

AL-`AQAR HEALTHCARE REIT (“AL-`AQAR” OR “REIT”)

PROPOSED LEASE RENEWAL

This announcement is dated 6 April 2021 (“**Announcement**”).

1. INTRODUCTION

On behalf of the Board of Directors of Damansara REIT Managers Sdn Berhad, the manager of Al-`Aqar (“**DRMSB**” or the “**Manager**”) (“**Board**”), AmlInvestment Bank Berhad (“**AmlInvestment Bank**”), wishes to announce that DRMSB and AmanahRaya Trustees Berhad (“**ART**”) (as Trustee of Al-`Aqar) (“**Trustee**” or “**Lessor**”) on behalf of the REIT proposes to enter into 6 separate lease agreements with the subsidiaries of KPJ Healthcare Berhad (“**KPJ**”) (as detailed in Section 2 of this Announcement) to renew the lease of the Properties (as defined below) (“**Proposed Lease Renewal**”) (“**Lease Agreements**”).

The parties had by exchange of letters on 6 April 2021 (“**Letters**”) agreed that the Lease Agreements are to be executed in escrow on 6 April 2021, or such other date as the Parties may agree, and are to be dated upon fulfilment of the conditions of the Lease Agreements as set out under Section 2.3(iii) of this Announcement.

2. DETAILS OF THE PROPOSED LEASE RENEWAL

Al-`Aqar had on 30 June 2006 entered into lease agreements with the subsidiaries of KPJ to lease the properties owned by Al-`Aqar in relation to the hospitals below (collectively referred to as “**Properties**”) (“**Principal Lease Agreements**”).

The initial 15-year contractual lease period under the Principal Lease Agreements will expire on 29 June 2021. As such, Al-`Aqar proposes to enter into the Lease Agreements with the following subsidiaries of KPJ to renew the lease of the Properties:-

<u>Hospital</u>	<u>Subsidiaries</u>
(i) KPJ Ampang Puteri Specialist Hospital (“ APSH ”)	Ampang Puteri Specialist Hospital Sdn Bhd
(ii) KPJ Damansara Specialist Hospital (“ DSH ”)	Rawang Specialist Hospital Sdn Bhd
(iii) KPJ Ipoh Specialist Hospital (“ ISH ”)	Ipoh Specialist Hospital Sdn Bhd
(iv) KPJ Johor Specialist Hospital (“ JSH ”)	Johor Specialist Hospital Sdn Bhd
(v) KPJ Puteri Specialist Hospital (“ PSH ”)	Pasir Gudang Specialist Hospital Sdn Bhd
(vi) KPJ Selangor Specialist Hospital (“ SSH ”)	Selangor Specialist Hospital Sdn Bhd

(collectively the subsidiaries are referred to as “**Lessees**” or either one of them as “**Lessee**”)

Details of the Properties are disclosed in Section 2.2 below.

2.1 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 with a network of 28 hospitals in Malaysia, 2 hospitals in Indonesia, 1 hospital in Thailand, 1 hospital in Bangladesh and 4 retirement and aged care facilities in Kuala Lumpur, Sarawak, Pahang and Australia.

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

2.2 Information on the Properties

The details of the Properties are as follows:-

	APSH	DSH	ISH	JSH	PSH	SSH
Description	7-storey main medical centre building and a 5-storey annexed block consultation building both with a common lower ground floor and a lower ground floor car park area	6-storey private specialist medical centre with a basement floor and a basement floor and ground floor car park	3-storey main building (old wing) and a 5-storey building with a basement (new wing) and a basement and ground floor car park (new wing)	7-storey main hospital building, a 4-storey physician consulting building together with a 2-level basement car parks, a 7-storey annexed building (premier block), 5-storey car park building together with a mezzanine and basement level	6-storey medical centre building (left wing) and a 6-storey medical centre building (right wing)	6-storey main building together with a basement and a 5-storey car park block together with a half basement level and an open roof level
Address	No. 1, Jalan Memanda 9, Taman Dato' Ahmad Razali, 68000 Ampang, Selangor Darul Ehsan	No. 119, Jalan SS 20/10, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan	No. 26, Jalan Raja Dihilir, 30350 Ipoh Perak Darul Ridzuan	No. 39-B, Jalan Abdul Samad, 80100 Johor Bahru, Johor Darul Takzim	No. 33, Jalan Tun Abdul Razak (Susur 5), 80350 Johor Bahru, Johor Darul Takzim	Lot 1, Jalan Singa 20/1, Section 20, 40300 Shah Alam, Selangor Darul Ehsan
Tenure	99-year leasehold interest expiring on 17 April 2089	Interest in Perpetuity	Interest in Perpetuity	99-year leasehold interest expiring on 1 March 2079	99-year leasehold interest expiring on 31 December 2053	99-year leasehold interest expiring on 1 July 2096
Built-Up Area (sq.ft.)	420,294	446,493	347,189	432,585	126,754	314,844
Age of the buildings	29 years	23 years	13-40 years	10-40 years	7-35 years	9-25 years

2.3 Salient terms of the Lease Agreements

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

- (i) The Lessor and the Lessees agree on the lease of the Properties for a period of fifteen (15) years commencing from 30 June 2021 to 29 June 2036 ("**Contractual Term**") upon the terms and conditions stipulated in the Lease Agreements with an option to renew for another fifteen (15) years.
- (ii) The Lessor and the Lessees agree that the Properties shall be used strictly for the purpose of operating a healthcare facility which operation and usage shall not be contrary to Shariah principles.
- (iii) The Proposed Lease Renewal is conditional upon the fulfilment of the following conditions ("**Conditions**"):-
 - (a) the approval of the shareholders of KPJ being obtained in respect of the Proposed Lease Renewal; and
 - (b) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Lease Renewal.
- (iv) The rent shall be denominated in Ringgit ("**RM**") and the formula for determination of the rent in relation to the Proposed Lease Renewal are as follows:-

(a) Rent formula

<u>First Rental Term</u>	<u>Rent Formula</u>
1 st year	5.75% per annum X the reasonable and fair market value (" Open Market Value ") of the Properties.
2 nd & 3 rd year	2% incremental increase x the rent for the preceding year.

(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>
1 st year of every succeeding rental term (Years 4, 7, 10 and 13)	(10-years Malaysian Government Securities (" MGS ") + 200 basis points (" bps ") x Open Market Value of the Properties, at the point of review subject to: <ol style="list-style-type: none"> (a) a minimum rent of 5.75% per annum x prevailing Open Market Value of the Properties or the rent payable for the 1st year of the first rental term of the Properties, whichever is higher; and (b) any adjustment to the rent shall not be more than 2.0% 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% incremental increase over the rent for the preceding year which shall be in RM.

- (v) The Lessor shall during the Contractual Term inter alia:-
- (a) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which in relation to the Properties;
 - (b) pay for quit rent and assessment of the Properties;
 - (c) maintain takaful coverage in respect of the Properties and the Lessor's fixtures and fittings, equipment and machinery in the Properties against fire and allied perils;
 - (d) shall appoint and pay to the maintenance manager for the maintenance and management services rendered by the maintenance manager; and
 - (e) be responsible to make good any major repair or total replacement of the Lessor's fixtures and fittings attached to the Properties.
- (vi) 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 Properties that the Lessees are responsible for during the Contractual Term.

2.4 Basis and justification in arriving at the Rental Rate

The rental was negotiated between the parties. The total gross rental for the first year of the renewed contractual term amounted to RM40.94 million based on 5.75% of the Open Market Value of the Properties.

KPJ and Al-'Aqar had jointly appointed Cheston International (KL) Sdn. Bhd. ("**Cheston**" or "**Valuer**") as the independent valuer for the Proposed Lease Renewal. In arriving at the market value of the Properties, Cheston 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 Properties which are subject to the Proposed Lease Renewal are as follows:-

<u>Property</u>	<u>Market Value (RM'mil)</u>	<u>Date of Valuation</u>
APSH	157	22 January 2021
DSH	135	27 January 2021
ISH	122	29 January 2021
JSH	147	25 January 2021
PSH	51	25 January 2021
SSH	100	26 January 2021
Total	712	

2.5 Amount transacted with KPJ for the preceding 12 months

There were no transactions (excluding transactions in the ordinary course of business) entered into between Al-'Aqar and KPJ for the preceding 12 months from the date of this Announcement.

3. RATIONALE FOR THE PROPOSAL

The Proposed Lease Renewal will enable the REIT to continue leasing the Properties to KPJ Group, an established hospital operator in Malaysia and the REIT's key lessee.

4. RISKS IN RELATION TO THE PROPOSED LEASE RENEWAL

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

- (a) The Proposed Lease Renewal is subject to fulfilment of the Conditions. The non-renewal of the Lease Agreements would affect Al-`Aqar's financial performance and its ability to payout dividends to its unitholders; and
- (b) Dependence on a single lessee for its Properties i.e. the respective KPJ's subsidiaries.

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.

5.2 Net Asset ("NA") and gearing

Based on Al-`Aqar's consolidated audited statement of financial position as at 31 December 2020 and on the assumption that the Proposed Lease Renewal had been effected on that date, there will be no impact on the consolidated NA per unit and gearing of Al-`Aqar.

5.3 Earnings and earnings per unit ("EPU")

The Proposed Lease Renewal is expected to be effective on 30 June 2021. The Proposed Lease Renewal is not expected to have a material effect on the earnings and EPU of Al-`Aqar for the financial year ending 31 December 2021.

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
- (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.

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, major unitholders of the REIT and/or persons connected to them have any interest, either direct or indirect, in the Proposed Lease Renewal.

7.1 Interested Directors' Interest

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

(collectively referred to as "Interested Directors")

Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations and decision at the Board meetings relating to the Proposed Lease Renewal. The Interested Directors will also abstain from the voting in respect of their direct and indirect unitholdings in Al-`Aqar on any resolution in relation to the Proposed Lease Renewal at the forthcoming EGM of Al-`Aqar and shall undertake to ensure that persons connected to them shall abstain from voting in respect of their direct and/or indirect interests on the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM of Al-`Aqar.

7.2 Interested Major Unitholders' Interest

The direct and indirect unitholdings of the Major Unitholders in Al-`Aqar as at 31 March 2021, being the latest practicable date ("LPD") are as follows:-

	Direct		Indirect	
	No. of Units	%	No. of Units	%
	'000		'000	
JCorp	-	-	(i)284,248	38.6
KPJ	-	-	(ii) 284,075	38.6

Notes:-

- (i) Deemed interested by virtue of its interest in KPJ under Section 8 of the Act.
- (ii) Deemed interested by virtue of its interest in several companies which are part of the KPJ Group.

DRMSB 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 Properties as ascribed by the Independent 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 the REIT and not detrimental to the interest of the minority unitholders.

9. AUDIT COMMITTEE'S STATEMENT

The Audit Committee (save for Mohd Yusof Bin Ahmad), after having considered all aspects of the Proposed Lease Renewal, including the rationale and financial effects of the Proposed Lease Renewal, valuation of the Properties as ascribed by the Independent 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 the REIT 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 in the 2nd quarter of the year 2021.

11. APPLICATION TO THE AUTHORITIES

The circular to the unitholders of the REIT for the Proposed Lease Renewal is expected to be submitted to Bursa Securities within 1 month from the date of this Announcement.

12. ADVISERS

AmInvestment Bank 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 have also appointed MainStreet Advisers Sdn Bhd to act as the Independent Adviser to advise the non-interested directors and unitholders of the REIT on the Proposed Lease Renewal.

13. PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Lease Renewal pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 43%.

14. DOCUMENT AVAILABLE FOR INSPECTION

Copies of the Letters and Lease Agreements (executed in escrow and to be dated on the date of fulfilment of the Conditions (subject to the fulfilment of the Conditions)) and the valuation reports on the Properties are available for inspection at the registered office of DRMSB at Level 16, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor Malaysia for a period of 3 months from the date of this Announcement.