

AL-'AQAR HEALTHCARE REIT ("AL-'AQAR" OR "REIT")

PROPOSED RENEWAL OF LEASE OF THE PROPERTIES BETWEEN THE SUBSIDIARIES AND ASSOCIATED COMPANY OF KPJ HEALTHCARE BERHAD WITH AMANAHRAYA TRUSTEES BERHAD AND DAMANSARA REIT MANAGERS SDN BERHAD FOR AND ON BEHALF OF AL-'AQAR ("PROPOSED LEASE RENEWAL")

1. INTRODUCTION

On behalf of the Board of Directors ("**Board**") of Damansara REIT Managers Sdn Berhad, the manager of Al-'Aqar ("**DRMSB**" or "**Manager**"), KAF Investment Bank Berhad ("**KAF IB**") wishes to announce that the Manager and AmanahRaya Trustees Berhad (acting solely in its capacity as trustee for and on behalf of Al-'Aqar) ("**Trustee**" or "**Lessor**") proposes to enter into five (5) separate lease agreements with the following companies of KPJ Healthcare Berhad ("**KPJ**") to renew the lease of the following properties ("**Lease Agreements**"):

No.	Properties	Companies of KPJ
(i)	KPJ Perdana Specialist Hospital (" KPJ Perdana ")	- Perdana Specialist Hospital Sdn Bhd
(ii)	KPJ Kajang Specialist Hospital (" KPJ Kajang ")	- Kajang Specialist Hospital Sdn Bhd
(iii)	KPJ Sentosa KL Specialist Hospital (" KPJ Sentosa ")	- Sentosa Medical Centre Sdn Bhd
(iv)	Kedah Medical Centre (" KMC ")	- Kedah Medical Centre Sdn Bhd*
(v)	Kuantan Care and Wellness Centre (" Kuantan CWC ")	- Kuantan Wellness Center Sdn Bhd

Note:

* *Kedah Medical Centre Sdn Bhd is an associated company of KPJ.*

KPJ Perdana, KPJ Kajang, KPJ Sentosa, KMC and Kuantan CWC are collectively referred to as the "**Lease Properties**". The companies of KPJ shall be referred to as the "**Lessee**" or collectively as "**Lessees**".

The Proposed Lease Renewal is deemed as a related party transaction under Paragraph 10.08 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**") in view of the interests of the directors and major shareholders of DRMSB, the major unitholders of Al-'Aqar and/or persons connected with them as set out in Section 7 of this Announcement.

2. THE PROPOSED LEASE RENEWAL

2.1. Details of the Proposed Lease Renewal

Al-'Aqar had, on 16 June 2008 entered into separate lease agreements with the Lessees to lease the Lease Properties ("**Principal Lease Agreements**") for a contractual lease tenure of fifteen (15) years. The initial fifteen (15)-year contractual lease period under the Principal Lease Agreements has expired on 28 February 2023 ("**Initial Contractual Term**").

Subsequently the Lessees, the Lessor and the Manager had entered into memorandums of extension in relation to the Principal Lease Agreements on 24 February 2023 to extend each of the lease periods from 1 March 2023 until 30 April 2023 (“**Extended Contractual Term**”) with a right to extend for a further period of two (2) months up to 30 June 2023 at the Lessees’ request (“**Memorandums of Extension**”). The monthly rent payable during the Extended Contractual Term is equivalent to the respective rental of the final month under the Initial Contractual Term.

The Lessor had on 20 April 2023, received a letter from KPJ (for and on behalf of the Lessees) requesting for an extension of the Extended Contractual Term for a further period of two (2) months until 30 June 2023 and at the expiry, to extend for a further period of three (3) months until 30 September 2023. Pursuant to the said request, the Lessees, Lessor and the Manager had, on 26 June 2023, entered into supplemental Memorandums of Extension to amend and vary the terms of the Memorandums of Extension (pending the execution of the Lease Agreements), to formalise the extension of the Extended Contractual Term for a further period of two (2) months until 30 June 2023 with an option to extend the term for an additional period of three (3) months until 30 September 2023 at the Lessees’ request, and to execute the Lease Agreements in escrow (“**Further Extended Contractual Term**”) (“**Supplemental Memorandums of Extension**”). The monthly rent payable during the Further Extended Contractual Term is equivalent to the respective rental of the final month under the Initial Contractual Term. For the avoidance of doubt, notwithstanding the execution of the Lease Agreements in escrow, the parties agreed to make every effort to fulfil the conditions precedent set out in the Lease Agreement and the parties shall date and stamp the Lease Agreements upon fulfilment of the conditions precedent stipulated in the Lease Agreements as set out under Section 2.4(i) of this Announcement.

2.2. Information on KPJ and its subsidiaries (“KPJ Group”)

KPJ was listed on the Main Market of Bursa Securities on 29 November 1994. Since its introduction of the first private specialist hospital in Johor in 1981, KPJ Group has grown to be one of the leading private healthcare providers in the region.

As at the FYE 31 December 2022, KPJ owns and/or manages:

- (i) in West Malaysia, twenty (25) private specialist hospitals, four (4) ambulatory care centres, one (1) university college, two (2) senior and assisted living care centres, ten (10) clinics (Waqaf An-Nur) and six (6) mobile clinics;
- (ii) in East Malaysia, four (4) private specialist hospitals, one (1) senior and assisted living care centre and seven (7) clinics (Waqaf An-Nur);
- (iii) in Indonesia, two (2) private specialist hospitals;
- (iv) in Bangladesh, one (1) private specialist hospitals and one (1) nursing college;
- (v) in Thailand, one (1) private specialist hospital; and
- (vi) in Australia, one (1) senior and assisted living care centre.

With more than 16,000 employees, KPJ has a pool of expert professionals and experience manager for them to tap upon. Furthermore, KPJ has more than 40 years’ experience in the private healthcare industry.

For more information on KPJ, please refer to <https://kpj.listedcompany.com/profile.html>.

2.3. Information on the Lease Properties

The details of the Lease Properties are as follows:

	<u>KPJ Perdana</u>	<u>KPJ Kajang</u>	<u>KPJ Sentosa</u>	<u>KMC</u>	<u>Kuantan CWC</u>
Description	A purpose-built hospital comprising a 5-storey inpatient with a sub-basement level	A 7-storey purpose-built private specialist hospital with a lower ground floor	A purpose-built private hospital comprising a 7-storey main hospital block with a lower ground floor	A purpose-built private hospital comprising a 10-storey main hospital building inclusive of 2 shell floors with a 3-storey annexe building	A purpose-built private hospital comprising a 3-storey block A and 5-storey annexe block B and open car park
Land Title Details	PN 4133, Lot 657 (formerly known as HSD 917, Lot No. PT 616) Section 14, and HS(D) 11253, PT 705 Section 14, both at Town of Kota Bharu, District of Kota Bharu, in the State of Kelantan	GM 2494 (formerly known as HSM 22394), Lot 42997 (formerly known as Lot No. PT53903), Section 9, Town of Kajang, District of Hulu Langat, in the State of Selangor	GRN 43923, Lot No. 671, Town of Kuala Lumpur, District of Kuala Lumpur, Federal Territory of Kuala Lumpur	GM 34919 (formerly known as HSM 10923), Lot 9425 (formerly known as Lot No. PT 1280), Section 54, Bandar Alor Setar, Tempat Pumpong and HSD 21030, PT 35, Bandar Alor Merah both in the District of Kota Setar in the State of Kedah	GM 3441, GM 3442, GM3466, GM 2827, GM 2823, GM 3443, GM 1575, GM 6875, Lot Nos. 5885, 5886, 5888, 5889, 5890, 5891, 10747 and 10748 respectively, Mukim of Kuala Kuantan, District of Kuantan, in the State of Pahang
Address	No. PT 37 and PT 600, Jalan Bayam, Section 14, 15200 Kota Bharu, Kelantan	Lot No. 53903, Batu 14 3/4, Jalan Cheras, 43000 Kajang, Selangor Darul Ehsan	No. 36, Jalan Chemur, Damai Complex, 50400 Kuala Lumpur	Nos. 175 & 175A, Pumpong, 05250 Alor Setar.	No. 51 Jalan Alor Akar, Taman Kuantan, 25250 Kuantan, Pahang
Tenure of the Land	<u>Lot No. 657</u> - 66 years leasehold, expiring on 25 May 2064 (unexpired term of about 41 years) <u>Lot No. PT705</u> - 66 years leasehold, expiring on 8 May 2082 (unexpired term of about 59 years)	Perpetuity (Freehold)	Perpetuity (Freehold)	Perpetuity (Freehold)	Perpetuity (Freehold)
Gross floor area (square meters)	13,628	6,404	8,459	20,053	6,416
Age of the buildings (years)	21	17	25	18	Block A – 37 and Block B – 22

2.4. Salient Terms of the Lease Agreements

The salient terms of the Lease Agreements are as follows:

- (i) The Proposed Lease Renewal is conditional upon the fulfilment of the following conditions (“**Conditions**”):
- (a) the approval of the shareholders of KPJ and in respect of KMC, the approval of the shareholders of Kedah Medical Centre Sdn Bhd being obtained in respect of the Proposed Lease Renewal;
 - (b) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Lease Renewal; and
 - (c) any other regulatory and/or governmental authorities, if required, to be obtained by the Lessee and/or KPJ and the Lessor in respect of the Lease. For the avoidance of doubt, this condition does not include consent required for the registration of the lease, where applicable.
- (ii) The Lessor and the Lessees agree on:
- (a) the lease of KMC, KPJ Perdana and KPJ Kajang for a period of fifteen (15) years commencing from 1 October 2023 to 30 September 2038;
 - (b) the lease of KPJ Sentosa and Kuantan CWC for a period of three (3) years commencing from 1 October 2023 to 30 September 2026,

(the period stipulated in items (ii)(a) and (b) above shall be referred to as the “**Contractual Term**”) upon the terms and conditions stipulated in the Lease Agreements with an option to renew for another fifteen (15) years.

- (iii) The rent shall be denominated in Ringgit Malaysia (“**RM**”) and the formula for determination of the rent in relation to the Proposed Lease Renewal is as follows:

For KMC, KPJ Perdana and KPJ Kajang:

- (a) Rent Formula

First Rental Term	Rent Formula
1st year	6.25% per annum × Open Market Value of the respective Lease Properties
2nd & 3rd year	2.00% incremental increase × the rent for the preceding year.

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(b) Rent Review Formula

The rent for every succeeding rental term shall be calculated based on the following formula:

<u>Succeeding Rental Terms</u>	<u>Rent Review Formula</u>
1st year of every Succeeding Rental Term (Years 4, 7, 10 and 13)	6.25% per annum × Open Market Value of the respective Lease Properties, at the point of review subject to: (I) a minimum Rent of the Base Rent of the 1 st year of previous Rental Term of the Lease Properties; and (II) any adjustment to the Rent shall not be more than 2.00% incremental increase over the Rent for the preceding year which shall be in RM.
2 nd & 3 rd year of every Succeeding Rental Term (Years 5, 6, 8, 9, 11, 12, 14, 15)	2.00% incremental increase over the Rent for the preceding year which shall be in RM.

For KPJ Sentosa and Kuantan CWC:

(a) Rent Formula

<u>First Rental Term</u>	<u>Rent Formula</u>
1st year	6.00% per annum × Open Market Value of the respective Lease Properties
2nd & 3rd year	2.00% incremental increase × the rent for the preceding year.

- (iv) The security deposit to be paid to the Lessor on or before the rent commencement date at an aggregate sum equivalent to two (2) times of the prevailing monthly rent.

Please refer to **Appendix I** of this announcement for the other salient terms of the Lease Agreements.

2.5. Basis and Justification in arriving at the Rental Rate

The rental rate was negotiated between the parties. The total gross rental for the first year of the Contractual Term amounted to RM14.07 million, derived based on the following:

- (a) 6.25% of the Open Market Value for KMC, KPJ Perdana and KPJ Kajang; and
(b) 6.00% of the Open Market Value for KPJ Sentosa and Kuantan CWC.

In determining the Open Market Value of the Lease Properties, Al-'Aqar had appointed CBRE WTW to act as the independent valuer for the Proposed Lease Renewal. The Valuer had adopted the Income Approach by Profits Method (Discounted Cash Flow) as the primary approach and the Cost Method as the secondary approach for cross checking.

The market value of the Lease Properties as appraised by the Valuer are as follows:

Lease Property	Market Value as appraised by the Valuer	Value agreed by Al-'Aqar and KPJ	Rental rate	Rental amount
	(RM'000)	(RM'000)	(%)	(RM'000)
KPJ Perdana	45,000	46,000	6.25	2,875
KPJ Kajang	65,000	64,000	6.25	4,000
KMC	70,000	70,000	6.25	4,375
KPJ Sentosa	30,000	30,000	6.00	1,800
Kuantan CWC	17,000	17,000	6.00	1,020
Total	227,000	227,000		14,070

Furthermore, the rental rate for the initial term was arrived at after taking into consideration the following:

- (i) The performance of the Malaysian real estate investment trusts. The Net property income (“NPI”) for real estate investment trusts listed on Bursa Securities ranges from 3.5% to 6.7% in year 2022;
- (ii) The NPI of similar type of properties acquired by Malaysian real estate investment trusts recently, which ranges from 5.75% to 6.22%;
- (iii) The current interest environment. For information, the Overnight Policy Rate is at 3.00% as at 16 June 2023, being the latest practicable date (“LPD”); and
- (iv) Al-'Aqar's capital structure and potential appreciation of the open market value of the Lease Properties; and
- (v) Al-'Aqar financial obligations and dividend policy to its unitholders.

For the rental rate for the subsequent terms, the incremental increase of 2.00% for 2nd and 3rd year of the rental term was arrived after taking into consideration the average of the 10-year consumer price index year-on-year movement of 2.00%. (Source: Bloomberg)

2.6. Amount transacted with KPJ for the preceding twelve (12) months

Save as disclosed in the audited consolidated financial statements of Al-'Aqar for the FYE 31 December 2022 and as disclosed in the table below, there were no transactions entered into between:

- (i) Al-'Aqar and the Interested Directors and interested Major Unitholders (as defined herein) of DRMSB and/or persons connected with them; and
- (ii) Al-'Aqar and the interested Major Unitholders of Al-'Aqar and/or persons connected with them, for the preceding 12 months up to the LPD.

No.	Proposal
(a)	The Memorandums of Extension and the Supplemental Memorandums of Extension, as set out in Section 2.1 of this Announcement.
(b)	Renewal of unitholders' mandate for recurrent related party transactions of a revenue or trading nature (“RRPT”). The RRPT was approved by Al-'Aqar's unitholders in its annual general meeting held on 18 April 2023.

No.	Proposal
(c)	<p>Acquisition of the following properties:</p> <p>(A) a building known as TMC Health Centre (“TMC New Building”) from Penang Specialist Hospital Sdn Bhd, a wholly-owned subsidiary of KPJ, for a total cash consideration of RM14,300,000 and lease of the TMC New Building;</p> <p>(B) a building forming part of KPJ Seremban Specialist Hospital (“Seremban New Building”) from Maharani Specialist Hospital Sdn Bhd, a wholly-owned subsidiary of KPJ, for a total cash consideration of RM84,700,000 and lease of the Seremban New Building; and</p> <p>(C) KPJ Pasir Gudang Specialist Hospital (“Pasir Gudang Property”) from Pasir Gudang Specialist Hospital Sdn Bhd, a wholly-owned subsidiary of KPJ, for a total consideration of RM93,000,000 and lease of the Pasir Gudang Property.</p> <p>(Collectively, “Acquisitions and Leases”)</p> <p>The Acquisitions and Leases were approved by both AI-‘Aqar’s unitholders and KPJ’s shareholders at their extraordinary general meetings’ (“EGM”) held on 13 December 2022 and 12 December 2022 respectively. The lease agreements in relation to the Acquisitions and Leases commenced on 23 December 2022.</p>

3. RATIONALE FOR THE PROPOSED LEASE RENEWAL

- (i) The Proposed Lease Renewal will enable AI-‘Aqar to continue leasing the Lease Properties to KPJ Group, an established hospital operator in Malaysia and AI-‘Aqar’s key lessee;
- (ii) The Proposed Lease Renewal is expected to be beneficial to AI-‘Aqar as it will provide AI-‘Aqar with a stable and sustainable income stream of up to fifteen (15) years. Furthermore, AI-‘Aqar will benefit from the subsequent 2% incremental increase of the preceding year’s rental income in accordance with the terms and conditions of the Lease Agreements; and
- (iii) The Proposed Lease Renewal will enable AI-‘Aqar to continue to meet its financial obligations and providing consistent dividends distribution to its unitholders.

4. RISKS IN RELATION TO THE PROPOSED LEASE RENEWAL

The Proposed Lease Renewal is subject to, among others, the following risks:

(i) **Non-completion risk of the Lease Agreements**

The Proposed Lease Renewal is subject to fulfilment of the Conditions. The non-renewal of the Lease Agreements would affect AI-‘Aqar’s financial performance and its ability to payout dividends to its unitholders.

Nevertheless, AI-‘Aqar will endeavour to ensure the satisfaction of the Conditions in order to complete the Proposed Lease Renewal in a timely manner and will take reasonable steps within their control to mitigate the occurrence of termination events.

(ii) **Dependence on the performance and operations of the subsidiaries of KPJ for its revenue**

The tenants of AI-‘Aqar’s properties are subsidiaries of KPJ, which has been the leading operator in the healthcare industry. The performance of AI-‘Aqar is dependent on, among others, the ability of the Lessees to make timely rental payments under the Lease Agreements.

Nevertheless, there can be no assurance that any default or delay in paying the rental by the Lessees will not adversely affect Al-'Aqar's cash flow and resultantly its distribution to the unitholders. 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, such as active engagement with the Lessees.

(iii) **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.

Al-'Aqar will also continue to be exposed to risk of operating a real estate investment trust some of which include but not limited to fluctuation in the future market value of its properties and Al-'Aqar's ability to pay distributions may be adversely affected by the adverse interest rate fluctuation from its Islamic financing.

5. EFFECTS OF THE PROPOSED LEASE RENEWAL

5.1. Unit capital and substantial unitholder's unitholdings

The Proposed Lease Renewal will not have any effect on the unit capital as well as substantial unitholders' unitholdings in Al-'Aqar as the Proposed Lease Renewal does not involve issuance of units in Al-'Aqar ("**Units**").

5.2. Net Asset Value ("NAV**"), NAV per Unit and gearing**

Based on Al-'Aqar's audited statement of financial position as at 31 December 2022 and on the assumption that the Proposed Lease Renewal had been effected on that date, there will be no material impact on the NAV per Unit and gearing of Al-'Aqar.

5.3. Earnings and earnings per Unit ("EPU**")**

The proforma effects of the Proposed Lease Renewal on the earnings and EPU of Al-'Aqar assuming that the Proposed Lease Renewal had been effected at the beginning of financial year ended 31 December 2022 are as follows:-

	(RM'000)
Audited profit after tax (" PAT ")	60,139
Less: Reduction in rental income	(188)
Less: Estimated expenses (one-off)	* (740)
Pro forma PAT	59,211
Existing basic EPU (sen)	8.17
Proforma basic EPU (sen)	
- including estimated expenses	8.04
- excluding estimated expenses	8.14

Note:

- * *Comprising professional fees and other fees such as printing, advertising and cost of convening the EGM*

Notwithstanding the reduction in the EPU as illustrated above, Al-'Aqar will benefit from the subsequent 2% incremental increase of the preceding year's rental rate in accordance with the terms and conditions of the Lease Agreements.

6. APPROVALS REQUIRED FOR THE PROPOSED LEASE RENEWAL

The Proposed Lease Renewal is subject to the following approvals:

- (i) the approval of the unitholders of Al-'Aqar at its EGM to be convened for the Proposed Lease Renewal;
- (ii) the approval of the shareholders of KPJ at an EGM to be convened for the Proposed Lease Renewal and in respect of KMC, the approval of the shareholders of Kedah Medical Centre Sdn Bhd; and
- (iii) all such other consents and regulatory and/or governmental approvals required to be obtained by KPJ and Al-'Aqar in order to effect the completion of the Proposed Lease Renewal, as the case may be. For the avoidance of doubt, this does not include consent required for the registration of the lease, where applicable.

The Proposed Lease Renewal is not conditional upon any other corporate exercise which has been announced but not yet completed and/or any other corporate exercise by Al-'Aqar.

7. INTERESTS OF DIRECTORS, MAJOR UNITHOLDERS AND PERSONS CONNECTED

Save as disclosed below, none of the directors and/or major shareholders of DRMSB, major Unitholders of Al-'Aqar as well as persons connected with them has any interests, direct or indirect, in the Proposed Lease Renewal.

7.1. Interested Directors' Interest

Dato' Haji Mohd Redza Shah Bin Abdul Wahid ("**Dato' Redza**") is deemed interested in the Proposed Lease Renewal by virtue of him being a Director of the Manager and also a Director of KPJ.

Dato' Salehuddin Bin Hassan ("**Dato' Salehuddin**") is deemed interested in the Proposed Lease Renewal by virtue of him being a Director of the Manager and also the Director of Johor Corporation ("**JCorp**"). Shamsul Anuar Bin Abdul Majid ("**Encik Shamsul Anuar**"), Datuk Sr. Akmal Bin Ahmad ("**Datuk Sr Akmal**") and Ng Yan Chuan ("**Mr Ng**") are deemed interested in the Proposed Lease Renewal by virtue of them being the Directors of the Manager nominated by JCorp and persons being part of the senior management of JCorp Group.

(Dato' Redza, Dato' Salehuddin, Encik Shamsul Anuar, Datuk Sr Akmal and Mr Ng are collectively referred to as "**Interested Directors**").

Accordingly, the Interested Directors have abstained and will continue to abstain from deliberating and voting on the resolution pertaining to the Proposed Lease Renewal at the relevant Board meetings of DRMSB.

Further, the Interested Directors have also undertaken to ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in Al-'Aqar, if any, on the relevant resolution pertaining to the Proposed Lease Renewal to be tabled at the EGM of Al-'Aqar.

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

7.2. Interested Major Unitholders' Interest

The direct and indirect unitholdings of the Major Unitholders in Al-'Aqar as at the LPD are as follows:

	Direct		Indirect	
	No. of Units '000	(%) ⁽¹⁾	No. of Units '000	(%) ⁽¹⁾
JCorp	-	-	⁽²⁾ 323,001	38.47
KPJ	20,501	2.44	⁽³⁾ 269,075	32.05

Notes:

- ⁽¹⁾ Based on the total number of issued units of Al-'Aqar
- ⁽²⁾ Deemed interested by virtue of its interest in companies related to JCorp under Section 8 of the Companies Act 2016
- ⁽³⁾ Deemed interested by virtue of its interest in several companies which are part of the KPJ Group

The Manager is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, which in turn is a wholly-owned subsidiary of JCorp.

As such, JCorp and KPJ are deemed interested in the Proposed Lease Renewal ("**Interested Major Unitholders**").

Accordingly, the Interested Major Unitholders shall abstain from voting in respect of its direct and indirect unitholdings in Al-'Aqar on the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM. In addition, the Interested Major Unitholders will ensure that persons connected to them, if any, shall abstain from voting in respect of their direct and indirect unitholdings in Al-'Aqar on the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM.

The Interested Directors and Interested Major Unitholder are collectively referred to as "**Interested Parties**".

8. DIRECTORS' STATEMENT

The Board, save for the Interested Directors, after having considered all aspects of the Proposed Lease Renewal, including the rationale and financial effects of the Proposed Lease Renewal, valuation of the Lease Properties as ascribed by the Valuer as well as the independent advice by the Independent Adviser for the Proposed Lease Renewal, is of the opinion that the Proposed Lease Renewal is fair, reasonable and on normal commercial terms and are in the best interests of Al-'Aqar and not detrimental to the interest of the minority unitholders.

9. AUDIT COMMITTEE'S STATEMENT

The Audit Committee after having considered all aspects of the Proposed Lease Renewal, including the rationale and financial effects of the Proposed Lease Renewal, valuation of the Lease Properties as ascribed by the Valuer as well as the independent advice by the Independent Adviser for the Proposed Lease Renewal, is of the opinion that the Proposed Lease Renewal is fair, reasonable and on normal commercial terms and are in the best interests of Al-'Aqar and not detrimental to the interest of the minority unitholders.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to the fulfilment of the Conditions, the Proposed Lease Renewal is expected to be completed on or before 1 October 2023.

11. APPLICATION TO THE AUTHORITIES

The circular to the unitholders of Al-'Aqar for the Proposed Lease Renewal is expected to be submitted to Bursa Securities within one (1) month from the date of this Announcement.

12. ADVISERS

KAF IB has been appointed as the Principal Adviser for the Proposed Lease Renewal.

In view of the interests of the Interested Parties in relation to the Proposed Lease Renewal (as mentioned in Section 7 above), the Board has also appointed ZICO Capital Sdn Bhd to act as the Independent Adviser to advise the non-interested directors and unitholders of Al-'Aqar on the Proposed Lease Renewal.

13. PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Lease Renewal pursuant to Paragraph 10.02(g)(ix) of the Listing Requirements is 10.88%, based on total rental income for 15 years for KPJ Perdana, KPJ Kajang and KMC and 3 years for KPJ Sentosa and Kuantan CWC (assuming 2% increase per annum) compared with the total asset value of Al-'Aqar.

14. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the registered office of the Manager at Level 14, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor for a period of 3 months from the date of this Announcement:

- (i) the Memorandums of Extension and the Supplemental Memorandums of Extension;
- (ii) copies of the undated Lease Agreements; and
- (iii) the valuation reports on the Lease Properties.

This announcement is dated 27 June 2023.

The other salient terms of the Lease Agreements are as follows:

1. Lease

- (i) The Lessees will respectively enter into a Lease Agreement with the Lessor and the Manager as follows:
 - (a) the lease of KMC, KPJ Perdana and KPJ Kajang for a period of fifteen (15) years commencing from 1 October 2023 after the expiry of the Supplemental Memorandum of Extension on 30 September 2023, with an option to renew for another fifteen (15) years; and
 - (b) the lease of KPJ Sentosa and Kuantan CWC for a period of three (3) years commencing from 1 October 2023 after the expiry of the Supplemental Memorandum of Extension on 30 September 2023, with an option to renew for another fifteen (15) years.
- (ii) The Lessor and the Lessees agree that the Lease Properties shall be used strictly for the purpose of operating a healthcare facility which operation and usage shall not be contrary to Shariah principles.

2. Lessor's Covenants

The Lessor shall during the Contractual Term, inter alia:

- (i) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which in relation to the Lease Properties;
- (ii) pay for quit rent and assessment of the Lease Properties;
- (iii) maintain takaful coverage in respect of the Lease Properties and the Lessor's fixtures and fittings, equipment and machinery in the Lease Properties against fire and allied perils;
- (iv) appoint and pay to the maintenance manager for the maintenance and management services rendered by the maintenance manager; and
- (v) be responsible to make good any structural repairs and works necessary to maintain the external and internal structure of the Lease Properties or total replacement of the Lessor's fixtures and fittings attached to the Lease Properties.

3. Lessees' Covenants

The Lessees shall during the Contractual Term, inter alia, bear and pay or otherwise be responsible for all costs of all services and maintenance charges (where applicable) including without limitation services charges, utility charges, statutory payments (save for quit rent and assessments), and/or any other payments/ costs related to the Lease Properties that the Lessees are responsible for during the Contractual Term.

4. Registration of Lease Instrument

- (i) Notwithstanding the Rent Commencement Date, if required, the Lessees shall, upon execution of the Lease Agreement, apply to the authorities for consent for the creation of the lease for the Contractual Term in favour of the Lessees pursuant to the Lease Agreement.

"Rent Commencement Date" means 1 October 2023 being the date of commencement of the lease and rent of the Lease Properties payable by the Lessees.
- (ii) Subject to the prior consent of the Lessor's financier having been obtained by the Lessor (if required), on the Rent Commencement Date:

- (a) the Lessor and the Lessees shall execute the Form 15A of the National Land Code ("**Lease Instrument**") for the registration of the lease with the Registrar of Title or Land Administrator (whichever is applicable); and
- (b) the Lessor shall forward the original issue document of title to the land on which the Property is located ("**Land**") to the respective Lessee.

In the event the registration of the lease is not or cannot be effected or perfected for any reason whatsoever not due to any fault of the parties, the parties agree that the Lessor shall grant and the Lessees shall take on a tenancy of the Lease Properties on the terms and conditions as stipulated whereupon the Contractual Term shall be for a fixed period of three (3) years with an automatic renewal for additional four (4) terms of three (3) years each for a period. The Lessees shall have the option to procure the said tenancy to be endorsed on the original issue document of title to the Land with the Registrar of Title or Land Administrator (whichever is applicable).

- (iii) In the event the Land is duly charged by the Lessor or any other party having such right to charge the Land, the Lessees shall first obtain the written consent of the chargee by procuring chargee's signature on the Lease Instrument prior to attending to the registration of the Lease with the Registrar of Title or Land Administrator (whichever is applicable) in accordance with Section 226 of National Land Code.
- (iv) The Lessees shall attend to the following:
 - (a) to submit the Lease Instrument for adjudication for assessment of stamp duty at the relevant stamp office;
 - (b) to pay the stamp duty of the Lease Instrument;
 - (c) to present the duly stamped Lease Instrument together with other relevant documents to the relevant land registry for registration of the lease in its favour; and
 - (d) upon completion of the registration of the Lease Instrument to extract and forward the original issue document of title to the Land to the Lessor for the Lessor's or its financier's (if any) safekeeping and retention.
- (v) The Lessor and the Lessees agree that they shall work together, as may reasonably be required, to complete and register the Lease Instrument in favour of the Lessees.

The parties acknowledge that the non-registration of the Lease Instrument for any reason whatsoever shall not affect the contractual operation of the lease and that the Lease Agreement will remain valid and enforceable under the law of contract.

5. Expansion

- (i) Expansion means the construction, renovations and/or refurbishment works within building of the Lease Properties and/or attached to building of the Lease Properties, undertaken by the Lessor or the Lessees for the purposes of expansion of its business operations resulting:
 - (a) in the increase of the gross floor area of the building of the Lease Properties; and
 - (b) in the increase of rent pursuant to the Lease Agreements.

(ii) **Option 1 of the Expansion**

In the event the Lessees requests for the expansion and the Lessor and the Manager agree to meet the expansion request of the Lessees according to Lessees' specification, the Lessor may, subject to the terms and conditions in the Lease Agreements, make the necessary arrangements, coordinate, manage, monitor and supervise any major structural alterations or additions to the building of the Lease Properties or work which may affect the:

- (i) structure of the Lease Properties (including but not limited to the roof and the foundation);
- (b) mechanical or electrical installations of the Lease Properties; or
- (c) provisions of any services in or to the Lease Properties.

The Lessor shall bear the development costs and expenses for, and related to the expansion ("**Expansion Costs**") and shall be solely responsible to procure the financing for the expansion.

(iii) **Option 2 of the Expansion**

Notwithstanding Option 1 above, subject to the agreement between the parties to the Lease Agreements, the Lessees shall have the option to undertake the expansion and bear the Expansion Costs, and the parties further agree that the Expansion Costs shall be reimbursed by the Lessor to the Lessees ("**Expansion Reimbursement Costs**") in accordance with the terms and conditions in the Lease Agreements.

- (iv) If the expansion results in an increase in the gross floor area of the Lease Properties, the increase in the monthly rent shall be computed as follows:

Formula: (the rental rate to be agreed between the parties to the Lease Agreements x Expansion Reimbursement Costs or Expansion Costs, as the case may be)/12 calendar months.

6. **New Development**

- (i) New Development means the planning, design, and construction of a new building(s), carpark and/or other structures on the land where the Lease Properties are situated or any part thereof complete with inter alia the interior design, the landscape and the infrastructures related thereto.

(ii) **Option 1 of the New Development**

The Lessor grants to the Lessees the right to undertake the New Development on the land where the Lease Properties are situated for the Lessees' business operations.

Notwithstanding the paragraph above, the Lessor shall have the option to undertake the New Development and bear the development costs and expenses for, and related to the New Development ("**New Development Costs**") and shall be solely responsible to procure the financing for the New Development, subject to the terms and conditions in the Lease Agreements.

(iii) **Option 2 of the New Development**

Notwithstanding Option 1 above, subject to the agreement between the parties to the Lease Agreements, the Lessees shall have the option to undertake the New Development and bear the New Development Costs, and the parties to the Lease Agreements further agree that the New Development shall be acquired by the Lessor from the Lessees in accordance with the terms and conditions in the Lease Agreements.

The new rent for the New Development shall be governed by the terms and conditions of the new lease agreement or supplemental lease agreement to be entered into between the Lessees, the Lessor and the Manager for the lease of the New Development.

7. Events of Default

Notwithstanding anything to the contrary herein contained, if at any time during the contractual term, any one of the following events occurs: -

- (i) a failure or refusal on the part of the Lessees:
 - (a) to pay the monthly rent for two (2) consecutive calendar months under the terms of the Lease Agreements on the day such payment is required to be made under the terms of the Lease Agreements (whether the same shall have been formally demanded or not); or
 - (b) to pay any sum (other than the Rent) due under the terms of the Lease Agreements on the day such payment is required to be made under the terms of the Lease Agreements (whether the same shall have been formally demanded or not); or
 - (c) to duly observe or perform any of the covenants and conditions and/or agreements of the Lessees contained in the Lease Agreements of which is not capable of being remedied or if capable of being remedied such breach is not remedied by the Lessees within a period of thirty (30) calendar days from the date after receipt of written notice thereof from the Lessor to the Lessees requesting action to remedy the same; or
- (ii) the Lessees are in breach of any agreement which has a material adverse effect on the business and/or operations of the Lessees and which affects its ability to fulfil its obligations under the Lease Agreements; or
- (iii) the Lessees shall suffer or do any act or thing whereby the Lessor's and/or the Manager's rights shall or may be prejudiced; or
- (iv) a judgment is obtained by the Lessees for the purpose of Section 466 of the Companies Act 2016 and as such, the Lessees are deemed to be unable to pay its debts as they fall due or suspends or threatens to suspend making payments (whether of principal or other payments) with respect to all or any class of its debts, or any other event set out in Section 465 of the Companies Act 2016 occurs or the Lessees commence negotiations or takes or institutes proceedings whether under law or otherwise with a view to obtaining a restraining order against creditors under any law or for adjustment or deferment or compromise or rescheduling of its indebtedness or any part thereof or enters into or makes a general assignment or arrangement or composition with or for the benefit of its creditors or declares a moratorium on the repayment of its indebtedness or part thereof or any creditor of the Lessees assume management of the Lessees and in the case of any of the events aforementioned, the financial condition of the Lessees or the ability of the Lessees to perform its obligation under the Lease Agreements is materially and adversely affected; or
- (v) a petition is presented or an order is made or a resolution is passed or any other action or step is taken by the Lessees for the winding up of the Lessees or a liquidator or trustee or receiver or receiver and manager is appointed over the whole or any part of the assets or rights or revenues or undertaking of the Lessees and the same is not discharged, withdrawn, set aside or discontinued within thirty (30) calendar days; or
- (vi) the Lessees are unable to pay its debt within the meaning of the Act which inability may have a material adverse effect;

then, at any time thereafter, the Lessor may declare by way of giving notice to the Lessees that an event of default has occurred.

In the event that the events of default has occurred and is continuing, the Lessor shall be at liberty to take any one or more of the following remedies without being responsible or liable for any loss, damage or expense caused to the Lessees as a consequence of such action:

- (I) serve a forfeiture notice upon the Lessees pursuant to Section 235 of the National Land Code (Revised 2020) and it is hereby mutually agreed and deemed that the period stipulated in the forfeiture notice shall be 30 calendar days for the occurrence of the event set out in the paragraph above, and where the breach has not been remedied within the stipulated time of thirty (30) calendar days, to re-enter upon the Lease Properties or any part thereof in the name of the whole, and thereupon the Lease Agreements shall absolutely terminate;
- (II) to claim for the monthly rent and all other sums due and payable as stipulated in the Lease Agreements;
- (III) the Lessor shall be entitled to utilise the security deposits pursuant to the Lease Agreements towards payment or reduction of all sums payable by the Lessees under the Lease Agreements without prejudice to the Lessees' liability for any shortfall;
- (IV) (A) the Lessees shall be liable to pay the Lessor a sum equivalent to the rent for the unexpired period of the contractual term as liquidated damages for the loss of rent suffered by the Lessor resulting from termination of the Lease Agreements due to an event of default;
- (B) Notwithstanding the paragraph (IV)(A) above, the Lessees shall have an option to source for a replacement lessee or tenant approved by the Lessor for the unexpired period of the contractual term (or any part thereof) at such rental and upon such terms and conditions acceptable to the Lessor, and the Lessor shall take all reasonable efforts to lease or let the Lease Properties to any other Lessees or tenants.

In the event that the Lessor or the Lessees is able to lease or let the Lease Properties to any other Lessees and tenants at such rental and upon such terms and conditions acceptable to the Lessor, the Lessees shall compensate the Lessor in lump sum for the deficiency between the originally scheduled rent under the Lease Agreements and the rent received or to be received from the other lessees or tenants of the Lease Properties for the unexpired period of the contractual term. Upon receipt of the first monthly rental of the Lease Properties from such replacement lessees and tenants, and save for any antecedent breach of the Lease Agreements, any balance of sum received pursuant to paragraph (IV)(A) above shall be returned by the Lessor to the Lessees within sixty (60) calendar days or any other period as agreed between the parties in writing; or

- (V) to sue and take any other action that the Lessor deems fit (including remedy of specific performance against the Lessees) to recover all moneys due and owing to the Lessor and the costs and expenses incurred by the Lessor including legal fees (on a solicitor-client basis and on full indemnity basis) of all such actions taken shall be borne by the Lessees.