



CAPITALAND COMMERCIAL TRUST

(Constituted in the Republic of Singapore pursuant to a trust deed dated 6 February 2004 (as amended))

ANNOUNCEMENT

PROPOSED ACQUISITION OF ASIA SQUARE TOWER 2

1. INTRODUCTION

CapitaLand Commercial Trust Management Limited, as manager ("**Manager**") of CapitaLand Commercial Trust ("**CCT**"), is pleased to announce that CCT has today agreed to acquire the Asia Square Tower 2 property¹ from BlackRock Asia Property Fund III L.P. ("**BlackRock**") for an agreed property value of S\$2,094.0 million or S\$2,689 per sq ft ("**Agreed Property Value**") ("**Acquisition**").

2. AST2 PROPERTY

The AST2 Property is part of Asia Square Tower 2, a 46-storey integrated commercial development in the Singapore Central Business District ("**CBD**"). The AST2 Property is a premium Grade A commercial building with a total net lettable area ("**NLA**") of approximately 778,719 sq ft comprising office units from the 6th to 31st storeys, retail units on the 1st and 2nd storeys, as well as car parks from the 3rd to 5th storeys. Strategically located in the heart of Marina Bay, the AST2 Property is easily accessible through an extensive transportation network. It is within walking distance to four existing Mass Rapid Transit ("**MRT**") stations, namely Marina Bay Interchange, Raffles Place Interchange, Downtown and Tanjong Pagar. The upcoming Shenton Way MRT station (target completion in 2021) will be located adjacent to the AST2 Property with sheltered direct access. The AST2 Property is also accessible via comprehensive public bus connections.

Granted its Temporary Occupation Permit on 2 September 2013, the AST2 Property is built on a 99-year leasehold development site. It has high quality and reputable tenants such as Mizuho Bank, Mitsui Group and Allianz. It has received numerous building awards, including the Green Mark Award (Platinum) from Singapore's Building and Construction Authority, the Leadership in Energy & Environmental Design (LEED) Core & Shell Platinum Certification by the US Green Building Council and the Water Efficiency Building Gold Award from the Public Utilities Board of Singapore.

3. PROPOSED ACQUISITION

¹ For the purposes of this announcement:

"**Asia Square Tower 2**" means the building located at 12 Marina View, Singapore 018961.

"**AST2 Property**" means Asia Square Tower 2 but excluding the hotel premises which is owned by an unrelated third party.

3.1 Structure

HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of CCT, has entered into a share purchase agreement ("**SPA**") with MView I (BVI) Limited ("**Vendor**"), a wholly-owned subsidiary of BlackRock. The Acquisition will be effected through a purchase of all the outstanding shares in MVKimi (BVI) Limited, a company incorporated in the British Virgin Island, which in turn holds all the outstanding shares in Asia Square Tower 2 Pte. Ltd. ("**AST2 Co**"). AST2 Co, in turn, holds the AST2 Property.

3.2 Purchase Consideration and Valuation

The purchase consideration of S\$2,115.7 million comprises:

- (i) Agreed Property Value of S\$2,094.0 million, which was negotiated on a willing-buyer and willing-seller basis; and
- (ii) net cash, receivables and payables of S\$21.7 million for MVKimi (BVI) Limited and AST2 Co as at 30 June 2017 ("**Net CRP**")²,

("Purchase Consideration").

The Agreed Property Value is lower than the appraised value of the AST2 Property of S\$2,110.0 million or S\$2,710 per sq ft based on an independent valuation conducted by Knight Frank Pte Ltd ("**Independent Valuer**") as at 15 September 2017. The Independent Valuer has valued the AST2 Property based on the discounted cash flow method and capitalisation approach.

3.3 Completion

Completion of the Acquisition is estimated to take place on 1 November 2017 or on such other date as may be agreed between the Vendor and CCT ("**Completion**"), and is conditional upon:

- (i) title to the AST2 Property being free from any encumbrances on Completion; and
- (ii) all the indemnities referred to below continuing in full force and effect and not having been terminated, withdrawn or revoked on or prior to Completion.

3.4 Terms of Acquisition

The SPA contains customary provisions relating to the Acquisition, including representations and warranties, indemnities and pre-completion covenants regarding the operation of the business, limitations of the Vendor's liabilities and other commercial terms. In connection with the Acquisition:

- (i) CCT has purchased insurance policies under which it may, subject to usual limitations and exclusions, recover losses from the insurer, instead of the Vendor, and which is for a period extending beyond the date by which the Vendor is expected to be

² This amount is subject to customary Completion adjustments.

dissolved³. Such policies cover losses arising from (a) breaches of warranties and indemnity and (b) the risk of non-tax deduction on certain interest expenses and borrowing costs incurred by AST2 Co under its existing loans from 2014 up to the Acquisition and under its refinanced loans after the Acquisition; and

- (ii) the Vendor group has agreed to indemnify (a) CCT against the potential additional tax liability which might be assessed on AST2 Co arising from the gain from the sale of the hotel premises and (b) AST2 Co against the losses which AST2 Co may incur arising from certain arbitration and related proceedings to which it is a party⁴.

3.5 Total Acquisition Cost

The total cost of the Acquisition is S\$2,150.5 million ("**Total Acquisition Cost**"), comprising (a) the Purchase Consideration, before taking into account any completion adjustments to the estimated Net CRP, (b) an acquisition fee of S\$20.9 million (being 1% of the Agreed Property Value) payable in cash to the Manager pursuant to the CCT trust deed dated 6 February 2004 (as amended) and (c) advisory and transaction fees, stamp duty, insurance and other costs incurred or to be incurred by CCT in connection with the Acquisition of S\$13.9 million.

4. RATIONALE FOR ACQUISITION

The Manager believes that the Acquisition will bring the following key benefits to holders of units in CCT ("**Units**", and such holders, "**Unitholders**"):

(i) Strategic addition of a premium Grade A property

The AST2 Property, one of the newest premium Grade A properties in Marina Bay, offers high quality office space to tenants through its large, efficient and column-free floor plates. Located in the heart of Marina Bay, the building is easily accessible through an extensive transportation network. The AST2 Property, an environmentally sustainable building with top accolades, offers tenants easy access to a superior "work-play-live" environment with a full suite of integrated amenities.

(ii) Acquisition of a premium Grade A property at an attractive price and potential to benefit from expected upside in Grade A office rents

The Acquisition represents an attractive value proposition. On an NLA basis, the Agreed Property Value of S\$2,689 per sq ft is lower than the valuation of S\$2,710 per sq ft by the Independent Valuer, and below the average fair market valuation of S\$2,917 per sq ft for comparable Grade A commercial properties. There is potential to increase the occupancy rate of the AST2 Property through active leasing efforts and benefit from the expected uptick in Grade A office rents when conditions in the Singapore office market improve. As such, there is potential for income growth and capital value appreciation.

(iii) Expansion of CCT's footprint into Marina Bay

³ The Vendor is part of a private equity fund which is approaching the end of its investment lifecycle, and is expected to be dissolved within a relatively short period after Completion.

⁴ Appeals from such proceedings are expected to be heard by March 2018.

The AST2 Property will be CCT's first property located in the Marina Bay area. With the Acquisition, CCT will have a significant presence within the key sub-markets of Marina Bay, Raffles Place, Tanjong Pagar and City Hall in the Central area through ownership of premium Grade A and prime office buildings in these sub-markets. CCT's attributable office portfolio NLA⁵ will increase from 2.8 million sq ft to 3.5 million sq ft with the Acquisition and this will enhance CCT's product offering to meet the requirements of tenants across different business sectors.

(iv) **Augments CCT's portfolio for long term growth**

The Manager has been consistently rejuvenating its portfolio in line with its portfolio reconstitution strategy. One George Street and Wilkie Edge which were divested at exit yields of 3.2%⁶ and 3.4%⁷, respectively, are replaced with the acquisition of a higher yielding AST2 Property at an initial yield of 3.6%⁸.

(v) **Enhances resilience, diversity and quality of CCT's portfolio**

The Acquisition will increase CCT's portfolio value from S\$8.0 billion as at 30 June 2017 to S\$10.1 billion and improve CCT's tenant and asset diversification. The gross rental income contribution from CCT's top 10 tenants will be lowered from 36.8% to 33.0% on a *pro forma* basis. Asset concentration will be reduced as the maximum contribution to CCT's NPI by any single property within CCT's property portfolio, on a *pro forma* basis, will be lowered from approximately 27.3% to 23.1%.

5. FINANCIAL EFFECTS

5.1 Bases and Assumptions

The *pro forma* financial effects analysis of the proposed S\$700.0 million underwritten rights issue ("**Rights Issue**"), as announced separately today, and the Acquisition presented below have been prepared based on the following key bases and assumptions:

- (i) the Total Acquisition Cost will be funded and paid out of (a) the net proceeds from the Rights Issue of approximately S\$690.4 million, (b) external bank borrowings of approximately S\$1,120.0 million and (c) divestment proceeds from the OGS Transaction, the WE Transaction and the sale of Golden Shoe Car Park of approximately S\$340.1 million;

⁵ Attributable office portfolio includes 60.0% of Raffles City Tower, 50.0% of One George Street and the rest of CCT's office properties in the CBD but excludes Raffles City Shopping Centre, Wilkie Edge, Bugis Village and Golden Shoe Car Park.

⁶ Based on net property income ("**NPI**") of S\$38.0 million for the 12 months preceding 31 March 2017 and the agreed value of S\$1,183.2 million for the OGS Transaction. The "**OGS Transaction**" refers to the sale by CCT of its 100% interest in One George Street into a limited liability partnership in which CCT holds a 50% interest, as described in CCT's announcements dated 2 May 2017 and 20 June 2017.

⁷ Based on NPI of S\$9.5 million for the 12 months preceding 31 March 2017 and the sale consideration of S\$280.0 million for the sale of CCT's 100% interest in Wilkie Edge ("**WE Transaction**").

⁸ Based on an annualised NPI for the *pro forma* period ended 30 June 2017 ("**1H2017**") and using the committed occupancy rate of 88.7% which includes signed leases with tenants which will commence on 1 March 2018 and the Agreed Property Value.

- (ii) 513.5 million new Units will be issued at an issue price of S\$1.363 per Rights Unit ("**Issue Price**") pursuant to the Rights Issue, resulting in a theoretical ex-rights price ("**TERP**") of S\$1.648 per Unit;
- (iii) all the outstanding S\$175,000,000 convertible bonds due 2017 issued by CCT have been converted into 122.7 million new Units at the issue price of S\$1.4265 per Unit as at the end of the relevant periods under review;
- (iv) CCT has a 45% interest in the redevelopment of Golden Shoe Car Park. CCT has paid for its 45% share of the project redevelopment costs of approximately S\$418.2 million which are expected to be incurred up to 31 December 2017 ("**GSCP Transaction**"), in the relevant periods under review;
- (v) part of the divestment proceeds from the OGS Transaction, the WE Transaction and the sale of Golden Shoe Car Park were used to repay CCT Group (as defined below) borrowings;
- (vi) assuming interest rate of 2.5% per annum for external bank borrowings taken to fund the Acquisition and such interest costs in respect of the external bank borrowings are permitted to be claimed by AST2 Co as deductions⁹;
- (vii) CCT has put in place an arrangement, which it expects to implement following completion of the Acquisition, whereby AST2 Co and CCT will enter into a master lease, pursuant to which CCT will lease the AST2 Property from AST2 Co and have the right to manage the AST2 Property including the right to sub-lease the office and retail units comprised in the AST2 Property. Under such arrangement, CCT will derive rental and other income directly from the AST2 Property tenants as tax transparent income. However, it is to be noted that income earned by AST2 Co will still be subject to corporate income tax; AST2 Co pays income tax of S\$3.2 million for the financial year ended 31 December 2016 ("**FY2016**") and S\$1.6 million for 1H2017;
- (viii) management fee for the AST2 Property is assumed to be paid in Units; and
- (ix) property management fee for the AST2 Property is 3.0% of NPI.

5.2 **Pro Forma Financial Effects**

On the bases and assumptions set out above, the *pro forma* aggregate leverage¹⁰ of CCT, its subsidiaries and joint ventures ("**CCT Group**") would be 37.1% and the *pro forma* financial effects of the Acquisition are as follows¹¹:

⁹ Please see **paragraph 3.4(i)(b)** above.

¹⁰ Defined to mean the ratio of total borrowings to deposited property.

¹¹ The *pro forma* financial effects analysis of the Acquisition is prepared for illustrative purposes only to show what the amount available for distribution, DPU, DPU Yield, DPU Yield based on the Issue Price and adjusted NAV per Unit of CCT for the indicated periods and dates would have been if the OGS Transaction, the WE Transaction, the GSCP Transaction, the Rights Issue and the Acquisition had been completed as at the relevant indicated dates and may not, because of its nature, give a true picture of what CCT's amount available for distribution, DPU, DPU Yield, DPU Yield based on the Issue Price and

	Actual FY2016	Pro forma FY2016 – OGS Transaction, GSCP Transaction, WE Transaction, Rights Issue and Acquisition¹²
Amount available for distribution (S\$'000)	269,037	274,062
Distribution per Unit (“DPU”)	9.08 cents	7.61 cents
DPU Yield	5.36% ¹³	4.62% ¹⁴
DPU Yield based on the Issue Price	N.A.	5.58% ¹⁵
Adjusted net asset value (“NAV”) per Unit	S\$1.73	S\$1.75

	Actual 1H2017	Pro forma 1H2017 – OGS Transaction, GSCP Transaction, WE Transaction, Rights Issue and Acquisition¹⁶
Amount available for distribution (S\$'000)	140,759	152,579
DPU	4.56 cents ¹⁷	4.23 cents
DPU Yield	5.38% ¹³	5.13% ¹⁴
DPU Yield based on the Issue Price	N.A.	6.21% ¹⁵
Adjusted NAV per Unit	S\$1.75 ¹⁸	S\$1.76

6. OTHER INFORMATION

6.1 Directors’ Service Contracts

No person is proposed to be appointed as a director of the Manager in connection with the Acquisition or any other transactions contemplated in relation to the Acquisition.

6.2 Disclosure under Rule 1010(13) of Listing Manual

The Acquisition is in the ordinary course of CCT’s business, as (i) the Acquisition is within the investment policy of CCT, (ii) the AST2 Property is in the same asset class and geographical

adjusted NAV per Unit might have been for the indicated periods and dates if the OGS Transaction, the WE Transaction, the GSCP Transaction, the Rights Issue and the Acquisition had actually been completed as at the indicated dates.

¹² Based on the *pro forma* NPI of the AST2 Property for FY2016 of S\$65.8 million (NPI yield of 3.1% based on the Agreed Property Value).

¹³ Based on closing price per Unit of S\$1.695 on 20 September 2017.

¹⁴ Based on TERP per Unit of S\$1.648.

¹⁵ Based on Issue Price per Unit of S\$1.363.

¹⁶ Based on the *pro forma* NPI of the AST2 Property for 1H2017 of S\$35.3 million (annualised NPI yield of 3.4% based on the average occupancy rate of 81.2% for 1H2017 and the Agreed Property Value).

¹⁷ Adjusted to include additional 79.0 million Units issued after 30 June 2017 arising from the conversion of S\$112.75 million principal amount of CCT’s convertible bond due 2017 at conversion price of S\$1.4265.

¹⁸ Based on Units in issue as at 27 July 2017.

location as the existing properties in CCT's portfolio, (iii) the Acquisition does not change the risk profile of CCT and (iv) none of the "Materiality Ratios" calculated under Chapter 10 of Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual exceed 100%.

As the Acquisition is in the ordinary course of CCT's business, approval of Unitholders is not required, notwithstanding that the Materiality Ratios computed on the bases set out below is 20.0% or more. For completeness, the table below sets out the applicable "Materiality Ratios" of the Acquisition to the CCT Group under Rule 1006 of Chapter 10 of the Listing Manual:

	Acquisition (S\$ million)	CCT Group (S\$ million)	Percentage
<u>Rule 1006(b)</u> Net profits after tax attributable to the assets acquired compared with CCT Group's <i>pro forma</i> net profits after tax, in each case, for the six-month period ended 30 June 2017	49.0	472.9	10.4%
<u>Rule 1006(c)</u> Aggregate value of consideration to be paid by CCT, being the Agreed Property Value, compared with CCT's market capitalisation as at 20 September 2017, the last trading day on the SGX-ST preceding the date of the SPA	2,094.0	5,243.7	39.9%

The relative figure in relation to the number of Units issued by CCT as consideration for the Acquisition, compared with the number of Units previously in issue, is not applicable to the Acquisition as the Purchase Consideration will be paid entirely in cash.

6.3 Interests of Directors and Controlling Unitholders

As at the date of this announcement and based on information available to the Manager as at the date of this announcement, save for the unitholding interests in CCT held by certain directors of the Manager and by the controlling Unitholders, none of the directors of the Manager or the controlling Unitholders has an interest, direct or indirect, in the Acquisition.

CapitaLand Commercial Trust Management Limited
(Registration number: 200309059W)
As manager of CapitaLand Commercial Trust

Toh Su Jin Jason
Company Secretary
21 September 2017

IMPORTANT NOTICE

The value of Units and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager or any of its affiliates. An investment in Units is subject to investment risks, including the possible loss of the principal amount invested.

Investors have no right to request the Manager to redeem their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid

market for the Units.

This announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for Units.

The past performance of CCT is not necessarily indicative of the future performance of CCT.

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 other developments or companies, shifts in expected levels of occupancy rate, property rental income, charge out collections, changes in operating expenses (including employee wages, benefits and training costs), governmental and public policy changes and the continued availability of financing in the amounts and the terms necessary to support future business. You are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's current view on future events.