THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional adviser immediately.

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AL-`AQAR HEALTHCARE REIT

(established in Malaysia under the deed dated 27 June 2006 and as amended by the supplementary deed dated 14 May 2009, 27 January 2011 and 9 November 2011, amended and restated by the Restated Deed dated 31 July 2013 and further amended and restated by the Second Restated Deed dated 25 November 2019, entered into between Damansara REIT Managers Sdn Berhad and AmanahRaya Trustees Berhad, both companies incorporated in Malaysia under the laws of Malaysia and the persons who are for the time being registered as holders of the units in Al-`Aqar Healthcare REIT)

CIRCULAR TO UNITHOLDERS IN RELATION TO

PART A

PROPOSED LEASE RENEWAL (AS DEFINED HEREIN)

PART B

INDEPENDENT ADVICE LETTER FOR THE PROPOSED LEASE RENEWAL

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser

AmInvestment Bank Berhad
(Registration No. 197501002220 (23742-V))
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Independent Adviser

MainStreet Advisers Sdn Bhd
(Registration No. 200701032292(790320-P))

The Notice of the Extraordinary General Meeting ("**EGM**") of Al-`Aqar Healthcare REIT to be held on a fully virtual basis at the Broadcast Venue: Unit 1-19-02, Block 1, V Square, Jalan Utara, 46200 Petaling Jaya, Selangor, on Thursday, 10 June 2021 at 11.00 a.m., together with the Form of Proxy set out in the Notice of EGM.

A member is entitled to attend and vote at the EGM and is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. The Form of Proxy should be lodged at the Registered Office of the Damansara REIT Managers Sdn Berhad at Level 16, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor not less than twenty-four (24) hours before the time of the EGM. The last day and time for lodging the Form of Proxy is on Wednesday, 9 June 2021 at 11.00 a.m.. The lodgement of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

Last date and time for lodging the Form of Proxy	:	Wednesday, 9 June 2021 at 11.00 a.m.
Date and time of EGM	:	Thursday, 10 June 2021 at 11.00 a.m.

This document is dated 24 May 2021

For the purpose of this document, except where the context otherwise requires, the following definitions shall apply throughout this Circular:-

Act	:	The Companies Act, 2016, as amended from time to time and any re-enactment thereof
Al-`Aqar or **REIT**	:	Al-`Aqar Healthcare REIT, a real estate investment trust established in Malaysia under the Deed
AmInvestment Bank or **Principal Adviser**	:	AmInvestment Bank Berhad
APSH	:	KPJ Ampang Puteri Specialist Hospital
ART or **Trustee** or **Lessor**	:	AmanahRaya Trustees Berhad, being the trustee of Al-`Aqar
Base Rent	:	Rent payable for the first year of the First Rental Term
Board	:	The Board of Directors of the Manager
Bursa Securities	:	Bursa Malaysia Securities Berhad
Cheston or **Independent Valuer**	:	Cheston International (KL) Sdn Bhd, being the independent valuer for the Proposed Lease Renewal
Circular	:	This circular to unitholders of Al-`Aqar dated 24 May 2021 which sets out the details of the Proposed Lease Renewal
COVID-19	:	Coronavirus disease
Deed	:	The principal deed dated 27 June 2006 and as amended by the supplementary deed dated 14 May 2009, 27 January 2011 and 9 November 2011, amended and restated by the Restated Deed dated 31 July 2013 and further amended and restated by the Second Restated Deed dated 25 November 2019, entered into between DRMSB and ART and the persons who are for the time being registered as holders of the units in Al-`Aqar
Director	:	Directors of DRMSB
DRMSB or **Manager**	:	Damansara REIT Managers Sdn Berhad, being the manager of Al-`Aqar
DSH	:	KPJ Damansara Specialist Hospital
EGM	:	Extraordinary General Meeting
EPU	:	Earnings per Unit
First Rental Term	:	Period between 30 June 2021 to 29 June 2024
FY(s)	:	Financial year(s) ended / ending, as the case may be
Interested Directors	:	The directors of the Manager who are deemed interested in the Proposed Lease Renewal as disclosed in Section 8 of this Circular.
Interested Major Unitholders	:	The major unitholders of Al-`Aqar who are deemed interested in the Proposed Lease Renewal as disclosed in Section 8 of this Circular.

ISH	:	KPJ Ipoh Specialist Hospital
JCorp	:	Johor Corporation, a body corporate established under the Johor Corporation Enactment No. 4, 1968 (as amended by Enactment No. 5, 1995)
JSH	:	KPJ Johor Specialist Hospital
KPJ	:	KPJ Healthcare Berhad
KPJ Group	:	KPJ, its subsidiaries and associated companies
Lease Agreements	:	Lease agreements executed in escrow between the Trustee (in its capacity as the Lessor), the respective Subsidiaries (in their capacity as the Lessees) and the Manager to renew the leases of the Properties
Letters	:	Exchange of letters entered into by ART, the Subsidiaries and the Manager
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	30 April 2021, being the latest practicable date prior to the printing of the Circular
Major Unitholder	:	(i) Any person who has an interest or interests in one or more voting shares in a corporation and the nominal amount of the share, or the aggregate of the nominal amounts of those shares, is:- (a) 10% or more of the aggregate of the total number of voting shares in the corporation; or (b) 5% or more of the aggregate of the total number of voting shares in the corporation where such person is the largest shareholder of the corporation, For the purpose of this definition, "interests" shall have the meaning of "interest in shares" given in Section 8 of the Act; and (ii) For the purposes of the Proposed Lease Renewal, a major unitholder includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major unitholder of Al-`Aqar or any other company which is its subsidiary
MainStreet or **Independent Adviser**	:	MainStreet Advisers Sdn Bhd, being the independent adviser for the Proposed Lease Renewal
NA	:	Net assets
NPI	:	Net property income
Open Market Value	:	Reasonable and fair market value of the Properties as determined by the independent valuer appointed by the parties based on valuation method without having regard to, the Rental Term(s) of the lease provided in the Lease Agreements

Properties	:	Refers to the properties owned by the Lessor as described in Section 2.3 of this Circular in relation to APSH, DSH, ISH, JSH, PSH, and SSH and shall also include the Lessor's fixtures and fittings as detailed in the Lease Agreements "Property" shall refer to any one of them
Proposed Lease Renewal	:	Proposed renewal of lease of the Properties entered into between the Subsidiaries with the Trustee and the Manager for and on behalf of Al-`Aqar
Principal Lease Agreements	:	The initial lease agreements to lease the Properties held by the Lessor dated 30 June 2006 (as amended from time to time by supplementary agreements) entered into between six subsidiaries of KPJ with Amanah Raya Berhad as trustee of Al-`Aqar KPJ REIT) (now known as Al-`Aqar Healthcare REIT) and lessor of the Properties ("**ARB**") and the Manager
PSH	:	KPJ Puteri Specialist Hospital
RM and **sen**	:	Ringgit Malaysia and sen respectively
SSH	:	KPJ Selangor Specialist Hospital
Subsidiaries or **Lessee(s)**		Collectively, refers to the following subsidiaries of KPJ:- (i) Ampang Puteri Specialist Hospital Sdn Bhd; (ii) Rawang Specialist Hospital Sdn Bhd; (iii) Ipoh Specialist Hospital Sdn Bhd; (iv) Johor Specialist Hospital Sdn Bhd; (v) Pasir Gudang Specialist Hospital Sdn Bhd; and (vi) Selangor Specialist Hospital Sdn Bhd "Lessee" shall refer to any one of them
Succeeding Rental Term	:	Means the second rental term (Year 4 to Year 6), third rental term (Year 7 to year 9), fourth rental term (Year 10 to Year 12) and fifth rental term (Year 13 to Year 15)
Valuation Report(s)	:	Valuation reports of the Properties by Cheston

Words importing the singular shall, where applicable, include the plural and vice versa, and words importing the masculine gender shall, where applicable, include the feminine and/or neuter gender, and vice versa. References to persons shall include corporations, unless otherwise specified.

Any discrepancies in the tables included in this Circular between the amount listed, actual figures and the totals thereof are due to rounding.

Any reference in this Circular to any provision of a statute, rule, regulation, enactment, or rule of a stock exchange shall (where the context admits) be construed as a reference to the provision of such statute, rule, regulation, enactment or rule of a stock exchange (as the case may be) as modified by any written law, or, if applicable, any amendment of re-enactment to the statute, rule, regulation, enactment or rule of a stock exchange for the time being in force. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

All references to "**you**" in this Circular are to the Unitholders of Al-`Aqar.

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PART A

LETTER TO OUR UNITHOLDERS IN RELATION TO THE PROPOSED LEASE RENEWAL

DAMANSARA REIT MANAGERS SDN BERHAD

DAMANSARA REIT MANAGERS SDN BERHAD
(MANAGER OF AL-`AQAR HEALTHCARE REIT)
(Company No. 200501035558 (717704-V))
(Incorporated in Malaysia under the Companies Act, 1965 and deemed registered under Companies Act, 2016)

Registered Office:

Level 16 Menara KOMTAR
Johor Bahru City Centre
80000 Johor Bahru
Johor

24 May 2021

Board of Directors

Dato' Mohd Redza Shah Abdul Wahid	Independent Non-Executive Chairman
Abdullah Abu Samah	Independent Non-Executive Director
Dato' Wan Kamaruzaman Wan Ahmad	Independent Non-Executive Director
Wan Azman Ismail	Chief Executive Officer and Non-Independent Executive Director
Datuk Sr. Akmal Ahmad	Non-Independent Non-Executive Director
Shamsul Anuar Abdul Majid	Non-Independent Non-Executive Director
Mohd Yusof Ahmad	Non-Independent Non-Executive Director

To: The Unitholders of Al-`Aqar Healthcare REIT

Dear Sir/Madam,

PROPOSED LEASE RENEWAL

1. INTRODUCTION

On 6 April 2021, on behalf of the Board of DRMSB, AmInvestment Bank announced that DRMSB and ART on behalf of the REIT proposes to enter into 6 separate lease agreements with the Subsidiaries of KPJ (as detailed in Section 2.1 of this Circular) to renew the lease of the Properties.

The parties had on 6 April 2021 executed the Letters and the Lease Agreements in escrow, and agreed that the Lease Agreements are to be dated upon fulfilment of the conditions of the Lease Agreements as set out under Section 2.4.3 of this Circular.

The purpose of this circular is to provide you with details of the Proposed Lease Renewal and to seek your approval for the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM.

You are advised to read and carefully consider the contents of this Circular including the independent advice letter (as set out in Part B of this Circular) together with the appendices contained herein before voting on the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM.

2. PROPOSED LEASE RENEWAL

2.1 Details of the Proposed Lease Renewal

The Principal Lease Agreements to lease the Properties to KPJ Group were entered into on 30 June 2006.

The initial 15-year contractual lease period under the Principal Lease Agreements will expire on 29 June 2021. As such, ART as the trustee of Al-`Aqar proposes to enter into the Lease Agreements with the respective Subsidiaries to renew the lease of the Properties in relation to the following hospitals:-

	Subsidiaries	Hospital
(i)	Ampang Puteri Specialist Hospital Sdn Bhd	KPJ Ampang Puteri Specialist Hospital ("**APSH**")
(ii)	Rawang Specialist Hospital Sdn Bhd*	KPJ Damansara Specialist Hospital ("**DSH**")
(iii)	Ipoh Specialist Hospital Sdn Bhd	KPJ Ipoh Specialist Hospital ("**ISH**")
(iv)	Johor Specialist Hospital Sdn Bhd	KPJ Johor Specialist Hospital ("**JSH**")
(v)	Pasir Gudang Specialist Hospital Sdn Bhd*	KPJ Puteri Specialist Hospital ("**PSH**")
(vi)	Selangor Specialist Hospital Sdn Bhd	KPJ Selangor Specialist Hospital ("**SSH**")

Note * : The lessee for the Properties in relation to DSH and PSH have changed from Damansara Specialist Hospital Sdn Bhd to Rawang Specialist Hospital Sdn Bhd and Puteri Specialist Hospital (Johor) Sdn Bhd to Pasir Gudang Specialist Hospital Sdn Bhd respectively as part of an internal reorganisation exercise by KPJ Group to better manage the operations and costs of operating the hospitals.

In addition to the hospitals mentioned above, Al-`Aqar has 17 other properties which include, 11 hospitals, 3 wellness/health centres, 2 colleges and 1 aged care & retirement village as disclosed below. Al-`Aqar intends to renew the respective leases of the 17 properties as and when the respective leases expire.

	Properties	Location	Year of expiry of the contractual lease term
(a)	KPJ Perdana Specialist Hospital	No. PT 37 and PT 600, Jalan Bayam, Section 14, 15200 Kota Bharu, Kelantan	2023
(b)	Kuantan Care & Wellness Center	No. 51 Jalan Alor Akar, Taman Kuantan, 25250 Kuantan, Pahang	2023
(c)	KPJ Sentosa KL Specialist Hospital	No. 36, Jalan Chemur Damai Complex, 50400 Kuala Lumpur	2023
(d)	KPJ Kajang Specialist Hospital	Jalan Cheras, 43000 Kajang, Selangor Darul Ehsan	2023
(e)	Kedah Medical Centre	No. 175 & 175A, Jalan Pumpong, 05250 Alor Setar, Kedah Darul Aman	2023
(f)	Damai Care & Wellness Centre (previously known as KPJ Damai Specialist Hospital)	Lorong Pokok Tepus 1, Off Jalan Damai, 88300 Kota Kinabalu, Sabah	2024
(g)	KPJ Penang Specialist Hospital	No. 570, Jalan Perda Utama, Bandar Perda, 14000 Bukit Mertajam, Pulau Pinang	2024
(h)	Tawakkal Health Centre	No. 202A, Jalan Pahang, 53000 Kuala Lumpur	2024

	Properties	Location	Year of expiry of the contractual lease term
(i)	KPJ Tawakkal Specialist Hospital	No-1, Jalan Pahang Barat / Jalan Sarikei, 53000 Kuala Lumpur	2025
(j)	KPJ Seremban Specialist Hospital	Lot 6219 & 6220, Jalan Toman 1, Kemayan Square, 70200 Seremban, Negeri Sembilan	2024
(k)	Taiping Medical Centre	No. 39, 41, 43, 45, 47 & 49, Jalan Medan Taiping 2, Medan Taiping, 34000 Taiping, Perak	2024
(l)	KPJ Healthcare University College, Nilai (Existing Building)	PT 17010, Persiaran Seriemas, Kota Seriemas, 71800 Nilai, Negeri Sembilan	2024
(m)	KPJ Healthcare University College, Nilai (New Building)	PT 17010, Persiaran Seriemas, Kota Seriemas, 71800 Nilai, Negeri Sembilan	2030
(n)	KPJ International College, Penang	No. 565, Jalan Sungai Rambai, 14000 Bukit Mertajam, Pulau Pinang	2024
(o)	Kluang Utama Specialist Hospital	No. 1,3,5,7,9,11 Susur 1, Jalan Besar, 86000 Kluang, Johor Darul Takzim	2027
(p)	KPJ Klang Specialist Hospital	No. 102, Persiaran Rajawali / KU 1, Bandar Baru Klang, 41150 Klang, Selangor Darul Ehsan	2027
(q)	Jeta Gardens Aged Care & Retirement Village	Jeta Gardens, Aged Care and Retirement Village, 27 Clarendon Avenue, Bethania and 86 Albert Street, Waterford, Queensland, 4205 Australia	Lease of 99 years commencing in year 2011 with options to terminate every 15 years
(r)	KPJ Batu Pahat Specialist Hospital	No 1, Jalan Mutiara Gading 1 Taman Mutiara Gading Sri Gading, 83000 Batu Pahat, Johor	2025 (with 8 successive 3 year terms which shall be automatically renewed and commence from the date of expiry of principal lease term)

2.2 Information on 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 5 senior and assisted living care facilities in Kuala Lumpur, Sabah, Sarawak, Pahang and Australia.

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

2.3 Information on the Properties

The details of the Properties are as follows:-

	APSH	DSH	ISH	JSH	PSH	SSH
Description[(i)]	A 7-storey main medical centre building and an annexed 5-storey consultant building both are with a common lower ground floor and a lower ground floor car park	A 6-storey private specialist medical centre together with a basement floor; and basement floor and ground floor car park	A 3-storey main building (old wing) and a 5-storey building with a basement (new wing) and a basement and ground floor car parks (new wing)	A 7-storey main hospital building, a 4-storey physician consulting building, a 2-level basement car parks, a 7-storey annexed building (premier block), a 5-storey car park building together with a mezzanine and basement level	A 6-storey medical centre building (left wing) and a 6-storey medical centre building (right wing)	A 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
Gross Floor Area (sq.ft.)[(ii)]	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
Fair value @ 31.12.2020[(iii)]	137,000,000	135,000,000	77,000,000	122,000,000	42,000,000	82,000,000

Notes :

(i) The Properties excludes buildings and structures that have yet to be acquired by and injected into Al-`Aqar. The Properties includes properties owned by the Lessor subsequent to the initial Principal Lease Agreements of which the expiry date of the lease is the same namely, PSH's vacant lands, JSH's 7-storey annexed building (premier block) and a 5-storey car park and SSH's carpark.

(ii) The gross floor area includes carparks and other ancillary buildings.

(iii) Based on Al-`Aqar's audited financial statement for FY 31 December 2020. The fair values were determined based on the capitalisation of net income method (Investment method).

For further details on the Properties, please refer to the valuation certificate as attached in **Appendix II.**

2.4 Salient terms of the Lease Agreements

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

2.4.1 Lease of Properties

The lease of the Properties is 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.

2.4.2 Use of Properties

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.

2.4.3 Conditions of the Lease Agreements

The Proposed Lease Renewal is conditional upon the fulfilment of the following conditions ("**Conditions**"):-

(i) the approval of the shareholders of KPJ being obtained in respect of the Proposed Lease Renewal; and

(ii) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Lease Renewal.

2.4.4 Rental formula for rental amount

2.4.4.1 Formula for the Proposed Lease Renewal

The rent shall be denominated in RM and the formula for determination of the rent in relation to the Proposed Lease Renewal are as follows:-

(i) Rent formula

First Rental Term	Rent Formula
1st year	5.75% per annum x the Open Market Value of the Properties ("**Base Rent**").
2nd & 3rd year	2% incremental increase x the rent for the preceding year.

(ii) Rent review formula

The rent for every Succeeding Rental Term shall be calculated based on the following formula:-

Succeeding Rental Terms	Rent Review Formula
1st year of every Succeeding Rental Term (Years 4, 7, 10 and 13)	(10-years Malaysian Government Securities yield ("**MGS**")) + 200 basis points ("**BPS**")) x Open Market Value (as determined by an independent valuer) of the Properties, at the point of review subject to: (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

Succeeding Rental Terms	Rent Review Formula
	(b) any adjustment to the rent shall not be more than 2% 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.

The total first-year rental amount is RM40.94 million under the Lease Agreements based on the market value of the Properties of RM712 million (as detailed in Section 2.5 below). At each of the rent review year i.e. on year 4, 7, 10 and 13 of the Lease Agreements, the rent will be reviewed based on the formula above. If there is no change in the market value and the 10-years MGS + 200BPS is equivalent to 5.75%, the rental shall remain at RM40.94 million. For illustration, assuming the 10-years MGS at the point of review is the same as the MGS as at LPD of 3.11% and the Year 3 rental is RM42.59 million, the rental for Year 4 shall be as follows:-

	Assuming 20% downward revision to Open Market Value	Assuming 20% upward revision to Open Market Value
Market Value	RM569.6 m	RM854.4million
10-years MGS + 200 BPS x Open Market Value of the Properties	(3.11%+2%)*RM569.6m= RM29.11m	(3.11%+2%)*RM854.4m= RM43.66m
Minimum 5.75% per annum x prevailing Open Market Value of the Properties or the rent payable for the 1^{st} year of the First Rental Term of the Properties, whichever is higher	Whichever higher:- (a)5.75%*RM569.6m =RM32.75m OR (b) RM40.94m Hence, RM40.94m	Whichever higher:- (a)5.75%*RM854.4m =RM49.13m OR (b) RM40.94m Hence, RM49.13m
Rental computed	**RM40.94m**	**RM49.13m**
Rental cap Any adjustment not more than 2% incremental increase over the rent for the preceding year which shall be in RM	RM42.59m*1.02= RM43.44m	RM42.59m*1.02= RM43.44m
Illustrative chargeable rental at Year 4	**Since the rental computed is less than the rental cap, the rental for Year 4 shall be RM40.94m**	**Since the rental computed is more than the rental cap, the rental for Year 4 shall be capped at RM43.44m**

The rental will thereon increase by 2% over the rent of the preceding year in the 2^{nd} and 3^{rd} year of every Succeeding Rental term. Based on the illustrative Year 4 rental above, the rental for Year 5 and 6 will be as follows:-

	Assuming 20% downward revision to Open Market Value	Assuming 20% upward revision to Open Market Value
Year 5	RM41.76m	RM44.31m
Year 6	RM42.59m	RM45.20m

For clarification, based on the rental review formula above, for each Succeeding Rental Term, the lowest rental amount that can be charged is RM40.94 million (being the Base Rent) and the maximum rental amount is 2% incremental increase over the RM value of the rent for the preceding year.

Rent Formula for 2006 – 2021 under the Principal Lease Agreements

For information only, the rent formula under the Principal Lease Agreements are as follows:-

2006- 2009 (1^{st} rental term)

The total annual rental of the properties (as referred to in the Principal Lease Agreements) for the 1^{st} rental term expiring December 2009 was as follows:-

	Annual Rental (RM'mil)
2006 (5 months)	14.78
2007	35.70
2008	36.43
2009	36.96

For information, the market value of the properties held by the lessor then as disclosed in Al-`Aqar's prospectus dated 24 July 2006 was RM481 million. The above rental translated to yield of 2006: 7.38% (annualised), 2007: 7.42%, 2008: RM7.57% and 2009: RM7.68%.

The rental was to be reviewed on 1 January after every 3 full financial years throughout the 15 years' contractual terms.

2010-2012 (2^{nd} rental term)

The rental review formula for the 1^{st} year was (10-years MGS +238 BPS) x market value of the properties at the point of review subject to:-

(i) a minimum rental of RM33 million per annum; and

(ii) any lease rental adjustment shall not be more than 2% incremental over the preceding year's rental amount

For the 2^{nd} & 3^{rd} year of the 2^{nd} rental term thereon, the rental would be 2% incremental over the preceding year's rental.

2013-2021 (3^{rd} to 5^{th} rental term)

The rental review formula for the 1^{st} year of the 3^{rd}, 4^{th} and 5^{th} rental term is as follows:-

10-years MGS + 238 BPS x market value of the properties, at the point of review subject to:-

(i) a minimum gross rental of 7.1% per annum x prevailing market value or purchase consideration of the properties whichever is higher*; and

(ii) any lease rental adjustment shall not be more than 2% incremental over preceding year's lease rental.

For the 2^{nd} & 3^{rd} year of the 3^{rd}, 4^{th} and 5^{th} rental term thereon, the rental would be a 2% incremental amount over the preceding year's rental amount.

Note *: The clause stating "purchase consideration of the properties whichever is higher" was only included in the 4^{th} and 5^{th} rental term.

For information, the agreed yield of 5.75% and the 200 BPS in the rent formula for the next contractual term under the Proposed Lease Renewal differ from that included in the rent rental formula under the previous Principal Lease Agreements primarily due to, amongst others, the interest rate environment. The 3-month Kuala Lumpur Interbank Offered Rate ("**KLIBOR**") on 30 June 2006 was 3.92% as compared to 1.94% as at LPD (Source: Bloomberg). In addition, the spread under the rent review formula is now proposed at 200 BPS as compared to 238 BPS after taking into consideration, inter-alia, the improved financial standing of KPJ Group over the years. As at LPD, KPJ is a RM4.4 billion (30 June 2006: RM323.7 million) market capitalisation company with revenue of RM2.4 billion for FY 31 December 2020.

2.4.5 Lessor's and/or Manager's covenant

(A) Lessor's covenant

The Lessor shall, amongst others, during the Contractual Term:-

(i) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which are now or during the Contractual Term shall be falling due in respect of or charged, assessed or imposed upon the Properties;

(ii) pay for quit rent and assessment of the Properties;

(iii) in the event the Lessor's fixtures and fittings are irreparable through or by means of normal and routine repairs, the Lessor shall replace such items within reasonable time, at the cost and expense of the Lessor;

(iv) shall at its own cost and expense, carry out structural repairs and works necessary to maintain the external and internal structure of the Properties in good tenantable condition and such structural repairs and works as may be required by the local or relevant authorities or under relevant building regulations; and

(v) shall at its own expense maintain takaful coverage for fire, loss of rent and public liability takaful in respect of the Properties.

(B) Lessor's and/or Manager's covenant

In addition to the Lessor's covenant under Section 2.4.5(A) above, the Lessor and/or the Manager shall, amongst others, during the Contractual Term:-

(i) effect and 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 at the Lessor's cost and expense; and

(ii) shall appoint and pay to the maintenance manager during the Contractual Term for the maintenance and management services rendered by the maintenance manager with respect to the Properties in accordance with the terms of the property management agreement or maintenance management agreement to entered into between the Lessor, the Manager and the maintenance manager.

2.4.6 Lessees' covenant in relation to repairs, cleaning, decoration & etc

The respective Lessees shall keep the Properties in good and tenantable repair and maintenance. The respective Lessees shall as and when necessary issue a notice to the maintenance manager to conduct any repairs on any part of the Properties and shall pay the maintenance manager for work done in connection thereto.

The Lessees shall during the Contractual Term, amongst others, 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.

2.4.7 Expansion

In the event that the Lessees requests and the Lessor and/or the Manager agree to meet the expansion requirements of the Lessees through expansion, the Lessees may make the necessary arrangements, coordinate, manage, monitor and supervise any major structural alterations or additions to the Properties or work which may affect or may be likely to affect the:-

(i) structure of the Properties (including but not limited to the roof and the foundation); or

(ii) mechanical or electrical installations of the Properties; or

(iii) provisions of any services in or to the Properties.

The Lessees shall bear the development costs and expenses for, and related to the expansion and shall be solely responsible to procure the financing for the expansion.

Upon completion of the expansion, the Lessees shall provide the Lessor with the breakdown of the final development costs of the expansion and the Lessor shall make full payment of the final development cost of the expansion subject to the cost to be agreed by the parties and verification by the Manager of the following items:-

(i) the Certificate of Completion and Compliance for the expansion, issued by the appropriate authority, if any;

(ii) the value of the expansion as recommended by an independent valuer (appointed by the Lessor at its own cost and expense) via the valuation report by the said independent valuer;

(iii) the report prepared by the project consultant of the expansion as verified by an independent quantity surveyor (appointed by the Lessor at the Lessor's own cost and expense); and

(iv) all supporting claims, invoices and documents verifying the final development costs of the expansion.

2.4.8 New development of the land

The Lessor grants the Lessees the right to undertake new development, including but not limited to, the planning, design, and construction of building(s), carpark and/or other structures on the Land (as defined in the Lease Agreements which refers to the respective plot of land that the Properties are situated on) or any part thereof complete with inter alia the interior design, the landscape and the infrastructures related thereto ("**New Development**") at the Lessees' own cost and expenses for the Lessees' business operations, subject to the following:-

(i) the Lessees shall provide the details of the New Development for approval of the Lessor and the Manager; and

(ii) the Lessees shall obtain the approval from the relevant appropriate authority or authority for the New Development;

prior to the commencement of the New Development.

The parties agree that the New Development may be acquired by the Lessor subject to fulfilment of the conditions in the Lease Agreements which include:-

(i) the Certificate of Completion and Compliance for the New Development has been duly issued and obtained by the Lessees;

(ii) the Lessor and the Lessees have mutually agreed on the acquisition price for the New Development to be satisfied by the Lessor based on the following:-

(a) where required, the valuation report of the New Development issued by the independent valuer(s) (appointed jointly or severally by the Lessor and/or the Lessees) pursuant to a valuation exercise on the New Development and the valuation reports shows the true and fair value or open market value of the New Development and justifies the acquisition price; and/or

(b) the documentary evidence which verifies the final construction costs incurred by the Lessees for the New Development issued by an independent quantity surveyor appointed by the Lessees; and/or

(c) the building audit report following the conclusion of a building inspection and audit exercise conducted on the New Development by a building audit consultant appointed by the Lessor at its own cost and expense to verify the condition, state, nature and character of the New Development and the Lessor is satisfied with the outcome of the building audit and the contents of the aforesaid building audit report.

(iii) approval of the board of directors of the Trustee, the Manager of the Lessor and where required, approval of the unitholders of the Lessor; and

(iv) approval of the board of directors and shareholders of the Lessees.

2.4.9 Event of Default and Termination

2.4.9.1 The Lease Agreements provide for the following events of default:-

(i) a failure or refusal on the part of the respective Lessee:-

(a) to pay the monthly rent for 2 consecutive calendar months or any other sum due under the terms of the respective Lease Agreements on the day such payment is required to be made under the terms of the respective Lease Agreements (whether the same shall have been formally demanded or not); or

(b) to duly observe or perform any of the covenants and conditions and/or agreements of the Lessee contained in the respective Lease Agreements of which is not capable of being remedied or if capable of being remedied such breach is not remedied by the Lessee within a period of 30 calendar days from the date after receipt of written notice thereof from the Lessor to the Lessee requesting action to remedy the same; or

(ii) the Lessee is in breach of any agreement which has a Material Adverse Effect (defined in the Lease Agreements as an event or circumstance, the occurrence or effect of which (in the opinion of the Lessor and/or the Manager) is or might be likely to have a material effect on the constitution, the financial condition, business or operations of the Lessee or where applicable or the Lessee's ability to perform its obligations under any provision of the Lease Agreements) on the business and/or operations of the Lessee which affects its ability to fulfil its obligations under the Lease Agreements; or

(iii) the Lessee 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 Lessee for the purpose of Section 466 of the Companies Act 2016 and as such, the Lessee is deemed to be unable to pay its debts as they fall due or suspends or threatens to suspend it 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 Lessee commences 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 Lessee assumes management of the Lessee and in the case of any of the events aforementioned, the financial condition of the Lessee or the ability of the Lessee 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 Lessee for the winding up of the Lessee 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 Lessee and the same is not discharged, withdrawn, set aside or discontinued within 30 calendar days; or

(vi) the Lessee is unable to pay its debt within the meaning of the Companies Act 2016 which inability may in the opinion of the Lessor may have a Material Adverse Effect;

2.4.9.2 The occurrence and continuation of any of the above sub-paragraphs (i) to (vi) entitles the Lessor to take any one or more of the following remedies without being responsible or liable for any loss, damage or expense caused to the Lessee as a consequence of such action:-

(i) serve a forfeiture notice upon the Lessee pursuant to Section 235 of the National Land Code deemed that the period stipulated in the forfeiture notice shall be thirty (30) calendar days for the occurrence of the events under Section 2.4.9.1 above unless otherwise stated in the respective Lease Agreements as capable of being remedied, where the breach has not been remedied within the stipulated time of thirty (30) calendar days, to re-enter upon the Properties or any part thereof in the name of the whole, and thereupon the respective Lease Agreements shall absolutely terminate;

(ii) to claim for the monthly rent and all sums due and payable as stipulated in the respective Lease Agreements;

(iii) the Lessor shall be entitled to utilise the security deposits and utilities deposit as described in Section 2.4.11 below towards payment or reduction of all sums payable by the Lessee under the respective Lease Agreements without prejudice to the Lessee's liability for any shortfall;

(iv) the Lessee 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 the Lessee's default or unilateral termination by the Lessee; or

(v) to sue and take any other action the Lessor deems fit (including remedy of specific performance against the Lessee) 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 Lessee.

Exercise of remedies

The Lessor shall be at liberty to exercise any one or more of the remedies mentioned above at its sole and absolute discretion in any manner it deems fit. Any action taken by the Lessor to exercise any one or more of the above remedies shall not prejudice or affect any other remedies, claims or rights which it may have under the terms hereof.

2.4.9.3 Unilateral termination and consequence of early termination of the expiry of the Contractual Term:-

2.4.9.3.1 In the event of early termination where if at any time during the Contractual Term the Lessee shall attempt to abandon or quit or redeliver possession of the Property, prior to the expiry of the Contractual Term, for any reason whatsoever then it shall be lawful for the Lessor, immediately or at any time thereafter, to serve a forfeiture notice to the Lessee.

2.4.9.3.2 Upon the issuance of the forfeiture notice, the Lessee is required to remedy the subject matter of the forfeiture notice within thirty (30) calendar days from the date of such forfeiture notice.

2.4.9.3.3 On the expiration of the thirty (30) calendar day period and in the event that the Lessee fails to remedy such subject matter of the forfeiture notice, the Lessor is at liberty, within thirty (30) calendar days thereafter, to give to the Lessee a written notice of its intention to determine and terminate the respective Lease Agreements ("**Termination Notice**") and the Lessee shall within seven (7) calendar days from the date of the Termination Notice:-

(i) remove all of the Lessee's asset(s) (including the Lessee's fixtures and fittings) and other articles brought on to the respective Property by the Lessee and shall do so without damaging the said Property and shall immediately make good any damage which occurs thereby; and

(ii) surrender and peacefully yield up the Property.

2.4.9.4 In the event the Lessee fails or refuses to comply, the Lessor may in its absolute discretion:-

(i) remove and dispose of the Lessee's asset(s) (including the Lessee's fixtures and fittings) and other articles in the Property and the Lessee shall indemnify the Lessor for any cost and expenses incurred by the Lessor for such removal or disposal; and/or;

(ii) commence, proceed with and undertake all action as may be necessary to enforce the Lessee's obligation to surrender and yield up the Property and to enforce the Lessor's rights to re-enter, repossess and enjoy the same.

2.4.9.5 The Lessor shall in addition be entitled to exercise all its rights, powers and remedies (conferred by law or otherwise) against the Lessee, including the right to recover from the Lessee the lost of rent suffered by the Lessor for the unexpired period of the Contractual Term (or any part thereof) as liquidated damages subject to the Lessor taking all reasonable efforts to lease or let the Property to any other lessees or tenants.

2.4.9.6 In the event that the Lessor is unable to lease or let the Property to any other lessees and tenants and/or as the case may be, the Lessee shall compensate the Lessor for the deficiency between the originally scheduled rent under the respective Lease Agreements and the rent received or to be received from the other lessees or tenants of the Property for the unexpired period of the Contractual Term.

2.4.9.7 In the event a Termination Notice is issued by the Lessor, the Lessee shall have an option to source, within six (6) calendar months of the Lessee's receipt of such Termination Notice, for a replacement lessee or tenant acceptable 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 failing which the security deposit and the utilities deposit paid by the Lessee in favour of the Lessor shall be forfeited. If the Property is leased or tenanted to a replacement lessee or tenant, the Lessee shall compensate the Lessor for any deficiency between the originally scheduled rent under the respective Lease Agreements and the rent received or to be received from the replacement lessee or tenant for the Property for the unexpired period of the Contractual Term.

2.4.9.8 At the end of the Contractual Term or upon the termination of the respective Lease Agreements for any reason whatsoever, the Lessor shall be entitled to deal with the Property in any manner whatsoever and howsoever including but not limited to leasing out the Property to any other person whomsoever.

Save as otherwise stipulated under Section 2.4.9.2 and 2.4.9.3.3 above, neither the Lessee nor the Lessor and/or the Manager shall be entitled to terminate the respective Lease Agreements without the written consent of the other party.

2.4.10 Late Payment Penalty

In the event that the respective Lessee fails to pay the monthly rent on the due date, the Lessor shall be entitled to charge and the Lessee shall pay the Lessor late payment penalty at the rate of five percent (5%) per annum on any sums of the monthly rent reserved by the respective Lease Agreements remaining unpaid from its due date until the date of actual payment.

If for any reason whatsoever, the respective Lessee fails to pay the monthly rent for two (2) consecutive calendar months or any part thereof on the due date, whether formally demanded or not, and if the respective Lessee fails to rectify such breach or default after the Lessor or its agent has given thirty (30) calendar days' notice in writing to the Lessee to rectify such breach or default, Section 2.4.9.1 above shall be invoked.

2.4.11 Deposits

(i) Security Deposit

The Lessees shall on or before 30 June 2021, being the date of commencement of the lease or such other date to be mutually agreed by the Parties, pay the security deposit to the Lessor for an aggregate sum equivalent to two (2) times of the prevailing monthly rent which shall be revised accordingly for every rental term, such deposit being security for the due observance and performance by the Lessee of any terms and conditions of the Lease Agreements.

(ii) Utilities Deposit

The Lessees shall on or before 30 June 2021, being the date of commencement of the lease, or such other date to be mutually agreed by the Parties, pay to the Lessor a sum to be mutually agreed by the Parties, which shall be revised accordingly for every rental term, such sum being the deposit for electricity, water, solid waste and other utilities services provided by the relevant utilities service providers to the Properties.

2.4.12 Variation of rental

The Lessor shall have the right to vary the rent of the Properties occupied and used by the Lessees, at the recommendation of the Manager due to the following:-

(i) Increase in gross floor area

If the gross floor area of the Properties increases pursuant to the expansion (as described under Section 2.4.7 of this Circular) undertaken by the Lessees in respect of the Properties, the rent shall be increased corresponding with the increase in gross floor area of the Properties but always subject to the reimbursement costs paid by the Lessor to the Lessees and the increase in the monthly rent shall be computed as follows:

Formula: (5.75% per annum x reimbursement costs)/12 months

For avoidance of doubt, in the event the rent has been increased pursuant to the abovementioned clause, the Base Rent amount shall be revised accordingly to include the incremental amount and thereafter, the aforesaid Base Rent shall be applied in the rent review formula for determination of the rent for the relevant Succeeding Rental Terms.

In the event the increase in the rent was incurred during mid of the relevant year of the First Rental Term or Succeeding Rental Term(s) rental year, such rent shall be prorated to full financial year before applying it in the rent review formula.

(ii) Installation of new Lessor's fixtures and fittings

The Lessor and/or the Manager incur costs and incidental costs for installation of new Lessor's fixtures and fittings at the Properties in which the increase in rent shall be mutually agreed between the parties prior to the installation of the said new Lessor's fixtures and fittings. The Lessee shall furnish copies of the relevant documentary evidence, including but not limited to quotations, tender documents, price list, invoices to and for the Lessor and/or the Manager's verification of the costs and incidental costs for installation of the new Lessor's fixtures and fittings.

2.4.13 First right of refusal to purchase the Properties

In the event that the Lessor during the Contractual Term intends to sell the Properties, the respective Lessees shall be given the first right of refusal to purchase the Properties by way of a written notice from the Lessor to the respective Lessees offering to sell the Properties to the respective Lessees on such terms and at the reasonable and fair prevailing/open market value in respect of the Properties and in accordance with the applicable laws and requirements including the Listed Real Estate Investment Trust Guidelines, the relevant guidelines issued by the Securities Commission Malaysia ("**SC**"), the Capital Markets and Services Act 2007 and the listing requirements of Bursa Securities, to which notice the respective Lessees shall reply within 60 calendar days thereof.

The first right of refusal granted shall be valid but shall not be applicable and shall not extend beyond the Contractual Term. For the avoidance of doubt, the right of first refusal granted shall not be enforceable and no longer applicable if the Lease Agreements are terminated pursuant to the terms and conditions under the Lease Agreements.

2.4.14 Extended Contractual Term

If the respective Lessees wishes to take a further extension of the lease of the Properties for another fifteen (15) years from the expiry of the Contractual Term ("**Extended Contractual Term**"), the respective Lessees shall give a written notice to the Lessor of its intention to extend the lease of the Properties not less than twelve (12) calendar months prior to the expiry of the Contractual Term.

The Lessor may at its sole and absolute discretion grant to the Lessees a further lease of the Properties for the Extended Contractual Term at the rental terms and revised rental rate to be mutually agreed by the Lessor, the Manager and the Lessees but with otherwise upon the same terms and conditions of the Lease Agreements with the exception of this provision for renewal, the revised rental rate and the topping up of the security deposit and the utilities deposit to correspond with the revised rental rate, which shall be mutually agreed upon by both parties, variations to the terms and conditions of the Lease Agreements mutually agreed upon in writing by the parties during the Contractual Term and any changes in the applicable laws and requirements.

The parties will use their best endeavours to reach an agreement on the rent for the Extended Contractual Term by the date which is six (6) calendar months prior to the expiry of the Contractual Term.

2.5 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 market value of the Properties. For information, the net rental yield of the Properties is approximately 5.4% after taking into consideration direct expenses to the Properties which include, amongst others, assessment, takaful, maintenance and quit rent.

Al-`Aqar and KPJ had jointly appointed Cheston 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:-

Properties	Market Value (RM'mil)	Date of Valuation
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**	

The gross rental rate of the initial term of (5.75% x market value of the Properties) was arrived at after taking into consideration of the following:-

(i) The NPI of commercial properties acquired by Malaysian real estate investment trusts in year 2020 up to 31 March 2021, being the latest practicable date prior to the date of the announcement, which ranges from 4.96% and 6.28%;

(ii) The performance of the Malaysian real estate investment trusts. The NPI for real estate investment trusts (excluding foreign properties) listed on Bursa Securities ranges from 1.79% to 7.00% in year 2020 and 3.16% to 8.04% in year 2019;

(iii) The current state of the Malaysian economy and property market which have been impacted by the COVID-19 pandemic; and

(iv) The current interest environment. For information, the 3-month KLIBOR has dropped by more than 50% from 3.92% as at 30 June 2006 to 1.94% as at LPD. (Source: Bloomberg)

In addition, as stated in the valuation certificate as attached in Appendix II, the Independent Valuer observed that based on their analysis of the latest rental yield of the investment properties comprising UOA Corporate Tower, The Pinnacle Sunway and Menara Guoco, the rental yields range from 4.96% to 6.28%. The performance of various real estate investment trusts for the year ending 2019 and 2020 revealed that the current rental yield trends are within the range of 1.79% to 8.04% depending on the type of property, location, characteristics, tenure, nature and risk profile of the investment.

In light of the above, taking into consideration of the current state of the Malaysian economy and property market which have been impacted by the COVID-19 pandemic, the Independent Valuer is of the view that the fair rental yields of the Properties are within the abovementioned ranges.

For information, the total rental for the first year of the renewed Contractual Term amounted to RM40.94 million (existing 30 June 2020 – 29 June 2021: RM42.79 million). The renewed rental amount is a reduction of RM1.85 million or 4.3% as compared to existing rent.

Rental rate for the subsequent terms

The basis for the rental rate for the subsequent terms ((10-years MGS + 200 BPS) of the market value of the Properties) was arrived at after taking into consideration, the difference between Al-`Aqar's cost of equity ("**COE**") and the 10-years MGS as shown below:-

As at	***31.3.2021**	**31.12.2020**	**31.12.2019**	**31.12.2018**	**31.12.2017**
	(%)	**(%)**	**(%)**	**(%)**	**(%)**
Al-`Aqar's COE	5.05	5.07	5.30	7.28	6.72
10-years MGS	3.15	2.65	3.30	4.07	3.91
Difference	1.90	2.42	2.00	3.21	2.81

Note ** : Being the latest practicable date prior to the announcement.*

(Source: Bloomberg and BNM website)

The 2% incremental increase per annum for every Year 2 & Year 3 of the rental term was arrived at after taking into consideration, the average of the 10-year consumer price index year-on-year movement of approximately 2.2% (excluding year 2020 which is a negative). *(Source: Bloomberg)*

For clarification, the rent review formula of ((10-years MGS + 200 BPS) x Open Market Value of the Properties) is a basis for determining the rental amount. At each Succeeding Rental Term, the lowest rental amount that can be charged is RM40.94 million (being the Base Rent) and the maximum rental amount is 2% incremental increase over the RM value of the rent for the preceding year.

2.6 Transacted amount 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 Circular.

3. RATIONALE FOR THE PROPOSED LEASE RENEWAL

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:-

(i) Non-renewal of the Lease Agreements

The Proposed Lease Renewal is subject to the approval of unitholders of Al-`Aqar and shareholders of KPJ.

Based on FY 2020, the Properties contributed RM42.5 million which represent 36.7% of Al-`Aqar's revenue. The non-renewal of the lease agreement would affect Al-`Aqar's financial performance and its ability to payout dividends to its unitholders.

(ii) Dependence on a single lessee

Pursuant to the Proposed Lease Renewal, each of the Properties will be leased to a single lessee (i.e. the respective Subsidiaries).

As such, the rental income from the Properties is highly dependent on the performance and operation of the respective Subsidiaries. The Subsidiaries' parent company, KPJ, and its group of companies are experienced operators, and are instrumental to the success of the operations of other 28 private specialist hospitals throughout Malaysia. 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.

(iii) Suitable Shariah compliant lessees for all of Al-`Aqar's properties

Al-`Aqar is an Islamic REIT which requires tenants of all its properties to be Shariah compliant. As most of Al-`Aqar's properties are built for single use purpose i.e. hospitals, there is a risk that Al-`Aqar is unable to find suitable Shariah compliant lessees should the existing leases are not renewed. There can be no assurance that any non-renewal of existing leases will not have a material adverse impact on the financial performance of the REIT.

Notwithstanding the above, 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 material impact on the consolidated NA per unit and gearing of Al-`Aqar.

5.3 Earnings and 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 FY 31 December 2020 are as follows:-

	RM'000
Audited profit after tax	12,571
Less: Reduction in rental income	(1,543)
Less: Estimated expenses (one-off)	(600)
Pro forma profit	10,428
Existing basic EPU (sen)	1.71
Proforma basic EPU (sen)	
- including estimated expenses	1.42
- excluding estimated expenses	1.50

For information, Al-`Aqar has recently procured a new islamic financing to replace its Sukuk which had expired in early May 2021. The overall weighted average cost of borrowings of Al-`Aqar subsequent to the refinancing is 3.68% (as at 31 December 2020: 5.15%).

6. PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Lease Renewal pursuant to Paragraph 10.02(g) of the Listing Requirements is 43% based on the total rental income for 15 years (assuming 2% increase per annum) compared with the total assets of the REIT.

7. APPROVALS REQUIRED

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; and

(ii) the approval of the shareholders of KPJ at an EGM to be convened for the Proposed Lease Renewal.

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.

8. INTEREST OF MAJOR UNITHOLDERS OF AL-`AQAR, MAJOR SHAREHOLDERS AND DIRECTORS OF THE MANAGER

Save and disclosed below, none of the Directors, major unitholders of the REIT and persons connected to them, have any interests, direct or indirect in the Proposed Lease Renewal:-

8.1 Interested Major Unitholders' Interest and Major Shareholders of the Manager

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

	Direct		Indirect	
	No. of Units	**%**	**No. of Units**	**%**
	'000		'000	
JCorp	-	-	[(a)]284,248	38.6
KPJ	-	-	[(b)]284,075	38.6

Notes:-

(a) Deemed interested by virtue of its interest in KPJ under Section 8 of the Act.

(b) Deemed interested by virtue of its interest in several companies which are part of the KPJ Group.

The direct and indirect unitholdings of the persons connected to the Interested Major Unitholders in Al-`Aqar as at LPD are as follows:-

	Direct		Indirect	
	No. of Units	**%**	**No. of Units**	**%**
	'000		'000	
Pusat Pakar Tawakal Sdn.Bhd.	54,649	7.43	-	-
Bandar Baru Klang Specialist Hospital Sdn Bhd	36,115	4.91	-	-
Selangor Specialist Hospital Sdn. Bhd.	35,000	4.76	-	-
Seremban Specialist Hospital Sdn. Bhd.	23,731	3.22	-	-
Ampang Puteri Specialist Hospital Sdn. Bhd.	21,014	2.86	-	-
Medical Associates Sdn.Bhd.	19,055	2.59	-	-
Sentosa Medical Centre Sdn. Bhd.	15,653	2.13	-	-
Kedah Medical Centre Sdn.Bhd.	15,000	2.04	-	-
Johor Specialist Hospital Sdn.Bhd.	12,203	1.66	-	-
Puteri Specialist Hospital (Johor) Sdn. Bhd.	12,000	1.63	-	-
Perdana Specialist Hospital Sdn Bhd	11,789	1.60	-	-
KPJ Healthcare University College Sdn.Bhd.	7,759	1.05	-	-
Kuantan Specialist Hospital Sdn. Bhd.	5,000	0.68	-	-
Kajang Specialist Hospital Sdn. Bhd.	4,487	0.61	-	-
Jeta Gardens (QLD) Pty Ltd	3,787	0.51	-	-
Kota Kinabalu Specialist Hospital Sdn.Bhd.	3,500	0.48	-	-
Taiping Medical Centre Sdn Bhd	3,334	0.45	-	-
Johor Ventures Sdn Bhd	173	0.02	-	-

JCorp is also deemed an interested shareholder of the Manager. The Manager is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, which in turn is a wholly-owned subsidiary of JCorp.

JCorp and KPJ, being the Interested Major Unitholders, shall abstain from voting in respect of their direct and indirect interests in Al-`Aqar on the resolution pertaining to the Proposed Lease Renewal at the forthcoming EGM. JCorp and KPJ have undertaken to ensure that persons connected with them shall abstain from voting on the resolution pertaining to the Proposed Lease Renewal at the forthcoming EGM in respect of their direct or indirect interests in Al-`Aqar.

8.2 Interested Directors' Interests

The following directors are deemed interested by virtue of the following:-

(i) Dato' Mohd Redza Shah Bin 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 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 personnels of Johor Land Berhad, a wholly owned subsidiary of JCorp; and

(iv) Shamsul Anuar Bin 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**")

The Interested Directors and persons connected to the Interested Directors do not have any direct and indirect shareholdings in Al-`Aqar as at LPD.

Accordingly, the Interested Directors have abstained and will continue to abstain from deliberations and voting on the Proposed Lease Renewal at all Board meetings. They will also abstain from voting in respect of their direct and indirect interests, if any, on the resolution pertaining to the Proposed Lease Renewal at the forthcoming EGM.

In addition, the Interested Directors have undertaken to ensure that persons connected with them shall abstain from voting on the resolution pertaining to the Proposed Lease Renewal at the forthcoming EGM in respect of their direct and indirect interests in Al-`Aqar.

9. DIRECTORS' STATEMENT AND RECOMMENDATION

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.

Accordingly, the Board (save for the Interested Directors) recommends that you vote **IN FAVOUR** of the resolution pertaining to the Proposed Lease Renewal to be tabled at the REIT's forthcoming EGM.

10. BOARD AUDIT AND RISK COMMITTEE'S STATEMENT

The Board Audit and Risk Committee (save for Mohd Yusof 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.

11. INDEPENDENT ADVISER

The Proposed Lease Renewal is deemed as a related party transaction pursuant to the Listing Requirements. In view of the interest of the interested parties in the Proposed Lease Renewal, the Board had, on 17 February 2021, appointed the Independent Adviser to undertake the following:-

(i) comment as to whether the Proposed Lease Renewal are:-

(a) fair and reasonable so far as the non-interested unitholders of Al-`Aqar are concerned; and

(b) to the detriment of the non-interested unitholders of Al-`Aqar, and set out the reasons for such opinion, the key assumptions made and the factors taken into consideration in forming that opinion;

(ii) advise the non-interested directors of the Manager and the non-interested unitholders of Al-`Aqar on the Proposed Lease Renewal, and whether the non-interested unitholders of Al-`Aqar should vote in favour of the Proposed Lease Renewal; and

(iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to items (i) and (ii) above.

Please refer to the independent advice letter as set out in Part B of this Circular.

12. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

As at LPD, save for the private placement to raise gross proceeds of up to RM50 million which was announced on 27 October 2020, the Board is not aware of any outstanding corporate exercise which has been announced by Al-`Aqar but pending completion prior to the printing of this Circular.

Al-`Aqar had on 23 April 2021 announced that Bursa Securities had vide its letter dated 22 April 2021 granted Al-`Aqar an extension of time to 3 November 2021 to complete the implementation of the Proposed Private Placement. In addition, Al-`Aqar had at its annual general meeting on 28 April 2021 procured its unitholders' approval for the general mandate to allot and issue new units up to 20% of the total number of issued units of Al-`Aqar.

13. TENTATIVE TIMETABLE FOR COMPLETION

Barring any unforeseen circumstances, subject to the required Al-`Aqar's unitholders' approvals being obtained, the Proposed Lease Renewal is expected to be completed by the end of the 2nd quarter of 2021 and the Lease Agreements shall commence on the 30 June 2021.

The estimated timeframe for the Proposed Lease Renewal is as follows:-

Date	Events
10 June 2021	- EGM to approve the Proposed Lease Renewal
30 June 2021	- Commencement of the Lease Agreement - Completion of the Proposed Lease Renewal

14. EGM

The EGM, (the notice of which was circulated on 24 May 2021 and an extract of which is also enclosed in this Circular), will be held on a fully virtual basis at the Broadcast Venue: Unit 1-19-02, Block 1, V Square, Jalan Utara, 46200 Petaling Jaya, Selangor, on Thursday, 10 June 2021 at 11a.m. for the purpose of considering, and if thought fit, passing the resolution to give effect to the Proposed Lease Renewal.

If you are unable to attend and vote in person at the EGM, you may complete and return the Form of Proxy in the notice of EGM accordance with the instructions therein as soon as possible and in any event so as to arrive at the Registered Office of DRMSB at Level 16, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor at least twenty-four (24) hours before the time set for the EGM. The lodging of a Form of Proxy does not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

15. FURTHER INFORMATION

Unitholders are advised to refer to the attached Appendices for further information.

Yours faithfully,
For and on behalf of the Board of Directors
DAMANSARA REIT MANAGERS SDN BERHAD
(as the Manager of Al-`Aqar Healthcare REIT)

DATO' WAN KAMARUZAMAN WAN AHMAD
Independent Non-Executive Director

PART B

INDEPENDENT ADVICE LETTER FROM MAINSTREET TO THE NON-INTERESTED UNITHOLDERS OF AL-`AQAR IN RELATION TO THE PROPOSED LEASE RENEWAL

All the definitions used in this executive summary shall have the same meanings and expressions as defined in the Definitions section of the Circular, except where the context otherwise requires or where otherwise defined herein.

All references to "you" and "your" are to the non-interested unitholders of Al-'Aqar, whilst references to "we", "us" and "our" are to MainStreet, being the Independent Adviser for the Proposed Lease Renewal.

This executive summary highlights the salient information of the Proposed Lease Renewal. Unitholders of Al-'Aqar are advised to read and understand this IAL in its entirety, together with Part A of the Circular and the appendices thereto for any other relevant information, and are not to rely solely on the executive summary before forming an opinion on the Proposed Lease Renewal. You are also advised to consider carefully the recommendation contained herein before voting on the relevant resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM of Al-'Aqar.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, investment adviser, accountant, solicitor or other professional advisers immediately.

1. INTRODUCTION

On 6 April 2021, on behalf of the Board of DRMSB, AmInvestment Bank announced that DRMSB and ART on behalf of the REIT proposes to enter into six (6) separate lease agreements with the Subsidiaries of KPJ (as detailed in Section 2.1 of Part A of the Circular) to renew the lease of the Properties for a further period of 15 years.

The parties had on 6 April 2021 executed the Letters and the Lease Agreements in escrow and agreed that the Lease Agreements are to be dated upon fulfilment of the conditions of the Lease Agreements as set out under Section 2.4.3 of Part A of the Circular.

The purpose of this IAL is to provide the non-interested unitholders of Al-'Aqar with an independent opinion as to whether the Proposed Lease Renewal is fair and reasonable and whether or not the terms and conditions of the Proposed Lease Renewal are detriment to the non-interested unitholders of Al-'Aqar.

Please refer to Sections 1 and 2 of Part A of the Circular for details on the Proposed Lease Renewal.

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2. OUR EVALUATION OF THE PROPOSED LEASE RENEWAL

In evaluating the Proposed Lease Renewal, we have taken into consideration the following factors:

Section in this IAL	Area of evaluation	Comments
Section 6.1	Rationale for the Proposed Lease Renewal	The Proposed Lease Renewal will enable Al-'Aqar to continue leasing the Properties to KPJ Group, an established hospital operator in Malaysia and the REIT's principal lessee. The Properties contributed RM42.48 million or 36.71% of Al-'Aqar's total revenue of RM115.71 million for FY 2020. We note that the new rental amount of the Properties will reduce by RM1.85 million or 4.32% which is in line with the prevailing market conditions as compared to the existing rent. Nevertheless, the new rental amount will continue to contribute significantly to Al-'Aqar's revenue. We are of the view that the rationale for the Proposed Lease Renewal is **reasonable** and **not detrimental** to the non-interested unitholders of Al-'Aqar as by leasing the Properties to KPJ Group, it will allow Al-'Aqar to meet its financial obligations and distribution to its unitholders.
Section 6.2	Evaluation of the basis and justification of arriving at the rental rate	The rental amount for the first year has been derived by multiplying the agreed rate of 5.75% with the respective market value of the Properties. We concur with the valuation methodologies adopted by the Independent Valuer for the valuation of the Properties and the valuation methodologies are appropriately applied. As such, we are satisfied with the valuation of the Properties by the Independent Valuer and are of the view that the market value of RM712 million as appraised by the Independent Valuer is fair. We are also of the view that the basis and justifications for arriving at the rental rate of 5.75% are **fair** and **reasonable** after taking into account the following factors: (i) the rental rate of 5.75% is within the range of the NPI for real estate investment trusts (excluding foreign properties) listed on Bursa Securities which ranges from 1.79% to 7.00% in 2020 and 3.16% to 8.04% in 2019; (ii) the rental rate of 5.75% is within the range of the NPI of commercial properties acquired by Malaysian real estate investment trusts in 2020 up to 31 March 2021 which ranges from 4.96% and 6.28%; (iii) the uncertainties in the current state of the Malaysian economy and the negative impact of the COVID-19 pandemic on the local property market; and

Section in this IAL	**Area of evaluation**	**Comments**
		(iv) the current interest environment as evidence by the drop in the three (3)-month KLIBOR as stated in Section 2.5 of Part A of the Circular.
Section 6.3	Salient terms of the Lease Agreements	The salient terms of the Lease Agreements are **reasonable** and **not detrimental** to the non-interested unitholders of Al-'Aqar.
Section 6.4	Risk factors in relation to the Proposed Lease Renewal	We take cognisance of the risk factors pertaining to the Proposed Lease Renewal as set out in Section 4 of Part A of the Circular. We wish to highlight that although measures will be taken by the Board and the management of Al-'Aqar to limit/mitigate the risks factors, no assurance can be given that the risk factors will not occur and give rise to material and adverse impact on the operation and business of Al-'Aqar, its competitiveness, financial positions and/or Al-'Aqar's prospects thereon. In evaluating the Proposed Lease Renewal, non-interested unitholders of Al-'Aqar should carefully consider the said risk factors prior to voting on the resolution pertaining to the Proposed Lease Renewal at the forthcoming EGM.
Section 6.5	Effects of the Proposed Lease Renewal	The Proposed Lease Renewal will not result in any change in Al-'Aqar's total unit capital and substantial unitholders' unitholdings as the Proposed Lease Renewal does not involve any issuance of new units in Al-'Aqar. 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 material impact on the consolidated NA per unit and gearing of Al-'Aqar. As stated in Section 5.3 of Part A of the Circular, Al-'Aqar has recently procured a new Islamic financing to replace its Sukuk which had expired in early May 2021. The overall weighted average cost of borrowings of Al-'Aqar subsequent to the refinancing is 3.68% (as at 31 December 2020: 5.15%). This will mitigate the expected reduction in Al-'Aqar's EPU as a result of the Proposed Lease Renewal. Based on the above, we are of the view that the overall financial effects of the Proposed Lease Renewal are **not detrimental** to the interest of the non-interested unitholders of Al-'Aqar.

3. CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the Proposed Lease renewal and have set out our evaluation in Section 6 of this IAL. The non-interested unitholders of Al-'Aqar should carefully consider the merits and demerits of the Proposed Lease Renewal based on all relevant and pertinent factors including those set out above and other considerations as set out in this IAL, the Circular and appendices.

Based on our assessment and evaluation, we are of the opinion that the Proposed Lease Renewal is **fair** and **reasonable**, at arm's length and are **not to the detriment** of the non-interested unitholders of Al-'Aqar.

Accordingly, we recommend that the non-interested unitholders of Al-'Aqar **vote in favour** of the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM of Al-'Aqar.

As far as our analyses and assessment as contained in the IAL are concerned, we have considered factors which we believe to be of general relevance to the unitholders of Al-'Aqar as a whole. We have not taken into consideration any specific investment objective, financial situation, risk profile and particular need of any individual unitholder or any specific groups of unitholders of Al-'Aqar.

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MainStreet

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24 May 2021

To: The non-interested unitholders of Al-‘Aqar Healthcare REIT

Dear Sir/Madam,

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

INDEPENDENT ADVICE LETTER (“IAL”) TO THE NON-INTERESTED UNITHOLDERS OF AL-‘AQAR IN RELATION TO THE PROPOSED LEASE RENEWAL

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*This IAL is prepared for the inclusion in the circular to the unitholders of Al-‘Aqar dated 24 May 2021 (“**Circular**”) in relation to the Proposed Lease Renewal. All the definitions used in this IAL shall have the same meanings and expressions as defined in the Definitions section of the Circular, except where the content otherwise requires or where otherwise defined herein.*

1. INTRODUCTION

On 6 April 2021, on behalf of the Board of DRMSB, AmInvestment Bank announced that DRMSB and ART on behalf of the REIT proposes to enter into six (6) separate lease agreements with the Subsidiaries of KPJ (as detailed in Section 2.1 of Part A of the Circular) to renew the lease of the Properties for a further period of 15 years.

The parties had on 6 April 2021 executed the Letters and the Lease Agreements in escrow and agreed that the Lease Agreements are to be dated upon fulfilment of the conditions of the Lease Agreements as set out under Section 2.4.3 of Part A of the Circular.

By virtue of the interests of the Interested Directors and Interested Major Unitholders, who are deemed interested in the Proposed Lease Renewal as detailed out in Section 8 of Part A of the Circular, the Proposed Lease Renewal is deemed as a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements. Accordingly, your Board had on 17 February 2021 appointed MainStreet to act as the Independent Adviser to advise the non-interested directors of the Manager and the non-interested unitholders of Al-‘Aqar in respect of the Proposed Lease Renewal.

The purpose of this IAL is to provide the non-interested unitholders of Al-‘Aqar with an independent evaluation on the fairness and reasonableness of the Proposed Lease Renewal and whether or not the terms and conditions of the Proposed Lease Renewal are detriment to the non-interested unitholders of Al-‘Aqar together with our recommendation thereon, subject to the scope and limitations of our role and evaluation as specified herein, in relation to the Proposed Lease Renewal.

The non-interested unitholders of Al-‘Aqar should nonetheless also perform their own evaluation on the merits of the Proposed Lease Renewal before making a decision on the course of action to be taken.

This IAL is prepared solely for the use of the non-interested unitholders of Al-‘Aqar for the purpose of considering the Proposed Lease Renewal and should not be used or relied upon by any other party for any other purpose whatsoever.

NON-INTERESTED UNITHOLDERS OF AL-‘AQAR ARE ADVISED TO READ BOTH THIS IAL AND PART A OF THE CIRCULAR TOGETHER WITH THE ACCOMPANYING APPENDICES AND CAREFULLY CONSIDER THE RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED LEASE RENEWAL TO BE TABLED AT THE FORTHCOMING EGM.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, INVESTMENT ADVISER, ACCOUNTANT, SOLICITOR OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2. DETAILS OF THE PROPOSED LEASE RENEWAL

The full details of the Proposed Lease Renewal are set out in Sections 1 and 2 of Part A of the Circular, which should be read in its entirety by the non-interested unitholders of Al-‘Aqar.

3. SCOPE AND LIMITATIONS TO OUR EVALUATION OF THE PROPOSED LEASE RENEWAL

We were not involved in the formulation or negotiations of the terms and conditions of the Proposed Lease Renewal nor were we involved in the deliberations leading up to the decision by your Board in respect of the Proposed Lease Renewal. The terms of reference of our appointment as the Independent Adviser to the non-interested unitholders of Al-‘Aqar in relation to the Proposed Lease Renewal are in accordance with the requirements set out in Paragraph 10.08(3) of the Listing Requirements and the Best Practice Guide in relation to Independent Advice Letters issued by Bursa Securities.

Our scope as the Independent Adviser is limited to expressing an independent opinion on the fairness and reasonableness of the Proposed Lease Renewal and whether the Proposed Lease Renewal is detrimental to you, together with our recommendation on whether you should vote in favour of the resolution pertaining to the Proposed Lease Renewal, based on the information and documents requested and provided to us or which are available to us, including the following:

(i) the information contained in Part A of the Circular and the appendices attached thereto;

(ii) information furnished to us (both orally and in writing) as well as discussions with the Board and management of Al-‘Aqar;

(iii) the Lease Agreements;

(iv) Valuation Reports and valuation certificate prepared by Cheston; and

(v) other relevant publicly available information.

We have relied on the Board and management of the Manager, the Trustee and Al-‘Aqar to exercise due care to ensure that all information, documents, confirmations and representations provided to us to facilitate our evaluation of the Proposed Lease Renewal are accurate, valid and complete in all material aspects. After making all reasonable enquiries and to the best of our knowledge, we are satisfied that sufficient information has been obtained and we have no reason to believe that the aforesaid information provided to us or which are available to us is unreliable, incomplete, misleading and/or inaccurate as at the LPD.

The Board has seen, reviewed and accepted this IAL. The Board, collectively and individually, accepts full responsibility for the accuracy of the information contained in this IAL (save for the views and recommendation of MainStreet) and confirms that, after having made all reasonable enquiries and to the best of their knowledge, there are no omission of any material facts which would make any statement in this IAL false or misleading.

In rendering our advice, we have taken into consideration pertinent factors which we believe are of relevance and importance to you for a holistic assessment of the Proposed Lease Renewal and therefore, are of general concern to you. Notwithstanding the following:

(i) it is not within our terms of reference to express any opinion on the legal, accounting and taxation issues relating to the Proposed Lease Renewal; and

(ii) we have not taken into consideration any specific investment objectives, financial situation, risk profile or particular needs of any individual unitholder or any specific group of unitholders. We recommend that any of you who require specific advice in relation to the Proposed Lease Renewal in the context of your individual investment objectives, financial situation, risk profile or particular needs should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

Our advice should be considered in the context of the entirety of this IAL. Our evaluation and opinion as set out in this IAL are based on, amongst others, the equity capital market, economic, industry, regulatory and other prevailing conditions and the information/documents made available to us as at the LPD. It is also based on the assumption that the parties to the Lease Agreements are able to fulfil their respective obligations in accordance with the terms and conditions of the Lease Agreements.

After the despatch of the Circular and the IAL, we will notify the non-interested unitholders if we become aware of the following:

(i) significant change affecting the information contained in the IAL;

(ii) there is a reason to believe that the statements in the IAL are misleading/deceptive; and

(iii) there is a material omission in the IAL.

4. DECLARATION OF CONFLICT OF INTEREST AND OUR CREDENTIALS, EXPERIENCE AND EXPERTISE

We confirm that there is no situation of conflict of interest or potential conflict of interest situation arising from us carrying out our role as the IA for the Proposed Lease Renewal.

We are a corporate finance advisory firm licensed by the SC to carry on the regulated activity of advising on corporate finance under the CMSA. We have in the past assumed the role as an Independent Adviser for other corporate exercises, which included the following transactions since the last three (3) years:

(i) Proposed exemption under Paragraph 4.08(1)(B) and 4.08(1)(C) of the Rules on Take-overs, Mergers and Compulsory Acquisitions and the Malaysian Code on Take-overs and Mergers 2016 for F.C.H. Holdings Sdn Bhd ("**FCH**") and its parties acting in concert from the obligation to undertake a mandatory offer for all remaining shares and convertible securities in Sinmah Capital Berhad not already owned by FCH and its parties acting in concert.

(ii) Proposed acquisition by Sinmah Capital Berhad of the entire share capital of Budi Saja Sdn Bhd comprising 3,000,003 ordinary shares for a cash consideration of RM10,345,000 and proposed acquisition of the entire share capital of Meadow Assets Sdn Bhd, comprising 3,000,000 ordinary shares for a cash consideration of RM1,500,000.

(iii) Unconditional mandatory take-over offer by Ho Wah Genting Holding Sdn Bhd through M&A Securities Sdn Bhd to acquire all the remaining ordinary shares and all the remaining unexercised warrants in Ho Wah Genting Berhad not already owned by Ho Wah Genting Holding Sdn Bhd, Dato' Lim Ooi Hong, Lim Wee Kiat and Datuk Teo Tiew; and

(iv) Unconditional mandatory take-over offer by Hextar Rubber Sdn Bhd (formerly known as Erpstar Inc. Sdn Bhd) and Dato' Ong Choo Meng (collectively referred to as the "**Joint Offerors**") through M&A Securities Sdn Bhd to acquire all the remaining ordinary shares in Rubberex Corporation (M) Berhad which are not already owned by the Joint Offerors.

We did not have any professional relationship with Al-'Aqar in the past (2) years preceding the date of our appointment.

Premised on the foregoing, we confirm that we are capable and competent to carry out the role and responsibilities as the Independent Adviser to advise the non-interested directors and non-interested unitholders of Al-'Aqar in relation to the Proposed Lease Renewal.

5. INTEREST OF MAJOR UNITHOLDERS OF AL-`AQAR, MAJOR SHAREHOLDERS AND DIRECTORS OF THE MANAGER

We note from Section 8 of Part A of the Circular that, saved 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:

5.1 Interested Major Unitholders' interest and Major Shareholders of the Manager

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

	Direct		Indirect	
	No. of Units '000	%	No. of Units '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.

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

	Direct		Indirect	
	No. of Units '000	%	No. of Units '000	%
Pusat Pakar Tawakal Sdn.Bhd.	54,649	7.43	-	-
Bandar Baru Klang Specialist Hospital Sdn Bhd	36,115	4.91	-	-
Selangor Specialist Hospital Sdn. Bhd.	35,000	4.76	-	-
Seremban Specialist Hospital Sdn. Bhd.	23,731	3.22	-	-
Ampang Puteri Specialist Hospital Sdn. Bhd.	21,014	2.86	-	-
Medical Associates Sdn.Bhd.	19,055	2.59	-	-
Sentosa Medical Centre Sdn. Bhd.	15,653	2.13	-	-
Kedah Medical Centre Sdn.Bhd.	15,000	2.04	-	-
Johor Specialist Hospital Sdn.Bhd.	12,203	1.66	-	-
Puteri Specialist Hospital (Johor) Sdn. Bhd.	12,000	1.63	-	-
Perdana Specialist Hospital Sdn Bhd	11,789	1.60	-	-
KPJ Healthcare University College Sdn.Bhd.	7,759	1.05	-	-
Kuantan Specialist Hospital Sdn. Bhd.	5,000	0.68	-	-
Kajang Specialist Hospital Sdn. Bhd.	4,487	0.61	-	-
Jeta Gardens (QLD) Pty Ltd	3,787	0.51	-	-
Kota Kinabalu Specialist Hospital Sdn.Bhd.	3,500	0.48	-	-
Taiping Medical Centre Sdn Bhd	3,334	0.45	-	-
Johor Ventures Sdn Bhd	173	0.02	-	-

JCorp is also deemed an interested shareholder of the Manager. The Manager is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, which in turn is a wholly-owned subsidiary of JCorp.

Accordingly, the Interested Major Unitholders shall abstain from voting in respect of their direct and indirect unitholdings in Al-'Aqar pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM. In addition, the Interested Major Unitholders have undertaken to 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.

5.2 Interested Directors' interest

The following directors are deemed interested by virtue of the following:

(i) Dato' Mohd Redza Shah Bin Abdul Wahid is an Independent Non-Executive Chairman of the Manager and also an Independent Non-Executive Director of KPJ;

(ii) Wan Azman Bin Ismail is a Non-Independent Executive Director of the Manager and also a senior management personnel of 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 Bin 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.

Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations and decisions at the Board meetings relating to the Proposed Lease Renewal. The Interested Directors will also abstain from 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.

In addition, the Interested Directors have undertaken 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.

6. OUR EVALUATION OF THE PROPOSED LEASE RENEWAL

In evaluating the Proposed Lease Renewal, we have taken into consideration the following factors:

	Factors	Details in this IAL
(i)	Rationale for the Proposed Lease Renewal	Section 6.1
(ii)	Evaluation of the basis and justification of arriving at the rental rate	Section 6.2
(iii)	Salient terms of the Lease Agreements	Section 6.3
(iv)	Risk factors relating to the Proposed Lease Renewal	Section 6.4
(v)	Effects of the Proposed Lease Renewal	Section 6.5

6.1 Rationale for the Proposed Lease Renewal

We take note of the rationale for the Proposed Lease Renewal as set out in Section 3 of Part A of the Circular.

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 principal lessee.

In terms of revenue contribution, the Properties contributed RM42.48 million or 36.71% of Al-‘Aqar’s total revenue of RM115.71 million for FY 2020. We note that the new rental amount of the Properties will reduce by RM1.85 million or 4.32% in line with the prevailing market conditions as compared to the existing rent. Nevertheless, the new rental amount will still contribute significantly to Al-‘Aqar’s revenue.

We also note that it is the objective of Al-‘Aqar to provide its unitholders with stable distribution per unit with the potential for sustainable long-term growth of such distributions and the net asset value per unit. The lease period of 15 years will provide a long-term stable income stream for Al-‘Aqar.

(Source: Al-‘Aqar Annual Report 2020)

Based on the above, we are of the view that the rationale for the Proposed Lease Renewal is **reasonable** and **not detrimental** to the non-interested unitholders of Al-‘Aqar as the leasing of the Properties to the KPJ Group will allow Al-‘Aqar to receive a long-term stable lease income and eventually to distribute dividends to its unitholders.

6.2 Evaluation of the basis and justification of arriving at the rental rate

As set out Section 2.5 of Part A of the Circular, the rental rate was arrived at after the negotiation between the parties. The new rental amount for the first year has been derived by multiplying the agreed rate of 5.75% with the respective market value of the Properties. The total rental for the first year of the renewed Contractual Term will amount to RM40.94 million (existing rental amount from 30 June 2020 to 29 June 2021: RM42.79 million). The new rental amount is a slight reduction of RM1.85 million or 4.32% as compared to the existing rent.

The agreed rate of 5.75% for the Proposed Lease Renewal was arrived at after taking into consideration the following:

(i) the NPI of commercial properties acquired by Malaysian real estate investment trusts in 2020 up to 31 March 2021, which ranges from 4.96% and 6.28%;

(ii) the performance of the Malaysian real estate investment trusts. The NPI for real estate investment trusts (excluding foreign properties) listed on Bursa Securities ranges from 1.79% to 7.00% in 2020 and from 3.16% to 8.04% in 2019;

(iii) the current state of the Malaysian economy and property market which have been adversely impacted by the COVID-19 pandemic; and

(iv) the current interest environment. For information, the three (3)-month KLIBOR has dropped by more than 50% from 3.92% as at 30 June 2006 to 1.94% as at LPD. *(Source: Bloomberg)*

The details of the Properties are disclosed in Section 2.3 of Part A of the Circular. We note that, in arriving at the market value of the Properties, the Independent Valuer has adopted Income Approach by Profits Method (Discounted Cash Flow ("**DCF**")) as the primary valuation methodology and Cost Approach as a check. The description of the valuation methodologies used by the Independent Valuer are as follows:

Valuation method	Description
Income Approach by Profits Method (DCF)	This method is adopted where trading is the essence to the value of the property (business-based property) and capitalises future net trading profit as a basis for estimating the market value of the Properties as a going concern inclusive of goodwill, hospital operating equipment, furniture, fittings, plant, machinery and equipment.
Cost Approach	This approach entails the summation of the market value of land and Depreciated Replacement Cost ("**DRC**") of the building. This approach is the most common method as it can be applied to wide range of assets. It estimates value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. It is based on the principle of substitution, i.e. that unless undue time, inconvenience, risk or other factors are involved, the price that a buyer in the market would pay for the asset being valued would not be more than the cost to construct an equivalent asset. In arriving at the market value of the land, the Independent Valuer has adopted the Market/Comparison Approach which is premised on the principle that comparison is made of the property under valuation with sales of other similar properties. Where dissimilarities exist, adjustments are made. The building component is arrived at by the DRC method which is derived from the Gross Current Reproduction/Replacement Cost New ("**GCRCN**") and deducting therefrom the accrued depreciation comprising physical, functional and economical obsolescence.

The summary of the total market value of the Properties as disclosed in the valuation certificate is as follows:

No.	Property	Market Value RM'000
(1)	APSH	157,000
(2)	DSH	135,000
(3)	JSH	147,000
(4)	PSH	51,000
(5)	SSH	100,000
(6)	ISH	122,000
	TOTAL	**712,000**

6.2.1 Income Approach by Profits Method (DCF)

The Income Approach by Profits Method (DCF) entails the estimation of future annual cash flows over a five (5)-year investment horizon from the valuation date by reference to expected revenue growth rates, operating expenses and the Properties are sold at the commencement of the terminal year of the cash flow. The present value of future cash flow is then determined by the application of an appropriate discount rate to derive a net present value of the Properties.

The following parameters were adopted by the Independent Valuer in undertaking its assessment:

(i) APSH

a) Occupancy rate

The projected occupancy rates adopted by the Independent Valuer are as follows:

Year	2021	2022	2023	2024	2025
Occupancy rate (%)	60.00	63.00	66.15	69.46	72.93

The Independent Valuer projects a lower occupancy rate for 2021 due to the impact of COVID-19 pandemic. They have gradually increased the occupancy rate at 5% per annum for the average occupancy rate, which is expected to return to normalcy in tandem with the recovery in the Malaysian economy.

We note that the occupancy rate for 2016, 2017 and 2018 were 76.27%, 80.21% and 73.24% respectively. In 2019, the occupancy rate reduced to 71.29%. The occupancy rate has further reduced to 44.74% in year 2020 due to the impact of COVID-19 pandemic.

Based on the above, we are of the opinion that the projected occupancy rate is fair.

b) No. of inpatient admitted days

The number of inpatients admitted days in a year is derived from the total beds occupied divided by the number of inpatients admitted. The Independent Valuer has adopted 2.92 days, which is the average for 2017 to 2019. The Independent Valuer excluded year 2020 as it was impacted by the COVID-19 pandemic and it does not reflect the real performance of the hospital.

Thus, we are of the opinion that the number of inpatients admitted days is fair.

c) Ratio of number of outpatient/inpatient

The Independent Valuer has adopted average ratio of 7.92, which is the average for 2017 to 2019.

We are of the opinion that the ratio of number of outpatient/inpatient is fair.

d) Projected revenue

The projected revenue consists of consultant inpatient revenue per occupied bed, consultant outpatient revenue, hospital inpatient revenue per occupied bed and hospital outpatient revenue. The Independent Valuer has adopted the average revenue for the past three (3) years historical performance from 2017 to 2019. The revenues used for the forecast are RM897, RM139, RM2,281 and RM349 for consultant inpatient revenue per occupied bed, consultant outpatient revenue per person, hospital inpatient revenue per occupied bed and hospital outpatient revenue per person respectively.

Based on the above, we are of the opinion that the projected revenue is fair.

e) Cost of sale

The cost of sale consists of material, direct staff cost and operating overhead.

We note that for the material cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 29.6% of hospital inpatient and outpatient revenue throughout the projection period. Whilst for direct staff cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 13.3% of the gross operating revenue.

For the operating overheads, the Independent Valuer has adopted 5% per annum escalation throughout the projection period.

Based on the above, we are of the opinion that the projected cost of sale is fair.

f) Undistributed operating expenses

Undistributed operating expenses consist of administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost. The undistributed operating expenses moves in tandem with the Total Operating Revenue.

The Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 11.9%, 0.1% and 4.8% from the total revenue for administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost respectively.

g) Quit rent and assessment and insurance premium

The Independent Valuer has adopted the actual quit rent and assessment and insurance premium for the hospital.

h) Capital reserve fund

The Independent Valuer has adopted a five (5)-year average of RM7.8 million from 2014 to 2018 for the capital reserve fund for the replacement of furniture fitting equipment, hospital operating equipment and capital expenditure.

i) Terminal capitalisation rate

The Independent Valuer uses a terminal capitalisation rate of 9.75% after making necessary adjustments based on recent transacted yields of private medical centres in Malaysia and the current economic condition that is impacted by the COVID-19 pandemic. APSH has an unexpired leasehold interest of about 68.28 years. Based on the Independent Valuer's yield analysis, the recent transacted yields of private medical centres in Malaysia were in the region of about 7.19% to 9.79%.

Based on the above, we are of the opinion that the applied terminal capitalisation rate of 9.75% is fair.

j) Discount rate

The Independent Valuer is of the opinion that a discount rate of 11.75%, which is 2% higher than the terminal capitalisation rate to reflect additional risk on the projected future revenue. The discount rate adopted is within the range of the industry averages of medical centres in Malaysia and reflective of all the physical and investment characteristics of the hospital.

Based on the above, we are of the view that the applied discount rate of 11.75% is fair.

(ii) DSH

a) Occupancy rate

The projected occupancy rates adopted by the Independent Valuer are as follows:

Year	2021	2022	2023	2024	2025
Occupancy rate (%)	50.70	53.24	55.90	58.70	61.64

The Independent Valuer projects a lower occupancy rate for 2021 due to the impact of COVID-19 pandemic. They have gradually increased the occupancy rate at 5% per annum for the average occupancy rate, which is expected to return to normalcy in tandem with the recovery in the Malaysian economy.

We note that the occupancy rate for 2016, 2017 and 2018 were 58.87%, 56.63% and 56.48% respectively. In 2019, the occupancy rate increased to 61.47%. The occupancy rate reduced to 39.44% in year 2020 due to the impact of COVID-19 pandemic.

Based on the above, we are of the opinion that the projected occupancy rate is fair.

b) No. of inpatient admitted days

The number of inpatients admitted days in a year is derived from the total beds occupied divided by the number of inpatients admitted. The Independent Valuer has adopted 2.57 days, which is the average for 2017 to 2019. The Independent Valuer excluded year 2020 as it was impacted by the COVID-19 pandemic and it does not reflect the real performance of the hospital.

Thus, we are of the opinion that the number of inpatients admitted days is fair.

c) Ratio of number of outpatient/inpatient

The Independent Valuer has adopted average ratio of 10.68, which is the average for 2017 to 2019.

We are of the opinion that the ratio of number of outpatient/inpatient is fair.

d) Projected revenue

The projected revenue consists of consultant inpatient revenue per occupied bed, consultant outpatient revenue, hospital inpatient revenue per occupied bed and hospital outpatient revenue. The Independent Valuer has adopted the average revenue for the past three (3) years historical performance from 2017 to 2019. The revenues used for the forecast are RM1,116, RM135, RM2,763 and RM264 for consultant inpatient revenue per occupied bed, consultant outpatient revenue per person, hospital inpatient revenue per occupied bed and hospital outpatient revenue per person respectively.

Based on the above, we are of the opinion that the projected revenue is fair.

e) Cost of sale

The cost of sale consists of material, direct staff cost and operating overhead.

We note that for the material cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 30.3% of hospital inpatient and outpatient revenue throughout the projection period. Whilst for direct staff cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 12.9% of the gross operating revenue.

For the operating overheads, the Independent Valuer has adopted 5% per annum escalation throughout the projection period.

Based on the above, we are of the opinion that the projected cost of sale is fair.

f) Undistributed operating expenses

Undistributed operating expenses consist of administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost. The undistributed operating expenses moves in tandem with the Total Operating Revenue.

The Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 11.9%, 0.6% and 5.4% of the total operating revenue for administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost respectively.

g) Quit rent and assessment and insurance premium

The Independent Valuer has adopted the actual quit rent and assessment and insurance premium for the hospital.

h) Capital reserve fund

The Independent Valuer has adopted a five (5)-year average of RM10.60 million from 2015 to 2019 for the capital reserve fund for the replacement of furniture fitting equipment, hospital operating equipment and capital expenditure.

i) Terminal capitalisation rate

The Independent Valuer uses a terminal capitalisation rate of 8.00% after making necessary adjustments based on recent transacted yields of private medical centres in Malaysia and the current economic condition that is impacted by the COVID-19 pandemic. DSH has an interest in perpetuity. Based on the Independent Valuer's yield analysis, the recent transacted yields of private medical centres in Malaysia were in the region of about 7.19% to 9.79%.

Based on the above, we are of the opinion that the applied terminal capitalisation rate of 8.00% is fair.

j) Discount rate

The Independent Valuer is of the opinion that a discount rate of 10.00%, which is 2% higher than the terminal capitalisation rate to reflect additional risk on the projected future revenue. The discount rate adopted is within the range of the industry averages of medical centres in Malaysia and reflective of all the physical and investment characteristics of the hospital.

Based on the above, we are of the view that the applied discount rate of 10.00% is fair.

(iii) JSH

a) Occupancy rate

The projected occupancy rates adopted by the Independent Valuer are as follows:

Year	2021	2022	2023	2024	2025
Occupancy rate (%)	62.00	65.10	68.36	71.77	75.36

The Independent Valuer projects a lower occupancy rate for 2021 due to the impact of COVID-19 pandemic. They have gradually increased the occupancy rate at 5% per annum for the average occupancy rate, which is expected to return to normalcy in tandem with the recovery in the Malaysian economy.

We note that the occupancy rate for 2016, 2017 and 2018 were 71.67%, 75.14% and 69.95% respectively. In 2019, the occupancy rate increased to 72.62%. The occupancy rate reduced to 48.73% in year 2020 due to the impact of COVID-19 pandemic.

Based on the above, we are of the opinion that the projected occupancy rate is fair.

b) No. of inpatient admitted days

The number of inpatients admitted days in a year is derived from the total beds occupied divided by the number of inpatients admitted. The Independent Valuer has adopted 2.65 days, which is the average for 2017 to 2019. The Independent Valuer excluded 2020 as it was impacted by the COVID-19 pandemic and it does not reflect the real performance of the hospital.

Thus, we are of the opinion that the number of inpatients admitted days is fair.

c) Ratio of number of outpatient/inpatient

The Independent Valuer has adopted average ratio of 7.76, which is the average for 2017 to 2019.

We are of the opinion that the ratio of number of outpatient/inpatient is fair.

d) Projected revenue

The projected revenue consists of consultant inpatient revenue per occupied bed, consultant outpatient revenue, hospital inpatient revenue per occupied bed and hospital outpatient revenue. The Independent Valuer has adopted the average revenue for the past three (3) years historical performance from 2017 to 2019. The revenues used for the forecast are RM1,010, RM128, RM2,479 and RM442 for consultant inpatient revenue per occupied bed, consultant outpatient revenue per person, hospital inpatient revenue per occupied bed and hospital outpatient revenue per person respectively.

Based on the above, we are of the opinion that the projected revenue is fair.

e) Cost of sale

The cost of sale consists of material, direct staff cost and operating overhead.

We note that for the material cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 26.9% of hospital inpatient and outpatient revenue throughout the projection period. Whilst for direct staff cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 12.6% of the gross operating revenue.

For the operating overheads, the Independent Valuer has adopted 5% per annum escalation throughout the projection period.

Based on the above, we are of the opinion that the projected cost of sale is fair.

f) Undistributed operating expenses

Undistributed operating expenses consists of administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost. The undistributed operating expenses moves in tandem with the Total Operating Revenue.

The Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 13.0%, 0.4% and 4.5% of the total operating revenue for administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost respectively.

g) Quit rent and assessment and insurance premium

The Independent Valuer has adopted the actual quit rent and assessment and insurance premium for the hospital.

h) Capital reserve fund

The Independent Valuer has adopted a five (5)-year average of RM11.70 million from 2015 to 2019 for the capital reserve fund for the replacement of furniture fitting equipment, hospital operating equipment and capital expenditure.

i) Terminal capitalisation rate

The Independent Valuer used terminal capitalisation rate of 10.25% after making necessary adjustments based on recent transacted yields of private medical centres in Malaysia and the current economic condition that is impacted by the COVID-19 pandemic. JSH has an unexpired leasehold interest of about 58.13 years. Based on the Independent Valuer's yield analysis, the recent transacted yields of private medical centres in Malaysia were in the region of about 7.19% to 9.79%.

Based on the above, we are of the opinion that the applied terminal capitalisation rate of 10.25% is fair.

j) Discount rate

The Independent Valuer is of the opinion that a discount rate of 12.25%, which is 2% higher than the terminal capitalisation rate to reflect additional risk on the projected future revenue. The discount rate adopted is within the range of the industry averages of medical centres in Malaysia and reflective of all the physical and investment characteristics of the hospital.

Based on the above, we are of the view that the applied discount rate of 12.25% is fair.

(iv) PSH

a) Occupancy rate

The projected occupancy rates adopted by the Independent Valuer are as follows:

Year	2021	2022	2023	2024	2025
Occupancy rate (%)	59.00	61.95	65.05	68.30	71.72

The Independent Valuer projects a lower occupancy rate for 2021 due to the impact of COVID-19 pandemic. They have gradually increased the occupancy rate at 5% per annum for the average occupancy rate, which is expected to return to normalcy in tandem with the recovery in the Malaysian economy.

We note that the occupancy rate for 2017 and 2018 were 72.07% and 73.88% respectively. In 2019, the occupancy rate increased to 82.19%. The occupancy rate reduced to 59.71% in 2020 due to the impact of COVID-19 pandemic.

Based on the above, we are of the opinion that the projected occupancy rate is fair.

b) No. of inpatient admitted days

The number of inpatients admitted days in a year is derived from the total beds occupied divided by the number of inpatients admitted. The Independent Valuer has adopted 2.08 days, which is the average for 2017 to 2019. The Independent Valuer excluded 2020 as it was impacted by the COVID-19 pandemic and it does not reflect the real performance of the hospital.

Thus, we are of the opinion that the number of inpatients admitted days is fair.

c) Ratio of number of outpatient/inpatient

The Independent Valuer has adopted average ratio of 7.75, which is the average for 2017 to 2019.

We are of the opinion that the ratio of number of outpatient/inpatient is fair.

d) Projected revenue

The projected revenue consists of consultant inpatient revenue per occupied bed, consultant outpatient revenue, hospital inpatient revenue per occupied bed and hospital outpatient revenue. The Independent Valuer has adopted the average revenue for the past three (3) years historical performance from 2017 to 2019. The revenues used for the forecast are RM1,072, RM133, RM2,457 and RM259 for consultant inpatient revenue per occupied bed, consultant outpatient revenue per person, hospital inpatient revenue per occupied bed and hospital outpatient revenue per person respectively.

Based on the above, we are of the opinion that the projected revenue is fair.

e) Cost of sale

The cost of sale consists of material, direct staff cost and operating overhead.

We note that for the material cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 24.32% of hospital inpatient and outpatient revenue throughout the projection period. Whilst for direct staff cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 12.5% of the gross operating revenue.

For the operating overheads, the Independent Valuer has adopted 5% per annum escalation throughout the projection period.

Based on the above, we are of the opinion that the projected cost of sale is fair.

f) Undistributed operating expenses

Undistributed operating expenses consist of administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost. The undistributed operating expenses moves in tandem with the Total Operating Revenue.

The Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 18.0%, 0.2% and 4.9% of the total operating revenue for administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost respectively.

g) Quit rent and assessment and insurance premium

The Independent Valuer has adopted the actual quit rent and assessment and insurance premium for the hospital.

h) Capital reserve fund

The Independent Valuer has adopted a five (5)-year average of RM5.80 million from 2015 to 2019 for the capital reserve fund for the replacement of furniture fitting equipment, hospital operating equipment and capital expenditure.

i) Terminal capitalisation rate

The Independent Valuer uses a terminal capitalisation rate of 11.25% after making necessary adjustments based on recent transacted yields of private medical centres in Malaysia and the current economic condition that is impacted by the COVID-19 pandemic. PSH has an unexpired leasehold interest of about 32.95 years. Based on the Independent Valuer's yield analysis, the recent transacted yields of private medical centres in Malaysia were in the region of about 7.19% to 9.79%.

Based on the above, we are of the opinion that the applied terminal capitalisation rate of 11.25% is fair.

j) Discount rate

The Independent Valuer is of the opinion that a discount rate of 13.25%, which is 2% higher than the terminal capitalisation rate to reflect additional risk on the projected future revenue. The discount rate adopted is within the range of the industry averages of medical centres in Malaysia and reflective of all the physical and investment characteristics of the hospital.

Based on the above, we are of the view that the applied discount rate of 13.25% is fair.

(v) SSH

a) Occupancy rate

The projected occupancy rates adopted by the Independent Valuer are as follows:

Year	2021	2022	2023	2024	2025
Occupancy rate (%)	61.75	64.84	60.08	71.48	75.05

The Independent Valuer projects a lower occupancy rate for 2021 due to the impact of COVID-19 pandemic. They have gradually increased the occupancy rate at 5% per annum for the average occupancy rate, which is expected to return to normalcy in tandem with the recovery in the Malaysian economy.

We note that the occupancy rate for 2016, 2017 and 2018 were 65.54%, 66.19% and 64.21% respectively. In 2019, the occupancy rate increased to 75.16%. The occupancy rate reduced to 46.27% in year 2020 due to the impact of COVID-19 pandemic.

Based on the above, we are of the opinion that the projected occupancy rate is fair.

b) No. of inpatient admitted days

The number of inpatients admitted days in a year is derived from the total beds occupied divided by the number of inpatients admitted. The Independent Valuer has adopted 2.61 days, which is the average for 2017 to 2019. The Independent Valuer excluded 2020 as it was impacted by the COVID-19 pandemic and it does not reflect the real performance of the hospital.

Thus, we are of the opinion that the number of inpatients admitted days is fair.

c) Ratio of number of outpatient/inpatient

The Independent Valuer has adopted average ratio of 9.52, which is the average for 2017 to 2019.

We are of the opinion that the ratio of number of outpatient/inpatient is fair.

d) Projected revenue

The projected revenue consists of consultant inpatient revenue per occupied bed, consultant outpatient revenue, hospital inpatient revenue per occupied bed and hospital outpatient revenue. The Independent Valuer has adopted the average revenue for the past three (3) years historical performance from 2017 to 2019. The revenues used for the forecast are RM863, RM99, RM2,141 and RM249 for consultant inpatient revenue per occupied bed, consultant outpatient revenue per person, hospital inpatient revenue per occupied bed and hospital outpatient revenue per person respectively.

Based on the above, we are of the opinion that the projected revenue is fair.

e) Cost of sale

The cost of sale consists of material, direct staff cost and operating overhead.

We note that for the material cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 25.8% of hospital inpatient and outpatient revenue throughout the projection period. Whilst for direct staff cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 15.8% of the gross operating revenue.

For the operating overheads, the Independent Valuer has adopted 5% per annum escalation throughout the projection period.

Based on the above, we are of the opinion that the projected cost of sale is fair.

f) Undistributed operating expenses

Undistributed operating expenses consist of administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost. The undistributed operating expenses moves in tandem with the Total Operating Revenue.

The Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 11.7%, 0.5% and 5.2% of the total operating revenue for administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost respectively.

g) Quit rent and assessment and insurance premium

The Independent Valuer has adopted the actual quit rent and assessment and insurance premium for the hospital.

h) Capital reserve fund

The Independent Valuer has adopted a five (5)-year average of RM7.0 million from 2015 to 2019 for the capital reserve fund for the replacement of furniture fitting equipment, hospital operating equipment and capital expenditure.

i) Terminal capitalisation rate

The Independent Valuer used terminal capitalisation rate of 9.25% after making necessary adjustments based on recent transacted yields of private medical centres in Malaysia and the current economic condition that is impacted by the COVID-19 pandemic. SSH has an unexpired leasehold interest of about 75.47 years. Based on the Independent Valuer's yield analysis, the recent transacted yields of private medical centres in Malaysia were in the region of about 7.19% to 9.79%.

Based on the above, we are of the opinion that the applied terminal capitalisation rate of 9.25% is fair.

j) Discount rate

The Independent Valuer is of the opinion that a discount rate of 11.25%, which is 2% higher than the terminal capitalisation rate to reflect additional risk on the projected future revenue. The discount rate adopted is within the range of the industry averages of medical centres in Malaysia and reflective of all the physical and investment characteristics of the hospital.

Based on the above, we are of the view that the applied discount rate of 11.25% is fair.

(vi) ISH

a) Occupancy rate

The projected occupancy rate adopted by the Independent Valuer are as follows:

Year	**2021**	**2022**	**2023**	**2024**	**2025**
Occupancy rate (%)	67.00	69.35	71.78	74.29	76.89

The Independent Valuer projects a lower occupancy rate for 2021 due to the impact of COVID-19 pandemic. They have gradually increased the occupancy rate at 3.5% per annum for the average occupancy rate, which is expected to return to normalcy in tandem with the recovery in the Malaysian economy.

We note that the occupancy rate for 2017, 2018 and 2019 were 91.37%, 84.84% and 79.29% respectively. The occupancy rate has further reduced to 73.74% in year 2020 due to the impact of COVID-19 pandemic.

Based on the above, we are of the opinion that the projected occupancy rate is fair.

b) No. of inpatient admitted days

The number of inpatients admitted days in a year is derived from the total beds occupied divided by the number of inpatients admitted. The Independent Valuer has adopted 2.64 days, which is the average for 2017 to 2019. The Independent Valuer excluded 2020 as it was impacted by the COVID-19 pandemic and it does not reflect the real performance of the hospital.

Thus, we are of the opinion that the number of inpatients admitted days is fair.

c) Ratio of number of outpatient/inpatient

The Independent Valuer has adopted average ratio of 9.90, which is the average for 2017 to 2019.

We are of the opinion that the ratio of number of outpatient/inpatient is fair.

d) Projected revenue

The projected revenue consists of consultant inpatient revenue per occupied bed, consultant outpatient revenue, hospital inpatient revenue per occupied bed and hospital outpatient revenue. The Independent Valuer has adopted the average revenue for the past three (3) years historical performance from 2017 to 2019. The revenues used for the forecast are RM906, RM89, RM2,024 and RM167 for consultant inpatient revenue per occupied bed, consultant outpatient revenue per person, hospital inpatient revenue per occupied bed and hospital outpatient revenue per person respectively.

Based on the above, we are of the opinion that the projected revenue is fair.

e) Cost of sale

The cost of sale consists of material, direct staff cost and operating overhead.

We note that for the material cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 33.9% of hospital inpatient and outpatient revenue throughout the projection period. Whilst for direct staff cost, the Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 12.6% of the gross operating revenue.

For the operating overheads, the Independent Valuer has adopted 5% per annum escalation throughout the projection period.

Based on the above, we are of the opinion that the projected cost of sale is fair.

f) Undistributed operating expenses

Undistributed operating expenses consist of administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost. The undistributed operating expenses moves in tandem with the Total Operating Revenue.

The Independent Valuer has adopted the past three (3) years average from 2017 to 2019 of 10.8%, 0.1% and 4.3% of the total operating revenue for administrative and general expenses, sales and marketing expenses and property operations, maintenance and energy cost respectively.

g) Quit rent and assessment and insurance premium

The Independent Valuer has adopted the actual quit rent and assessment and insurance premium for the hospital.

h) Capital reserve fund

The Independent Valuer has adopted a five (5)-year average of RM8.6 million from 2015 to 2019 for the capital reserve fund for the replacement of furniture fitting equipment, hospital operating equipment and capital expenditure.

i) Terminal capitalisation rate

The Independent Valuer uses a terminal capitalisation rate of 8.00% after making necessary adjustments based on recent transacted yields of private medical centres in Malaysia and the current economic condition that is impacted by the COVID-19 pandemic. ISH has an interest in perpetuity. Based on the Independent Valuer's yield analysis, the recent transacted yields of private medical centres in Malaysia were in the region of about 7.19% to 9.79%.

Based on the above, we are of the opinion that the applied terminal capitalisation rate of 8.00% is fair.

j) Discount rate

The Independent Valuer is of the opinion that a discount rate of 10.00%, which is 2% higher than the terminal capitalisation rate to reflect additional risk on the projected future revenue. The discount rate adopted is within the range of the industry averages of medical centres in Malaysia and reflective of all the physical and investment characteristics of the hospital.

Based on the above, we are of the view that the applied discount rate of 10.00% is fair.

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6.2.2 Cost approach

The Independent Valuer adopted the cost approach as a check for the income approach as detailed in Section 6.2.1 of this IAL. The summary of the cost approach for the Properties are as follows:

(i) APSH

In arriving at the market value of the land component, the Independent Valuer has adopted the market/comparison approach. The following sale evidence, amongst others, are considered suitable comparables and adopted:

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Lot no./Town/ Mukim/District/ State	:	Lot 81095 (Formerly PT No. 26888)/Mukim of Batu/District of Kuala Lumpur/Kuala Lumpur	PT No. 50040/ Mukim of Setapak/ District of Kuala Lumpur/Kuala Lumpur	Lot 33105 and Lot 33106, Section 1/ Both within Town of Cheras/District of Ulu Langat/ Selangor Darul Ehsan	Lot 122, Section 92/Town and District of Kuala Lumpur/Kuala Lumpur
Title no.	:	Pajakan Negeri 53431	HS(D) 121142	Geran 80304 and Geran Mukim 1820	Pajakan Negeri 35427
Property type	:	A parcel of commercial land (End)	A parcel of commercial land (Intermediate)	Two (2) adjoining parcels of commercial land (Intermediate)	A parcel of development land potential for commercial use (Intermediate)
Location	:	Located along Jalan Metropolitan, Off Middle Ring Road 2	Located along Jalan 3/50C, Off Jalan Genting Kelang, Kuala Lumpur	Fronts onto SILK Highway, Balakong Business Centre	Fronts onto Jalan 2, Chan Sow Lin
Category of land use	:	Building	Building	Building	Building
Town planning	:	Commercial	Commercial	Commercial	Commercial
Tenure	:	99-year leasehold interest expiring on 4 April 2115 (unexpired term of about 94 years)	99-year leasehold interest expiring on 13 October 2087 (unexpired term of about 67 years)	Interest in perpetuity, in respect of both titles	99-year leasehold interest expiring on 9 May 2100 (unexpired term of about 79 years)
Land area (sq. ft.)	:	238,298	26,738	102,569	37,900
Consideration	:	RM94,764,144	RM13,050,810	RM42,500,000	RM18,191,870
Date of transaction	:	23 July 2019	3 June 2019	16 November 2018	3 April 2017
Vendor	:	JL 99 Holdings Sdn Bhd	Immitec Sdn Bhd (in liquidation)	Empayar Mantap Sdn Bhd	Poon Siew Hong and Poon Siew Kai
Purchaser	:	Vienna Homes Sdn Bhd	Kit-M Corporation Sdn Bhd	Columbia Asia Sdn Bhd	Wan Hong Hardware Trading Sdn Bhd
Analysis (per square foot (“**psf**”))	:	RM398.00	RM488.10	RM414.35	RM480.00
Adjustment factors considered	:	Market condition due to the impact of COVID-19 pandemic (time), location and accessibility, shape, corner/end premium, category of land use/express condition, planning approval/development order, restriction in interest, size/quantum, allowance and tenure			
Adjusted value of land (psf)	:	RM478.85	RM479.29	RM472.87	RM478.37

Based on the above, the Independent Valuer is of the opinion that Comparable 4 has the least dissimilarities against the subject property. The Independent Valuer has adopted the adjusted value of RM478.37 psf as fair representation which translates into a market value of the commercial land of RM111,550,365.

The GCRCN of the buildings is RM114,707,690. Depreciation is at a rate of 2% per annum. The DRC of the buildings is RM48,177,230. Thus, the market value derived from the cost approach is RM159,727,595 and the Independent Valuer has rounded up to RM160,000,000.

(ii) DSH

In arriving at the market value of the land component, the Independent Valuer has adopted the market/comparison approach. The following sale evidence, amongst others, are considered suitable comparables and adopted:

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Lot no./Town/ Mukim/District/ State	:	Lots 60858, 47009 & 50368, all within Section 39, Town of Petaling Jaya, District of Petaling, Selangor Darul Ehsan	Lot 42406, Pekan Cempaka, District of Petaling, Selangor Darul Ehsan	Lots 2002 and 2003, both within Section 14, Town of Petaling Jaya, District of Petaling, Selangor Darul Ehsan.	Lot 45822, Section 39, Town of Petaling Jaya, District of Petaling, Selangor Darul Ehsan
Title no.	:	Geran 313564, Geran 336044 and Geran 336037, respectively	Geran 98935	Pajakan Negeri 91465 and Pajakan Negeri 91466	Geran 54432
Property type	:	Three contiguous parcels of commercial land (Corner)	A parcel of commercial land (Corner)	Two parcels of commercial land (Corner)	A parcel of commercial land (Corner)
Location	:	Located along Jalan 21/21, Section 21, Petaling Jaya, Selangor Darul Ehsan	Located along Jalan Bukit Mayang Emas, Dataran Prima, Petaling Jaya, Selangor Darul Ehsan	Located along Jalan 51A/223, Section 51A, Petaling Jaya, Selangor Darul Ehsan	Located along Jalan SS 2/113, SS 2, Petaling Jaya, Selangor Darul Ehsan.
Category of land use	:	Building	Building	Building	Building
Town Planning	:	Commercial	Commercial	Commercial	Commercial
Tenure	:	Interests in perpetuity, in respect of all the titles	Interest in perpetuity	99-year leasehold interests expiring on 7 April 2103 (unexpired term of about 82 years)	Interest in perpetuity
Land area (sq. ft.)	:	149,597	35,930	420,912	44,143
Consideration	:	RM50,000,000	RM21,558,000	RM160,000,000	RM24,587,651
Date of transaction	:	6 December 2018	30 November 2018	22 December 2017	7 November 2017
Vendor	:	S.E.A Housing Corporation Sdn Bhd	SYM World Ventures Sdn Bhd	Kumpulan Darul Ehsan Berhad	Tropicana City Sdn Bhd
Purchaser	:	Midas De Sdn Bhd	SNS Network (M) Sdn Bhd	Aneka Sepakat Sdn Bhd	O&C Construction Sdn Bhd
Analysis (psf)	:	RM334.23	RM600.00	RM380.13	RM557.00

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Adjustment factors considered	:	Market condition due to the impact of COVID-19 pandemic (time), location and accessibility, shape, corner/end premium, category of land use/express condition, planning approval/development order, restriction in interest, size/quantum, allowance and tenure			
Adjusted value of land (psf)	:	RM401.08	RM435.00	RM460.30	RM417.75

Based on the above, the Independent Valuer is of the opinion that Comparable 1 has the least dissimilarities against the subject property. The Independent Valuer has adopted the adjusted value of RM401.08 psf as fair representation which translates into a market value of the commercial land of RM72,403,256.

The GCRCN of the buildings is RM124,857,179. Depreciation is at a rate of 2% per annum. The DRC of the buildings is RM67,422,877. Thus, the market value derived from the cost approach is RM139,826,133 and the Independent Valuer has rounded up to RM140,000,000.

(iii) JSH

In arriving at the market value of the land component, the Independent Valuer has adopted the market/comparison approach. The following sale evidence, amongst others, are considered suitable comparables and adopted:

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Lot no./Town/ Mukim/District/ State	:	PTB 24422/Town and District of Johor Bahru/ Johor Darul Takzim	Lot 27577/Mukim of Pulai/District of Johor Bahru/ Johor Darul Takzim	PTD 175869 and 175870/All within Mukim of Tebrau/ District of Johor Bahru/Johor Darul Takzim	Lot 4205/Town and District of Johor Bahru/Johor Darul Takzim
Title no.	:	HS(D) 565071	Geran 38925	HS(D) 529771 and 529772, respectively	Geran 32033
Property type	:	A parcel of commercial land (Intermediate)	A parcel of commercial land (Corner)	Two (2) adjoining parcels of commercial land (Corner)	A parcel of commercial land (Intermediate)
Location	:	Off Jalan Tampoi, Taman Damansara Aliff, Johor Bahru	Off Persisiran Perling, Taman Perling (next to Perling Mall), Johor Bahru	Jalan Tampoi, Bandar Baru Uda, Johor Bahru	Jalan Ah Siang, Taman Stualang Laut, Johor Bahru
Category of land use	:	Building	Building	Building	Nil
Town Planning	:	Commercial	Commercial	Commercial	Commercial
Tenure	:	Interest in perpetuity	Interest in perpetuity	99-year leasehold interests expiring on 2 May 2015 (unexpired term of about 84 years)	Interest in perpetuity
Land area (sq. ft.)	:	486,988	223,900	255,320	22,216
Consideration	:	RM65,000,000	RM30,000,000	RM38,295,774	RM5,554,028
Date of transaction	:	28 November 2018	16 October 2018	26 April 2018	14 February 2018
Vendor	:	Naga Berkat Sdn Bhd	Permodalan Nasional Berhad	Perbadanan Johor	Wong Khoong Chin

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Purchaser	:	Tanahmas Kapital Sdn Bhd	PNB Commercial Sdn Berhad	Johor Land Berhad	Looi Teik Hin + 2
Analysis (psf)	:	RM133.47	RM133.99	RM149.99	RM250.00
Adjustment factors considered	:	Market condition due to the impact of COVID-19 pandemic (time), location and accessibility, shape, corner/end premium, category of land use/express condition, planning approval/development order, restriction in interest, size/quantum, allowance and tenure			
Adjusted value of land (psf)	:	RM153.35	RM147.36	RM162.79	RM154.42

Based on the above, the Independent Valuer is of the opinion that Comparable 3 has the least dissimilarities against the subject property. The Independent Valuer has adopted the adjusted value of RM162.79 psf as fair representation which translates into a market value of the commercial land of RM35,455,941.

The GCRCN of the buildings is RM116,542,366. Depreciation is at a rate of 2% per annum. The DRC of the buildings is RM85,233,916. Thus, the market value derived from the cost approach is RM120,689,857 and the Independent Valuer has rounded up to RM121,000,000.

(iv) PSH

In arriving at the market value of the land component, the Independent Valuer has adopted the market/comparison approach. The following sale evidence, amongst others, are considered suitable comparables and adopted:

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Lot no./Town/ Mukim/District/ State	:	PTB 24422/Town of Johor Bahru/ District of Johor Bahru/Johor Darul Takzim	Lot 27577/Mukim of Pulai/District of Johor Bahru/ Johor Darul Takzim	PTD 175869 and 175870/All within Mukim of Tebrau/ District of Johor Bahru/Johor Darul Takzim	Lot 4205/Town and District of Johor Bahru/Johor Darul Takzim
Title no.	:	HS(D) 565071	Geran 38925	HS(D) 529771 and 529772, respectively	Geran 32033
Property type	:	A parcel of commercial land (Intermediate)	A parcel of commercial land (Corner)	Two (2) adjoining parcels of commercial land (Corner)	A parcel of commercial land (Intermediate)
Location	:	Off Jalan Tampoi, Taman Damansara Aliff, Johor Bahru	Off Persisiran Perling, Taman Perling (next to Perling Mall), Johor Bahru	Jalan Tampoi, Bandar Baru Uda, Johor Bahru	Jalan Ah Siang, Taman Stualang Laut, Johor Bahru
Category of land use	:	Building	Building	Building	Nil
Town Planning	:	Commercial	Commercial	Commercial	Commercial
Tenure	:	Interest in perpetuity	Interest in perpetuity	99-year leasehold interests expiring on 2 May 2015 (unexpired term of about 84 years)	Interest in perpetuity
Land area (sq. ft.)	:	486,988	223,900	255,320	22,216
Consideration	:	RM65,000,000	RM30,000,000	RM38,295,774	RM5,554,028

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Date of transaction	:	28 November 2018	16 October 2018	26 April 2018	14 February 2018
Vendor	:	Naga Berkat Sdn Bhd	Permodalan Nasional Berhad	Perbadanan Johor	Wong Khoong Chin
Purchaser	:	Tanahmas Kapital Sdn Bhd	PNB Commercial Sdn Berhad	Johor Land Berhad	Looi Teik Hin + 2
Analysis (psf)	:	RM133.47	RM133.99	RM149.99	RM250.00
Adjustment factors considered	:	Market condition due to the impact of COVID-19 pandemic (time), location and accessibility, shape, corner/end premium, category of land use/express condition, planning approval/development order, restriction in interest, size/quantum, allowance and tenure			
Adjusted value of land (psf)	:	RM166.85	RM157.61	RM180.01	RM206.63

Based on the above, the Independent Valuer is of the opinion that Comparable 4 has the least dissimilarities against the subject property. The Independent Valuer has adopted the adjusted value of RM206.63 psf as fair representation which translates into a market value of the commercial land of RM21,512,294.

The GCRCN of the buildings is RM39,400,245. Depreciation is at a rate of 2% per annum. The DRC of the buildings is RM19,505,396. Thus, the market value derived from the cost approach is RM41,017,690 and the Independent Valuer has rounded down to RM41,000,000.

(v) SSH

In arriving at the market value of the land component, the Independent Valuer has adopted the market/comparison approach. The following sale evidence, amongst others, are considered suitable comparables and adopted:

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Lot no./Town/ Mukim/District/ State	:	PT No. 32, Section 14, HS(D) 142037/ Town of Shah Alam, District of Petaling, Selangor Darul Ehsan	Lot 91083, Section 13, Pajakan Negeri 110614, Town of Shah Alam, District of Petaling, Selangor Darul Ehsan	PT No. 38, Section 14, HS(D) 142043, Town of Shah Alam, District of Petaling, Selangor Darul Ehsan	PT No. 294, Section 3, HS(D) 266275, Town of Shah Alam, District of Petaling, Selangor Darul Ehsan
Property type	:	A parcel of commercial land with dual access (Intermediate)	A parcel of commercial land with dual access (Corner)	A parcel of commercial land with triple access (Corner)	A parcel of commercial land with single access (Intermediate)
Location	:	Located along Persiaran Perbandaran	Located along Jalan Rugbi 13/30 @ Persiaran Sukan	Located along Jalan 14/3	Located along Jalan 3/9A
Category of land use	:	Building	Building	Building	Building
Town Planning	:	Commercial	Commercial	Commercial	Commercial
Tenure	:	99-year leasehold interest expiring on 17 December 2099 (unexpired term of about 79 years)	99-year leasehold interest expiring on 22 January 2102 (unexpired term of about 81 years)	99-year leasehold interest expiring on 17 December 2099 (unexpired term of about 79 years)	99-year leasehold interest expiring on 11 March 2085 (unexpired term of about 64 years)
Land area (sq. ft.)	:	111,557	134,893	107,413	32,421
Consideration	:	RM32,000,000	RM38,000,000	RM34,000,000	RM7,600,000
Date of transaction	:	8 May 2020	28 May 2019	31 December 2018	28 February 2018

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Vendor	:	Majlis Bandaraya Shah Alam	Equipark Sdn Bhd	Avisena Holdings Sdn Bhd	Kualiti Megamas Sdn Bhd
Purchaser	:	Puncak Niaga Holdings Berhad	Ara Ville Sdn Bhd	Lembaga Zakat Selangor (MAIS)	Lovely Century Sdn Bhd
Analysis (psf)	:	RM286.85	RM281.70	RM316.54	RM234.42
Adjustment factors considered	:	Market condition due to the impact of COVID-19 pandemic (time), location and accessibility, shape, corner/end premium, category of land use/express condition, planning approval/development order, restriction in interest, size/quantum, allowance and tenure			
Adjusted value of land (psf)	:	RM269.91	RM256.41	RM250.63	RM248.77

Based on the above, the Independent Valuer is of the opinion that Comparable 1 has the least dissimilarities against the subject property. The Independent Valuer has adopted the adjusted value of RM269.91 psf as fair representation which translates into a market value of the commercial land of RM55,154,160.

The GCRCN of the buildings is RM76,944,472. Depreciation is at a rate of 2% per annum. The DRC of the buildings is RM43,101,781. Thus, the market value derived from the cost approach is RM98,255,941 and the Independent Valuer has rounded down to RM98,000,000.

(vi) ISH

In arriving at the market value of the land component, the Independent Valuer has adopted the market/comparison approach. The following sale evidence, amongst others, are considered suitable comparables and adopted:

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Lot no./Town/ Mukim/District/ State	:	Lot 3506N/Town of Ipoh (N)/District of Kinta/Perak Darul Ridzuan	Lot 4380S/Town of Ipoh (S)/District of Kinta/Perak Darul Ridzuan	Lot 14741S/Town of Ipoh (S)/District of Kinta/Perak Darul Ridzuan	Lot 2598S/Town of Ipoh (S)/District of Kinta/Perak Darul Ridzuan
Title no.	:	Geran 38323	Geran 60183	Pajakan Negeri 363294	Geran 55092
Property type	:	A parcel of development land potential for commercial use (Intermediate)	A parcel of development land potential for commercial use currently being used as car park (Corner)	A parcel of commercial land (Corner)	A parcel of development land potential for commercial use (Intermediate)
Location	:	Located off Jalan Sultan Abdul Jalil	Located along Jalan Sultan Nazrin Shah	Located along Jalan Sultan Nazrin Shah	Located along Jalan Raja Dihilir
Category of land use	:	Building	Building	Building	Building
Town Planning	:	Residential	Commercial	Commercial	Residential
Tenure	:	Interest in perpetuity	Interest in perpetuity	99-year leasehold interests expiring on 9 January 2106 (unexpired term of about 85 years)	Interest in perpetuity
Land area (sq. ft.)	:	21,834	41,627	73,834	46,963
Consideration	:	RM3,602,676	RM8,800,000	RM13,718,842	RM8,922,980
Date of transaction	:	6 March 2019	8 August 2018	10 April 2018	10 July 2017

Description		Comparable 1	Comparable 2	Comparable 3	Comparable 4
Vendor	:	Liew Hoong Thoe	Aun Huat & Brothers Sdn Bhd	Perbadanan Pembangunan Negeri Perak	Lim Sai Tat, Lim Shyh Kuan and Wong Kam Poh
Purchaser	:	One Roof Development Sdn Bhd	Capital Pi Sdn Bhd	Child's Partner (M) Sdn Bhd	Lee Seng Hee
Analysis (psf)	:	RM165.00	RM211.40	RM185.81	RM190.00
Adjustment factors considered	:	Market condition due to the impact of COVID-19 pandemic (time), location and accessibility, shape, corner/end premium, category of land use/express condition, planning approval/development order, restriction in interest, size/quantum, allowance and tenure			
Adjusted value of land (psf)	:	RM202.12	RM195.55	RM196.91	RM194.75

Based on the above, the Independent Valuer is of the opinion that Comparable 4 has the least dissimilarities against the subject property. The Independent Valuer has adopted the adjusted value of RM194.75 psf as fair representation which translates into a market value of the commercial land of RM27,677,119.

The GCRCN of the buildings is RM97,417,113. Depreciation is at a rate of 2% per annum. The DRC of the buildings is RM52,147,300. Thus, the market value derived from the cost approach is RM79,824,419 and the Independent Valuer has rounded up to RM80,000,000.

6.2.3 Summary

	Income Approach by Profits Method (DCF) RM'000	Cost Approach RM'000
APSH	157,000	160,000
DSH	135,000	140,000
JSH	147,000	121,000
PSH	51,000	41,000
SSH	100,000	98,000
ISH	122,000	80,000
Total	**712,000**	**640,000**

The Independent Valuer has considered the market values derived from the Income Approach by Profits Method (DCF) to be fair and accurate representation of the market values of the Properties and supported by the values derived from the Cost Approach.

Private specialist medical centre is the centre of providing quality and skilled health services property with the various sources of revenues generated from operating the property as a business entity which trading is the essence to the value of the property. As such, the Independent Valuer has given greater emphasis on the Income Approach by Profits Method (DCF) as a more reliable and appropriate method of valuation. The Income Approach by Profits Method (DCF) is able to capture the annual income and expenses over the investment horizon of the investor and thus it is an appropriate valuation method to determine the fair and accurate market value of a private specialist medical centre.

In arriving at the market value of the land, the Independent Valuer adopted the market/comparison approach which is premised on the principle that comparison is made of the property under valuation with sales of other similar properties. Where dissimilarities exist, adjustments are made. The market/comparison approach is an appropriate method to be adopted for homogeneous properties with minimal dissimilarities which require less complicated adjustments. However, for specialised profit orientated properties which are physically, functionally and economically complex where adjustments are numerous and more difficult to quantity, it will be difficult to make adjustments using the market/comparison approach. The Independent Valuer also notes that there are either infrequent or very limited sale evidence of private specialist medical centres in Malaysia as the medical centres are often constructed for owner operation and seldom held as an investment asset.

Therefore, the Independent Valuer has concluded that the Market/Comparison Approach may not be a suitable approach to determine the accurate market value of the private specialist medical centres.

We are of the view that the valuation methodologies applied by the Independent Valuer for the valuation of Properties are acceptable and appropriately applied. As such, we concur with the Independent Valuer's approach in valuing the Properties by the Independent Valuer and are of the view that the market value of RM712 million as appraised by the Independent Valuer is fair.

We are also of the view that the bases and justifications of arriving at the agreed rental rate of 5,75 % is **fair and reasonable** after taking into account the above analyses as a whole and the following factors:

(i) the rental rate of 5.75% is within the range of the NPI for real estate investment trusts (excluding foreign properties) listed on Bursa Securities which ranged from 1.79% to 7.00% in 2020 and from 3.16% to 8.04% in 2019;

(ii) the rental rate of 5.75% is within the range of the NPI of commercial properties acquired by Malaysian real estate investment trusts in 2020 up to 31 March 2021 which ranges from 4.96% and 6.28%;

(iii) the uncertainties in the current state of the Malaysian economy and the negative impact of the COVID-19 pandemic on the local property market; and

(iv) the current interest environment as evidence by the drop in the three (3)-month KLIBOR as stated in Section 2.5 of Part A of the Circular.

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6.3 Salient terms of the Lease Agreements

We have reviewed the salient terms for the Lease Agreements as set out in Section 2.4 of Part A of the Circular and our comments on the pertinent salient terms are set out below:

No.	Salient terms	MainStreet's comments
(1)	***Lease of Properties*** *The lease of the Properties is for a period of fifteen (15) years commencing from 30 June 2021 to 29 June 2036 upon the terms and conditions stipulated in the Lease Agreement with an option to renew for another fifteen (15) years.*	The tenure of 15 years is considered reasonable as it is the same period as the previous lease agreement. It is to the benefit of the Lessor to secure a long-term lease with an established and listed hospital operator. We are of the view that the opportunity for Al-'Aqar to renew the lease as well as the commitment given by Lessees to rent the Properties, for the lease period of a further 15 years at a fair rate is good for Al-'Aqar.
(2)	***Use of Properties*** *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.*	This term is in line with Al-'Aqar's policy to invest in Shariah-compliant portfolio focusing on healthcare related real estates. This is also beneficial to Al-'Aqar as healthcare is considered a very stable industry.
(3)	***Conditions of the Lease Agreement*** *The Proposed Lease Renewal is conditional upon the fulfilment of the following Conditions:* *(i) the approval of the shareholders of KPJ being obtained in respect of the Proposed Lease Renewal; and* *(ii) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Lease Renewal.*	These conditions relate to approvals from the relevant parties to give effect to the Proposed Lease Renewal and are common terms in agreements of such nature.
(4)	***Rental formula for rental amount*** ***<u>Formula for the Proposed Lease Renewal</u>*** *The rent shall be denominated in RM and the formula for determination of the rent in relation to the Proposed Lease Renewal are as follows:* *(a) Rent formula* ***First Rental Term*** — ***Rent Formula*** *1^{st} year* — *5.75% per annum x Base Rent* *2^{nd} & 3^{rd} year* — *2% incremental x the rent for the preceding year.*	The rental rate of 5.75% is reasonable as it is mutually agreed by the Lessor and the Lessees. It is within the range of the NPI for real estate investment trusts (excluding foreign properties) listed on Bursa Securities which ranges from 1.79% to 7.00% in 2020 and from 3.16% to 8.04% in 2019. The rental rate of 5.75% is within the range of the NPI of commercial properties acquired by Malaysian real estate investment trusts in 2020 up to the LPD and it is also in line with current market conditions. The incremental rate of 2% in rental rate for 2^{nd} and 3^{rd} year was arrived at after taking into consideration the average of the 10-year consumer price index year-on-year movement of approximately 2.2% (excluding year 2020 which was in negative), which is a normal market practice and is common for transactions of such nature.

No.	Salient terms	MainStreet's comments
	(b) Rent review formula *The rent for every Succeeding Rental Term shall be calculated based on the following formula:* ***Succeeding Rental Terms*** — ***Rent Review Formula*** *1st year of every Succeeding Rental Term (Years 4, 7, 10 and 13)* — *(10-year MGS + 200 BPS) x Open Market Value (as determined by an independent valuer) of the Properties, at the point of review subject to:*	The usage of Open Market Value as one (1) of the parameters is fair and reasonable as the Open Market Value in the rent review formula is based on the reasonable and fair market value of the Properties during the Contractual Term or Extended Contractual Term as determined by an independent valuer appointed by the Lessor and the Lessees.
	(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	The minimum rent of 5.75% times the prevailing open market value of the Properties is to safeguard Al-'Aqar's interest in the event that MGS falls lower than 3.75%.
	(b) any adjustment to the rent shall not be more than 2% incremental increase over the rent for the preceding year which shall be in RM.	We are of the view that the adjustment to the rent of not more than 2% incremental increase over the rent for the preceding year is reasonable as the average consumer price index for the past 10 years is approximately 2.2%.
	2nd & 3rd 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.*	The incremental rate of 2% in rental rate for 2nd and 3rd year of every succeeding rental term was arrived at after taking into consideration the average of the 10-year consumer price index year-on-year movement of approximately 2.2% (excluding year 2020 which was in negative). This is a normal market practice and is common for transactions of such nature.
	The total first-year rental amount is RM40.94 million under the Lease Agreements based on the market value of the Properties of RM712 million (as detailed in Section 2.5 of Part A of the Circular). At each of the rent review year i.e. on year 4, 7, 10 and 13 of the Lease Agreements, the rent will be reviewed based on the formula above. If there is no change in market value and the 10-years MGS + 200 BPS is equivalent to 5.75%, the rental shall remain at RM40.94 million. For illustration, assuming the 10-year MGS at the point of review is the same as the MGS as at LPD of 3.11% and the Year 3 rental is RM42.59 million, the rental for Year 4 shall be as follows:	

No.	Salient terms	MainStreet's comments

	Assuming 20% downward revision to Open Market Value	Assuming 20% upward revision to Open Market Value
Market Value	RM569.6 m	RM854.4million
10-years MGS + 200 BPS x Open Market Value of the Properties	(3.11%+2%)*RM569.6m= RM29.11m	(3.11%+2%)*RM854.4m= RM43.66m
Minimum 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	Whichever higher: (a)5.75%*RM569.6m =RM32.75m OR (b) RM40.94m Hence, RM40.94m	Whichever higher: (a)5.75%*RM854.4m =RM49.13m OR (b) RM40.94m Hence, RM49.13m
Rental computed	**RM40.94m**	**RM49.13m**
Rental cap Any adjustment not more than 2% incremental increase over the rent for the preceding year which shall be in RM	RM42.59m*1.02= RM43.44m	RM42.59m*1.02= RM43.44m
Illustrative chargeable rental at Year 4	**Since the rental computed is less than the rental cap, the rental for Year 4 shall be RM40.94m**	**Since the rental computed is more than the rental cap, the rental for Year 4 shall be capped at RM43.44m**

The rental will thereon increase by 2% over the rent of the preceding year in the 2nd and 3rd year of every Succeeding Rental term. Based on the illustrative Year 4 rental above, the rental for Year 5 and 6 will be as follows:

	Assuming 20% downward revision to Open Market Value	Assuming 20% upward revision to Open Market Value
Year 5	RM41.76m	RM44.31m
Year 6	RM42.59m	RM45.20m

For clarification, based on the rental review formula above, for each Succeeding Rental Term, the lowest rental amount that can be charged is RM40.94 million (being the Base Rent) and the maximum rental amount is 2% incremental increase over the RM value of the rent for the preceding year.

<u>Rent Formula for 2006 – 2021 under the Principal Lease Agreements</u>

2006- 2009 (1st rental term)

The total annual rental of the properties (as referred to in the Principal Lease Agreements) for the 1st term which expired in December 2009 was as follows:

	Annual Rental (RM'mil)
2006 (5 months)	14.78
2007	35.70
2008	36.43
2009	36.96

No.	Salient terms	MainStreet's comments
	For information, the market value of the properties held by the Lessor as disclosed in Al-'Aqar's prospectus dated 24 July 2006 was RM481 million. The above rental translated to yield of 2006: 7.38% (annualised), 2007: 7.42%, 2008: RM7.57% and 2009: RM7.68%. *The rental was to be reviewed on 1 January after every three (3) full financial years throughout the 15 years' contractual terms.* *2010-2012 (2nd rental term)* *The rental review formula for the 1st year was (10-year MGS +238 BPS) x market value of the properties at the point of review subject to:* *(i) a minimum rental of RM33 million per annum; and* *(ii) any lease rental adjustment shall not be more than 2% incremental over the preceding year's rental amount* *For the 2nd & 3rd year of the 2nd rental term thereon, the rental would be 2% incremental over the preceding year's rental.* *2013-2021 (3rd to 5th rental term)* *The rental review formula for the 1st year of the 3rd, 4th and 5th rental term is as follows:* *10-years MGS + 238 BPS x market value of the properties, at the point of review subject to:* *(i) a minimum gross rental of 7.1% per annum x prevailing market value or purchase consideration of the properties whichever is higher*; and* *(ii) any lease rental adjustment shall not be more than 2% incremental over preceding year's lease rental.* *For the 2nd & 3rd year of the 3rd, 4th and 5th rental term thereon, the rental would be a 2% incremental amount over the preceding year's rental amount.* *Note *: The clause stating "purchase consideration of the properties whichever is higher" was only included in the 4th and 5th rental term.*	

No.	Salient terms	MainStreet's comments
	For information, the agreed yield of 5.75% and the 200 BPS in the Rent Formula for the next contractual term under the Proposed Lease Renewal differ from that included in the rent rental formula under the previous Principal Lease Agreements primarily due to, amongst others, the interest rate environment. The 3-month KLIBOR on 30 June 2006 was 3.92% as compared to 1.94% as at LPD (Source: Bloomberg). In addition, the spread under the rent review formula is now proposed at 200 BPS as compared to 238 BPS after taking into consideration, inter-alia, the improved financial standing of KPJ Group over the years. As at LPD, KPJ is a RM4.4 billion (30 June 2006: RM323.7 million) market capitalisation company with revenue of RM2.4 billion for FY 31 December 2020.	
(5)	***Lessor's and/or Manager's covenant*** ***(A) Lessor's covenant*** *The Lessor shall, amongst others, during the Contractual Term:* *(i) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which are now or during the Contractual Term shall be falling due in respect of or charged, assessed or imposed upon the Properties;* *(ii) pay for quit rent and assessment of the Properties;* *(iii) in the event the Lessor's fixtures and fittings are irreparable through or by means of normal and routine repairs, the Lessor shall replace such items within reasonable time, at the cost and expense of the Lessor;* *(iv) shall at its own cost and expense, carry out structural repairs and works necessary to maintain the external and internal structure of the Properties in good tenantable condition and such structural repairs and works as may be required by the local or relevant authorities or under relevant building regulations; and* *(v) shall at its own expense maintain takaful coverage for fire, loss of rent and public liability takaful in respect of the Properties.* ***(B) Lessor's and/or Manager's covenant*** *In addition to the Lessor's covenant under Section 2.4.5(A) of Part A of the Circular, the Lessor and/or the Manager shall, amongst others, during the Contractual Term:* *(i) effect and 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 at the Lessor's cost and expense; and*	This term is considered reasonable as it is normally the responsibility of the landlord/lessor to pay for such expenses in a lease arrangement.

No.	Salient terms	MainStreet's comments
	(ii) shall appoint and pay to the maintenance manager during the Contractual Term for the maintenance and management services rendered by the maintenance manager with respect to the Properties in accordance with the terms of the property management agreement or maintenance management agreement to be entered into between the Lessor, the Manager and the maintenance manager.	
(6)	***Lessees' covenant in relation to repairs, cleaning, decoration & etc*** *The respective Lessees shall keep the Properties in good and tenantable repair and maintenance. The respective Lessees shall as and when necessary issue a notice to the maintenance manager to conduct any repairs on any part of the Properties and shall pay the maintenance manager for work done in connection thereto.* *The Lessees shall during the Contractual Term, amongst others, 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.*	This term is considered reasonable as it is usually the lessee's responsibility to pay for these services and maintenance expenses which are directly consumed by them.
(7)	***Expansion*** *In the event that the Lessees requests and the Lessor and/or the Manager agree to meet the expansion requirements of the Lessees through expansion, the Lessees may make the necessary arrangements, coordinate, manage, monitor and supervise any major structural alterations or additions to the Properties or work which may affect or may be likely to affect the:* *(i) structure of the Properties (including but not limited to the roof and the foundation); or* *(ii) mechanical or electrical installations of the Properties; or* *(iii) provisions of any services in or to the Properties.* *The Lessees shall bear the development costs and expenses for, and related to the expansion and shall be solely responsible to procure the financing for the expansion.* *Upon completion of the expansion, the Lessees shall provide the Lessor with the breakdown of the final development costs of the expansion and the Lessor shall make full payment of the final development cost of the expansion subject to the cost to be agreed by the parties and verification by the Manager of the following items:* *(i) the Certificate of Completion and Compliance for the expansion issued by the appropriate authority, if any;*	This term is favourable to Al-`Aqar as any expansion to be made by the Lessees requires the Lessor's and/or Manager's approval and it will facilitate the expansion requirements of the Lessees, which may benefit Al`Aqar.

No.	Salient terms	MainStreet's comments
	(ii) the value of the expansion as recommended by an independent valuer (appointed by the Lessor at its own cost and expense) via the valuation report by the said independent valuer; *(iii) the report prepared by the project consultant of the expansion as verified by an independent quantity surveyor (appointed by the Lessor at the Lessor's own cost and expense); and* *(iv) all supporting claims, invoices and documents verifying the final development costs of the expansion.*	
(8)	***New development of the Land*** *The Lessor grants the Lessees the right to undertake new development, including but not limited to, the planning, design, and construction of building(s), carpark and/or other structures on the Land (as defined in the Lease Agreements which refers to the respective plot of land that the Properties are situated on) or any part thereof complete with inter alia the interior design, the landscape and the infrastructures related thereto at the Lessees' own cost and expenses for Lessees' business operations, subject to the following:* *(i) the Lessees shall provide the details of the New Development for approval of the Lessor and the Manager; and* *(ii) the Lessees shall obtain the approval from the relevant appropriate authority or authority for the New Development,* *prior to the commencement of the New Development.* *The parties agree that the New Development may be acquired by the Lessor subject to fulfilment of the conditions in the Lease Agreements which include:* *(i) the Certificate of Completion and Compliance for the New Development has been duly issued and obtained by the Lessees;* *(ii) the Lessor and the Lessees have mutually agreed on the acquisition price for the New Development to be satisfied by the Lessor based on the following:* *a. where required, the valuation report of the New Development issued by the independent valuer(s) (appointed jointly or severally by the Lessor and/or the Lessees) pursuant to a valuation exercise on the New Development and the valuation reports shows the true and fair value or open market value of the New Development and justifies the acquisition price; and/or*	This term is reasonable as it will allow the Lessor to work with the Lessees to undertake new developments that will benefit Al-'Aqar. The acquisition on the New Development is reasonable as it will allow Al-'Aqar to acquire any new development or addition to the Properties' existing buildings. After the acquisition, Al-'Aqar will be able to charge additional lease rental.

No.	Salient terms	MainStreet's comments
	b. *the documentary evidence which verifies the final construction costs incurred by the Lessees for the New Development issued by an independent quantity surveyor appointed by the Lessees; and/or* c. *the building audit report following the conclusion of a building inspection and audit exercise conducted on the New Development by a building audit consultant appointed by the Lessor at its own cost and expense to verify the condition, state, nature and character of the New Development and the Lessor is satisfied with the outcome of the building audit and the contents of the aforesaid building audit report.* *(iii) approval of the board of directors of the Trustee, the Manager of the Lessor and where required, approval of the unitholders of the Lessor; and* *(iv) approval of the board of directors and shareholders of the Lessees.*	
(9)	***Event of Default and Termination*** *I. The Lease Agreements provide for the following events of default:* *(i) a failure or refusal on the part of the respective Lessee:* *(a) to pay the monthly rent for 2 consecutive calendar months or any other sum due under the terms of the respective Lease Agreements on the day such payment is required to be made under the terms of the respective Lease Agreement (whether the same shall have been formally demanded or not); or* *(b) to duly observe or perform any of the covenants and conditions and/or agreements of the Lessee contained in the respective Lease Agreements of which is not capable of being remedied or if capable of being remedied such breach is not remedied by the Lessee within a period of 30 calendar days from the date after receipt of written notice thereof from the Lessor to the Lessee requesting action to remedy the same; or*	The terms for events of default and termination in the Lease Agreements are reasonable as they are common terms for lease agreements of similar nature.

No.	Salient terms	MainStreet's comments
	(ii) the Lessee is in breach of any agreement which has a Material Adverse Effect (defined in the Lease Agreements as an event or circumstance, the occurrence or effect of which (in the opinion of the Lessor and/or the Manager) is or might be likely to have a material effect on the constitution, the financial condition, business or operations of the Lessee or where applicable or the Lessee's ability to perform its obligations under any provision of the Lease Agreements) on the business and/or operations of the Lessee which affects its ability to fulfil its obligations under the Lease Agreements; or *(iii) the Lessee 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 Lessee for the purpose of Section 466 of the Companies Act 2016 and as such, the Lessee is deemed to be unable to pay its debts as they fall due or suspends or threatens to suspend it 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 Lessee commences 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 Lessee assumes management of the Lessee and in the case of any of the events aforementioned, the financial condition of the Lessee or the ability of the Lessee 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 Lessee for the winding up of the Lessee 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 Lessee and the same is not discharged, withdrawn, set aside or discontinued within 30 calendar days; or*	

No.	Salient terms	MainStreet's comments
	(vi) the Lessee is unable to pay its debt within the meaning of the Companies Act 2016 which inability may in the opinion of the Lessor may have a Material Adverse Effect; *II. The occurrence and continuation of any of the above sub-paragraphs (i) to (vi) entitles the Lessor to take any one or more of the following remedies without being responsible or liable for any loss, damage or expense caused to the Lessee as a consequence of such action:* *(i) serve a forfeiture notice upon the Lessee pursuant to Section 235 of the National Land Code deemed that the period stipulated in the forfeiture notice shall be thirty (30) calendar days for the occurrence of the events under Section 2.4.9.1 of Part A of the Circular unless otherwise stated in the respective Lease Agreements as capable of being remedied, where the breach has not been remedied within the stipulated time of thirty (30) calendar days, to re-enter upon the Properties or any part thereof in the name of the whole, and thereupon the respective Lease Agreements shall absolutely terminate;* *(ii) to claim for the monthly rent and all sums due and payable as stipulated in the respective Lease Agreements;* *(iii) the Lessor shall be entitled to utilise the security deposits and utilities deposit as described in Section 2.4.11 of Part A of the Circular towards payment or reduction of all sums payable by the Lessee under the respective Lease Agreements without prejudice to the Lessee's liability for any shortfall;* *(iv) the Lessee 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 the Lessee's default or unilateral termination by the Lessee; or* *(v) to sue and take any other action the Lessor deems fit (including remedy of specific performance against the Lessee) 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 Lessee.*	

No.	Salient terms	MainStreet's comments
	Exercise of remedies *The Lessor shall be at liberty to exercise any one or more of the above remedies mentioned above at its sole and absolute discretion in any manner it deems fit. Any action taken by the Lessor to exercise any one or more of the above remedies shall not prejudice or affect any other remedies, claims or rights which it may have under the terms hereof.* *III. Unilateral termination and consequence of early termination of the expiry of the Contractual Term:* *(i) In the event of early termination where if at any time during the Contractual Term the Lessee shall attempt to abandon or quit or redeliver possession of the Property, prior to the expiry of the Contractual Term, for any reason whatsoever then it shall be lawful for the Lessor, immediately or at any time thereafter, to serve a forfeiture notice to the Lessee.* *(ii) Upon the issuance of the forfeiture notice, the Lessee is required to remedy the subject matter of the forfeiture notice within thirty (30) calendar days from the date of such forfeiture notice.* *(iii) On the expiration of the thirty (30) calendar day period and in the event that the Lessee fails to remedy such subject matter of the forfeiture notice, the Lessor is at liberty, within thirty (30) calendar days thereafter, to give to the Lessee a Termination Notice and the Lessee shall within seven (7) calendar days from the date of the Termination Notice:* *a. remove all of the Lessee's asset(s) (including the Lessee's fixtures and fittings) and other articles brought on to the respective Property by the Lessee and shall do so without damaging the said Property and shall immediately make good any damage which occurs thereby; and* *b. surrender and peacefully yield up the Property.* *IV. In the event the Lessee fails or refuses to comply, the Lessor may in its absolute discretion:* *(i) remove and dispose of the Lessee's asset(s) (including the Lessee's fixtures and fittings) and other articles in the Property and the Lessee shall indemnify the Lessor for any cost and expenses incurred by the Lessor for such removal or disposal; and/or;*	

No.	Salient terms	MainStreet's comments
	(ii) commence, proceed with and undertake all action as may be necessary to enforce the Lessee's obligation to surrender and yield up the Property and to enforce the Lessor's rights to re-enter, repossess and enjoy the same. *V. The Lessor shall in addition be entitled to exercise all its rights, powers and remedies (conferred by law or otherwise) against the Lessee, including the right to recover from the Lessee the lost of rent suffered by the Lessor for the unexpired period of the Contractual Term (or any part thereof) as liquidated damages subject to the Lessor taking all reasonable efforts to lease or let the Property to any other lessees or tenants.* *VI. In the event that the Lessor is unable to lease or let the Property to any other lessees and tenants and/or as the case may be, the Lessee shall compensate the Lessor for the deficiency between the originally scheduled rent under the respective Lease Agreements and the rent received or to be received from the other lessees or tenants of the Property for the unexpired period of the Contractual Term.* *VII. In the event a Termination Notice is issued by the Lessor, the Lessee shall have an option to source, within six (6) calendar months of the Lessee's receipt of such Termination Notice, for a replacement lessee or tenant acceptable 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 failing which the security deposit and the utilities deposit paid by the Lessee in favour of the Lessor shall be forfeited. If the Property is leased or tenanted to a replacement lessee or tenant, the Lessee shall compensate the Lessor for any deficiency between the originally scheduled rent under the respective Lease Agreements and the rent received or to be received from the replacement lessee or tenant for the Property for the unexpired period of the Contractual Term.* *VIII. At the end of the Contractual Term or upon the termination of the respective Lease Agreements for any reason whatsoever, the Lessor shall be entitled to deal with the Property in any manner whatsoever and howsoever including but not limited to leasing out the Property to any other person whomsoever.* *Save as otherwise stipulated under Section 2.4.9.2 and 2.4.9.3.3 of Part A of the Circular, neither the Lessee nor the Lessor and/or the Manager shall be entitled to terminate the respective Lease Agreements without the written consent of the other party.*	

No.	Salient terms	MainStreet's comments
(10)	***Late Payment Penalty*** *In the event that the respective Lessee fails to pay the monthly rent on the due date, the Lessor shall be entitled to charge and the Lessee shall pay the Lessor late payment penalty at the rate of five percent (5%) per annum on any sums of the monthly rent reserved by the respective Lease Agreements remaining unpaid from its due date until the date of actual payment.* *If for any reason whatsoever, the respective Lessee fails to pay the monthly rent for two (2) consecutive calendar months or any part thereof on the due date, whether formally demanded or not, and if the respective Lessee fails to rectify such breach or default after the Lessor or its agent has given thirty (30) calendar days' notice in writing to the Lessee to rectify such breach or default, Section 2.4.9.1 of Part A of the Circular shall be invoked.*	The late payment penalty at the rate of five percent (5%) is to safeguard the Lessor's interest in the event that the Lessees fails to pay the monthly rent on the due date. This term is reasonable as it is a common term for lease agreements of similar nature.
(11)	***Deposits*** *(i) Security Deposit* *The Lessees shall on or before 30 June 2021, being the date of commencement of the lease or such other date to be mutually agreed by the Parties, pay the security deposit to the Lessor for an aggregate sum equivalent to two (2) times of the prevailing monthly rent which shall be revised accordingly for every rental term, such deposit being security for the due observance and performance by the Lessee of any terms and conditions of the Lease Agreements.* *(ii) Utilities Deposit* *The Lessees shall on or before 30 June 2021, being the date of commencement of the lease, or such other date to be mutually agreed by the Parties, pay to the Lessor a sum to be mutually agreed by the Parties, which shall be revised accordingly for every rental term, such sum being the deposit for electricity, water, solid waste and other utilities services provided by the relevant utilities service providers to the Properties.*	The security deposit is to safeguard the Lessor's interest as it is intended for due observance and performance by the Lessee of any terms and conditions of the Lease Agreements whilst the utilities deposits are the deposit for electricity, water, solid waste and other utilities services provided by the relevant utilities service providers to the Properties. In the event the Lessees fail to settle any of the utilities bills, the Lessor can use the utilities deposits to pay for the outstanding utilities charges incurred by the Lessees. These terms are reasonable as they are common terms for lease agreements of similar nature.

No.	Salient terms	MainStreet's comments
(12)	***Variation of rental*** *The Lessor shall have the right to vary the rent of the Properties occupied and used by the Lessees, at the recommendation of the Manager due to the following:* *(i) Increase in gross floor area* *If the gross floor area of the Properties increases pursuant to the expansion (as described under Section 2.4.7 of Part A of the Circular) undertaken by the Lessees in respect of the Properties, the rent shall be increased corresponding with the increase in gross floor area of the Properties but always subject to the reimbursement costs paid by the Lessor to the Lessees and the increase in the monthly rent shall be computed as follows:* ***Formula: (5.75% per annum x reimbursement costs)/12 months*** *For avoidance of doubt, in the event the rent has been increased pursuant to the abovementioned clause, the Base Rent amount shall be revised accordingly to include the incremental amount and thereafter, the aforesaid Base Rent shall be applied in the rent review formula for determination of the rent for the relevant Succeeding Rental Terms.* *In the event the increase in the rent was incurred during mid of the relevant year of the First Rental Term or Succeeding Rental Term(s) rental year, such rent shall be prorated to full financial year before applying it in the rent review formula.* *(ii) Installation of new Lessor's fixtures and fittings* *The Lessor and/or the Manager incur costs and incidental costs for installation of new Lessor's fixtures and fittings at the Properties in which the increase in rent shall be mutually agreed between the parties prior to the installation of the said new The Lessor's fixtures and fittings. The Lessee shall furnish copies of the relevant documentary evidence, including but not limited to quotations, tender documents, price list, invoices to and for the Lessor and/or the Manager's verification of the costs and incidental costs for installation of the new Lessor's fixtures and fittings.*	The term to vary the rental in the event of increase in gross floor area as a result of the expansion (as described under Section 2.4.7 of Part A of the Circular) undertaken by the Lessees and costs and incidental costs for installation of new Al-`Aqar's fixtures and fittings at the Properties is fair and reasonable as any change in conditions of the Properties within the lease period should be reflected in the rental charge.

No.	Salient terms	MainStreet's comments
(13)	***First right of refusal to purchase the Properties*** *In the event that the Lessor during the Contractual Term intend to sell the Properties, the respective Lessees shall be given the first right of refusal to purchase the Properties by way of a written notice from the Lessor to the respective Lessees offering to sell the Properties to the respective Lessees on such terms and at the reasonable and fair prevailing/open market value in respect of the Properties and in accordance with the applicable laws and requirements including the Listed Real Estate Investment Trust Guidelines, the relevant guidelines issued by the SC, the Capital Markets and Services Act 2007 and the listing requirements of Bursa Securities, to which notice the respective Lessees shall reply within 60 calendar days thereof.* *The first right of refusal granted shall be valid but shall not be applicable and shall not extend beyond the Contractual Term. For the avoidance of doubt, the right of first refusal granted shall not be enforceable and no longer applicable if the Lease Agreements are terminated pursuant to the terms and conditions under the Lease Agreements.*	This clause is reasonable as the relevant subsidiaries of KPJ are the lessees of the Properties.
(14)	***Extended Contractual Term*** *If the respective Lessees wishes to take a further extension of the lease of the Properties for another fifteen (15) years from the expiry of the Contractual Term, the respective Lessees shall give a written notice to the Lessor of its intention to extend the lease of the Properties not less than twelve (12) calendar months prior to the expiry of the Contractual Term.* *The Lessor may at its sole and absolute discretion grant to the Lessees a further lease of the Properties for the Extended Contractual Term at the rental terms and revised rental rate to be mutually agreed by the Lessor, the Manager and the Lessees but with otherwise upon the same terms and conditions of the Lease Agreement with the exception of this provision for renewal, the revised rental rate and the topping up of the security deposit and the utilities deposit to correspond with the revised rental rate, which shall be mutually agreed upon by both parties, variations to the terms and conditions of the Lease Agreements mutually agreed upon in writing by the parties during the Contractual Term and any changes in the applicable laws and requirements.* *The parties will use their best endeavours to reach an agreement on the rent for the Extended Contractual Term by the date which is six (6) calendar months prior to the expiry of the Contractual Term.*	This term presents the Lessees with the opportunity to renew the lease of the Properties for another 15 years upon expiry of the Contractual Term with written notice within a fixed timeframe. The option to extend the lease to the Lessees by the Lessor is common for lease agreements with such nature and is reasonable. The period of six (6) months provides both parties sufficient time to negotiate and agree on the rent for the Extended Contractual Term and is considered reasonable.

Based on our evaluation of the salient terms of the Lease Agreements above, we are of the view that the salient terms of the Lease Agreements are generally on normal commercial terms for transactions of such nature and the said terms are **fair and reasonable**, at arm's length and **not detrimental** to the interests of the non-interested unitholders of Al-'Aqar.

6.4 Risk factors relating to the Proposed Lease Renewal

Section 4 of Part A of the Circular has set out the risk factors which may have an impact on Al-'Aqar in relation to the Proposed Lease Renewal.

We take cognisance of the risk factors pertaining to the Proposed Lease Renewal and we set out our views on the risk factors pertaining to the Proposed Lease Renewal as follows:

6.4.1 Risk relating to non-renewal and the completion of the Proposed Lease Renewal

The Proposed Lease Renewal is subject to the approval of unitholders of Al-`Aqar and shareholders of KPJ. In the event that the existing leases are not renewed, there is a risk that Al-'Aqar is unable to find suitable Shariah compliant lessees within a short period of time and it would adversely affect Al-'Aqar's financial performance.

We also note that under the Lease Agreements, the Proposed Lease Renewal is subject to the fulfilment of the Conditions as stated in Section 2.4.3 of Part A of the Circular. In the event that the Conditions are not met or waived, the Proposed Lease Renewal will not be completed. Hence, it would adversely affect Al-'Aqar's financial performance and its ability to pay dividend to the unitholders of Al-'Aqar.

Notwithstanding this risk, we do not foresee these conditions not being met by the parties as the proposed terms are considered to be fair to both parties and the Properties are crucial to the Lessees' business operations.

6.4.2 Dependence on single lessee

The Properties will be leased to the Lessees, all of which are the subsidiaries of KPJ. As all of the lessees are subsidiaries of KPJ, failure on the part of KPJ Group to fulfil their obligations (including payment of the lease rentals) under the Lease Agreements could have an adverse impact on Al-'Aqar's financial position.

Nonetheless, we don't foresee the KPJ Group not meeting their contractual obligations as KPJ is an established and listed healthcare provider and well-known in the healthcare industry in Malaysia. The long-term lease of a further 15 years will mitigate this risk for Al-'Aqar.

6.4.3 Risk relating to the business exposure

Upon completion of the Proposed Lease Renewal, Al-'Aqar will continue to be exposed to the risk of operating a real estate investment trust and business risks associated to the Properties which include, amongst others, the following:

(i) external factors outside the control of the Manager which affect the risk of operating a real estate investment trust. In addition, the Proposed Lease Renewal will be subjected to specific risks associated with the healthcare sector. These include, amongst others, increased competition from other hospitals;

(ii) failure on the part of any of the Lessees to fulfil their obligations (including payment of lease rentals) during the tenure of the tenancies due to, amongst others, the impact of COVID-19 pandemic and changes in statutory laws, regulations or government policies;

(iii) changes in the value of Properties, which are subject to, amongst others, factors such as location, economic outlook, market sentiment, interest rates, development of the surrounding areas, population and demographics and the physical condition of the Properties; and

(iv) changes in law and regulations which might result in the Properties having to undergo extensive renovation and reconfiguration of Properties in ensuring compliance with such changes; and

(v) the fluctuation of borrowing rate which may increase Al-'Aqar's financing cost in the future. We note that Al-'Aqar have adopted effective capital management approach, to counter the risk if the borrowing rate rises significantly in the future.

We wish to highlight that although measures will be taken by the Board and the management of Al-'Aqar to limit/ mitigate the risks highlighted herein, no assurance can be given that the abovementioned risk factors will not occur and give rise to material and adverse impact on the operation and business of the Al-'Aqar, its competitiveness, financial positions and/or Al-'Aqar's prospects thereon. The Proposed Lease Renewal for a further 15 years is intended to mitigate the aforesaid risks.

In evaluating the Proposed Lease Renewal, non-interested unitholders of Al-'Aqar should carefully consider the said risk factors prior to voting on the resolution pertaining to the Proposed Lease Renewal at the forthcoming EGM.

6.5 Effects of the Proposed Lease Renewal

The effects of the Proposed Lease Renewal are set out in Section 5 of Part A of the Circular:

(i) Unit capital and substantial unitholders' unitholdings

The Proposed Lease Renewal will not have any effect on the unit capital and substantial unitholders' unitholdings in Al-'Aqar as the Proposed Lease Renewal does not involve the issuance of any new units in Al-'Aqar.

(ii) 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 material impact on the consolidated NA per unit and gearing of Al-'Aqar.

(iii) Earnings and 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 FY 31 December 2020 are as follows:

	RM'000
Audited profit after tax	12,571
Less: Reduction in rental income	(1,543)
Less: Estimated expenses (one-off)	(600)
Pro forma profit	10,428
Existing basic EPU (sen)	1.71
Proforma basic EPU (sen)	
- including estimated expenses	1.42
- excluding estimated expenses	1.50

As stated in Section 5.3 of Part A of the Circular, Al-‘Aqar has recently procured a new Islamic financing to replace its Sukuk which had expired in early May 2021. The overall weighted average cost of borrowings of Al-`Aqar subsequent to the refinancing is 3.68% (as at 31 December 2020: 5.15%). This will mitigate the expected reduction in Al-‘Aqar’s EPU as a result of the Proposed Lease Renewal.

Based on the above, we are of the view that the overall financial effects of the Proposed Lease Renewal are **not detrimental** to the interest of the non-interested unitholders of Al-‘Aqar.

7. OUR CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the Proposed Lease Renewal after taking into consideration the relevant factors as discussed in Section 6 of this IAL. In arriving at our opinion on the fairness and reasonableness of the Proposed Lease Renewal, we have taken into consideration the following pertinent factors:

(i)	**Rationale for the Proposed Lease Renewal**	The Proposed Lease Renewal will enable Al-‘Aqar to continue leasing the Properties to KPJ Group, an established hospital operator in Malaysia and the REIT’s principal lessee. The Properties contributed RM42.48 million or 36.71% of Al-‘Aqar’s total revenue of RM115.71 million for FY 2020. We note that the new rental amount of the Properties will reduce by RM1.85 million or 4.32% which is in line with the prevailing market conditions as compared to the existing rent. Nevertheless, the new rental amount will continue to contribute significantly to Al-‘Aqar’s revenue. We are of the view that the rationale for the Proposed Lease Renewal is **reasonable** and **not detrimental** to the non-interested unitholders of Al-‘Aqar as by leasing the Properties to KPJ Group, it will allow Al-‘Aqar to meet its financial obligations and distribution to its unitholders.
(ii)	**Evaluation of the basis and justification of arriving at the rental rate**	The rental amount for the first year has been derived by multiplying the agreed rate of 5.75% with the respective market value of the Properties. We concur with the valuation methodologies adopted by the Independent Valuer for the valuation of the Properties and the valuation methodologies are appropriately applied. As such, we are satisfied with the valuation of the Properties by the Independent Valuer and are of the view that the market value of RM712 million as appraised by the Independent Valuer is fair. We are also of the view that the basis and justifications for arriving at the rental rate of 5.75% are **fair** and **reasonable** after taking into account the following factors: (i) the rental rate of 5.75% is within the range of the NPI for real estate investment trusts (excluding foreign properties) listed on Bursa Securities which ranged from 1.79% to 7.00% in 2020 and 3.16% to 8.04% in 2019;

		(ii) the rental rate of 5.75% is within the range of the NPI of commercial properties acquired by Malaysian real estate investment trusts in 2020 up to 31 March 2021 which ranges from 4.96% and 6.28%; (iii) the uncertainties in the current state of the Malaysian economy and the negative impact of the COVID-19 pandemic on the local property market; (iv) the current interest environment as evidence by the drop in the three (3)-month KLIBOR as stated in Section 2.5 of Part A of the Circular.
(iii)	**Salient terms of the Lease Agreements**	The salient terms of the Lease Agreements are **reasonable** and **not detrimental** to the non-interested unitholders of Al-‘Aqar.
(iv)	**Risk factors in relation to the Proposed Lease Renewal**	We take cognisance of the risk factors pertaining to the Proposed Lease Renewal as set out in Section 4 of Part A of the Circular. We wish to highlight that although measures will be taken by the Board and the management of Al-‘Aqar to limit/ mitigate the risks factors, no assurance can be given that the risk factors will not occur and give rise to material and adverse impact on the operation and business of the Al-‘Aqar, its competitiveness, financial positions and/or Al-‘Aqar’s prospects thereon. In evaluating the Proposed Lease Renewal, non-interested unitholders of Al-‘Aqar should carefully consider the said risk factors prior to voting on the resolution pertaining to the Proposed Lease Renewal at the forthcoming EGM.
(v)	**Effects of the Proposed Lease Renewal**	The Proposed Lease Renewal will not result in any change in Al-‘Aqar’s total unit capital and substantial unitholders’ unitholdings as the Proposed Lease Renewal does not involve any issuance of new units in Al-‘Aqar. 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 material impact on the consolidated NA per unit and gearing of Al-‘Aqar. As stated in Section 5.3 of Part A of the Circular, Al-‘Aqar has recently procured a new Islamic financing to replace its Sukuk which had expired in early May 2021. The overall weighted average cost of borrowings of Al-`Aqar subsequent to the refinancing is 3.68% (as at 31 December 2020: 5.15%). This will mitigate the expected reduction in Al-‘Aqar’s EPU as a result of the Proposed Lease Renewal. Based on the above, we are of the view that the overall financial effects of the Proposed Lease Renewal are **not detrimental** to the interest of the non-interested unitholders of Al-‘Aqar.

We have assessed and evaluated the Proposed Lease Renewal and have set out our evaluation in Section 6 of this IAL. The non-interested unitholders of Al-'Aqar should carefully consider the merits and demerits of the Proposed Lease Renewal based on all relevant and pertinent factors including those set out above and other considerations as set out in this IAL, the Circular and the appendices.

Based on our assessment and evaluation, we are of the opinion that the terms and conditions of the Proposed Lease Renewal are **fair** and **reasonable**, at arm's length and are **not to the detriment** of the non-interested unitholders of Al-'Aqar.

Accordingly, we recommend that the non-interested unitholders of Al-'Aqar **vote in favour** of the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM of Al-'Aqar.

Yours faithfully,
MAINSTREET ADVISERS SDN BHD

Dato' Siow Kim Lun	**Abd Ghafar bin Hamzah**
Adviser	Director