



(Constituted in the Republic of Singapore pursuant to a trust deed dated 31 March 2006 (as amended))

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## PROPOSED ACQUISITION OF 8 TUAS SOUTH LANE

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### 1. INTRODUCTION

ESR Funds Management (S) Limited, as manager of ESR-REIT (the “**Manager**”), is pleased to announce that RBC Investor Services Trust Singapore Limited, in its capacity as trustee of ESR-REIT (the “**Trustee**”) has on 17 October 2017 entered into an Option Agreement (“**Option Agreement**”) with Hyflux Membrane Manufacturing (S) Pte. Ltd. (the “**Vendor**” or “**Hyflux**”) in connection with the proposed acquisition (the “**Acquisition**”) of 8 Tuas South Lane Singapore 637302 (together with the mechanical and electrical equipment) (the “**Property**”) for a purchase consideration of S\$95.0 million (the “**Consideration**”).

Based on the relative figures calculated on the bases set out in Rule 1006 of the Listing Manual of Singapore Exchange Securities Trading Limited (the “**Listing Manual**”), the Acquisition is a discloseable transaction for the purposes of Chapter 10 of the Listing Manual.

Mr Adrian Chui, CEO of the Manager, said, “This acquisition marks the inaugural transaction for ESR-REIT since ESR became the majority shareholder of its manager in January 2017. This transaction will not only reinforce our presence and boost our market share in the industrial real estate sector, but will also demonstrate our capability in recycling capital from our divestments into assets in order to unlock greater value.”

He further added, “Hyflux is a Singapore company with an international footprint and is a globally-recognised brand. We are pleased to have Hyflux join our tenant network. The asset’s long leaseback term and strong tenant covenants will further support our objectives of maximising our portfolio returns and delivering strong and stable long-term distributions to our unitholders.”

### 2. DETAILS OF THE ACQUISITION

The Property predominantly comprises of five detached factories, one block of 8-storey warehouse and four blocks of dormitory buildings. It is located near to Tuas Biomedical Park, off Tuas South Avenue and is accessible via the Pan Island Expressway, Kranji Expressway and Ayer Rajah Expressway.

The Property is also in close proximity to Singapore’s future global port and international maritime hub; the Tuas Megaport. The new megaport, which will be the world’s largest container terminal, will be opened progressively from 2021.

The Property has a Gross Floor Area (“**GFA**”) of approximately 72,569 square metres and a remaining land tenure of approximately 20 years with an option to renew for a further term of 15 years. Subject to completion of the Acquisition (the “**Completion**”), the Vendor

and Hydrochem (S) Pte Ltd (collectively “Hyflux”) will collectively leaseback a majority of the space for 15 years.

### 3. CONDITION PRECEDENTS

The option under the Option Agreement may only be exercised upon the satisfaction of, *inter alia*, the following condition precedents:

- (i) The Vendor obtaining the approval of JTC and any other relevant authorities to the Acquisition, if required and to the issuance of the agreement for lease or lease of the Property by JTC;
- (ii) The confirmation from JTC that the Vendor has fulfilled the requisite fixed investment criteria and JTC has granted a further lease term of between 15 to 16 years in respect of the Property upon expiry of the initial lease term of 30 years; and
- (iii) The Vendor obtaining (a) the written confirmation from Singapore Exchange Securities Trading Limited in respect of the waiver of the requirement to obtain the approval of the shareholders of Hyflux Ltd for the sale of the Property to the Trustee at the Consideration, or (b) (if the said written confirmation is not obtained) the approval of the shareholders of Hyflux Ltd for the sale of the Property to the Trustee at the Consideration.

### 4. INDEPENDENT VALUATION

The appraised value of the Property, based on a valuation conducted by Edmund Tie & Company (SEA) Pte Ltd as at 10 October 2017 using the capitalisation approach and discounted cash flow analysis, was S\$115.0 million inclusive of upfront land premium payable for the unexpired lease term of approximately 35.4 years. The valuation was commissioned by the Manager.

### 5. PURCHASE CONSIDERATION

The Consideration for the Acquisition was negotiated on a willing-buyer and willing-seller basis, taking into consideration the independent valuation conducted in respect of the Property. In addition to the Consideration, the Trustee is required to pay an upfront land premium for the balance of the first 30-year JTC lease term upon assignment of the land lease to ESR-REIT.

### 6. ESTIMATED COST OF THE ACQUISITION

The estimated total cost of the Acquisition (“**Total Acquisition Cost**”) is approximately S\$111.0 million, comprising:

- i. Purchase Price of \$106.4 million which include the Consideration of S\$95.0 million and estimated upfront land premium payable to JTC for the balance of the first 30-year lease term of S\$11.4 million;

- ii. Stamp duties of approximately S\$3.2 million payable for the Property and upfront land premium; and
- iii. Other transaction costs<sup>1</sup> of approximately S\$1.4 million in aggregate.

## **7. RATIONALE FOR AND BENEFITS OF THE ACQUISITION**

### **7.1. BROADEN TENANT BASE WITH QUALITY TENANT**

There is a strong tenant covenant from Hyflux who is headquartered and listed in Singapore with a market cap of c. S\$400 million. Hyflux is a specialist in water treatment, focusing on the areas of water and energy, and a global leader in sustainable solutions ranking among the top desalination plant providers with offices and plants spanning Singapore, China, India, the African, Middle-East and South American continents.

### **7.2. INCREASE PORTFOLIO WEIGHTED AVERAGE LEASE EXPIRY PROFILE**

The long leaseback with Hyflux is expected to provide income stability and increase ESR-REIT's portfolio weighted lease expiry from 3.4 years<sup>2</sup> to 4.2 years.

### **7.3. POTENTIAL TO TAP ON TO THE FUTURE TUAS MEGAPORT**

The Property is located within an established industrial area and next to Singapore's future global port and international maritime hub - Tuas Megaport. This port is expected to be the largest container terminal globally housing Singapore's port-related activities with the Maritime Port Authority (MPA) beefing up the area with more warehouses and distribution centres to make the overall port operations more efficient and seamless. Logistics, warehouse operators and manufacturers located near the megaport are expected to benefit from faster turnaround time. The transformation of the Tuas area for port development is also expected to increase the attractiveness of the Property to enjoy upside potential.

## **8. METHOD OF FINANCING AND FINANCIAL EFFECTS**

### **8.1. METHOD OF FINANCING**

The Manager currently intends to finance the Total Acquisition Cost through debt financing. However, the Manager may finance the Total Acquisition Cost via a combination of cash from divestment proceeds, equity, debt and/ or hybrid securities. The proportion and mode of financing will be determined closer to Completion.

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<sup>1</sup> Includes acquisition fees, professional and other transaction fees and expenses incurred or to be incurred in connection with the Acquisition.

<sup>2</sup> As at 30 September 2017

## 8.2. FINANCIAL EFFECTS

**FOR ILLUSTRATIVE PURPOSES ONLY:** The pro forma financial effects of the Acquisition on the distribution per unit (“DPU”) and the net asset value (“NAV”) per unit presented below are strictly for illustrative purposes only and do not reflect the actual financial performance or position of ESR-REIT after the completion of the Acquisition.

The pro forma financial effects were prepared based on the unaudited financial statements of ESR-REIT for the full year period ended 31 December 2016, assuming the Manager fully funds the Total Acquisition Cost by debt financing, and assuming that the lease to Hyflux in respect of the Property commenced on 1 January 2016.

### 8.2.1. PRO FORMA DPU

**FOR ILLUSTRATIVE PURPOSES ONLY:** The pro forma financial effects of the Acquisition on the annualised DPU for the full year period ended 31 December 2016, as if the Acquisition had been completed on 1 January 2016, and ESR-REIT held the Property throughout the period, are as follows:

	Before the Acquisition	After the Acquisition
Distributable Income (S\$'000) <sup>(1)</sup>	54,476	59,053
No. of Units ('000) <sup>(2)</sup>	1,304,434	1,304,434
DPU (cents)	4.173	4.527

Notes:

- (1) Estimate based on the assumed revenue derived from the Property upon commencement of the lease to Hyflux, net of operating, financing and trust expenses.
- (2) Reflects the applicable number of units for the calculation of DPU for the full year period ended 31 December 2016.

### 8.2.2. PRO FORMA NAV PER UNIT

**FOR ILLUSTRATIVE PURPOSES ONLY:** The pro forma financial effects of the Acquisition on the NAV per Unit as at 31 December 2016, as if the Acquisition had been completed on 1 January 2016, are as follows:

	Before the Acquisition	After the Acquisition
NAV (S\$'000)	827,029	827,029
No. of Units ('000) <sup>(1)</sup>	1,304,434	1,304,434
NAV Per Unit (cents)	63.4	63.4

Notes:

- (1) Reflects the total issued units as at 31 December 2016.

## 9. RELATIVE FIGURES RELATING TO ESR-REIT'S ACQUISITION OF 8 TUAS SOUTH LANE ON THE BASES IN RULE 1006 OF THE LISTING MANUAL

Chapter 10 of the Listing Manual classifies transactions by ESR-REIT into (i) non-discloseable transactions, (ii) discloseable transactions, (iii) major transactions and (iv) very substantial acquisitions or reverse takeovers, depending on the size of the relative

figures computed on. The relative figures for the Acquisition computed on the applicable bases set out in Rule 1006 of the Listing Manual, which have been based on the unaudited consolidated financial statements of ESR-REIT for the nine-month period ended 30 September 2017, are set out below.

Listing Rule	Criteria	ESR-REIT	Proposed Acquisition	Relative Percentage
1006(a)	Net asset value of assets to be disposed of, compared with the net asset value of ESR-REIT	Not applicable.		
1006(b)	Net profits (S\$ million) attributable to the assets to be acquired <sup>(1)</sup> , compared with the net profits of ESR-REIT	58.5 <sup>(2)</sup>	5.4 <sup>(3)</sup>	9.2%
1006(c)	Aggregate value of consideration given, compared with ESR-REIT's market capitalisation (S\$ million)	759.3 <sup>(4)</sup>	95.0 <sup>(5)</sup>	12.5%
1006(d)	Number of units issued as consideration for the Acquisition, compared with the number of ESR-REIT's issued units ('million)	Not applicable.		
1006(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of ESR-REIT's proved and probable reserves	Not applicable.		

Notes:

- (1) In the case of a real estate investment trust, the net property income ("NPI") is a close proxy to the net profits attributable to its assets.
- (2) Based on ESR-REIT's actual NPI from its current portfolio of properties for the nine-month period ended 30 September 2017.
- (3) Estimate based on the assumed NPI for a nine-month period derived from the Property upon commencement of the lease to Hyflux, net of property expenses.
- (4) Based on ESR-REIT's market price as at 17 October 2017.
- (5) Based on the purchase consideration of S\$95.0 million, to be fully satisfied in cash.

## 10. INTEREST OF THE DIRECTORS AND CONTROLLING UNITHOLDERS

As at the date of this announcement, none of the directors of the Manager, and, as far as the directors of the Manager are aware, none of the controlling unitholders of ESR-REIT has any interest, direct or indirect, in the Acquisition.

## **11. DIRECTOR'S SERVICE CONTRACTS**

No person is proposed to be appointed as a director of the Manager in connection with the Acquisition.

## **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Option Agreement and the valuation certificate in respect of the Acquisition may be inspected, by prior appointment, at the registered office of the Manager during normal business hours for a period of three (3) months from the date of this announcement.

### **BY ORDER OF THE BOARD**

ESR Funds Management (S) Limited

As Manager of ESR-REIT

(Company Registration No. 200512804G, Capital Markets Services Licence No.100132-5)

Adrian Chui

Chief Executive Officer and Executive Director

18 October 2017

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## About ESR-REIT

ESR-REIT has been listed on the Singapore Exchange Securities Trading Limited since 25 July 2006.

ESR-REIT invests in quality income-producing industrial properties and has a diversified portfolio of 48 properties located across Singapore, with a total gross floor area of approximately 8.2 million sq ft and a property value of S\$1.33 billion as at 30 September 2017. The properties are in the following business sectors: Logistics/ Warehouse, Hi-Specs Industrial, Light Industrial, General Industrial and Business Parks, and are located close to major transportation hubs and key industrial zones island-wide.

The Manager's objective is to provide Unitholders with a stable and secure income stream through the successful implementation of the following strategies:

- Acquisition of value-enhancing properties;
- Pro-active asset management;
- Divestment of non-core properties; and
- Prudent capital and risk management.

ESR Funds Management (S) Limited, the Manager of ESR-REIT, is owned by two stakeholders, namely, ESR Cayman Limited ("ESR") (indirectly c.80 percent) and Mitsui & Co., Ltd ("Mitsui") (20 percent):

- Headquartered in Hong Kong, ESR is one of the leading "pure-play" pan-Asia logistics real estate platforms, focusing on developing and managing institutional-quality logistics facilities that cater to third-party logistics ("3PLs") providers, e-commerce companies, bricks-and-mortar retailers, cold-chain logistics providers and industrial companies. Co-founded by Warburg Pincus and backed by some of the world's preeminent investors including APG, CPPIB, Goldman Sachs, Morgan Stanley AIP, PGGM, Ping An and SK Holdings, ESR's platform represents one of the largest in the Asia-Pacific region managing approximately 9.0 million square metres of projects owned and under development across China, Japan, Singapore, South Korea and India, with capital and funds management offices in Hong Kong and Singapore. Current assets under management over US\$8 billion
- Mitsui is one of the largest corporate conglomerates in Japan and listed on the Tokyo Stock Exchange. It is one of the largest publicly traded companies in the world. Mitsui also developed the Japan Logistics Fund Inc., a publicly listed REIT in Japan dedicated to investing in distribution facilities.

For further information on ESR-REIT, please visit [www.esr-reit.com.sg](http://www.esr-reit.com.sg)

## Important Notice

The value of units in ESR-REIT (“**Units**”) and the income derived from them may fall as well as rise. Units are not investments or deposits in, or liabilities or obligations, of ESR Funds Management (S) Limited (“**Manager**”), RBC Investor Services Trust Singapore Limited (in its capacity as trustee of ESR-REIT) (“**Trustee**”), or any of their respective related corporations and affiliates (individually and collectively “**Affiliates**”). An investment in Units is subject to equity investment risk, including the possible delays in repayment and loss of income or the principal amount invested. Neither ESR-REIT, the Manager, the Trustee nor any of the Affiliates guarantees the repayment of any principal amount invested, the performance of ESR-REIT, any particular rate of return from investing in ESR-REIT, or any taxation consequences of an investment in ESR-REIT. Any indication of ESR-REIT performance returns is historical and cannot be relied on as an indicator of future performance.

Investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that investors may only deal in their Units through trading on Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units. This announcement may contain forward-looking statements that involve assumptions, risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of occupancy or property rental income, changes in operating expenses (including employee wages, benefits and training costs), governmental and public policy changes and the continued availability of financing in amounts and on terms necessary to support future ESR-REIT business. You are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager’s current view of future events.

This announcement is for informational purposes only and does not have regard to your specific investment objectives, financial situation or your particular needs. Any information contained in this announcement is not to be construed as investment or financial advice, and does not constitute an offer or an invitation to invest in ESR-REIT or any investment or product of or to subscribe to any services offered by the Manager, the Trustee or any of the Affiliates.