AMANAHRAYA REAL ESTATE INVESTMENT TRUST ("ARREIT")

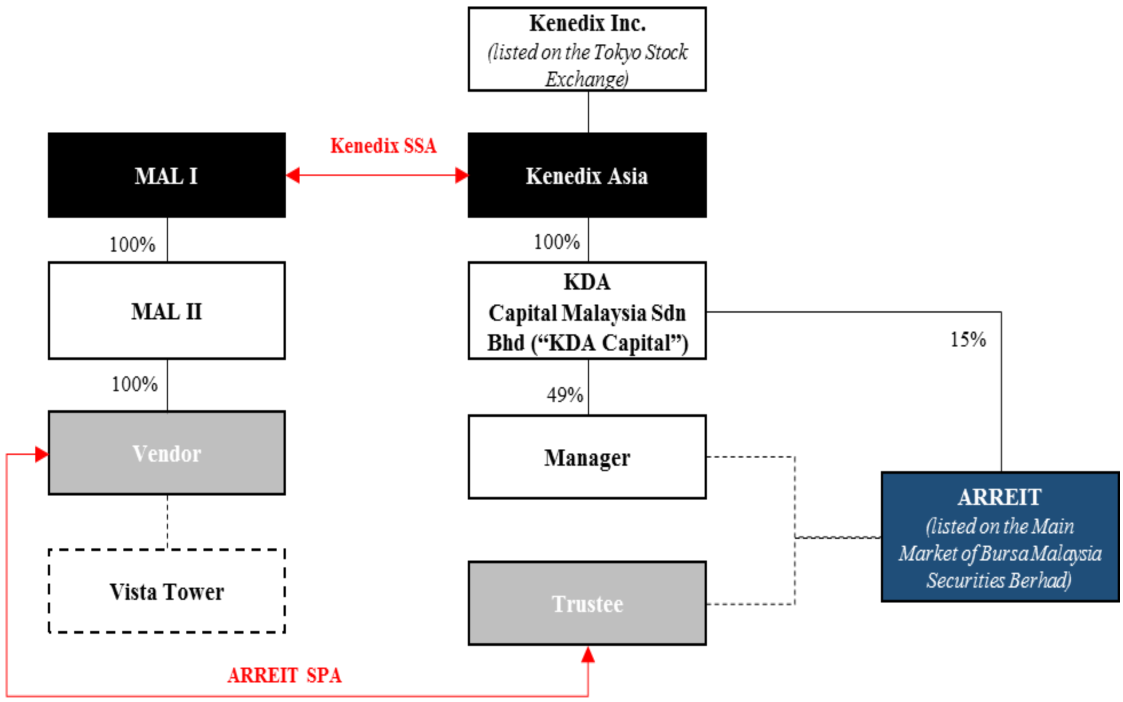
PROPOSED ACQUISITION OF VISTA TOWER (AS HEREINAFTER DEFINED) FOR A PURCHASE CONSIDERATION OF RM455 MILLION ("PROPOSED ACQUISITION")

1. INTRODUCTION

On behalf of the board of directors of AmanahRaya-Kenedix REIT Manager Sdn Bhd (the management company of ARREIT ("**Manager**")) ("**Board**"), RHB Investment Bank Berhad ("**RHB Investment Bank**") wishes to announce that CIMB Islamic Trustee Berhad, acting solely in its capacity as the trustee for and on behalf of ARREIT ("**Trustee**"), had on 7 September 2017 entered into a conditional sale and purchase agreement with The Intermark Sdn Bhd ("**Vendor**") ("**ARREIT SPA**") for the proposed acquisition of Vista Tower (as defined below) for a total purchase consideration of RM455 million to be entirely satisfied in cash ("**Purchase Consideration**") ("**Proposed Acquisition**").

Prior to the signing of the ARREIT SPA, Kenedix Asia Pte Ltd (a substantial shareholder of the Manager and substantial unitholder of ARREIT) ("**Kenedix Asia**") had on 6 September 2017 entered into a share sale agreement with MAL I (BVI) Ltd ("**MAL I**") to acquire the entire issued share capital and the shareholder's loan of MAL II (BVI) Ltd (the immediate holding company of the Vendor) ("**MAL II**") from MAL I for a purchase consideration of RM456.2 million ("**Kenedix Acquisition**") ("**Kenedix SSA**"). The completion of the Kenedix SSA also took place on the same day. Please refer to Paragraph 2.2 of this announcement for further details.

The diagrammatic illustration below depicts the Proposed Acquisition and the Kenedix Acquisition:



2. DETAILS OF THE PROPOSED ACQUISITION

2.1 Description of Vista Tower

The Proposed Acquisition entails the acquisition of a 63-storey office tower with 2 concourse levels and 3 basement levels identified as Vista Tower, bearing the postal address of Vista Tower, The Intermark, No. 348, Jalan Tun Razak, 50400 Kuala Lumpur held under strata title Geran 75638/M1/B5/3, Lot 20000 Seksyen 43, Bandar Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur together with 280 accessory parcels ("**Vista Tower**").

Other pertinent information on Vista Tower is provided below:

Land area	:	228,948 square feet (21,270 square meters)
Tenure	:	Freehold
Land status	:	Commercial land
Strata floor area	:	776,196 square feet (72,111 square meters)
Net lettable area	:	551,875 square feet (51,271 square meters)
Average floor plate	:	11,450 square feet (1,064 square meters)
Age of building	:	Approximately 23 years but was extensively refurbished in 2011
No. of car park bays	:	917 bays (1)
Percentage of occupancy	:	74.4% as at 31 July 2017, being the latest practicable date of this announcement ("**LPD**"). This may fall to 66.3% due to the non-renewal of one of the tenancy agreements upon its expiry on 30 November 2017. Nevertheless, the Manager will actively seek for a replacement tenant to occupy the space
Chargee	:	United Overseas Bank (Malaysia) Bhd (Company No. 271809-K) of Tingkat 11, Menara UOB, Jalan Raja Laut, 50350 Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur ("**Chargee**")
Encumbrances	:	A charge granted in favour of the Chargee dated 12 April 2016 vide presentation no. 11323/2016 ("**Charge**")
Restriction in interest	:	Nil
Category of land use	:	Building
Express condition	:	*"Tanah ini hendaklah digunakan untuk bangunan perdagangan bagi tujuan kompleks perdagangan sahaja"*
Market value	:	RM523 million (2)
Net book value	:	RM665 million (3)
Tenancy description and annual gross rental income	:	As at the LPD, Vista Tower houses tenants from the following major trade mix:

Trade	**% of net lettable area**
Oil and gas	30.9
Financial services	25.7
Building products	4.0
Engineering & construction	2.1
Others	11.7
Total	**74.4**

The key tenants of Vista Tower include UOB group, Petronas Refinery & Petrochemical Corporation and BNP Paribas Malaysia.

The gross annual rental for Vista Tower (inclusive of car park rental) is RM30.2 million (3).

Estimated property net yield	:	▪	6.46% per annum *(after taking into consideration the impact of the Monthly Payment*)*
		▪	5.68% per annum *(without taking into consideration the impact of the Monthly Payment*)*

Notes:

* *As defined in Paragraph 2.5 of this announcement.*

(1) Managed and operated by Secure Parking Corporation Sdn Bhd

*(2) As appraised by Nawawi Tie Leung Property Consultants Sdn Bhd ("**Valuer**"), being the independent registered valuer appointed by the Manager on behalf of the Trustee, in its valuation certificate dated 1 August 2017 ("**Valuation Certificate**"). The date of valuation of Vista Tower is 31 July 2017*

(3) Derived from the audited financial statements of the Vendor for the financial year ended 31 December 2016

2.2 Basis of determining the Purchase Consideration

The purchase consideration of RM455 million was arrived on a willing buyer willing seller basis after taking into consideration the following:

(a) the market value of Vista Tower of RM523 million, as ascribed in the Valuation Certificate pursuant to the Proposed Acquisition. In arriving at the market value of Vista Tower, the Valuer has adopted the Investment Method and Comparison Method. The summary of the valuation methods adopted by the Valuer is as follows:

Valuation methods	Methodology explanation	Derived value
Investment Method	The indicative value is derived from an estimate of the market rental which the subject property can reasonably be let for. In arriving at the indicative value, outgoings, such as properties tax, repairs and maintenance, insurance and management fees are deducted from the annual rental income. The net annual rental income is then capitalised at an appropriate current market yield to arrive at its indicative value.	RM523.0 million^
Comparison Method	The market approach of comparing the subject property with similar properties that were either transacted recently or listed for sale within the same location or other comparable localities. In comparing the properties, due consideration is given to factors such as location, size, building differences, improvements and amenities, time element and other relevant factors to arrive at the Valuer's opinion of value.	RM542.5 million

^ *In arriving at the market value of Vista Tower, the Valuer did not take into consideration the impact of the Monthly Payment (as defined in Paragraph 2.5 of this announcement)*

Taking into consideration that Vista Tower is a commercial and income generating property, the Valuer has adopted the market value as derived from the Investment Method as a fair representation of the market value of Vista Tower supported by the market value derived from the Comparison Method.

The market value is defined as 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 where the parties had each acted knowledgably, prudently and without compulsion.

(b) the total estimated costs of RM455 million to be incurred by Kenedix Asia in relation to the Kenedix Acquisition, computed as follows:

	RM'million
Purchase consideration of Kenedix Acquisition	456.2
Less: Net current assets of MAL II	(26.2)
Net purchase consideration of Kenedix Acquisition	**430.0**
Add: Transaction costs to be incurred by Kenedix Asia:	
- Finance costs	18.7
- Legal, tax and accounting costs	5.8
- Due diligence costs	0.5
Total	**455.0**

2.3 Method of financing and liabilities to be assumed

The Purchase Consideration will be funded via (i) a medium-term note programme, pursuant to which RM450.0 million notes will be issued for the Proposed Acquisition and (ii) internally generated funds of RM5.0 million. There are no contingent liabilities and/or guarantees to be assumed by ARREIT arising from the Proposed Acquisition.

There is no requirement for any additional financial commitment from ARREIT, except for capital expenditure to be incurred in the course of its normal operations since Vista Tower is already established and fully operational.

2.4 Salient terms of the ARREIT SPA

(a) Conditions of sale

The sale, purchase and transfer of Vista Tower is subject to, *inter-alia*, the following conditions:

(i) all of the conditions precedent as set out in Paragraph 2.4 (c) of this announcement are complied;

(ii) the property is sold on an 'as is where is' basis;

(iii) the property is free from all encumbrances; and

(iv) the existing tenancies, the assignment documents and the novation agreements of the existing tenancies and the existing contracts being effective on Completion Date (as defined in Paragraph 2.4 (d) of this announcement).

The Kenedix SSA and the ARREIT SPA are interdependent and the completion of the ARREIT SPA is subject to the completion of the Kenedix SSA (which was completed on 6 September 2017).

(b) Manner of payment of the Purchase Consideration

The Purchase Consideration shall be paid as follows:

(i) upon the execution of the ARREIT SPA, the Trustee shall pay RM100,000 ("**Deposit**") to the Vendor as part payment towards account of the Purchase Consideration;

(ii) the Trustee shall pay the sum of RM454.9 million ("**Balance Purchase Consideration**") to the Vendor or its solicitors to hold as stakeholders, on or before the expiry of the 1 month period commencing from the business day after the relevant party or their solicitors' receipt of written notification and documentary evidence that the last of the condition precedents have been fulfilled or waived ("**Completion Period**"); and

(iii) in the event that the Balance Purchase Consideration is not paid in full on or before the expiry of the Completion Period, the Vendor shall grant to the Trustee additional period of 1 month commencing from the day following the expiry of the Completion Period ("**Extended Completion Period**").

(c) Conditions precedent

The ARREIT SPA and the completion of the Proposed Acquisition are conditional upon the following conditions precedent being fulfilled or obtained within 3 months after the date of the ARREIT SPA, or such other extended date as the Trustee and the Vendor may mutually agree upon in writing, unless the condition(s) precedent are being waived by the Trustee or the Vendor:

(i) the approval of the directors and shareholders (if required) of the Vendor for the sale of Vista Tower and the execution of all relevant documents under seal in accordance with the Vendor's constitution and by such persons authorised by the Vendor;

(ii) the Trustee having carried out legal and physical examination, and verification on Vista Tower ("**Due Diligence Studies**") at its own cost and expense and the results or findings of the Due Diligence Studies are to the reasonable satisfaction of the Trustee;

(iii) the approval of the unitholders of ARREIT at a unitholders' meeting to be convened for the Proposed Acquisition ("**Unitholders' Meeting**"); and

(iv) the approval or consent of the Chargee and any relevant third party or any relevant authorities for the Proposed Acquisition, if required.

(d) Completion date

Completion shall take place on or before a date falling within the Completion Period or the Extended Completion Period ("**Completion Date**") when:

(i) the redemption sum for the purpose of redeeming the property ("**Redemption Sum**") has been released to the Chargee; and

(ii) the Vendor or the Vendor's solicitors receives the Balance Purchase Consideration, less the Redemption Sum, in full from the Trustee or the Trustee's financier.

(e) Termination and breach

(i) **Vendor's right to terminate**

If the Trustee defaults in the satisfaction of the Purchase Consideration or where the Trustee breaches any term, condition or undertaking of the ARREIT SPA or if the Trustee fails to perform or observe any undertaking, obligation or agreement expressed or implied in the ARREIT SPA, the Vendor is to give notice in writing to the Trustee to specify the default or breach and the Trustee shall remedy the default or breach within 14 business days of the receipt of such notice. The Vendor will be entitled to terminate the ARREIT SPA by notice in writing to the Trustee if the Trustee fails within 14 business days of receipt of a notice from the Vendor to remedy the default or breach.

(ii) **Trustee's right to terminate**

If the Vendor fails to remedy the following default or breach that occurs anytime before the Completion Date within the 14 business days, the Trustee shall be entitled to terminate the ARREIT SPA by notice in writing to the Vendor:

(aa) the Vendor breaches any term or condition of the ARREIT SPA or if it fails to perform or observe any undertaking, obligation or agreement in the ARREIT SPA;

(bb) a receiver, receiver and manager, special administrator, trustee or similar official is appointed over any of the assets or undertaking of the Vendor;

(cc) the Vendor is or becomes unable to pay its debts when they are due or becomes unable to pay its debts within the meaning of the Companies Act, 2016;

(dd) a resolution is passed or an application or order is made for the winding up or dissolution of the Vendor otherwise than for the purpose of an amalgamation or reconstruction which has the prior written consent of the Trustee; or

(ee) the Vendor commits any act or omits to do any act which results in the breach or non-fulfilment of any term or condition of any banking, finance or credit facility which has the effect of causing the events specified in Paragraphs 2.4 (e)(ii)(bb), (cc) and (dd) above to occur.

(e) Consequences of termination by the Vendor

If a termination notice is duly given by the Vendor to the Trustee, the Vendor shall refund and cause to be refunded to the Trustee any other sums paid by the Trustee and/or the Trustee's financier to the Vendor, its solicitors as stakeholders and/or the Chargee towards payment of the Balance Purchase Consideration (including the Redemption Sum) free of interest within 14 business days after its issuance of the notice to terminate the ARREIT SPA.

The ARREIT SPA shall cease to have any effect and shall be null and void and neither party shall have any claim against the other party or be under further obligation to the other party, save and except for any antecedent breach.

(f) Consequences of termination by the Trustee

If a notice of termination is duly given by the Trustee to the Vendor:

(i) the Vendor shall refund or cause to be refunded the Deposit together with all other sums paid by the Trustee and/or the Trustee's financier to the Vendor and/or the Chargee towards payment of the Balance Purchase Consideration (including the Redemption Sum) free of interest to the Trustee within 14 business days after its receipt of the notice of termination; and

(ii) the solicitors for the Vendor shall be authorised to return the Balance Purchase Consideration or any part thereof which has been received and held by them as stakeholder as at the date of their receipt of the notice of termination, to the Trustee within 14 business days after the solicitors for the Vendor's receipt of the notice of termination.

The ARREIT SPA shall cease to have any effect and shall be null and void and neither party shall have any claim against the other party or be under further obligation to the other party, save and except for any antecedent breach.

(g) Non-registration of Transfer

If for any reason whatsoever the memorandum of transfer in favour of the Trustee is rejected for registration or is not or cannot be registered by the land registry and where all remedial actions have been exhausted, then it is hereby agreed between the parties that subject to the Trustee returning the memorandum of transfer and the documents relating to the discharge of the Charge to the Vendor with the Vendor's interest intact, the Vendor shall refund free of interest to the Trustee all moneys paid by the Trustee towards payment of the Purchase Consideration and thereafter the ARREIT SPA shall be null and void and of no further effect.

(j) Vendor's obligations under existing tenancies and service contracts

The Vendor undertakes to the Trustee that the Vendor shall at its own costs and expense, procure the execution of the novation agreements by the parties to the existing tenancy agreements and the existing service contracts, and the assignment documents (where relevant) in favour of the Trustee and deliver to the solicitors for the Trustee as stakeholder, each of the executed novation agreements and the assignment documents.

2.5 Information on the Kenedix Acquisition

MAL I, the holding company of MAL II, has indicated that they only intend to dispose Vista Tower via an investment structure which involves the disposal of the entire equity interest of MAL II. However, the Manager only intends to acquire Vista Tower rather than the entity that owns such asset. In this instance, Kenedix Asia, being a supportive sponsor, has agreed to facilitate the acquisition of Vista Tower by the Manager via the Kenedix SSA. With completion of the Kenedix SSA on 6 September 2017, Kenedix Asia shall own Vista Tower via its direct equity interest in MAL II before the eventual disposal of Vista Tower to the Trustee pursuant to the ARREIT SPA.

The net purchase consideration of the Kenedix Acquisition of RM430 million is lower than the Purchase Consideration of RM455 million. This is to take into consideration the transaction costs to be incurred and business risks to be assumed by Kenedix Asia for entering into Kenedix SSA. Notwithstanding this, the Purchase Consideration of RM455 million is still lower than the market value of Vista Tower as appraised by the Valuer – see Paragraph 2.2 of this announcement.

Further, in connection with the Kenedix Acquisition, MAL I has agreed to pay Kenedix Asia a sum of RM9.18 million by way of 24 equal monthly payments of RM382,500 with the first payment commencing on 1 December 2017. This arrangement is formalised via a stakeholder agreement that was signed on 6 September 2017. Upon the request made by the Trustee to Kenedix Asia on 7 September 2017, Kenedix Asia has agreed to remit these monthly payments to the Trustee upon the Completion Date up until 1 November 2019 ("**Monthly Payment**").

2.6 Information on the Vendor

The Vendor was incorporated in Malaysia under the Companies Act, 1965 on 7 July 2006 as a private limited company under the name of "Affluent Impact Sdn Bhd". Subsequently, on 1 September 2006, the company's name was changed to "MGP I (Mal) Sdn Bhd", and on 25 November 2008, the Vendor assumed its present name. The principal activities of the Vendor are holding of investment properties, leasing of investment properties under operating leases and hotel business.

As at the LPD, the issued share capital of the Vendor is RM900,000, comprising 500,000 ordinary shares and 40,000,000 non-cumulative redeemable preference shares. The entire issued share capital of the Vendor is owned by its sole shareholder, MAL II.

Following the completion of the Kenedix Acquisition, the directors of the Vendor will be Akihiro Nakao and Michio Izawa.

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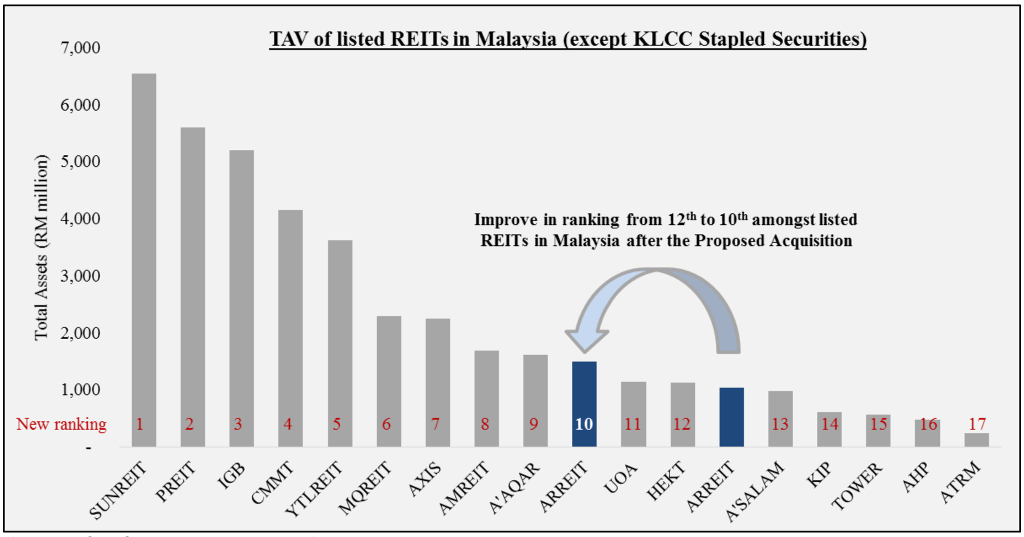
3. RATIONALE FOR THE PROPOSED ACQUISITION

The Proposed Acquisition is in line with the key investment objective of the Manager to invest in properties that are yield accretive, value accretive (capital appreciation) and are able to continuously generate sustainable return to the unitholders.

The rationale for the Proposed Acquisition is further elaborated below:

3.1 Elevate the ranking of ARREIT to a top 10 real estate investment trusts ("REIT") in Malaysia by total asset value ("TAV")

With the Proposed Acquisition, the TAV of ARREIT will increase from RM1,036.9 million as at 30 June 2017 to RM1,561.0 million. This will position ARREIT as a top 10 listed REITs in Malaysia (excluding KLCC Stapled Securities) by TAV, thus enhancing the overall presence and reputation of ARREIT amongst the Malaysian investment community.



(Source: Bloomberg as at 9 August 2017)

Abbreviations:

A'AQAR	*Al-'Aqar Healthcare REIT*	***IGB***	*IGB REIT*
A'SALAM	*Al-Salam REIT*	***KIP***	*KIP REIT*
AHP	*Amanah Harta Tanah PNB*	***MQREIT***	*MRCB-Quill REIT*
AMREIT	*AmFirst REIT*	***PREIT***	*Pavilion REIT*
ARREIT	*AmanahRaya REIT*	***SUNREIT***	*Sunway REIT*
ATRM	*Atrium REIT*	***TOWER***	*Tower REIT*
AXIS	*Axis REIT*	***UOA***	*UOA REIT*
CMMT	*Capitaland Malaysia Mall Trust*	***YTLREIT***	*YTL Hospitality REIT*
HEKT	*Hektar REIT*		

3.2 Growth in assets under management

The Proposed Acquisition would enable the Manager to further diversify and enlarge its portfolio of assets under management. This it is expected to benefit ARREIT in the long-term as a result of economies of scale. As the value of its portfolio continues to grow, ARREIT would be able to reduce its management expense ratio and ultimately increase its returns to the unitholders.

3.3 Competitive strengths of the property

3.3.1 Opportunistic Investment

The Manager was able to acquire Vista Tower at the Purchase Consideration (RM455 million), which is at a 13.0% discount to the current market value of Vista Tower of RM523 million. Pursuant to this, the Proposed Acquisition is value accretive as there will be an immediate unrealised gain of RM67.1 million to be recognised by ARREIT from the Proposed Acquisition.

3.3.2 Strategic location with Grade-A quality and features

Vista Tower is a Grade-A office building that is strategically located at an established prime office area within the vicinity of Kuala Lumpur City Centre. Vista Tower is also a Multimedia Super Corridor ("**MSC**") compliant building that is equipped with advanced features including the following:

(a) computerised building automation system that provides control to lightings as well as the air-conditioning mechanical ventilation system such as chillers, pumps, air-handling units and fans;

(b) security system comprising closed circuit television (CCTV) cameras at strategic areas, card access control, computerised visitor management system and security speed gate at main lobbies; and

(c) fire protection system that includes water sprinkler system, hose reel system, wet riser system, portable fire extinguishers, fire alarm system and engineering smoke control.

In addition, Vista Tower has great connectivity and accessibility via the main roads of Jalan Tun Razak and Jalan Ampang, and is conveniently located adjacent to the Ampang Park light rail transit ("**LRT**") station and a soon to be built mass rapid transit ("**MRT**") station.

3.3.3 Diverse quality tenant mix

Vista Tower has a diverse tenant mix comprising 35 tenancies as at the LPD – please refer to the table in Paragraph 2.1 of this announcement for the trade mix of the tenants of Vista Tower. Tenant diversification improves cash flow stability by minimising each tenant's overall contribution to revenue and therefore, minimising the effect that any individual tenant's default would have on ARREIT. The key tenants in Vista Tower include many international and domestic companies such as UOB group, Petronas Refinery & Petrochemical Corporation and BNP Paribas Malaysia.

3.3.4 Accretion to earnings and distribution per unit ("DPU")

Vista Tower is an income-generating property that currently enjoys an occupancy rate of 74.4%. Given the potential for the occupancy rate to improve further, there is an upside to be enjoyed by ARREIT for the improvement in yield and market value of Vista Tower. Further, the Manager believes that the Proposed Acquisition will immediately improve the earnings and the DPU to ARREIT's unitholders upon completion of the Proposed Acquisition.

3.3.5 Symbolic transaction for ARREIT subsequent to the formation of strategic partnership with Kenedix Asia

The rationale behind the formation of strategic partnership with Kenedix Asia in December 2016 is to, amongst others, spur the growth of ARREIT's portfolio internally via asset enhancement initiatives and externally via new acquisitions, and improve investors' perception towards ARREIT. Therefore, the Proposed Acquisition symbolises a significant milestone in the strategic partnership with Kenedix Asia to grow ARREIT's portfolio. Further, ARREIT is able to harness the synergies of the partnership with Kenedix Asia in this transaction, whereby the Kenedix Acquisition was undertaken to facilitate the Proposed Acquisition.

4. INDUSTRY OVERVIEW AND OUTLOOK

4.1 Overview and outlook of the Malaysian economy

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter of 2017 (1Q 2017: 5.6%). Private sector spending continued to be the main driver of growth. On the external front, growth was further supported by the robust expansion in real exports of goods and services (9.6%; 1Q 2017: 9.8%) following strong demand for manufactured and commodity products. Real imports moderated slightly to 10.7% (1Q 2017: 12.9%) following more moderate expansion in investment. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 1.3% (1Q 2017: 1.8%).

Domestic demand grew by 5.7% in the second quarter of the year (1Q 2017: 7.7%), supported by continued expansion in both private sector expenditure (7.2%; 1Q 2017: 8.2%) and public sector spending (0.2%; 1Q 2017: 5.8%).

Private consumption recorded a growth of 7.1% (1Q 2017: 6.6%), supported by the improvement in private sector wages amid continued strength in employment growth. During the quarter, consumer sentiments continued to improve, providing further impetus to household spending. Private investment expanded by 7.4% in the second quarter (1Q 2017: 12.9%), mainly in the services and manufacturing sectors. In line with the recovery in demand, manufacturers undertook capacity expansions, machinery and equipment (M&E) acquisitions and replacements to cater for new orders. This was evident across both the export and domestic-oriented manufacturing sub-sectors. In the services sector, investment was supported mainly by expansions in the utilities, healthcare and food & beverage and accommodation sub-sectors. During the quarter, business sentiments continued to improve in tandem with better external and domestic conditions amid lower financial market volatility.

Public consumption growth moderated to 3.3% (1Q 2017: 7.5%) following slower growth in the spending on emoluments, and supplies and services. Public investment declined by 5.0% in the second quarter (1Q 2017: 3.2%). This was attributable to the lower spending on fixed assets by public corporations, which more than offset the higher expenditure by the Federal Government.

Headline inflation[1] moderated to 4.0% in the second quarter of 2017 (1Q 2017: 4.3%) due mainly to lower transport inflation of 13.4% (1Q 2017: 16.2%). During the quarter, prices of RON95 petrol averaged RM2.07 per litre, lower than the average of RM2.23 per litre in 1Q 2017. The lower domestic fuel prices were due mainly to the lower global oil prices amid a stronger ringgit exchange rate during the quarter.

Labour market conditions showed tentative signs of improvements in the second quarter of 2017, as the labour force expansion of 56,300 persons was exceeded slightly by stronger net employment gain of 58,900 people. As such, the unemployment rate decreased to 3.4% of the labour force (1Q 2017: 3.5%). The labour force participation rate was sustained at 67.7% of the working age population (1Q 2017: 67.7%). Higher vacancies posted on a major job search website, at 65,478 positions, indicate increased demand for new hires (1Q 2017: 61,760 positions).

(Source: Bank Negara Malaysia, Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2017)

[1] As measured by the annual change in the Consumer Price Index (CPI)

4.2 Overview and outlook of the office sector in Malaysia

Commercial property transactions (shops, office space and shopping complexes) registered a decline of 29.1% and 15.5% (2010-2015 average: -1.5% and +12.3%) in volume and value terms respectively in the first 9 months of 2016. This trend was observed across all the major cities.

Risks remained heightened in the office space and shopping complex segments, with new supply outstripping recent historical trends despite signs of softer tenant demand, notably in the oil and gas (O&G) and financial services sectors amid announced downsizing and cost-control measures. In the office space segment, total stock expanded further by 1.2% (2010-2015 average: +4%) to 220.4 million square feet. As a result, the already high average vacancy rate worsened further to 17.1% (2010-2015 average: 16.3%). Planned incoming supply of office space will continue to exert downward pressure on rental rates. The average rental rate of office space in the Klang Valley remained depressed at RM5.90 (2015: RM5.94) per square foot per month, with owners of some older buildings resorting to offering rent holidays to attract or retain tenants.

About 5.5 million square feet (2010-2015: +2.8 million square feet per annum) of new office space per year is expected to be added to the Klang Valley office market over the next three years.

(Source: Bank Negara Malaysia, Financial Stability and Payment Systems Report 2016)

The increase in supply is likely to outpace demand in the short to medium term, while occupancy rate continues to slide to a level not seen since the late 1980s recession. Whist there is no immediate risk to the financial sector, it could be useful to address further deterioration to the situation by having a general moratorium on new approvals not dissimilar to that for the hotel segment. However, office buildings with special features e.g MSC Status will still be in good demand and sought after.

Though the outlook of the office market may be stagnant for the first half of 2017, infrastructure works on the MRT, LRT and the KL-Singapore High Speed Rail (HSR) are still on-going and are expected to be key drivers of the economy's growth. Offices located within the train lines are seen to have better demand compared to those in less strategic and accessible areas.

*(Source: Valuation report issued by the Valuer in relation to Vista Tower ("**Valuation Report**"))*

4.3 Prospect of Vista Tower

Vista Tower forms part of the iconic mixed-development enclave called "The Intermark". It is a Grade-A building that is MSC compliant and equipped with advanced features including computerised building automation system, security system and fire protection system. It is also strategically located at an established prime office area in the vicinity of Kuala Lumpur City Centre and is easily accessible from various parts of Kuala Lumpur via Jalan Tun Razak and Jalan Ampang, two major business thoroughfares of Kuala Lumpur. The locality is also well served by public transportation such as buses, taxis, LRT and an upcoming MRT service. Further, there is a 200m-long pedestrian bridge that stretches across the busy intersection of Jalan Tun Razak and Jalan Ampang connecting The Intermark with Ampang Park shopping complex.

In addition, Vista Tower is surrounded by a 540-room hotel known as DoubleTree by Hilton Hotel Kuala Lumpur) and a retail mall known as Intermark Mall. These surrounding buildings complement Vista Tower by affording occupants and visitors of Vista Tower with lodging and shopping amenities at great convenience. The presence of a neighbouring office building, the Integra Tower, combined with the surrounding hotel and retail mall also fuels the economic activity within The Intermark, which ultimately augurs well for Vista Tower.

Despite the concerning trend with regards to the large incoming supply of space for office sector, the prospects of Vista Tower are expected to be positive in view of its strategic location, good accessibility and high quality specifications that meet the requirements of major and reputable companies. There will hence be opportunities for Vista Tower to increase its occupancy levels which in turn will provide a stable income stream to ARREIT.

(Source: The Manager)

5. RISK FACTORS

Unitholders should consider the following risk factors (which may not be exhaustive) pertaining to the Proposed Acquisition:

(a) decreases in gross rental income of Vista Tower arising from:

  (i) increased competition from other office properties resulting in termination of tenancies or non-renewal of expired tenancies;

  (ii) lower rates negotiated for new tenancies;

  (iii) the tenants' inability to pay rental on a timely basis due to external factors outside the control of the Manager,

  may have an adverse impact on ARREIT's financial condition and results of operations;

(b) due diligence on Vista Tower may not identify all material defects, breaches of laws and regulations and other deficiencies, which could result in unpredictable business interruption and additional expenses on repairs and rectifications to be incurred by ARREIT. The representations and warranties made in favour of the Trustee by the Vendor may not offer sufficient protection for the costs and liabilities arising from any defect, breaches and/or deficiency;

(c) as ARREIT will depend on external financing to finance the Proposed Acquisition, its ability to pay distributions may be adversely affected by this additional debt financing combined with ARREIT's existing financing arrangements and/or future debt or any interest rates fluctuation;

(d) the current gearing level of 30.3%, based on ARREIT's latest audited financial statements for financial year ended 31 December 2016, will increase to 49.1% after the Proposed Acquisition and based on the market value of Vista Tower of RM523 million. Hence, the ability of ARREIT to incur further borrowings is affected;

(e) changes in laws, building by-laws, codes and regulations issued by the relevant regulatory bodies that may require extensive renovation to Vista Tower in ensuring compliance with such changes;

(f) ARREIT may suffer material losses in excess of insurance proceeds received if the insurance coverage maintained for Vista Tower is insufficient to compensate any losses suffered;

(g) registration of transfer of Vista Tower title in favour of the Trustee may be delayed;

(h) compulsory acquisition by the Malaysian Government could adversely affect the value of Vista Tower, which could impair ARREIT's financial condition and results of operations; and

(i) completion of the Proposed Acquisition is subject to various conditions that may not be fulfilled within the timeframe anticipated by the Manager.

6. EFFECTS OF THE PROPOSED ACQUISITION

6.1 Unitholders' capital and substantial unitholders' unitholding

The Proposed Acquisition will not have any effect on ARREIT unitholders' capital and substantial unitholders' unitholdings as no new units of ARREIT will be issued in connection with the Proposed Acquisition.

6.2 Net asset value ("NAV") and NAV per unit

The proforma effects of the Proposed Acquisition on the NAV and NAV per unit of ARREIT are as follows:

	Audited as at 31 December 2016	After the Proposed Acquisition
	(RM'000)	**(RM'000)**
Unitholders' capital	519,686	519,686
Distributable income	166,376	233,489 [(1)]
NAV	**686,062**	**753,175**
No. of units in circulation	573,220	573,220
NAV per unit (RM)		
- Before income distribution	1.197	1.314
- After income distribution [(2)]	1.183	1.300

Notes:

(1) After taking into consideration the unrealised gain of RM67.1 million to be recognised by ARREIT, which is not distributable

(2) After final income distribution of approximately RM8.2 million for the financial year ended 31 December 2016

6.3 Gearing

The proforma effects of the Proposed Acquisition on the gearing level of ARREIT are as follows:

	Audited as at 31 December 2016	After the Proposed Acquisition
	(RM'000)	**(RM'000)**
Total asset value	1,040,293	1,557,406 [(1)]
Total borrowings	315,150	765,150
Gearing (total borrowings/ total assets value)	30.3%	49.1%

Note:

(1) After taking into consideration the impact from the revaluation upwards of Vista Tower to its market value of RM523.0 million

6.4 Earnings and distribution per unit ("DPU")

ARREIT is expected to recognise an unrealised gain of RM67.1 million for the financial year ending 31 December 2017 as a result of the Proposed Acquisition. This unrealised gain which is not distributable is not expected to have a material effect on the DPU of ARREIT for the said financial year. Nevertheless, the Proposed Acquisition is expected to contribute positively to the future earnings and DPU of ARREIT.

7. APPROVALS REQUIRED

The Proposed Acquisition is subject to the following approvals and consents being obtained:

(a) consent of the Trustee, which was obtained on 26 July 2017;

(b) approval or consent of the Chargee and other financiers of the Vendor, if required;

(c) approval of the unitholders of ARREIT at the Unitholders' Meeting; and

(d) any approvals and/or consents that may be required from any relevant authority and/or party, if required.

The Valuation Certificate, Valuation Report and circular to seek ARREIT's unitholders' approval is expected to be submitted to Bursa Malaysia Securities Berhad within two months from the date of this announcement.

8. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS OF THE MANAGER AND MAJOR UNITHOLDERS OF ARREIT AND PERSONS CONNECTED WITH THEM

The Proposed Acquisition is a related party transaction under Clause 9.01 of the Guidelines on Real Estate Investment Trusts issued by Securities Commission Malaysia ("**REIT Guidelines**") in view of the interest of the major unitholders of ARREIT, directors of the Manager and major shareholders of the Manager and/or persons connected to them in the Proposed Acquisition as disclosed in this section. In this regard, the interested related parties will not vote on the resolution pertaining to the Proposed Acquisition at the Unitholders' Meeting as it is prohibited by Clauses 15.48 and 15.49 of the REIT Guidelines.

Save as disclosed below, the Manager is not aware of any other major unitholders of ARREIT, directors of the Manager or major shareholders of the Manager and/or persons connected with them who have any interest, direct or indirect, in the Proposed Acquisition.

8.1 Interested major unitholders of ARREIT

The details of the unitholdings of ARREIT's interested major unitholders in ARREIT (collectively, the "**Interested Major Unitholders**") as at the LPD are as follows:

	Direct		Indirect	
Unitholder	**No. of units**	**%**	**No. of units**	**%**
Kumpulan Wang Bersama ("**KWB**")	271,186,379	47.3	-	-
KDA Capital	85,982,979	15.0	-	-
Amanah Raya Berhad ("**ARB**")	2,032,600	0.4	-	-
Kenedix Asia	-	-	85,982,979 (1)	15.0
Kenedix Inc.	-	-	85,982,979 (2)	15.0

Notes:

*(1) Deemed interested by virtue of Section 8 of the Companies Act, 2016 ("**Act**") held through KDA Capital*

(2) Deemed interested by virtue of Section 8 of the Act held through KDA Capital and Kenedix Asia

The Interested Major Unitholders are deemed interested in the Proposed Acquisition by virtue of the following:

(a) Kenedix Asia has a 100% direct interest in the Vendor following the completion of the Kenedix Acquisition; and

(b) KWB is a fund under the trusteeship of ARB. ARB is the joint venture partner of KDA Capital in relation to ARB's investments in the Manager and ARREIT.

Accordingly, the Interested Major Unitholders:

(a) will abstain from voting on the resolution pertaining to the Proposed Acquisition in relation to their direct and/or indirect unitholdings in ARREIT at the Unitholders' Meeting; and

(b) will undertake to ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Acquisition in relation to their direct and/or indirect unitholdings (if any) in ARREIT at the Unitholders' Meeting.

8.2 Interested director of the Manager

The following directors of the Manager ("**Interested Directors**") are deemed interested in the Proposed Acquisition by virtue of the following:

(a) Dato' Che Pee Samsudin and En Ahmad Suhaimi Endut are nominees of the Ministry of Finance of Malaysia, which is a major shareholder of ARB;

(b) En Adenan bin Md Yusof is the Group Managing Director of ARB; and

(c) Mr Akihiro Nakao and Mr Michio Izawa are directors of Kenedix Asia and KDA Capital.

As at the LPD, the Interested Directors do not have any direct/indirect unitholdings in ARREIT.

The Interested Directors have abstained and will continue to abstain from Board deliberations and voting for Proposed Acquisition. Further, the Interested Directors:

(a) will abstain from voting on the resolution pertaining to the Proposed Acquisition in relation to their direct and/or indirect unitholdings (if any) in ARREIT at the Unitholders' Meeting; and

(b) will undertake to ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Acquisition in relation to their direct and/or indirect unitholdings (if any) in ARREIT at the Unitholders' Meeting.

8.3 Interested major shareholders of the Manager

The details of the shareholdings of the Manager's interested major shareholders in the Manager (collectively, the "**Interested Major Shareholders**") as at the LPD are as follows:

	Direct		Indirect	
Shareholder	**No. of shares**	**%**	**No. of shares**	**%**
ARB	765,000	51.0	-	-
KDA Capital	735,000	49.0	-	-
Kenedix Asia	-	-	735,000 (1)	49.0
Kenedix Inc.	-	-	735,000 (2)	49.0

Notes:

(1) Deemed interested by virtue of Section 8 of the Act held through KDA Capital

(2) Deemed interested by virtue of Section 8 of the Act held through KDA Capital and Kenedix Asia

The Interested Major Shareholders are deemed interested in the Proposed Acquisition by virtue of the following:

(a) Kenedix Asia has a 100% direct interest in the Vendor following the completion of the Kenedix Acquisition; and

(b) KWB is a fund under the trusteeship of ARB. ARB is the joint venture partner of KDA Capital in relation to ARB's investments in the Manager and ARREIT.

Accordingly, the Interested Major Unitholders:

(a) will abstain from voting on the resolution pertaining to the Proposed Acquisition in relation to their direct and/or indirect unitholdings in ARREIT at the Unitholders' Meeting; and

(b) will undertake to ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Acquisition in relation to their direct and/or indirect unitholdings (if any) in ARREIT at the Unitholders' Meeting.

9. STATEMENT BY THE BOARD

The Board (save for the Interested Directors), having considered the rationale for the Proposed Acquisition, the views of Mercury Securities Sdn Bhd (being the Independent Adviser for the Proposed Acquisition) and all other aspects of the Proposed Acquisition, and after careful deliberation, is of the opinion that the Proposed Acquisition is:

(a) in the best interests of ARREIT and its unitholders;

(b) fair, reasonable and on normal commercial terms; and

(c) not detrimental to the interests of the non-interested unitholders of ARREIT.

10. STATEMENT BY THE AUDIT COMMITTEE

The Audit Committee of the Manager (save for Akihiro Nakao), having considered the rationale for the Proposed Acquisition, the views of Mercury Securities Sdn Bhd (being the Independent Adviser for the Proposed Acquisition) and all other aspects of the Proposed Acquisition, and after careful deliberation, is of the opinion that the Proposed Acquisition is:

(a) in the best interests of ARREIT and its unitholders;

(b) fair, reasonable and on normal commercial terms; and

(c) not detrimental to the interests of the non-interested Unitholders.

11. ADVISERS

RHB Investment Bank has been appointed as the Sole Principal Adviser for the Proposed Acquisition. In view of the interests of the related parties as set out in Section 8 of this announcement, Mercury Securities Sdn Bhd has been appointed as the Independent Adviser to advise the non-interested directors of the Manager and the non-interested unitholders of ARREIT on the Proposed Acquisition.

12. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all approvals/consents being obtained, the Proposed Acquisition is expected to be completed in the fourth quarter of 2017.

13. DOCUMENTS AVAILABLE FOR INSPECTION

The ARREIT SPA, Valuation Certificate and Valuation Report are available for inspection at the registered office of the Manager at Level 2, Wisma AmanahRaya, No. 2, Jalan Ampang, 50508 Kuala Lumpur during normal business hours from Mondays to Fridays (except public holidays) for a period of three months from the date of this announcement.

This announcement is dated 7 September 2017.