

# CORPORATE GOVERNANCE

Axis REIT Managers Berhad (“the Manager”) recognizes that an effective corporate governance culture is critical to the performance of the Manager and consequently the success of Axis-REIT.

As a result, the Manager has adopted a comprehensive Corporate Governance framework that meets best practice principles. In particular the Manager has to act honestly, with due care and diligence, and in the best interest of the Unitholders.

The following sections describe the Manager’s main Corporate Governance Practices and Policies. They are designed to ensure that applicable securities laws and regulations, the SC’s Guidelines on REIT as well as SC’s Guidelines on Islamic REITs, the Listing Requirements of Bursa Securities and the Malaysian Code on Corporate Governance (Revised 2007) [“Code”] are complied with, where applicable, and that the Manager’s obligations as described in the Deed are properly and efficiently carried out.

## THE MANAGER OF AXIS-REIT

Axis REIT Managers Berhad is the appointed Manager of Axis-REIT in accordance with the terms of the Deed. The Deed outlines the functions and duties of the Manager as well as the circumstances under which the Manager can be retired.

In view that Axis-REIT is externally managed by the Manager and as such, it has no employees. The Manager appoints experienced and well qualified personnel to handle its day to day operations. All directors and employees of the Manager are remunerated by the Manager and not by the Fund.

The Manager has the general power over the assets of the Fund. The Manager’s main responsibility is to manage the assets and liabilities of Axis-REIT for the benefit of the Unitholders.

The primary role of the Manager is to set the strategic direction of the Fund and make recommendations to the Trustee on acquisitions, divestments and enhancements in line with the agreed strategy.

The Manager is also responsible for the risk management of the Fund. Its other main functions are listed below:

- Using its best endeavors to carry on and conduct its business in a proper and efficient manner and conduct all transactions of the Fund in a transparent manner and at arm’s length.
- Preparing reports to the Board of Directors (“Board”) which may contain proposals and forecasts on net income, distribution per unit (“DPU”), capital expenditure, valuations frequency, explanations on variances to previous forecasts, written reports on the future potential rental income stream generated by the portfolio of properties owned by Axis-REIT and the underlying assumptions, operational costs and any other assumptions.

- Ensuring compliance to all legislations, rules and guidelines issued by the SC and Bursa Securities, where applicable.
- Ensuring compliance of any tax rulings issued by the Inland Revenue Board of Malaysia.
- Attending to all queries from Unitholders and keeping the investing public informed of the performance of Axis-REIT.
- Supervising the Property Manager which performs the facilities management, lease and marketing management, project management services, and fit-out management services.

## BOARD OF DIRECTORS

The Board of Directors of the Manager oversees the management and corporate governance of the Manager including the establishment of Key Performance Indicators for senior management and the monitoring achievement of the same. All Board members participate in matters relating to corporate governance, business operations, risk management, financial performance of Axis-REIT and the nomination and review and assessment of directors.

The Board meets regularly at least once a quarter, to discuss and approve the release of the quarterly, half yearly and annual results, review acquisitions or disposals, the annual budget, capital expenditure requirements, performance of the Manager and Axis-REIT against the previously approved budget. When necessary, the Board meets to review and approve acquisitions or disposals for recommendation to the Trustee.

Notices of meetings setting out the agenda and accompanied by relevant meeting papers are provided to directors in a timely manner in order to enable the directors to have a comprehensive understanding on matters to be deliberated. All members of the Board have access to information in relation to the Manager and Axis-REIT as well as the advice and services of the Company Secretary who attends all the Board meetings of the Manager. Where necessary, the Board may also have access to the services of independent professional advisers in carrying out their duties.

Changes to regulations, policies, guidelines and accounting policies are monitored closely. The directors are briefed of any changes to current practices at regular Board meetings, specially convened meetings or via circularized board papers.

## BOARD COMPOSITION

### Board of Directors & Meeting Attendance

Directors	Designation	Attendance (No. of meetings held : 4)	Remarks
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Independent Non-Executive Chairman	4/4	No Change
Dato' Abas Carl Gunnar Bin Abdullah	Non-Independent Executive Deputy Chairman	4/4	No Change
Alternate Director: Alex Lee Lao			
Tew Peng Hwee @ Teoh Peng Hwee	Non-Independent Non-Executive Director	4/4	No Change
George Stewart LaBrooy	Chief Executive Officer/ Executive Director	4/4	No Change
Y Bhg Dato' Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Independent Non-Executive Director	4/4	No Change
Mohd Sharif Bin Hj Yusof	Independent Non-Executive Director	4/4	No Change
Yin-Yong Lee Lao	Non-Independent Non-Executive Director	4/4	No Change

### Members of the Audit Committee and Meeting Attendance

Audit Committee Members	Designation	Attendance (No. of meetings held : 4)	Remarks
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	Chairman	4/4	No Change
Mohd Sharif Bin Hj Yusof	Member	4/4	No Change
Yin-Yong Lee Lao	Member	4/4	No Change

# CORPORATE GOVERNANCE

## Members of the Remuneration & Nomination Committee & Meeting Attendance

Remuneration & Nomination Committee Members	Designation	Attendance (No. of meetings held : 2)	Remarks
Y Bhg Dato' Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	Chairman	2/2	No Change
Dato' Abas Carl Gunnar Bin Abdullah	Member	2/2	No Change
Tew Peng Hwee @ Teoh Peng Hwee	Member	2/2	No Change

As of 31 December 2009 the Board comprise seven (7) members, three (3) of whom are independent directors in compliance with the SC's Guidelines on REITs.

The following principles guides the Board composition:

- The Chairman of the Board should be an independent Non-Executive Director.
- The Board should comprise directors with a broad range of commercial experience including expertise in fund management and the property market.
- At least 1/3 of its members should be independent directors.

The composition of the Board is reviewed annually to ensure that it has the best mix of expertise and experience. Each director had also carried out self-evaluation during the year as a best practice in ensuring that their contribution to the Board as a whole is relevant and effective.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")/ EXECUTIVE DIRECTOR

The position of Chairman and CEO/Executive Director is held by separate persons in order to maintain an effective segregation of duties.

The Chairman ensures that members of the Board work together with the Management in a constructive manner to address strategies, business operations, financial performance and risk management issues.

The CEO /Executive Director has full executive responsibilities over the execution of the agreed business policies and directions set by the Board and of all operational decisions in managing Axis-REIT.

With more than 1/3 of the Board being independent directors, it enables the Management to tap their expertise and broad business experience of issues presented before the Board. This promotes a healthy and professional relationship between the Board and the Manager.

### BOARD REMUNERATION

The remuneration of the directors is paid by the Manager and not from the Fund. Details on the board committee which is responsible over the determination of the remuneration policy framework of the Manager's directors and senior management is set out below under Remuneration & Nomination Committee section.

### BOARD COMMITTEES

The Board has established the following committees to assist in discharging its duties. The board committees are:

- The Executive Committee.
- The Audit Committee.
- The Remuneration & Nomination Committee.

### THE EXECUTIVE COMMITTEE

The Executive Committee operates under the delegated authority from the Board and the following are the Executive Committee Members as of 31 December 2009:

Dato' Abas Carl Gunnar Bin Abdullah (chairman)  
– Non-Independent Executive Deputy Chairman

Stephen Tew Peng Hwee (member)  
– Non-Independent Non- Executive Director

Stewart LaBrooy (member)  
– CEO/Executive Director

This committee oversees the day-to-day activities of the Manager on behalf of the Board which includes:

- Recommendations for presentation to the Board of all acquisitions, investments and disposals;
- Make recommendations to the Board on any financing offers and additional banking facilities;
- Report and recommend to the Board any corporate exercise, including the issuance of new Axis-REIT Units; and

- Forward summary reports and minutes of meetings of all Executive Committee meetings and activities undertaken by the Manager to all Audit Committee and Board members.

The Executive Committee has met formally a total of seven (7) times in 2009. However there have been several informal meetings held between members of the committee during the period.

#### AUDIT COMMITTEE

The Board has an overall responsibility in ensuring a balanced and understandable assessment of Axis-REIT's positions and prospects is presented and the Audit Committee plays an important role in assisting the Board in this area. The Audit Committee also assists the Board in the area of risk management and internal controls.

Further details on risk management are set out below and the Audit Committee Report as well as the Statement of Internal Control are presented in separate sections of this Annual Report.

#### THE REMUNERATION & NOMINATION COMMITTEE

The composition of the Remuneration & Nomination Committee as of 31 December 2009 is as follows:

- Y Bhg Dato' Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor (chairman)  
– Independent Non-Executive Director
- Dato' Abas Carl Gunnar Bin Abdullah (member)  
– Non Independent Executive Deputy Chairman
- Stephen Tew Peng Hwee (member)  
– Non Independent Non-Executive Director

The responsibilities of the committee are:

- To establish and recommend to the Board the policy framework in determining the remuneration of the Executive and Non-Executive Directors of the Board, members of senior management and to review changes to the remuneration policy from time to time, so as to ensure that the Manager attracts and retains individuals of the highest calibre;
- To recommend to the Board, candidates for directorships proposed by and other board members and/or from senior management;
- To recommend to the Board, any director(s) to fill seats on Board committees;
- To assess the effectiveness of the Board as a whole, Board committees and the contribution of each individual director.
- To determine appropriate training for directors and review the fulfillment of such training.

During the year, assessments have been carried out by the committee to ensure that the Board and its committees (Audit Committee and the Remuneration & Nomination Committee) have been functioning effectively.

#### OTHER OBLIGATIONS OBSERVED BY THE DIRECTORS OF THE MANAGER

##### Trading in Axis-REIT Units

In general the Manager encourages the directors and employees to hold Axis-REIT Units. However, dealings in Axis-REIT Units will be subject to compliance with Chapter 14 of the Listing Requirements of Bursa Securities.

##### Directors' Training

All the Directors of the Manager have attended trainings during the year in compliance with the Listing Requirements of Bursa Securities. Some of the Directors had been invited to participate as speakers and presented talks at conferences and seminars. The details are as follows:

Directors	Training attended & activities participated
YAM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin	<ul style="list-style-type: none"> <li>• Corpedia's web-based training: International Bribery &amp; Corruption: Global</li> <li>• High Level Forum for Directors of Listed Issuers in enhancing Corporate Governance</li> <li>• Governance Expectations of International Fund Managers</li> <li>• Risk Awareness Training</li> </ul>
Dato' Abas Carl Gunnar Bin Abdullah	<ul style="list-style-type: none"> <li>• Cityscape Asia 2009</li> <li>• Structuring Finance for Real Estate Investment ESSEC</li> <li>• Risk Awareness Training</li> </ul>
Tew Peng Hwee @ Teoh Peng Hwee	<ul style="list-style-type: none"> <li>• Malaysia Institute of Estate Agents ("MIEA") Convention 2009</li> <li>• Realtors Conference &amp; EXPO</li> </ul>
George Stewart LaBrooy	<ul style="list-style-type: none"> <li>• Risk Awareness Training</li> </ul>

# CORPORATE GOVERNANCE

Directors	Training attended & activities participated
Y Bhg Dato' Fateh Iskandar Bin Tan Sri Dato' Mohamed Mansor	<ul style="list-style-type: none"> <li>• Managing Strategic Corporate Planning</li> <li>• Managing Corporate Mergers &amp; Acquisitions</li> <li>• Strategic Corporate Planning for Company Directors and Senior Management</li> <li>• "Kuala Lumpur City Centre – A Developer's Perspective" – presented at "The Edge Investment Forum on Real Estate" organized by The Edge</li> <li>• "Issues and Problems faced by Property and Housing Developers in Selangor" – presented at Halatuju Industri Perumahan dan Hartanah di Selangor" organized by Lembaga Perumahan dan Hartanah Selangor</li> <li>• "Property Development in Selangor: Opportunities, Problems and Solutions" – presented at "Workshop on Land Administration and Development Opportunities in Selangor" organized by Task Force Tanah Selangor.</li> </ul>
Mohd Sharif Bin Hj Yusof	<ul style="list-style-type: none"> <li>• Risk Awareness Training</li> </ul>
Yin-Yong Lee Lao	<ul style="list-style-type: none"> <li>• Risk Awareness Training</li> </ul>
Alex Lee Lao (alternate director)	<ul style="list-style-type: none"> <li>• Risk Awareness Training</li> </ul>

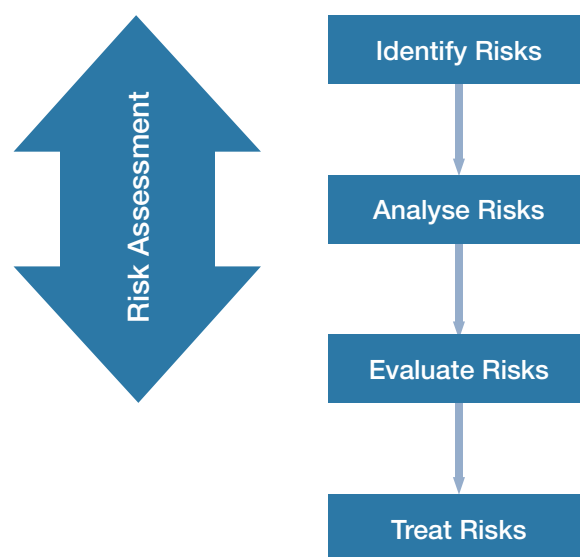
## RISK MANAGEMENT

Effective risk management is a fundamental part of the Manager's business strategy in order to ensure there are no adverse disruptions to the income distribution and to mitigate any potential loss which may impact negatively upon all the Unitholders so as to preserve their investments. Risk management has been part of the Manager's day-to-day operations and there is an Operations Manual (reviewed and updated from time to time) which provides an overview of the Manager's responsibilities and guidance in relation to the management of Axis-REIT to ensure consistency of operational procedures and practices within the organization. The commitment to achieve effective risk management is ultimately driven by the Board, which in turn is implemented by the management team and extended to all employees of the Manager.

The Manager has during the year, formulated and developed the Risk Management Framework, with the assistance of the outsourced Internal Auditors, which aims at identifying, analyzing and evaluating risks with a view to ensure the effective management of potential opportunities while reducing or avoiding adverse effects. Ms Leong Kit May, the Chief Financial Officer of the Manager has also been appointed as the Risk Management Officer to operate the risk management processes and together with the CEO will update the Audit Committee of any changes and updates to the Risk Register.

### Approach to Risk Management

The approach to risk management is driven by a systematic process designed to identify potential risks that may affect the entity, and manage those risk to provide reasonable assurance regarding the achievement of Axis-REIT's objective.



The above risk management processes are supported by the:

- Establishment of a risk management reporting structure consisting of head of departments reporting to the Risk Management Officer and CEO who in turn will compile, validate and report to the Audit Committee;
- Development of Detailed Risk Register for each departmental units with quarterly review; summarized in the Departmental Risk Profile; and
- Reporting of the Corporate Risk Profile to the Audit Committee and the Board of Directors.

### Dealings with Conflicts of Interest

The Manager has established the following procedures to deal with potential conflicts of interest issues which it (including its directors, executive officers and employees) may encounter in managing Axis-REIT:

- The Manager will be a dedicated manager of Axis-REIT and will not manage any other real estate investment trust or be involved in any other real property business;
- All Executive Officers will be employed by the Manager;
- Any related party transactions must be duly disclosed by the related parties to the Audit Committee and the Board;
- The Board shall ensure 1/3 of its members are Independent Directors;
- In circumstances where any directors or officers of the Manager may have a direct or indirect interest in any related party transactions they will abstain from deliberation and voting at any Board meeting and will require Trustee's approval prior to entering into any agreement.

The directors of the Manager are under a fiduciary duty towards Axis-REIT to act in the best interest in relation to decisions affecting Axis-REIT when they are voting as a member of the Board. In addition, the Executive and Non-Executive Directors (including the CEO) and the Executive Officers of the Manager are expected to act with honesty and integrity at all times.

Under the Deed, the Related Parties of the Manager (as defined in the Deed) are prohibited from voting their Units at, or being part of a quorum for, any meeting of Unitholders convened to approve any matter which the any of the Related Parties has an interest in the business to be conducted.

### Dealings with Related Party Transactions

The Manager will comply with all requirements as laid out in the SC's Guidelines on REITs on related party transactions including provisions contained in the Deed.

The Manager will establish procedures that will ensure that such transactions are undertaken in full compliance to the SC's Guidelines on REITs and are carried out on an arm's length basis and under normal commercial terms, which are no more favourable than those extended to unrelated third parties. The Manager would have to demonstrate to the Audit Committee that transactions (whether they be for the purchase of services or property) would be taken on normal commercial terms, which may include in the case of the purchase of services the obtaining of quotations from parties unrelated to the Manager, or in the case of purchase of property the obtaining of valuation from an independent valuer.

Related party transactions shall require the Trustee to ensure that such transactions are at arm's length in accordance with all applicable requirements of the SC's Guidelines on REITs. Furthermore, the Trustee has the ultimate discretion under the Deed to decide whether or not to enter into a transaction involving a related party of the Manager. If the Trustee is to sign any contract with a related party of the Trustee or the Manager, the Trustee will review the contract documentation to ensure it complies with the requirements relating to related party transactions in the SC's Guidelines on REITs and provisions as described in the Deed, and any future revisions of the said guidelines and provisions.

All related party transactions are subject to regular periodic review by the Audit Committee. If a member of the Audit Committee has an interest in a transaction he is to abstain from participating in the review and recommendation process in relation to that transaction.

### COMMUNICATION WITH UNITHOLDERS

The Manager has established a strong culture of continuous disclosure and transparent communication with Unitholders and the investing community. The Manager achieves this through timely and full disclosure of all material information relating to Axis-REIT by way of public announcements on the Bursa Securities website and through its own website at [www.axis-reit.com.my](http://www.axis-reit.com.my) as well as through Unitholders' meetings, analyst briefings and retail roadshows.

Further details on communication with Unitholders, analysts and fund managers is covered under the section on Investor Relations.

### COMPLIANCE WITH THE CODE

The Board of Directors considers that Axis-REIT and the Manager are substantially in compliance with the best practices set out in part 2 of the Code throughout the financial year ended 31 December 2009. The Board is committed and will continue to enhance compliance with the best practices in corporate governance where applicable.

### Other Information

#### Relationship

There are no family relationships among the Directors of the Manager and/or substantial unitholders of Axis-REIT.

#### Conflict of Interest

None of the Directors of the Manager has any conflict of interest with Axis-REIT.

#### Conviction for Offences

None of the Directors has been convicted for any offences other than traffic offences within the past ten (10) years.