Unitholders stated above are the account qualifiers of the securities accounts as at 31 December 2016.

# Frequently Asked Questions (FAQ)

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

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

## 2. How is this income distribution paid?

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

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

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

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

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

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

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

Type of Unitholder	Withholding tax rate		
	2016	2015	2014
Resident corporate	Nil <sup>^</sup>	Nil <sup>^</sup>	Nil <sup>^</sup>
Resident non-corporate	10%	10%	10%
Non-resident individual	10%	10%	10%
Non-resident corporate	24%	25%	25%
Non-resident institutional	10%	10%	10%

<sup>^</sup> Resident corporate Unitholder will enjoy tax transparency but will be subject to the prevailing corporate tax rate.

## 5. How do I calculate my distribution?

For the financial year ended 31 December 2016, the total income distribution was 8.25 sen per unit of which 0.34 sen was derived from utilisation of capital allowances and tax exempt profit income, which is not subject to tax.

Type of Unitholder	Assumption: 10,000 Axis-REIT units	
	Gross distribution	Net distribution to Unitholders after deduction of withholding tax
Resident corporate*	825.00	825.00
Resident individual/institutional	825.00	745.90
Foreign corporate	825.00	635.16
Foreign institution	825.00	745.90
Foreign individual	825.00	745.90

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

## 6. What is my net distribution yield for 2016?

For the financial year ended 31 December 2016, the total distribution was 8.25 sen per unit.

Type of Unitholder	Net distribution based on closing price of RM1.61 on 31 December 2016	
	Net Distribution based on IPO price of RM1.25	
Resident corporate	6.60%	5.12%
Resident individual/institutional	5.97%	4.63%
Foreign corporate	5.08%	3.95%
Foreign institution	5.97%	4.63%
Foreign individual	5.97%	4.63%

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

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

# Frequently Asked Questions (FAQ)

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

A total of 1,105,173,591 Units are in circulation.

## 9. How can new Units be issued?

The Manager may from time to time recommend an increase in the number of Units by way of a rights or bonus issue to existing Unitholders in proportion to their holding of Units, or by way of placement to any person; as consideration issue for subscription or such other methods as may be permitted under the SC's Guidelines on REITs. The issuance of new Units are for Axis-REIT to finance acquisitions or to balance the financing-equity matrix of the Fund.

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

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

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

## 11. How can the Deed be amended?

Any amendment to the Deed involving material change to the investment objectives of Axis-REIT; or if the amendment may materially or adversely affect the rights of the Unitholders, then such amendment to the Deed may only be approved by a resolution of not less than 2/3 of the Unitholders passed at a meeting of Unitholders duly convened and held in accordance with the Deed. In cases where any amendment to the Deed does not require Unitholders' approval, no amendment may be made to the Deed unless the Trustee and the Manager certify, in their opinion, that such amendment does not materially prejudice the interests of Unitholders and does not operate to release (to any material extent) the Trustee or the Manager from any responsibility to the Unitholders.

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

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

## 13. Who may convene a meeting of Unitholders?

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

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

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

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

Axis-REIT was reclassified into an Islamic REIT:

- (a) To widen its investor base to include local Shariah-compliant funds and also to develop investors interest from Shariah-compliant foreign funds;
- (b) To expedite its asset growth with new strategic partners;
- (c) To become the first Office Industrial REIT on a global platform which complies with the SC's Guidelines on Islamic REITs.

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

The salient compliance requirements are:

- (a) Rental obtained from non-permissible activities must not exceed the 20% benchmark as determined by the Syariah Advisory Council ("SAC") of the SC
- (b) An Islamic REIT is not permitted to own real estate in which all the tenants operate non-permissible activities even if the percentage of rental based on turnover is less than the 20% benchmark;
- (c) All forms of investments, deposits and financing instruments of an Islamic REIT must comply with the Shariah principles;
- (d) An Islamic REIT must use the Takaful schemes to insure its real estate;
- (e) An Islamic REIT shall not accept any new tenant(s) whose activities are fully non-permissible.

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

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

**18. What are non-permissible activities?**

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

- (a) financial services based on riba (interest);
- (b) gambling/gaming;
- (c) manufacture or sale of non-halal products or related products;
- (d) conventional insurance;
- (e) entertainment activities that are non-permissible according to the Shariah rules;
- (f) manufacture or sale of tobacco-based products or related products;
- (g) stockbroking or share trading in Shariah non-compliant securities; and
- (h) hotels and resorts.

**19. Must Axis-REIT comply with the SC's Guidelines on Islamic REITs and the SC's Guidelines on REITs?**

Yes. The SC's Guidelines on Islamic REITs essentially provide Shariah guidance on the investment and business activities of Islamic REITs and complement the SC's Guidelines on REITs.



# Glossary

<b>AGM</b>	: Annual General Meeting
<b>AUM</b>	: Assets Under Management
<b>Axis-REIT / the Trust / the Fund</b>	: Axis Real Estate Investment Trust
<b>Bursa Securities / the Exchange</b>	: Bursa Malaysia Securities Berhad
<b>CDS</b>	: Central Depository System
<b>Deed</b>	: The Third Principal Deed dated 28 November 2013 signed between the Trustee and the Manager constituting Axis-REIT
<b>DPU</b>	: Distribution per Unit
<b>GAV</b>	: Gross Asset Value
<b>GST</b>	: Goods and Services Tax
<b>Gearing</b>	: Financing to Total Assets
<b>Gross Revenue</b>	: Gross rental income and other income earned from the properties including licence fees, car park income, utilities and miscellaneous income
<b>IDRP</b>	: Income Distribution Reinvestment Plan
<b>Islamic REIT</b>	: REIT that complies with SC's Guidelines on Islamic REITs
<b>MER</b>	: Management Expense Ratio
<b>Manager</b>	: Axis REIT Managers Berhad, being the Manager of Axis-REIT
<b>NAV</b>	: Net Asset Value
<b>NTA</b>	: Net Tangible Assets
<b>Net Lettable Area</b>	: Consists of the total gross floor area less the common areas, such as corridors, amenities area and management offices of the building
<b>OMV</b>	: Open Market Value
<b>PTR</b>	: Portfolio Turnover Ratio
<b>Property Manager</b>	: Axis Property Services
<b>REIT(s)</b>	: Real Estate Investment Trust(s)
<b>RM and sen</b>	: Ringgit Malaysia and sen, respectively
<b>SC</b>	: Securities Commission Malaysia
<b>SCA</b>	: Securities Commission Act, 1993
<b>SC's Guidelines on REITs</b>	: Guidelines on Real Estate Investment Trusts issued by the SC on 21 August 2008 (updated 28 December 2012), as amended from time to time
<b>SC's Guidelines on Islamic REITs</b>	: Guidelines for Islamic Real Estate Investment Trusts issued by the SC on 21 Nov 2005
<b>Sq. ft.</b>	: Square feet
<b>Sqm</b>	: Square metres
<b>Trustee</b>	: RHB Trustees Berhad, being the Trustee of Axis-REIT
<b>Unit(s)</b>	: Undivided interest(s) in Axis-REIT as constituted by the Deed
<b>Unitholder(s)</b>	: Holder(s) of the Units
<b>VWAMP</b>	: Volume weighted average market price
<b>Unit Split</b>	: Subdivision of every one existing Unit into two Units that was completed on 9 September 2015

# Notice of Fifth Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Fifth Annual General Meeting (“AGM”) of Axis Real Estate Investment Trust (“Axis-REIT”) will be convened and held at Atlanta Ballroom, Level 3, Armada Petaling Jaya, Lot 6, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 26 April 2017 at 10.00 a.m. or at any adjournment thereof, for the following purposes:

## **ORDINARY BUSINESS**

To receive the Audited Financial Statements for the financial year ended 31 December 2016 of Axis-REIT together with the Reports attached thereon.

## **SPECIAL BUSINESS**

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

### **ORDINARY RESOLUTION NO. 1**

**PROPOSED AUTHORITY TO ALLOT AND ISSUE NEW UNITS IN AXIS-REIT (“UNITS”) OF UP TO 20% OF THE APPROVED FUND SIZE OF AXIS-REIT, TO FACILITATE A PLACEMENT EXERCISE (“PROPOSED AUTHORITY”)**

**“THAT** pursuant to Clause 14.03 of the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia (“SC”) (“REIT Guidelines”) on 21 August 2008 and updated on 28 December 2012, or such corresponding provisions under any superseding guidelines issued by the SC from time to time; and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), where applicable, and subject to requisite approvals being obtained, approval be hereby given to the Directors of Axis REIT Managers Berhad (“Manager”) to allot and issue new Units, to facilitate Axis-REIT in raising funds via a placement exercise (“Proposed Placement”), at any time to any such persons, upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of new Units to be issued pursuant to this resolution does not exceed 20% of the approved fund size of Axis-REIT of 1,472,857,980 Units;

**THAT** such authority shall continue to be in force until:

- (i) the conclusion of the Sixth AGM of Axis-REIT to be held in year 2018 or a meeting of the Unitholders (“Unitholders’ Meeting”) following the Sixth AGM of Axis-REIT (whichever is later) provided that such authority does not exceed one (1) year from the Fifth AGM of Axis-REIT, at which time it will lapse, unless by a resolution passed by the Unitholders at such meeting the authority is renewed; or
- (ii) the Proposed Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders’ Meeting,

whichever is the earliest;

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

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

# Notice of Fifth Annual General Meeting

## ORDINARY RESOLUTION NO. 2

### PROPOSED RENEWAL OF THE AUTHORITY TO ALLOT AND ISSUE UP TO 145,537,173 NEW UNITS IN AXIS-REIT FOR THE PURPOSE OF THE INCOME DISTRIBUTION REINVESTMENT PLAN ("IDRP") THAT PROVIDES THE UNITHOLDERS OF AXIS-REIT THE OPTION TO REINVEST THEIR INCOME DISTRIBUTION IN NEW UNITS ("PROPOSED RENEWAL OF IDRP AUTHORITY")

**"THAT** pursuant to the approval from the Unitholders obtained on 21 August 2015 for, among others, the renewal of the authority to allot and issue new Units for the purpose of the IDRP, approval be and is hereby given to the Directors of the Manager and the Trustee (acting for and on behalf of Axis-REIT), to renew the authority in order to empower the Board to allot and issue new Units from time to time pursuant to the IDRP upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of the new Units to be issued pursuant to this resolution does not exceed 145,537,173 new Units;

**THAT** such authority shall continue to be in force until:

- (i) the conclusion of the Sixth AGM of Axis-REIT to be held in year 2018 or a Unitholders' Meeting following the Sixth AGM of Axis-REIT (whichever is later) provided that such authority does not exceed one (1) year from the Fifth AGM of Axis-REIT, at which time it will lapse, unless by a resolution passed by the Unitholders at such meeting the authority is renewed; or
- (ii) the Proposed Renewal of IDRP Authority is revoked or varied by a resolution passed by the Unitholders at a Unitholders' Meeting,

whichever is the earliest;

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

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

By Order of the Board of

**AXIS REIT MANAGERS BERHAD (649450-W)**

Management company of Axis Real Estate Investment Trust

Rebecca Leong Siew Kwan (MAICSA 7045547)

Tan Fong Shian @ Lim Fong Shian (MAICSA 7023187)

Company Secretaries

Kuala Lumpur

28 February 2017

#### Notes:

- (1) A Unitholder shall be entitled to attend and vote at any meeting of Unitholders and shall be entitled to appoint up to two (2) persons, whether a Unitholder or not, as its proxy to attend and vote.
- (2) Where a Unitholder is a corporation, its duly authorised representative shall be entitled to attend and vote at the meeting and shall be entitled to appoint up to two (2) persons (whether a Unitholder or not) as its proxy to attend and vote.
- (3) Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
- (4) If the Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Authorised Nominee"), it may appoint at least one (1) proxy (but no more than two (2)) in respect of each securities account it holds with Units of Axis-REIT standing to the credit of the said securities account.
- (5) If the Unitholder is an exempt Authorised Nominee which holds Units for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
- (6) Only a depositor whose name appears in the Record of Depositors of Axis-REIT as at 19 April 2017 shall be regarded as a Unitholder and entitled to attend, speak and vote at this AGM of Axis-REIT or appoint proxy(ies) to attend and vote on his/her behalf.
- (7) The Instrument of Proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation, the Instrument of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.
- (8) To be valid, the original Instrument of Proxy duly completed and signed must be deposited at the registered office of the Manager at Suite 11.1A Level 11, Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting (facsimile copy of Instrument of Proxy would be disregarded).

## EXPLANATORY NOTES ON:

### Ordinary Business

There shall be no voting on the aforesaid Ordinary Business given that the laying of the Audited Financial Statements for the financial year ended 31 December 2016 of Axis-REIT together with the Reports attached thereon, before the Unitholders at the AGM is meant for discussion only, in accordance with Clause 15.33A of the REIT Guidelines.

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

### Special Business – Ordinary Resolution No. 1 : Proposed Authority

- (a) The Manager proposes to seek the authority from the Unitholders to allot and issue up to 20% of the approved fund size of Axis-REIT for the time being, to facilitate Axis-REIT in raising funds via the Proposed Placement. The Proposed Authority will empower the Directors with the flexibility to allot and issue new Units at any time via the Proposed Placement to any such persons, upon such terms and conditions as they may, in their absolute discretion, deem fit and in the best interest of Axis-REIT, provided that the aggregate number of new Units to be issued pursuant to the Proposed Authority does not exceed 20% of the approved fund size of Axis-REIT for the time being.
- (b) The proceeds, after deducting the estimated expenses of the Proposed Placement is expected to be used to repay Axis-REIT's existing bank financing (including finance cost payable), which were taken up to finance the acquisitions of properties as well as for capital expenditure, including development cost and working capital purposes, subject to the relevant applicable laws and regulations.

With the Proposed Authority, delays and further costs involved in convening separate Unitholders' meetings to approve such issue of the Placement Units to raise funds can be avoided. The Manager may, subject to relevant applicable laws and regulations, use the net proceeds from the issuance of the Placement Units under the Proposed Authority at its absolute discretion for other purposes as permitted under the REIT Guidelines. Any allotment and issue of the Placement Units pursuant to the Proposed Authority will be subject to the requisite approvals being obtained.

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

- (c) The Manager proposes to renew the authority to allot and issue up to 145,537,173 new Units, representing approximately 13.17% of the existing issued fund size of Axis-REIT of 1,105,173,591 Units, for the purpose of the IDR P. The Proposed Renewal of IDR P Authority will empower the Directors with the flexibility to allot and issue new Units at any time under the IDR P, provided that the aggregate number of Units to be issued pursuant to the Proposed Renewal of IDR P Authority does not exceed 145,537,173 new Units.
- (d) The Unitholders had, at the Fourth AGM of Axis-REIT convened and held on 29 April 2016 approved, among others, the authority to allot and issue up to 150,917,696 new Units pursuant to the IDR P. Axis-REIT had applied the IDR P to the first interim income distribution for the period from 1 January 2016 to 31 March 2016 ("2016 First Interim Income Distribution") which was declared on 25 April 2016 where a total of 5,380,523 new Units were issued under the IDR P on 16 June 2016. The new Units issued pursuant to the 2016 First Interim Income Distribution were listed on the Main Market of Bursa Securities on 17 June 2016.
- (e) Taking into account the 5,380,523 Units which had been issued under the IDR P in conjunction with the 2016 First Interim Income Distribution, the remaining number of new Units that can be allotted and issued pursuant to the Proposed Renewal of IDR P Authority will be up to 145,537,173 new Units, subject to the Unitholders' approval being obtained at the forthcoming AGM for the Proposed Renewal of IDR P Authority.
- (f) The net proceeds of a total RM8,048,000 were raised from the 5,380,523 Units which had been issued under the IDR P in conjunction with the 2016 First Interim Income Distribution (after deducting the related issuing expenses). The proceeds raised were utilised to refurbish and/or renovate the properties of Axis-REIT.
- (g) Any proceeds to be raised from the issuance(s) of new Units pursuant to the Proposed Renewal of IDR P Authority, if such authority is renewed at the forthcoming AGM, shall be utilised to refurbish and/or renovate the properties of Axis-REIT.

# Notice of Fifth Annual General Meeting

## Personal Data Notice

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

The personal data processed by us may include your name, contact details, and mailing address and any other personal data derived from any documentation. We may use or disclose your personal data to any person we may engage for the purpose of the issuance of the Notice of AGM, despatch of the 2016 Annual Report and the convening of the AGM of Axis-REIT. As such, it is necessary for us to obtain your personal data in order to carry out the said purposes.

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

Mailing address:	Axis REIT Managers Berhad Penthouse, Menara Axis, No. 2, Jalan 51A/223, 46100 Petaling Jaya, Selangor Darul Ehsan
Telephone / Fax No:	603-7958 4882 / 603-7957 6881
E-mail Address:	pdpa@axis-reit.com.my



REAL ESTATE INVESTMENT TRUST

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

# Instrument of Proxy

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

or failing him/her, \*the Chairman of the meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Fifth Annual General Meeting of Axis-REIT to be held at Atlanta Ballroom, Level 3, Armada Petaling Jaya, Lot 6, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 26 April 2017 at 10.00 a.m. or at any adjournment thereof.

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

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

Dated this ..... day of ..... 2017

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

.....  
Signature of Unitholder or Common Seal

\* Strike out whichever is not desired.

## Notes:

- (1) A Unitholder shall be entitled to attend and vote at any meeting of Unitholders and shall be entitled to appoint up to two (2) persons, whether a Unitholder or not, as its proxy to attend and vote.
- (2) Where a Unitholder is a corporation, its duly authorised representative shall be entitled to attend and vote at the meeting and shall be entitled to appoint up to two (2) persons (whether a Unitholder or not) as its proxy to attend and vote.
- (3) Where a Unitholder appoints two (2) proxies, the appointment shall be invalid unless it specifies the proportions of its holdings to be represented by each proxy.
- (4) If the Unitholder is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("**Authorised Nominee**"), it may appoint at least one (1) proxy (but no more than two (2)) in respect of each securities account it holds with Units of Axis-REIT standing to the credit of the said securities account.
- (5) If the Unitholder is an exempt Authorised Nominee which holds Units for multiple beneficial owners in one securities account ("**Omnibus Account**"), there is no limit to the number of proxies which the exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
- (6) Only a depositor whose name appears in the Record of Depositors of Axis-REIT as at 19 April 2017 shall be regarded as a Unitholder and entitled to attend, speak and vote at this AGM of Axis-REIT or appoint proxy(ies) to attend and vote on his/her behalf.
- (7) The Instrument of Proxy shall be in writing under the hand of the appointor or of its attorney duly authorised in writing or if the appointor is a corporation, the Instrument of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.
- (8) To be valid, the original Instrument of Proxy duly completed and signed must be deposited at the registered office of the Manager at Suite 11.1A Level 11, Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting (facsimile copy of Instrument of Proxy would be disregarded).



Fold this flap for sealing

Then fold here



Management Company of Axis Real Estate Investment Trust  
**Axis REIT Managers Berhad**  
c/o Archer Corporate Services Sdn Bhd  
Suite 11.1A Level 11  
Menara Weld  
76 Jalan Raja Chulan  
50200 Kuala Lumpur

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# Calendar 2017

JANUARY							FEBRUARY							MARCH							APRIL						
M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S
30	31					1			1	2	3	4	5			1	2	3	4	5					1	2	
2	3	4	5	6	7	8	6	7	8	9	10	11	12	6	7	8	9	10	11	12	3	4	5	6	7	8	9
9	10	11	12	13	14	15	13	14	15	16	17	18	19	13	14	15	16	17	18	19	10	11	12	13	14	15	16
16	17	18	19	20	21	22	20	21	22	23	24	25	26	20	21	22	23	24	25	26	17	18	19	20	21	22	23
23	24	25	26	27	28	29	27	28						27	28	29	30	31			24	25	26	27	28	29	30

MAY							JUNE							JULY							AUGUST						
M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S
1	2	3	4	5	6	7					1	2	3	31					1	2		1	2	3	4	5	6
8	9	10	11	12	13	14	5	6	7	8	9	10	11	3	4	5	6	7	8	9	7	8	9	10	11	12	13
15	16	17	18	19	20	21	12	13	14	15	16	17	18	10	11	12	13	14	15	16	14	15	16	17	18	19	20
22	23	24	25	26	27	28	19	20	21	22	23	24	25	17	18	19	20	21	22	23	21	22	23	24	25	26	27
29	30	31					26	27	28	29	30			24	25	26	27	28	29	30	28	29	30	31			

SEPTEMBER							OCTOBER							NOVEMBER							DECEMBER						
M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S
					1	2	30	31					1			1	2	3	4	5					1	2	3
4	5	6	7	8	9	10	2	3	4	5	6	7	8	6	7	8	9	10	11	12	4	5	6	7	8	9	10
11	12	13	14	15	16	17	9	10	11	12	13	14	15	13	14	15	16	17	18	19	11	12	13	14	15	16	17
18	19	20	21	22	23	24	16	17	18	19	20	21	22	20	21	22	23	24	25	26	18	19	20	21	22	23	24
25	26	27	28	29	30		23	24	25	26	27	28	29	27	28	29	30				25	26	27	28	29	30	31

## PROPOSED CALENDAR OF FINANCIAL EVENTS 2017

### January 2017

- Announcement of the Unaudited Results for FY16
- Announcement of the 4Q16 Final Income Distribution

### February 2017

- Book Closure date to determine the entitlement to 4Q16 Final Income Distribution
- Payment of the 4Q16 Final Income Distribution
- Release of the 2016 Annual Report

### April 2017

- Announcement of the Unaudited Results for 1Q17
- Announcement of the 1Q17 Interim Income Distribution
- Annual General Meeting

### May 2017

- Book Closure date to determine the entitlement to 1Q17 Interim Income Distribution

### June 2017

- Payment of the 1Q17 Interim Income Distribution

### July 2017

- Announcement of the Unaudited Results for 2Q17
- Announcement of the 2Q17 Interim Income Distribution

### August 2017

- Book Closure date to determine the entitlement to 2Q17 Interim Income Distribution
- Payment of the 2Q17 Interim Income Distribution

### October 2017

- Announcement of the Unaudited Results for 3Q17
- Announcement of the 3Q17 Interim Income Distribution

### November 2017

- Book Closure date to determine the entitlement to 3Q17 Interim Income Distribution

### December 2017

- Payment of the 3Q17 Interim Income Distribution

### January 2018

- Announcement of the Unaudited Results for FY17
- Announcement of the 4Q17 Final Income Distribution

**AXIS REIT MANAGERS BERHAD**

(Company Number 649450-W)

(Incorporated in Malaysia under the Companies Act, 1965)

Penthouse Menara Axis, No. 2 Jalan 51A/223,  
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Website : [www.axis-reit.com.my](http://www.axis-reit.com.my)