

# **AXIS REAL ESTATE INVESTMENT TRUST**

## **GENERAL ANNOUNCEMENT:**

**PROPOSED ACQUISITION AND LEASEBACK BY AXIS REAL ESTATE INVESTMENT TRUST (“Axis-REIT” OR THE “FUND”) OF AN INDUSTRIAL FACILITY BUILT ON A FREEHOLD LAND MEASURING APPROXIMATELY 10.9095 HECTARES WITHIN KAWASAN PERINDUSTRIAN SiLC, NUSAJAYA, HELD UNDER TITLE H.S.(D) 458080 FOR PTD 5755, MUKIM OF JELUTONG, DISTRICT OF JOHOR BAHRU, JOHOR DARUL TAKZIM (“THE PROPERTY”) FROM YONGNAM ENGINEERING SDN. BHD. (CO. NO. 20445-T) FOR A TOTAL LUMP SUM CASH CONSIDERATION OF RM153.5 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 RHB Trustees Berhad (“RHB”), the trustee for Axis-REIT, has entered into a sale and purchase agreement in relation to the Proposed Acquisition and Leaseback of the Property on behalf of Axis-REIT, details of which are as follows:

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

Axis-REIT proposes to acquire the Property for a total lump sum cash consideration of RM153.5 million from Yongnam Engineering Sdn. Bhd. (“YESB”).

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 RHB and YESB on 3 October 2014. (“SPA”)

Pursuant to the Third Principal Deed dated 28 November 2013 constituting Axis-REIT, entered into between RHB and ARMB, RHB, as the trustee for Axis-REIT, has approved the Proposed Acquisition and Leaseback of the Property vide their letter dated 18 July 2014.

#### **1.2 Information on the Property**

The Property is located within Kawasan Perindustrian SiLC at approximately 25 kilometres (“km”) west of the Johor Bahru city centre and 10km north-west of Kota Iskandar. It occupies a corner position along western side of Persiaran SiLC and northern side of Jalan SiLC 1/5.

Kawasan Perindustrian SiLC is connected to an excellent and established accessibility which is facilitated by comprehensive all around major road network from other strategic economic areas to Iskandar Malaysia.

The major road network includes Jalan Tun Abdul Razak, Tebrau Highway, Skudai Highway, Jalan Tampoi, Inner Ring Road, Second Link Expressway, Pontian Highway as well as North-South Expressway PLUS.

Further details on the Property are set out below:

<b>Land Title Details and Particulars:</b>	HSD 458080/ PTD 5755, Mukim Jelutong District of Johor Bahru, State of Negeri Johor
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<b>Postal Address:</b>	No. 27, Jalan SiLC 1/5, Kawasan Perindustrian SiLC, 79200 Nusajaya, Johor
<b>Tenure:</b>	Freehold
<b>Provisional Land Area:</b>	10.9095 hectares (approximately 26.96 acres or 1,176,120 square feet ("sq. ft."))
<b>Category of Land use:</b>	"Perusahaan/Perindustrian"
<b>Existing property use:</b>	Steel fabrication facility
<b>Description of building:</b>	<ul style="list-style-type: none"> <li>(a) Single storey detached factory – Block 1;</li> <li>(b) Single storey detached factory – Block 2;</li> <li>(c) 2-Storey office building – Block 3;</li> <li>(d) 2-Storey detached building – Block 4 – Maintenance &amp; Canteen Building;</li> <li>(e) Single storey detached building – Block 5 – Training Centre;</li> <li>(f) 3- Storey detached building – Block 6 ;</li> <li>(g) and other supporting structures</li> </ul>
<b>Gross floor area:</b>	Approximately 504,400 sq. ft. (excluding other supporting structures)
<b>Approximate age of building:</b>	Approximately 4 years
<b>Occupancy rate as at 15 August 2014:</b>	100%
<b>Express Conditions:</b>	<ul style="list-style-type: none"> <li>i) Tanah ini hendaklah digunakan sebagai kawasan industri sesebuah untuk tujuan Lot Industri Sesebuah and kegunaan lain yang berkaitan dengannya, dibina mengikut pelan yang diluluskan oleh Pihak Berkuasa Tempatan yang berkenaan.</li> <li>ii) Segala kekotoran dan pencemaran akibat daripada aktiviti ini hendaklah disalurkan ke tempat-tempat yang telah ditentukan oleh Pihak Berkuasa Tempatan yang Berkenaan.</li> <li>iii) Segala dasar dan syarat yang ditetapkan dan dikuatkuasakan dari semasa ke semasa hendaklah dipatuhi.</li> </ul>
<b>Encumbrances:</b>	Charged four (4) times to Malayan Banking Berhad vide presentation nos. 80383/2009, 80384/2009, 80385/2009 & 80386/2009, all registered on 5 November 2009.

**Initial net yield before  
Islamic financing cost:** 7.2% per annum

**Net book value:** RM62.8 million based on latest management accounts of YESB as at 30 June 2014

## **2. 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 RM153.5 million ("Purchase Price") is payable in the following manner:-
  - (i) A total sum of RM3,070,000 being the equivalent of 2% of the Purchase Price being the refundable earnest deposit has already been paid by RHB to RHB's solicitors as stakeholders prior to the execution of the SPA;
  - (ii) A total sum of RM12,280,000 being the equivalent of 8% of the Purchase Price (hereinafter called the "Balance Deposit") shall be paid by RHB to RHB's solicitors as stakeholders on the date of signing of the SPA;
  - (iii) A total sum of RM138,150,000 being the balance of the purchase price (hereinafter called the "Balance Purchase Price") shall be paid by RHB to YESB's solicitors to be held as stakeholders within three (3) months from the date of signing of the SPA or within thirty (30) days from the Unconditional Date (as defined in the SPA) whichever date is the later (hereinafter called the "Completion Period") with a further extension of one (1) month 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, YESB shall execute a valid memorandum of transfer and stamping pro-forma for the purpose of effecting the transfer of the Property in favour of RHB free from all encumbrances ("Memorandum of Transfer") and deposit the same with RHB's solicitors as stakeholders with authorization to deal with the Memorandum of Transfer on the terms and conditions as set out therein.
- (c) The Proposed Acquisition and Leaseback of the Property must be fully completed by 31 March 2015, failing which RHB and YESB will take all reasonable efforts to renegotiate (for a period not exceeding 30 days) in good faith to achieve an amicable solution, without compromising the interest of either party, in order to proceed with completion.

## 2.2 The other salient terms of the SPA

The basis for 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 ("CFO") and the subsequent Certificate of Completion and Compliance ("CCC") shall have been 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 by Majlis Perbandaran Johor Bahru Tengah in all material respects and in conformity with the Express Conditions contained in the title, the relevant building bye-laws and where applicable, additional CCC have been issued in respect thereof by the relevant authorities or the principal submitting person, as the case may be;
- (d) that all the Express Conditions stipulated in the Property's title have been complied in full by YESB and YESB's continued compliance with the same up to the Completion Date and the registration of RHB as the registered proprietor of the Property;
- (e) the execution of the lease agreement by RHB and YESB, in the format agreed under the terms of the SPA (the "Yongnam Lease"), in escrow upon the execution of the SPA to be effective on the Completion Date. The principal terms of the Yongnam Lease are as follows:
  - (i) A fixed term of fifteen (15) years from the Completion Date ("Lease Term") with the following agreed monthly rental:

	<u>Agreed monthly rental</u>
1 <sup>st</sup> term of 3-year	RM969,313.00
2 <sup>nd</sup> term of 3-year	RM1,066,244.00
3 <sup>rd</sup> term of 3-year	RM1,172,869.00
4 <sup>th</sup> term of 3-year	RM1,290,156.00
5 <sup>th</sup> term of 3-year	RM1,419,171.00

- (ii) Renewal option at the end of the Lease Term shall be a further fifteen (15) years ("Renewed Lease Term") and the monthly rental to be renegotiated and mutually agreed by RHB and YESB based on prevailing market rate at least twelve (12) months prior to the expiry date of the Lease Term.
    - (iii) A security deposit equivalent to six (6) 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 six (6) months of the increased or varied agreed monthly rental.

- (iv) YESB to deliver to RHB a corporate guarantee (“Corporate Guarantee”) by its holding company; Yongnam Holdings Limited (Co. No. 199407612N) (“YHL”) to guarantee YESB’s discharge and performance of all its obligations under the Yongnam Lease which take effect on the Completion Date and subject to the terms therein, the Corporate Guarantee shall be valid and subsisting for the duration of the Lease Term and the Renewed Period, as the case may be.
- (f) YESB to effect and complete the repairs and rectification works stipulated in the SPA (“Repairs”) in the manner provided in the SPA;
- (g) reliance by RHB on each and all of YESB’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.

## **2.3 Conditions Precedent**

The sale and purchase of the Property shall be conditional upon the following being fulfilled within three (3) 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) YESB obtaining the approval of the board of directors and shareholders (if applicable) of its holding company, YHL for the sale of the Property to RHB; and
- (b) YESB undertaking and completing the said Repairs to the reasonable satisfaction of the RHB.
- (c) If RHB is obtaining a loan to finance the Property, RHB will obtain the prior written consent of its financier consenting to the lease of the Property to YESB on the terms set out therein and confirming that it will execute the memorandum of lease to register the lease with the Land Office.

## **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 RM156.0 million as appraised by CB Richard Ellis (Malaysia) Sdn Bhd, an independent firm of registered valuers, in its valuation report dated 15 August 2014. 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”) issued on 21 August 2008 and updated on 28 December 2012.

## **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 new/ existing bank borrowings of Axis-REIT.

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

Yongnam Engineering Sdn. Bhd. (Co. No: 20445-T) is a private limited company incorporated in Malaysia under the Companies Act, 1965 on 14 October 1974, with previous name, Yongnam Engineering & Trading Sdn Bhd. YESB's principal activity is fabrication engineering work. Its authorized share capital is RM5,000,000 divided into 5,000,000 ordinary shares of RM1.00 each. Its issued and paid up share capital is RM2,500,000.00 divided into 2,500,000 ordinary shares of RM1.00 each.

## **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 (Malaysia) 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 2014, 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 RM153.5 million from Axis-REIT's existing credit lines. The proposed debt financing will increase Axis-REIT's gearing ratio to 38.58% of audited total assets as at 31 December 2013, 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 OR MAJOR SHAREHOLDER OF ARMB, AND MAJOR UNITHOLDERS OF AXIS-REIT**

None of the Directors or major shareholder of ARMB and major 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 lease after expiry due to change in circumstances of the lessee ;
- (d) Adverse changes in national or economic conditions;
- (e) Adverse local market conditions;
- (f) The financial conditions of lessees, 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 2014 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 RHB 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 (Malaysia) Sdn. Bhd. dated 15 August 2014.

This announcement is dated 7 October 2014.