

AL-`AQAR HEALTHCARE REIT (“AL-`AQAR”)

AMENDMENT TO THE LEASE FOR THE PROPERTIES OWNED BY AL-AQAR AUSTRALIA PTY LTD IN RESPECT OF THE RENTAL RATE REVISION

Unless otherwise stated, the exchange rate of Australian Dollar (“AUD”) 1.00 : RM3.0159, being Bank Negara Malaysia’s middle rate as at 5.00 p.m. on 30 September 2021, is used throughout this announcement for purposes of translation of AUD into RM.

1. INTRODUCTION

On behalf of Damansara REIT Managers Sdn Berhad (“**Manager**”), the manager of Al-`Aqar, CIMB Investment Bank Berhad (“**CIMB**”) wishes to announce that Al Aqar Australia Pty Ltd (“**Al Aqar Australia**”), a wholly-owned subsidiary of Al-`Aqar, had on 15 October 2021 entered into an amendment to lease with Jeta Gardens (Qld) Pty Ltd (“**JGPL**”) to vary the existing lease agreement dated 25 October 2011 (including any amendment, supplemental or variation to the existing lease agreement) (“**Lease Agreement**”) for the properties owned by Al Aqar Australia (“**Amendment to Lease**”). The Amendment to Lease is to, among others, reflect the terms of the rental rate revision in respect of the lease of the JG Properties (as defined in Section 2.1 below) (“**Rental Revision**”).

2. DETAILS OF THE RENTAL REVISION

2.1 Information on the properties

The properties owned by Al Aqar Australia comprise the Jeta Garden Aged Care Facility, Jeta Gardens Retirement Village and the development land (collectively, “**JG Properties**”). The JG Properties are located in the suburb of Bethania and situated at the western end of Clarendon Avenue, about 27 kilometres south of the Brisbane Central Business District (“**CBD**”). The JG Properties are located on a land with freehold interest covering an area of 119,580 square metres and are leased to JGPL for a term of 99 years commencing 2 November 2011, with options in favour of both parties to terminate every 15 years.

The JG Properties is an integrated aged care and retirement village containing a 106-bed residential aged care facility (“**RACF**”), 23 independent living units (“**ILUs**”), 32 independent living apartments (“**ILAs**”) and community facilities.

The village also contains development land which include plans for an additional 22 ILUs and 57 ILAs plus land for development of a 72-bed RACF (Stage 1) and 96-bed RACF extension site (Stage 2). As at 31 December 2020, JGPL has developed 10 of the 22 ILUs and the 72-bed RACF (Stage 1) (“**New Improvements**”).

2.2 Information on the lessee

JGPL was incorporated in Australia on 27 November 2002 and is primarily involved in the operation of Jeta Gardens Retirement Village. JGPL’s wholly-owned subsidiary, Jeta Garden Aged Care (Qld) Pty Ltd, is primarily involved in the operation of Jeta Gardens Aged Care Facility.

The substantial shareholders of JGPL and their respective shareholdings in JGPL as at 30 September 2021, being the latest practicable date prior to this announcement (“**LPD**”), are as follows:

	Direct		Indirect	
	No. of shares in in JGPL '000	%	No. of shares in in JGPL '000	%
Kumpulan Perubatan (Johor) Sdn Bhd (“ KPJSB ”)	3,676	57.16	-	-
Chung Brisbane Pty Ltd	766	11.91	-	-
Colemont Pty Ltd	371	5.76	-	-
Five Pty Ltd	360	5.60	-	-
KPJ Healthcare Berhad (“ KPJ ”)	-	-	3,676 ⁽¹⁾	57.16
Johor Corporation (“ JCorp ”)	-	-	3,676 ⁽²⁾	57.16

Notes:

- (1) *Deemed interested by virtue of its shareholding in KPJSB pursuant to Section 8 of the Companies Act, 2016 (“**Act**”).*
- (2) *Deemed interested by virtue of its shareholdings in KPJ, JCorp Capital Solutions Sdn Bhd, Kulim (Malaysia) Berhad, Johor Ventures Sdn Bhd and Johor Land Berhad pursuant to Section 8 of the Act.*

The directors of JGPL as at the LPD are Ahmad Shahizam bin Mohd Shariff, Ahmad Nasirrudin bin Harun, Mohd Sahir Rahmat and Gunasingam Retnasabapathy. The directors of JGPL do not hold any shares in JGPL as at the LPD.

2.3 Rental Revision

Pursuant to the Amendment to Lease, Al Aqar Australia and JGPL have agreed to reduce the base rental rate to be charged for the lease of the JG Properties from 8.5% per annum to 6.5% per annum (“**Revised Rental Rate**”) to be applied on the market value of the JG Properties. The Revised Rental Rate will take effect from 2 October 2021 and end on 1 November 2026.

Under the Amendment to Lease, Al Aqar Australia and JGPL agreed, among others:

- (i) that in respect of the rental period from 2 November 2020 until 1 November 2023 (“**Fourth Rental Period**”), the Revised Rental Rate will be applied from 2 October 2021 until the expiry of the Fourth Rental Period;
- (ii) that the market value of the JG Properties to be adopted to determine the revised base rental for the period from 2 October 2021 until the expiry of the Fourth Rental Period shall be AUD28.5 million;
- (iii) to apply the Revised Rental Rate for the next succeeding rental period from 2 November 2023 until 1 November 2026 (“**Fifth Rental Period**”);
- (iv) that the sum of rental payable for the Fifth Rental Period may be more than or less than the sum of rental payable for the Fourth Rental Period;

- (v) that an additional rental will be payable by JGPL upon payment by Al Aqar Australia of the consideration amount for the New Improvements developed by JGPL on the JG Properties during either the Fourth Rental Period or the Fifth Rental Period. Such additional rental will be calculated based on 6.5% per annum of the consideration amount (including goods and services tax) paid by Al Aqar Australia and for a period from the date of such payment until the expiry of the relevant rental period during which the payment was made; and
- (vi) that the rental payable in respect of the subsequent rental periods after the Fifth Rental Period will be determined in accordance with the original provision in the Lease Agreement and the Revised Rental Rate will not apply.

For the avoidance of doubt, the above terms shall apply from 2 October 2021 until the expiry of the Fifth Rental Period despite anything contained in the Lease Agreement to the contrary and will prevail to the extent of any such inconsistency.

Al Aqar Australia and JGPL have also agreed that the market value of the JG Properties as at 30 June 2021 to be AUD28.5 million (or RM86.0 million) as appraised by the appointed independent valuer, CBRE Valuations Pty Ltd ("**CBRE**").

2.4 Basis and justification in arriving at the Revised Rental Rate

The revised rental rate was arrived at on a negotiated basis and after taking into account the following:

- (i) The valuation of the JG Properties at AUD28.5 million (or RM86.0 million) which was arrived at based on the market rental assessment and adopted capitalisation rate, after reflecting the relevant variables, nature, location and tenancy profile of the JG Properties when compared with current market investment criteria (*Source: CBRE's letter dated 15 July 2021*);
- (ii) The capitalisation rate of 6.5% which was determined after taking into consideration recent investment transactions involving freehold RACF located in Queensland, Victoria and Western Australia with initial yields ranging between 5.50% and 7.56% (*Source: CBRE letter dated 15 July 2021*);
- (iii) The low current interest rate environment in Australia, whereby the yields on the 10-year Australian Government Bonds have reduced from 5.10% as at 22 September 2010, being the date of announcement of by Al- Aqar of the acquisitions of the JG Properties, to 1.49% as at the LPD (*Source: Reserve Bank of Australia 2021*); and
- (iv) Dividend yields of listed aged care companies and listed real estate investment trusts in Australia with a market capitalisation of less than AUD2.0 billion (or RM6.0 billion), which ranges from nil to 7.9% and a median of 5.0%, as follows:

<u>Name</u>	<u>Principal activities</u>	<u>Dividend yield (%)</u>
Estia Health Limited	Provides aged care services and operates a network of retirement homes, providing housing, nursing, food preparation, community building, and related services throughout Victoria, Australia.	0.0
Regis Healthcare Limited	Provides residential aged care services in Australia.	1.0
Japara Healthcare Limited	Operates and develops residential aged care homes in Australia.	0.0

Name	Principal activities	Dividend yield (%)
APN Convenience Retail REIT	Operates as a real estate investment trust. The company invests in service stations and convenience retail stores in Australia.	6.2
APN Industria REIT	Operates as a real estate investment trust. The company invests in and owns interest in real estate properties throughout Australia, focusing on industrial, technology park and business office assets.	5.0
Charter Hall Social Infrastructure REIT	Operates as a real estate investment trust. The company invests in social infrastructure properties as well as provides assets and capital management services in Australia and New Zealand.	4.4
GARDA Diversified Property Fund	This is a stapled entity whereby shares in GARDA Holdings Limited are stapled to units in GARDA Diversified Property Fund. The company invests in commercial offices and industrial facilities as well as provides fund management and real estate advisory services in Australia.	5.0
Centuria Office REIT	Operates as a real estate investment trust. The company invests in commercial properties via a listed property trust as well as owns and manages office assets in Australia.	6.6
Elanor Retail Property Fund	Manages real estate investment fund. The company invests in Australian retail property, focusing on neighbourhood and sub-regional shopping centres. It owns a portfolio of retail shopping centres located in New South Wales, Queensland, and Tasmania.	7.9
Australian Unity Office Fund	Operates as a real estate investment trust. The company owns a diversified portfolio of office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra.	6.4

(Sources: Bloomberg as at the LPD and announcements made by the relevant companies to the Australian Stock Exchange)

3. RATIONALE FOR THE RENTAL REVISION

The rationale for the Rental Revision is to address the following:

- (i) Disparity between the following:
 - (a) current rental rate of 8.5% charged to JGPL and the average market rental rate of 6.5% adopted by CBRE; and
 - (b) market value of the JG Properties of AUD45.5 million (or RM131.9 million) as at 7 March 2011 (as set out in the circular to Al-'Aqar's unitholders dated 28 July 2011) and AUD28.5 million (or RM86.0 million) as at 30 June 2021.

- (ii) The uncertainties faced by the aged care industry following the establishment of the Royal Commission into Aged Care Quality and Safety (“**Royal Commission**”).

On 8 October 2018, the Australian Government established the Royal Commission to inquire into the quality and safety of aged care in Australia. While the aged care industry may have been publicly welcoming of the Royal Commission, its formation created an increased level of uncertainty within the industry. Many providers appeared to be apprehensive as to the direction of the reforms, timing and the expectations regarding the level and quality of aged care services.

- (iii) The uncertainties faced by the aged care industry as a result of the on-going COVID-19 pandemic.

The outbreak of COVID-19 pandemic has worsened the Australian aged care industry. About 74% of Australian COVID-19 pandemic deaths in 2020 were reported to occur in aged care facilities. This has impacted the aged care industry as a whole, as there is a general apprehension by new tenants to commit to enter into aged care facilities.

Even though there were no COVID-19-related deaths in the JG Properties, the pandemic has negatively impacted the number of new tenants to the JG Properties. As a result of the events as mentioned in Sections 3(ii) and (iii) above, the average occupancy rate of JG Properties fell from 95% as at 31 December 2018 to 79% as at 31 December 2020 and recovered to 89% as at the LPD.

(Sources: Australian Government Aged Care Financing Authority: Eighth Report on Funding and Financing of the Aged Care Industry, July 2020, Royal Commission into Aged Care Quality and Safety - Aged care and COVID-19: a special report, September 2020 and JGPL)

4. RISK FACTORS

Al-`Aqar and its subsidiaries (“**Al-`Aqar Group**”) are subject to risks inherent in the real estate and healthcare industries and the senior living/aged-care sector, which include the following risks in respect of the JG Properties:

- (i) **Loss of rental income:** Termination or non-renewal of the Lease Agreement by JPGL due to decreasing financial performance as a result of falling occupancy rate and higher operating costs.
- (ii) **Industry risk:** The Australian Government Response to the Final Report of the Royal Commission into Aged Care Quality and Safety issued in May 2021 led to more uncertainties which could adversely affect the aged-care business model and competitiveness in the aged care industry.
- (iii) **Default risk:** Higher operating costs incurred in order to comply with regulations imposed on aged care providers to combat the spread of COVID-19 or in providing extra medical treatment for the tenants of the JG Properties will affect JGPL's profitability and ability to service rental payments.

5. OVERVIEW OF THE AUSTRALIAN ECONOMY

Australia's economic recovery had been stronger than earlier expected, prior to the recent outbreaks of COVID-19. Gross domestic product ("GDP") had exceeded its pre-pandemic level and the unemployment rate declined further over the June 2021 quarter to be below its level prior to the pandemic. The broadbased rebound in private domestic demand has been supported by accommodative fiscal and monetary policy, and timely indicators suggest growth in private demand remained strong in the June 2021 quarter. The recent lockdowns in several states will weigh heavily on activity and the labour market in the September 2021 quarter. The Australian Government and state and territory governments have introduced substantial additional fiscal measures to support households and businesses through this period. The near-term outlook is highly uncertain and largely dependent on health outcomes; however, past experience of these events, both in Australia and elsewhere, suggests the negative effects on the economy will be temporary. Beyond the near term, the outlook is a little stronger than expected at the time of the previous Statement on Monetary Policy by the Reserve Bank of Australia. The closure of the international border and other pandemic-related disruptions will continue to have a significant effect on some parts of the economy.

The Australian economy grew by 1.8% in the March 2021 quarter, to be around 1% above its level at the end of 2019. The recent outbreaks of the Delta variant of COVID-19 and accompanying lockdowns will depress economic activity, especially in the September 2021 quarter, and temporarily reverse the improvement in the labour market. Output in the September 2021 quarter is now expected to contract by at least 1% – instead of rising by a similar amount as expected prior to the lockdowns – with some but not all of the decline recovered in the December 2021 quarter (assuming limited further lockdowns).

The policy measures implemented by the Reserve Bank of Australia since March 2020 continue to underpin very low interest rates in the Australian economy. These measures include the reductions in the cash rate, the use of forward guidance, the yield target, the bond purchase program and the Term Funding Facility (TFF). In recent months, banks' funding costs and lending rates have declined a little further to new lows. Long-term Australian government bond yields have declined over recent months, returning to be close to levels seen in the early months of the year. This has occurred alongside declines in bond yields globally.

(Source: Reserve Bank of Australia, Statement on Monetary Policy, August 2021)

6. EFFECTS OF THE RENTAL REVISION

6.1 Unitholders' capital and substantial unitholders' unitholdings

The Rental Revision will not have any effect on the unitholders' capital and substantial unitholders' unitholdings of Al-`Aqar as it does not involve any issuance of new units in Al-`Aqar ("Units").

6.2 Net asset value ("NAV"), NAV per Unit and gearing

The Rental Revision is not expected to have a material impact on the consolidated NAV, NAV per Unit and gearing of Al-`Aqar.

6.3 Earnings and earnings per Unit (“EPU”)

For illustrative purposes only, based on the audited consolidated financial statements of Al-`Aqar for the financial year ended (“FYE”) 31 December 2020 and assuming that the Rental Revision was effected at the beginning of that financial year, the pro forma consolidated earnings and EPU would have been as follows:

	Pro forma consolidated earnings	Pro forma consolidated EPU⁽¹⁾
	RM	Sen
- Realised	56,984,413	7.74
- Unrealised	(44,413,011)	(6.03)
Audited net profit for the FYE 31 December 2020	<u>12,571,402</u>	<u>1.71</u>
Less: Reduction in income ⁽²⁾	(5,708,395)	(0.78)
Pro forma net profit and EPU for the FYE 31 December 2020	<u>6,863,007</u>	<u>0.93</u>
- Realised	51,276,018	6.96
- Unrealised	(44,413,011)	(6.03)

Notes:

(1) Computed based on 735,985,088 Units in issue.

(2) Computed as the difference between the expected new rental amount (based on the base rental rate of 6.5% per annum multiplied by the market value of the JG Properties) and the existing rental amount.

The Rental Revision will not have a material impact on the distributable income of Al-`Aqar for the FYE 31 December 2021 as the Rental Revision will only take effect from 2 October 2021 and the reduction in the income is expected to be partially offset by the cost savings from the refinancing of Sukuk.

6.4 Convertible securities

As at the LPD, Al-`Aqar does not have any convertible securities.

7. APPROVALS REQUIRED

The Rental Revision is not subject to the approvals of any regulatory authorities and unitholders of Al-`Aqar.

8. INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS OF THE MANAGER, MAJOR UNITHOLDERS OF AL-`AQAR AND/OR PERSONS CONNECTED

Save as disclosed below, none of the directors and/or major shareholders of the Manager, major unitholders of Al-`Aqar as well as persons connected with them has any interests, direct or indirect, in the Rental Revision.

8.1 Interested major shareholders of the Manager and major unitholders of Al-`Aqar

- (i) KPJ is a major unitholder of Al-`Aqar having an indirect interest of 38.60% in Al-`Aqar as at the LPD. KPJ also owns 100% equity interest in KPJSB, which owns about 57.16% in JGPL.
- (ii) JCorp is a major unitholder of Al-`Aqar having an indirect interest of 38.62% in Al-`Aqar and it is also a major shareholder of KPJ, having a direct and indirect interest of 38.50% in KPJ as at the LPD.

- (iii) JCorp also owns a 100% equity interest in Damansara Assets Sdn Bhd, which in turn owns 100% equity interest in the Manager.

The unitholdings of KPJ and JCorp in Al-`Aqar as at the LPD are as follows:

	Direct		Indirect	
	No. of Units '000	%	No. of Units '000	%
KPJ	-	-	284,075 ⁽¹⁾	38.60
JCorp	-	-	284,248 ⁽²⁾	38.62

Notes:

- (1) *Deemed interested by virtue of its shareholdings in several companies which are part of the KPJ group of companies, pursuant to Section 8 of the Act.*
- (2) *Deemed interested by virtue of its shareholdings in KPJ and Johor Ventures Sdn Bhd pursuant to Section 8 of the Act.*

8.2 Interested directors of the Manager

- (i) Dato' Mohd Redza Shah bin Abdul Wahid ("**Dato' Redza**") is the Chairman and Independent Non-Executive Director of the Manager, and an Independent Non-Executive Director of KPJ.
- (ii) Wan Azman bin Ismail ("**Wan Azman**") is the Chief Executive Officer and a Non-Independent Executive Director of the Manager.
- (iii) Datuk Sr Akmal bin Ahmad ("**Datuk Sr Akmal**") and Mohd Yusof bin Ahmad ("**Mohd Yusof**") are Non-Independent Non-Executive Directors of the Manager and are also senior management personnel of Johor Land Berhad, a subsidiary of JCorp. Datuk Sr Akmal is also senior management personnel of JCorp.
- (iv) Shamsul Anuar bin Abdul Majid ("**Shamsul Anuar**") is a Non-Independent Non-Executive Director of the Manager, a Non-Independent Non-Executive Director of KPJ and a senior management personnel of JCorp.

(Dato' Redza, Wan Azman, Datuk Sr Akmal, Mohd Yusof and Shamsul Anuar are collectively referred to as the "**Interested Directors**")

Accordingly, the Interested Directors have abstained from deliberating and voting on the resolution pertaining to the Rental Revision at the relevant board of directors ("**Board**") meetings of the Manager.

The Interested Directors do not hold any Units as at the LPD.

9. STATEMENT BY THE BOARD

The Board of the Manager, save for the Interested Directors who have abstained for the reasons set out in Section 8 above, having considered all aspects of the Rental Revision including the rationale for the Rental Revision, the salient terms of the Amendment to Lease and the independent valuation by CBRE, is of the opinion that the Rental Revision is:

- (i) in the best interest of Al-`Aqar;
- (ii) fair, reasonable and on normal commercial terms; and
- (iii) not detrimental to the interest of the non-interested unitholders of Al-`Aqar.

10. BOARD AUDIT AND RISK COMMITTEE'S STATEMENT

The Board Audit and Risk Committee of the Manager, save for Mohd Yusof who has abstained for the reasons set out in Section 8 above, having considered all aspects of the Rental Revision including the rationale for the Rental Revision, the salient terms of the Amendment to Lease and the independent valuation by CBRE, is of the opinion that the Rental Revision is:

- (i) in the best interest of Al-`Aqar;
- (ii) fair, reasonable and on normal commercial terms; and
- (iii) not detrimental to the interest of the non-interested unitholders of Al-`Aqar.

11. ADVISER

The Manager has appointed CIMB as the Adviser in relation to the Rental Revision.

12. RELATED PARTY TRANSACTIONS FOR THE PAST 12 MONTHS

Save for the Rental Revision, the recurrent related party transactions that have been disclosed in the circular to the unitholders of Al-`Aqar dated 30 March 2021, the related party transactions disclosed in the audited consolidated financial statements of Al-`Aqar for the FYE 31 December 2020 and the quarterly results of the Al-`Aqar Group for the 6 months financial period ended 30 June 2021 as well as the announcement dated 6 April 2021, there were no transactions entered into between: (i) the Al-`Aqar Group and the Interested Directors and interested major shareholders of the Manager and/or persons connected with them; and (ii) the Al-`Aqar Group and the interested major unitholders of Al-`Aqar and/or persons connected with them, for the preceding 12 months up to the LPD.

13. ESTIMATED TIMEFRAME FOR COMPLETION

The Amendment to Lease is deemed completed on 15 October 2021, being the date of signing of the Amendment to Lease.

14. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Rental Revision pursuant to Paragraph 10.02(g)(ix) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 1.76% based on the rental differences up to 1 November 2026 compared with the consolidated total assets of Al-`Aqar, based on the latest audited consolidated financial statements of Al-`Aqar for the FYE 31 December 2020.

15. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the registered office of the Manager at Level 16, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor, Malaysia during normal business hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this Announcement:

- (i) the Lease Agreement and the Amendment to Lease; and
- (ii) the letter issued by CBRE dated 15 July 2021 in relation to the market value of the JG Properties as at 30 June 2021.

This Announcement is dated 15 October 2021.