

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

- (I) PROPOSED LEASE OF APPROXIMATELY 7.02 ACRES OF VACANT LAND IN SUBANG FORMING PART OF A FREEHOLD LAND (“MASTER LAND”) BY RHB TRUSTEES BERHAD FROM MALAYSIA AIRPORTS HOLDINGS BERHAD (“PROJECT LAND”); AND
 - (II) PROPOSED DEVELOPMENT OF A SINGLE-STOREY MANUFACTURING PLANT CUM OFFICE BUILDING WITH A GROSS BUILT-UP AREA OF APPROXIMATELY 178,978.60 SQUARE FEET INCLUSIVE OF ANCILLARY BUILDINGS AND EXTERNAL ELEMENTS, TO BE CONSTRUCTED ON THE PROJECT LAND
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1. INTRODUCTION

1.1 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 undertake the following:

- (i) lease of the Project Land by RHB Trustees Berhad, the trustee of Axis-REIT (“**Trustee**”), from Malaysia Airports Holdings Berhad (“**MAHB**”) (“**Proposed Land Lease**”); and
- (ii) construct a single-storey manufacturing plant cum office building with a gross built-up area of approximately 178,978.60 square feet (“**sq ft**”) (“**Gross Built-Up Area**”) inclusive of ancillary buildings and external elements to serve the operation of the manufacturing plant and office for manufacturing, storage and distribution of aerospace parts, on the Project Land (“**Facility**”) (“**Proposed Development**”).

(The Proposed Land Lease and Proposed Development are collectively referred to as “**Proposals**”)

1.2 In this regard, on 1 November 2017, the Trustee, on behalf of Axis-REIT, has entered into the sub-lease agreement with MAHB for the Proposed Land Lease (“**MAHB Land Lease Agreement**”).

1.3 The Manager has issued a letter of offer dated 5 September 2017 to Upeca Aerotech Sdn Bhd (“**Upeca**”) to, among others, build the Facility for Upeca and for Upeca to lease the Facility from the Trustee upon completion of the Proposed Development (“**Letter of Offer**”). Upeca accepted the Letter of Offer on 6 September 2017.

On 27 October 2017, the Manager issued a supplemental letter of offer to Upeca to vary certain terms of the Letter of Offer (“**Supplemental Letter of Offer**”). The salient terms of the Letter of Offer and the Supplemental Letter of Offer are set out in Section 3.3.2 below. Upeca accepted the Supplemental Letter of Offer on 31 October 2017.

1.4 Following the above, the Trustee, on behalf of Axis-REIT, intends to enter into an agreement to build and lease with Upeca as the lessee to, among others:

- (i) agree on the details of technical specifications furnished and approved by Upeca in respect of the Proposed Development (“**Upeca’s Specifications**”) and the terms and conditions for the construction and completion of the Facility; and

- (ii) agree to enter into a sub-lease agreement between the Trustee and Upeca for the Trustee to sub-lease the Project Land together with the Facility (the Project Land and the Facility are collectively referred to as “**Demised Premises**”), to Upeca (“**Sub-Lease**”) at an agreed rental rate with rental step-up in later years (“**Upeca Sub-Lease Agreement**”) and mutually agree on the terms of the Upeca Sub-Lease Agreement upfront.

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

The Manager envisages that the Agreement to Build & Lease will be entered into by 10 November 2017. An announcement to Bursa Malaysia Securities Berhad (“**Bursa Securities**”) will be made upon execution of the Agreement to Build & Lease.

- 1.5 The Upeca Sub-Lease Agreement will be executed in escrow simultaneously with the Agreement to Build & Lease and deposited with the Trustee’s solicitors to be held as stakeholders. The Trustee’s solicitors are duly authorised by the parties to put into effect the Upeca Sub-Lease Agreement by inserting the commencement date for the Upeca Sub-Lease Agreement as set out in Section 3.3.2.2(i) below as Handover Date (as defined in Section 3.3.2.1(v) below).

2. BACKGROUND INFORMATION ON UPECA, THE MASTER LAND AND MAHB

2.1 Upeca

Upeca is a wholly-owned subsidiary of Upeca Technologies Sdn Bhd, which is ultimately owned by Senior Plc, a public company listed on the London Stock Exchange. Upeca’s principal activities are the provision of design, development and manufacturing of aerospace components.

2.2 Master Land

The registered proprietor of the Master Land is the Federal Lands Commissioner (“**FLC**”). The FLC is a body corporate established under the Federal Lands Commissioner Act 1957 (“**FLCA**”). By way of a lease agreement dated 25 October 2007 entered into between the FLC and MAHB, the FLC leased the entire Master Land to MAHB for 60 years (expiring on 31 December 2066) (“**Master Lease Agreement**”).

The key details of the Master Land can be summarised as follows:

Postal address	: Not available
Land title details	: Geran 19583, Lot 1210, Mukim Damansara, Daerah Petaling, Negeri Selangor
Tenure	: Freehold
Title land area	: Approximately 2,898,693.3995 sq metres (approximately 716 acres)
Registered owner	: The FLC
Category of land use	: Nil
Restriction in interest	: Nil
Master lease arrangement	: MAHB is leasing from the FLC for 60 years from 1 January 2007 to 31 December 2066 (with a remaining unexpired term of about 49 years), by way of a lease which was duly registered and endorsed on the title to the Master Land in favour of MAHB pursuant to lease registration 30319/2008 (“ Master Lease ”)

2.3 MAHB

MAHB is a company registered in Malaysia and listed on the Main Market of Bursa Securities which operates and manages Malaysia's aviation gateways.

3. DETAILS OF THE PROPOSALS

3.1 Proposed Land Lease

Salient details of the Proposed Land Lease are as follows:

Description	: The Project Land is located within the proposed Malaysia International Aerospace Centre (MIAC) Technology Park, Sultan Abdul Aziz Shah Airport, Subang, Selangor. It is situated to the western side of Jalan Masjid, Off Jalan Lapangan Terbang Subang, Section U3, Subang, Selangor. The Sultan Abdul Aziz Shah Airport is approximately three kilometres away from the Project Land
Project Land area	: Approximately 7.02 acres
Lease tenure	: Initial sub-lease period of 30 years, with an automatic renewal and/or extension for a further 19 years up to 30 December 2066
Lessor	: MAHB
Lease consideration	: RM65.00 per square foot (" psf ") for the entire lease tenure.

Total net consideration payable is RM19,876,428.00 to be paid in the following manner:

- (i) RM1,987,642.80 shall be paid to the Trustee's solicitors as stakeholder upon the execution of the MAHB Land Lease Agreement ("**Deposit**") to be released to MAHB on a date on which the last of the conditions precedent to the MAHB Land Lease Agreement has been fulfilled, which must be within a period of 1 month from the date of the MAHB Land Lease Agreement ("**Lease Agreement Unconditional Date**") subject to an automatic extension for a further period of 1 month, and thereafter for such further period as may be mutually agreed between the parties in writing; and
- (ii) RM17,888,785.20 being the balance of the consideration payable shall be paid to the Trustee's solicitors to be held as stakeholder within 30 business days from the Lease Agreement Unconditional Date.

The Deposit was paid to the Trustee's solicitors upon signing of the MAHB Land Lease Agreement.

Lease arrangement	: The Project Land is not held under an individual title but forms part of the Master Land and held under the title to the Master Land. The Proposed Land Lease will be registered in favour of the Trustee, on behalf of Axis-REIT in accordance with the MAHB Land Lease Agreement, upon which the Trustee, on behalf of Axis-REIT will have rights over the Project Land under the National Land Code, 1965 (" NLC ") upon registration thereof.
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Further details of the Proposed Development are set out in Section 3.2 below.

3.2 Proposed Development

3.2.1 Key details of the Proposed Development and the Upeca Sub-Lease Agreement can be summarised as follows:

- Features : Manufacturing facility to be built to Upeca's Specifications
- Further enhancements pursuant to Upeca's Specifications:
- Substantial part of the Facility will be air-conditioned
 - Smoke spill system
 - Power supply estimated at 3,000 ampere
 - Any other additional requirements to comply with the requirements of the Department of Civil Aviation of Malaysia
- Gross built-up area : Approximately 178,978.60 sq ft
- Tenure : Initial fixed lease period of 20 years ("**Initial Term**").

The Trustee irrevocably grants to Upeca the following options to renew:

Options	Tenure
Option 1	6 years commencing from the day after the last day of the Initial Term (" New Term 1 ")
Option 2	6 years commencing from the day after the last day of the New Term 1 (" New Term 2 ")

Provided that Upeca is not in material breach of its obligations under the Sub-Lease, Upeca shall be entitled at its sole and absolute discretion to elect to extend the lease for a further term as stated above, upon the same terms and conditions as the Upeca Sub-Lease Agreement (save for the monthly rental) provided that:

- (i) Upeca gives written notice to the Trustee not less than 12 months prior to the expiration of the then existing term of its intention to extend the term of the Sub-Lease; and
- (ii) the monthly rental for the New Term 1 and New Term 2 (if applicable) shall be revised in accordance with the pre-determined rental rate psf.

- Gross rental income : The monthly rental for the Demised Premises for the first 3 years shall be RM465,344.36, calculated at the rate of RM2.60 psf (excluding goods and services tax) multiplied by the Gross Built-Up Area provided that the construction cost of the Demised Premises and any other incidental costs shall not exceed RM46.80 million ("**Total Project Costs**"). The agreed rental rate is subject to rental step-up in later years.

For every RM300,000.00 increase in the Total Project Costs exceeding RM46.80 million, all the rental rates set out in the Upeca Sub-Lease Agreement will increase by RM0.01 psf.

- Estimated initial net yield : Approximately 7.0% per annum
- Estimated development cost :
 - RM53.29 million (excluding the Project Land)
 - RM74.16 million (including the Project Land)

3.2.2 The Trustee will appoint a third party main contractor to undertake the construction of the Facility ("**Appointed Contractor**"). Specialists' work such as piling, mechanical and electrical services shall be undertaken by nominated sub-contractors selected by the Appointed Contractor.

3.2.3 The progress payments for the construction of the Proposed 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.

3.3 Salient terms of the MAHB Land Lease Agreement, Letter of Offer and Supplemental Letter of Offer

The salient terms of the MAHB Land Lease Agreement, the Letter of Offer and Supplemental Letter of Offer, are as follows:

3.3.1 MAHB Land Lease Agreement

- (i) **Area:** The sub-lease of part of the Master Land measuring approximately 7.02 acres (subject to final measurements).
- (ii) **Initial Term and Option for Extension of Term of Lease:** The Proposed Land Lease shall have an initial term of 30 years commencing from the commencement date ("**Initial Sub-lease Period**"), subject to the registration of the memorandum of sub-lease in favour of the Trustee and automatic renewal and/or extension of Initial Sub-lease Period.

The Proposed Land Lease shall upon the expiry of the Initial Sub-lease Period, be deemed automatically renewed and/or extended up to 30 December 2066 ("**Extended Sub-lease Period**") for the consideration of RM1.00 subject to the right of MAHB to further extend the Proposed Land Lease upon the expiry of the Extended Sub-lease Period in the event the tenure of the lease under the Master Lease Agreement and/or the Master Lease is extended by the FLC and MAHB in accordance with the terms therein.

- (iii) **Commencement Date:** The date stated in the memorandum of sub-lease in Form 15B of the NLC in respect of the sub-lease.

Form 15B is the prescribed form under the law (in particular the NLC) to be executed by MAHB and the Trustee and thereafter registered in the relevant land office.

- (iv) **Conditions Precedent:** The sub-lease in favour of the Trustee shall be subject to the fulfilment of the following conditions precedent within a period of 1 month from the date of the MAHB Land Lease Agreement:

- (a) The approvals as set out in Sections 7(i), (iii) and (v) below;
- (b) MAHB procuring the FLC's and Ministry of Transport of Malaysia's approvals that may be necessary to be obtained in respect of the Proposed Development and/or works on the Project Land to enable the Trustee to proceed with the commencement and completion of the Proposed Development;
- (c) The Trustee and Upeca mutually agree on the terms of the Agreement to Build & Lease and the Upeca Sub-Lease Agreement, and the Agreement to Build & Lease having been executed and the Upeca Sub-Lease Agreement duly executed in escrow and deposited with the Trustee's solicitors as stakeholders with authorisation to date the Upeca Sub-Lease Agreement on a later date; and

- (d) The result of the soil test and investigations to be conducted on the Project Land being satisfactory and acceptable to the Trustee and Upeca respectively,

failing which the condition precedent period shall be automatically extended for a further period of 1 month, and thereafter for such further period(s) as may be mutually agreed upon between the parties in writing.

- (v) **Unconditional Date:** The MAHB Land Lease Agreement shall become unconditional on the date on which the last of the Conditions Precedent has been duly fulfilled.

3.3.2 Letter of Offer and Supplemental Letter of Offer

3.3.2.1 The Proposed Development

- (i) **Trustee's Obligations:** To construct the Facility on the Project Land at the Trustee's costs and expenses in accordance with Upeca's Specifications ("**Construction Works**").
- (ii) **Milestones and Timeline:** The major milestones and timeline shall be subject to variation in the event of any of the following:
 - (a) Force majeure; and
 - (b) Variation of any Upeca's Specifications, whether required by the relevant authorities or Upeca as the case may be.
- (iii) **Variations:** It is acknowledged that both Upeca's Specifications and milestones and timeline are essential components of the Agreement to Build & Lease. The Trustee shall not make any changes or variations to Upeca's Specifications or the milestones and timeline, unless otherwise mutually agreed by all parties or provided in the Agreement to Build & Lease.
- (iv) **Construction Liabilities:** All liabilities in connection with and in relation to the Construction Works shall be borne solely by the Trustee during the construction period.
- (v) **Handover:** Targeted on the 15 December 2018 subject to such extensions that may be provided in the Agreement to Build & Lease.

The handover date will be notified by the Trustee to Upeca in writing and may be effected in 2 phases ("**Handover Date**"):

- (a) Upon the issuance of the Certificate of Practical Completion of the Demised Premises by the appointed architect/engineer; and
 - (b) Upon the issuance of the Certificate of Completion and Compliance ("**CCC**") for the Demised Premises.
- (vi) **Late Delivery:** In the event of any delay in the Construction Works resulting in any delay in the Handover Date, the consequences thereof shall be mutually agreed in the Agreement to Build & Lease.

The Trustee undertakes and covenants to forthwith notify Upeca in writing upon becoming aware that the delay in the Construction Works and such delay would result in a delay in the Handover Date.

- (vii) **Force Majeure:** If any Force Majeure Events (as defined hereinafter) shall occur during the construction period which prevents the Trustee from completing its obligations to construct the Facility, the Handover Date or completion of a particular obligation shall be extended for such number of days of delay caused by the Force Majeure Event.

Where the Force Majeure Event(s) continues for a continuous period of 6 months from the date of the force majeure event first arising; and/or (ii) results in the Handover Date being delayed by more than 6 months, Upeca shall be entitled to terminate the Agreement to Build & Lease by giving written notice to the Trustee with no penalty or charge to Upeca.

“Force Majeure Events” shall mean events beyond the control of the parties due to:

- (a) War (whether declared or not), hostilities, invasion, act of foreign enemies;
 - (b) Insurrection, revolution, rebellion, military or usurped power, civil war, terrorism;
 - (c) Earthquakes, floods, subterranean spontaneous combustion, fire, tempest, inclement weather or natural catastrophe or any operation of the forces of nature against which the party(ies) affected could not reasonably have been expected to take precautions;
 - (d) Nuclear, explosion, radioactive or chemical contamination or radiation, unless caused by the negligent act, omission or default of the parties affected, their personnel, servants or agents; and
 - (e) Riot, commotion or disorder, unless solely restricted to employees of the parties affected, their personnel, servants or agents.
- (viii) **Defect Repair Period:** Any defect, shrinkage or other fault to or in the Facility appearing within 24 months of the Handover Date which are due to defective workmanship of the building contractor or defective or faulty materials or by reason that the Facility has not been constructed in accordance with Upeca’s Specifications shall be made good by the Trustee at its own cost and expense.
- (ix) **Upeca Sub-Lease Agreement:** The Trustee undertakes to lease the Demised Premises to Upeca in accordance with the terms of the Upeca Sub-Lease Agreement (in the form to be agreed between the Trustee and Upeca to be annexed to the Agreement to Build & Lease) at the Commencement Date (as defined in Section 3.3.2.2(i) below), subject to the Trustee obtaining the relevant approvals set out in Section 7 below.

The format of the Upeca Sub-Lease Agreement shall be mutually agreed by all the parties on or before the execution of the Agreement to Build & Lease and the same shall be executed in the manner as set out in Section 1.5 above.

3.3.2.2 The Sub-Lease

- (i) **Commencement Date:** Commencement Date of the lease shall be the Handover Date of the Demised Premises.
- (ii) **Vacant Possession:** The Trustee shall deliver vacant possession of the Demised Premises to Upeca on the Handover Date (as defined in the Agreement to Build & Lease) for the purposes of carrying out Upeca's fitting out works.
- (iii) **Earnest Deposit and Rental/Security Deposit:**

Upeca has prior to the date of the Letter of Offer pursuant to the provisions of the Agreement to Build & Lease:

- (a) paid to the Trustee, a cash deposit in the sum of RM465,344.36 pursuant to the terms of the Letter of Offer and the Agreement to Build & Lease, being an amount equivalent to 1 month's rent as earnest deposit ("**Earnest Deposit**");
- (b) paid to the Trustee a sum of RM2,326,721.80 in the form of cash deposit, being an amount equivalent to 5 months' rent (calculated based on the rate of the rent for the Initial Term and on a Gross Built-Up Area ("**Revised Cash Deposit**");
- (c) paid a sum of Ringgit Malaysia RM2,792,066.16 by way of bank guarantee, being an amount equivalent to 6 months' rent (calculated based on the rate of the rent for the Initial Term and on a Gross Built-Up Area ("**Revised Bank Guarantee**"),

collectively, the Earnest Deposit, Revised Cash Deposit and Revised Bank Guarantee shall be treated as Security Deposit for the Sub-Lease and shall be held by the Trustee as security to secure the execution of the Upeca Sub-Lease Agreement and the performance and compliance by Upeca of the terms and conditions of the aforesaid agreement.

Upeca has prior to the date of Upeca Sub-Lease Agreement pursuant to the provisions of the Agreement to Build & Lease paid the Trustee a sum of RM465,344.36 in the form of cash deposit, being an amount equivalent to 1 month's rent (calculated based on the rate of the rent for the first year of the Initial Term and on a Gross Built-Up Area as security against unpaid water, sewerage, electricity and telephone charges incurred by Upeca in respect of the Demised Premises during the Initial Term ("**Utilities Deposit**"). For the avoidance of doubt, the Utilities Deposit shall be maintained to be equivalent to 1 month of the prevailing rent at all material times during the Initial Term and/or any extensions thereof, as the case may be.

The Security Deposit payable by Upeca to the Trustee shall aggregate 12 months of the prevailing rent at all material times whereby 6 months shall be payable by way of cash payment and another 6 months payable in the form of bank guarantee being security for Upeca's performance and observance of the terms and conditions of the Upeca Sub-Lease Agreement for the whole duration of the Initial Term and/or any extensions thereof, as the case may be applicable.

In the event that the Agreement to Build & Lease is not executed by the parties by 10 November 2017, the Earnest Deposit shall be forfeited by the Trustee and neither party shall have any further claims against the other.

4. RISK FACTORS

4.1 Termination of the Master Lease Agreement

Sub-leases are subject to the provisions of the main or head lease between the proprietor and the lessee. This being the case, the sub-lease of the Project Land by the Trustee, on behalf of Axis-REIT, under the MAHB Land Lease Agreement is subject to the terms and conditions of the Master Lease Agreement.

The Master Lease Agreement may be terminated under the following circumstances:

- (i) by the FLC serving a notice in writing of not less than 6 months to MAHB;
- (ii) by MAHB serving a notice in writing of not less than 3 months to the FLC; and
- (iii) by the FLC in the event of default of MAHB.

The termination of the Master Lease Agreement would result in the termination of the MAHB Land Lease Agreement.

In the event the Master Lease Agreement is terminated pursuant to (i), the FLC is required to pay MAHB the value to be determined by the FLC at the date of termination of the Master Lease Agreement. MAHB in turn is required under the MAHB Land Lease Agreement, to pay the Trustee the value to be determined by MAHB at the date of termination of the sub-lease, which will not be less than the amount MAHB receives from the FLC attributable to the Project Land or the aggregate of the sub-lease rental paid in advance attributable to the remaining term of the sub-lease period at the date of such termination, whichever is the highest.

In the event the Master Lease Agreement is terminated pursuant to (ii) and (iii), MAHB will be in default of the MAHB Land Lease Agreement, and the Trustee will be entitled to the following remedies:

- (i) firstly, to the remedy of specific performance and all reliefs which includes damages;
- (ii) secondly, MAHB will further indemnify and will keep the Trustee fully indemnified against all proceedings, suits, claims, liabilities, losses, damages, fees, costs and expenses (including cost on a solicitor and client basis) whatsoever suffered and/or incurred by the Trustee resulting from and/or incidental to MAHB's breach of the MAHB Land Lease Agreement, the sub-lease and/or applicable law, as the case may be; and

- (iii) thirdly, the termination of the sub-lease by giving 6 months' notice to MAHB, whereby MAHB will forthwith before the expiry of the said notice ("**Refund Period**") refund to the Trustee any sub-lease rental or part thereof paid in advance to MAHB ("**Refund Sum**") failing which, the Trustee will be entitled to late interest at the rate of 8% per annum from the expiry of the Refund Period till the date of the Trustee's actual receipt of the Refund Sum without prejudice to the rights of the Trustee to claim damages arising from MAHB's breach of the MAHB Land Lease Agreement. The calculation of the refund of the sub-lease rental will be apportioned on a pro-rated basis for the whole sub-lease period, aggregating approximately 49 years from the commencement date of the Proposed Land Lease.

The provisions of the Master Lease Agreement reflect the intention of the parties and indicate the purpose of the FLC (as the registered proprietor holding the Master Land on behalf of the Government of Malaysia) granting the lease of the Master Land to MAHB. The objective of the lease of the Master Land to MAHB is to facilitate Malaysia Airports Sdn Bhd, a wholly-owned subsidiary of MAHB and licensed under section 24A of the Civil Aviation Act 1969 to operate, manage and maintain Sultan Abdul Aziz Shah Airport, Subang and to provide specified airport services. In addition, it is envisaged under the Master Lease Agreement that the Master Land is to be developed by MAHB into an aerospace centre to be known as Malaysian International Aerospace Centre. Having considered the circumstances above, the Manager and the Trustee are of the view that it is unlikely that the FLC or MAHB will exercise its right to terminate the Master Lease Agreement without good cause.

4.2 Failure by Upeca to enter into the Upeca Sub-Lease Agreement

The Agreement to Build & Lease is a legal and valid contract which imposes binding obligations on the Trustee and Upeca. Accordingly, the purpose of the Agreement to Build & Lease is that prior to the date of actual delivery of vacant possession of the Demised Premises to Upeca, Upeca is legally bound to enter into the Upeca Sub-Lease Agreement, subject to certain agreed conditions being fulfilled.

The format of the Upeca Sub-Lease Agreement shall be mutually agreed by the Trustee and Upeca on or before the execution of the Agreement to Build & Lease and the same shall be executed in escrow by all parties simultaneously with the execution of the Agreement to Build & Lease.

As in the case of any contract enforceable in the courts of Malaysia, the Trustee, is 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) in the event Upeca fails or refuses to enter into the Upeca Sub-Lease Agreement prior to the Handover Date.

In deciding to enter into the Agreement to Build & Lease and subsequently the Upeca Sub-Lease Agreement, the Manager and the Trustee have taken into account the following factors: (i) Upeca's track record as an existing tenant at Axis-REIT's property in Axis Shah Alam DC1 since 2010, and (ii) the location of the Project Land, which in the opinion of the Manager and the Trustee is attractive to potential tenants especially from the aerospace industry, in the event the search for a replacement tenant for the Demised Premises is necessary. Having considered the circumstances above, the Manager and Trustee are of the view that the interest of Axis-REIT will be adequately protected.

4.3 Delay in the date of actual delivery of vacant possession of the Demised Premises to Upeca

4.3.1 Delay in the Construction Works and/or non-performance by contractors in respect of the construction of the Facility

As set out in Section 3.2.2 above, the construction of the Facility 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 the 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 Proposed Development and consequently, the Handover Date. As set out in Section 3.3.2.1(vi) above, the consequences of such delay shall be mutually agreed in the Agreement to Build & Lease.

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 and its team of consultants. To ensure that the construction of the Proposed Development will be completed in accordance with the Upeca'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.

4.3.2 Delay in the issuance of the CCC

The Trustee is required to, among others, procure the issuance of the CCC and deliver vacant possession of the Demised Premises to Upeca on 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 expected to pay the liquidated damages to be agreed upon in the Agreement to Build & Lease, to Upeca 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.

4.4 Compulsory acquisition of the Demised Premises

Pursuant to Section 3 of the Land Acquisition Act, 1960 (“LAA”), the Ruler or the Yang di-Pertua Negeri of the State of Malaysia defined in the Land Acquisition Act 1960 (“State Authority”) has the power to compulsorily acquire any land or part thereof for public purposes. In addition, the State Authority may acquire any land which is required by any person or corporation for any purpose which in the opinion of the State Authority is beneficial to the economic development of Malaysia or any part thereof or to the public generally or any class of the public or for the purpose of mining or for residential, agricultural, commercial, industrial or recreational purposes or any combination of such purposes. In the event of any compulsory acquisition of a land, the land administrator has the power to award each person who has an interest in the land. Section 2 of the LAA defines “person interested” as every person claiming interest in compensation to be made on account of the acquisition of land which includes registered sub-lessees but not including tenant at will. The provisions of the LAA are consistent with Article 13 of the federal constitution of Malaysia where it provides that “no law shall provide for the compulsory acquisition or use of property without adequate compensation”.

The amount of compensation to be awarded is assessed by taking into account the market value of the land acquired, severance damages to the remaining land where only part of a property is acquired, injurious affection to remaining land where only part of a property is acquired, any loss directly attributable to the compulsory acquisition and removal expenses to be incurred, on the basis prescribed in the First Schedule of the LAA. Generally, the market value of an acquired land comprises the value of the land acquired based on comparable sales in the vicinity of the land to be acquired and the condition of the land having regard to the existence of any building, improvements to the land and any encumbrances and restriction in the title. In the event the State Authority has the intention of acquiring the Demised Premises or such part thereof, the Trustee, as a person interested, will be served a notice by the land administrator. Enquiries into the value of the land will be made by the land administrator to persons interested, which includes the Trustee, and such persons interested may provide documents to support their claims to the land administrator who will then determine their compensation sum.

If the Demised Premises is compulsorily acquired by the State Authority at a point in time when the market value of the Demised Premises have decreased, the level of compensation paid to the Trustee may be less than the outlay incurred by the Trustee to undertake the Proposed Development. This may have an adverse effect on the price of the units in Axis-REIT (“Units”).

In any event, if Axis-REIT is dissatisfied with the quantum of compensation awarded, measurement of the land (where only part of the Demised Premises is acquired), persons to whom it is payable or apportionment of the compensation, the Trustee may challenge such decision of the land administrator by way of application to court for judicial review.

5. RATIONALE FOR THE PROPOSALS

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

Arising from the lease of the Project Land, which is currently vacant land from MAHB under the MAHB Land Lease Agreement, and the lease of the Demised Premises to Upeca under the Upeca Sub-Lease Agreement, Axis-REIT is expected to derive rental income from the Proposed Development upon commencement of the Sub-Lease. Without the Proposed Land Lease, the Trustee will not be able to undertake the construction of the Facility.

The initial net yield for the first 3 years of the lease of the Demised Premises is estimated to be approximately 7.0%, with rental step-up in later years.

As such, the Proposed Development and the Proposed Land Lease (which is necessary for the Proposed Development), are 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 Proposed 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 34.78% (as at 31 December 2016) to 36.87% arising from the Proposed Development (based on the estimated total development cost of RM53.29 million, the cost to lease the Project Land pursuant to the MAHB Land Lease Agreement of RM19.88 million and estimated financing cost for the Project Land of RM0.99 million). The gearing ratio of 36.87% after the Proposed Development is below the 50% threshold as permitted under the Guidelines on Real Estate Investment Trusts issued by the SC (“**REIT Guidelines**”). 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**”).

The approval of the Unitholders in respect of the authority to allot and issue new Units of up to 20% of the approved fund size of Axis-REIT of 1,253,754,764 Units pursuant to Clause 14.03 of the REIT Guidelines, to facilitate Axis-REIT in raising funds via the Placement Exercise, was approved by the Unitholders at the 5th annual general meeting of Axis-REIT convened and held on 26 April 2017 (“**Authority**”). Based on the maximum number of new Units that may be issued pursuant to the Authority of 250,750,952 Units, and the illustrative issue price of RM1.49 per Unit (based on an illustrative discount of 4.0% to the 5-day volume-weighted average market price (“**VWAMP**”) of the Units up to and including 31 October 2017 (“**Last Trading Day**”) of RM1.55 per Unit), the estimated gross proceeds that may be raised from the Placement Exercise is approximately RM373.62 million. The said discount is in line with the discount used for the previous placement exercise, which was completed in 2014. Assuming that the proceeds from the Placement Exercise after netting-off estimated expenses of about RM4.48 million are used to fully repay Axis-REIT’s bank financing, the gearing ratio of Axis-REIT is expected to decrease from 36.87% to 20.95% after the implementation of the Placement Exercise and the Proposed Development.

6. EFFECTS OF THE PROPOSALS

6.1 Unitholders’ capital

The Proposals will not have any effect on the Unitholders’ capital.

6.2 Distributable income

The Manager has declared and paid an income distribution of 8.25 sen per Unit for the financial year ended (“**FYE**”) 31 December 2016 (approximately 99.94% of Axis-REIT’s income available for distribution).

The Proposals are not expected to have any material effect on Axis-REIT’s distributable income 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 Proposals will not have any effect on Axis-REIT’s substantial Unitholders’ unitholdings in Axis-REIT.

6.4 Earnings per Unit

The Proposals 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 Proposals will be fully capitalised. Moving forward, the Proposals are expected to contribute positively to the earnings of Axis-REIT upon commencement of the Sub-Lease.

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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 2016 and on the assumption that the Proposals had been effected on that date, the proforma effects of the Proposals on the NAV per Unit and gearing of Axis-REIT are as follows:

	Audited as at 31 December 2016 RM'000	Announced and completed		Announced but not yet completed		
		(I)	(II)	(III)	(IV)	After (IV) and the Proposals RM'000
		After the disposal and acquisition of properties ⁽¹⁾ RM'000	After (I) and the proposed acquisition of a property ⁽⁶⁾ RM'000	After (II) and the Proposed Placement RM'000	After (III) and the proposed development ⁽¹²⁾ RM'000	
Unitholders' capital	1,060,320	1,060,320	1,060,320	⁽⁹⁾ 1,429,456	1,429,456	1,429,456
Undistributed distributable income	19,368	⁽²⁾ 20,713	20,713	20,713	20,713	20,713
Non-distributable reserve	313,283	⁽³⁾ 311,877	⁽⁷⁾ 309,465	309,465	309,465	309,465
NAV	1,392,971	1,392,910	1,390,498	1,759,634	1,759,634	1,759,634
Number of Units in circulation ('000)	1,105,174	1,105,174	1,105,174	⁽¹⁰⁾ 1,355,924	1,355,924	1,355,924
NAV per Unit (RM)	1.26	1.26	1.26	1.30	1.30	1.30
Total financing	780,665	⁽⁴⁾ 759,726	⁽⁸⁾ 917,138	⁽¹¹⁾ 548,002	⁽¹³⁾ 719,336	⁽¹⁵⁾ 793,493
Total assets	2,244,274	⁽⁵⁾ 2,223,274	^{(7), (8)} 2,378,274	2,378,274	⁽¹⁴⁾ 2,549,608	⁽¹⁶⁾ 2,623,765
Gearing (%) ⁽¹⁷⁾	34.78	34.17	38.56	23.04	28.21	30.24

Notes:

⁽¹⁾ The Trustee, on behalf of Axis-REIT, completed the following:

- (i) disposal of Axis Eureka to Malaysian Qualifications Agency for a disposal consideration of RM56,132,075 on 8 March 2017 (“**Disposal of Axis Eureka**”); and
- (ii) acquisition of a parcel of industrial land erected with a single-storey warehouse building and other ancillary buildings within Kawasan Perindustrian Pasir Gudang, Pasir Gudang, held under leasehold Title No. HSD 520180 for PTD 216340 in Mukim Plentong, Daerah Johor Bahru, Negeri Johor Darul Takzim from Orientant Int. Sdn Bhd, for a purchase consideration of RM33.0 million (“**Purchase Consideration**”) on 24 July 2017 (“**Acquisition of Kerry Warehouse**”).

Notes (cont'd):

- (2) After taking into account the following:
- (i) the net loss on Disposal of Axis Eureka of RM0.419 million, which was calculated based on the disposal consideration of RM56,132,075 less book value Axis Eureka as at 28 February 2017 of RM55.0 million and transaction costs of about RM1.551 million; and
 - (ii) the realisation of previously recognised unrealised fair value gain arising from the Disposal of Axis Eureka of RM1.764 million.
- (3) After taking into account the following:
- (i) realisation of previously recognised unrealised fair value gain arising from the Disposal of Axis Eureka of RM1.764 million from non-distributable reserve to undistributed distributable income; and
 - (ii) net fair value gain arising from the Acquisition of Kerry Warehouse of about RM0.358 million, which was calculated based on the market value of the property of RM34.0 million less the Purchase Consideration and total transaction costs of about RM0.642 million ("**Transaction Costs**").
- (4) After taking into account the following:
- (i) use of the net proceeds of RM54.581 million from the Disposal of Axis Eureka for the repayment of part of Axis-REIT's bank financing; and
 - (ii) impact on financing for the Purchase Consideration and Transaction Costs.
- (5) Incorporates the impact on total assets in relation to the carrying value of Axis Eureka of RM55.0 million and Kerry Warehouse of RM34.0 million.
- (6) On 24 July 2017, the Trustee, on behalf of Axis-REIT, entered into a sale and purchase agreement for the proposed acquisitions of lands together with buildings and structures erected thereon situated within Kawasan Perindustrian MIEL, Gebeng, Kuantan, Pahang from Wasco Resources Sdn Bhd, Wasco Coatings Services Sdn Bhd, Wasco Coatings Insulation Sdn Bhd, Wasco Lindung Sdn Bhd and Wasco Coatings Malaysia Sdn Bhd, for a total purchase consideration of RM155.0 million ("**Proposed Acquisitions**").
- (7) After taking into account the net fair value loss arising from the Proposed Acquisitions of RM2.412 million.
- (8) After incorporating the impact on financing for the total purchase consideration of RM155.0 million and total estimated transaction costs of about RM2.412 million.
- (9) Assuming a maximum of 250,750,952 new Units, representing 20% of the existing approved fund size of Axis-REIT, are issued at an issue price of RM1.49 per Unit (representing an illustrative discount of 4.0% to the 5-day VWAMP of the Units up to and including the Last Trading Day of RM1.55 per Unit) and after netting-off estimated expenses for Proposed Placement of about RM4.483 million ("**Net Proceeds**").
- (10) After taking into account the maximum of 250,750,952 new Units, which may be issued pursuant to the Proposed Placement.
- (11) Assuming the entire Net Proceeds are used for the repayment of Axis-REIT's existing bank financing (including finance cost payable), which were taken up to finance acquisitions of properties that were completed more than 1 year ago.
- (12) On 19 August 2016, it was announced 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 ("**Phase 1 Development**").
- (13) After incorporating the impact on financing for the remaining estimated total cost for the Phase 1 Development of about RM171.334 million ("**Remaining Estimated Cost**").
- (14) After taking into account the Remaining Estimated Cost.

Notes (cont'd):

- ⁽¹⁵⁾ After incorporating the impact on financing for the estimated total development cost of RM53.287 million, the cost to lease the Project Land pursuant to the MAHB Land Lease Agreement of RM19.88 million and estimated financing cost for the Project Land of RM0.99 million. The market value of the Project Land as appraised by PPC International Sdn Bhd in its valuation report dated 1 November 2017 was approximately RM68.00 psf as at 10 October 2017.
- ⁽¹⁶⁾ After taking into account the estimated total development cost of RM53.287 million, the cost to lease the Project Land pursuant to the MAHB Land Lease Agreement of RM19.88 million and estimated financing cost for the Project Land of RM0.99 million.
- ⁽¹⁷⁾ Gearing is calculated based on total financing divided by total assets multiplied by 100%.

7. APPROVALS REQUIRED

The Proposals are subject to the following approvals and consents being obtained from:

- (i) the SC for the exemptions for Axis-REIT from having to comply with the following:
- (a) Clause 8.11(a) of the REIT Guidelines which stipulates that a management company should ensure that an acquisition of a real estate includes the ownership of all rights, interests and benefits related to the ownership of the real estate and Clause 8.44(c) of the REIT Guidelines which stipulates that a fund is not permitted to acquire a vacant land. The said exemptions, if granted, will allow Axis-REIT to undertake the Proposed Land Lease; and
 - (b) Clause 8.44(b) of the REIT Guidelines which stipulates that a fund is not permitted to conduct property development activities. The said exemption, if granted, will allow Axis-REIT to undertake property development activities for up to 15.0% of the enlarged total asset value of Axis-REIT (after the Phase 1 Development and the Proposals).
- (collectively referred to as “**Proposed Exemptions**”)
- (ii) the Trustee, which was obtained on 14 September 2017;
- (iii) the FLC, for MAHB to sub-lease the Project Land to the Trustee and for the Trustee to undertake the Proposed Development and sub-lease the Demised Premises to Upeca;
- (iv) MAHB, for the Trustee to sub-lease the Demised Premises to Upeca;
- (v) the Ministry of Transport of Malaysia, for MAHB to sub-lease the Project Land to the Trustee and for the Trustee to undertake the Proposed Development and sub-lease the Demised Premises to Upeca; and
- (vi) any other relevant authorities and/or parties (if required).

Barring any unforeseen circumstances, the applications to the relevant authorities in relation to the Proposals are expected to be made within 1 month from the date of this announcement.

The Proposals are 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 Proposals.

9. DIRECTORS' STATEMENT

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

10. ADVISER

The Manager has appointed Maybank IB as the adviser for the Proposals and the Proposed Exemptions.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all approvals being obtained, the Proposed Development is expected to be completed by 15 December 2018.

12. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the registered office of the Manager at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur during normal business hours from Mondays to Fridays (except for public holidays) for a period of 3 months from the date of this announcement:

- (i) the MAHB Land Lease Agreement;
- (ii) the Letter of Offer and the Supplemental Letter of Offer; and
- (iii) the valuation report from PPC International Sdn Bhd dated 1 November 2017 in respect of the valuation of the Project Land.

This announcement is dated 1 November 2017.