

STATEMENT ON INTERNAL CONTROL PURSUANT TO PARAGRAPH 15.26(b) OF THE MAIN MARKET LISTING REQUIREMENTS

The Board of Directors of the Company, being the management company ("Manager") of Axis Real Estate Investment Trust ("Axis-REIT") has voluntarily adopted the best practices in corporate governance by establishing an Audit Committee and setting up an Internal Audit Function although it is not compulsory for Axis-REIT, being a real estate investment trust, to comply with such requirements under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. This is because the Board is committed to maintaining a sound and effective system of internal control to safeguard the interests of the Unitholders of Axis-REIT, the investments and assets of Axis-REIT as well as the shareholder's interests and assets of the Manager.

The Board has overall responsibility for the reviewing and ensuring the effectiveness, adequacy and integrity of the system of internal control of Axis-REIT and the Manager. Because of the limitations that are inherent in any system of internal control, this system is designed to manage rather than eliminate, the risk of failure to achieve corporate objectives. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

KEY ELEMENTS OF THE INTERNAL CONTROL SYSTEM ESTABLISHED

Internal Audit Function and Risk Management Policy

Risk management has been part of the Management's day-to-day operations and there is an Operations Manual which provides an overview of the Manager's responsibilities in relation to the management of Axis-REIT. This Operations Manual is a guide to daily activities and operations of Axis-REIT and it is subject to periodic review and updates. The Management team of the Manager is committed to be guided by the Operations Manual and this ensures consistency of operational procedures and practices within the organization.

In accordance with the *Statement on Internal Control - Guidance for Directors of Public Listed Companies*, Axis-REIT and the Manager have in place, an ongoing process for identifying, measuring and controlling the significant risks faced by Axis-REIT and the Manager and the Board through the Audit Committee reviews this process from time to time. With the assistance rendered by the outsourced Internal Auditors, Axis-REIT and the Manager have, during the year, formulated and developed a Risk Management Policy ("RMP"). The RMP was finalized at year end and the Manager is committed towards applying the mechanism under the RMP in order to identify, analyse, evaluate and treat risks facing Axis-REIT and the Manager, with the main focus areas being finance, lease and asset management, investor relations and facilities management.

Reporting and Review

The outsourced Internal Auditors report directly to the Audit Committee and reports are presented at the Audit Committee's meetings for review and discussion upon completion of each internal audit cycle or follow-up assignment. The Audit Committee will then report to the Board the findings, improvement recommendations and implementation outcomes accordingly.

Summary of Internal Audit Activities

In working towards the RMP, the outsourced Internal Auditors had assisted the Manager and reported the outcome to the Audit Committee of the Manager the following internal audit work carried out during the financial year ended 31 December 2009 of Axis-REIT:

1. internal audit review on property management and maintenance and insurance and its follow-up; and
2. internal audit review on financial controls in the areas of payment processing, billing and collection and car park management and its follow-up.

The costs incurred for the outsourced Internal Audit Function in respect of the financial year ended 31 December 2009 amounted to RM60,000.

There were no control deficiencies noted during the financial year under review which had a material impact on Axis-REIT or the Manager's financial performance or operations.