

# AXIS REAL ESTATE INVESTMENT TRUST

## GENERAL ANNOUNCEMENT:

**PROPOSED ACQUISITION AND LEASEBACK BY AXIS REAL ESTATE INVESTMENT TRUST (“Axis-REIT” OR THE “FUND”) OF A 3-STOREY OFFICE BLOCK AND A LOGISTIC WAREHOUSE COMPLEX ON INDUSTRIAL LAND IDENTIFIED AS PAJAKAN NEGERI 4021 LOT 12173 IN THE MUKIM 12, DAERAH BARAT DAYA, NEGERI PULAU PINANG MEASURING APPROXIMATELY 3.083 HECTARES WITH LAND TENURE OF 60 YEARS LEASEHOLD EXPIRING ON 22 JANUARY 2062 (“THE PROPERTY”) FROM DHL PROPERTIES (MALAYSIA) SDN. BHD. (CO. NO. 489729-X) FOR A TOTAL LUMP SUM CASH CONSIDERATION OF RM48.5 MILLION (“PROPOSED ACQUISITION AND LEASEBACK OF THE PROPERTY”)**

### 1. INTRODUCTION

The Board of Directors (“Board”) of Axis REIT Managers Berhad (“ARMB” or “the Manager”), the management company of Axis-REIT, wishes to announce that OSK Trustees Berhad (“OSK”), the trustee for Axis-REIT, has entered into the following agreement in relation to the Proposed Acquisition and Leaseback of the Property on behalf of Axis-REIT.

#### 1.1 Proposed Acquisition and Leaseback of the Property

Axis-REIT proposes to acquire the Property for a total lump sum cash consideration of RM48.5 million from DHL PROPERTIES (MALAYSIA) SDN. BHD (“DHL”).

The Property is to be acquired free from encumbrances but subject to the terms and conditions stipulated in the sale and purchase agreement for such acquisition entered into between OSK and DHL on 24 October 2011 (“SPA”).

Pursuant to the Deed dated 3 April 2009 constituting Axis-REIT, entered into between OSK and ARMB, OSK, as the trustee for Axis-REIT, has approved the Proposed Acquisition and Leaseback of the Property vide their letter dated 12 September 2011.

#### 1.2 Information on the Property

The Property fronts onto the south-eastern side of Lintang Bayan Lepas 9, within Bayan Lepas Industrial Park, Penang. It is strategically located within the Bayan Lepas Industrial Park, Phase IV which lies off the western side of Lebuhraya Tun Dr. Lim Chong Yu at a radial distance of approximately 18 kilometres due south-west of the George Town City Centre and approximately 3 kilometres radius due east of the Bayan Lepas town centre. It enjoys direct frontage/access from Lintang Bayan Lepas 9 whilst its rear boundary lies of Lebuhraya Tun Dr. Lim Chong Yu. By virtue of its view frontage to said Lebuhraya, it has excellent exposure and visibility from the high way.

Further details on the Property are set out below:

<b>Land Title Details and Particulars:</b>	Pajakan Negeri 4021 Lot 12173 in the Mukim 12, Daerah Barat Daya, Negeri Pulau Pinang with land tenure of 60 years leasehold expiring on 22 January 2062 .
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**Postal Address:** No 88A, Lintang Bayan Lepas 9, Kawasan Perindustrian Bayan Lepas , Phase IV, 11900 Bayan Lepas, Penang

**Land Area:** 3.083 hectares (30,830 square metres)

**Category of Land use:** "Perusahaan/Perindustrian"

**Description of building:** of A 3-storey office block and a logistic warehouse complex

**Gross floor area:** Approximately 231,940 sq. ft.

**Approximate age of building:** of Approximately 11 years

**Occupancy rate as at 24 October 2011:** 100%

## **2.0 DETAILS OF THE PROPOSED ACQUISITION AND LEASEBACK OF THE PROPERTY**

### **2.1 Salient terms and conditions of the Proposed Acquisition and Leaseback of the Property**

- (a) The total lump sum cash consideration for the Property of RM48.5 million ("Purchase Price") is payable in the following manner:-
- (i) A total sum of RM970,000 being the equivalent of 2% of the Purchase Price being the refundable earnest deposit has already been paid by OSK to OSK's Solicitors as stakeholders prior to the execution of the SPA;
  - (ii) A total sum of RM3,880,000 being the equivalent of 8% of the Purchase Price (hereinafter called the "Balance Deposit") shall be paid by OSK to OSK's Solicitors as stakeholders on the date of signing of the SPA;
  - (iii) A total sum of RM43,650,000 being the balance of the purchase price (hereinafter called the "Balance Purchase Price") shall be paid by OSK to DHL's Solicitors to be held as stakeholders on or before the expiry of thirty (30) days from the Unconditional Date (hereinafter called the "Completion Period") with a further extension of thirty (30) days from the expiry of the Completion Period subject to interest at the rate of 8% per annum on the sum remaining unpaid calculated on daily basis.
- (b) Upon the execution of the SPA, DHL shall execute a valid memorandum of transfer and stamping pro-forma for the purpose of effecting the transfer of the Property in favour of OSK free from all encumbrances ("Memorandum of Transfer") and deposit the same with OSK's Solicitors as stakeholders and to deal with the Memorandum of Transfer on the terms and conditions as set out therein.

## 2.2 The other salient terms of the SPA

The basis for completion of the Proposed Acquisition and Leaseback of the Property are as follows:-

- (a) the Property is free from all or any encumbrances;
- (b) that the category of land use shall on the Completion Date (as defined in the SPA) remain as “Perusahaan/Perindustrian”;
- (c) that the certificate of fitness for occupation have been duly issued for all the buildings and structures within the Property and all renovations, extensions or modifications effected thereon have been carried out in accordance with specifications of the approved building plans and in conformity with the Express Conditions contained in the Original Title and the terms and conditions of the Penang Development Corporation (“PDC”) Agreement (as defined therein), the relevant building by-laws and applicable prevailing laws and where applicable, additional certificates of fitness for occupation have been issued in respect thereof by the relevant authorities;
- (d) that all the Express Conditions and Restrictions in Interest stipulated in the Original Title and the terms and conditions of the PDC Agreement have been complied in full by DHL and DHL’s continued compliance with the same up to the Completion Date (as defined in the SPA) and the registration of OSK as the registered proprietor of the Property;
- (e) the execution of the lease agreement by DHL and OSK in the format agreed under the terms of the SPA (“DHL Lease”) in escrow upon the execution of the SPA and to be effective on the Completion Date. The principal terms of the DHL Lease are as follows:

- (i) A fixed term of five (5) years from the Completion Date (“Lease Term”) with the following agreed monthly rental:

	<u>Agreed monthly rental</u>
1 <sup>st</sup> year	RM 379,529.35
2 <sup>nd</sup> year	RM 387,119.94
3 <sup>rd</sup> year	RM 394,862.34
4 <sup>th</sup> year	RM 402,759.58
5 <sup>th</sup> year	RM 410,814.77

- (ii) Renewal option at the end of the Lease Term shall be a further five (5) years (“Renewed Lease Term”) and the monthly rental to be renegotiated and mutually agreed by OSK and DHL based on prevailing market rate at least six (6) months prior to the expiry date of the Lease Term in the following manner:-

- For the first year of the Renewed Lease Term, the rent revision shall be based on the prevailing market rate provided that any increase or decrease of the revised rental thereof shall not exceed 10% margin of the last prevailing rental rate on the expiry date of the Lease Term. However if the parties fail to mutually agree on what is the prevailing market rate, then the same will be determined by a registered valuer mutually agreed upon by the parties and the cost thereof to be borne jointly by the parties; and

- For the subsequent 4 years of the Renewed Lease Term, the monthly rental will be increased at 2% per annum upon the completion of every one year commencing from the expiry of the first year of the Renewed Lease Term, on compounded basis.
- (iii) A security deposit equivalent to five (5) months of the agreed monthly rental is required to be maintained at all time and in the event of any increase or variation of the agreed monthly rental at any time during the Lease Term or the Renewed Lease Term, the Security Deposit shall be adjusted to reflect the equivalent to five (5) months of the increased or varied agreed monthly rental.
- (f) DHL continues to maintain and keep in good repair and condition the said Property up to the Completion Date, fair wear and tear excepted subject to the repairs and rectification works stipulated in the SPA (“Repairs”) being effected in the manner provided in the SPA;
- (g) reliance by OSK on each and all of DHL’s representations, warranties and undertakings stipulated in the SPA in respect of the Property and the same remain true, accurate and binding in all material respects up to the Completion Date and, as applicable, deemed repeated on the Completion Date subject always that such representations, covenants and warranties stipulated herein which survive the completion hereof shall continue to subsist for as long as may be necessary to give effect thereto.

### **2.3 Conditions Precedent**

The sale and purchase of the Property shall be conditional upon the following being fulfilled within six (6) months from the date of the SPA or such other extended period that may be mutually agreed between the parties in writing (“the Conditional Period”):

- (a) the consent for the transfer of the Property from DHL in favour of OSK to be obtained from the Pihak Berkuasa Negeri and Perbadanan Pembangunan Pulau Pinang (if applicable) ( “Consent to Transfer”) by DHL, at its own cost and expense. If the Consent to Transfer shall be subject to conditions, the same shall be reasonably acceptable to OSK; and
- (b) the consent for the lease of the Property to be obtained from the Pihak Berkuasa Negeri and Perbadanan Pembangunan Pulau Pinang (if applicable) ( “Consent to Lease”) by DHL, at its own cost and expense, for the DHL Lease. If the Consent to Lease shall be subject to conditions, the same shall be reasonably acceptable to OSK ;
- (c) the approvals and/or consents of any other relevant authorities having jurisdiction over the Property and/or the sale and/or purchase of the Property, being obtained by DHL and/or OSK, as the case may be applicable, which applicability thereof may be advised by DHL’s Solicitors and/or the OSK’s Solicitors from time to time prior to the conditions stipulated in (a) and (b) above being fulfilled (“Other Approvals”). If the Other Approvals shall be subject to conditions, the same shall be reasonably acceptable to OSK.

## **2.4 Basis of the Purchase Price for the Property**

The Purchase Price for the Property is derived on a willing-buyer willing-seller basis after taking into account the total market value of the Property of RM48.5 million as appraised by CB Richard Ellis (Penang) Sdn Bhd, an independent firm of registered valuers, in its valuation report dated 9 September 2011. The valuation is derived using a combination of investment and cost methods of valuation.

The Proposed Acquisition and Leaseback of Property complies with Clause 8.18 of the Securities Commission's ("SC") Guidelines on Real Estate Investment Trusts ("REIT Guidelines").

## **2.5 Liabilities Assumed by Axis-REIT**

Axis-REIT will not assume any liabilities pursuant to the Proposed Acquisition and Leaseback of the Property.

## **2.6 Source of Funding**

The Proposed Acquisition and Leaseback of the Property will be funded by existing bank borrowings of Axis-REIT.

## **3. INFORMATION ON THE VENDOR**

DHL Properties (Malaysia) Sdn Bhd (Co. No: 489729-X) is a private limited company incorporated in Malaysia under the Companies Act, 1965 on 27 July 1999. DHL's principal activities are letting of properties, public bonded facilities and security support services. Its authorized share capital is RM5,000,000 divided into 4,900,000 ordinary shares of RM1.00 each and 100,000 non-cumulative irredeemable preference shares of RM1.00 each. Its issued share capital of RM1,001,000 comprises of 1,000,000 ordinary shares issued and paid up of RM1,000,000 and 1,000 non-cumulative irredeemable preference shares issued and paid up of RM1,000.

## **4. RATIONALE FOR THE PROPOSED ACQUISITION AND LEASEBACK OF THE PROPERTY**

ARMB, the management company of Axis-REIT, aims to provide Unitholders with stable distribution and to achieve growth in net asset value ("NAV") per unit of the Fund through, inter-alia, selectively acquiring properties that meet the Manager's investment criteria. The Purchase Price for the Property is fully supported by the independent valuation conducted on the same by CB Richard Ellis (Penang) Sdn Bhd. The Proposed Acquisition and Leaseback of the Property is consistent with the investment objective and strategy of Axis-REIT and it will be accretive to Axis-REIT's distributable income. The Proposed Acquisition and Leaseback of the Property will at the same time diversify and enlarge Axis-REIT's portfolio of properties and is expected to benefit the Fund in the long term from economies of scale.

## **5. EFFECTS OF THE PROPOSED ACQUISITION AND LEASEBACK OF THE PROPERTY**

### **5.1 Unit Capital and Substantial Unitholders' Unitholding**

The Proposed Acquisition and Leaseback of the Property will not have any effect on the total units of Axis-REIT in issue and substantial unitholders' unitholding of Axis-REIT as the Purchase Price will be paid entirely in cash.

### **5.2 NAV**

The Proposed Acquisition and Leaseback of the Property will have no impact or changes to the unaudited NAV of Axis-REIT at the time of completion.

### **5.3 Earnings**

The Directors of ARMB expect the Proposed Acquisition and Leaseback of the Property to contribute positively to the earnings of the Fund for the financial year ending 31 December 2011, if completion may be effected prior thereof subject to the Conditions Precedent stipulated in the SPA being fulfilled.

### **5.4 Gearing**

ARMB intends to utilise a debt facility of approximately RM 48.5 million from Axis-REIT's existing credit lines. The proposed debt financing will increase Axis-REIT's gearing ratio to 37% of audited total assets as at 31 December 2010, which is below the gearing limit of 50% prescribed by the REIT Guidelines.

## **6. APPROVALS REQUIRED FOR THE PROPOSED ACQUISITION AND LEASEBACK OF THE PROPERTY**

Pursuant to the REIT Guidelines, the valuation set out in the Proposed Acquisition and Leaseback of the Property is not subject to approval by the SC nor the prior approval of the unitholders of Axis-REIT.

## **7. INTERESTS OF DIRECTORS OF ARMB AND SUBSTANTIAL UNITHOLDERS OF AXIS-REIT**

None of the Directors of ARMB and substantial unitholders of Axis-REIT or persons connected to them, has interest, direct or indirect, in the Proposed Acquisition and Leaseback of the Property.

## **8. RISK FACTORS**

The Property may be subject to certain risks inherent in the property market industry. These include but not limited to the following:-

- (a) Non registration of the transfer of the Property;
- (b) Compulsory acquisition by the Government;
- (c) Non-renewal of tenancy after expiry due to change in circumstances of the tenant;
- (d) Adverse changes in national or economic conditions;
- (e) Adverse local market conditions;
- (f) The financial conditions of tenants, buyers and sellers of properties;

- (g) Changes in environmental laws and regulations, zoning laws and other governmental rules and fiscal policies;
- (h) Changes in relative popularity of property types and locations leading to an oversupply of space or a reduction in tenant demand for a particular type of property in a given market;
- (i) Competition among property owners for tenants;
- (j) Illiquidity of real estate investments; and
- (k) Acts of God, uninsurable losses and other factors.

## **9. ESTIMATED TIMEFRAME FOR COMPLETION**

Parties will endeavour to complete the Proposed Acquisition and Leaseback of the Property on or before 31 December 2011 subject to the Conditions Precedent stipulated in the SPA being fulfilled.

## **10. DOCUMENTS FOR INSPECTION**

The following documents are available for inspection at the registered office of ARMB at Suite 11.1A, Level 11, Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur or the place of business of OSK at 6<sup>th</sup> Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur during normal office hours from Monday to Friday (except on public holidays) for a period of three (3) months from the date of this announcement:-

- (i) The SPA on the Proposed Acquisition and Leaseback of the Property; and
- (ii) Valuation report on the Property prepared by CB Richard Ellis (Penang) Sdn Bhd dated 9 September 2011.

This announcement is dated 25 October 2011.