



(Constituted in the Republic of Singapore pursuant to a trust deed dated 12 July 2007 (as amended))

## ACQUISITION OF EIGHT NURSING HOMES LOCATED IN JAPAN

### 1. INTRODUCTION

#### 1.1 Agreement to Purchase Eight Nursing Homes in Japan

Parkway Trust Management Limited, as manager of Parkway Life Real Estate Investment Trust ("**Parkway Life REIT**") and manager of Parkway Life REIT, the "**Manager**", is pleased to announce that HSBC Institutional Trust Services (Singapore) Limited, as trustee of Parkway Life REIT (the "**Trustee**"), through its wholly owned-subsiary Parkway Life Japan3 Pte. Ltd., had entered into two *Tokumei-Kumiai* agreements and an amendment agreement amending the terms of an existing *Tokumei-Kumiai* agreement entered into by Parkway Life Japan3 Pte. Ltd. (collectively, the "**Tokumei-Kumiai Agreements**", in relation to the acquisition (the "**Acquisition**") by the TK Operators (as defined below) of eight properties located in Japan (as described below) (the "**Properties**").

Pursuant to the *Tokumei-Kumiai* Agreements, the Acquisition will be made through a special purpose vehicle, Parkway Life Japan3 Pte. Ltd. ("**SPV**"), and Godo Kaisha Healthcare 1, Godo Kaisha Healthcare 2 and Godo Kaisha Healthcare 3 (collectively, the "**TK Operators**"). The TK Operators, each a *Godo Kaisha* incorporated under Japan law, have today entered into conditional sale and purchase agreements ("**Purchase and Sale Agreements**") for the acquisition of the Properties at a total purchase price of ¥5.0 billion (approximately S\$77,590,000<sup>1</sup>). Completion is expected to take place no later than 17 November 2009 ("**Closing Date**").

#### 1.2 Certain information on the Properties

	<b>TK Operator acquiring Property</b>	<b>Vendor</b>	<b>Property</b>	<b>Location</b>	<b>No. of Rooms</b>
1.	Godo Kaisha Healthcare 1	Hiranomachi TMK	Amille Nakasyo	Kurashiki City, Okayama, Japan	75
2.	Godo Kaisha Healthcare 2	Yugen Kaisha KSLC2	Supercourt Kadoma	Kadoma City, Osaka, Japan	88
3.	Godo Kaisha Healthcare 2	Yugen Kaisha KSLC2	Supercourt Takaishi-Hagoromo	Takaishi City, Osaka, Japan	98
4.	Godo Kaisha Healthcare 2	Yugen Kaisha KSLC	Maison des Centenaire Ishizugawa	Sakai City, Osaka, Japan	52

<sup>1</sup> Based on the exchange rate of S\$1 = ¥64.44

	<b>TK Operator acquiring Property</b>	<b>Vendor</b>	<b>Property</b>	<b>Location</b>	<b>No. of Rooms</b>
5.	Godo Kaisha Healthcare 2	Yugen Kaisha KSLC	Maison des Centenaire Haruki	Kishiwada City, Osaka, Japan	33
6.	Godo Kaisha Healthcare 3	Hiranomachi TMK	Hapine Fukuoka Noke	Fukuoka City, Fukuoka, Japan	64
7.	Godo Kaisha Healthcare 3	Yugen Kaisha KSLC	Fiore Senior Residence Hirakata	Hirakata City, Osaka, Japan	40
8.	Godo Kaisha Healthcare 3	Yugen Kaisha KSLC	Iyashi no Takatsuki Kan	Takatsuki City, Osaka, Japan	87

### 1.3 Manner of Acquiring and Holding the Properties

Under the *Tokumei-Kumiai* Agreements, a company established under Japanese law, known as a "*Godo Kaisha*", will own the Properties.

A *Godo Kaisha* is a company similar to a limited liability company in Singapore whose members are only liable to the extent of their contribution to the *Godo Kaisha*.

Prior to the Closing Date, the SPV, which is wholly-owned by Parkway Life REIT, shall inject funds into the *Godo Kaishas* (the "**Parkway Life REIT TK Investment**"). Pursuant to the Purchase and Sale Agreements, each TK Operator will acquire the Properties from the vendors described in paragraph 1.5 below (the "**Vendors**"). The Parkway Life REIT TK Investment in the TK Operators will be equivalent to 100.0% of the sum of the value of the Properties and the costs for the Acquisition.

### 1.4 Lease Agreements

Each of the nursing homes has a long term lease agreement with an operator. The weighted average lease term to expiry (by gross rental income) is 19.29 years. Five of the eight properties also have backup operator agreements.

### 1.5 Vendors of the Properties

The Vendors are Hiranomachi TMK, Yugen Kaisha KSLC and Yugen Kaisha KSLC2, all of which are wholly owned subsidiaries of Kenedix Inc. ("**Kenedix**"). Based on information provided by Kenedix, Kenedix is a real estate asset manager in Japan and as at 30 June 2009 has approximately ¥486 billion in private funds and ¥393 billion in three listed public property trusts under its management. Its portfolio of real estate assets consists of offices, logistics, commercial and healthcare properties. It also has a property development arm.

### 1.6 Asset Management Agreements

Each TK Operator has entered into an asset management agreement (collectively, the "**Asset Management Agreements**") with Kenedix Advisors, Inc. (the "**Asset Manager**") in respect of the relevant Properties. The Asset Manager is responsible for the servicing, administration and management of the Properties. The Asset Manager shall be appointed for an initial term up to 25 September 2013, and its appointment shall

thereafter be automatically renewed for successive 5-year periods subject to a refusal notice and the terms of the relevant Asset Management Agreement.

## 1.7 **Undertaking Letters**

Kenedix has provided an undertaking letter (collectively, the "**Undertaking Letters**") to each of the TK Operators in respect of the Properties acquired by the TK Operator, in which Kenedix agrees to indemnify the TK Operator for any deficit in revenue in respect of any of the Properties. This is separate and in addition to the long term lease agreements with the nursing home operators. The deficit in revenue in respect of the Properties would occur when the revenue actually received in respect of any of the Properties in any month is less than the expected amount of revenue of the respective Property under the relevant lease or operating agreement as set out in the relevant Undertaking Letter (the "**Undertaking**"). The Undertaking is for the duration of seven years after the Closing Date in respect of the Properties, capped at 5% of the Purchase Price of the Properties purchased from the respective Vendor.

## 2. **RATIONALE FOR THE ACQUISITION**

### 2.1 **Yield Accretion**

Based on the property yield of the Acquisition, the Manager believes that the Acquisition will be yield-accretive to unitholders of Parkway Life REIT ("**Unitholders**").

### 2.2 **Consistency with Parkway Life REIT's principal investment strategy**

The Acquisition is in line with the investment criteria stated in the prospectus of Parkway Life REIT dated 7 August 2007. The principal investment strategy of the Manager is to invest in income-producing real estate and/or real estate-related assets in the Asia-Pacific region (including Singapore) that are primarily used for healthcare and/or healthcare-related purposes (including but not limited to, hospitals, healthcare facilities and real estate and/or real estate assets used in connection with healthcare research, education, and the manufacture or storage of drugs, medicine and other healthcare goods and devices), whether wholly or partially owned, and whether directly or indirectly held through the ownership of special purpose vehicles whose primary purpose is to own such real estate. As such, the Acquisition, which comprises eight nursing homes, is consistent with Parkway Life REIT's principal investment strategy.

### 2.3 **Income Diversification**

The Acquisition is expected to benefit Unitholders by improving income diversification and reducing the reliance of Parkway Life REIT's income stream on any single property.

### 2.4 **Competitive Strengths of the Properties**

The Manager believes that the competitive strengths of the Properties are reflected by the high average occupancy rate of 90.5%. All the properties are well-equipped and strategically located in dense residential districts, which make them attractive retirement facilities. In addition, the facilities are well-renovated and in good physical condition, making them attractive residences to senior citizens.

The facilities are operated by experienced service and nursing staff who provide a wide range of nursing care services to the residents, contributing to the competitiveness of these properties.

### **3. CERTAIN PRINCIPAL TERMS OF THE ACQUISITION**

#### **3.1 Purchase Price**

The purchase price (the "**Purchase Price**") of ¥5.0 billion (approximately S\$77,590,000<sup>2</sup>), exclusive of Japanese consumption tax, equating to a net initial yield of 8.29% for the Properties was arrived at on a willing-buyer and willing-seller basis. The Purchase Price will be paid in cash to the Vendors on the Closing Date after making the relevant adjustments for security deposits and allocations of taxes, expenses and revenues in relation to the Properties pursuant to the terms of the Purchase and Sale Agreements.

#### **3.2 Valuation of the Properties**

Colliers Halifax an independent valuer, has been commissioned by the Manager to prepare an independent valuation of the Properties. In its valuation reports dated 31 October 2009 Colliers Halifax stated that the appraisal value of the Properties is ¥5.692 billion (approximately S\$88,330,000<sup>2</sup>). The valuation was prepared using the Discounted Cash flow Method. The Purchase Price is 12.2% below the valuation.

### **4. METHOD OF FINANCING AND FINANCIAL EFFECTS OF THE ACQUISITION**

The Manager proposes to fund the Acquisition wholly with debt. As at the date of this announcement, the aggregate leverage of Parkway Life REIT is approximately 28.7% of the deposited property of Parkway Life REIT.

The pro forma financial effects of the Acquisition are described purely for illustrative purposes and are not indicative of the actual financial effects of the Acquisition on the net tangible assets ("**NTA**") and the distributions per unit ("**DPU**") of Parkway Life REIT, nor are they indicative of the financial performance of Parkway Life REIT.

The pro forma financial effects on DPU have been prepared based on the assumption that the Acquisition had been included in Parkway Life REIT's portfolio since 1 January 2008, whereas the pro forma financial effects on the NTA have been prepared based on the assumption that the Acquisition had been included in Parkway Life REIT's portfolio since 31 December 2008.

4.1 **DPU** - The DPU would have increased from 6.83 Singapore cents to 7.17 Singapore cents assuming the Acquisition had been included in Parkway Life REIT's portfolio since 1 January 2008.

4.2 **NTA** - There will be no change to the NTA assuming the Acquisition had been included in Parkway Life REIT's portfolio since 31 December 2008.

### **5. OTHER INFORMATION**

#### **5.1 Interests of the Directors and Controlling Unitholders**

Based on information available to the Manager, as at the date of this announcement, none of the directors of the Manager or the controlling unitholders has any interest, direct or indirect, in the Acquisition.

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<sup>2</sup> Based on the exchange rate of S\$1 = ¥64.44

## 5.2 **Service Contracts**

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

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

5.3.1 Chapter 10 of the Listing Manual of Singapore Exchange Securities Trading Limited (the "**SGX-ST**") classifies transactions by Parkway Life 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, amongst other things, the following bases:

- (a) the net profits attributable to the assets acquired or disposed of, compared with the net profits of Parkway Life REIT;
- (b) the aggregate value of the consideration given, compared with the market capitalisation of Parkway Life REIT; and
- (c) the number of units in Parkway Life REIT ("**Units**") issued as consideration for the Acquisition, compared with the number of Units previously in issue.

5.3.2 Based on the estimated net income of the Properties compared against the net income of the existing properties in the portfolio of Parkway Life REIT for FY2008, the relative figure for the basis of comparison set out in sub-paragraph 5.3.1 (a) in relation to FY2008 is approximately 6.86%;

5.3.3 Based on the Purchase Price of approximately S\$77,590,000 for the Properties, and Parkway Life REIT's market capitalisation of S\$700.3 million as at 12 November 2009, the relative figure for the basis of comparison set out in sub-paragraph 5.3.1(b) is approximately 11.1%; and

5.3.4 The relative figure for the basis of comparison set out in sub-paragraph 5.3.1 (c) does not apply as no Units will be issued as consideration for the Acquisition.

## 5.4 **Documents for Inspection**

Copies of the following documents are available for inspection during normal business hours at the registered office of the Manager at 8 Cross Street, #11-00, PWC Building, Singapore 048424 for a period of three months commencing from the date of this announcement:

5.4.1 the Purchase and Sale Agreements;

5.4.2 the Asset Management Agreements;

5.4.3 the *Tokumei-Kumiai* Agreements;

5.4.4 the Undertaking Letters; and

5.4.5 the valuation reports of Colliers Halifax on the Properties.

BY ORDER OF THE BOARD

Parkway Trust Management Limited

(Company Registration no. 200706697Z)

As manager of Parkway Life Real Estate Investment Trust

Shee Shin Yee

Company Secretary

13 November 2009

**Important Notice**

This Announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for units in Parkway Life Real Estate Investment Trust (“Parkway Life REIT” and the units in Parkway Life REIT, the “Units”).

The value of Units in Parkway Life REIT and the income 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 of Parkway Life REIT 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.

The past performance of Parkway Life REIT is not necessarily indicative of the future performance of Parkway Life REIT.

This announcement may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in these 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 property rental income, changes in operating expenses, including employee wages, benefits and training, property expenses and governmental and public policy changes. 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.