

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

PROPOSED PRIVATE PLACEMENT OF UP TO RM50 MILLION UNITS IN AL-'AQAR ("PROPOSED PRIVATE PLACEMENT")

This announcement is dated 27 October 2020 ("**Announcement**").

1. INTRODUCTION

On behalf of the Board of Directors of Damansara REIT Managers Sdn Berhad, the management company of Al-'Aqar ("**DRMSB**" or the "**Manager**") ("**Board**"), AmlInvestment Bank Berhad ("**AmlInvestment Bank**") wishes to announce that Al-'Aqar is proposing to undertake a private placement of such number of units in Al-'Aqar ("**Al-'Aqar Units**" or "**Placement Units**") to raise gross proceeds of up to RM50 million ("**RM50 million Units**"), subject to the number of new Al-'Aqar Units to be issued not exceeding 20% of its total number of units issued pursuant to the Authority (as defined below).

The number of Al-'Aqar Units to be placed will be dependent on the issue price to be fixed at a later date.

2. PROPOSED PRIVATE PLACEMENT

2.1 Size of the Proposed Private Placement

The Proposed Private Placement will be undertaken up to RM50 million Units, subject to the number of new Al-'Aqar Units to be issued not exceeding 20% of its total number of units issued pursuant to the Authority (as defined below).

The actual number of units to be issued will be dependent on the Issue Price at the price-fixing date and final number of Units to be subscribed by investors. The investor(s) may be identified and procured either over a period of time or simultaneously. The implementation in tranches will provide the Manager with flexibility to raise funds. For information, assuming the issue price per Placement Unit of RM1.27 (assuming discount of approximately 5% to the 5-days volume weighted average market price ("**VWAP**") up to 23 October 2020 of RM1.34), the number of Placement Units to be issued pursuant to the Proposed Private Placement shall be 39,370,078 Units, representing approximately 5.3% of Al-'Aqar's total issued units of 735,985,088 as at the date of this announcement.

The Proposed Private Placement will be undertaken in accordance with the authority to allot and issue new units pursuant to Paragraph 6.59 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") which was approved by the unit holders of Al-'Aqar ("**Unitholders**") at the AGM on 25 June 2020 ("**Authority**"); or as may be renewed by the Unitholders at the next AGM.

The Authority is in force until: -

- (i) The conclusion of the next AGM of the Unitholders, at which time it shall lapse, unless the authority is renewed by Unitholders; or
- (ii) The expiration of the period within which the next AGM of the Unitholders is required by law to be held; or
- (iii) The Authority is revoked or varied by the Unitholders at an earlier Unitholders' meeting;

whichever occurs first ("**Validity Period**"). In the event that the Proposed Private Placement is not completed before the Authority lapses, the Proposed Private Placement will be subject to the Authority being renewed at the next AGM.

2.2 Placement arrangement

The Placement Units will only be placed out to independent third-party investor(s) to be identified at a later date in accordance with Section 6.04(c) of the Listing Requirements. The Placement Units are not intended to be placed to the following persons:-

- (i) a director, major unitholder, chief executive of the Manager or a holding company of Al-'Aqar or a major Unitholder (collectively "**Interested Person**");
- (ii) a person connected with an Interested Person; or
- (iii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

Subject to the prevailing market conditions and timing of identification of the investor(s), the Proposed Private Placement may be implemented in tranches within 6 months from the date of approval of Bursa Securities for the Proposed Private Placement or any extended period as may be approved by Bursa Securities, or until the conclusion of the next AGM unless the Authority is renewed by the Unitholders at that AGM.

Al-'Aqar believes that the investor(s) may be identified and procured either over a period of time or simultaneously. The implementation in tranches will provide the Manager with flexibility to raise funds.

2.3 Basis of pricing

The issue price of the Placement Units shall be fixed by the Board at a later date after the receipt of all relevant approvals for the Proposed Private Placement based on the prevailing market conditions and the 5-day VWAP of Al-'Aqar Units.

The Placement Units will not be priced at more than 10% discount to the 5-day VWAP of Al-'Aqar Units immediately preceding the price-fixing date to be determined later.

There could potentially be several price fixing dates depending on the number of tranches and the timing of implementation of the Proposed Private Placement.

For information only, the five (5)-day VWAP of Al-'Aqar Units of up to and including 23 October 2020, being the latest practical date prior to this announcement ("**LPD**") is RM1.34 (*source: Bloomberg*).

2.4 Ranking of Placement Units

The Placement Units shall, upon allotment and issue, rank pari passu in all respects with the then existing Al-'Aqar Units, save and except that the Placement Units will not be entitled to any dividend, rights, allotment and/or other distribution that may be declared, made or paid prior to the date of allotment of the said Placement Units.

2.5 Listing of and Quotation for the Placement Units

An application will be made to Bursa Securities for the listing of and quotation for the Placement Units on the Main Market of Bursa Securities.

3. UTILISATION OF PROCEEDS

The actual proceeds to be raised from the Proposed Private Placement is dependent on the issue price and actual number of Placement Units to be issued. The proceeds of up to RM50.0 million is expected to be used by Al-'Aqar as follows:-

Details of utilisation	Notes	Estimated timeframe for utilisation from the listing of each tranche of Placement Units	RM'000
		Units	
Repayment of Islamic financing	(i)	Within 12 months	30,000
Future Acquisition(s)	(ii)	Within 12 months	15,300
Capital expenditure	(iii)	Within 6 months	4,000
Defrayment of estimated expenses	(iv)	Within 1 month	700
Total proceeds			50,000

Notes:-

- (i) *The total financing of Al-'Aqar as at 31 December 2019 amounted to approximately RM683.4 million. The repayment of the Islamic financing is expected to result in gross cost savings of RM1.7 million based on the profit rate of 5.75% per annum.*
- (ii) *As part of Al-'Aqar's normal course of business, Al-'Aqar is exploring opportunities to acquire more hospital buildings.*

In the event such acquisition(s) do not materialises, such amount will be utilised for repayment of Islamic Financing.
- (iii) *The capital expenditure includes but not limited to, repainting of the buildings, replacement of lift(s) and other faulty equipment.*
- (iv) *The estimated expenses consist of professional fees, placement fees, fees payable to the authorities and miscellaneous expenses relating to the Proposed Private Placement. Any variation to the amount allocated for estimated expenses will be adjusted to/from the portion being earmarked for capital expenditure.*

Note that the total proceeds raised from the Proposed Private Placement is tentative and will be dependent on the issue price and number of units placed. Any proceeds raised will first be utilised to defray the estimated expenses and repayment of Islamic financing and thereafter for capital expenditure and future acquisition(s).

Pending utilisation of the proceeds from the Proposed Private Placement, the proceeds will be placed in Shariah-compliant bank deposits and/or money market instruments. The proportion of the use of proceeds above may vary depending on the amount raised.

4. PROSPECTS AND OUTLOOK

4.1 Overview and Outlook of the Malaysian Economy

The Malaysian economy was confronted by concurrent supply and demand shocks arising from weak external demand conditions and strict containment measures in 2Q 2020. As a result, the economy registered its first contraction since the Global Financial Crisis (2Q 2020: -17.1%; 3Q 2009: -1.1%). On the supply side, this was reflected in negative growth across most sectors. From the expenditure side, domestic demand declined, while exports of goods and services registered a sharper contraction. On a quarter-on-quarter seasonally-adjusted basis, the economy declined by 16.5% (1Q 2020: -2.0%).

Weak growth was recorded across most economic sectors amid the imposition of the Movement Control Order (“**MCO**”), followed by the Conditional and Recovery MCO, during 2Q 2020.

The services sector contracted by 16.2% (1Q 2020: 3.1%). The sector was affected by the implementation of a nationwide restrictive MCO, with only essential services such as food-related retail, utilities, banking, transportation as well as information and communication entities allowed to operate with very limited capacity. The subsequent transition to Conditional MCO (“**CMCO**”) in May and Recovery MCO (“**RMCO**”) in June provided some relief to businesses in the sector. The lockdown had substantially affected consumer spending and tourism activity, as shown by the significant declines in the wholesale and retail trade, as well as food and beverages and accommodation sub-sectors.

(Source: Quarterly Bulletin, Second Quarter 2020, www.bnm.gov.my)

4.2 Overview and Outlook of the healthcare industry in Malaysia

The Covid-19 outbreak and the enforcement of Movement Control Order (MCO) on 18th March 2020 had significantly impacted the private hospitals, where the non-essential cases were deferred as patients steered clear of hospitals whenever possible. Both key listed Malaysian healthcare players i.e. KPJ Healthcare Bhd (**KPJ**) and IHH Healthcare Bhd (**IHH**) had reported that their overall patient had dropped during the MCO period.

With the relaxation of the MCO, the movement in private healthcare is encouraging. The relaxation of the rule has resulted in KPJ and IHH both reporting improved occupancy in June 2020 as compare to occupancy during the MCO period.

(Source: Management of DRMSB)

4.3 Prospects of Al-‘Aqar

Al-‘Aqar’s portfolio of healthcare properties comprise 17 hospitals, 3 wellness / healthcare centres, 2 colleges and 1 aged care and retirement village which are mostly leased to KPJ Healthcare Berhad (“**KPJ**”) group of companies as its tenants.

The Covid-19 outbreak and the enforcement of MCO on 18th March 2020 had significantly reduced the activities in KPJ hospitals as non-essential cases were deferred and patients preferred to steer clear of hospitals whenever possible. In line with a widely adopted practice by landlords, the Manager had also given assistance to its tenants through rental rebates determined based on the performance of each properties / tenants.

With the relaxation of the MCO, the KPJ hospitals' operation has shown sign of recovery in June 2020. Barring unforeseen circumstances, the Manager believes that the prospects of Al-'Aqar should be positive given that all the properties under Al-'Aqar are under the long-term leases (6 properties subject to renewal next year) and KPJ is a reputable tenant and hospital operator.

(Source: Management of DRMSB)

5. RATIONALE FOR THE PROPOSED PRIVATE PLACEMENT

After due consideration of the various funding options, the Board is of the view that the Proposed Private Placement is the most appropriate avenue of fund raising as the Proposed Private Placement will enable Al-'Aqar to raise funds expeditiously for repayment of Islamic financing, working capital and/or capital expenditure.

Al-'Aqar's Islamic financing/ total assets ratio has increased over the years due to its acquisitions which were financed by Islamic financing. The proceeds from the Proposed Private Placement will be used to repay Islamic financing of Al-'Aqar and hence reduce Al-'Aqar's Islamic financing/ total assets ratio. Based on the financial position as at 31 December 2019 and assuming RM30.0 million used for repayment of Islamic financing (as detailed in Section 3 above), the total Islamic financing over total assets ratio of Al-'Aqar is expected to reduce from 0.41 times to 0.39 times. This will provide Al-'Aqar with more headroom for future acquisitions to be financed by Islamic financing.

The proceeds will also be utilised for Al-'Aqar's future acquisitions as and when the opportunities arises and capital expenditure as detailed in Section 3 above.

Al-'Aqar did not undertake any fund-raising exercise in the past 12 months prior to the date of this Announcement.

6. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

For illustration purpose only, the effects of the Proposed Private Placement have been prepared assuming the issue price per Placement Unit of RM1.27, being approximately 5% discount to the 5-days VWAP as at 23 October 2020 and placement of 39.37 million units. Nevertheless, do note that the issue price and number of units to be placed may vary.

6.1 Unitholders' capital

The effects of the Proposed Private Placement on the issued unitholders' capital of Al-'Aqar are as follows:-

	No. of Units '000	RM'000
Existing as at the LPD	735,985	731,398
New Units to be issued pursuant to the Proposed Private Placement	39,370	49,300 ⁽ⁱ⁾
Enlarged unitholders' capital	775,355	780,698

Note:-

(i) Assuming placement of 39,370,078 Units at the assumed issue price of RM1.27 and after deducting estimated expenses of RM0.7 mil in respect of the Proposed Private Placement.

6.2 Earnings and Earnings Per Units ("EPU")

The Proposed Private Placement will result in an immediate dilution in Al-'Aqar's EPU as a result of the increase in the number of Al-'Aqar Units in issue pursuant to the Proposed Private Placement.

Moving forward, the Proposed Private Placement is expected to contribute positively to the consolidated earnings of the Al-'Aqar Group as and when the benefits of the proposed utilisation of proceeds as detailed in Section 3 above are realised.

6.3 Net assets ("NA"), NA per Unit and Gearing

The proforma effects of the Proposed Private Placement on the NA, NA per Units and gearing of Al-'Aqar based on the audited consolidated financial statements of Al-'Aqar as at 31 December 2019 are as follows:-

	Audited as at 31 December 2019	After Proposed Private Placement
	RM'000	RM'000
Unitholders' capital	731,398	780,698 ⁽ⁱ⁾
Undistributed income	244,651	244,651
Foreign currency translation reserve	(17,536)	(17,536)
Total Unitholders' Funds/ NA	958,513	1,007,813
No. of Units ('000)	735,985	775,355
NA per Units (sen)	1.30	1.30
Total Islamic financing	683,436	653,436
Total assets	1,674,352	1,674,352
Gearing (times) ⁽ⁱⁱ⁾	0.41	0.39

Notes:-

(i) Assuming placement of 39,370,078 Units at the assumed issue price of RM1.27 and after deducting estimated expenses of RM0.7 mil in respect of the Proposed Private Placement.

(ii) Computed based on total Islamic financing over total assets.

6.4 Substantial Unitholders' Shareholdings

Assuming that none of the new investors will emerge as a substantial unitholder upon completion of the Proposed Private Placement, the effects of the Proposed Private Placement on the substantial unitholders' shareholdings in Al-'Aqar as at the LPD are as follows:-

Substantial Unitholders	As at the LPD				After Proposed Private Placement			
	Direct		Indirect		Direct		Indirect	
	No. of Units '000	%	No. of Units '000	%	No. of Units '000	%	No. of Units '000	%
Johor Corporation ⁽ⁱ⁾	-	-	284,248	38.62	-	-	284,248	36.66
KPJ Healthcare Berhad ⁽ⁱⁱ⁾	-	-	284,075	38.60	-	-	284,075	35.35
Lembaga Tabung Haji	105,532	14.34	-	-	105,532	13.61	-	-
Employees Provident Fund	77,946	10.59	-	-	77,946	10.05	-	-
Kumpulan Wang Persaraan (Diperbadankan)	65,391	8.88	-	-	65,391	8.43	-	-
Pusat Pakar Tawakal Sdn Bhd	54,649	7.43	-	-	54,649	7.05	-	-
AmanahRaya Trustees Berhad	46,000	6.25	-	-	46,000	5.93	-	-

Notes:-

- (i) Deemed interested by virtue of its interest in KPJ Healthcare Berhad under Section 8 of the Companies Act 2016.
- (ii) Deemed interested by virtue of its interest as several unitholders of Al-'Aqar are part of the KPJ Group of Companies.

6.5 Convertible Securities

As at the date of this Announcement, Al-'Aqar does not have any convertible securities.

7. APPROVALS REQUIRED

The Proposed Private Placement is subject to the approvals being obtained from the following:-

- (i) Bursa Securities for the listing of and quotation for the Placement Units on the Main Market of Bursa Securities; and
- (ii) any other relevant authorities/parties, if required.

The Proposed Private Placement is not conditional upon any other proposal undertaken or to be undertaken by Al-'Aqar.

8. INTERESTS OF DIRECTORS, CHIEF EXECUTIVE AND MAJOR SHAREHOLDER OF THE MANAGER, MAJOR UNITHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, chief executive and/or major shareholders of the Manager, major Unitholders and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Private Placement.

9. DIRECTORS' STATEMENT

The Board after having considered all aspects of the Proposed Private Placement (including but not limited to the terms, rationale and financial effects of the Proposed Private Placement), is of the opinion that the Proposed Private Placement is in the best interest of Al-'Aqar.

10. APPLICATION TO THE RELEVANT AUTHORITIES

Application to the relevant authorities for the Proposed Private Placement is expected to be submitted within one (1) month from the date of this Announcement.

11. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposed Private Placement to be completed by the fourth (4th) quarter of the calendar year 2020.

12. ADVISER AND PLACEMENT AGENT

Al-'Aqar has appointed AmInvestment Bank as the Principal Adviser and Placement Agent for the Proposed Private Placement.