

AL-‘AQAR HEALTHCARE REIT (“AL-‘AQAR”)

(I) THE PROPOSED ACQUISITIONS AND LEASES

(II) THE PROPOSED PRIVATE PLACEMENT

COLLECTIVELY REFERRED TO AS THE “PROPOSALS”

Unless otherwise stated, all definitions and terms used in this announcement shall have the same meanings as defined in the announcement dated 2 September 2022 in relation to the Proposals

We refer to the announcement on the Proposals dated 2 September 2022. On behalf of the Board, KAF IB wishes to announce the following additional information in relation to the Proposals:

1. Salient terms of the Sale and Purchase Agreements

1.1 Purchase Consideration

The Purchase Consideration will be satisfied in the following manner:

- (i) The deposit is 5% of the Purchase Consideration and will be payable upon the execution of the TMC SPA, Seremban SPA and Pasir Gudang SPA (“**Deposit**”). The Deposit shall be paid to Point Zone (M) Sdn Bhd, a wholly owned subsidiary of KPJ (“**Point Zone**”);
- (ii) The balance of the Purchase Consideration (“**Balance Purchase Consideration**”) shall be satisfied on or before the expiry of 3 months from the date of the TMC SPA, Seremban SPA and Pasir Gudang SPA becomes unconditional (“**Completion Date**”) or such other date as the parties may agree in writing. In relation to the Pasir Gudang SPA, the Consideration Units shall be issued and allotted to KPJ and the balance cash consideration shall be paid to Point Zone on the Completion Date; and
- (iii) For illustrative purposes, the manner of payment of the Purchase Consideration is illustrated in the table below:

(a) TMC New Building

<u>Payment</u>	<u>Terms</u>	<u>Mode</u>	<u>(%)</u>	<u>(RM'000)</u>
Deposit	Upon execution of TMC SPA	Cash	5	715
Balance Purchase Consideration	Upon completion of TMC SPA	Cash	95	13,585
			<u>100</u>	<u>14,300</u>

(b) Seremban New Building

<u>Payment</u>	<u>Terms</u>	<u>Mode</u>	<u>(%)</u>	<u>(RM'000)</u>
Deposit	Upon execution of Seremban SPA	Cash	5	4,235
Balance Purchase Consideration	Upon completion of Seremban SPA	Cash	95	80,465
			<u>100</u>	<u>84,700</u>

(c) Pasir Gudang Property

<u>Payment</u>	<u>Terms</u>	<u>Mode</u>	<u>(%)</u>	<u>(RM'000)</u>
Deposit	Upon execution of Pasir Gudang SPA	Cash	5	4,650
Balance Purchase Consideration	Upon completion of Pasir Gudang SPA	(i) Cash	68	63,339
		(ii) Consideration Units	27	25,011
			<u>100</u>	<u>93,000</u>

1.2 Events of default

1.2.1 Default by the Vendors and its consequences under the Sale and Purchase Agreements:-

In the event that:

- (i) there is a default by the Vendors to complete the sale of the Properties in accordance with the terms and conditions of the Sale and Purchase Agreements; or
- (ii) the Vendors fail, neglect or refuse to perform or comply with any of its obligations on its part herein to be performed under the Sale and Purchase Agreements in any material respect and where remediable, fails to remedy the same within 14 business days from the date of a written notice from the Trustee requiring the same to be remedied; or
- (iii) any representation, warranty or undertaking of the Vendors is not true or accurate or is not complied with in any material respect, or
- (iv) an encumbrancer takes possession of, or a trustee, receiver or similar officer is appointed in respect of, all or any substantial part of the business or assets of the Vendors; or
- (v) the Vendors become insolvent; or
- (vi) (a) any party takes any action or any legal proceedings are started or other steps taken for the Vendors to be adjudicated or found insolvent, (b) the winding-up, dissolution of the Vendors either by an order of a Court of competent jurisdiction or by way of voluntary winding-up save and except to effect a reorganisation of the business of the Vendors (c) the appointment of a liquidator, trustee receiver or similar officer of the Vendors over the whole or any part of the Vendors' or any of its respective undertaking(s), concession, rights or revenues other than a winding-up of the Vendors for the purpose of amalgamation or reconstruction;

at any time prior to the completion of the Sale and Purchase Agreements, then subject always to the Trustee having observed and fulfilled the provisions of Sale and Purchase Agreements required on its part to be observed or performed, the Trustee shall give to the Vendors a 45 business days' notice or such later period as the parties may mutually agree in writing to rectify the alleged breach or default as stipulated in the said notice. For the avoidance of doubt, no remedy period is to be given to the Vendors in respect of any breach referred to under items (iv) to (vi) above. In the event that the Vendors fail to rectify the alleged breach or default within the said 45 business days or such later period as the parties may mutually agree to in writing, the Trustee shall be entitled at the Trustee's sole and absolute discretion to do either of the following (by notice in writing to the Vendors):-

- (a) to require specific performance of the Sale and Purchase Agreements; or
- (b) to claim damages for the breach of the Sale and Purchase Agreements by the Vendors; or
- (c) to terminate the Sale and Purchase Agreements by notice in writing to the Vendors and the parties shall within 14 business days of receipt by the Vendors of such written notice do the following at the Vendors' own cost and expense:
 - 1. the Vendors shall refund to the Trustee all monies received by the Vendors under the Sale and Purchase Agreements (save for any late payment compensation which shall be paid by the Trustee) free of interest;
 - 2. the Vendors pay to the Trustee an amount equivalent to the deposit as liquidated damages failing which the Vendors shall pay the Trustee damages on the aforesaid money calculated at the rate of 8% per annum on a daily basis commencing from the expiry of the aforesaid 14 business days until the date of the actual payment;
 - 3. the Trustee shall return and procure its solicitors to return all documents received by them and/or their solicitors pursuant to the Sale and Purchase Agreements, to the Vendors in their original state and condition (fair wear and tear excepted);
 - 4. the Vendors shall return all documents received by the Vendors pursuant to the Sale and Purchase Agreements, to the Trustee in their original state and condition (fair wear and tear excepted);
 - 5. in the case of the Pasir Gudang SPA, the Trustee shall withdraw the private caveat over the Pasir Gudang Property, if the same has been entered into; and
 - 6. the Trustee shall re-deliver the possession of the Properties to the Vendors, if the same has been duly delivered to the Trustee pursuant to the Sale and Purchase Agreements in its original state and condition.

Thereafter, the Sale and Purchase Agreements shall become null and void and be of no further effect and neither party hereto shall have any further claims action or proceedings against the other in respect of or arising out of the Sale and Purchase Agreements, save and except for any claim arising from any antecedent breach and as provided in the Sale and Purchase Agreements.

1.2.2 Default by the Trustee and its consequences under the Sale and Purchase Agreements:-

In the event that:

- (i) the Trustee shall fail to satisfy the Purchase Consideration or any part thereof or to complete the sale and purchase of the Properties in accordance with the terms and conditions of the Sale and Purchase Agreements; or
- (ii) the Trustee fails, neglects or refuses to perform or comply with any of its obligations on its part herein to be performed under the Sale and Purchase Agreements in any material respect and where remediable, fails to remedy the same within 14 business days from the date of a written notice from the Vendors requiring the same to be remedied; or
- (iii) any representation, warranty or undertaking of the Trustee is not true or accurate or is not complied with in any material respect, or
- (iv) an encumbrancer takes possession of, or a trustee, receiver or similar officer is appointed in respect of, all or any substantial part of the business or assets of the Trustee; or

- (v) the Trustee becomes insolvent;
- (vi) in the case of the Pasir Gudang SPA, the Trustee is unable to pay its debts as they fall due, stops or suspends payment of all or a material part of its debts, begins negotiations or takes any proceeding or other steps with a view to readjustment, rescheduling or deferral of all of its borrowed money (or of any part of its borrowings/financing facilities which it will or might otherwise be unable to pay when due) or proposes to make a general assignment or an arrangement or composition with or for the benefit of its creditors or a moratorium is agreed or declared in respect of or affecting all or a part of the borrowings/financing facilities of the Trustee; or
- (vii) (a) any party takes any action or any legal proceedings are started or other steps taken for the Trustee to be adjudicated or found insolvent, (b) the winding-up, dissolution of the Trustee either by an order of a court of competent jurisdiction or by way of voluntary winding-up save and except to effect a reorganisation of the business of the Trustee (c) the appointment of a liquidator, trustee receiver or similar officer of the Trustee over the whole or any part of the Trustee's or any of its respective undertaking(s), concession, rights or revenues other than a winding-up of the Trustee for the purpose of amalgamation or reconstruction; or
- (viii) the commencement of any proceedings pursuant to Section 366 of the Companies Act, 2016 in relation to the Trustee (except for the purpose of and followed by reconstruction, amalgamation or reorganisation which does not in the opinion of the other party have a material adverse effect);

then subject always to the Vendors having observed and fulfilled the provisions of the Sale and Purchase Agreements required on its part to be observed or performed, the Vendors shall give to the Trustee 45 business days' notice or such later period as the parties may mutually agree to in writing to rectify the alleged breach or default as stipulated in the said notice. For the avoidance of doubt, no remedy period is to be given to the Trustee in respect of any breach referred to under items (iv) to (viii) above. In the event that the Trustee fails to rectify the alleged breach or default within the said 45 business days or such later period as the parties may mutually agree to in writing, the Vendors shall be entitled at the Vendors' sole and absolute discretion to do either of the following (by notice in writing to the Trustee):-

- (a) to require specific performance of the Sale and Purchase Agreements; or
- (b) to claim damages for the breach of the Sale and Purchase Agreements by the Trustee; or
- (c) to terminate the Sale and Purchase Agreements by notice in writing to the Trustee and the parties shall within 14 business days of receipt by the Trustee of such written notice do the following at the Trustee's own cost and expense:
 - 1. the Vendors shall refund to the Trustee all monies (save and except for the deposit which shall be forfeited by the Vendor as the agreed liquidated damages) received by the Vendors under the Sale and Purchase Agreements (save for any late payment compensation which shall be paid by the Trustee) free of interest;
 - 2. the Trustee shall return and procure its solicitors to return all documents received by them and/or their solicitors pursuant to the Sale and Purchase Agreements, to the Vendors in their original state and condition (fair wear and tear excepted);
 - 3. the Vendors shall return all documents received by the Vendors pursuant to the Sale and Purchase Agreements, to the Trustee in their original state and condition (fair wear and tear excepted);

4. in the case of the Pasir Gudang SPA, the Trustee shall withdraw the private caveat over the Pasir Gudang Property, if the same has been entered into; and
5. the Trustee shall re-deliver the possession of the Properties to the Vendors, if the same has been duly delivered to the Trustee pursuant to the Sale and Purchase Agreements in its original state and condition.

Thereafter, the Sale and Purchase Agreements shall become null and void and be of no further effect and neither party hereto shall have any further claims action or proceedings against the other in respect of or arising out of the Sale and Purchase Agreements, save and except for any claim arising from any antecedent breach and as provided in the Sale and Purchase Agreements.

2. Salient terms of the Lease Agreements

2.1 Existing principal lease term

The TMC New Building and Seremban New Building are the expansions of the Taiping Medical Centre and Seremban Specialist Hospital, which are currently owned by the Trustee and leased to PNG and MSH according to the terms of the principal lease agreements dated 1 May 2009 and 14 October 2009, respectively ("**existing lease agreements**"). The Trustee is the existing lessor for the Taiping Medical Centre and Seremban Specialist Hospital.

The details of the existing principal lease agreements are as follows:

<u>Details</u>	<u>Taiping Medical Centre</u>	<u>Seremban Specialist Hospital</u>
Contractual Term	15 years commencing from 1 May 2009 up until 30 April 2024	15 years commencing from 14 October 2009 up until 13 October 2024
Renewal Term	Option to renew for another 15 years and subject to the terms and conditions to be mutually agreed by the Trustee, DRMSB and PNG	Option to renew for another 15 years and subject to the terms and conditions to be mutually agreed by the Trustee, DRMSB and MSH
Rental rate	<p>(i) Minimum gross lease rental of 7.10% per annum x prevailing market value of the property; and</p> <p>(ii) Any lease rental adjustment shall not be more than 2.00% incremental over the rent for the preceding year,</p> <p>whichever is higher.</p>	<p>(i) Minimum gross lease rental of 7.10% per annum x prevailing market value of the property; and</p> <p>(ii) Any lease rental adjustment shall not be more than 2.00% incremental over the rent for the preceding year,</p> <p>whichever is higher.</p>
Rental income 2022 (per annum)	RM0.74 million	RM5.11 million

2.2 Basis and justification in arriving at the rental rate

The rental rate for the Properties was arrived at on a negotiated basis and after taking into consideration the following:

- (i) First year : The rental of the first year of the initial term is 5.75% x the market value of the Properties. The lease rental rate was arrived at after taking into consideration the net property income yield of other Malaysian listed real estate investment trusts for year 2021, which ranges from 3.47% to 7.40%.
- (ii) Second and third year : 2.00% incremental increase x the rent for the preceding year which shall be in Ringgit Malaysia. The incremental increase of 2.00% was arrived at after taking into consideration the average of the 10-year consumer price index year-on-year movement of approximately 2.20% (excluding year 2020 which is a negative).

(Source: Bloomberg)

3. Rationale

Inter-conditionality and estimated timeframe for completion

- (i) The Proposed Acquisitions and Leases and the Proposed Private Placement are not inter-conditional upon one another.
- (ii) Subject to all approvals being obtained and satisfaction of all the Conditions Precedent, the Proposed Acquisitions and Leases are expected to be completed prior to the Proposed Private Placement. Subject to all approvals being obtained and prevailing market conditions, the Proposed Private Placement is expected to be completed by the first half of 2023.

4. Risk factors

The Properties are subject to certain specific risks, which may not be exhaustive, as follows:

(i) Non-completion risk of the Transaction Documents

The Proposed Acquisitions and Leases are conditional upon the fulfilment of, among others, the Conditions Precedent of the respective Sale and Purchase Agreements. In the event that the Conditions Precedent are not fulfilled within the stipulated time frame in the Sale and Purchase Agreements (unless otherwise irrevocably and unconditionally waived by the Trustee, on behalf of Al-'Aqar and the Vendors), and/or the relevant parties do not perform their respective obligations as set out in the Sale and Purchase Agreements, the Trustee will be entitled to terminate the Sale and Purchase Agreements. Upon termination of the Sale and Purchase Agreements, the Trustee shall be discharged from their respective obligations without any liability to each other save for any antecedent breach under the Sale and Purchase Agreements occurring prior to such termination.

Nevertheless, Al-'Aqar will endeavour to ensure the satisfaction of the Conditions Precedent in order to complete the Proposed Acquisitions and Leases in a timely manner and will take reasonable steps within their control to mitigate the occurrence of termination events.

(ii) Business and operational risks

Business and operational risks are inherent in the healthcare industry, which include but are not limited to, changes in business conditions such as deterioration in prevailing market conditions, changes in labour supply such as limited availability of professionally trained medical specialists, increase in operational costs, compliance and regulatory costs, obsolescence of healthcare technologies and adverse changes in the legal framework or government policies.

There is no assurance that the occurrence of the abovementioned risks will not materialise, which may adversely affect the business, operational and financial performance of Al-'Aqar. However, Al-'Aqar seeks to mitigate the risks by keeping abreast with the latest developments in the healthcare industry as well as adopting appropriate measures including talent management strategy and strategic planning.

(iii) Dependence on the performance and operations of the subsidiary and associated companies of KPJ for its revenue

The tenants of Al-'Aqar's properties are subsidiaries and associated companies of KPJ, which has been the leading operator in the healthcare industry. The performance of Al-'Aqar is dependent on, among others, the ability of the Vendors to make timely rental payments under the Lease Agreement. Nevertheless, the ability of the Vendors to make rental payments to Al-'Aqar during the tenure may be affected due to, among others, the following reasons that could adversely affect the Vendor's business operations and financial performance:

- (a) Emergence and spread of infectious diseases with pandemic potential including COVID-19 pandemic;
- (b) Global recession and economic downturn;
- (c) Government imposed lockdowns or restrictions; and
- (d) Changes in laws, regulations or government policies.

However, the risk is mitigated as Al-'Aqar has entered or shall enter into lease agreements with the Vendors for the Properties and other existing properties to ensure its occupancy rate. Al-'Aqar shall continuously monitor the rental payments and will closely work with the relevant parties to employ the necessary measures to resolve any issues arising from the above-mentioned factors such as active engagement with the Vendors.

(iv) Exposure to higher financing costs as well as the ability to service future loan repayment obligations

In view that Al-'Aqar is proposing to obtain external financing through bank borrowings to fund the Proposed Acquisitions and Leases, Al-'Aqar may be exposed to an increase in interest rates on such external financing obtained, resulting in higher borrowing costs which may adversely affect Al-'Aqar's future financial performance as well as the ability to service future loan repayment obligations.

Nevertheless, DRMSB shall continuously monitor and review Al-'Aqar's capital structure, which includes taking into consideration the gearing level, interest costs as well as cash flows in achieving an overall optimal capital structure.

(v) Compulsory acquisition by the Malaysian government

The Malaysian government ("**Malaysian Government**") has the power to compulsorily acquire any land in Malaysia pursuant to the provisions of the applicable legislation including the Land Acquisition Act, 1960 for, among other things, public use or due to public interest.

The compensation awarded pursuant to a compulsory acquisition is dependent on the fair market value of a property assessed on the basis prescribed in the relevant laws. If the Malaysian Government compulsorily acquired the Properties at a point in time when the market value of the Properties has decreased, the amount of compensation paid to Al-'Aqar may be unsatisfactory, which may have a material adverse effect on Al-'Aqar's financials and operations.

As at the LPD, DRMSB is not aware of any notice of acquisition or notice of intended acquisition having been received by PNG, MSH and PGSH in relation to the TMC New Building, Seremban New Building and Pasir Gudang Property or any part thereof.

(vi) The future market value of the Properties may be less than its current valuation or the purchase price by Al-'Aqar

The valuation of the Properties by the Valuer is based on certain assumptions, which are subjective and uncertain and may differ materially from actual measures of the market. Further, property valuations generally include subjective determination of certain factors, and they include location, relative market position and physical conditions. The market value of the Properties as appraised by the Valuer is not an indication of and does not guarantee an equivalent or greater sale price either at the present time or at any time in the future.

Accordingly, there can be no assurance that Al-'Aqar would be able to sell the Properties, or that the price realisable on such sale would not be lower than the present valuation or the price paid by Al-'Aqar to purchase the Properties.

This announcement is dated 7 September 2022.