

# TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS) : RELATED PARTY TRANSACTIONS TOWER REAL ESTATE INVESTMENT TRUST ("TOWER REIT") PROPOSED ACQUISITION

## TOWER REAL ESTATE INVESTMENT TRUST

<b>Type</b>	Announcement
<b>Subject</b>	TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS) RELATED PARTY TRANSACTIONS
<b>Description</b>	TOWER REAL ESTATE INVESTMENT TRUST ("TOWER REIT") PROPOSED ACQUISITION

On behalf of the Board of Directors of GLM REIT Management Sdn Bhd, the management company of Tower REIT, Hong Leong Investment Bank Berhad wishes to announce that MTrustee Berhad, the trustee of Tower REIT, has entered into a conditional sale and purchase agreement with DC Offices Sdn Bhd today for the proposed acquisition of an office building known as Menara Guoco for a cash consideration of RM242.1 million ("**Proposed Acquisition**").

Please refer to the attachment for the full text of the announcement in relation to the Proposed Acquisition.

This announcement is dated 2 March 2020.

Please refer attachment below.

### Attachments



[Tower REIT - Proposed Acquisition.pdf](#)  
207.9 kB



### Announcement Info

<b>Company Name</b>	TOWER REAL ESTATE INVESTMENT TRUST
<b>Stock Name</b>	TWRREIT
<b>Date Announced</b>	02 Mar 2020
<b>Category</b>	General Announcement for PLC
<b>Reference Number</b>	GA1-17022020-00044

## TOWER REAL ESTATE INVESTMENT TRUST (“TOWER REIT”)

### PROPOSED ACQUISITION

---

#### 1. INTRODUCTION

On behalf of the Board of Directors of GLM REIT Management Sdn Bhd (“**Board**”), the management company of Tower REIT (“**Manager**”), Hong Leong Investment Bank Berhad (“**HLIB**”) wishes to announce that MTrustee Berhad, the trustee of Tower REIT (“**Trustee**”), has entered into a conditional sale and purchase agreement (“**SPA**”) with DC Offices Sdn Bhd (“**DC Offices**”) today for the proposed acquisition of an office building known as Menara Guoco (“**Property**”) for a cash consideration of RM242.1 million (“**Purchase Consideration**”) (“**Proposed Acquisition**”).

The salient terms of the SPA are set out in **Appendix I** of this announcement.

The Proposed Acquisition is deemed to be a related party transaction in view of the interests of certain directors and major shareholders of the Manager and/or major unitholders of Tower REIT as set out in Section 9 of this announcement. Accordingly, Mercury Securities Sdn Bhd has been appointed as the Independent Adviser to advise the non-interested directors of the Manager and non-interested unitholders of Tower REIT on the Proposed Acquisition in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”).

Further details of the Proposed Acquisition are set out in the ensuing sections.

#### 2. DETAILS OF THE PROPOSED ACQUISITION

##### 2.1 Information on the Property

The Property is a 19-storey office building known as Menara Guoco erected on part of that piece of freehold land held under Geran 74955, Lot 58303 in the Mukim and District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur. It forms part of an integrated commercial development known as Damansara City, comprising another office building, a hotel, a retail mall, serviced apartments and car parks. The Property is strategically located in Damansara Heights, which is an established neighbourhood with easy accessibility from the Kuala Lumpur City Centre and Petaling Jaya.

The Property is easily accessible from a few major highways and roads such as Jalan Tuanku Abdul Halim, SPRINT Highway, Jalan Kuching, Federal Highway, Damansara-Puchong Expressway and Damansara Link. In addition, the Property is also accessible via public transport such as Mass Rapid Transit with stations located at Pusat Bandar Damansara and Jalan Semantan as well as a bus station located across Jalan Johar, giving the Property excellent connectivity to other urban and sub-urban residential, commercial and industrial hubs within Klang Valley.

The Property is designed with energy efficient and green features, and is accredited with Green Building Index (GBI) and Gold Leadership in Energy and Environmental Design (LEED) certifications. Damansara City has been awarded with Multimedia Super Corridor (MSC) Malaysia Cybercentre status, with the Property as the Cybercentre’s Designated Premises.

Further information on the Property is set out in **Appendix II** of this announcement.

## **2.2 Source of funding**

The Purchase Consideration will be fully funded via debt financing.

## **2.3 Liabilities to be assumed**

There are no liabilities, including contingent liabilities and guarantees to be assumed by Tower REIT, arising from the Proposed Acquisition.

## **2.4 Date and original cost of investment**

DC Offices acquired the development rights in respect of the Property in 2012 and completed the construction in 2015 with a total cost of investment of approximately RM165.1 million as at 6 February 2020, being the latest practicable date prior to this announcement (“**LPD**”).

## **2.5 Information on DC Offices**

DC Offices was incorporated in Malaysia under the Companies Act 1965 on 24 May 2012 as a private limited company. It is a wholly-owned subsidiary of GLM Land Sdn Bhd, which in turn is an indirect wholly-owned subsidiary of GuocoLand (Malaysia) Berhad (“**GLM**”). GLM is a company listed on the Main Market of Bursa Securities and is principally involved in property investment.

As at the LPD, the issued share capital of DC Offices is RM18,647,002 comprising 2,500,002 ordinary shares and 16,147 redeemable preference shares. The directors of DC Offices as at the LPD are Datuk Edmund Kong Woon Jun and Ms Chin Min Yann.

## **3. BASIS OF AND JUSTIFICATION FOR THE PURCHASE CONSIDERATION**

The Purchase Consideration was arrived at on a willing-buyer willing-seller basis after taking into consideration the market value of the Property of RM242.1 million as appraised by First Pacific Valuers Property Consultants Sdn Bhd (“**Valuer**”), a firm of professional valuers appointed by the Manager, via its valuation report dated 19 February 2020 (“**Valuation Report**”) using the investment and comparison methods of valuation. The Valuer has also been appointed by GLM to appraise the market value of the Property.

The investment method involves determining the net annual income derived from the Property by deducting all outgoings from the estimated gross annual income and then capitalising the net annual income with an appropriate capitalisation rate to arrive at the market value of the Property.

The comparison method is used to determine the market value of the Property by comparing the recent sale transactions of properties within its vicinity and making appropriate adjustments for all dissimilarities.

The salient features of the Valuation Report are set out in **Appendix III** of this announcement.

## **4. RATIONALE AND BENEFITS OF THE PROPOSED ACQUISITION**

The Proposed Acquisition is in line with the objective of the Manager to grow the distributable income of Tower REIT and provide its unitholders with regular and stable income distributions by expanding its existing portfolio of real estate to include quality properties with stable recurring income.

The Proposed Acquisition is expected to bring the following benefits to Tower REIT and its unitholders:

- (i) As at the LPD, the occupancy rate of the Property was approximately 97.1%. After the Proposed Acquisition, Tower REIT's pro forma occupancy rate for its portfolio is expected to improve from 48.1% as at the LPD to 59.8%. The committed occupancy will enhance income sustainability for Tower REIT's unitholders over the long term;
- (ii) The Proposed Acquisition is also expected to enhance the diversification of Tower REIT's tenant base across a broader range of sectors. This includes multinational and established local companies involved in sectors such as property development, tobacco, information technology and engineering. The more diverse tenant base is expected to contribute to the stability of Tower REIT's income;
- (iii) The Property is situated within a mixed-use development comprising a retail mall, a 5-star hotel, a Grade A office building and serviced apartments, delivering a full suite of amenities in a single location that meets the needs of office tenants beyond their demand for a productive workplace. In addition, a Mass Rapid Transit station and a bus station are within short walking distance from the Property, providing easy accessibility and connectivity for office tenants. All these attributes would raise the profile of the Property, positioning Tower REIT to benefit from robust tenant demand; and
- (iv) Upon completion of the Proposed Acquisition, Tower REIT's consolidated asset base is expected to increase by approximately 42.3% from RM572.2 million to RM814.3 million. The Proposed Acquisition will also lower the average building age of Tower REIT's property portfolio from approximately 23 years as at the LPD to approximately 18 years. A younger property portfolio would likely attract more investor interest in Tower REIT due to lower requirement for asset enhancement initiatives or capital expenditure in the near term.

## **5. PROSPECTS OF THE PROPERTY**

The Malaysian economy expanded by 3.6% in the 4<sup>th</sup> quarter of 2019 (3<sup>rd</sup> quarter of 2019: 4.4%), supported by higher private sector spending. Private investment registered a higher growth of 4.2% (3<sup>rd</sup> quarter of 2019: 0.3%), mainly driven by continued investments in the services and manufacturing sectors. In particular, higher capital expenditure in transport services and construction-related manufacturing had contributed to the growth performance.

Given the uncertainties posed by the market, coupled with the subdued economic growth, commercial properties could face continued downward pressure, as tenants look at pricing over location centrality in order to manage their operating expenses. The Board observes that many companies are increasingly looking to move to the urban fringes where new sub-commercial locations have emerged such as Bangsar South, Damansara Heights, Petaling Jaya and Subang Jaya, away from the central business district and Golden Triangle areas.

The Property is strategically located in Damansara Heights with good accessibility and situated among some of the prime commercial locations and affluent neighbourhoods such as Bangsar, Sri Hartamas, Mont' Kiara, Bukit Tunku and Taman Duta. In addition, the Property is a Grade A office building with green building features and Multimedia Super Corridor (MSC) Malaysia Cybercentre status, and is enjoying an occupancy rate of approximately 97.1% as at the LPD with tenants comprising multinational and established local companies.

Taking into consideration the above factors, the Board expects that good quality and well-located property, such as the Property, would benefit from the trend of tenants in the central business district relocating to urban fringes, and would continue to achieve healthy occupancy and provide stable portfolio returns.

(Source: The Manager and extraction from Bank Negara Malaysia's Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2019)

## **6. RISKS OF THE PROPOSED ACQUISITION**

### **6.1 Financing risk**

Tower REIT intends to fund the Proposed Acquisition through debt financing, which would result in new interest and principal servicing obligations. Where financing costs are dependent on prevailing interest rates, any future significant increase in interest rate could impact Tower REIT's cash flows and profitability which may, in turn, affect its distributions to its unitholders.

In mitigating such risks, Tower REIT will actively review its debt portfolio taking into account the level, structure and nature of borrowings, and will seek to adopt cost effective and optimal mix of financing options.

### **6.2 Completion risk**

The Proposed Acquisition is conditional upon the fulfilment of the conditions precedent to the SPA as set out in Section 2, Appendix I of this announcement. In the event that the conditions precedent to the SPA are not fulfilled or obtained within the time frame stipulated in the SPA, it may lead to a termination of the SPA or a delay in the completion of the Proposed Acquisition. The Manager will endeavor to ensure that all the conditions precedent to the SPA are met within the stipulated time frame in order to facilitate the completion of the Proposed Acquisition.

### **6.3 Delays in the issuance and transfer of the strata title of the Property**

The Property is part of an integrated commercial development known as Damansara City, comprising 2 office buildings, a hotel, a retail mall, serviced apartments and car parks (collectively, the "**Development Properties**"). Damansara City Sdn Bhd ("**DCSB**"), being the registered landowner of the master title of the Development Properties, will apply for strata titles for each parcel in the Development Properties and a separate strata title will be applied for the Property.

As at the LPD, the application for strata title in respect of the Property has not been made and the duration required for the subdivision process and transfer of the strata title of the Property is uncertain and there could be possible delays in completing the said process. The Trustee will only become the registered and legal owner of the Property once the statutory instrument of transfer of the strata title to the Property in favour of the Trustee is registered by the land office.

In accordance with the terms and conditions of the SPA, DC Offices shall deliver the undertaking of DCSB to procure the issuance of the strata title of the Property, to sign any memorandum of transfer and to do all other acts as shall be necessary to transfer the strata title free from encumbrance to the Trustee.

#### **6.4 Minority ownership under the strata scheme**

Based on the share units allocated to the Property under the strata scheme of Damansara City, Tower REIT will not have majority ownership of and control over the said strata scheme upon completion of the Proposed Acquisition. The risks associated with holding a minority interest in a strata scheme include the inability to direct and control certain matters that may affect the Property, including:

- (i) the management and maintenance of common property affecting the Property;
- (ii) the appointment of representative(s) from Tower REIT to be member(s) of the joint management committee or being out-voted by the other members on the joint management committee;
- (iii) the appointment of independent registered property manager of such experience and quality as Tower REIT may deem appropriate for the proper management of the common property affecting the Property;
- (iv) the charging of service charge and sinking fund, to the extent that Tower REIT views any such amount charged to be excessive in the light of the facilities made available by way of common property; and
- (v) any proposal or resolution to change or impose any expenditure or expenses if Tower REIT is of the view that such expenditure or expenses are inappropriate or excessive.

There is no assurance that the direction of the joint management committee will be aligned with those of Tower REIT in terms of managing and maintaining the common property affecting the Property.

Notwithstanding the above, the Manager is of the view that such risks can be mitigated as the law requires the joint management body (and the management corporation on due establishment thereof) to properly maintain and upkeep common property. Further, the common property affecting the Property is very limited. In any event, the Manager may further mitigate such risks by seeking the appointment of a representative on the joint management committee (or the management committee on establishment thereof) to safeguard the interest of Tower REIT. In addition, the law also affords protection and recourse to parcel owners to raise any issue of disputes to the Commissioner for Buildings, the Strata Management Tribunal and/or the courts, as the case may be, for adjudication.

#### **6.5 Loss of major tenants**

Based on the tenancy schedule of the Property as at the LPD, the top 3 tenants of the Property collectively accounted for approximately 70.4% of the total net lettable area of the Property.

If the key tenants do not renew their tenancies at expiry, it could adversely affect the operating results of Tower REIT and ultimately the ability of Tower REIT to sustain its current income levels and distribution to its unitholders.

To manage this risk, the Manager will work closely with the property manager to:

- (i) put in place active leasing and asset management strategies which are centred upon building strong tenant relationships with the existing tenants;
- (ii) pursue new rental opportunities and proactively engage tenants, whose tenancies are about to expire, in advance of renewal negotiations; and
- (iii) systematically manage tenancy renewals effectively in order to minimise vacant periods due to tenancy expiration.

## 6.6 Competition risk

The Property may be affected by increased competition from other office buildings in the vicinity. The increase in supply of new office space will provide existing and prospective tenants with a wider choice of available office space to rent and this could potentially exert downward pressure on rental rates, which may adversely impact Tower REIT's cash flow and its ability to make distribution to its unitholders.

Nevertheless, the Property is relatively new and is strategically located in Damansara Heights and among some of the prime commercial locations and affluent neighbourhoods. It is easily accessible via public transport, giving the Property excellent connectivity to other urban and sub-urban residential, commercial and industrial hubs within Klang Valley.

## 7. EFFECTS OF THE PROPOSED ACQUISITION

### 7.1 Unitholder's capital and substantial unitholders' unitholdings

The Proposed Acquisition will not have any effect on the unitholders' capital and substantial unitholders' unitholdings in Tower REIT.

### 7.2 Earnings and distributable income

For illustration purposes, assuming that the Proposed Acquisition was completed on 1 January 2018 (i.e. the beginning of the 18-month financial period ended ("FPE") 30 June 2019), the pro forma effects on the realised net income of Tower REIT for the 18-month FPE 30 June 2019 are as follows:

	<b>Audited for the 18-month FPE 30 June 2019 (RM'000)</b>	<b>After the Proposed Acquisition (RM'000)</b>
Audited realised net income of Tower REIT	23,625	23,625
Add: Incremental net income contribution of the Property <sup>(1)</sup>	-	16,919
Less: Incremental management fees <sup>(2)</sup>	-	(1,108)
Less: Cost of financing <sup>(3)</sup>	-	(15,615)
<b>Pro forma net income of Tower REIT</b>	<b>23,625</b>	<b><sup>(4)</sup>23,821</b>
Income distribution <sup>(5)</sup>	22,524	22,701
Total number of units in issue ('000)	280,500	280,500
Earnings per unit (sen)	8.4	8.5
Distribution per unit (sen)	8.0	8.1

#### Notes:

- (1) Computed based on the net income of the Property for the 6-month FPE 30 June 2018 and the financial year ended ("FYE") 30 June 2019.
- (2) Comprising incremental base fee and performance fee to be paid to the Manager computed based on the incremental gross asset value and net property income of the Property respectively for the 6-month FPE 30 June 2018 and the FYE 30 June 2019.

- (3) Assuming interest rate of 4.3% per annum for the debt financing to fund the Purchase Consideration.
- (4) Excluding one-off estimated expenses in relation to the Proposed Acquisition, which are not allowed to be capitalised as part of the Property, of approximately RM0.2 million.
- (5) Computed based on the payout ratio of approximately 95.3% of realised net income for the 18-month FPE 30 June 2019.

The net income of the Property as shown in the table above does not take into account the positive rental reversions which took effect after the financial period under review. For the 6-month FPE 31 December 2019, the unaudited net income of the Property amounted to approximately RM5.9 million, while the estimated incremental management fees and cost of financing for the same period would amount to approximately RM5.6 million.

The Proposed Acquisition is not expected to have any material effect on Tower REIT's earnings and distributable income for the financial year ending 30 June 2020 as it is expected to be completed by the 3<sup>rd</sup> quarter of 2020. The Proposed Acquisition is expected to contribute positively to the future earnings and distributable income of Tower REIT after taking into consideration the future increase in net property income from the expected rental reversions of the Property, the additional distributable income and its distribution policy.

### 7.3 Net asset value ("NAV") per unit and gearing

The pro forma effects of the Proposed Acquisition on the NAV per unit and gearing of Tower REIT, based on the audited statement of financial position of Tower REIT as at 30 June 2019 and on the assumption that the Proposed Acquisition had been effected on that date, are as follows:

	<b>Audited as at 30 June 2019 (RM'000)</b>	<b>After the Proposed Acquisition (RM'000)</b>
Unitholders' capital	285,345	285,345
Undistributed income – realised	69,009	<sup>(3)</sup> 68,839
Undistributed income – unrealised	185,722	185,722
<b>NAV</b>	<b>540,076</b>	<b>539,906</b>
No. of units in circulation ('000)	280,500	280,500
NAV per unit (RM)		
- Before income distribution	1.9254	1.9248
- After income distribution <sup>(1)</sup>	1.8861	1.8855
Total borrowings	100	<sup>(4)</sup> 242,200
Total asset value	572,166	814,266
Gearing ratio (%) <sup>(2)</sup>	*	29.7

#### Notes:

\* Negligible.

(1) After the final income distribution of 3.93 sen per unit which was paid in August 2019.

(2) Calculated as total borrowings divided by total asset value.



- (3) After deducting estimated expenses in relation to the Proposed Acquisition, which are not allowed to be capitalised as part of the Property, of approximately RM0.2 million.
- (4) Assuming the upfront cost associated with the debt financing of approximately RM0.9 million is paid from cash and bank balances.

## **8. APPROVALS REQUIRED / CONCURRENCE SOUGHT**

8.1 The Proposed Acquisition is subject to approvals being obtained from:

- (i) the unitholders of Tower REIT at a unitholders' meeting to be convened;
- (ii) the shareholders of GLM at an extraordinary general meeting to be convened; and
- (iii) any other relevant authority and/or party, if required.

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is approximately 44.8%.

The Proposed Acquisition is not conditional upon any other proposals undertaken or to be undertaken by Tower REIT.

8.2 Based on the share units allocated to the Property under the strata scheme of Damansara City, Tower REIT will not have majority ownership of and control over the said strata scheme upon completion of the Proposed Acquisition. In this connection, HLIB had, on behalf of the Manager, sought the concurrence of the Securities Commission Malaysia, and the latter had vide its letter dated 18 December 2019 concurred, that the Proposed Acquisition complies with Paragraph 8.09(b) of the Guidelines on Listed Real Estate Investment Trusts issued by the Securities Commission Malaysia.

## **9. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS OF TOWER REIT AND/OR PERSONS CONNECTED WITH THEM**

Saved as disclosed below, none of the directors and major shareholders of the Manager, major unitholders of Tower REIT and/or persons connected with them have any interest, direct or indirect, in the Proposed Acquisition:

- (i) GLM, which is a major unitholder of Tower REIT through GLM Equities Sdn Bhd, is also the holding company of the Manager and DC Offices;
- (ii) Hong Leong Company (Malaysia) Berhad ("**HLCM**"), which is a major unitholder of Tower REIT through GLM Equities Sdn Bhd, Hong Leong Assurance Berhad and certain other subsidiaries, is also a major shareholder of the Manager and DC Offices through GLM;
- (iii) YBhg Tan Sri Quek Leng Chan, Mr Kwek Leng Beng and Mr Kwek Leng Kee, who are the major shareholders of HLCM, are also major shareholders of the Manager and DC Offices through GLM;
- (iv) Datuk Edmund Kong Woon Jun, who is a director of the Manager, is also a director of DC Offices and the Group Managing Director of GLM; and
- (v) Ms Lim Chew Yan, who is a director of the Manager, is also a director of certain subsidiaries of HLCM.

Datuk Edmund Kong Woon Jun and Ms Lim Chew Yan have abstained and will continue to abstain from deliberating and voting on the Proposed Acquisition at the relevant board meetings.

The interested parties above will abstain and have undertaken that they will ensure that persons connected with them will also abstain from voting in respect of their direct and/or indirect unitholdings in Tower REIT on the resolution pertaining to the Proposed Acquisition to be tabled at the unitholders' meeting.

The direct and indirect unitholdings of the interested directors and major shareholders of the Manager as well as the interested major unitholders of Tower REIT as at the LPD are as follows:

	<u>Direct</u>		<u>Indirect</u>	
	<u>No. of units ('000)</u>	<u>%</u>	<u>No. of units ('000)</u>	<u>%</u>
<b><u>Interested directors</u></b>				
Datuk Edmund Kong Woon Jun	-	-	-	-
Ms Lim Chew Yan	-	-	-	-
<b><u>Interested major shareholders of the Manager</u></b>				
GLM	-	-	(1)60,769	21.7
HLCM	-	-	(1)151,836	54.1
YBhg Tan Sri Quek Leng Chan	-	-	(2)151,836	54.1
Mr Kwek Leng Beng	-	-	(2)151,836	54.1
Mr Kwek Leng Kee	-	-	(2)151,836	54.1
<b><u>Interested major unitholders of Tower REIT</u></b>				
GLM Equities Sdn Bhd	60,769	21.7	-	-
Hong Leong Assurance Berhad	57,771	20.6	-	-
GLM	-	-	(1)60,769	21.7
HLCM	-	-	(1)151,836	54.1
YBhg Tan Sri Quek Leng Chan	-	-	(2)151,836	54.1
Mr Kwek Leng Beng	-	-	(2)151,836	54.1
Mr Kwek Leng Kee	-	-	(2)151,836	54.1

**Notes:**

- (1) Held through subsidiary(ies).
- (2) Held through HLCM and a company in which the major shareholder and/or major unitholder has interest.

**10. RELATED PARTY TRANSACTIONS**

Save for the Proposed Acquisition, there were no other related party transactions entered into between Tower REIT and DC Offices for the preceding 12 months from the date of this announcement.

## **11. ADVISERS**

HLIB has been appointed as the Principal Adviser for the Proposed Acquisition.

In view that the Proposed Acquisition is a related party transaction, Mercury Securities Sdn Bhd has been appointed to act as the Independent Adviser to undertake the following in relation to the Proposed Acquisition:

- (i) comment as to whether the Proposed Acquisition is:
  - (a) fair and reasonable so far as the unitholders of Tower REIT are concerned; and
  - (b) to the detriment of the non-interested unitholders of Tower REIT,and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;
- (ii) advise the non-interested unitholders of Tower REIT on whether they should vote in favour of the Proposed Acquisition; and
- (iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to subparagraphs (i) and (ii) above.

## **12. DIRECTORS' STATEMENT**

The Board (save for Datuk Edmund Kong Woon Jun and Ms Lim Chew Yan), after having considered the preliminary evaluation of the Independent Adviser and deliberated on all aspects of the Proposed Acquisition, is of the opinion that the Proposed Acquisition is in the best interest of Tower REIT.

## **13. AUDIT COMMITTEE'S STATEMENT**

The Board Audit & Risk Management Committee of the Manager, after having considered the preliminary evaluation of the Independent Adviser and deliberated on all aspects of the Proposed Acquisition, is of the opinion that the Proposed Acquisition is:

- (i) in the best interest of Tower REIT;
- (ii) fair, reasonable and on normal commercial terms; and
- (iii) not detrimental to the interest of the non-interested unitholders of Tower REIT.

## **14. ESTIMATED TIME FRAME FOR COMPLETION**

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed by the 3<sup>rd</sup> quarter of 2020.

**15. DOCUMENTS FOR INSPECTION**

Copies of the SPA and the Valuation Report are available for inspection at the registered office of the Manager at Level 10, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur during normal business hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 2 March 2020.

---

**SALIENT TERMS OF THE SPA**

---

The salient terms of the SPA are as follows:

**1. Agreement for sale and purchase**

The Property is sold by DC Offices and purchased by the Trustee on, among others, the following basis:

- (i) the sale of the Property is subject to fulfillment of all conditions precedent as set out in Section 2 below;
- (ii) the Property is sold free from encumbrance;
- (iii) the Property is sold together with all associated rights and benefits of DC Offices as at the date when the full Purchase Consideration is paid ("**Completion Date**");
- (iv) the Property is sold subject to all agreements and contracts entered into by DC Offices in relation to the Property that are in effect as at the Completion Date (collectively, the "**Existing Agreements**"), and on the basis that the Existing Agreements are novated to the Trustee wherever possible, or all benefits, rights, entitlements and interest of DC Offices under the Existing Agreements are assigned to the Trustee;
- (v) the Property is sold subject to all conditions of title and restrictions in interest affecting the land on which the Property is situated or otherwise affecting the Property, express or implied, including all endorsements and conditions as may be set out in the strata title of the Property to be issued;
- (vi) the Property is sold in 'as is where is' condition as at the Completion Date; and
- (vii) the Property is sold with all licenses, approvals and certificate(s) of completion and compliance issued for the same.

**2. Conditions precedent**

The SPA is conditional upon fulfilment of the following conditions precedent within 4 months from the date of the SPA (or such other period as may be agreed between DC Offices and the Trustee in writing) ("**Compliance Period**"):

- (i) DC Offices having obtained the approval of the shareholders of its holding company, GLM, at a general meeting to its sale of the Property upon the terms of the SPA;
- (ii) the Trustee and the Manager having obtained the approval of the unitholders of Tower REIT at a unitholders' meeting to its purchase of the Property upon the terms of the SPA;
- (iii) the Trustee being satisfied with the results of the technical due diligence of the Property;
- (iv) in the event the market value of the Property as stated in the valuation report is varied or adjusted by the valuer pursuant to comments received from the appropriate authorities, the Trustee and DC Offices having agreed to proceed with the sale and purchase at the Purchase Consideration or at such other price as mutually agreed between the Trustee and DC Offices. If the mutually agreed price is different from the Purchase Consideration, the parties having entered into a supplemental agreement to reflect such mutually agreed price; and

---

**SALIENT TERMS OF THE SPA (CONT'D)**

---

- (v) any other approvals or consents from third parties and any other matter as may be agreed in writing by DC Offices and the Trustee.

If any of the conditions precedent to the SPA is not fulfilled by the last day of the Compliance Period, either party may terminate the SPA by notice in writing to the other, whereupon the SPA shall terminate and be null and void and of no further effect and neither party shall have any claim against the other party.

The SPA shall become unconditional and effective when the last of the conditions precedent is fulfilled or such later date as may be agreed in writing between the Trustee and DC Offices ("**Effective Date**").

### **3. Purchase Consideration**

The Purchase Consideration agreed between DC Offices and the Trustee, on a willing buyer willing seller basis, is RM242.1 million and the Trustee shall pay the Purchase Consideration within 60 days from the Effective Date ("**Completion Period**").

If the Trustee fails to pay the Purchase Consideration or any part thereof within the Completion Period, DC Offices shall automatically extend time by 30 days from the expiry of the Completion Period or such other period as may be agreed between the Trustee and DC Offices in writing, provided always that the Trustee pays DC Offices late payment interest (chargeable at the simple interest rate of 8% per annum) on the amount due and remaining unpaid, commencing from the day after the last day of the Completion Period until the date of full and final settlement of the same.

### **4. Novation and assignment agreements**

The Existing Agreements shall be dealt with in the following manner:

- (i) DC Offices may request the applicable third party to the Existing Agreements to sign and return the novation agreements in relation to the Existing Agreements;
- (ii) In lieu of a novation agreement, the parties to the SPA may agree to the execution and delivery of new agreements to be made between the Trustee and the applicable third party and the termination of the applicable Existing Agreements and the release of DC Offices thereunder; or
- (iii) If any applicable third party fails to execute the novation agreement in relation to the Existing Agreement, DC Offices shall (unless waived by the Trustee) sign and deliver an assignment agreement to assign the full benefits, entitlements, rights, title and interests of DC Offices under and arising from that Existing Agreement to the Trustee.

### **5. Completion**

On payment of the full Purchase Consideration, the following shall be treated to have occurred as from the Completion Date:

- (i) full beneficial interests in, and title to, the Property shall be conveyed to the Trustee and its successors in title and lawful assigns;
- (ii) legal possession of the Property shall be conveyed to the Trustee;
- (iii) with the delivery of legal possession, risks shall pass to the Trustee;

---

**SALIENT TERMS OF THE SPA (CONT'D)**

---

- (iv) all associated rights and benefits shall be assigned absolutely and unconditionally by DC Offices to the Trustee; and
- (v) the Trustee shall assume the liabilities under the Existing Agreements accruing as from the Completion Date.

**6. Property sold free from claims and liabilities**

The Trustee shall indemnify DC Offices against all claims, losses, costs and expenses ("**Liabilities**") that may be sustained by DC Offices if any claim is made against DC Offices for any Liabilities accruing after (and including) the Completion Date. DC Offices shall indemnify the Trustee against all Liabilities that may be sustained by the Trustee if any claim is made against the Trustee for any Liabilities accruing before (and excluding) the Completion Date.

**7. Default**

- (i) If, for any reason whatsoever:
  - (a) the Trustee fails to pay an amount due to DC Offices in accordance with the provisions of the SPA;
  - (b) the Trustee fails to observe or perform any material obligation on its part contained in the SPA (other than (a) above) and if such failure is capable of remedy, the Trustee having failed to remedy the same to the reasonable satisfaction of DC Offices within 10 days from the date of written notice from DC Offices to the Trustee requesting remedy thereof; or
  - (c) any of the representations or warranties of the Trustee shall at any time be found to be incorrect, untrue or misleading in any material aspect,

DC Offices shall be entitled to terminate the SPA by notice in writing to the Trustee, whereupon:

- (aa) if the Purchase Consideration or any part thereof has been paid to DC Offices, DC Offices shall deduct and forfeit an amount equivalent to 10% of the Purchase Consideration or such lesser amount as may be agreed between the parties in writing ("**Agreed Liquidated Damages**") from the Purchase Consideration received by it or if no Purchase Consideration has been paid to DC Offices, the Trustee shall pay the Agreed Liquidated Damages to DC Offices within 10 business days from the date of receipt of DC Offices' notice of termination;
- (bb) DC Offices shall then refund and/or procure the refund of any other amount paid by the Trustee towards the Purchase Consideration (if paid) free of interest after deducting the Agreed Liquidated Damages;
- (cc) in exchange of the full refund under (bb) above, the Trustee shall perform its termination obligations pursuant to the terms of the SPA,

and thereafter the SPA shall terminate and be null and void and be of no further effect and neither party shall have any claim against the other (save and except for antecedent breach).

---

**SALIENT TERMS OF THE SPA (CONT'D)**

---

- (ii) If, for any reason whatsoever:
  - (a) DC Offices fails to perform any material obligations on its part contained in the SPA and if such failure is capable of remedy, DC Offices having failed to remedy the same to the reasonable satisfaction of the Trustee within 10 days from the date of written notice from the Trustee to DC Offices requesting remedy thereof; or
  - (b) any of the representations or warranties of DC Offices shall at any time be found to be incorrect, untrue or misleading in any material aspect,

the Trustee shall be entitled to the remedy at law for specific performance. Alternatively, at the election of the Trustee, it may terminate the SPA by notice in writing to DC Offices whereupon:

- (aa) DC Offices shall refund and/or procure the refund of all amounts paid by the Trustee towards the Purchase Consideration together with interest accrued thereon;
- (bb) DC Offices shall pay to the Trustee the Agreed Liquidated Damages within 10 business days from the date of receipt of the Trustee's notice of termination;
- (cc) in exchange of the full refund under (bb) above, the Trustee shall perform its termination obligations pursuant to the terms of the SPA,

and thereafter the SPA shall terminate and be null and void and be of no further effect and neither party shall have any claim against the other (save and except for antecedent breach).

- (iii) Upon termination of the SPA in accordance with (i) and (ii) above, DC Offices shall be at liberty to sell or otherwise deal with the Property in any manner as DC Offices deems fit without the reference to the Trustee.



---

**INFORMATION ON THE PROPERTY**


---

The information on the Property is as follows:

Postal address	: Menara Guoco, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur
Strata title	: Not issued yet
Master title	: Geran 74955, Lot 58303, Mukim and District of Kuala Lumpur, State of Wilayah Persekutuan Kuala Lumpur
Beneficial owner	: DC Offices
Category of land use	: Building
Existing and proposed use	: Offices
Terms of tenure	: Freehold
Audited net book value	: RM242.1 million based on the latest audited consolidated financial statements of GLM for the FYE 30 June 2019
Market value	: RM242.1 million as appraised by the Valuer as at the material date of valuation of 22 January 2020 using the investment and comparison methods of valuation
Encumbrances	: The encumbrances over the master title are as follows: <ul style="list-style-type: none"> <li>(i) lease to Tenaga Nasional Berhad for an area measuring 756 square metres from 30 March 2014 to 29 March 2044 registered on 17 December 2014; and</li> <li>(ii) lease to Tenaga Nasional Berhad for an area measuring 4,367 square metres from 18 July 2017 to 17 July 2047 registered on 15 July 2019</li> </ul>
Age of building	: Approximately 2 years
Surveyed floor area	: 310,183 square feet
Net lettable area	: 232,133 square feet
Percentage of occupancy as at the LPD	: 97.1%
Gross rental income for the FYE 30 June 2019	: Approximately RM15.6 million

---

**SALIENT FEATURES OF THE VALUATION REPORT**

---

The salient features of the Valuation Report are as follows:

- (i) The market value of the Property as appraised by the Valuer as at the material date of valuation of 22 January 2020 is RM242.1 million using the investment and comparison methods of valuation.
- (ii) The basis of valuation adopted for the Property is market value, which is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
- (iii) The investment method involves determining the net annual income derived from the Property by deducting all outgoings from the estimated gross annual income and then capitalising the net annual income with an appropriate capitalisation rate to arrive at the market value of the Property. The capitalisation rate is derived by analysing the transactions of properties deemed similar in all aspects to the Property. The main parameters used by the Valuer are as follows:
  - (a) gross annual rental income for initial term is based on the total annual rental receivables from existing tenants, while gross annual rental for reversionary period is based on estimated present market rental value of the Property with adjustments made for all dissimilarities;
  - (b) gross annual outgoings for initial term are based on average annual outgoings incurred, while gross annual outgoings for reversionary period take into consideration rising cost due to inflation and lesser maintenance and management fee incurred based on the age of the Property;
  - (c) allowance for void of 2.5% after taking into consideration the general trend of vacancy for similar types of property and the duration of rent free allowance based on prevailing market practice; and
  - (d) net yields of 5.50% and 5.75% per annum are adopted by the Valuer for initial term and reversionary period respectively.
- (iv) The comparison method compares the recent sale transactions of properties within vicinity of the Property, namely Ikhlas Point, Wisma UOA Pantai and ACE Tower. Appropriate adjustments are then made for all dissimilarities to arrive at the market value of the Property.