



(Constituted in the Republic of Singapore pursuant to a trust deed dated 28 November 2005 (as amended))

## ACQUISITION OF 99.38% INTEREST IN AN OFFICE BUILDING KNOWN AS "T TOWER" LOCATED IN SEOUL, KOREA

### 1. INTRODUCTION

Keppel REIT Management Limited, in its capacity as manager of Keppel REIT (the "**Manager**"), is pleased to announce that Keppel REIT, through its direct wholly-owned subsidiary, Keppel REIT (Korea) Pte. Ltd. ("**KREIT SPV**"), had on 22 April 2019 entered into a unit sale and purchase agreement ("**Unit Purchase Agreement**") with A3 SG Theta Pte. Ltd. (the "**Seller**") to acquire an approximate 99.38% interest in IGIS No. 104 Professional Investors' Private Real Estate Investment Limited Liability Company (the "**Target LLC**") which beneficially owns (through its trustee KB Kookmin Bank Co., Ltd.) 28 strata units out of a total of 177 strata units (representing approximately 52.3% of the total strata area) of a property located on a parcel of land located at 827, Namdaemunno 5-ga, Jung-gu, Seoul, Korea, such 28 strata units comprising an office building known as "T Tower" (the "**Property**", and the acquisition of an approximate 99.38% interest in the Target LLC, the "**Acquisition**").

The remaining 0.62% interest in the Target LLC will be acquired by Keppel Capital Investment Holdings Pte. Ltd. ("**KC SPV**"), an indirect wholly-owned subsidiary of Keppel Corporation Limited ("**KCL**"), from Sky-Value Co., Ltd. and IGIS Asset Management Co., Ltd. A unitholders' agreement will be entered into between KREIT SPV and KC SPV to regulate their relationship as unitholders of the Target LLC (the "**Unitholders' Agreement**").

### 2. INFORMATION ON THE PROPERTY

Completed in 2010, the Property is a freehold 28-storey office building offering approximately 228,000 square feet in net lettable area ("**NLA**").

The Property is located in Seoul's central business district ("**CBD**") and is a five-minute walk to the city's major railway station, Seoul Station. The Property is also well-served by various rail, subway and bus networks, including direct connections across the Seoul metropolitan area and regionally via high speed KTX train services. The Property is sited amidst a diverse range of amenities and major hotels, and is close to key retail districts such as Myeong-dong and Namdaemun.

The Property is currently 100% leased to established national and international tenants, mainly from the technology, media and telecommunications ("**TMT**"), manufacturing and distribution, and services sectors. Some of the notable tenants include Philips Korea, LG Electronics, and SK Communications. The Property has a weighted average lease expiry ("**WALE**") of 2.8 years by NLA as at 31 March 2019. Majority of the leases in the Property have fixed annual rental escalations of 3%.

<b>Agreed Property Value</b>	KRW 252.6 billion <sup>(1)</sup> (approximately S\$301.4 million <sup>(2)</sup> )
<b>Building Size</b>	Gross Floor Area: 447,755 <sup>(3)</sup> square feet NLA of the Property: 228,361 <sup>(3)</sup> square feet
<b>Year Built</b>	2010
<b>Occupancy (as at 31 March 2019)</b>	100.0% committed
<b>Number of Tenants</b>	11
<b>WALE (as at 31 March 2019)</b>	2.8 years

### 3. DETAILS OF THE TRANSACTIONS

#### 3.1 Valuation and Purchase Consideration

The agreed property value used to determine the purchase consideration payable for the Acquisition is KRW 252.6 billion<sup>(1)</sup> (approximately S\$301.4 million<sup>(2)</sup>) (the “**Agreed Property Value**”) and was negotiated on a willing-buyer and willing-seller basis taking into account the independent valuation of the Property. The independent valuation conducted by Cushman & Wakefield VHS Pte. Ltd. (the “**Valuer**”) concluded a market value for the Property of KRW 259.0 billion<sup>(1)</sup> as of 25 March 2019.

The Agreed Property Price represents a discount of 2.5% to the valuation of the Property.

The Valuer has valued the Property primarily based on the income capitalisation approach and discounted cash flow method and supported by the sales comparison approach.

After taking into account the attributable share of the adjusted net liabilities of KRW 123.0 billion (approximately S\$146.8 million<sup>(2)</sup>) of the Target LLC as at 31 January 2019, subject to post completion adjustments, the purchase consideration payable by KREIT SPV is approximately KRW 129.6 billion (S\$154.6 million<sup>(2)</sup>).

#### 3.2 Estimated Total Acquisition Cost

The estimated total cost of the Acquisition (the “**Total Acquisition Cost**”) is approximately KRW 141.1 billion (approximately S\$168.3 million<sup>(2)</sup>), comprising:

- 3.2.1 the purchase consideration of KRW 129.6 billion (S\$154.6 million<sup>(2)</sup>) as described in paragraph 3.1 above;
- 3.2.2 the acquisition fee payable to the Manager for the Acquisition pursuant to the trust deed dated 28 November 2005 constituting Keppel REIT (as amended and restated) (the “**Trust Deed**”) of approximately KRW 2.5 billion (S\$3.0 million<sup>(2)</sup>), which is payable in cash or units in Keppel REIT as the Manager may elect; and
- 3.2.3 estimated professional and other transaction fees and expenses incurred, or to be

<sup>1</sup> Based on an approximate 99.38% interest in the Property.

<sup>2</sup> Based on an exchange rate of KRW 1,000 to S\$1.193 as at 18 April 2019.

<sup>3</sup> The figures are based on 100% of the area of the Property. The gross floor area and NLA of the Property attributable to an approximate 99.38% interest in the Property are 444,979 sf and 226,945 sf respectively.

incurred, in connection with the Acquisition (inclusive of due diligence cost, applicable taxes and costs to be incurred in relation to the valuation) of approximately KRW 9.0 billion (S\$10.7 million<sup>4</sup>).

### **3.3 Establishment of Subsidiary**

In connection with the Acquisition, Keppel REIT has established a wholly-owned subsidiary in Singapore, Keppel REIT (Korea) Pte. Ltd., which has an issued and paid up capital of KRW 1.

### **3.4 Unit Purchase Agreement**

The key terms of the Unit Purchase Agreement include the following:

- customary provisions relating to the Acquisition, including representations and warranties;
- the conditions precedent to KREIT SPV's obligation to proceed with closing are that (i) all of the representations and warranties of Seller contained in the Unit Purchase Agreement shall be true and correct in all material respects (or in all respects to the extent qualified by materiality) as of the closing date, (ii) the Seller shall have performed and observed, in all material respects, all covenants and obligations of the Unit Purchase Agreement to be performed and observed by the Seller, (iii) the Seller shall have delivered to KREIT SPV all of the items required to be delivered to KREIT SPV pursuant to the terms of the Unit Purchase Agreement, (iv) there shall not be any law that renders the Unit Purchase Agreement illegal or prevent the consummation of the transactions contemplated by the Unit Purchase Agreement, (v) KREIT SPV shall have obtained the approval of the Fair Trade Commission of Korea of the business combination report filed with respect to the transactions contemplated by the Unit Purchase Agreement and (vi) there shall be no event which results in a material adverse effect on the Seller's ability to consummate the transactions contemplated by the Unit Purchase Agreement; and
- the long stop date for completion of the Acquisition is 14 June 2019.

### **3.5 Unitholders' Agreement**

#### **3.5.1 Details of the Unitholders' Agreement**

Under the Unitholders' Agreement, KREIT SPV has a drag-along right, and KC SPV has a tag-along right, in the event of any sale of the units in the Target LLC. In addition, if KC SPV intends to sell its units in the Target LLC, such sale is subject to a pre-emption right granted to KREIT SPV.

#### **3.5.2 Interested Party Transaction**

As KCL effectively holds 47.74% of the total number of Keppel REIT Units in issue, it is a "controlling unitholder" of Keppel REIT. In addition, as the Manager is a wholly-owned subsidiary of KCL, KCL is therefore regarded as a "controlling shareholder" of the Manager.

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<sup>4</sup> Based on an exchange rate of KRW 1,000 to S\$1.193 as at 18 April 2019.

As KC SPV is an indirect wholly-owned subsidiary of KCL, KC SPV is an “interested person” of Keppel REIT for the purposes of Chapter 9 of the Listing Manual. Therefore, the entry into the Unitholders’ Agreement constitutes an “interested person transaction” under Chapter 9 of the Listing Manual.

The rationale for having KC SPV acquire the minority 0.62 per cent. interest in the Target LLC is:

- (i) KC SPV acquiring the minority interest helps the Target LLC to continue to fulfil the requirement under Korean laws for the Target LLC to have at least two unitholders; and
- (ii) to leverage Keppel Capital Holdings Pte. Ltd.’s (“**Keppel Capital**”) on-the-ground presence and experience in South Korea by appointing Keppel Investment Management Co., Ltd. (“**KIM**”), a wholly-owned subsidiary of Keppel Capital, as the asset manager for Target LLC on completion of the Acquisition.

As at the date of this announcement, other than interested person transactions approved by unitholders of Keppel REIT (“**Unitholders**”), there were no interested person transactions of S\$100,000 or above entered into for the current financial year.

It should be noted that the entry into the Unitholders’ Agreement falls within the exception under Rule 916(2) of the Listing Manual.

### 3.5.3 **Audit Committee Statement**

The Audit and Risk Committee has considered the joint venture and is of the view that the risks and rewards of the joint venture are in proportion to the equity of each joint venture partner and the terms of the joint venture are not prejudicial to the interests of Keppel REIT and its minority Unitholders.

The Manager also confirms that KCL does not have an existing equity interest in the joint venture prior to the participation of Keppel REIT in the joint venture.

## 3.6 **Asset Management Agreement**

On completion of the Acquisition, an asset management agreement would be entered into between the Target LLC and KIM for KIM to act as the asset manager for the Target LLC. The amount of fees attributable to Keppel REIT which the Target LLC pays to KIM will be adjusted out of the fees which the Manager is entitled to receive under the Trust Deed in relation to the Property. Accordingly and for the avoidance of doubt, there is no double-counting of fees to be paid out of Keppel REIT in relation to the Property.

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

The Manager believes that the Acquisition will bring the following key benefits to Unitholders:

##### **4.1 Entry into Seoul which has a deep office market with favourable fundamentals**

South Korea is Asia's fourth largest economy<sup>(5)</sup> and is forecast by the Bank of Korea to expand by 2.5% in 2019 and 2.6% in 2020. Expansionary fiscal policies are expected to support sustained modest growth<sup>(6)</sup>.

Seoul is a deep office market which had the fourth highest volume of commercial real estate investment globally in 2018. Office investment hit historical high on the back of ample liquidity and quality investment stock, as well as favourable investment sentiment<sup>(7)</sup>. Leasing demand is healthy and supply in CBD is expected to be fairly limited. According to Cushman & Wakefield, vacancy rate in the CBD will peak in 2020 at 16% before lowering to 13% in 2022 with the limited supply for the subsequent years<sup>(8)</sup>.

##### **4.2 Freehold Grade A commercial building in the CBD**

Completed in 2010, the Property is a freehold 28-storey office building offering approximately 228,361 square feet in NLA.

The Property is located in Seoul's CBD and is a five-minute walk to the city's major railway station, Seoul Station. The Property is also well-served by various rail, subway and bus networks, including direct connections across the Seoul metropolitan area and regionally via high speed KTX train services. The Property is sited amidst a diverse range of amenities and major hotels, and is close to key retail districts such as Myeong-dong and Namdaemun.

The Property is currently 100% leased to established national and international tenants, mainly from the TMT, manufacturing and distribution, and services sectors. Some of the notable tenants include Philips Korea, LG Electronics, and SK Communications. Majority of the leases in the Property have fixed annual rental escalations of 3%.

##### **4.3 DPU-accretive acquisition**

With an initial net property income yield of approximately 4.7%, the distribution per unit ("DPU") accretive acquisition of the Property is part of Keppel REIT's ongoing portfolio optimisation efforts. The pro forma financial effects of the estimated accretion of 2.5% on DPU for the financial year ended 31 December 2018 are illustrated in paragraphs 5.2 and 5.3 of this announcement.

The acquisition is expected to be funded by debt, including proceeds from the issuance of the S\$200.0 million of 1.90% Convertible Bonds due 2024 (the "CB Issuance") as announced by the Manager on 10 April 2019.

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<sup>5</sup> Source: IMF, April 2019

<sup>6</sup> Source: Bank of Korea, 18 April 2019

<sup>7</sup> Source: JLL, 4Q 2018

<sup>8</sup> Source: Cushman & Wakefield, 25 March 2019

#### **4.4 Geographical and income diversification which provides greater stability and further opportunities for growth**

The acquisition of T Tower in Seoul is in line with Keppel REIT's long-term strategic growth plan. While Keppel REIT's portfolio will remain anchored by prime CBD assets in Singapore, owning assets across Singapore, Australia and South Korea will enhance geographical and income diversification, as well as provide greater stability and further opportunities for growth in the long term.

Following the acquisition of the Property, Keppel REIT's assets under management will grow to S\$8.4 billion across 10 properties in Singapore (82.4%), Australia (14.0%) and South Korea (3.6%). Portfolio WALE will remain long at approximately 5.5 years, while the freehold portion of the portfolio will increase from 14.9% to 20.6%. South Korea will enhance diversity of income and provide another market for potential DPU accretive acquisitions.

#### **4.5 Leverage Keppel Capital's on-the-ground presence and experience in South Korea**

Keppel Capital has managed close to S\$3 billion of assets with gross floor area of 5.2 million square feet in South Korea since 2004, including CBD commercial offices such as Seoul Square, Jongno Tower, Pacific Tower and Center Place.

KIM, the asset management arm of Keppel Capital in South Korea, will be appointed the local asset manager for the Property. Keppel REIT will be able to leverage Keppel Capital's experienced team on the ground to seek opportunities for growth in the Seoul office market.

### **5. METHOD OF FINANCING AND PRO FORMA FINANCIAL EFFECTS OF THE ACQUISITION**

#### **5.1 Method of Financing**

The Total Acquisition Cost is expected to be funded by debt, including proceeds from the CB Issuance.

#### **5.2 Pro Forma Financial Effects of the Acquisition**

**FOR ILLUSTRATIVE PURPOSES ONLY:** The pro forma financial effects of the Acquisition on the DPU and net asset value ("**NAV**") per unit of Keppel REIT ("**Unit**") presented below are strictly for illustrative purposes and were prepared based on the audited financial statements of Keppel REIT and its subsidiaries (the "**Keppel REIT Group**") for the financial year ended 31 December 2018 (the "**Keppel REIT Group 2018 Financial Statements**") and unaudited management accounts of the Target LLC to be acquired.

The pro forma financial effects are for **illustrative purposes only** and do not represent Keppel REIT's DPU and NAV per Unit following the completion of the Acquisition.

#### **5.3 Pro Forma DPU**

**FOR ILLUSTRATIVE PURPOSES ONLY:** The pro forma financial effects of the Acquisition on Keppel REIT's DPU for the financial year ended 31 December 2018 ("**FY2018**"), as if the Acquisition was completed on 1 January 2018 and Keppel REIT held and operated the Property in FY2018 are as follows:

	Effects of the Acquisition	
	Before the Acquisition	After the Acquisition <sup>(1)</sup>
Distributable Income (S\$'000)	189,045	193,793
DPU (SG cents)	5.56	5.70
DPU accretion (%)	-	2.5%

**Notes:**

(1) Assuming the Acquisition was funded by debt, including proceeds from the CB Issuance and that the CB Issuance occurred on 1 January 2018.

The Manager had also on 11 December 2018 completed the divestment of a 20% interest in Ocean Properties LLP which holds Ocean Financial Centre (the “**Divestment**”). The collective pro forma financial effects of the Divestment and Acquisition, funded by debt, including proceeds from the CB Issuance on Keppel REIT’s DPU for FY2018, as if these transactions were completed on 1 January 2018 are as follows:

	Effects of the Acquisition		
	Before the Acquisition	After the Divestment and before the Acquisition	After the Divestment and the Acquisition
Distributable Income (S\$'000)	189,045	184,507	189,254
DPU (SG cents)	5.56	5.44	5.57
DPU change (%)	-	-2.2%	0.2%

#### 5.4 Pro Forma NAV

**FOR ILLUSTRATIVE PURPOSES ONLY:** The pro forma financial effects of the Acquisition on the NAV per Unit as at 31 December 2018, as if the Acquisition was completed on 31 December 2018, are as follows:

	Effects of the Acquisition	
	Before the Acquisition	After the Acquisition
NAV per Unit (S\$)	1.40	1.40
NAV per Unit excluding distributable income for 4Q2018 (S\$)	1.39	1.39

## 5.5 Pro Forma Aggregate Leverage

**FOR ILLUSTRATIVE PURPOSES ONLY:** The pro forma aggregate leverage of Keppel REIT as at 31 March 2019, based on its unaudited financial statements for the three-month period from 1 January 2019 to 31 March 2019, and as if the Acquisition was completed on 31 March 2019, is as follows:

	Effects of the Acquisition	
	Before the Acquisition	After the Acquisition
Aggregate Leverage	35.7% <sup>(1)</sup>	38.1% <sup>(2)</sup>

**Notes:**

(1) Based on Keppel REIT's aggregate leverage as at 31 March 2019 as announced on 17 April 2019.

(2) Assuming the Acquisition was funded by debt, including proceeds from the CB Issuance.

## 6. OTHER INFORMATION

### 6.1 Disclosure under Rule 1010(13) of the Listing Manual

The relative figures for the Acquisition using the applicable bases of comparison in Rule 1006 of the Listing Manual are set out in the table below.

Comparison of	Transaction (S\$'million)	Keppel REIT (S\$'million)	Relative figure (%)
Net Profits	1.6	36.1	4.4%
Consideration <sup>(1)</sup> to be given compared with Keppel REIT's market capitalisation <sup>(2)</sup>	168.3	4,197.4	4.0%

**Notes:**

(1) For the purposes of computation under Rule 1006(c), the aggregate consideration given by Keppel REIT is the Total Acquisition Cost.

(2) Based on 3,404,214,300 units in issue and the weighted average price of S\$1.233 per unit on the SGX-ST on 18 April 2019, being the market day immediately prior to the date of entry into the Unit Purchase Agreement.

### 6.2 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.

### 6.3 Interest of Directors and Controlling Unitholders

As at the date of this announcement, certain directors of the Manager collectively hold an aggregate direct and indirect interest in 1,616,629 Keppel REIT Units and 376,057 shares in KCL.

Ms Christina Tan, a non-executive director of the Manager, is the Chief Executive Officer and Director of Keppel Capital, a wholly-owned subsidiary of KCL.

Mr Tan Swee Yiow, a non-executive director of the Manager, is the Chief Executive Officer and Director of Keppel Land Limited, a wholly-owned subsidiary of KCL.



Based on information available to the Manager as at the date of this announcement, Temasek Holdings (Private) Limited, through its associated companies (including KCL and its subsidiaries), has an aggregate deemed interest in 1,640,299,584 Keppel REIT Units, which is 48.18% of all Keppel REIT Units in issue.

Based on information available to the Manager as at the date of this announcement, KCL, directly as well as through its subsidiaries, namely Keppel REIT Investment Pte. Ltd., Keppel REIT Management Limited and Keppel Capital Investment Holdings Pte. Ltd., holds an interest in 1,625,300,279 Keppel REIT Units, which is 47.74% of all Keppel REIT Units in issue.

Save as disclosed above, as at the date of this announcement and based on information available to the Manager, none of the Directors or the controlling Unitholders has an interest, direct or indirect, in the transaction.

## **7. DOCUMENTS FOR INSPECTION**

A copy of the following is available for inspection during normal business hours at the office of the Manager located at 1 HarbourFront Avenue, Level 2 Keppel Bay Tower, Singapore 098632 for a period of three months commencing from the date of this announcement, prior appointment would be appreciated:

- (i) a copy of the Unit Purchase Agreement; and
- (ii) a copy of the valuation report by the Valuer.

BY ORDER OF THE BOARD  
Keppel REIT Management Limited  
(Company registration no. 200411537K)  
(as manager of Keppel REIT)

Kelvin Chua / Marc Tan  
Joint Company Secretaries

23 April 2019

## **IMPORTANT NOTICE**

This announcement is for information purposes only and does not constitute or form part of an offer, invitation or solicitation of any offer to purchase or subscribe for any securities of Keppel REIT in Singapore or any other jurisdiction nor should it or any part of it form the basis of, or be relied upon in connection with, any contract or commitment whatsoever.

The value of the Units and the income derived from them may fall as well as rise. The Units are not obligations of, deposits in, or guaranteed by the Manager, RBC Investor Services Trust Singapore Limited (as trustee of Keppel REIT) or any of their respective affiliates.

An investment in the Units is subject to investment risks, including the possible loss of the principal amount invested. Unitholders have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that Unitholders 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. The past performance of Keppel REIT is not necessarily indicative of the future performance of Keppel REIT.