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## 1. CORPORATE DIRECTORY

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<b>Manager</b>	:	Axis REIT Managers Berhad
<b>Manager's Principal Place of Business</b>	:	Suite 6.04 Penthouse Wisma Academy 4A Jalan 19/1 46300 Petaling Jaya Selangor Darul Ehsan  Tel: 03-7958 5928 Fax: 03-7958 3882
<b>Manager's Registered Office</b>	:	Suite 11.1A Level 11 Menara Weld 76 Jalan Raja Chulan 50200 Kuala Lumpur  Tel: 03-2031 1988 Fax: 03-2031 9788
<b>Board of Directors of the Manager</b>	:	Dato' Abdul Azim Mohd Zabidi <i>Independent Non-Executive Chairman</i>  George Stewart LaBrooy <i>Executive Director</i>  Dato' Abas Carl Gunnar bin Abdullah <i>Non-Independent Non-Executive Director</i>  Lim Kian Thiam <i>Non-Independent Non-Executive Director</i>  Stephen Tew Peng Hwee <i>Non-Independent Non-Executive Director</i>  Dato' Mohamed Salleh Bajuri <i>Independent Non-Executive Director</i>  Alex Lee Lao <i>Alternate to Dato' Abas Carl Gunnar bin Abdullah</i>  Khoo Cheang Ee <i>Alternate to Lim Kian Thiam</i>
<b>Audit Committee</b>	:	Dato' Abdul Azim Mohd Zabidi ( <i>Chairman</i> ) Dato' Mohamed Salleh Bajuri Lim Kian Thiam
<b>Executive Committee</b>	:	George Stewart LaBrooy Lim Kian Thiam Stephen Tew Peng Hwee Dato' Abas Carl Gunnar bin Abdullah

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**1. CORPORATE DIRECTORY (Continued)**

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- Company Secretary of the Manager** : Yeo Chong Keat  
(Membership number: MIA2736)  
4 Jalan 12/19  
46200 Petaling Jaya  
Selangor Darul Ehsan
- Property Management Company** : Axis Management Sdn Bhd  
Wisma MINC  
36 Jalan Datuk Sulaiman  
Taman Tun Dr. Ismail  
60000 Kuala Lumpur
- Trustee** : OSK Trustees Berhad  
(Formerly known as OSK-Signet Trustees Berhad)  
20<sup>th</sup> Floor Plaza OSK  
Jalan Ampang  
50450 Kuala Lumpur
- Tel: 03-2162 4388  
Fax: 03-2161 6159  
Email: OSK\_Trustees@osk.com.my  
Website: www.osktrustees.com.my
- Principal Bankers of the Fund** : Malayan Banking Berhad  
3<sup>rd</sup> Floor Menara Maybank  
100 Jalan Tun Perak  
50050 Kuala Lumpur
- Bumiputra-Commerce Bank Berhad  
1401B Tingkat 14  
Menara Choy Fook On  
Jalan Yong Shook Lin  
46050 Petaling Jaya  
Selangor Darul Ehsan
- Solicitors** : Zaid Ibrahim & Co  
Level 19 Menara Milenium  
Jalan Damanlela  
Pusat Bandar Damansara  
50490 Kuala Lumpur
- Auditors / Reporting Accountants** : KPMG  
Wisma KPMG  
Jalan Dungun  
Damansara Heights  
50490 Kuala Lumpur
- Tax Consultants** : KPMG Tax Services Sdn Bhd  
Wisma KPMG  
Jalan Dungun  
Damansara Heights  
50490 Kuala Lumpur

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**1. CORPORATE DIRECTORY (Continued)**

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<b>Valuers</b>	:	Colliers, Jordan Lee & Jaafar Sdn Bhd Level 6 Block G (North) Pusat Bandar Damansara Damansara Heights 50490 Kuala Lumpur
<b>Adviser, Sole Bookrunner, Lead Manager and Managing Underwriter</b>	:	Ascambankers Malaysia Berhad 33 <sup>rd</sup> Floor Menara Maybank 100 Jalan Tun Perak 50050 Kuala Lumpur
<b>Financial Adviser</b>	:	Symphony Capital Sdn Bhd Level 17 Menara Milenium Jalan Damanlela Pusat Bandar Damansara 50490 Kuala Lumpur
<b>Underwriter</b>	:	Mayban Securities Sdn Bhd Level 7 MaybanLife Tower Dataran Maybank 1 Jalan Maarof 59000 Kuala Lumpur
<b>Registrar</b>	:	Symphony Share Registrars Sdn Bhd Level 26 Menara Multi-Purpose Capital Square No 8 Jalan Munshi Abdullah 50100 Kuala Lumpur  Tel: 03-2721 2222 Email: <a href="mailto:ssrs@symphony.com.my">ssrs@symphony.com.my</a> Website: <a href="http://www.symphony.com.my">www.symphony.com.my</a>
<b>Issuing House</b>	:	Malaysian Issuing House Sdn Bhd 27 <sup>th</sup> Floor Menara Multi-Purpose Capital Square No 8 Jalan Munshi Abdullah 50100 Kuala Lumpur
<b>Listing sought</b>	:	Main Board of Bursa Securities

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## 2. SUMMARY INFORMATION

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**THIS SECTION OF THE PROSPECTUS REPRESENTS ONLY A SUMMARY OF THE SALIENT INFORMATION ON AXIS-REIT. YOU SHOULD READ AND UNDERSTAND THE FULL TEXT OF THIS PROSPECTUS BEFORE DECIDING WHETHER TO INVEST IN THE ISSUE UNITS AND IF NECESSARY, CONSULT YOUR OWN PROFESSIONAL ADVISERS.**

**YOU SHOULD BE AWARE THAT THE RENTAL YIELDS OF THE SUBJECT PROPERTIES AS WELL AS OTHER REAL ESTATE THAT AXIS-REIT MAY INVEST IN THE FUTURE ARE NOT EQUIVALENT TO THE YIELD OF THE UNITS AND THAT THE CURRENT RENTAL RECEIPTS AND YIELDS OF THE SUBJECT PROPERTIES MAY NOT BE SUSTAINABLE.**

**YOU SHOULD ALSO NOTE THAT THE VALUE OF THE SUBJECT PROPERTIES (INCLUDING OTHER INVESTMENTS THAT AXIS-REIT MAY HAVE IN THE FUTURE), UNIT PRICES AND DISTRIBUTIONS PAYABLE, IF ANY, MAY GO DOWN AS WELL AS UP.**

### 2.1 AXIS-REIT

Axis-REIT, constituted by the Deed dated 15 June 2005, is a REIT formed to own and invest primarily in commercial, office and office/industrial real estate. The primary objectives of the Fund are:

- (a) to provide Unitholders with distribution of income; and
- (b) to achieve long-term growth in the NAV per Unit of the Fund.

The salient features of the Fund are set out below:

<b>Fund category</b>	REIT
<b>Fund type</b>	Growth and income
<b>Growth strategy</b>	The Manager intends to achieve the primary objectives of the Fund by implementing investment and growth strategies which include strategies for organic growth and selective acquisitions of additional real estates. The details of the Fund's growth strategies are set out in Section 6.3 of this Prospectus
<b>Approved size of Fund</b>	205,901,000 Units
<b>Authorised investments</b>	At least 75% of the total assets of Axis-REIT must be invested in Real Estate Assets, real estate-related assets or liquid assets out of which at least 50% must be invested in Real Estate Assets and the balance 25% may be invested in any other authorised investments. For details of the authorised investments, please refer to Section 6.5 of this Prospectus
<b>Retail Price</b>	RM1.25 per Issue Unit. The Final Retail Price shall be the lower of the Retail Price or 95% of Institutional Price determined in accordance with Section 3.6 of this Prospectus
<b>FYE</b>	31 December
<b>Distribution policy</b>	Semi-annually in arrears, all (or such lower percentage as determined by the Manager in its absolute discretion) of the distributable income of Axis-REIT. For the 3 FYEs 31 December 2007, Axis REIT Managers intends to distribute 95% of the distributable income of Axis-REIT.

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**2. SUMMARY INFORMATION (Continued)**

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	Based on the forecast earnings before taxation of approximately RM8.2 million for the FYE 31 December 2005 (which reflects Axis-REIT's operations for a period of 4 ½ months) and a distribution of 95% of forecast earnings before taxation, the Directors of Axis REIT Managers anticipate that, in the absence of unforeseen circumstances, the Manager will be in a position to propose a dividend of 3.76 sen per Unit for the FYE 31 December 2005 based on 205,901,000 Units in issue
<b>Borrowing limitations</b>	Up to 35% of the total asset value of the Fund at the time the borrowing is incurred
	Upon completion of the Public Offering, Axis-REIT will have an initial gearing of approximately RM61.9 million representing 18.6% of its forecast total asset value of approximately RM332.5 million as at 15 August 2005
<b>Revaluation policy</b>	The real estate shall be revalued at least once every 3 years from the date of the last valuation
<b>No redemption by Unitholders</b>	Unitholders have no right to request the Manager to repurchase their Units while the Units are listed and not suspended for more than 90 consecutive Market Days
<b>Minimum initial investment</b>	Minimum of 100 Units
<b>Minimum additional investment</b>	Multiples of 100 Units
<b>Investor profile</b>	Suitable for investors who understand the risks related to the real estate industry and expect to benefit from the periodic distribution of income and long-term growth of the Fund
<b>Form</b>	The Units will be issued in registered form and shall be constituted by the Deed
<b>Board lot</b>	100 Units per board lot
<b>Quotation</b>	Main Board of Bursa Securities

For further details on the salient terms of the Fund, please refer to Sections 6 and 13 of this Prospectus.

Upon completion of the Public Offering, Axis-REIT will own a portfolio of five commercial, office and office/industrial real estate comprising the Subject Properties with an aggregate Net Lettable Area of 981,147 sqf. As at 1 June 2005, the Subject Properties had an average occupancy rate of approximately 99.0%. The tenants of the Subject Properties consist of a mixture of domestic and international corporations operating in various industries.

For further details on the Subject Properties, please refer to Section 6.6 of this Prospectus.

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## 2. SUMMARY INFORMATION *(Continued)*

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### 2.2 THE MANAGER AND PROPERTY MANAGEMENT COMPANY OF AXIS-REIT

Axis-REIT is managed and administered by Axis REIT Managers. The Manager intends to achieve the objectives of the Fund by ensuring Axis-REIT continues to acquire and invest primarily in commercial, office and office/industrial real estate.

Axis REIT Managers was incorporated in Malaysia under the Act on 16 April 2004 as a private limited company under the name of Axis REIT Managers Sdn Bhd. Following its conversion to a public limited company on 3 August 2004, the company assumed its present name. The present authorised share capital of Axis REIT Managers is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which RM1,200,000 comprising 1,200,000 ordinary shares are issued and fully paid-up. The principal activity of Axis REIT Managers is to manage and administer REIT.

For further details on Axis REIT Managers, please refer to Section 8.1 of this Prospectus.

Axis REIT Managers has on 27 May 2005 appointed Axis Management as the property management company to undertake the property management functions of the Fund. Axis Management was incorporated in Malaysia under the Act on 19 June 1996 and was acquired by ADSB on 16 May 2005 to provide property management services. The present authorised share capital of Axis Management is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, all of which are issued and fully paid-up. Prior to its appointment as the property management company for the Fund, Axis Management has no prior experience in the property management industry. However, Axis Management comprises 8 executives who have vast experiences in property management industry.

For further details on Axis Management, please refer to Section 8.10 of this Prospectus.

### 2.3 THE TRUSTEE OF AXIS-REIT

The trustee of Axis-REIT is OSK Trustees who acts as custodian for all the assets of Axis-REIT and who shall carry out its duties in accordance with the Deed for the benefit of the Unitholders.

OSK Trustees was incorporated in Malaysia under the Act on 6 March 2002. It is registered as a trust company under the Trust Companies Act, 1949. The present authorised share capital of OSK Trustees is RM5,000,000 comprising 500,000 ordinary shares of RM10.00 each, of which 400,000 are currently issued and credited as partially paid-up to RM5.00 each. The principal activity of OSK Trustees is the provision of private and corporate trustee services.

For further details on OSK Trustees, please refer to Section 9 of this Prospectus.

### 2.4 FEES, CHARGES AND EXPENSES OF AXIS-REIT

**THERE ARE FEES, CHARGES AND EXPENSES INVOLVED AND YOU ARE ADVISED TO CONSIDER THE SAME BEFORE INVESTING IN AXIS-REIT.**

The following is a summary of fees, charges and expenses that you may incur (directly or indirectly) when you invest in Axis-REIT:

<b>Manager's fee</b>	Up to 1% per annum of the NAV of the Fund, payable monthly in arrears. For the FYE 31 December 2005, a manager's fee of 0.7% per annum shall be payable by Axis-REIT based on the NAV of the Fund. For further details on the annual manager's fee, please refer to Section 8.6 of this Prospectus.
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## 2. SUMMARY INFORMATION (Continued)

<b>Trustee's fee</b>	0.05% per annum of the NAV of the Fund, payable monthly in arrears. For further details on the annual Trustee's fees, please refer to Section 9.6 of this Prospectus.
<b>A list of the Fund's expenses directly / indirectly related to the Fund</b>	<ul style="list-style-type: none"> <li>➤ Property Management Company's fee</li> <li>➤ Auditor's fees;</li> <li>➤ Valuation fees;</li> <li>➤ Other relevant professional fees;</li> <li>➤ Interest expense;</li> <li>➤ Printing, posting and general expenses that are directly related and necessary for the administration of the Fund; and</li> <li>➤ Property operating expenses.</li> </ul> <p>For further details on the permitted charges to the Fund, please refer to Section 13 of this Prospectus.</p>
<b>Any other fees payable directly / indirectly by a Unitholder</b>	Nil (save for the usual costs related to the trading of the Units)

### 2.5 OWNERSHIP OF UNITS BY VENDORS

Prior to the date of this Prospectus, there are only 1,000 Units in circulation, all of which are held by the Manager as promoter units. All of these Units will be disposed of by the Manager on the Market Day immediately following the listing of Axis-REIT.

The interests of the Vendors and other related persons deemed interested in the Units after the Public Offering and acquisitions of the Subject Properties by the Fund are as follows:

	<-----Direct----->		<-----Indirect----->	
	No of Units	%	No of Units	%
Baiduri Kemas Sdn Bhd	34,000,000	16.5	-	-
ADSB	-	-	34,000,000 <sup>1</sup>	16.5 <sup>1</sup>
T.S Property Development Sdn Bhd	-	-	34,000,000 <sup>2</sup>	16.5 <sup>2</sup>
Pet Resins (M) Sdn Bhd	-	-	34,000,000 <sup>2</sup>	16.5 <sup>2</sup>
Suasa Tinggi (M) Sdn Bhd	-	-	34,000,000 <sup>2</sup>	16.5 <sup>2</sup>
Axis Equities Sdn Bhd	-	-	36,500,000 <sup>3</sup>	17.7 <sup>3</sup>
Lim Kian Thiam	200,000 <sup>@</sup>	0.1 <sup>@</sup>	107,500,000 <sup>4</sup>	52.2 <sup>4</sup>
Dato' Abas Carl Gunnar bin Abdullah	200,000 <sup>@</sup>	0.1 <sup>@</sup>	36,500,000 <sup>5</sup>	17.7 <sup>5</sup>
Mazlan bin Harun	-	-	34,000,000 <sup>6</sup>	16.5 <sup>6</sup>
Prestigious Landmarks Sdn Bhd	36,350,000	17.7	-	-
Salperton Holdings Sdn Bhd	-	-	61,850,000 <sup>7</sup>	30.1 <sup>7</sup>
Stephen Tew Peng Hwee	200,000 <sup>@</sup>	0.1 <sup>@</sup>	105,000,000 <sup>8</sup>	51.1 <sup>8</sup>
Cattadeo Holdings Sdn Bhd	-	-	61,850,000 <sup>9</sup>	30.1 <sup>9</sup>

## 2. SUMMARY INFORMATION (Continued)

	<-----Direct----->		<-----Indirect <sup>^</sup> ----->	
	No of Units	%	No of Units	%
Abdul Rasheed bin Abdul Kader	-	-	61,850,000 <sup>10</sup>	30.1 <sup>10</sup>
Crystal Properties Sdn Bhd	25,500,000	12.4	-	-
Infinite Centre Sdn Bhd	9,150,000	4.4	-	-
Ling King Wa	-	-	9,150,000 <sup>11</sup>	4.4 <sup>11</sup>
Kasturi Gemilang Sdn Bhd	2,500,000	1.2	-	-
Pet Films (M) Sdn Bhd	-	-	2,500,000 <sup>12</sup>	1.2 <sup>12</sup>

Notes:

<sup>@</sup> Assuming full subscription of the Issue Units offered to them under the Retail Offering

<sup>^</sup> For illustration purposes, the deemed interests of the related persons of the Vendors are ascertained by extending the application of Section 6A(4) of the Act to the Issue Units

<sup>1</sup> Deemed interested through its shareholdings in Baiduri Kemas Sdn Bhd

<sup>2</sup> Deemed interested through its shareholdings in ADSB

<sup>3</sup> Deemed interested through its shareholdings in T.S Property Development Sdn Bhd and Kasturi Gemilang Sdn Bhd

<sup>4</sup> Deemed interested through his shareholdings in Axis Equities Sdn Bhd, Pet Resins (M) Sdn Bhd, Salperton Holdings Sdn Bhd, Infinite Centre Sdn Bhd and Pet Films (M) Sdn Bhd

<sup>5</sup> Deemed interested through his shareholdings in Axis Equities Sdn Bhd

<sup>6</sup> Deemed interested through his shareholdings in Suasat Tinggi (M) Sdn Bhd

<sup>7</sup> Deemed interested through its shareholdings in Prestigious Landmarks Sdn Bhd and Crystal Properties Sdn Bhd

<sup>8</sup> Deemed interested through his shareholdings in Pet Resins (M) Sdn Bhd, Salperton Holdings Sdn Bhd and Infinite Centre Sdn Bhd

<sup>9</sup> Deemed interested through its shareholdings in Salperton Holdings Sdn Bhd

<sup>10</sup> Deemed interested through his shareholdings in Cattadeo Holdings Sdn Bhd

<sup>11</sup> Deemed interested through her shareholdings in Infinite Centre Sdn Bhd

<sup>12</sup> Deemed interested through its shareholdings in Kasturi Gemilang Sdn Bhd

For further details on the ownership of Units by the Vendors as part of the purchase consideration for the acquisitions of the Subject Properties, please refer to Section 6.1.4 of this Prospectus.



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**2. SUMMARY INFORMATION (Continued)**

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**2.6 PRINCIPAL STATISTICS RELATING TO THE SUBJECT PROPERTIES**

<b>Subject Property</b>	<b>Net Lettable Area<sup>1</sup> (sqf)</b>	<b>Average rental rate<sup>2</sup> (RM/sqf)</b>	<b>Occupancy rate<sup>1</sup> (%)</b>	<b>Net income<sup>3</sup> (RM'000)</b>	<b>OMV<sup>4</sup> (RM'000)</b>	<b>Land lease expiry (Year)</b>
Axis Business Park	340,233	2.33	100.0	8,885	93,000	2060
Menara Axis	171,967	3.52	99.0	2,014	80,000	2065
Crystal Plaza	200,386	2.79	100.0	5,046	65,000	2059
Infinite Centre	150,388	1.79	100.0	2,164	32,000	2065
Axis Plaza	118,173	1.76	93.4	1,694	26,000	Freehold
<b>Total / Average</b>	<b>981,147</b>	<b>-</b>	<b>99.0<sup>5</sup></b>	<b>19,803</b>	<b>296,000</b>	<b>-</b>

*Notes:*

<sup>1</sup> As at 1 June 2005

<sup>2</sup> Based on occupied rental rates for the month of May 2005

<sup>3</sup> For the FYE 31 December 2004. Net income represents the audited profit before tax (excluding depreciation and interest expenses) of the respective Vendors

<sup>4</sup> As appraised by the Valuer

<sup>5</sup> The average occupancy rate is calculated based on the total Net Lettable Area of the Subject Properties

For further details on the Subject Properties, please refer to Section 6.6 of this Prospectus.

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## 2. SUMMARY INFORMATION *(Continued)*

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### 2.7 FINANCIAL INFORMATION

As Axis-REIT is a newly established fund, there is no historical financial information prepared since its establishment. The Directors of Axis REIT Managers forecast the distribution to Unitholders for the FYE 31 December 2005<sup>@</sup> as follows:

	<b>RM'000</b>
Gross rental income	12,471
Interest income	411
<b>Gross income</b>	<b>12,882</b>
Less:	
Property operating expenses	
• Quit rent and assessment	(321)
• Utilities	(373)
• General property maintenance	(779)
• Insurance	(161)
• Property Management Company's fee	(251)
• Property Management Company's allowable disbursements	(65)
• Others	(312)
Non-property expenses:	
• Manager's fee	(692)
• Trustee's fee	(49)
• Interest expense	(1,161)
• Others	(567)
<b>Earnings before taxation</b>	<b>8,151</b>
Taxation	(243)
<b>Earnings after taxation</b>	<b>7,908</b>
<b>Distribution to Unitholders</b> <b>(95% of earnings before taxation)</b>	<b>7,743</b>
Number of Units in issue ('000)	205,901
Retail Price per Unit (RM)	1.25
Distribution per Unit (sen)	3.76
Dividend yield (%)	8.02 <sup>*</sup>
MER (%)	1.33 <sup>1</sup>

Notes:

<sup>@</sup> *The Public Offering and the acquisitions of the Subject Properties are assumed to be completed on 15 August 2005. Accordingly, the profit forecast for the FYE 31 December 2005 reflects Axis-REIT's operations for a period of 4 ½ months*

<sup>\*</sup> *Others include licencing fee, equipment lease expenses and agency fees*

<sup>\*</sup> *Annualised*

<sup>1</sup> *The MER provides a measure by which investors can assess and compare the outgoing expenses incurred by the Fund. These expenses are deducted from the Fund prior to the computation of the distributable income of the Fund*

For further details of the financial information, please refer to Section 7 of this Prospectus.

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## 2. SUMMARY INFORMATION *(Continued)*

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### 2.8 PRINCIPAL STATISTICS RELATING TO THE PUBLIC OFFERING

	<u>Units</u>
<i>Fund size approved by the SC</i>	205,901,000
<i>Units in circulation as at the date of this Prospectus</i> 1,000 Units at RM1.00 each	1,000
<i>To be issued pursuant to the acquisitions of the Subject Properties</i> 107,500,000 Units at RM1.00 each	107,500,000
<i>To be issued pursuant to the Public Offering</i>	98,400,000
	<hr/> <b>205,901,000</b> <hr/>
<i>Forecast NAV per Unit as at 31 December 2005</i>	RM1.27 <sup>*</sup>

*Note:*

\* *The forecast NAV of approximately RM260.8 million as at 31 December 2005 is based on the Public Offering of 98,400,000 Units at the Retail Price of RM1.25 per Unit*

There is only one class of Units in Axis-REIT. The Issue Units, provided that application monies are paid in full, will rank pari passu in all respects with the other existing issued Units of Axis-REIT and the Issue Units will be entitled to all distributions that may be declared subsequent to the date of this Prospectus.

For further details on the Public Offering, please refer to Section 3 of this Prospectus.

### 2.9 RISK FACTORS

An investment in the Issue Units to be listed on the Main Board of Bursa Securities involves a certain degree of risk. You should therefore rely on your own evaluation and are advised to carefully consider the following summary of risk factors (which may not be exhaustive) in addition to the other information contained elsewhere in this Prospectus before applying for the Issue Units:

#### 2.9.1 Risks relating to Axis-REIT's operations

- Economic, political and regulatory risks;
- Conflicts relating to the acquisitions of Subject Properties from the Vendors;
- Potential conflicts of interest between Axis-REIT, the Manager and ADSB and competition between Axis-REIT and ADSB;
- Risks associated with bank borrowings;
- Limitations on borrowings;
- Operating history;
- Dependence on key personnel;
- Investment policies of Axis-REIT may change;
- The Manager may not be able to successfully implement its investment strategy; and
- Difficulty in varying Axis-REIT's portfolio.

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## **2. SUMMARY INFORMATION (Continued)**

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### **2.9.2 Risks relating to Real Estate Assets**

- Location of Subject Properties;
- Dependence on key tenants;
- Most of the leases of the Subject Properties are for a period of up to 3 years, which may expose the Subject Properties to high lease expiries;
- Gross rental income and the value of the Subject Properties may be affected by a number of factors;
- Increase in operating and other expenses;
- Insurance coverage;
- Compulsory acquisition by the government;
- Non-registration of the transfer of the Subject Properties;
- Non-registration of discharge of charge for the Subject Properties; and
- Subsequent disposal of the Subject Properties.

### **2.9.3 Risks relating to an investment in the Units**

- Distributions to Unitholders will be subject to cash availability;
- No prior market for Units;
- No redemption of Units;
- Future dilution of the NAV of the Units;
- Failure or delay in the listing of Axis-REIT;
- Effects of possible sale of a substantial number of Units by Vendors;
- Taxation;
- Market price of Units after the Public Offering;
- Profit forecast, profit projections and forward-looking statements; and
- Distribution forecast and projections.

For further details on the risk factors, please refer to Section 4 of this Prospectus.

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### 3. PARTICULARS OF THE PUBLIC OFFERING

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#### 3.1 PRELIMINARY

This Prospectus is dated 30 June 2005. A copy of this Prospectus has been registered and lodged with the SC.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, Bursa Securities has prescribed the Units as prescribed securities. Consequently, the Units issued through this Prospectus will be deposited directly with the Depository and any dealings in these Units will be carried out in accordance with the aforesaid act and the rules of the Depository.

An application will be made to Bursa Securities within three (3) Market Days from the issuance of this Prospectus for admission of the Units to the Official List of the Main Board of Bursa Securities and for permission to deal in and for the listing of and quotation for the Units, wherein the Issue Units are the subject of this Prospectus. The Units will be admitted to the Official List of the Main Board of Bursa Securities and official listing and quotation will commence after the receipt of, *inter-alia*, confirmation from the Depository that all CDS Accounts of the successful applicants have been duly credited and notices of allotment will be despatched to all the successful applicants.

Acceptance of application for the Issue Units will be conditional upon permission being granted by Bursa Securities to deal in and for the listing of and quotation for the Units on the Main Board of Bursa Securities. Accordingly, monies paid in respect of any application accepted will be returned without interest if the said permission is not granted within six (6) weeks from the date of this Prospectus (or such longer period as may be specified by the SC) provided that the Manager is notified by or on behalf of Bursa Securities within the aforesaid timeframe.

Pursuant to the Listing Requirements of Bursa Securities, there must be at least 25% of the listed Units held by a minimum number of one thousand (1,000) Unitholders holding not less than one hundred (100) Units at the point of listing. In the event that the above requirement is not met pursuant to the Public Offering, the Manager may not be allowed to proceed with the listing of the Units on the Main Board of Bursa Securities. In such event, your money paid for the application will be returned without interest.

The completion of the Retail Offering and Institutional Offering are inter-conditional. The success of the Public Offering is also conditional upon gross proceeds of at least RM98.4 million being raised. If the Retail Offering and Institutional Offering are not completed and/or less than RM98.4 million proceeds being raised from the Public Offering, your money paid for the application will be returned within ten (10) Market Days from the date Axis REIT Managers becomes liable to do so, without interest. Thereafter, the Fund shall be terminated in accordance to the Deed.

You are required to have a CDS Account. If you do not presently have a CDS Account, you should open a CDS Account at an ADA prior to making an application for the Issue Units.

In the case of an application by way of Application Form, you must state your CDS Account number in the space provided in the Application Form.

In the case of an application by way of Electronic Application, you shall furnish your CDS Account number to the Participating Financial Institutions by way of keying in your CDS Account number if the instructions on the ATM screen at which you enter your Electronic Application require you to do so. A corporation or institution cannot apply for the Issue Units by way of Electronic Application.

In the case of an application by way of an Internet Application, you shall furnish your CDS Account number to the Internet Participating Financial Institutions by way of keying in your CDS Account number if the instructions on the screen at which you enter your Internet Application require you to do so. A corporation or institution cannot apply for the Issue Units by way of Internet Application.

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### 3. PARTICULARS OF THE PUBLIC OFFERING *(Continued)*

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No person is authorised to give any information or to make any representation not contained in this Prospectus in connection with the Public Offering and if given or made, such information or representation must not be relied upon as having been authorised by the Manager, the Trustee or its Adviser. Neither the delivery of this Prospectus nor any issue made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Axis-REIT since the respective dates stated herein.

You should note that the distribution of this Prospectus and the sale of the Issue Units are subject to Malaysian laws. The Manager, the Trustee, the Adviser and Financial Adviser take no responsibility for the distribution of this Prospectus and the sale of the Issue Units outside Malaysia. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for or an offer to sell any Issue Units in any jurisdiction in which such invitation or offer is not authorised or lawful or to any persons to whom it is unlawful to make such an invitation or offer.

**You should rely on your own evaluation to assess the merits and risks of the investment. In considering the investment, if you are in any doubt as to the action to be taken you should consult your professional advisers immediately.**

#### 3.2 OPENING AND CLOSING OF APPLICATION LISTS

Applications will be accepted from 10.00 a.m. on 30 June 2005 and will remain open until 5.00 p.m. on 14 July 2005 or such period or periods as the Directors of Axis REIT Managers and the Managing Underwriter (in respect of the Retail Offering) and the Sole Bookrunner (in respect of the Institutional Offering) at their absolute discretion may mutually decide. **Late applications will not be accepted.**

<b>Event</b>	<b>Tentative Dates</b>
Opening of the Retail Offering and Institutional Offering	30 June 2005
Closing of the Retail Offering	14 July 2005
Closing of the Institutional Offering	14 July 2005
Price Determination Date	18 July 2005
Balloting of applications for the Issue Units	19 July 2005
Allotment of Issue Units to successful applicants	26 July 2005
Listing of Axis-REIT on the Main Board of Bursa Securities	29 July 2005

Should the closing date of the Retail Offering or Institutional Offering be changed, the dates for the price determination, balloting, allotment of Issue Units and the listing would be changed accordingly (where relevant). Any change to the closing date of the Retail Offering will be published in a widely circulated daily English newspaper in Malaysia.

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### 3. PARTICULARS OF THE PUBLIC OFFERING *(Continued)*

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#### 3.3 UNITS

	<b>Units</b>
<i>Fund size approved by the SC</i>	205,901,000
<i>Units in circulation as at the date of this Prospectus</i> 1,000 Units at RM1.00 each	1,000
<i>To be issued pursuant to the acquisitions of the Subject Properties</i> 107,500,000 Units at RM1.00 each	107,500,000
<i>To be issued pursuant to the Public Offering</i>	98,400,000
	<hr/> <b>205,901,000</b> <hr/>
<i>Forecast NAV per Unit as at 31 December 2005</i>	RM1.27*

*Note:*

\* *The forecast NAV of approximately RM260.8 million as at 31 December 2005 is based on the Public Offering of 98,400,000 Units at the Retail Price of RM1.25 per Unit*

There is only one class of Units in Axis-REIT. The Issue Units, provided that full application monies are paid in full, will rank pari passu in all respects with the other existing issued Units of Axis-REIT and the Issue Units will be entitled to all distributions that may be declared subsequent to the date of this Prospectus.

At any meeting of Unitholders of the Fund, each Unitholder shall be entitled to vote in person or by proxy. On a show of hands, every person present who is a Unitholder or representative or proxy of a Unitholder, shall have one vote, whereas on a poll, every Unitholder present in person or by proxy shall have one vote for each Unit held by him. A proxy need not be a Unitholder. However, Axis REIT Managers and any party related to it shall not exercise their voting rights in any Unitholders' meeting, unless otherwise permitted by the SC and/or any other relevant authorities.

#### 3.4 DETAILS OF THE PUBLIC OFFERING

The Public Offering is subject to the terms and conditions of this Prospectus, and upon acceptance, is expected to be allocated in the manner described below subject to the clawback and re-allocation provisions as set out in Section 3.5 herein:

- (a) *Retail Offering at the Retail Price of RM1.25 per Issue Unit payable in full upon application and subject to refund in the event that the Final Retail Price is less than RM1.25 per Issue Unit*
- (i) 15,000,000 Issue Units will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% will be set aside strictly for Bumiputera applicants; and
  - (ii) 2,000,000 Issue Units have been reserved for application by eligible directors and employees of Axis REIT Managers and ADSB.

Any Issue Units not subscribed for under paragraph (ii) above will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions.

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### 3. PARTICULARS OF THE PUBLIC OFFERING *(Continued)*

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*(b) Institutional Offering at an Institutional Price payable in full upon application and determined by way of bookbuilding*

81,400,000 Issue Units will be made available for application by institutional and selected investors.

The Issue Units in respect of paragraph (a) above have been fully underwritten.

The completion of the Retail Offering and Institutional Offering are inter-conditional. The success of the Public Offering is conditional upon gross proceeds of at least RM98,400,000 being raised, which will be used, *inter-alia*, to part finance the acquisitions of the Subject Properties (Please refer to Section 3.8 below).

If the Retail Offering and the Institutional Offering are not completed and/or less than RM98.4 million proceeds is being raised from the Public Offering, your money paid for the application will be returned within ten (10) Market Days from the date Axis REIT Managers becomes liable to do so, without interest. Thereafter, the Fund shall be terminated in accordance to the Deed.

#### 3.5 CLAWBACK AND REALLOCATION

The allocation of Issue Units between Retail Offering and Institutional Offering is subject to adjustment. In the event the Retail Offering is over-subscribed and there is a corresponding under subscription in the Institutional Offering, Issue Units may be clawed back from the Institutional Offering and reallocated to the Retail Offering and vice-versa. The clawback and reallocation shall not apply in the event of an oversubscription in both the Retail Offering and Institutional Offering.

#### 3.6 BASIS OF ARRIVING AT THE ISSUE PRICE AND THE REFUND MECHANISM

Upon application, you are required to pay the Retail Price of RM1.25 per Issue Unit. The Retail Price of RM1.25 per Issue Unit was determined by the Manager based on the recommendation of the Managing Underwriter. The Retail Price is subject to the Final Retail Price.

The Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date, which is expected to be on or about 18 July 2005, and will be the lower of:

- (a) the Retail Price of RM1.25 per Issue Unit; or
- (b) 95% of the Institutional Price.

The Institutional Price will be determined by the Manager in consultation with the Sole Bookrunner on the Price Determination Date. The Institutional Price will be determined using a process known as "bookbuilding" in which prospective investors will be invited to bid for the Issue Units by specifying the number of Units they would be prepared to acquire at different prices. Among the factors that will be taken into consideration in determining the Institutional Price are the demand for the Issue Units as well as the prevailing market conditions.

You should be aware that the Final Retail Price will not in any event be greater than the Retail Price of RM1.25 per Issue Unit. If your application is successful and the Final Retail Price is lower than the Retail Price, a refund of the difference will be made without interest and despatched by ordinary mail to you within ten (10) Market Days of the final ballot at your own risk. In addition, you will also be given a written notice of the Final Retail Price and the Institutional Price together with your notice of allotment.

The Final Retail Price and Institutional Price will be published in a widely circulated English daily newspaper in Malaysia within two (2) Market Days after the Price Determination Date.



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### 3. PARTICULARS OF THE PUBLIC OFFERING *(Continued)*

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#### 3.7 PURPOSES OF THE PUBLIC OFFERING

The purposes of the Public Offering are as follows:

- (a) to raise proceeds to part finance the acquisitions of the Subject Properties;
- (b) to provide you with an alternative investment instrument for real estate as well as to enable you to invest in a real estate portfolio at a discount to its appraised value;
- (c) to provide you with distribution of income and potential capital appreciation on your investment in the Units of the Fund;
- (d) to further enhance the development of the real estate market in Malaysia through the listed REIT which is more liquid given that the Units are readily tradable on the Exchange as compared to the underlying assets of the REIT which are relatively illiquid; and
- (e) to obtain a listing of and quotation for the Units of Axis-REIT on the Main Board of Bursa Securities.

#### 3.8 USE OF PROCEEDS

The total indicative gross proceeds arising from the Public Offering of RM123,000,000 (assuming the Final Retail Price and Institutional Price is RM1.25 per Issue Unit) will accrue entirely to the Fund and shall be used in the following manner:

	RM
Part funding for the acquisition of the Subject Properties	90,957,000
Working capital	26,608,000
Estimated listing expenses	5,435,000
	<u>123,000,000</u>

The proceeds for the funding of acquisitions of the Subject Properties and listing expenses are expected to be used within five (5) Market Days after the listing of Axis-REIT. The remaining proceeds of RM26,608,000 is expected to be used within twelve (12) months from the date of listing of Axis-REIT. If the actual proceeds are higher than RM123,000,000, the additional proceeds raised will be invested by the Manager at its discretion subject to the provisions of the Deed and SC Guidelines on REITs.

For further details of the acquisitions of the Subject Properties, please refer to Section 6.6 of this Prospectus.

#### 3.9 BROKERAGE, COMMISSIONS AND ESTIMATED LISTING EXPENSES

##### (a) Brokerage

Brokerage relating to the 15,000,000 Issue Units made available for application by the Malaysian public under the Retail Offering is payable by the Fund at the rate of 1.0% of the Final Retail Price in respect of successful applications which bear the stamps of Aseambankers, participating organisations of Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

### 3. PARTICULARS OF THE PUBLIC OFFERING (Continued)

#### (b) Commissions

The Managing Underwriter and Underwriter have agreed to underwrite the 17,000,000 Issue Units to be issued pursuant to the Retail Offering at a managing underwriting commission and underwriting commission of 0.5% and 1.5% respectively of the Retail Price of RM1.25 for each Issue Unit being underwritten, payable by the Fund.

The Fund will also bear the management and selling commission and fees payable to the Lead Manager / Sole Bookrunner at the rate of 2.125% of the Institutional Price for each Issue Unit pursuant to the Institutional Offering, subject to the clawback and reallocation provisions as set out in Section 3.5 of this Prospectus.

#### (c) Estimated listing expenses

The listing expenses are estimated to be RM5,435,000, of which the details are as follows:

	RM
Professional fees <sup>1</sup>	1,750,000
Regulatory fees	250,000
Advertisement and printing expenses	500,000
Brokerage and commissions	2,774,688
Contingencies <sup>2</sup>	160,312
	<u>5,435,000</u>

Notes:

<sup>1</sup> Professional fees include fees to advisers, legal adviser, reporting accountants and valuers

<sup>2</sup> Contingencies expenses may include additional expenses relating to the redemption of the Subject Properties that Axis-REIT may have to bear

If the actual listing expenses is less than the estimated amount of RM5,435,000, the remaining sum shall be used as working capital purposes.

#### 3.10 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

An underwriting agreement was entered into between Axis REIT Managers, the Managing Underwriter and the Underwriter on 20 June 2005 to severally but not jointly underwrite up to 17,000,000 Issue Units under the Retail Offering ("Underwritten Units") subject to the clawback and reallocation, for an underwriting commission of 1.5% of the Retail Price multiplied by the Issue Units underwritten. Further under the Underwriting Agreement, Axis REIT Managers will pay the Managing Underwriter a managing underwriting fee of 0.5% of the Retail Price multiplied by the Issue Units underwritten.

Subject to certain conditions precedent, each of the Underwriter and Managing Underwriter has agreed to underwrite the subscription for a certain number of Underwritten Units of the Retail Offering.

The salient terms of the Underwriting Agreement are set out below:

- (a) The Underwriting Agreement is conditional upon the fulfilment of several conditions on or before the closing of the Retail Offering ("Closing Date"), which include the following main conditions:

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### 3. PARTICULARS OF THE PUBLIC OFFERING *(Continued)*

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- (i) the admission of Axis-REIT to the Official List of the Main Board of Bursa Securities and the listing of and quotation for 205,901,100 Units in Axis-REIT having been approved in principle by Bursa Securities; and
  - (ii) Axis REIT Managers being able to raise the minimum gross proceeds of RM98,400,000 from the total subscription of the Issue Units under the Public Offering, including the Underwritten Units as underwritten in accordance with the provisions of the Underwriting Agreement.
- (b) If any of the conditions precedent is not satisfied on or before the Closing Date, any of the Underwriters may terminate the Underwriting Agreement by written notice to Axis REIT Managers and the Managing Underwriter not later than three (3) Market Days from the Closing Date.
- (c) the Underwriter may by notice in writing to the Managing Underwriter require the Managing Underwriter to terminate the Underwriting Agreement and its commitment to underwrite the Underwritten Units by giving written notice to Axis REIT Managers not later than three (3) Market Days from the Closing Date, if any of the following events shall occur:
- (i) any breach by Axis REIT Managers of any of its representations, warranties, undertakings or material obligations which is not capable of remedy or, if capable of remedy, is not remedied to the reasonable satisfaction of the Underwriters within such number of days as stipulated in the notice given by the Managing Underwriter to Axis REIT Managers; or
  - (ii) matters have arisen or been discovered which would, if the Public Offering were made at that time, render any statement in the Prospectus materially untrue, incorrect, inaccurate or misleading or constitute a material omission therefrom; or
  - (iii) if, in the reasonable opinion of all the Underwriters:
    - (aa) there shall have been any material adverse change, or development (whether or not permanent) involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of Axis REIT Managers and/or Axis-REIT, whether or not arising in the ordinary course of business except as disclosed in the Prospectus; or
    - (bb) there shall have occurred, happened or come into effect any event beyond the reasonable control of the Underwriters by reasons of Force Majeure (as defined hereafter) which would have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms or which would have or can reasonably be expected to have, a material adverse effect on the success of the Public Offering. "Force Majeure" is defined to include, amongst others, war, hostilities, riot, earthquake, sabotage, epidemic and acts of God which are unpredictable; or
    - (cc) there shall have occurred any change in national or international monetary, financial, political or economic conditions or exchange control or currency exchange rates as would in the reasonable opinion of the Underwriters have a material adverse effect on the success of the Public Offering and its distribution or sale (whether in the primary or in respect of dealings on the secondary market); or

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**3. PARTICULARS OF THE PUBLIC OFFERING (Continued)**

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- (dd) there shall have been any government requisition or other occurrence of any nature whatsoever which in the reasonable opinion of the Underwriters would have or can reasonably be expected to have, a material adverse effect on the success of the Public Offering; or
  - (ee) there shall have been any change in law, regulation, directive, policy or ruling in any jurisdiction which would have or can reasonably be expected to have, a material and adverse effect on the success of the Public Offering or which has or is likely to have the effect of making any material obligation under the Underwriting Agreement incapable of performance in accordance with its terms; or
  - (ff) the suspension of trading of securities on the Bursa Securities for 3 consecutive Market Days or more; or
  - (iv) Axis REIT Managers has withheld any information from the Managing Underwriter, which would have or can reasonably be expected to have, a material and adverse effect on the success of the Public Offering; or
  - (v) the Institutional Offering is stopped or delayed for any reason whatsoever; or
  - (vi) the Placement Agreement is not executed within 2 Market Days from the Closing Date (or such other date as may be mutually agreed in writing between Axis REIT Managers and the Managing Underwriter) or after such execution, the Placement Agreement be terminated for any reason whatsoever; or
  - (vii) the listing of and quotation for the Units do not take place within three (3) months from the date of the Prospectus.
- (d) Axis REIT Managers has made several representations, warranties and undertakings under the Underwriting Agreement to and for the benefit of the Underwriters. Upon any material misrepresentation or material breach of such warranties or failure to perform the undertakings in any material respects coming to the notice of the Underwriter, that Underwriter shall be entitled (but not bound), by notice to Axis REIT Managers, following prior consultation with Axis REIT Managers, to elect to treat such material misrepresentation or material breach or material failure as releasing and discharging it from its obligations under the Underwriting Agreement.

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## **4. RISK FACTORS**

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**YOU SHOULD RELY ON YOUR OWN EVALUATION AND ARE ADVISED TO CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) WHICH MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF AXIS-REIT IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS BEFORE APPLYING FOR THE ISSUE UNITS.**

**AS INVESTMENT IN A COLLECTIVE INVESTMENT SCHEME IS MEANT TO PRODUCE RETURNS OVER THE LONG-TERM, YOU SHOULD NOT EXPECT TO OBTAIN SHORT-TERM GAINS.**

**YOU SHOULD BE AWARE THAT THE PRICE OF THE UNITS MAY FALL OR RISE. YOU SHOULD ALSO NOTE THAT YOU MAY NOT FULLY OR AT ALL RECOUP YOUR ORIGINAL INVESTMENT.**

### **4.1 RISKS RELATING TO AXIS-REIT'S OPERATIONS**

#### **4.1.1 Economic, political and regulatory risks**

Given the nature of the property industry, Axis-REIT's operations are closely linked to the economic performance of Malaysia. Any adverse developments in the political and economic environment and uncertainties in Malaysia can materially and adversely affect the financial performance of the Fund. These include the risks of war, global economic downturn and unfavourable changes in the Government's policies such as changes in rates of tax, methods of taxation or introduction of new regulations.

#### **4.1.2 Conflicts relating to the acquisitions of Subject Properties from the Vendors**

The Subject Properties will be acquired from the Vendors, which have common directors and major shareholders with ADSB and the Manager. The Manager has engaged Colliers, Jordan Lee & Jaafar Sdn Bhd, an independent registered property valuer, to appraise the value of the Subject Properties, summaries of which are included in Section 11 of this Prospectus.

In addition to the acquisitions of the Subject Properties, the Manager may, on behalf of Axis-REIT, acquire other assets from parties related to it in the future. Accordingly, potential conflicts of interest may arise. There can be no assurance that the terms and conditions with respect to future acquisition of properties from parties related to the Manager including negotiations with respect to the properties acquired, the purchase price of the properties and other terms and conditions related to the purchase of the properties (in particular with respect to the representations, warranties and/or indemnities agreed to or not agreed to, as the case may be) will not be adverse to Axis-REIT. In such cases, the Manager intends to continue to obtain appraisals by independent parties and comply with all other requirements applicable to such transactions as set out in the Deed as well as the requirements set out in the SC Guidelines on REITs.

#### **4.1.3 Potential conflicts of interest between Axis-REIT, the Manager and ADSB and competition between Axis-REIT and ADSB**

ADSB is principally a property investment holding company. Four out of the six members of the Board of Directors of the Manager (excluding the Alternate Directors) are directors of ADSB. In addition, the Manager has appointed a wholly-owned subsidiary of ADSB, Axis Management, as the property management company of Axis-REIT's Subject Properties.

As a result, the strategies and activities of Axis-REIT may be influenced by the overall interest of ADSB. There can be no assurance that conflicts of interest will not arise between Axis-REIT and ADSB in the future, which may include acquisitions of properties as well as competition for tenants.

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#### **4. RISK FACTORS (Continued)**

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Further, in line with the Manager's acquisition strategies, Axis-REIT may in the future acquire properties which are presently owned by ADSB or its group of companies or its related corporations or in varying its portfolio of properties, Axis-REIT may in the future dispose properties to ADSB or its group of companies or its related corporations.

However, in accordance to the Deed, the prior approval of the Trustee is required for all acquisitions and disposals of Real Estate Assets by the Fund, including related party transactions. In the event that the related party transactions exceed the allowable premiums/discounts for the proposed acquisitions/disposals, Unitholders' approval are also required for such related party transactions and the Manager, its related corporation and associated persons are not allowed to vote on such transactions. Related corporation shall have the meaning given in Section 6 of the Act and associated persons shall have the meaning given in Section 3 of the Securities Industry Act, 1983.

##### **4.1.4 Risks associated with bank borrowings**

Upon completion of the acquisitions of the Subject Properties and the Public Offering, Axis-REIT is expected to have an indebtedness of approximately RM61.9 million ("Indebtedness") arising from the borrowings taken to part finance the acquisitions of the Subject Properties. The Indebtedness represents approximately 18.6% of Axis-REIT's forecast total asset value as at 15 August 2005 amounting to RM332.5 million. The Indebtedness will be secured against Axis Business Park and Menara Axis.

For further details on the Indebtedness, please refer to Section 6.6.1 of this Prospectus.

If Axis-REIT is unable to meet its payment obligations under the terms of the Indebtedness, the abovementioned Subject Properties may be foreclosed by the lenders with a consequent loss of income and asset value to Axis-REIT. The ability of Axis-REIT to meet its future payment obligations (in relation to the Indebtedness) and payment of distributions will be dependent on its future financial performance and operational cash flows.

In addition to the above, Axis-REIT may not be able to refinance the Indebtedness or that the terms of such refinancing may not be as favourable as the terms of its existing Indebtedness. Axis-REIT may be subject to certain covenants in connection with any future borrowings that may limit or otherwise affect its operations and ability to make distributions to Unitholders. Such covenants may restrict Axis-REIT's ability to acquire properties or undertake other capital expenditures or may require it to set aside funds for maintenance or repayment of security deposits.

Furthermore, as at the date of this Prospectus, Axis-REIT's Indebtedness is short term in nature. If prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, the interest expense relating to such refinanced Indebtedness would increase, which would adversely affect Axis-REIT's cash flow and the amount of distribution it could make to Unitholders.

Similarly for future bank borrowings, if Axis-REIT is unable to make payment obligations, properties of Axis-REIT that are charged to secure such borrowings may be foreclosed by the lenders or forced sale at an undesirable value.

The Manager will endeavour to maintain the cash flow of the Fund at a manageable level, taking into account the cash flow, level of debts and distributions to Unitholders.

##### **4.1.5 Limitations on borrowings**

Under the SC Guidelines on REITs, Axis-REIT is only permitted to borrow up to 35% of its total asset value of the Fund at the time the borrowing is incurred. Based on the Indebtedness (as set out in Section 4.1.4 above), the Indebtedness represents approximately 18.6% of Axis-REIT's forecast total asset value as at 15 August 2005 amounting to RM332.5 million. Axis-REIT's ability to incur further borrowings may therefore be limited.

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#### **4. RISK FACTORS (Continued)**

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Limitation on borrowings may have the following business consequences:

- (a) an inability to fund capital expenditure requirements by bank borrowings in relation to Axis-REIT's existing portfolio or in relation to future acquisition of properties by Axis-REIT;
- (b) cash flow shortages which Axis-REIT might otherwise be able to resolve by borrowing funds; and
- (c) a decline in the total asset value of the Fund may cause the borrowing limit to be exceeded thus affecting the Fund's ability to incur further borrowings.

Notwithstanding the above, the Manager may source other means of funding such as internally generated funds or through new issuance of Units. Further, a portion of the distributable income of Axis-REIT would be set aside for contingency purposes. The Board of Directors of the Manager is of the opinion that the working capital raised from the Public Offering will be sufficient for Axis-REIT for a period of 12 months from the date of listing of the Fund.

##### **4.1.6 Operating history**

Axis-REIT was established on 16 June 2005 and the Manager was incorporated on 16 April 2004. Whilst several of the Directors and key management of the Manager have been managing the Subject Properties previously, the acquisitions of the Subject Properties by Axis-REIT will only be completed on or about 4 August 2005. As such, neither Axis-REIT nor the Manager has operating histories or past performance which may be evaluated by investors to assess their likely future performance.

One of the Subject Properties, Menara Axis, was officially opened in October 2004. Prior to that, Menara Axis has no track record in relation to its occupancy rate and tenancy profile. For detailed information on Menara Axis, please refer to Section 6.6.4 of this Prospectus.

##### **4.1.7 Dependence on key personnel**

The success of Axis-REIT will depend to a significant extent upon the continued service and performance of the Directors and key management team of Axis REIT Managers. A majority of the Directors and each of the key team members has over 10 years' experience in the property industry. The loss of any key members of the Manager's Board of Directors or key management could adversely affect Axis-REIT's business, results of operations and financial conditions.

The Manager believes that proactive development of managerial talent within the organisation and a management succession plan in place are essential for continued success and performance of Axis-REIT.

##### **4.1.8 Investment policies of Axis-REIT may change**

Upon completion of the Public Offering, the investment portfolio of Axis-REIT shall only consist of the Subject Properties. Axis-REIT may, after taking into consideration of the emerging risks as discussed in Section 4 of this Prospectus, change its investment policies in future. There is no assurance that the new investment policies will result in a better distribution of income to Unitholders and no assurance of capital growth in such investment. Nevertheless, the investment policies of the Fund will at all times be subject to the requirements as set out in Section 6.5 of this Prospectus.

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## **4. RISK FACTORS (Continued)**

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### **4.1.9 The Manager may not be able to successfully implement its investment strategy**

The Manager's investment strategy is to invest in a portfolio of commercial, office and office/industrial real estate in Malaysia with the primary objective to achieve long-term growth in NAV per Unit. Although the Manager will endeavour to attain such objective, there is no assurance that the investment strategy can be implemented successfully. The Manager may not be able to implement its strategy if there is a limited availability of such real estate for sale, increased competition amongst potential buyers of such real estate, changes to law or regulations which may adversely affect the operating environment or if the Manager is unable to source financing at favourable terms.

### **4.1.10 Difficulty in varying Axis-REIT's portfolio**

Real Estate Assets, particularly high value properties, are relatively illiquid. Such lack of liquidity may affect the Manager's ability to vary Axis-REIT's investment portfolio or liquidate part of these assets in response to changes in economic and property market condition.

## **4.2 RISKS RELATING TO REAL ESTATE ASSETS**

### **4.2.1 Location of Subject Properties**

The Subject Properties are located in Klang Valley. As such, the Subject Properties are exposed to the economic and real estate conditions in Klang Valley including the oversupply or reduced demand of commercial, office and office/industrial real estate. Further, there are other commercial, office and office/industrial real estate located in Klang Valley that compete with the Subject Properties in attracting tenants.

Whilst the Subject Properties to be acquired are all located in Klang Valley, it is not the Fund's policy to confine future acquisitions within Klang Valley.

### **4.2.2 Dependence on key tenants**

Axis-REIT's financial condition and results of operations and ability to make distributions may be adversely affected by the bankruptcy, insolvency or downturn in the business of its key tenants, including the decision by a key tenant not to renew its lease or to terminate its lease before it expires. Each of the Subject Properties, has one or more tenants that occupy 10.0% or more of the Net Lettable Area of the respective Subject Properties and some tenants account for significant percentages of the rental income of Axis-REIT. The Manager expects that Axis-REIT will continue to be dependent upon these tenants for a significant portion of its revenue. The loss of one of the Subject Properties' key tenants could result in periods of vacancy, which could adversely affect Axis-REIT's rental income. In addition, substitute tenants on satisfactory terms may not be found in a timely manner or at all, or if found the amount of rent and the terms on which lease renewals and new leases are agreed may be less favourable than current leases.

Notwithstanding the above, the tenant mix of the Subject Properties comprises tenants from diversified industries such as pharmaceutical, trading, utilities and services and most of the major tenants (contributing 10.0% or more of the respective Subject Properties' gross income) have existing long-term leases with the Vendors.



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#### **4. RISK FACTORS (Continued)**

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##### **4.2.3 Most of the leases of the Subject Properties are for a period of up to 3 years, which may expose the Subject Properties to high lease expiries**

Most of the leases are for a period of up to 3 years with an option to renew for another term of 3 years, which is the general practice of the rental leases in Malaysia property market. This may result in each of the Subject Properties experiencing a number of lease expiry cycles every year. Approximately 29.3% and 11.9% of the Subject Properties' leases based on the Net Lettable Area will expire in 2005 and 2006 respectively.

The occurrence of such significant lease expiry rates exposes Axis-REIT to risks such as the increase in the vacancies rates following the expiry of leases, which in turn decreases the gross rental income of Axis-REIT and the new agreed leases may not be as favourable as the previous leases. Such risks could have a material adverse effect on the financial performance and distributions of Axis-REIT.

##### **4.2.4 Gross rental income and the value of the Subject Properties may be affected by a number of factors**

The gross rental income of Axis-REIT and the value of the Subject Properties may be affected by a number of factors, including:

- (a) vacancies following expiry or termination of leases that lead to a decrease in the occupancy rates and gross rental income of Axis-REIT;
- (b) the Manager's ability to collect rent from tenants on a timely basis or at all;
- (c) tenants seeking for protection under the bankruptcy laws could result in delays of rental payments or inability to pay rental at all or termination of leases prior to expiry;
- (d) tenants that breached the terms and conditions of the leases that result in termination of leases or non-payment of rental;
- (e) the rental rates and the terms of the renewed leases being less favourable than the current leases; and
- (f) changes in statutory laws, regulations or government policies which may affect the value of the Subject Properties.

##### **4.2.5 Increase in operating and other expenses**

Axis-REIT's ability to make distributions to the Unitholders could be affected if its operating and other expenses increase without a corresponding increase in revenue or tenant reimbursements of operating and other costs.

Factors which could increase operating and other costs include, amongst others:

- (a) inflation;
- (b) increases in payroll expenses and energy costs;
- (c) increases in property taxes and other statutory charges;
- (d) changes in statutory laws, regulations or government policies which increase the cost of compliance with such laws, regulations or policies;
- (e) increases in sub-contracted service costs;
- (f) increases in property management cost and management fee;

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#### 4. RISK FACTORS *(Continued)*

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- (g) increase in insurance premiums; and
- (h) defects affecting the properties which need to be rectified, leading to unforeseen capital expenditure.

In this respect, the Manager intends to minimise the operating expenses for each of the Subject Properties by, *inter-alia*, taking advantage of the economies of scale through integration of resources.

##### 4.2.6 Insurance coverage

The Subject Properties could suffer physical damage caused by fire, flood, earthquake or other causes or Axis-REIT may suffer public liability claim, which may result in losses (including loss of rent), and may not be fully compensated by insurance. In addition, certain types of risks (such as war risk and terrorist acts) may be uninsurable or the cost of insurance may be prohibitive when compared to the risk. Should an uninsured loss or a loss in excess of insured limits occur, Axis-REIT could lose capital invested in the affected property as well as anticipated future revenue from that property. Axis-REIT would also remain liable for any debt or other financial obligation related to that property. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

##### 4.2.7 Compulsory acquisition by the government

Pursuant to the provisions of the Land Acquisition Act 1960, the State Authority (i.e. the Ruler or the Yang di-Pertua Negeri of the State, as the case may be) has the power to acquire any land, whether in whole or in part, (including the Subject Properties) which is needed:

- (a) for any public purpose;
- (b) by any person or corporation for any purpose which in the opinion of the State Authority is beneficial to the economic development of Malaysia or any part thereof or to the public generally or any class of the public; or
- (c) for the purpose of mining or for residential, agricultural, commercial, industrial or recreational purposes or any combination of such purposes.

The amount of compensation assessed to be awarded pursuant to any acquisition is based on the following considerations:

- (a) the market value as determined in accordance with section 1 of the First Schedule of the Land Acquisition Act 1960;
- (b) any increase, which shall be deducted from the total compensation, in the value of the other land of the person interested likely to accrue from the use to which the land acquired will be put;
- (c) the damage, if any, sustained or likely to be sustained by the person interested at the time the Land Administrator takes possession of the land, by reason of the acquisition injuriously affecting his other property, whether movable or immovable, in any other manner;
- (d) if, in consequence of the acquisition, the person interested is or will be compelled to change his residence or place of business, the reasonable expenses, if any, incidental to such change; and
- (e) where only part of the land is to be acquired, any undertaking by the State Authority, or by the Government, person or corporation on whose behalf the land is to be acquired, for the construction or erection of roads, drains, walls, fences or other facilities benefiting any part of the land left unacquired provided that the undertaking is clear and enforceable.

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#### 4. RISK FACTORS *(Continued)*

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The amount of such compensation may be:

- (a) less than the market price of the Subject Properties upon the sale of the Subject Properties in the open market; and
- (b) less than the purchase consideration of the Subject Properties to be satisfied by the Trustee.

As at 21 June 2005 (being the latest practicable date prior to the registration of this Prospectus), none of the Vendors have received any notice of intended acquisition in relation to the Subject Properties or any part thereof.

If any of the Subject Properties becomes affected by any notice of acquisition or intended acquisition under the Land Acquisition Act 1960 before the date of presentation of the transfer of the Subject Properties, the Vendors must give notice thereof to the Trustee within 14 Market Days of receipt of such written notice and in such an event, the Trustee has the option, within 14 Market Days of receipt of such written notice, to either terminate or proceed with the conditional sale and purchase agreements.

If the Trustee terminates the conditional sale and purchase agreements, and subject to the Trustee withdrawing any private caveat lodged, the conditional sale and purchase agreements shall be null and void and be of no further effect and neither party shall have any further claims against the other party, save for any antecedent breach. In the event that the Trustee elects to proceed with the purchase of the Subject Properties and subject to the Trustee satisfying the purchase consideration for the Subject Properties, all compensation awarded and paid on such acquisition will be paid to or held on trust by the Vendors for the Trustee.

##### 4.2.8 Non-registration of the transfer of Subject Properties

Pursuant to the terms of the conditional sale and purchase agreements for the acquisitions of the Subject Properties, the statutory form of transfer instruments are to be presented at the relevant land registry/land office for registration no later than 5 Market Days from listing of Axis-REIT on the Main Board of Bursa Securities.

While every effort will be made to ensure that the transfer instruments in respect of the Subject Properties are fit for registration and that there are no evident restraints on dealings with the Subject Properties prior to the presentation of the transfer instruments in order to minimise any risk of non-registration, there is no conclusive evidence or proof that the Subject Properties have been transferred to the Trustee until the issue documents of title to the Subject Properties are duly endorsed with the name of the Trustee as transferee and such titles are returned by the relevant land registry/land office.

Currently, the registration process for any type of land dealing at the land registry/land office could take a number of months to complete with the issue documents of title duly returned. However, the date of registration of the change of ownership of the Subject Properties would be the date of presentation of the instrument of transfers at the relevant land registry/land office, regardless of when the issue documents of title are eventually returned.

Given the nature of property transactions in Malaysia, the risk of non-registration is not unique to REITs.

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#### **4. RISK FACTORS (Continued)**

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To mitigate the risk of non-registration of the Subject Properties in favour of the Trustee, the conditional sale and purchase agreements for the acquisitions of the Subject Properties provide that upon completion, the respective Vendors will hold the Subject Properties as bare trustee for the Trustee and will do all such acts and things to give effect to any dealing with the Subject Properties by the Trustee as beneficial owner of the Subject Properties on behalf of Axis-REIT, including granting the Trustee a power of attorney in order to effectively deal with the Subject Properties as the owner of the Subject Properties on behalf of Axis-REIT in accordance with applicable laws. The Trustee will also be entitled to all rental income generated by the Subject Properties and any rental income received by the Vendors will be held by the Vendors on trust for the Trustee and immediately paid over to the Trustee.

##### **4.2.9 Non-registration of discharge of charge for the Subject Properties**

All the Subject Properties are currently charged by the Vendors to various financial institutions as security for bank borrowings granted to the Vendors. These existing charges will be discharged through a redemption procedure. Pursuant to the terms of the conditional sale and purchase agreements for the acquisitions of the Subject Properties, if the discharge of charge for any existing charge cannot be registered for any reasons whatsoever, then the Trustee shall release the existing chargee from its undertaking to refund the redemption sum provided that the existing chargee shall have issued its acknowledgment that the existing chargee's security documents for the loan facilities granted to the Vendor shall be deemed to be discharged or released despite the non-registration of the discharge of charge. The existing chargee will not be in a position to enforce the provisions of the charge after the existing chargee has executed the discharge of charge and delivered the original issue document of title, duplicate charge and the security documents in respect of the Subject Properties to the Vendors. It must be noted that private caveat will not prohibit the registration of discharge of charge on the Subject Properties.

##### **4.2.10 Subsequent disposal of the Subject Properties**

The consideration paid for the Subject Properties was arrived at based on a discount to their respective appraised values as determined by Colliers, Jordan Lee & Jaafar Sdn Bhd, the independent valuer. The methods of valuation of the real estate generally may include a subjective determination of certain factors relating to the relevant real estate, such as their relative market positions, their financial and competitive strengths and their physical conditions. The appraised values of the Subject Properties determined by the independent valuer do not guarantee a scale for any part or the whole of the Subject Properties at their appraised value at present or in the future. The price at which Axis-REIT may sell any part or the whole of the Subject Properties in the future may be lower than their purchase price.

#### **4.3 RISKS RELATING TO AN INVESTMENT IN THE UNITS**

##### **4.3.1 Distributions to Unitholders will be subject to cash availability**

The net operating profit that Axis-REIT earns from its real estate investments depends on, amongst other factors, the amount of rental income received, and the level of property, operating and other expenses incurred. If the Subject Properties or other real estate, which Axis-REIT may invest in do not generate sufficient net operating profit and cash flow, Axis-REIT's ability to make distributions will be adversely affected.

No assurance can be given that the level of distributions will be maintained or increase over time, that there will be contractual increases in rent under the leases of the Subject Properties or that the receipt of rental income in connection with expansion of the Subject Properties or future acquisitions of real estate will increase Axis-REIT's cash available for distribution to Unitholders.

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#### **4. RISK FACTORS (Continued)**

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##### **4.3.2 No prior market for Units**

Prior to the Public Offering, there has been no public market for the Units. There can be no assurance that an active market for the Units will develop upon listing or, if it develops, that such a market will be sustained. There is also no assurance that the market price of the Units will not decline below the Final Retail Price. The market price of the Units could be subject to significant fluctuations due to various external factors and events, including the liquidity of the Units in the market, the general market conditions, the property industry and broad market fluctuations.

It may be difficult to assess Axis-REIT's performance against either domestic or international benchmarks. There can be no assurance that an active market for REITs will develop in Malaysia.

##### **4.3.3 No redemption of Units**

Unitholders have no right to request the Manager to redeem their Units while the Units are listed on Bursa Securities and not suspended for more than 90 consecutive Market Days. It is intended that Unitholders may only deal in their listed Units through trading on Bursa Securities.

##### **4.3.4 Future dilution of the NAV of the Units**

The Deed provides that the Manager shall determine the unit price of any new issues of Units based on market-based principles, i.e. the issue price of new Units in the future may be at or below the then current NAV of Axis-REIT. In the event that new Units are issued at less than NAV, the NAV of existing Units may be diluted.

##### **4.3.5 Failure or delay in the listing of Axis-REIT**

The listing of the Fund is exposed to the risk that it may fail or be delayed should the following events occur:

- (a) the Managing Underwriter and Underwriter exercise their rights pursuant to the Underwriting Agreement to discharge themselves from their obligations thereunder; or
- (b) gross proceeds of less than RM98,400,000 being raised; or
- (c) the Fund is unable to meet the public spread requirement of at least 25% of the issued Units of the Fund being held by a minimum of 1,000 public Unitholders holding not less than 100 Units each.

##### **4.3.6 Effects of possible sale of a substantial number of Units by Vendors**

Following the Public Offering, Axis-REIT will have 205,901,000 Units listed on the Main Board of Bursa Securities, of which 107,500,000 Units will be held by the Vendors. These Units, which form part of the purchase consideration for the Subject Properties, are not subject to any moratorium period. If the Vendors sell or are perceived as intending to sell a substantial amount of Units, the market price of the Units may be adversely affected.

##### **4.3.7 Taxation**

Pursuant to the Finance Act 2004, a REIT is exempted from tax on income distributed to unitholders in the same basis period in order to intensify efforts to convert illiquid assets into liquid assets, thereby enabling real estate companies to utilise the income from the sale of existing real estate for the development of new projects. The tax treatment granted allows Malaysian tax resident individuals or Malaysian tax resident incorporated companies to receive their distributions free of tax deducted at source but taxed subsequently at their prevailing income tax rates on such income. For non-resident unitholders, the tax payable at 28% will be withheld by the REIT.

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#### **4. RISK FACTORS (Continued)**

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However, the tax ruling introduced, either in part or in a whole, may be revoked or amended in the future. In the event that the tax ruling is either revoked or amended, a REIT will be subjected to tax on its distributable income whereby distributions to unitholders will be made after tax is deducted at source.

##### **4.3.8 Market price of Units after the Public Offering**

The Final Retail Price of the Issue Units may not be indicative of the market price of the Units after completion of the Public Offering. The market price of the Units after the Public Offering may trade at prices below the Final Retail Price.

The market price of the Units after the Public Offering will depend on many factors including:

- (a) the perceived prospects of Axis-REIT's business and investments and Malaysia's commercial, office and office/industrial real estate market;
- (b) significant differences between Axis-REIT's audited financial results and those set out in Section 7.2 of this Prospectus;
- (c) analysts' recommendations or projections;
- (d) interest rates;
- (e) yield on risk-free securities, alternative investments or savings instruments;
- (f) liquidity of the Units;
- (g) market value of Axis-REIT's assets; and
- (h) the future size and liquidity of the Malaysian REIT market.

##### **4.3.9 Profit forecast, profit projections and forward-looking statements**

This Prospectus contains profit forecast and projections made by the Directors of the Manager and ADSB that are based on assumptions which are deemed to be reasonable at this point in time. However, there can be no assurance that the profit forecast and projections contained herein will be realised. As the actual results may be materially different from those forecast and projections, you are advised to read and understand the assumptions and uncertainties underlying the profit forecast and projections.

In addition, certain forward-looking statements regarding the Fund are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. The inclusion of a forward-looking statement in this Prospectus should not be regarded as a representation or warranty by the Manager and ADSB or its advisers that the plans and objectives of the Fund will be achieved.

##### **4.3.10 Distribution forecast and projections**

As set out in Section 7.2.1 of this Prospectus, Axis-REIT is expected to distribute 95% of the distributable income to Unitholders for the 3 FYEs 31 December 2007. The distributions forecast and projections have been prepared based on assumptions which are deemed by the Directors of the Manager and ADSB to be reasonable at this point in time. However, there can be no assurance that the actual distribution to Unitholders, will be the same as the forecast and projected distributable income presented in this Prospectus.

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## 5. INTRODUCTION TO REITs

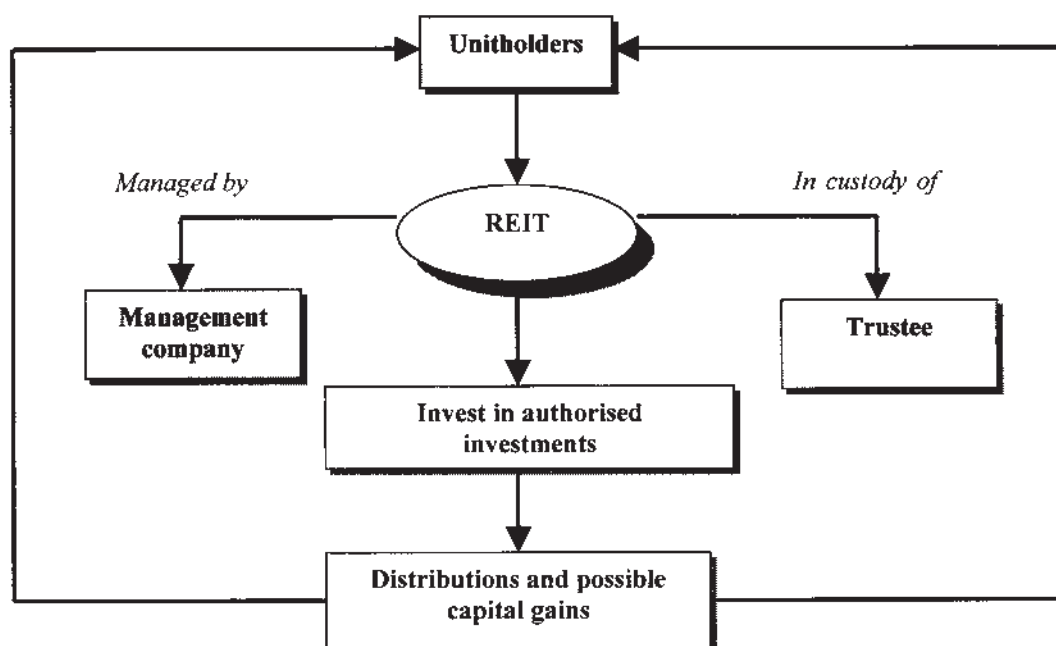
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**THIS SECTION OF THE PROSPECTUS REPRESENTS ONLY AN INTRODUCTION TO REITs IN GENERAL. THIS SECTION DOES NOT PURPORT TO IDENTIFY OR SUGGEST ALL REITs ARE ASSOCIATED WITH THE SAME RISKS AND BENEFITS (WHICH MAY NOT BE EXHAUSTIVE), AS HIGHLIGHTED HEREIN. THEREFORE, YOU SHOULD READ AND UNDERSTAND THE FULL TEXT OF THIS PROSPECTUS, IN PARTICULAR, SECTION 4 OF THIS PROSPECTUS BEFORE DECIDING TO INVEST IN THE ISSUE UNITS.**

### 5.1 OVERVIEW OF REITs

A REIT is a collective investment scheme where funds from investors are pooled and invested towards a specified goal as set out in the investment objective of the fund. In addition, a REIT is a fund that invests (via funds raised from investors) in a portfolio of real estate assets or real estate-related assets. These real estates generate income from rent collected from tenants, which is then, net of expenses, distributed to investors at regular intervals. A REIT may be listed or unlisted.

A REIT may be illustrated as a tripartite relationship between the manager, the trustee and the unitholders governed by a deed registered with the SC. The tripartite relationship between the manager, the trustee and the unitholders in a REIT is illustrated below:



A REIT is constituted by a deed entered into between the manager and the trustee. The deed sets out the manner in which the scheme is to be administered, the valuation and pricing of units, the keeping of proper accounts and records, the collection and distribution of income, the rights of unitholders, the duties and responsibilities of the manager and trustee with regard to the operations of the scheme, and the protection of unitholders' interests.

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## 5. INTRODUCTION TO REITs *(Continued)*

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A brief description of the parties in a REIT is as follows:

### **The manager:**

The manager is appointed to manage and administer the REIT in accordance with the objectives and investment policy of the REIT. The manager is obliged to administer the REIT in accordance with the deed, the SCA and SC Guidelines on REITs, and to administer the REIT in an efficient and proper manner that will ensure high standards of integrity and fair dealing in managing the REIT to the interest of unitholders, to exercise due care, skill and diligence as well as effectively employ the resources and procedures necessary for the proper performance of the REIT.

### **The trustee:**

The trustee is appointed for the unitholders and acts as the custodian for all the assets of the REIT. The trustee, therefore, must act to ensure that the manager adheres strictly to the provisions of the deed, particularly with regard to the creation of units, the exercise of investment powers of the REIT, collection and distribution of income, proper record keeping of administrative, investment and unitholders' transactions and in upholding unitholders' interests.

### **The unitholders:**

The interest of a unitholder in the REIT is an equitable interest of a beneficiary of a trust, subject to the terms of the deed. Unitholders shall be entitled to receive the distributions of the fund and such other rights as provided in the deed.

## 5.2 THE REGULATORY FRAMEWORK

In Malaysia, REITs are governed and regulated by the SC. The SC is empowered to ensure compliance with the SCA and the SC Guidelines on REITs. The SCA and SC Guidelines on REITs govern the operations and administration of REITs and serve to protect the interest of unitholders. The trustee and the manager including its officers and directors, must comply with the SCA, SC Guidelines on REITs and all other relevant laws and requirements.

A REIT is also governed by the deed, which incorporates the covenants required under the SCA and the SC Guidelines on REITs.

The appointments of the manager, including its directors, and the trustee are subject to the approval of the SC.

## 5.3 BENEFITS OF INVESTING IN REITs

### **(a) Diversification**

A REIT enables investors to diversify their investments by providing them the opportunity to pool their resources for the purchase of a diversified portfolio of authorised investments. Further, investors in a REIT can usually access a broader range of real estate than they could invest on their own.

### **(b) Liquidity**

In a listed REIT, investments are generally readily convertible into cash as they are traded on a stock exchange and investors may purchase more units or dispose all or part of their units on any market day on the stock exchange.



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## 5. INTRODUCTION TO REITs *(Continued)*

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(c) **Affordability**

REITs provide investors an entry into the real estate market via participation and investment in units of the REITs, which requires a smaller capital outlay relative to purchasing similar real estate on their own.

(d) **Long run inflation hedge**

REITs may provide a hedge against inflation as when inflation rises, the value of real estate and real estate securities can be expected to similarly increase.

(e) **Stable returns**

REITs typically have relatively stable cash flows since almost all of its revenue is generated by rentals under the terms of lease agreements with its tenants, which typically are for specific durations.

(f) **Professional management**

REITs provide investors an opportunity to buy into real estate that is managed by experienced and professional persons.

(g) **Potential capital appreciation**

In addition to distributing income at regular intervals, REITs also provide an opportunity for capital appreciation via any increase in the values of real estate held in its portfolio.

(h) **Ownership of large investment grade real estate**

REITs allow retail investors to participate in the real estate market. Subject to the quality of the real estate, investors in a REIT are essentially akin to holding stakes in large investment grade real estate, which may otherwise have been impossible for a retail investor.

### 5.4 RISKS OF INVESTING IN REITs

REITs are exposed to a variety of risks associated with investments of, management of, and returns from the REITs.

(a) **General risk**

➤ **Economic, political and regulatory risks**

The performance of the real estate industry is closely linked to the economic environment. Any adverse developments in the political and economic environment and uncertainties in Malaysia can materially and adversely affect the property industry and hence the financial performance of REIT. These include the risks of war, global economic downturn and unfavourable changes in the Government's policy such as changes in rates of tax, methods of taxation or introduction of new regulations.

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## 5. INTRODUCTION TO REITs *(Continued)*

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➤ **Fund management risk**

There is a risk that the manager may not adhere to the investment mandate of REIT. Poor management of REIT may jeopardise the investment of unitholders through loss of their capital invested.

In addition, the selection of real estate, which makes up the assets of the REIT is a subjective process. Real estate selected by the investment manager may yield a higher or lower return than the overall real estate market.

➤ **Loans financing risk**

Investors who take end-financing loans to finance the purchase of units in REITs must be prepared to accept gearing risks, including but not limited to being forced to provide additional funds to top up their loan margins account when the price of units goes down, or suffer the higher cost of financing when interest rates trend upwards. In addition, the returns on REITs are not guaranteed and may not be earned evenly over time.

➤ **Risk of non-compliance**

There is the risk that the manager and others associated with the fund will not comply with the deed of the fund, the law that governs the fund, or the internal policies, procedures and controls, all of which may affect the investment of unitholders.

(b) **Investment risk**

➤ **Dividend distribution not guaranteed**

The net operating profit earned by a REIT depends on, amongst others, the amount of rental income received, and the level of property, operating and other expenses incurred. If real estate owned by a REIT do not generate sufficient net operating profit and cash flow, the REIT's ability to make dividend distributions will be adversely affected.

➤ **Capital market risk**

The price of a REIT is subject to the volatility as well as the liquidity of the equity market. The equity market is influenced by many factors, including but not limited to economic growth, interest rates, capital flows and monetary and fiscal policies.

➤ **Risk associated with borrowings**

Significant fluctuations in interest rates may have an adverse impact on the financial performance of REITs and may lower income distribution to unitholders. There is an inverse correlation between the interest rates and the distributable income to unitholders.

➤ **Insurance risk**

Real estate held by REITs could suffer physical damage caused by fire, flood, earthquake or other causes, resulting in losses (including loss of rent) which may not be fully compensated by insurance. In addition, certain types of risks (such as war and terrorist acts) may be uninsurable or the cost of insurance may be prohibitive when compared to the risk. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

➤ **Risk relating to investments in real estate**

The yields of the real estate may be adversely affected by a number of factors, including but not limited to:

- (a) vacancies following expiry or termination of leases that lead to reduced occupancy rates which reduce the REIT's income;
- (b) the manager's ability to provide adequate management and maintenance;
- (c) inadequacy of insurance cover for the real estate;
- (d) changes in tax regulations;
- (e) the manager's ability to collect rent from tenants on a timely basis or at all;
- (f) tenants seeking the protection of bankruptcy or insolvency laws which could result in delays in receipt of rent payments, inability to collect rentals at all or the termination of the tenant's lease, or which could hinder delay the sale of a real estate;
- (g) the terms on which lease renewals and new leases are agreed being less favourable than existing leases;
- (h) poor cost control resulting in higher operating and other expenses without a corresponding increase in revenue;
- (i) unexpected expenses incurred due to changes in statutory laws, regulations or government policies which increase the cost of compliance with such laws, regulations or policies and defects affecting the real estate which need to be rectified, leading to unforeseen capital expenditure;
- (j) amendment or revocation of the present tax incentives for REITs; and
- (k) competition for tenants from other real estate which may affect rental levels and occupancy rates.

➤ **Risk relating to investment in other authorised investments**

Subject to the investment limits prescribed by the SC for the time being, apart from real estate, REITs are permitted to invest in any of the following:

- (a) single-purpose companies;
- (b) real estate-related assets;
- (c) liquid assets;
- (d) non-real estate related assets; and
- (e) asset backed securities.

Where REITs invest in stock market related investments, the following risks become key considerations:

➤ **Market risks**

Stock prices may fluctuate in response to activities of the individual companies, general market sentiment, economic conditions and political and social environment. Such fluctuations in the investment portfolio will cause the NAV of the REIT or prices of units to fall as well as rise.

➤ **Particular stock risk**

Any major price fluctuations of a particular stock invested by REIT may affect its NAV and thus impact (adversely or favourably) on its unit prices. This impact may, however, be minimised through the process of portfolio diversification by fund managers.

➤ **Liquidity risk**

If a REIT has a large portfolio of stocks that are illiquid, such stocks may be sold at a discount to its fair value, hence affecting the value of the REIT. The liquidity risk may be minimised through the process of stock selection and portfolio diversification by fund managers.

Where REITs invest in debt-related investments, the following risks become key considerations:

➤ **Interest rate risk**

Generally bond prices and interest rates move inversely. If interest rate rise and bond (or bond fund) prices fall, the value of investment will be lower and the NAV of REIT will be reduced.

➤ **Credit risk**

In the event the issuer of the debt instrument is unable to make timely payment of interest and principal, the value of the debt instrument may reduce accordingly, thereby reducing the NAV of the REIT.

## **5.5 COMPARISON WITH OTHER FORMS OF INVESTMENTS**

All investments carry some form of risk-return trade-off. Some of the investment alternatives are as follows:

### **Cash and fixed deposits**

Fixed deposits generally provide a fixed rate of return and can provide a stable stream of income. The range of deposit products available is quite extensive, ranging from simple overnight deposits at a cash rate, to more long term, structured deposits, like a two-year fixed deposit. Whilst deposits with a licensed financial institution can be considered almost risk free, there still exists a risk of default. Cash and fixed deposits do not present any opportunity for capital gain, and depending on the inflation rate, may not provide a positive real return.

### **Investment in bonds**

Investments in bonds generally provide a fixed rate of return and can provide a stable stream of interest income. Bond prices move inversely to its yield to maturity. Bond investors are subject to a number of risks, including credit risk and interest rate risk. Bonds are generally less risky than shares but riskier than cash or fixed deposits.

### **Direct investment in real estate**

Investments in real estate can provide a regular and stable stream of income and capital gains. However, such investment typically requires a large capital outlay, and is therefore generally available only to high net worth individuals, corporations or institutions. Movements in real estate prices can be cyclical and depending on the timing of the investment, can result in capital losses. Large capital outlays also limit the ability to diversify risk. Further, investments in real estate are generally less liquid than investments in marketable shares or bonds and may be difficult to exit in a timely manner.

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## 5. INTRODUCTION TO REITs (Continued)

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### Investment in shares

Investment in shares is subject to market risk and specific risks associated with a company or business and may result in either capital gains or losses. Share prices can be volatile, and may not always reflect the fundamental value of a company. Investment in shares may or may not provide a regular stream of dividends. Shares are generally more risky than bonds or fixed deposits.

### Financial derivative products

Financial derivative products are used to manage investors' exposure to unexpected price fluctuations in, amongst others, the commodity, equity and bond markets and derives its value from an underlying instrument such as interest rates, indices and share prices. As these underlying instruments can be volatile at times, this form of investment has very high investment risks. Financial derivative products can also provide an avenue to earn very high returns (losses) without large capital outlays.

In summary, risk and return comparison for the various investments may be summarised as follows:

Types of investment	Risk level	Expected return level
Cash	Low	Low
Fixed deposit		
Bonds		
REITs		
Direct investment in real estate		
Investment in shares		
Financial derivative products	High	High

## 5.6 INVESTOR PROFILE

Investments in REITs are generally less risky than direct investments in real estate, investments in shares and investments in financial derivatives. Investments in REITs are generally riskier than investments in bonds or fixed deposits. REITs may appeal to a conservative to moderate investor with a long-term investment horizon who seeks regular distribution of income and long-term capital growth.

## 5.7 PERFORMANCE INDICATORS AND BENCHMARKS

It may be difficult to assess REIT's performance against domestic benchmarks as there are presently only three (3) property trust funds listed in the mid-nineties. As at the date hereof, no REIT has been listed under the revised SC Guidelines on REITs.

In general, the Kuala Lumpur Composite Index is the most widely followed and used for performance benchmarking for listed securities. The Kuala Lumpur Composite Index is deemed an appropriate indicator and benchmark for evaluating performance of listed REITs as it is readily available to most investors and generally the preferred benchmark for all Malaysian-centric equity funds. In addition, the EMAS Index, which indicates the overall performance of listed company on the Main Board and Property Sector Index, would also be practical for the same.

To obtain the latest information on the said indices, investors may refer to the Bursa Malaysia website, [www.bursamalaysia.com](http://www.bursamalaysia.com) under Market Information Section. Other pertinent information such as daily stocks performance by sectors and individual counter could also be obtained.

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## 5. INTRODUCTION TO REITs *(Continued)*

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In addition, investors must consider and familiarise with the following performance indicators of REITs:

- (i) **MER:** the ratio of expenses incurred in operating a REIT to the NAV of the REIT. Expenses are an important factor to be considered in choosing a REIT for investment, as the annual expenses of operating the REIT would normally take up a substantial portion of its gross income. Hence, MER allows you to make comparisons on the expenses incurred by other REITs in assessing whether such expenses of a particular REIT are excessive.
- (ii) **Average annual return:** the percentage change in a REIT's price (after adjusting for distributions payout) for the period to the number of years under review. This indicator allows investors to compare the annualised return of the REIT with other forms of investment which is most often expressed in '*per cent per annum*'.
- (iii) **Distribution yield:** the ratio of the distribution paid to unitholders from the REIT's income to the price paid for the units of the REIT.

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