

AXIS REAL ESTATE INVESTMENT TRUST (“AXIS-REIT”)

PROPOSED DEVELOPMENT OF A BUILT-TO-SUIT SINGLE-STOREY WAREHOUSE WITH A BUILT-UP AREA OF APPROXIMATELY 515,000 SQUARE FEET INCLUSIVE OF ANCILLARY BUILDINGS AND EXTERNAL ELEMENTS, TO BE CONSTRUCTED ON A PARCEL OF LAND MEASURING APPROXIMATELY 24.78 ACRES FORMING PART OF AXIS PDI CENTRE (AS DEFINED HEREIN) (“LAND”)

1. INTRODUCTION

On behalf of the Board of Directors of Axis REIT Managers Berhad, the management company of Axis-REIT (“**Manager**”) (“**Board**”), Maybank Investment Bank Berhad (“**Maybank IB**”) wishes to announce that Axis-REIT proposes to construct a warehouse on a parcel of land measuring approximately 24.78 acres forming part of a parcel of leasehold industrial land for 99 years (expiring on 10 August 2091) held under H.S.(D) No. 4568, Lot No. PT 3609, Mukim Telok Panglima Garang, District of Kuala Langat, State of Selangor Darul Ehsan (“**Axis PDI Centre**”) (“**Phase 1 Development**”).

In this regard, RHB Trustees Berhad, the trustee of Axis-REIT (“**Trustee**”), on behalf of Axis-REIT, has on 19 August 2016 entered into an agreement with Nestlé Products Sdn Bhd (“**Interested Tenant**”) to, among others:

- (i) agree on the details of the technical specifications furnished and approved by the Interested Tenant in respect of the Phase 1 Development (“**Interested Tenant’s Specifications**”);
- (ii) agree to enter into a lease agreement between the Trustee and the Interested Tenant for the Trustee to lease the Land together with a built-to-suit single-storey warehouse with a built-up area of approximately 515,000 square feet (“**sq ft**”) inclusive of ancillary buildings and external elements to serve for the operation of a warehouse, to be constructed on the Land (“**Distribution Centre**”) (the Land and Distribution Centre are collectively to be referred to as “**Demised Premises**”), to the Interested Tenant (“**Lease**”) at an agreed rental rate with rental step-up in later years (“**Lease Agreement**”); and
- (iii) agree on the terms of the Lease Agreement upfront.

(collectively referred to as “**Agreement to Build & Lease**”)

The Lease Agreement will be executed prior to the date of actual delivery of vacant possession of the Demised Premises to the Interested Tenant (“**Vacant Possession Date**”). The Lease will only commence after the fulfilment of the conditions precedent as set out in Section 3.4.2(vi) below.

2. DETAILS OF AXIS PDI CENTRE

- 2.1 On 15 October 2010, the Trustee, on behalf of Axis-REIT, completed the acquisition of Axis PDI Centre for a purchase consideration of RM85.0 million (“**Acquisition**”).

At the point of the Acquisition, Axis PDI Centre was fully leased to Konsortium Logistik Berhad as a pre-delivery inspection centre for automotive vehicles. Since 1 October 2015, Axis PDI Centre has been vacant.

- 2.2 The existing Axis PDI Centre consists of a parcel of industrial land erected with a single-storey pre-delivery and inspection building with an integral double-storey office, a single-storey car repair building, car storage areas and other ancillary building.

2.3 Axis PDI Centre is located close to West Port and the upcoming Johan Setia light rail transit station in Klang.

2.4 Key details of the existing Axis PDI Centre are as follows:

Postal address	: Lot No. 7316, off Jalan Klang/Banting within locality of Sijangkang 42500 Telok Panglima Garang Selangor Darul Ehsan
Land title details	: H.S.(D) No. 4568, Lot No. PT 3609, Mukim Telok Panglima Garang, District of Kuala Langat, State of Selangor Darul Ehsan
Tenure	: Leasehold for 99 years, expiring on 10 August 2091 (i.e. an unexpired term of 75 years remaining)
Title land area	: Approximately 202,343 square metres (“sq m”) (approximately 50.0 acres)
Surveyed land area	: Approximately 195,412 sq m (approximately 48.3 acres)
Gross floor area/net lettable area (“NLA”)	: 58,009 sq ft
Category of land use	: Industrial
Restriction in interest	: The land cannot be transferred, leased or charged unless with the consent from the State Authority

2.5 Given the current built-up area of the existing building on Axis PDI Centre relative to the size of the land (representing approximately 2.76% of the surveyed land area), the Manager has decided to further develop the site by constructing the Distribution Centre on the Land. The development of the remaining 23.52 acres of surveyed land area of Axis PDI Centre will be undertaken in a separate phase. Further details of the Phase 1 Development are set out in Section 3 below.

3. DETAILS OF THE PHASE 1 DEVELOPMENT

3.1 Key details of the Phase 1 Development can be summarised as follows:

Features	: Basic specifications: <ul style="list-style-type: none">▪ Distribution centre built to the Interested Tenant’s Specifications▪ Long-term sustainable building design▪ Flexible modular space configurations Further enhancements pursuant to the Interested Tenant’s Specifications: <ul style="list-style-type: none">▪ Enhanced roof truss loading and floor resistance▪ Early Suppression Fast Response (ESFR) fire fighting system▪ Compartmentalised layout configurations▪ Warehouse racking system (“Racking System”)
NLA	: Approximately 515,000 sq ft
Tenure	: Initial lease term of ten (10) years ⁽¹⁾ , with the Interested Tenant’s option to renew for two (2) additional terms of three (3) years each
Gross rental income	: Approximately RM19.22 million per annum, with rental step-up in later years

Estimated total development cost : Approximately RM210.93 million

Estimated initial gross yield ⁽²⁾ : Approximately 7.6% per annum

Notes:

⁽¹⁾ *If the State Authority Approval (as defined in Section 3.4.1(iii) below) is not obtained by the date of the certificate of completion and compliance for the Demised Premises (“CCC”), either the Trustee or the Interested Tenant shall be entitled to request that the Trustee and the Interested Tenant enter into good faith discussions to consider and agree on an alternative arrangement or structure that will enable the Interested Tenant to lawfully use and occupy the Demised Premises for the permitted use set out in the Agreement to Build & Lease and on substantially the same terms and charges contained in the Agreement to Build & Lease and the Lease Agreement.*

⁽²⁾ *Computed based on the gross rental income of approximately RM19.22 million to be received by Axis-REIT in the first year of the Lease, the estimated total development cost of RM210.93 million and purchase consideration paid by Axis-REIT in respect of the Acquisition, which has been apportioned based on the surveyed land area attributable to the Phase 1 Development.*

- 3.2 The Trustee will appoint a third party main contractor in respect of the construction of the Distribution Centre (“**Appointed Contractor**”). Specialists’ work such as piling, mechanical and electrical services shall be undertaken by nominated sub-contractors selected by the Appointed Contractor.
- 3.3 The progress payments for the construction of the Phase 1 Development will be solely borne by Axis-REIT, which will be financed by Axis-REIT’s existing credit facilities as well as additional bank financing.
- 3.4 The salient terms of the Agreement to Build & Lease and the form of the Lease Agreement mutually agreed by the Trustee and the Interested Tenant as annexed to the Agreement to Build & Lease, are as follows:

3.4.1 Agreement to Build & Lease

- (i) The Trustee shall at its own costs and expenses, construct the Distribution Centre in accordance with the terms in the Agreement to Build & Lease including the Interested Tenant’s Specifications, the layout plan and the building plan. Subject to the aforesaid, the Trustee agrees to grant the Lease to the Interested Tenant for the Term (as defined in Section 3.4.2(i) below) commencing from a date falling at least four (4) months from the Vacant Possession Date, provided that it shall be a date no earlier than 1 June 2018 (“**Commencement Date**”). In furtherance of the intention, the Trustee and the Interested Tenant agree and covenant that they shall execute the Lease Agreement within 14 days from the date when the approval by the appropriate authority of the building plan is obtained.
- (ii) Save for the delay caused by the following events, the Trustee shall complete the construction of the Distribution Centre in a timely manner and meet the key milestones set out in the Agreement to Build & Lease by the Handover Date (as defined in Section 3.4.1(v) below) including procuring the issuance of the CCC and deliver vacant possession of the Demised Premises to the Interested Tenant by the Handover Date:
- (a) force majeure event occurring; and/or
- (b) amendments, variations or modifications to the Interested Tenant’s Specifications, whether required by the relevant authorities or the Interested Tenant, as the case may be.
- (iii) The Trustee shall, at its own costs and expense, apply for the approval of the State Authority for the Lease (“**State Authority Approval**”).

- (iv) If the State Authority Approval is not obtained by the date on which the CCC is issued, either the Trustee or the Interested Tenant shall be entitled to request that the Trustee and the Interested Tenant enter into good faith discussions to consider and agree on an alternative arrangement or structure that will enable the Interested Tenant to lawfully use and occupy the Demised Premises for the permitted use set out in the Agreement to Build & Lease and on substantially the same terms and charges contained in the Agreement to Build & Lease and the Lease Agreement, which shall include the possibility of a tenancy of the Demised Premises by the Interested Tenant for a term of three (3) years ("**Alternative Structure**") by giving the other party a notice in writing of such intention ("**Notice for Alternative Structure**").

Upon a party's receipt of the Notice for Alternative Structure from the other party:

- (a) the Trustee and the Interested Tenant shall within 14 days from the date of the Notice for Alternative Structure, work together in good faith to finalise a definitive agreement in respect of the agreed Alternative Structure to be entered into between the parties on substantially the same terms and conditions as contained in the Lease Agreement ("**Alternative Agreement**"); and
- (b) the Trustee and the Interested Tenant shall take all necessary actions to terminate the Lease Agreement simultaneously with the execution of the Alternative Agreement and thereafter, both parties shall have no further claims against the other arising under the Lease Agreement, save for antecedent breaches.
- (v) The date of handover of the Demised Premises ("**Handover Date**") shall be on or before 31 January 2018 or such extended date as may be mutually agreed by the Trustee and the Interested Tenant or as otherwise provided in the Agreement to Build & Lease subject to the fulfilment of the following:
- (a) the Trustee having obtained the CCC;
- (b) the installation of the Racking System in the Distribution Centre having been completed; and
- (c) the Interested Tenant having executed the Lease Agreement and paid the Security Deposit (as defined in Section 3.4.2(iv) below), utilities deposit and advance rental in accordance with the terms of the Lease Agreement.

- (vi) In the event that the Trustee is in breach of Section 3.4.1(ii) above and subject to the extensions of the Handover Date in accordance with the Agreement to Build & Lease, the Trustee agrees to pay the Interested Tenant the sum of RM53,000 for each and every day (or any part thereof) of delay after 31 January 2018 (“**Cut-Off Date**”) for the issuance of the CCC as agreed liquidated damages for such delay (“**Agreed Liquidated Damages**”) up to a maximum of 120 days from the Cut-Off Date (“**LAD Cut-Off Date**”) and thereafter the Interested Tenant shall be entitled to all rights and relief arising from law and equity, including the right to claim for damages which it suffers for the period commencing after the LAD Cut-Off Date, where it seeks to extend the remedial period or to terminate the Agreement to Build & Lease, as the case may be.
- (vii) The Trustee shall, within seven (7) business days from the Vacant Possession Date, pay the aggregate of the Agreed Liquidated Damages to the Interested Tenant calculated from the day falling immediately after the Cut-Off Date (subject to the extensions of the Handover Date provided therein) up to and including the date on which the CCC is issued, failing which the Trustee shall pay compensation on the outstanding amount at a rate of 12% per annum, calculated on a daily basis based on a 365-day year from the due date thereof to the date of actual payment thereof.
- (viii) If at any time during the construction of the Distribution Centre:
- (a) any amounts whatsoever due and payable by the Interested Tenant to the Trustee under the terms of the Agreement to Build & Lease and/or the Lease Agreement or any part thereof shall be in arrears;
 - (b) the Interested Tenant commits a material breach of any of the terms and conditions contained in the Agreement to Build & Lease (including the non-execution of the Lease Agreement, non-payment of the Security Deposit and/or utilities deposit) and/or any of its representations are inaccurate or incorrect so as to materially affect the operation of the provisions of the Agreement to Build & Lease and/or the Lease Agreement; or
 - (c) any order is made or a resolution is passed or legislation is enacted for the winding up, dissolution, liquidation or bankruptcy, as the case may be, of the Interested Tenant,

the Trustee shall be entitled to give to the Interested Tenant a written notice to remedy the material breach or default in question within a period of 30 days (save in the event of default under this Section 3.4.1(viii)(a), where the period of remedy shall be 14 days) from the date of the Interested Tenant’s receipt of such notice from the Trustee.

(ix) If the Interested Tenant fails to remedy the breach or default complained of upon the expiration of the 30 days' notice period (save in the event of default pursuant to Section 3.4.1(viii)(a) above) or the breach or default complained of is not capable of being remedied by the Interested Tenant, it shall be lawful for the Trustee, at its election, at any time thereafter to:

(a) be entitled to the remedy of specific performance of the Agreement to Build & Lease and the Lease Agreement against the Interested Tenant and all relief flowing therefrom at the costs and expense of the Interested Tenant (including reasonable solicitors' fees on solicitors and client basis) without prejudice to any other remedies that may be available to the Trustee under applicable laws; or

(b) to terminate the Agreement to Build & Lease and the Lease Agreement by notice in writing to the Interested Tenant informing the Interested Tenant of the Trustee's intention to terminate the Agreement to Build & Lease and the Lease Agreement within 30 days from such notice and if the breach is still not remedied within the said 30 days, the Agreement to Build & Lease and Lease Agreement shall terminate whereupon the Interested Tenant shall within seven (7) days of such termination:

(aa) pay to the Trustee an amount equivalent to the Rent (as defined in Section 3.4.2(ii) below) for the whole unexpired period of the Term as agreed liquidated damages, subject to the Trustee's duty to mitigate its losses under applicable law. In this regard, the Trustee is entitled to withhold the Security Deposit and utilities deposit (or such sums thereof still available) towards payment of the said agreed liquidated damages;

(bb) redeliver vacant possession of the Demised Premises to the Trustee in accordance with its covenants set out in the Agreement to Build & Lease and under the Lease Agreement (if vacant possession has been delivered prior thereof);

(cc) withdraw any encumbrances (including any private caveat and/or registered lease and/or endorsement of notice on title) that may have been created by the Interested Tenant on the Demised Premises and/or the Land, as the case may be,

and subject to the Interested Tenant's compliance of its obligations under this Section 3.4.1(ix)(b), the Agreement to Build & Lease shall be of no further force or effect upon termination thereof.

(x) If at any time during the construction of the Distribution Centre, provided that the Interested Tenant shall be in compliance with its obligations under the Agreement to Build & Lease:

(a) the Trustee fails to carry out the construction works for the Distribution Centre in compliance with the key milestones set out in the Agreement to Build & Lease;

- (b) the Trustee fails to hand over the Distribution Centre to the Interested Tenant together with the CCC and the Racking System by 31 January 2018 or any extension(s) thereof as may be mutually agreed by the Trustee and the Interested Tenant or as provided under the Agreement to Build & Lease, as the case may be;
- (c) apart for the events provided in Sections 3.4.1(x)(a) and (b) herein, the Trustee shall be in material breach of the Agreement to Build & Lease or the Lease Agreement;
- (d) any step is taken or an order is made or a resolution is passed or legislation is enacted for the winding up, dissolution, liquidation or bankruptcy, as the case may be, of the Trustee or a petition for winding up or bankruptcy, as the case may be, is presented against the Trustee; or
- (e) any execution or attachment shall be levied, enforced or issued against any of the Trustee's assets which affects, impacts or relates to the Land;

then and in any of the foregoing cases, it shall be lawful for the Interested Tenant at any time thereafter to serve a notice upon the Trustee requiring the Trustee to remedy the breach within 30 days of the Trustee's receipt of such notice (save in the event of default under Sections 3.4.1(x)(a) and (b) herein, the period for remedy shall be 120 days only) or such extended period as may be mutually agreed between the Trustee and the Interested Tenant.

- (xi) In the event that the Trustee fails to remedy the breach or default complained of upon the expiration of the said 30 days' notice period (save in the event of default under Sections 3.4.1(x)(a) and (b) above), the Interested Tenant shall be entitled at its sole and absolute discretion to:
 - (a) the remedy of specific performance under the Agreement to Build & Lease and the Lease Agreement against the Trustee and to all relief flowing therefrom at the costs and expense of the Trustee (including reasonable solicitors' fees on solicitors and client basis) which shall be without prejudice to any other remedies that may be available to the Interested Tenant under applicable laws, including the right to claim for damages as set out in the Agreement to Build & Lease, provided that the Trustee shall not be liable to the Interested Tenant for any unforeseeable losses and/or loss of revenue and/or loss of profit of the Interested Tenant, as the case may be, arising from its breach of the Agreement to Build & Lease; or

- (b) terminate the Agreement to Build & Lease by way of notice in writing to the Trustee and thereupon the Agreement to Build & Lease shall be treated as terminated without prejudice to any right of action and/or relief by the Interested Tenant against the Trustee (including for damages) in respect of the breach and/or any antecedent breach of the terms and conditions contained in the Agreement to Build & Lease subject to the Interested Tenant's duty to mitigate its losses under applicable law and provided that the Trustee shall not be liable to the Interested Tenant for any unforeseeable losses and/or loss of revenue and/or loss of profit of the Interested Tenant, as the case may be, arising from the Trustee's breach of the Agreement to Build & Lease.
- (xii) The Earnest Deposit (as defined in Section 3.4.2(iii) below), Security Deposit and the utilities deposit paid by the Interested Tenant to the Trustee remaining in the possession of the Trustee together with any other payments due to the Interested Tenant, including interest, if any, shall forthwith be refunded upon such termination, failing which the Trustee shall pay compensation on the outstanding amounts at a rate of 12% per annum, calculated on a daily basis based on a 365-day year from the due date thereof to the date of actual payment thereof.

3.4.2 Lease Agreement

- (i) The Trustee and the Interested Tenant agree that the term of the Lease shall be for a fixed period of ten (10) years ("**Term**") from the Commencement Date subject to the terms of the Lease Agreement.
- (ii) The Trustee and the Interested Tenant agree that the amount of monthly rent payable by the Interested Tenant to the Trustee in respect of the Demised Premises ("**Rent**") for the Term shall be calculated using the following formula:

$$\text{Monthly rental} = \frac{\text{Monthly rental rate of the Demised Premises on a per square foot basis for the relevant year}}{\text{Actual gross built-up area of the Distribution Centre}} \times$$
- (iii) A total sum of RM1,601,650 being an amount equivalent to one (1) month's Rent ("**Earnest Deposit**") shall be paid by the Interested Tenant to the Trustee's solicitors as stakeholders prior to the execution of the Lease Agreement. The Earnest Deposit shall be treated as part payment of the Security Deposit.
- (iv) A total sum of RM19,219,800 ("**Security Deposit**") before deduction of the Earnest Deposit shall be paid by the Interested Tenant to the Trustee's solicitors as stakeholders on or before 31 January 2017 or upon execution of the Lease Agreement, whichever is later, in accordance with the Lease Agreement.
- (v) Upon the Commencement Date, the Security Deposit shall be reduced to a sum equivalent of six (6) months' Rent to be payable by the Interested Tenant.

(vi) The commencement of the Lease shall be conditional upon the fulfilment of the following conditions:

- (a) the Trustee obtaining the State Authority Approval; and
- (b) the delivery of vacant possession of the Demised Premises (after issuance of the CCC) to the Interested Tenant in accordance with the terms of the Agreement to Build & Lease.

(collectively referred to as the “**Conditions Precedent**”)

(vii) In the event any one or more of the following events occur:

- (a) if the Rent (or any part thereof) is in arrears for seven (7) days after the same has become due and payable;
- (b) there is a material breach of any of the covenants by the Interested Tenant contained in the Lease Agreement;
- (c) the Interested Tenant goes into liquidation or has any order made or resolution passed for winding up or enters into any composition or arrangement with its creditors or suffers execution to be levied upon any of its good or effects;
- (d) if a receiver or receiver and manager or judicial manager (including an interim judicial manager) is appointed over the Interested Tenant or any of the Interested Tenant's undertaking property or assets or any part thereof;
- (e) if any distress or execution proceedings is levied against the Interested Tenant and the same is not satisfied or discharged by the Interested Tenant within 30 days of the Interested Tenant's receipt of the notice pertaining to the distress or execution proceeding; or
- (f) the Interested Tenant fails to accept delivery of vacant possession on the Vacant Possession Date in accordance with the Agreement to Build & Lease,

the Trustee shall be entitled to deliver a written notice on the Interested Tenant to remedy the same within 30 days or such longer time as may be reasonable to remedy the alleged breach (in the event of non-payment of Rent, within 14 days) upon the Interested Tenant's receipt of the Trustee's notice.

- (viii) In the event that the Interested Tenant does not, neglects or fails to remedy the breach stipulated within the time, then provided that the Trustee is not in material breach of any of its obligations under the Lease Agreement, the Trustee shall be entitled to, at its election:
- (a) to first deduct the amount outstanding from the Security Deposit and/or the utilities deposit (as the case may be) in accordance with Lease Agreement. Subject to confirmation in writing from the Trustee that the breach has been remedied and the Security Deposit or the utilities deposit (as the case may be) has been so deducted, the Interested Tenant shall be obliged to ensure that the Security Deposit and/or the utilities deposit be topped up accordingly to ensure that the Security Deposit and the utilities deposit shall be maintained at the level specified in the Lease Agreement at all times; and
 - (b) sue and take any other action against the Interested Tenant as the Trustee deems fit to recover all monies due and owing to the Trustee in excess of the Security Deposit and utilities deposit; and/or
 - (c) the remedy of specific performance of the Lease Agreement against the Interested Tenant and to all relief flowing therefrom at the costs and expense of the Interested Tenant (including reasonable solicitors' fees on solicitors and client basis) without prejudice to any other remedies that may be available to the Trustee under applicable laws; or
 - (d) notwithstanding the foregoing remedies and without the need to exhaust any of the foregoing remedies, the Trustee shall be entitled to serve a notice to terminate the Lease Agreement and re-enter upon the whole or any part of the Demised Premises. The Lease Agreement shall absolutely determine but without prejudice to any rights which may have accrued to the Trustee by reason of any antecedent breach of any of the covenants on the part of the Interested Tenant contained in the Lease Agreement. For the purposes of the said notice of termination, a period of 30 days shall be deemed as reasonable and sufficient time in which to remedy the breach or default which is the subject matter of the said notice of termination.

Sections 3.4.1(ix)(b) and (xi) above will apply mutatis mutandis in relation to the other salient terms of the Lease Agreement in respect of termination arising from breach or default by the Interested Tenant and/or Trustee.

4. RISK FACTORS

4.1 Failure to enter into the Lease Agreement

The arrangement contemplated under the Phase 1 Development entails the construction of the Phase 1 Development to commence on the basis that the Trustee and the Interested Tenant have entered into the Agreement to Build & Lease, without having to execute the Lease Agreement upfront. Nevertheless, the form of the Lease Agreement has been mutually agreed by the Trustee and the Interested Tenant, which is annexed to the Agreement to Build & Lease.

Notwithstanding that the Trustee and the Interested Tenant have entered into and are bound to perform their obligations under the Agreement to Build & Lease, which include the execution of the Lease Agreement prior to the Vacant Possession Date, any party may refuse or fail to perform its obligations as set out therein. If the Lease Agreement is not entered into for whatever reason, this may result in the Demised Premises being left vacant for a substantial period of time. Nevertheless, agreed liquidated damages may be payable by the Interested Tenant to the Trustee in the event the Interested Tenant fails to execute the Lease Agreement in accordance with Section 3.4.1(ix)(b)(aa) above.

Notwithstanding the above, the Agreement to Build & Lease is a legal and valid contract which imposes binding obligations on the Trustee and the Interested Tenant. Accordingly, the purpose of the Agreement to Build & Lease is that prior to the Vacant Possession Date, the Interested Tenant is legally bound to enter into the Lease Agreement subject to certain agreed conditions being fulfilled.

In the event the Interested Tenant fails to enter into the Lease Agreement prior to the Vacant Possession Date, the Trustee will be entitled to all legal remedies pursuant to the Agreement to Build & Lease, including both damages and specific performance (whereby the court will decree and compel the defaulting party to perform their obligations).

4.2 Delay in the Vacant Possession Date

4.2.1 Delay in construction works and/or non-performance by contractors in respect of the construction of the Distribution Centre

As set out in Section 3.2 above, the construction of the Distribution Centre will be undertaken by the Appointed Contractor, while specialists' work shall be undertaken by nominated sub-contractors selected by the Appointed Contractor. Any delay in construction works and/or non-performance by the Appointed Contractor and/or its nominated sub-contractors of their obligations may result in a delay in the completion of the Phase 1 Development and consequently, the Handover Date. As set out in Section 3.4.1(vi) above, the Trustee will be required to pay the Agreed Liquidated Damages to the Interested Tenant as compensation for any delay after 31 January 2018.

Nevertheless, the Trustee is committed to adopt and apply the industry's best practices of the property development sector and in this regard, will stand guided by the architect appointed by the Trustee ("**Architect**") and its team of consultants. To ensure that the construction of the Phase 1 Development will be completed in accordance with the Interested Tenant's Specifications in a timely manner, the Trustee will appoint a reputable main contractor.

Although at this juncture, the main contractor has yet to be appointed and hence, the contractual terms have yet to be finalised, the Trustee will use its best endeavours to ensure that the interest of Axis-REIT is protected and that the terms of engagement are in accordance with the industry's best practice.

4.2.2 Delay in the issuance of the CCC

As set out in Section 3.4.1(ii) above, the Trustee is required to, among others, procure the issuance of the CCC and deliver vacant possession of the Demised Premises to the Interested Tenant by the Handover Date. Any delay in obtaining the necessary approvals from the relevant authorities may result in a delay in the issuance of the CCC by the Architect and consequently, the Handover Date. Accordingly, in the instance where the construction works are completed by the Appointed Contractor within the timeframe stipulated in the construction contract but the issuance of the CCC is delayed such that it results in a delay in the Handover Date, the Trustee will be solely responsible to pay the Agreed Liquidated Damages to the Interested Tenant as compensation.

Nevertheless, to ensure that the issuance of the CCC is procured within the stipulated timeframe, the Trustee has appointed a team of qualified architect and consultants. In addition, the Trustee will endeavour to ensure compliance with any conditions that may be imposed by the relevant authorities in ensuring a smooth process in procuring the issuance of the CCC.

5. RATIONALE FOR THE PHASE 1 DEVELOPMENT

5.1 Increase in gross revenue, net property income and income distribution to the unitholders of Axis-REIT (“Unitholders”)

The Phase 1 Development is expected to transform part of Axis PDI Centre from a vacant non-income generating property into the Distribution Centre with a long-term lease in place.

Arising from the Lease, Axis-REIT is expected to derive rental income from part of the development of Axis PDI Centre given that the Lease will commence after the Conditions Precedent are fulfilled without having to wait for the completion of the development of the remaining land area of Axis PDI Centre, i.e. second phase of the proposed development. The rental income of approximately RM19.22 million per annum from the Phase 1 Development (representing approximately 11.8% of the audited realised gross revenue of Axis-REIT of RM163.1 million for the financial year ended (“FYE”) 31 December 2015) alone represents a significant increase in rental income as compared to that contributed by the previous tenant of RM8.58 million per annum (representing 5.3% of the audited realised gross revenue of Axis-REIT for the FYE 31 December 2015). The initial gross yield for the first three (3) years of the Lease is estimated to be approximately 7.6%, with rental step-up in later years. As such, the Phase 1 Development is expected to improve the gross revenue and net property income of Axis-REIT and correspondingly, the income distribution to the Unitholders, in addition to enlarging the size of assets under management of Axis-REIT.

5.2 Gearing ratio of Axis-REIT after the Phase 1 Development is below the permissible threshold stipulated in the Guidelines on Real Estate Investment Trusts issued by the Securities Commission Malaysia (“SC”)

The gearing ratio of Axis-REIT is expected to increase from 34.2% (as at 31 December 2015) to 40.1% arising from the Phase 1 Development (based on the estimated total development cost of approximately RM210.93 million). Notwithstanding, Axis-REIT may implement a placement exercise to repay its bank financing to reduce its gearing ratio as part of prudent capital management (“**Placement Exercise**”). Based on the maximum number of units in Axis-REIT (“**Units**”) that may be issued by Axis-REIT of up to 219,103,216 new Units under the authority that was approved by the Unitholders on 21 August 2015 and further renewed by the Unitholders on 29 April 2016, and the illustrative issue price of RM1.62 per Unit (based on a discount of 10.0% to the five (5)-day volume-weighted average market price of the Units up to and including 18 August 2016 of RM1.80 per Unit), the estimated net proceeds that may be raised from the Placement Exercise is approximately RM351.40 million. Assuming that the net proceeds from the Placement Exercise are used to fully repay Axis-REIT’s bank financing, the gearing ratio of Axis-REIT is expected to further decrease from 40.1% to 25.1% after the implementation of the Placement Exercise.

6. EFFECTS OF THE PHASE 1 DEVELOPMENT

6.1 Unitholders’ capital

The Phase 1 Development will not have any effect on the Unitholders’ capital.

6.2 Distributable income

The Manager has paid an income distribution of 8.40 sen per Unit for the FYE 31 December 2015 (approximately 99.95% of Axis-REIT’s income available for distribution).

The Phase 1 Development is not expected to have any material effect on Axis-REIT’s distribution policy as determined by the Board. The decision to declare and pay distributable income in the future would depend on the financial performance and cash flow position of Axis-REIT, and prevailing economic conditions.

6.3 Substantial Unitholders’ unitholdings

The Phase 1 Development will not have any effect on Axis-REIT’s substantial Unitholders’ unitholdings in Axis-REIT.

6.4 Earnings per Unit

The Phase 1 Development will not have any immediate effect on Axis-REIT’s earnings per Unit given that the total development cost (including Islamic financing costs) for the Phase 1 Development will be fully capitalised. Moving forward, the Phase 1 Development is expected to contribute positively to the earnings of Axis-REIT upon commencement of the Lease.

6.5 Net asset value (“NAV”) per Unit and gearing

For illustrative purposes only, based on the audited statement of financial position of Axis-REIT as at 31 December 2015 and on the assumption that the Phase 1 Development had been effected on that date, the proforma effects of the Phase 1 Development on the NAV per Unit and gearing of Axis-REIT are as follows:

	Audited as at 31 December 2015	(l) Significant event previously announced and completed Acquisition of property situated in Kulaijaya ⁽¹⁾	After (l) and the Phase 1 Development ⁽⁵⁾
	RM'000	RM'000	RM'000
Unitholders' capital	1,052,272	1,052,272	1,052,272
Undistributed distributable income	19,036	19,036	19,036
Non-distributable reserve	281,177	⁽²⁾ 281,855	281,855
NAV	1,352,485	1,353,163	1,353,163
Number of Units in circulation ('000)	1,099,793	1,099,793	1,099,793
NAV per Unit (RM)	1.23	1.23	1.23
Total financing	731,814	⁽³⁾ 793,836	⁽⁶⁾ 1,004,770
Total assets	2,141,493	^{(2), (4)} 2,204,193	⁽⁵⁾ 2,415,127
Gearing (%) ⁽⁷⁾	34.17	36.01	41.60

Notes:

⁽¹⁾ After taking into account the acquisition by the Trustee, on behalf of Axis-REIT, of four (4) single-storey detached factories, annexed with two (2)-storey office building within Kawasan Perindustrian i-Park, Kulai, held under freehold titles H.S.(D) 64396 for No. PTD 107901, H.S.(D) 64395 for No. PTD 107900, H.S.(D) 64394 for No. PTD 107899, H.S.(D) 64393 for No. PTD 107898, all in Mukim Kulai, Daerah Kulaijaya, Negeri Johor Darul Takzim from Axis Arne IP Sdn Bhd, for a total cash consideration of RM61.0 million (“**Beyonics Acquisition**”). The Acquisition was completed on 28 January 2016.

⁽²⁾ After taking into account the unrealised gain arising from the Beyonics Acquisition of approximately RM0.68 million.

⁽³⁾ After incorporating the impact on financing for the purchase consideration of RM61.0 million for the Beyonics Acquisition and transaction cost of approximately RM1.02 million.

⁽⁴⁾ After taking into account the cash consideration of RM61.0 million for the Beyonics Acquisition and transaction cost of approximately RM1.02 million.

⁽⁵⁾ After taking into account the estimated total development cost of the Phase 1 Development of approximately RM210.93 million.

⁽⁶⁾ After incorporating the impact on financing for the total development cost of the Phase 1 Development of approximately RM210.93 million.

⁽⁷⁾ Gearing is calculated based on total financing divided by total assets multiplied by 100%.

7. APPROVALS REQUIRED

The Phase 1 Development is subject to the following approvals and consents being obtained from:

- (i) the SC for the exemption for Axis-REIT from having to comply with Clause 8.44(b) of the Guidelines on Real Estate Investment Trusts issued by the SC which stipulates that a fund is not permitted to conduct property development activities. The said exemption was sought to allow Axis-REIT to undertake property development activities for up to 10.0% of the enlarged total asset value of Axis-REIT (after the Phase 1 Development), computed based on the estimated total development cost (excluding land cost) over the enlarged total asset value of Axis-REIT at the point of entering into the Agreement to Build & Lease ("**Exemption**"). The approval of the SC for the Exemption was obtained via the SC's letter dated 2 August 2016, subject to the following conditions:

<u>No.</u>	<u>Conditions imposed</u>	<u>Status of compliance</u>
1.	Axis-REIT is to continue to hold Axis PDI Centre in respect of the Phase 1 Development for at least two (2) years from the date of completion of the proposed construction; and	To be complied
2.	In relation to all the relevant agreements with the Interested Tenant and Appointed Contractor, the Manager is to ensure that any deviation to the proposed indicative terms and conditions are not detrimental to the interest of the Unitholders.	Complied in relation to the Agreement to Build & Lease and the Lease Agreement. To be complied in relation to the relevant agreements to be entered into with the Appointed Contractor.

- (ii) the Trustee, which was obtained on 28 June 2016;
- (iii) the State Authority's Approval; and
- (iv) any other relevant authorities and/or parties (if required).

The application to the State Authority is expected to be submitted no later than 1 July 2017.

The Phase 1 Development is not conditional upon any other corporate exercise/scheme of Axis-REIT.

8. INTERESTS OF THE DIRECTORS AND/OR MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the directors and major shareholder of the Manager, major Unitholders and/or persons connected to them has any interest, direct or indirect, in the Phase 1 Development.

9. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Phase 1 Development and after careful deliberation, is of the opinion that the Phase 1 Development is in the best interest of Axis-REIT.

10. ADVISER

The Manager has appointed Maybank IB as the adviser for the Phase 1 Development and the Exemption.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all approvals being obtained, the Phase 1 Development is expected to be completed by 31 January 2018.

12. DOCUMENTS AVAILABLE FOR INSPECTION

The Agreement to Build & Lease, including the form of the Lease Agreement as annexed to the Agreement to Build & Lease are available for inspection at the registered office of the Manager at Suite 11.1A Level 11, Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur during normal business hours from Mondays to Fridays (except for public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 19 August 2016.