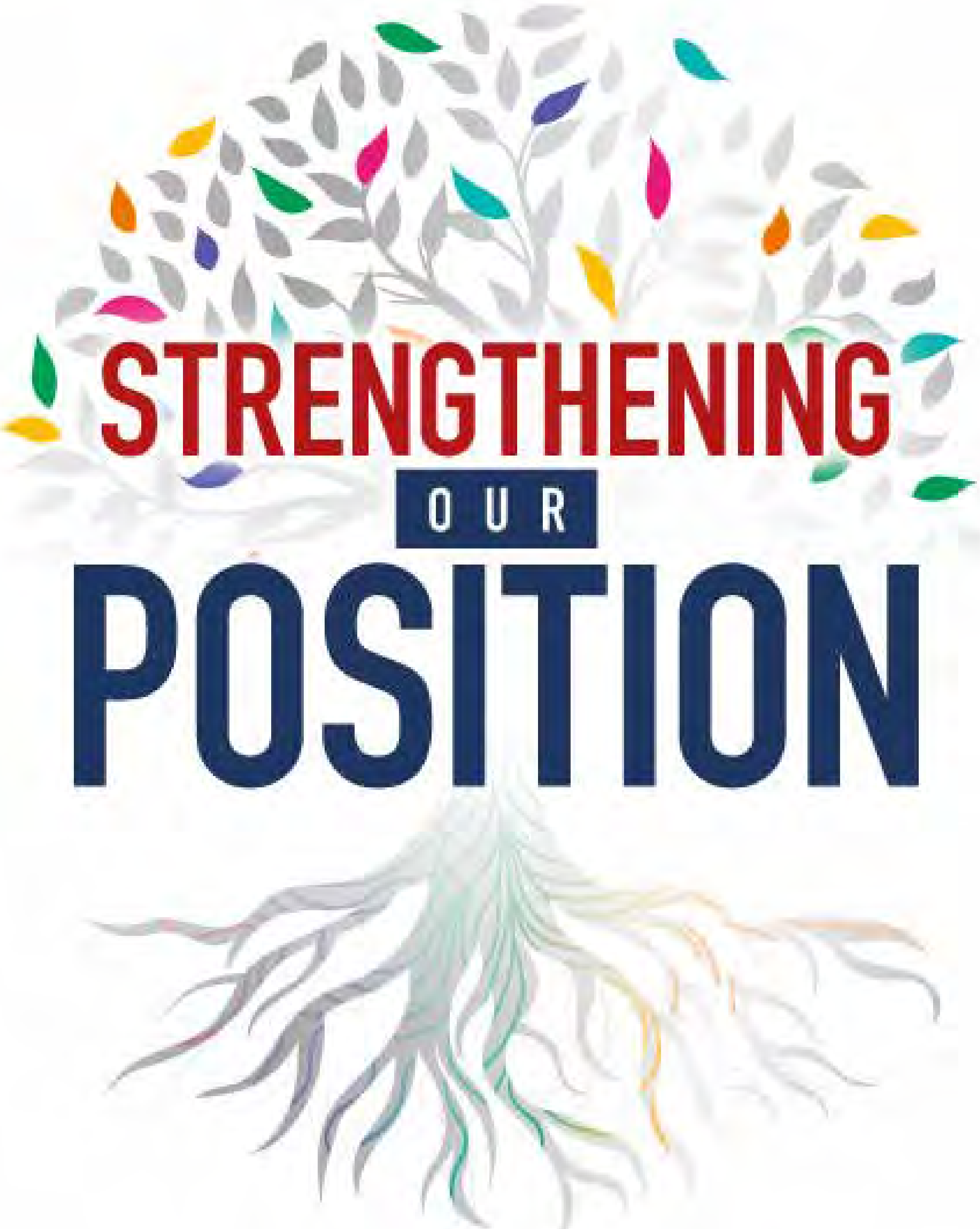
al-`aqar
HEALTHCARE REIT

STRENGTHENING OUR POSITION



ANNUAL REPORT 2023

COVER RATIONALE

This year, Al-`Aqar has dedicated a significant effort to strengthen our relationship with our key tenant, KPJ Healthcare Berhad. Alongside, we are actively working on establishing a strategic foundation for our long-term objectives. This commitment is visually represented through the vibrant depiction of a resilient and colorful tree root on the annual report cover. This symbolic representation encapsulates the essence of our initiatives to fortify a strategic foundation, embodying the company's dedication to enduring success and sustained growth. The tree root, bursting with color, serves as a powerful metaphor, symbolising the depth and strength of our strategic endeavors. As we invest effort into this foundation, it is akin to nurturing a colorful root that will eventually give rise to beautiful leaves—reflecting the positive outcomes and achievements that will flourish from our dedicated and intentional initiatives. The annual report cover, adorned with this dynamic and symbolic imagery, becomes a visual testament to our commitment to building a strong and enduring foundation that will blossom into a future of success and prosperity for our company.

SCAN ME

Scan the QR Code by following these simple steps

OPEN IT
Open the Camera app or open the dedicated QR code reader

POINT IT
Point your camera or QR code scanner at the QR code

ACCESS IT
Get access to Al-`Aqar website

INSIDE THIS REPORT

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01

About Us

CORPORATE PROFILE

Established on 10 August, 2006, and listed on the main market of Bursa Malaysia, Al-`Aqar embarked on its journey with a modest portfolio of six properties. Over time, it has transformed into a robust entity, now encompassing an extensive portfolio of 24 properties spanning diverse segments, with a notable focus on healthcare. This diverse segments includes 17 hospitals, four wellness/health centers, two colleges, and an aged care facility, solidifying Al-`Aqar's presence in the real estate investment trust landscape.

At the helm of Al-`Aqar's growth is Damansara REIT Managers Sdn Berhad (DRMSB), proudly serving as the fund manager. As a wholly-owned subsidiary of Johor Corporation and supported by KPJ Healthcare Berhad, DRMSB has played a pivotal role in fostering Al-`Aqar's growth.

As at 31 December 2023, Al-`Aqar's properties value stood at RM1.64 billion and market capitalisation of RM1.04 billion.

17 HOSPITALS

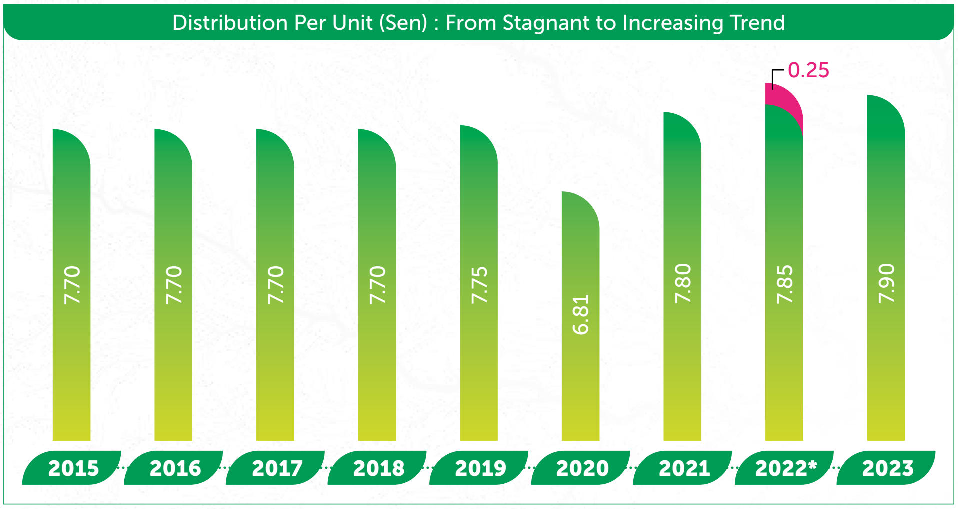
4 WELLNESS/ HEALTH CENTRES

2 COLLEGES

1 AGED CARE & RETIREMENT VILLAGE

2023 YEAR IN REVIEW

RETURN HIGHLIGHTS



Note: Contributed by cost saving from refinancing exercise (refinanced from fixed to floating rate)

DISTRIBUTION YIELD
6.37 %

MARKET CAPITALISATION
RM 1.04 billion

TOTAL RETURN
8.01 %

NET REALISED INCOME
RM 63.2 million

GROSS REVENUE
RM 121.0 million

24
NO OF ASSETS

PROPERTY VALUE
RM 1.64 billion

100 %
OCCUPANCY RATE

CORPORATE INFORMATION

MANAGER

DAMANSARA REIT MANAGERS SDN BERHAD (200501035558)

Registered Office:
Level 14, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor.
Tel : (+607) 226 7692 / 226 7476
Fax : (+607) 222 3044

Principal Place of Business:
Unit 1-19-02, Level 19, Block 1 V SQUARE, Jalan Utara, 46200 Petaling Jaya, Selangor.
Tel : (+603) 7932 1692 / 7932 3692
Fax : (+603) 7932 0692

LISTING

Main Market of Bursa Malaysia Securities Berhad
Stock Name : ALAQAR
Stock Code : 5116

WEBSITE

www.alaqar.com.my

TRUSTEE

AMANAHRAYA TRUSTEES BERHAD
(200701008892)
Level 14, Wisma AmanahRaya,
No 2, Jalan Ampang,
50508 Kuala Lumpur.
Tel : (+603) 2036 5129
Fax : (+603) 2072 0323
Email : art@arb.com.my
Website : www.artrustees.my

SHARIAH COMMITTEE

1. Dato' (Dr) Haji Nooh Bin Gadot
2. Professor Madya Dr Abdul Halim Bin Muhammad
3. IBFIM (200701005076)

Level 5, Bangunan AICB,
No. 10, Jalan Dato' Onn,
50480 Kuala Lumpur.
Tel : (+603) 2031 1010
Fax : (+603) 2026 9988
Email : info@ibfim.com / shariah.advisory@ibfim.com
Website : www.ibfimonline.com

REGISTRAR

LARKIN SENTRAL PROPERTY BERHAD
Lot S8, Podium 1, Menara Ansar,
65, Jalan Trus,
80000 Johor Bahru, Johor.
Tel : (+607) 297 2521
Fax : (+607) 223 3275

AUDITOR

ERNST & YOUNG PLT
(LLP0022760-LCA) (AF 0039)
Level 23A, Menara Milenium,
Jalan Damanlela,
Pusat Bandar Damansara,
50490 Kuala Lumpur.
Tel : (+603) 7495 8000
Fax : (+603) 2095 5332
Website : www.ey.com

SOLICITOR

ABDUL RAMAN SAAD & ASSOCIATES
C-2-1, Pacific Place Commercial Centre,
Jalan PJU 1A/4, Ara Damansara,
47301 Petaling Jaya, Selangor.
Tel : (+603) 7859 9229
Fax : (+603) 7734 5777
Email : arsakl@arsa.com.my
Website : www.arsa.com.my

KADIR ANDRI & PARTNERS
Suite A-38-8, Level 38,
Menara UOA Bangsar,
5, Jalan Bangsar Utama 1,
59000 Kuala Lumpur.
Tel : (+603) 2780 2888
Fax : (+603) 2780 2833
Email : partner@kaaplaw.com
Website : www.kaaplaw.com

ALBAR & PARTNERS
Suite 14-3, Level 14,
Wisma UOA Damansara II,
No. 6 Changkat Semantan,
Damansara Heights,
50490 Kuala Lumpur.
Tel : (+603) 7890 3288
Fax : (+603) 7890 3266
Email : albar@albar.com.my
Website : www.albar.com.my

MOHAMED RIDZA & CO
Unit No. 50-10-9, Level 10, Wisma UOA Damansara, No. 50, Jalan Dungun,
Damansara Heights,
50490 Kuala Lumpur.
Tel : (+603) 2092 4822
Fax : (+603) 2092 5822
Email : mrco@ridzalaw.com.my
Website : ridzalaw.com.my

PROPERTY MANAGER

HEALTHCARE TECHNICAL SERVICES SDN BHD
(199501012909)
Level 17, Menara KPJ,
No. 238, Jalan Tun Razak,
50400 Kuala Lumpur.
Tel : (+603) 2681 6222
Fax : (+603) 2681 6888

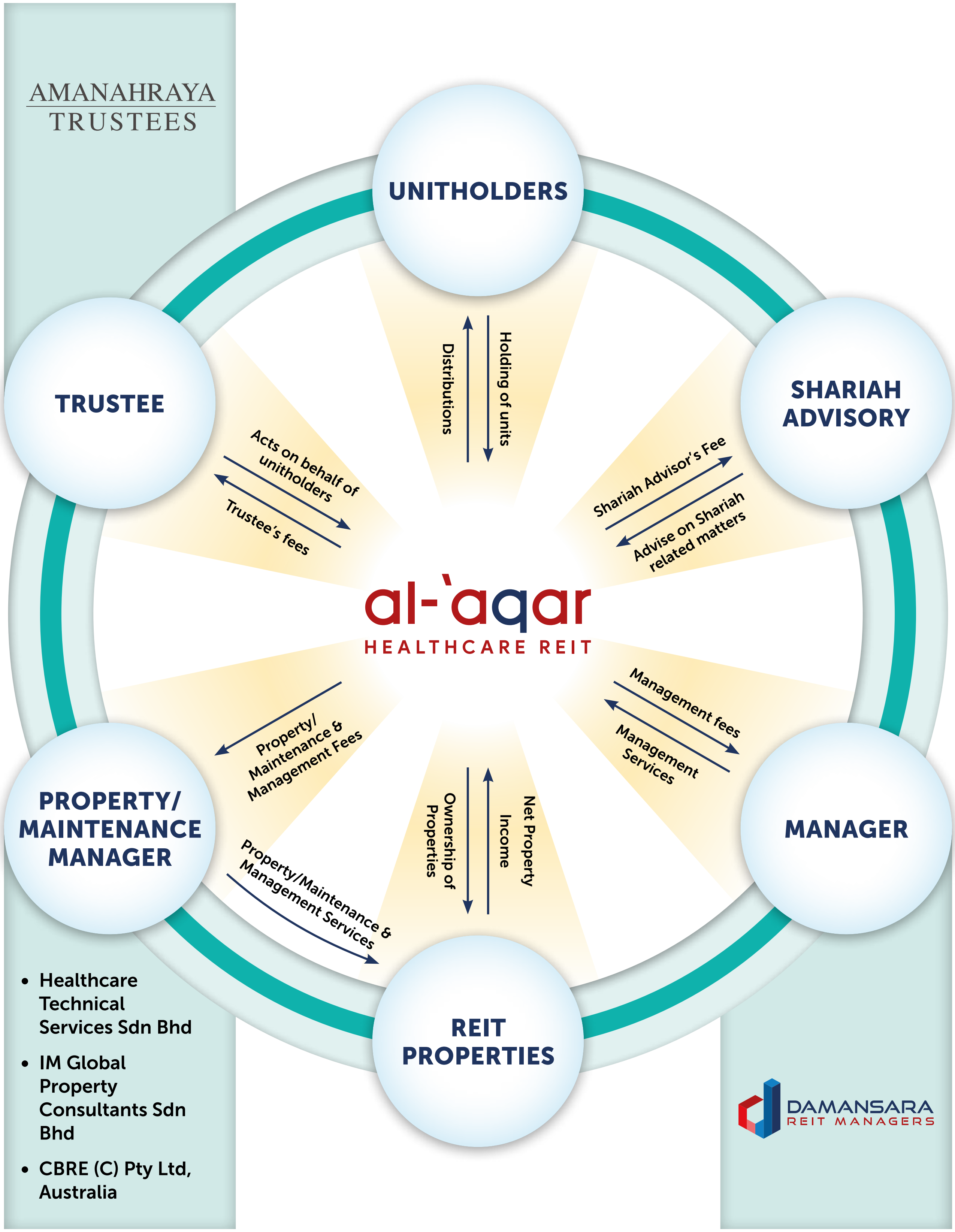
CBRE (C) PTY LTD
(64003205552)
Level 3, Waterfront Place,
1 Eagle Street, Brisbane,
Queensland 4000, Australia.
Tel : (+617) 3833 9833

IM GLOBAL PROPERTY CONSULTANTS SDN BHD
(200501019108)
No. 47-2, 2nd Floor, Wisma IMG,
Jalan 3/76D, Desa Pandan,
55100 Kuala Lumpur
Tel : (+603) 9284 8884
Fax : (+603) 9281 1884
Email : info@img.com.my
Website : www.img.com.my

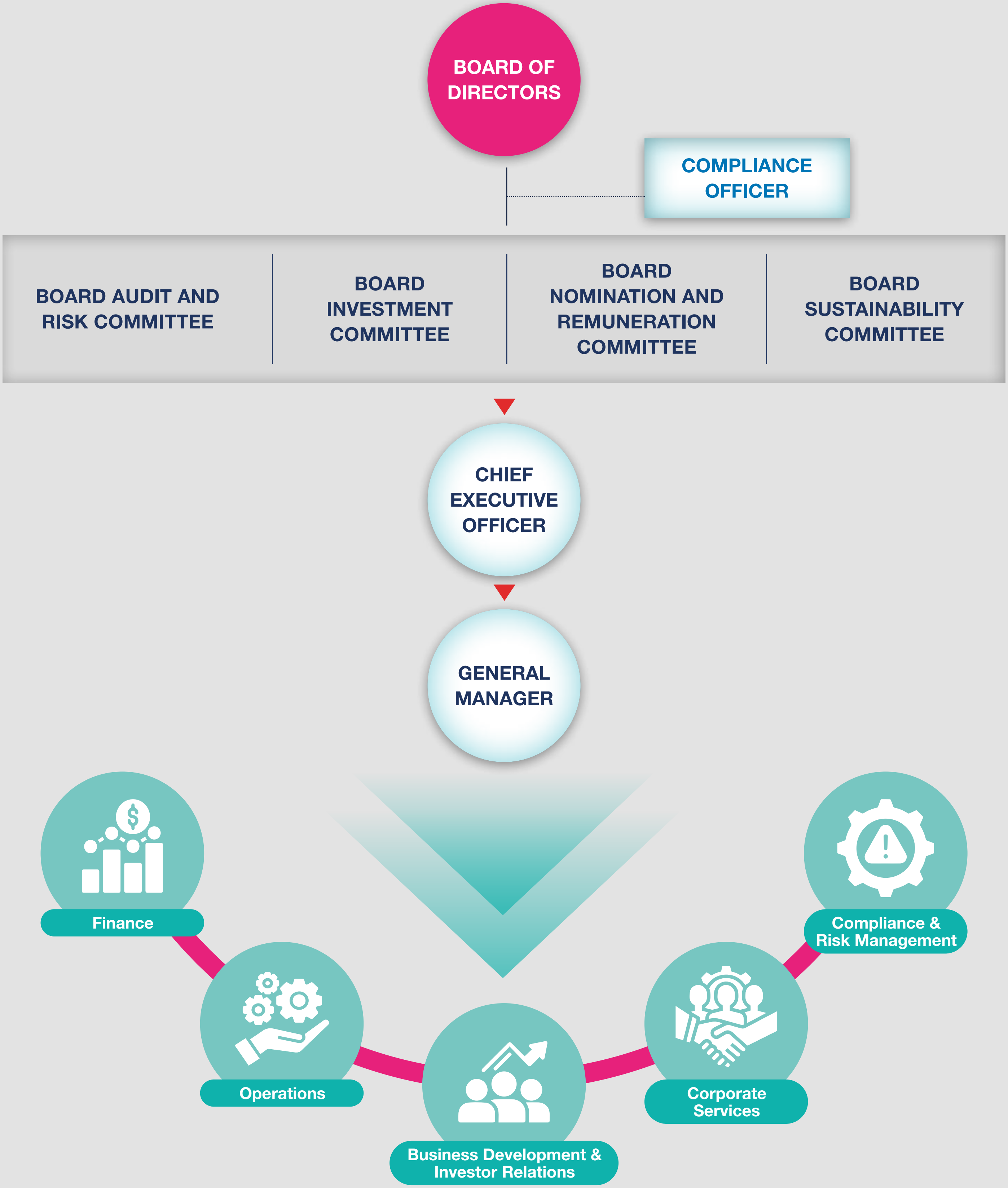
INDEPENDENT PROPERTY VALUER

CBRE WTW Valuation & Advisory Sdn Bhd
(197401001098)
(formerly known as C H Williams Talhar & Wong Sdn Bhd)
30-01 30th Floor
Menara Multi-Purpose
8 Jalan Munshi Abdullah
P O Box 12157
50100 Kuala Lumpur
Tel : (+603) 2616 8888
Fax : (+603) 2616 8899
Email : kualalumpur@cbre-wtw.com.my
Website : www.cbre-wtw.com.my

TRUST STRUCTURE



ORGANISATION STRUCTURE



SALIENT FEATURES

NAME OF FUND

Al-`Aqar Healthcare REIT

TYPE OF FUND

Income and growth

CATEGORY OF FUND

Islamic healthcare real estate and healthcare related assets

DISTRIBUTION POLICY

At least 95% of distributable income

RENTAL REVIEW

Every 3 years

LISTING

Main Market of Bursa Malaysia Securities Berhad

LISTING DATE

10 August 2006

FUND SIZE

839,597,757 units

OCCUPANCY RATE

100%

STOCK NAME & CODE

ALAQAR (5116)

FINANCIAL YEAR END

31 December

INVESTMENT OBJECTIVE

To provide stable distributions per unit to unitholders with potential for sustainable growth of distributions and net asset value per unit.

INVESTMENT POLICY

To diversify its Shariah-compliant real estate portfolio with a focus on healthcare-related real estate investment by property and location as well as to explore opportunities with attractive returns.

INVESTMENT MANAGEMENT STRATEGY

- To increase cash flow and enhance unit value through selective acquisitions
- To preserve and enhance the value of the Fund's properties via portfolio diversification consideration and a combination of:
  i. capitalisation of acquisition growth opportunities; and
  ii. identify assets approaching or have attained optimal returns for disposal consideration.

OPERATING STRATEGY

To continue enhancing the performance of the properties by increasing yields and returns from the properties. This is being achieved through a combination of:

i. meeting needs of the tenants;
ii. maintaining the quality and physical conditions of the properties;
iii. minimising interruptions in rental income and operational costs; and
iv. enhancement initiatives by repositioning or repurposing potential underperformed or underutilised properties.

CAPITAL MANAGEMENT STRATEGY

To optimise capital structure and cost of capital within the financing limits prescribed by REIT Guidelines and intend to use a combination of debt and REIT units to fund future acquisitions and improvement works of the properties.

02

Business Overview

LETTER TO STAKEHOLDERS

Dear Valued Stakeholders,

On behalf of the Board of Directors, I am delighted to present the Annual Report for Al-`Aqar Healthcare REIT ("Al-`Aqar", the "Fund" or the "Group") for the financial year ended 31 December 2023 ("FY2023"). The year 2023 marked a significant period of growth as Malaysia successfully navigated beyond the challenges posed by Covid-19 and the healthcare industry witnessed its capacity reaching maximum rates.

Throughout 2023, the Manager dedicated substantial efforts to fortify relationships with existing tenants, KPJ Group, laying the foundation for future growth and diversification, as well as implementing capital recycling strategies. The Group's investment properties stood at RM1.64 billion as at 31 December 2023. As we step into 2024, the Manager remains focused on implementing the comprehensive 5-Year Plan (2024-2028), a strategic initiative poised to propel Al-`Aqar to the next phase of growth.

As the chairman of the Group, I am honored to present the Annual Report for FY2023, featuring a commendable distribution per unit ("DPU") of 7.90 sen. This achievement aligns with the Manager's expectation and translates to a remarkable payout of 100%, marking a 10-year high for Al-`Aqar, demonstrating our continuous commitment in delivering higher DPU to unitholders.

The Manager remains steadfast in its commitment to delivering a consistently increasing trend of DPU, supported by acquisitions, long term lease renewals, and proactive capital recycling.

LETTER TO STAKEHOLDERS

REVIEWING 2023: ROBUST PRIVATE-PUBLIC PARTNERSHIPS

In 2023, the Malaysian economy experienced moderate growth, with projections of a 3.9% to 4.0% increase. Despite this being a moderation from the previous year's 7.8% growth, it signified a stable post-pandemic recovery. Resilient domestic demand was the main driver of growth, with significant contributions from household spending and investment activities. The robust employment market and wage growth further buoyed consumer confidence, which positively impacted our healthcare property sector.

In the aftermath of the COVID-19 pandemic, hospitals in Malaysia, both public and private, are running at almost full capacity. Recognising the challenges posed by overcrowding at public hospitals, the government has established partnerships with private hospitals. Under these collaborations, private hospitals provide treatment to government patients at mutually agreed-upon fees. This private-public partnership trend has become increasingly prevalent due to the realisation that, at a comparable cost, private hospitals deliver procedural services that are on par, if not more efficient, than those provided by government hospitals.

Additionally, KPJ reported robust revenue and net profit in 2023, which increased by 19.2% and 63.3%, respectively, as compared to 2022. This was mainly driven by the higher patient volume, which resulted in a higher bed occupancy rate of 67% and more surgery cases.

2023 - A PRODUCTIVE YEAR

Throughout the financial year 2023, Al-`Aqar's demonstrated strong growth in both revenue and net property income, driven by contributions from three expansion assets bought in December 2022 and the renewal of master leases for five properties in 2023.

Following the acquisition of three expansion assets, the Fund's gearing grew to 45.8%, while the private placement exercise lowered the Fund's gearing to 40.8%, providing headroom for the next acquisition plan.

In 2023, the total number of properties and value remain unchanged at 24 and RM1.72 billion, respectively. Following the implementation of capital recycling activities, the Fund entered into agreements to dispose of two properties worth RM76.7 million, bringing the total investment property value to RM1.64 billion.

KPJ Perdana Specialist Hospital. 15 years master lease renewed on 25 August 2023.

LETTER TO STAKEHOLDERS

2023 - A PRODUCTIVE YEAR (CONT'D)

2023 AL-`AQAR INITIATIVES

The Manager successfully maintained their business prospects by adeptly turning risks into opportunities through an effective and ongoing Capital, Investment and Asset Management plan.

CAPITAL MANAGEMENT

On 20 April 2023, Al-`Aqar successfully concluded the private placement of 83.1 million units, generating total gross proceeds of RM99.7 million. This move contributed in lowering the gearing level to 40.8%, creating room for future acquisition strategies. Moreover, due to the elevated OPR rate as expected, the Group saw an increase in Islamic financing cost by 41.7%, reaching RM39.1 million in FY2023 (FY2022: RM27.6 million). Nevertheless, the weighted average finance cost of 4.86% in FY2023 was below that of FY2018, which averaged 5.44%.

INVESTMENT MANAGEMENT

On 15 November 2023, Al-`Aqar entered into a Sale and Purchase Agreement ("SPA") with Sihat Damai Sdn Bhd for the disposal of Damai Wellness Centre for a disposal consideration of RM13 million cash. Subsequently, on 12 December 2023, Al-`Aqar entered into an SPA with Principal Healthcare Finance Trust for the disposal of Jeta Gardens Aged Care Facilities, with a disposal consideration of AUD24.4 million (or proximately RM74.9 million). Both transactions are targeted to be completed in 2024. These strategic moves are part of the Group's capital recycling strategy, whereby the Manager divests underperforming and/or underutilised assets and utilises the freed-up capital to acquire high-yielding assets, distribute to unitholders and/or reduce borrowings.

ASSET MANAGEMENT

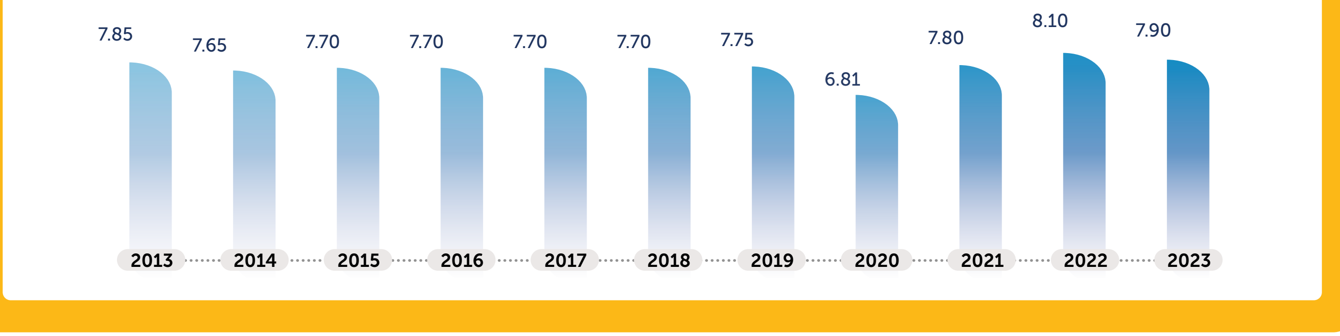
On 25 August 2023, the Manager renewed the master lease for five properties, which contributed 11.8% of Al-`Aqar's revenue in FY2023. Additionally, the Manager has also managed to maintain a 100% occupancy rate for its entire portfolio of assets, ensuring that all the properties were leased out throughout the year.

2023 AL-`AQAR FINANCIAL PERFORMANCE.

In FY2023, the Group recorded a higher gross revenue of RM121.0 million (FY2022: RM110.2 million) and net property income of RM114.5 million (FY2022: RM104.2 million). Profit increased to RM60.7 million (FY2022: RM60.1 million), with realised profit of RM63.2 million.

The Fund achieved a total DPU of 7.90 sen in FY2023. This achievement aligns with the Manager's expectations and translates to a remarkable payout of 100%, marking a 10-year high for Al-`Aqar, demonstrating the Manager's continuous commitment in delivering higher DPU to unitholders.

DISTRIBUTION PER UNIT (SEN)



LETTER TO STAKEHOLDERS

2024 - EXPANSION AND DIVERSIFICATION

Looking ahead to 2024, the Malaysian economy is expected to experience firmer growth of between 4% and 5%. This optimism is underpinned by resilient consumer spending and sustained investment in infrastructure, with the healthcare sector poised to benefit from these trends. The implementation of the MADANI Economy reforms is expected to further boost the service sector, contributing positively to our strategic growth areas.

Furthermore, KPJ expects an increase in the number of patients in 2024, supported by the addition of new beds and services, as well as hiring of new consultants. The health tourism sector is expected to exceed RM2 billion in revenue in 2024, presenting an opportunity that KPJ aims to capitalise on.

The Manager is optimistic regarding Al-`Aqar's prospects in 2024, supported by the acquisitions of high-yielding assets, as well as the strategic disposal of underperforming/underutilising assets and renewal of master lease of six properties by October 2024. Moreover, the Manager's primary focus remains on diversifying its assets and tenant base in the local market, with the aim of enhancing the overall quality of assets and tenants. Equally important, the Manager is dedicated to ensuring a sustained, upward trend in the long-term DPU.

KPJ Penang Specialist Hospital.
15 years master lease to be renewed in October 2024.


KPJ Seremban Specialist Hospital. *15 years master lease to be renewed in October 2024.*

LETTER TO STAKEHOLDERS

INNOVATING FOR TOMORROW

The Manager has developed a strategic 5-Year Plan (2024-2028) designed to leverage emerging opportunities and position itself at the forefront of ever-evolving healthcare trends. These trends encompass areas such as telemedicine, artificial intelligence-based diagnostics, wearable technology and precision medicine. With the implementation of the 5-Year Plan (2024-2028), the Manager anticipates the Group's investment properties value to double to approximately RM3.0 billion by 2028 and the DPU to show a consistent increasing trend over the long term.

GROUP LEVEL – THE 5-YEAR PLAN (2024-2028)

Over the next five years, the Group will meticulously assess potential asset acquisitions, ensuring alignment with the Group's growth and diversification strategies. In addition, underperforming and underutilised assets will be strategically repositioned or divested to maximise returns, laying the foundation for a resilient portfolio capable of withstanding the test of time. The Manager is actively engaged in negotiations with KPJ Group, the promoter, and third-party asset owners/operators, to acquire new healthcare properties. The Manager anticipates that Al-`Aqar will record transactions related to some of the growth initiatives below in 2024.

DIVERSIFY CORE BUSINESS

1 Enlarge tenant base with different healthcare operators

2 Grow complementary assets with KPJ

GROWTH IN NEW ECONOMIES

3 Diversify across value chain

4 Capitalise on aged care markets

GROUP LEVEL – STRENGTHENING TENANT RELATIONSHIPS

To enhance competitiveness and strengthen relationship with tenants, the Manager is exploring new business model for Al-`Aqar's current and future tenants. This may involve flexible and customised rental arrangements tailored to the needs of the tenants, including the creation of retail space at the healthcare properties to enhance tenants' income.

MANAGER LEVEL – PIONEERING INNOVATIONS AND IMPROVEMENTS

To expedite the fund transformation initiatives, the Manager has successfully executed digital and organisational transformation initiatives. Furthermore, the Manager continuously implements new measures, which include enhancing leadership development programmes, staying abreast of healthcare trends and international knowledge learning as well as increasing the frequency of engagements with all stakeholders to better understand the existing gaps.

APPRECIATION AND ACKNOWLEDGMENT

I would like to thank Dato' Wan Kamaruzaman bin Wan Ahmad who resigned as Independent Non-Executive Director, and Dato' Salehuddin bin Hassan who resigned as Non-Independent Non-Executive Director, for their guidance and services during their tenure as the Board members. On behalf of the Board, Management and employees of the Manager, we wish them every success in their future endeavours. I also wish to extend my heartfelt appreciation to our unitholders, investors, clients, trustees, financiers, business partners, bankers, government and regulatory bodies for their unwavering support and trust in Al-`Aqar.

Our appreciation is also expressed to our dedicated Management and loyal employees who consistently contribute their efforts and commitment, playing a vital role in shaping a resilient future for Al-`Aqar within the dynamic healthcare landscape. Looking forward, we will persist in fortifying our business and build a stronger portfolio, extending our reach within Malaysia and internationally.

Thank you.

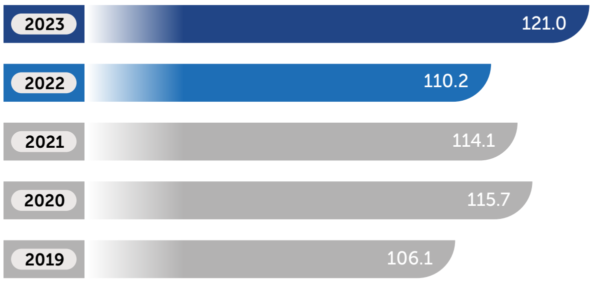
DATO' HAJI MOHD REDZA SHAH BIN ABDUL WAHID
Chairman

FIVE-YEAR FINANCIAL PERFORMANCE

GROSS REVENUE
(RM Million)

RM**121.0**million

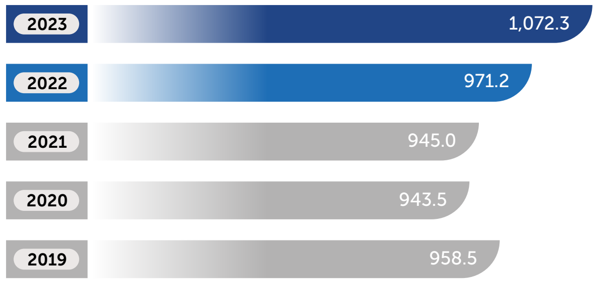
+9.8%



NET ASSET VALUE
(RM Million)

RM**1,072.3**million

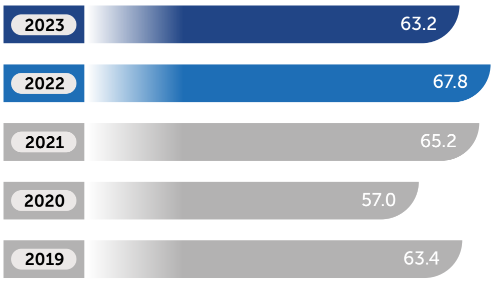
+10.4%



PROFIT FOR THE YEAR (REALISED)
(RM Million)

RM**63.2**million

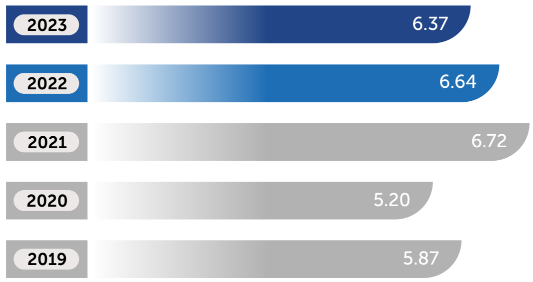
-6.8%



ANNUALISED DISTRIBUTION YIELD
(%)

6.37%

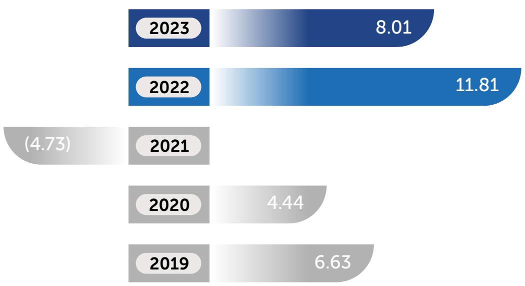
-4.1%



ANNUAL TOTAL RETURN
(sen)

8.01sen

-32.2%



DISTRIBUTION PER UNIT
(sen)

7.90sen

-2.5%

FIVE-YEAR FINANCIAL PERFORMANCE

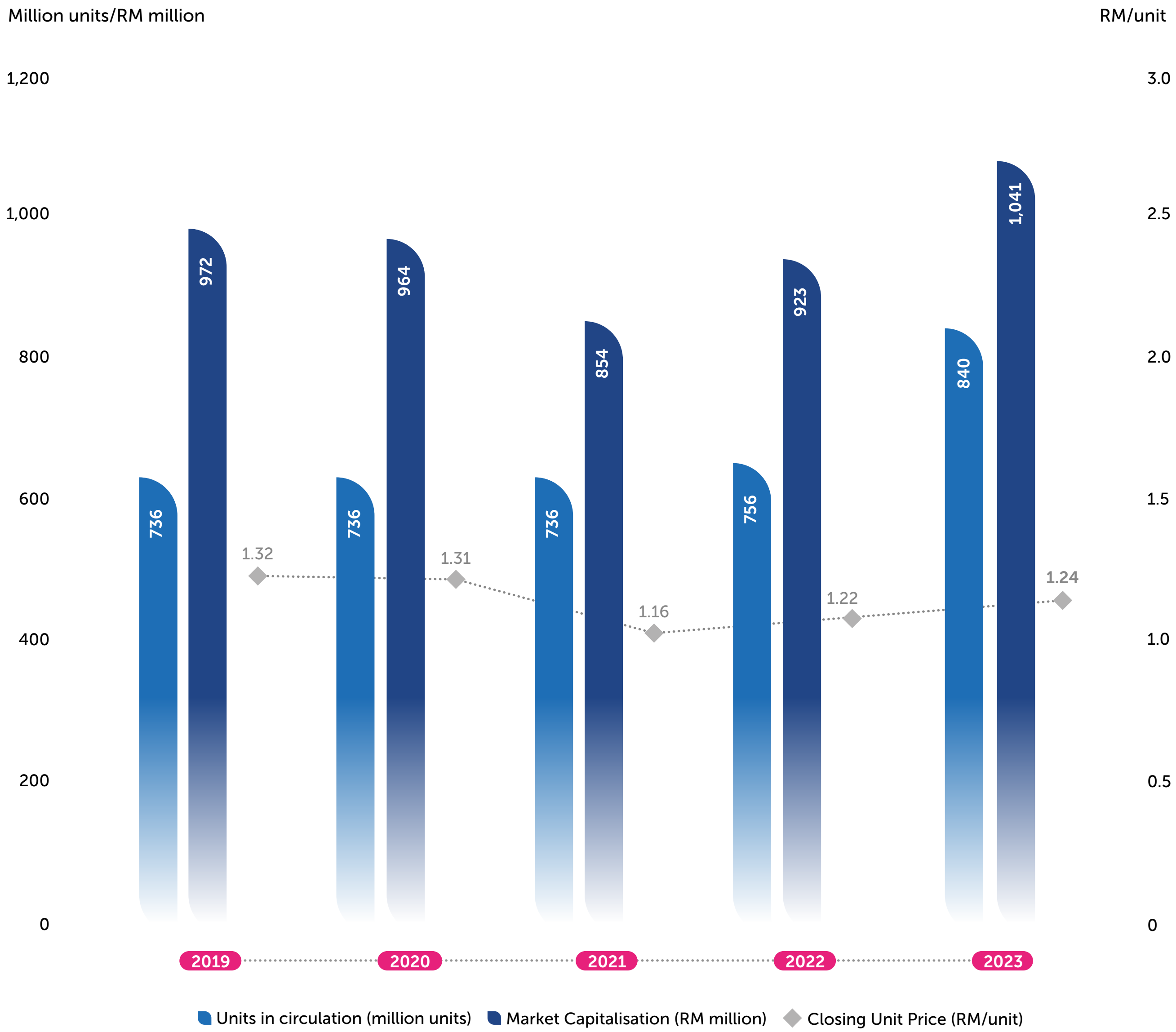
FINANCIAL HIGHLIGHTS - GROUP	2019	2020	2021	2022	2023
Gross revenue *(RM'000)*	106,110	115,710	114,072	110,239	**121,022**
Net property income *(RM'000)*	100,326	109,614	108,222	104,199	**114,470**
Profit before tax *(RM'000)*	76,148	13,624	72,781	60,036	**60,554**
Profit for the year					
- realised *(RM'000)*	63,409	56,984	65,218	67,766	**63,246**
- unrealised *(RM'000)*	12,753	(44,413)	8,331	(7,627)	**(2,552)**
Earnings per unit					
- realised *(sen)*	8.62	7.74	8.86	9.20	**7.76**
- unrealised *(sen)*	1.73	(6.03)	1.13	(1.03)	**(0.31)**
Investment properties *(RM'000)*	1,569,814	1,534,501	1,538,210	1,721,281	**1,643,220**
Total asset value *(RM'000)*	1,674,352	1,647,986	1,664,733	1,867,066	**1,855,984**
Net asset value *(RM'000)*	958,513	943,490	945,002	971,215	**1,072,297**
NAV per unit					
- before distribution *(RM)*	1.3024	1.2819	1.2840	1.2839	**1.2772**
- after distribution *(RM)*	1.2822	1.2474	1.2660	1.2629	**1.2572**

FINANCIAL HIGHLIGHTS - FUND	2019	2020	2021	2022	2023
Gross revenue *(RM'000)*	94,588	103,918	104,245	104,588	**115,250**
Net property income *(RM'000)*	88,942	97,974	98,405	98,610	**108,764**
Profit before tax *(RM'000)*	73,771	50,126	46,602	58,083	**66,378**
Profit for the year					
- realised *(RM'000)*	61,267	55,137	64,400	66,707	**64,694**
- unrealised *(RM'000)*	12,504	(7,545)	(17,030)	(8,521)	**1,824**
Earnings per unit					
- realised *(sen)*	8.32	7.49	8.75	9.06	**7.94**
- unrealised *(sen)*	1.70	(1.02)	(2.31)	(1.16)	**0.22**
Investment properties *(RM'000)*	1,449,400	1,446,376	1,451,912	1,636,015	**1,632,750**
Total asset value *(RM'000)*	1,650,199	1,647,844	1,664,797	1,867,100	**1,854,869**
Net asset value *(RM'000)*	959,604	967,599	945,419	971,209	**1,072,316**
NAV per unit					
- before distribution *(RM)*	1.3038	1.3147	1.2846	1.2838	**1.2772**
- after distribution *(RM)*	1.2836	1.2802	1.2666	1.2628	**1.2572**
Market Capitalisation *(RM'000)*	971,500	964,140	853,743	922,913	**1,041,101**
Distribution Per Unit *(sen)*	7.75	6.81	7.80	8.10	**7.90**
Annualised Distribution Yield *(%)*	5.87	5.20	6.72	6.64	**6.37**

TRADING PERFORMANCE

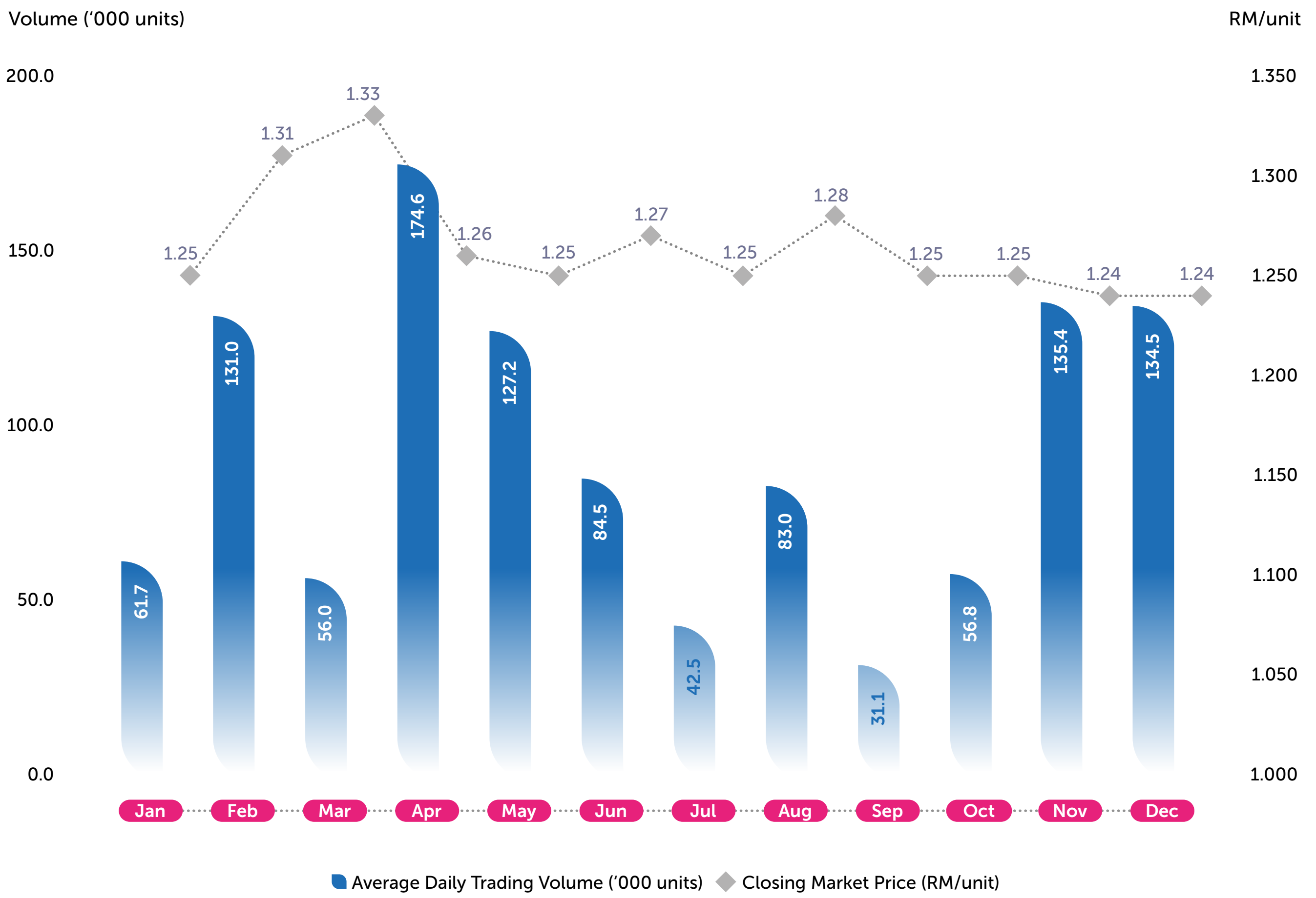
TRADING SUMMARY	2019	2020	2021	2022	2023
Closing Unit Price *(RM)*	1.32	1.31	1.16	1.22	**1.24**
52-week Highest Traded Price *(RM)*	1.55	1.42	1.37	1.25	**1.35**
52-week Lowest Traded Price *(RM)*	1.27	1.19	1.09	1.09	**1.22**
Price Movement *(%)*	0.8	(0.8)	(11.5)	5.17	**1.64**
Annual Total Return *(%)*	6.63	4.44	(4.73)	11.81	**8.01**
Number of Units in Circulation *('000)*	735,985	735,985	735,985	756,486	**839,598**
Market Capitalisation *(RM'000)*	971,500	964,140	853,743	922,913	**1,041,101**

MARKET CAPITALISATION, UNIT PRICE AND UNITS IN CIRCULATION

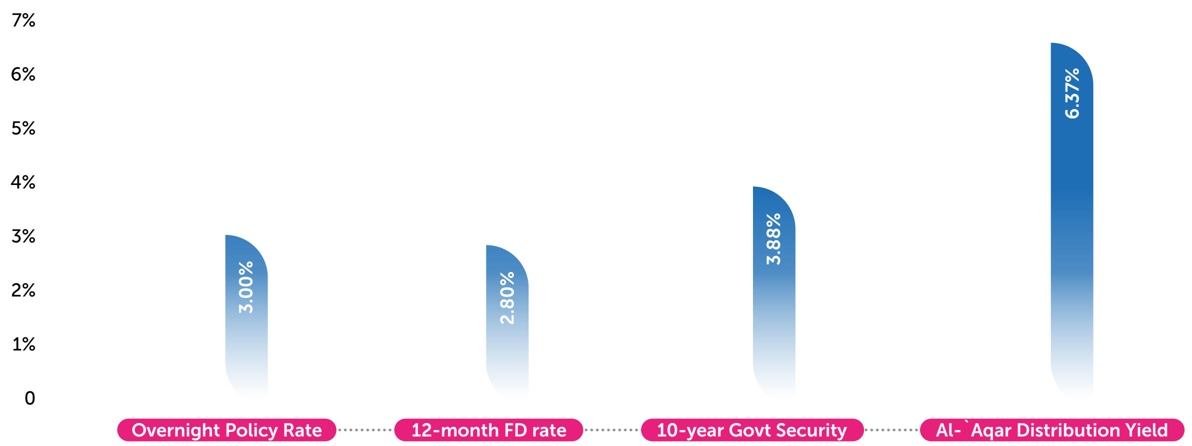


TRADING PERFORMANCE

FY2023 TRADING PERFORMANCE



COMPARATIVE YIELD



Source: Bank Negara Malaysia, Maybank, Damansara REIT Managers

MARKET SUMMARY REPORT

ECONOMIC OVERVIEW

"RISING MOMENTUM"

Malaysia's GDP growth is forecasted at 4.4% for 2024E (2023E: +3.9%), supported by robust consumer spending, investments in infrastructure and recoveries in trade-related services and manufacturing industries. The global economy is expected to grow at a slower pace of 2.8% in 2024 after a 3.3% of expansion in 2023, driven by slower growths in US and China, and ongoing sluggishness in Europe. This global economic shift is reflected in the declining global composite purchasing index, which indicated a consumer transition from goods to services as the economy reopens post Covid-19. ASEAN-6 on the other hand is expected to pick up the pace through measures taken to support the respective domestic economies such as relaxation of visa requirements for foreign travelers. Headwinds in 2024 include global economic shifts, especially in the US and China geostrategic competition that led to geoeconomic fragmentation. The year 2023 ends with two major conflicts, the Russia-Ukraine war and Israel-Palestine war. The market seems to be factoring in the likelihood of an ongoing deadlock in the Russia-Ukraine conflict and a low probability of the Israel-Palestine issue escalating into a broader Middle East crisis.

2023 has been a year of transition to a more stable domestic political environment for Malaysia, which also enables focus on medium to long term transition of the economy. In the year, there has been various notable blueprints and roadmaps such as MADANI Economy, National Energy Transition Roadmap (NETR), New Industrial Master Plan 2030, 12th Malaysia Plan Mid-Term Review, Hydrogen Economy & Technology Roadmap, and Fiscal Responsibility Act and Energy Efficiency & Conservation Act. 2024 is then the year of execution and implementation of the announced blueprints and roadmaps. Fiscal reforms are high on the execution agenda, with the key element being the implementation of targeted rationalization of fuel subsidy in 2024, together with economic restructuring where the main event is Progressive Wage Policy (PWP), to address the cost-of-living issues, adequacy of retirement savings and equality.

Globally, inflation rates have peaked and are seen slowing, signaling the end of the hike cycle for interest rates, with the US Fed keeping the fed funds rate (FFR) at 5.25-5.50%. 2024 FFR outlook is forecasted to have cuts up to 75bps and 100bps in 2025. Bank Negara is also expected to maintain the Overnight Policy Rate at 3.00%. Consumer spending in 2023 has been weakened by the ongoing cost inflation pressures, with signs showing that consumers spending has shifted towards Nestle's lower-priced mainstream brands. Into 2024, the risk for further weakness in consumer spending cries for additional government subsidy rollbacks.

(Extracted from Maybank Report: Malaysia 2024 Outlook and Lookouts)

MARKET SUMMARY REPORT

HEALTHCARE TRENDS

ADAPTING HEALTHCARE IN MALAYSIA: BALANCING GROWTH AND EQUITY AMIDST GLOBAL CHALLENGES

The long-term effects of COVID-19, particularly on individuals with pre-existing health conditions, have prompted Malaysia to prioritise health and wellness. The national Agenda of Healthy Malaysia is a key initiative to encourage healthier lifestyles. This focus is essential due to the high rate of deaths from non-communicable diseases (NCDs). Malaysia's healthcare system, which heavily imports high-tech medical devices, presents a significant market for advanced medical products. The country is also undergoing a digital transformation in healthcare service delivery, creating demand for virtual consultation technologies, electronic medical records systems, and solutions for data privacy and security. Additionally, Malaysia is striving to enhance its healthcare travel ecosystem and strengthen its position in clinical research, leveraging its diverse population for a variety of medical studies.

With the absence of travel restrictions, and the holiday season brewing as the year ended in 2023, Covid-19 cases have seen soaring from 200 confirmed cases in November 2023 to a peak of 3,700 confirmed cases daily in December 2023 as reported by Kementerian Kesihatan Malaysia (KKM). Medical experts have stressed that given the immunity obtained from vaccines, infections have been mild on most cases, and hospitals in the Nation are coping, hence there are slim chances on the reintroduction of lockdowns as in the previous years. Living with Covid-19 is a norm to be accepted. This transformation in the healthcare sector has also sculpted the healthcare landscape.

Locally, inpatient volume trend, bed occupancy rate (BOR) and surgery numbers are underway to surpass pre-pandemic levels, positively geared to drive stronger earnings moving forward. Cost control remains a key variable for bottom line growth amid expansions to meet growing demand for local and foreign patients. The return of health tourism, referrals from public hospitals and high insurance penetration also serve as upside potentials for the sector.

MARKET SUMMARY REPORT

HEALTHCARE TRENDS (CONT'D)

Health tourism, which currently accounts for around 4-6% of the country's total tourism revenue (sourced from Malaysia Healthcare Travel Council) is expected to exceed current levels, due to the attractive pricing, strategic location, and quality of medical services available. The recent announcement for visa-free travel for citizens from China and India acts as a boost to attract inbound health tourists from these countries. Budget 2024 also included an allocation of RM200m to refer patients from public to private hospitals, potentially contributing to additional upsides to top line growth in the private healthcare sector. There are downsides which distort the healthcare industry, such as expansion delays, supply constraints of medical professionals which would cap operational bed numbers. The rising costs of human capital, energy and medical supply would also erode operating margins. However, unprecedented travel restrictions imposed if cases worsen would cut into health tourism and patient numbers, dampening the local healthcare industry growth.

Globally, access to care is linked to affordability. As healthcare costs increase, the affordability of care also depends on investments in health and health systems. With public debt reaching a record of US$92 trillion in 2022, developing countries are allocating more funds for debt interest payments than for healthcare and education. The number of countries experiencing high debt levels escalated from 22 in 2011 to 59 in 2022. Approximately 3.3 billion people, or nearly half the global population, now reside in countries where healthcare investment is overshadowed by debt service, particularly in certain developing nations in Africa, Latin America, and Asia (excluding China).

Worldwide, healthcare providers can incorporate steps to address inequities which limits access and affordability to healthcare, these include:

- Collaborating to influence multiagency action such as with integrated care systems;
- Leveraging their position as an anchor institution in their vicinity or community;
- Conducting quality improvement programs focused on health equity;
- Promoting targeting of health care delivery to meet regional needs and explicitly aim to lessen health care inequalities; or
- Integrating health equity-focused approaches through advocates across initiatives.

If healthcare industry players are willing to further narrow the affordability gap in healthcare by incorporating the steps into their policies, focusing less on commercial gains and more on enhancing access and affordability, growth is likely to ensue. This strategic shift towards prioritising public health needs over profit can lead to sustainable development and expansion in the healthcare sector.

Extracted from:

1. *Maybank: Malaysia Outlook and Lookouts, 2024*
2. *International Trade Administration: Market Overview, 2024*
3. *New Straits Times: Health Experts Say Malaysia Prepared For New Wave of Covid-19, 2023*
4. *Malaysia's Ministry of Health: Covid Dashboard, 2023*
5. *Deloitte: Global Health Care Sector Outlook, 2024*

MARKET SUMMARY REPORT

AUSTRALIA AGED CARE SECTOR

"STILL GOING THROUGH CONSOLIDATION"

Home Care Services:

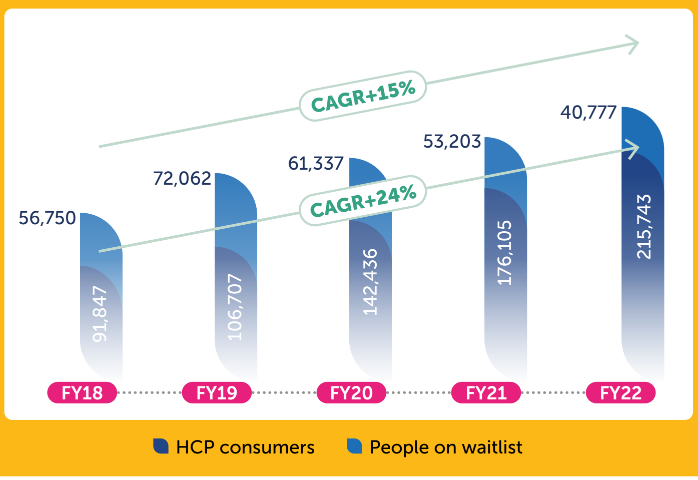
As at December 2022, the number of individuals accessing Home Care Packages witnessed a significant increase, reaching 235,999 people, representing an increase of 19%. The rise can be attributed to the Australian Government's release of an increased number of packages.

The increase in supply into the market has resulted in a reduction of people waiting for a Package at their approved level, with 37,894 people waiting for a Package at their approved level at December 2022, a decrease of 45% in 12 months.

Government funding in this sector increased by 23% between FY21 and FY22. This growth is aligned to government policy and consumer preference to remain at home for as long as possible. However, the supply growth is challenged by a very tight labour market and increasing competition amongst providers to attract and retain home care workforce. In FY22, there was a net decrease in the number of providers, falling from 867 in FY21 to 846 in FY22 (19 new entries, 40 exits).

The chart below shows historical growth in the number of consumers across the country. This growth is equivalent to a CAGR of 24% over FY18 to FY22, as shown in the chart below.

NUMBER OF HOME CARE CONSUMERS + WAITLIST



The difference in growth between the Home Care Package consumers (24 percent) and total demand (Home Care Package consumers + waitlist, 15 percent) indicates that unmet demand is slowly decreasing as more packages are released into the market. Both growth measures exceed growth in the 80 years and over population over the same timeframe, which was 3.2 percent, reiterating the fact that there has historically been significant unmet demand.

MARKET SUMMARY REPORT

AUSTRALIA AGED CARE SECTOR (CONT'D)

Residential Aged Care:

There are currently 698 providers delivering residential aged care in Australia, a 4.3% decrease in providers in the market since FY21.

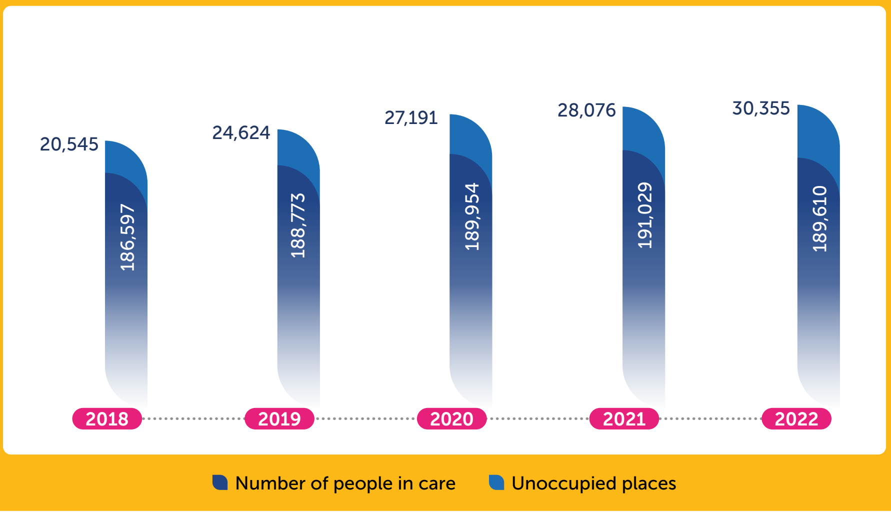
New requirements in relation to staffing are set to come into effect in 2023, starting with having a registered nurse onsite 24 hours per day from July 2023, and then needing to achieve minimum 'care minutes' targets by October 2023. These measures could be considered contributing factors towards the closure of some homes, including recent announcements from Brightwater in Western Australia and Wesley Mission in New South Wales that they will each close three of their homes.

There's a declining trend in demand for residential aged care, resulting in a 5.6% drop in occupancy levels over the past five years. However, the market is still growing in terms of operational places per provider.

Meanwhile, as at June 2022, there were 180,750 permanent residents accessing residential aged care, a decrease of 1.7% since June 2021.

Despite the drop in occupancy levels and overall demand for residential aged care, the Australian aged care market has continued to grow in terms of the total number of operational places. Chart below shows historical growth in the number of 'operational places' across the country. This growth is equivalent to a CAGR of 1.5% over the timeframe.

TOTAL AND OCCUPIED RESIDENTIAL AGED CARE PLACES



0.4 percent compound annual growth in the number of occupied residential aged care places is low relative to the growth in the 85 years and over population over the same timeframe, which was 2.5 percent. This indicates a trend away from residential aged care to an extent.

(Extracted from KPMG Aged Care Market Analysis 2023)

MANAGEMENT DISCUSSION AND ANALYSIS

Section 1 - FINANCIAL REVIEW

KEY FINANCIALS

	FY2022 RM'000	FY2023 RM'000	Growth %
The Group:			
- Gross revenue	110,239	121,022	9.8
- Net Property Income (NPI)	104,199	114,470	9.9
- Profit for the year (realised)	67,766	63,246	(6.7)
- EPU (realised) (sen)	9.20	7.76	(15.6)
The Fund:			
- Income available for distribution	63,012	64,694	2.7
- DPU (sen)	8.10	7.90	(2.5)

CONTRIBUTION BY SEGMENT

The Group's segmental reporting is based on its geographical location of customers and assets as follows:

i. Malaysia
ii. Australia

Management monitors the operating results of its business units separately for the purpose of making decisions on resource allocation and performance assessment. The segmental performance is evaluated based on operating profit.

	FY2022 RM'000	FY2023 RM'000	Growth %
Revenue			
Malaysia	104,588	115,250	10.2
Australia	5,651	5,772	2.1
Net Property Income (NPI)			
Malaysia	98,610	108,764	10.3
Australia	5,589	5,706	2.1

MALAYSIAN SEGMENT

The Malaysian segment, as the key contributor, contributed 95.2% (FY2022: 94.9%) to the Group's total revenue. This segment reported revenue of RM115.2 million in FY2023, an increase of 10.2% from RM104.6 million in FY2022. In terms of NPI, Malaysian segment contributed 95.0% (FY2022: 94.6%) to the Group's total NPI. This segment reported NPI of RM108.8 million in FY2023, an increase of 10.3% from RM98.6 million in FY2022. The increase was contributed by income from TMC Health (Expansion Building), KPJ Seremban Specialist Hospital (Expansion Building) and KPJ Pasir Gudang Specialist Hospital, which were acquired in December 2022.

AUSTRALIAN SEGMENT

The Australian segment contributed 4.8% (FY2022: 5.1%) to Group's total revenue in FY2023. It reported revenue of RM5.8 million in FY2023, a slight increase of 2.1% from RM5.7 million in FY2022. In terms of NPI, this segment contributed 5.0% (FY2022: 5.4%) to Group's total NPI. Australian segment reported NPI of RM5.7 million in FY2023, an increase of 2.1% from RM5.6 million in FY2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Section 1 - FINANCIAL REVIEW (CONT'D)

PROFIT FOR THE YEAR

Profit for the year was RM60.7 million (FY2022: RM60.1 million) comprising realised profit of RM63.2 million (FY2022: RM67.8 million) and unrealised loss of RM2.5 million (FY2022: RM7.6 million). Despite a higher NPI of RM10.3 million, realised profit decreased 6.7% or RM4.5 million in FY2023, mainly due to an increase in financing cost of RM11.5 million and trust expenses of RM4.6 million. The higher financing cost was due to the drawdown of additional Islamic financing in December 2022 and the full impact of a 100 basis point OPR hike in FY2022, as well as a 25 basis point OPR hike in FY2023. Higher other trust expenses were mainly due to revisions in management fee and professional fees incurred in FY2023. The unrealised loss was mainly related to the fair value adjustment of Jeta Gardens, given the changes in the Australian aged care industry landscape.

INCOME AVAILABLE FOR DISTRIBUTION

Total income available for distribution for FY2023 of the Fund was RM64.7 million. The Fund had distributed three interim income distributions for the period from January 2023 to September 2023, totalling 5.90 sen per unit and RM47.9 million.

On 24 January 2024, the Fund declared a final income distribution of 2.00 sen per unit, totalling RM16.8 million for the period from October 2023 to December 2023. The said distribution was paid on 29 February 2024.

In total, the distribution per unit ("DPU") for FY2023 is 7.90 sen, a slight decrease of 2.5% compared to the DPU of 8.10 sen for FY2022. The DPU of 8.10 sen for FY2022 was boosted by the cost savings from the refinancing of Al-`Aqar's Sukuk in FY2021. The distribution totalled RM64.7 million for FY2023, which represents 99.9% of the income available for distribution, the highest payout in the past 10 years.

STATEMENT OF FINANCIAL POSITION

Al-`Aqar's total asset value decreased by RM11.1 million (or 0.6%) to RM1.8 billion as of the end-FY2023. The decrease was mainly related to fair value losses on investment properties. Al-`Aqar's financing decreased from RM855.6 million (or 11.4 %) to RM757.7 million, resulting in a lower gearing ratio of 40.8% against 45.8% as at end-FY2022.

STATEMENT OF CASH FLOW FOR EACH ACTIVITY:

OPERATING ACTIVITIES

Net cash generated from operating activities increased to RM101.2 million in FY2023 from RM88.9 million in FY2022. This is in line with the increase in NPI.

INVESTING ACTIVITIES

Investment income jumped by 57.2% to RM1.5 million (FY2022: RM0.9 million) given the higher OPR.

FINANCING ACTIVITIES

Al-`Aqar utilised RM116.6 million for financing activities during the year. On 27 April 2023, Al-`Aqar has fully redeemed its RM100.0 million of Revolving Credit-i mainly via proceeds from the private placements of RM98.3 million and internal fund of RM1.7 million, in order to provide headroom for future acquisitions. Total financing costs paid were higher as compared to the preceding year, mainly due to an increase in OPR as well as additional financing obtained in December 2022 in relation to the acquisitions of three asset expansions.

Cash and cash equivalents stood at RM84.3 million as of end-FY2023, lower by RM11.8 million (or 12.3%) from RM96.1 million as of end-FY2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Section 1 - FINANCIAL REVIEW (CONT'D)

PERFORMANCE BENCHMARK

PERFORMANCE BENCHMARK	FY2022	FY2023	COMMENTARY
Management expense ratio (%)	0.29	0.58	Management expenses increased due to revision in Manager's fees expenses
Total return (%)	11.81	8.01	Total return for the financial year was lower mainly due to lower distribution yield
Average annual total unit price return (5 years) (%)	3.13	5.23	The 5-year average annual total return increased due to higher closing price offset lower DPU in FY2023
Average annual total unit price return (3 years) (%)	3.84	5.03	The 3-year average annual total return increased as higher closing price offset lower DPU in FY2023
Distribution yield (%)	6.64	6.37	Distribution yield has decreased due to higher closing price of RM1.24 and lower DPU of 7.90 sen in FY2023
NAV per unit (RM)	1.2839	1.2772	NAV per unit decreased 0.5% due to higher unit base, following the issuance of new units in April 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Section 1 - FINANCIAL REVIEW (CONT'D)

FAIR VALUE OF INVESTMENT PROPERTIES

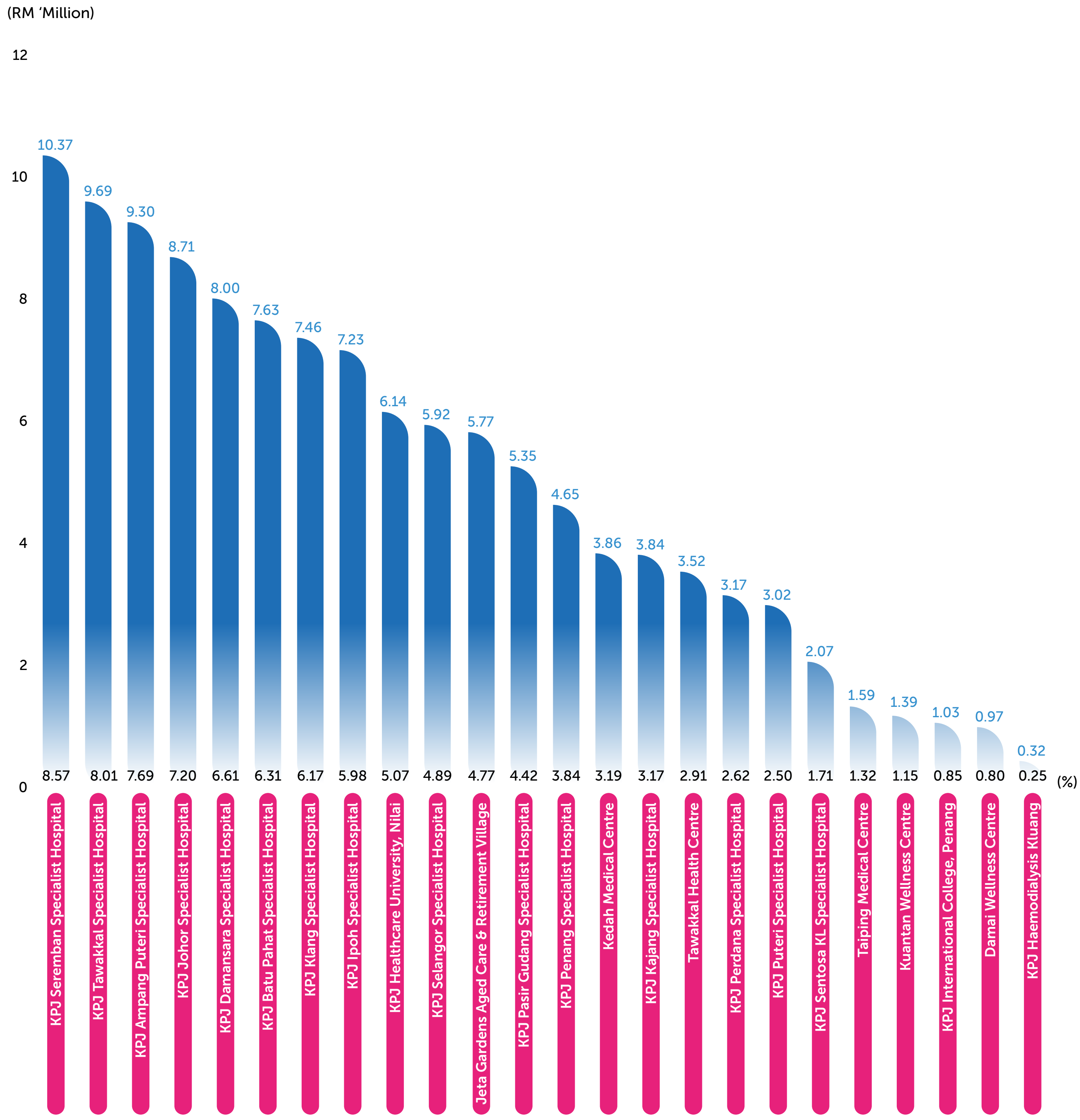
Investment properties	FY2022 RM'000	FY2023 RM'000
At 1 January	1,538,210	1,721,281
Additions	192,000	-
Enhancements	3,656	-
Disposal	(295)	-
Transfer to assets classified as held for sale	-	(76,700)
Fair value adjustment	(11,258)	(5,151)
Foreign exchange differences	(1,032)	3,790
Total investment properties as at 31 December	**1,721,281**	**1,643,220**

Description of property	FY2022 Fair Value RM'000	FY2023 Fair Value RM'000
KPJ Ampang Puteri Specialist Hospital	137,000	137,000
KPJ Damansara Specialist Hospital	138,000	140,000
KPJ Johor Specialist Hospital	122,000	122,000
KPJ Ipoh Specialist Hospital	89,000	90,000
KPJ Puteri Specialist Hospital	40,000	40,000
KPJ Selangor Specialist Hospital	84,000	84,000
Kedah Medical Centre	53,000	60,000
KPJ Perdana Specialist Hospital	42,000	40,000
KPJ Kuantan Care & Wellness Centre	16,500	16,000
KPJ Sentosa KL Specialist Hospital	31,000	31,000
KPJ Kajang Specialist Hospital	52,000	57,000
Taiping Medical Centre	22,500	22,500
Damai Care & Wellness Centre	12,000	12,000
KPJ International College, Penang	14,100	14,000
Tawakkal Health Centre	47,400	46,000
KPJ Healthcare University, Nilai	102,000	102,000
KPJ Seremban Specialist Hospital	160,000	160,000
KPJ Penang Specialist Hospital	65,000	65,000
KPJ Tawakkal Specialist Hospital	139,000	139,000
KPJ Haemodialysis Kluang	4,700	4,800
KPJ Klang Specialist Hospital	104,000	104,000
KPJ Batu Pahat Specialist Hospital	80,000	80,000
Pasir Gudang Specialist Hospital	90,000	90,000
Jeta Gardens Aged Care & Retirement Village	85,266	79,385
TOTAL PORTFOLIO - based on valuation report	**1,730,466**	**1,735,685**
Less: Unbilled rental income	(9,185)	(11,550)
Less: Investment properties classified as held for sale	-	(76,700)
Less: Fair value adjustment of investment property transferred to asset classified as held for sale	-	(4,215)
Total Portfolio Properties as at 31 December	**1,721,281**	**1,643,220**

MANAGEMENT DISCUSSION AND ANALYSIS

Section 1 - FINANCIAL REVIEW (CONT'D)

ANNUAL LEASE CONTRIBUTION (RM'MILLION} AND PERCENTAGE CONTRIBUTION (%)



MANAGEMENT DISCUSSION AND ANALYSIS

Section 2 - OPERATIONS REVIEW

Following the normalisation of hospital operations post-Covid-19, bed occupancy rate at Malaysia's hospitals reached near full capacity. Consequently, both public and private hospitals have expanded by adding new beds. In 2023, KPJ's revenue increased by 19.2% to RM3.42 billion, while its net profit increased by 63.3% to RM281.3 million, owing to the growing hospital activities.

On 25 August 2023, Al-`Aqar successfully renewed the master lease for five properties. These five properties were valued at RM204.0 million as at 31 December 2023 and contributed RM14.3 million of rental income in FY2023, representing 11.8% of the Group's total rental income in FY2023. The renewal of this master lease reflects the Manager's ongoing commitment in strengthening the tenant relationships by enhancing the asset and business value proposition.

ASSET ENHANCEMENT INITIATIVES

To rejuvenate the properties, the Manager implements asset enhancement measures such as retrofitting, lift replacement, water pipping replacement and repainting. In collaboration with the tenant, the Manager continuously explores a value-based asset management strategy, which includes multi-tenant arrangements and the installation of solar panels and EV charging stations.

In FY2023, asset enhancement initiatives totalled RM2.1 million:

CATEGORY	AMOUNT RM
Completed	
- Civil and structural	357,500
- Mechanical & Electrical	696,858
- Repainting	460,000
- Expansion	NIL
Sub Total	**1,514,358**
Ongoing	
- Repainting	NIL
- Civil and structural	NIL
- Mechanical & Electrical	610,375
- Expansion	NIL
Sub Total	**610,375**
TOTAL	**2,124,733**

LEASE RENEWALS

Under the lease arrangement, the contractual lease term is 15 years, with the option to renew for an additional 15 years. The contractual lease term is mostly divided into five rental terms of 3 years, subject to renewal upon the expiry of each rental term.

On 25 August 2023, the Manager renewed the master lease of five properties ("Second Injection Properties"), namely KPJ Perdana Specialist Hospital, KPJ Sentosa KL Specialist Hospital, KPJ Kajang Specialist Hospital, Kedah Medical Centre and Kuantan Care & Wellness Centre. These new lease agreements took effect on 1 October 2023.

Looking into 2024, master leases for six properties are set for renewals by the end of October 2024. These six properties are KPJ Seremban Specialist Hospital, KPJ Penang Specialist Hospital, Taiping Medical Centre, Tawakkal Health Centre, KPJ Healthcare University, Nilai and KPJ International College, Penang.

Al-`Aqar master lease renewal is as follows:

YEAR	NO. OF PROPERTIES	% OF TOTAL RENTAL
FY2024	6	23%
FY2025	1	8%
FY2027	2	6%

MANAGEMENT DISCUSSION AND ANALYSIS

Section 2 - OPERATIONS REVIEW (CONT'D)

PROPOSED DISPOSALS

In 2023, the fund entered agreement/contract for two asset disposals:

On 15 November 2023, Al-`Aqar entered into a Sale and Purchase Agreement ("SPA") with Sihat Damai Sdn Bhd for the disposal of Damai Wellness Centre for a disposal consideration of RM13.0 million cash. This proposed disposal is expected to be completed in the first half of 2024.

On 12 December 2023, Al-`Aqar entered into a Land Sale Contract ("LSC") with Principal Healthcare Finance Pty Ltd to dispose of the lands and buildings of Jeta Gardens Aged Care Facility with the disposal consideration amounting to AUD24.4 million cash (equivalent to approximately RM74.9 million). This proposed disposal is anticipated to be completed in the second half of 2024.

The proposed disposals above will enable Al-`Aqar to realise its investment and strengthen its asset profile via capital recycling.

2023 KEY CHALLENGES

In 2023, the Manager faced the challenge of balancing between a higher financing rate and competitive rental rates. Additionally, the ongoing uncertainty in the aged care industry in Australia persisted.

1. **Balancing higher financing rate and attractive rental.** As expected by the Manager, the OPR increased in 2022-2023 and has led to higher financing rates for Al-`Aqar, impacting the Group's earnings negatively. Despite this challenge, Al-`Aqar managed to renew the leases for the "Second Properties Injection" at competitive rental rates for KPJ Group without compromising future returns to unitholders.

2. **Continuous uncertainty in the aged care industry in Australia.** The outcome of the Royal Commission into Aged Care Quality and Safety Report in 2019 had led to a shift from residential aged care to home care. The home care market has experienced significant growth mainly from an increase in government expenditure, with AUD4.2 billion in the year 2021, an increase of 12% from the previous year. This growth is aligned with government policy and consumer preferences to remain at home for as long as possible. As such, the demand for residential aged care and retirement villages has continued to decline, resulting in a continuing drop in occupancy levels.

Hence, to minimise risk exposure to the changes in the aged care industry in Australia, together with KPJ , Al-`Aqar has entered into agreements to dispose Jeta Gardens Aged Care Facility in December 2023 and the final exit via disposal of Jeta Gardens Retirement Village is expected to be completed in the next two years.

PROSPECTS

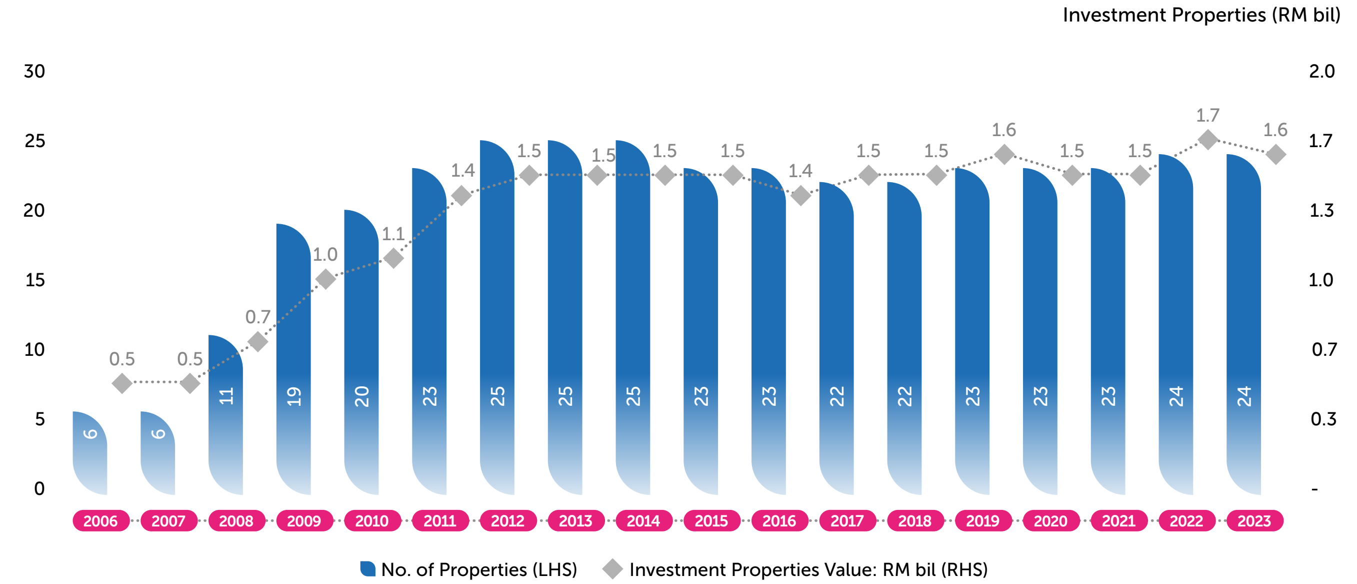
The value of Al-`Aqar's investment properties has more than tripled, reaching RM1.64 billion as at 31 December 2023, since the initial public offering (IPO) in 2006. Looking ahead to 2024, the Manager holds an optimistic outlook for Al-`Aqar, bolstered by a scheduled rental increase, potential earnings from new acquisitions and renewal of master leases. Additionally, the OPR may have already peaked, making it unlikely for Al-`Aqar's financing rates to increase, a factor that could otherwise dampen Al-`Aqar's earnings growth. The Manager also anticipates that the expiring leases will be renewed, given the longstanding business partnership with KPJ Group and the competitiveness of the rental rates offered to them.

Beyond 2024, the Manager remains optimistic about Al-`Aqar's prospects, supported by its proactive capital recycling strategy which involves acquiring strategic healthcare assets and divesting/repositioning underutilised or underperformed assets.

MANAGEMENT DISCUSSION AND ANALYSIS

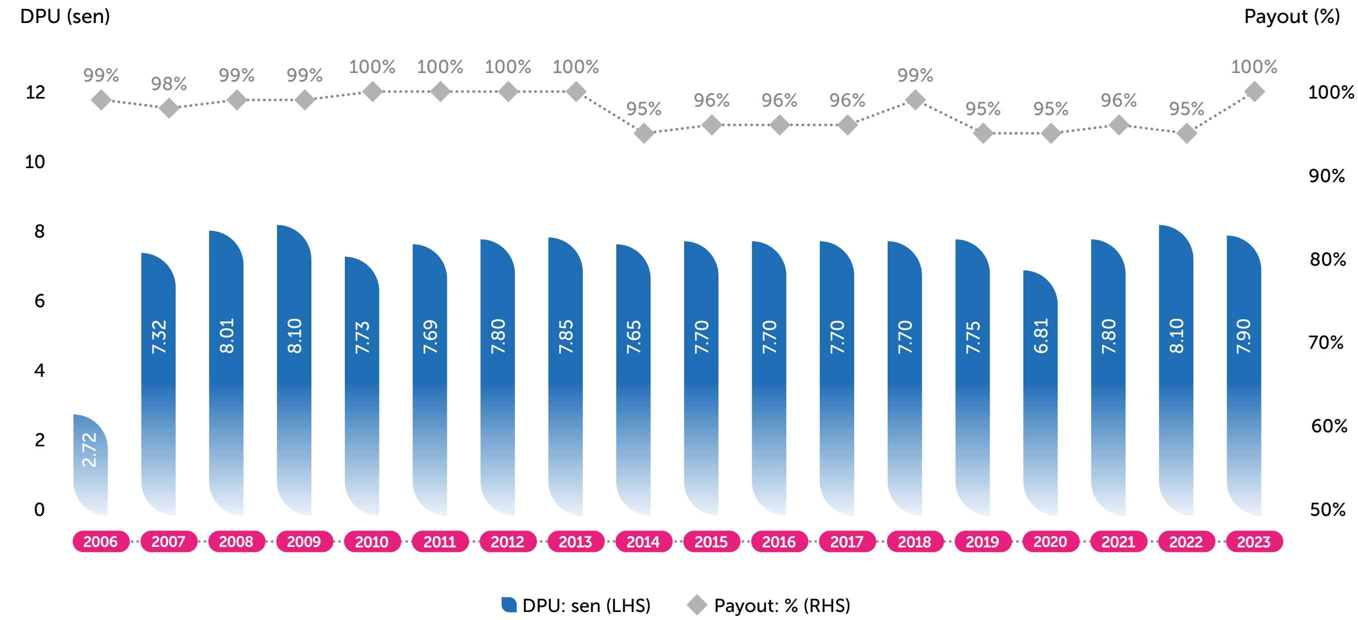
Section 2 - OPERATIONS REVIEW (CONT'D)

PERFORMANCE OF PORTFOLIO SINCE IPO



On the back of a lower distributable income, the Manager distributed a lower DPU of 7.90 sen for FY2023, which represents a small decline of 2.5% compared to FY2022. However, the payout for FY2023 was 99.9%, marking the highest payout in the past 10 years. The lower DPU for FY2023 is due to the absence of the cost savings from the refinancing of Al-`Aqar's Sukuk which boosted DPU for FY2022. The Manager is optimistic that the DPU will be on an upward trend in the coming years.

HISTORICAL DPU SINCE IPO



MANAGEMENT DISCUSSION AND ANALYSIS

Section 2 - OPERATIONS REVIEW (CONT'D)

HISTORICAL DPU SINCE IPO (CONT'D)

The Manager continues to actively pursue the comprehensive 5-Year Plan (2024-2028) for the Group with the following objectives:

1. **To double the current investment properties value of RM1.64 billion (as at 31 December 2023) to approximately RM3.0 billion by the end of 2028 through a proactive capital recycling strategy, encompassing both acquisitions and disposals.**
2. **To align with future healthcare trends and establish a strong portfolio of assets capable of enduring the test of time.**
3. **To ensure a sustained, increasing trend in DPU over the long term.**

The primary focus of the 5-Year Plan (2024-2028) lies in acquiring high quality assets, diversifying across the value chain and expanding geographically:

5-Year Plan (2024-2028)

	GROWTH INITIATIVES	ASSET TYPE	RATIONALES
Diversify Core	1 Enlarge tenant base with different healthcare operators	Hospitals, Specialist Centers	**Diversification of tenants, geographical expansion** • Exploring independent hospitals in Malaysia • Exploring healthcare group with large network of hospitals overseas
Diversify Core	2 Grow complementary assets with KPJ	Ambulatory Care Centers (ACCs)	**Complementary to hospital portfolio** • Hub and spoke model • Targeting multidisciplinary Ambulatory Care Centres ("ACC")
Growth In New Economics	3 Diversify across value chain	Factories	**Expansion into upstream healthcare segment** • Sale-leaseback for medical devices and pharmaceutical players with existing built-up assets • Identifying partner(s) for Build-to-Suit (BTS)
Growth In New Economics	4 Capitalise on aged care markets	Nursing home	**Diversification of assets** • Meeting the demand for quality nursing home locally • Exploring Japan (oldest nation, FDI friendly)

Adapting Business Model. To enhance competitiveness and strengthen relationships with tenants, the Manager is exploring a new business model for Al-`Aqar's tenants. This may involve flexible and customised rental arrangements tailored to the needs of the tenants, including the creation of retail space at the hospitals. Retail space now plays a pivotal role in hospitals, both in terms of aesthetics and ambiance, potentially leading to an increase in property valuation and generating additional income for Al-`Aqar's tenants.

Continuous Improvement at Manager Level. To expedite the fund transformation initiatives, the Manager has successfully executed digital and organisational transformation initiatives. Furthermore, the Manager continuously implements new measures, which include enhancing leadership development programmes, staying abreast of healthcare trends and international knowledge learning as well as increasing the frequency of engagements with all stakeholders to better understand the existing gaps.

MANAGEMENT DISCUSSION AND ANALYSIS

Section 3 - CAPITAL REVIEW

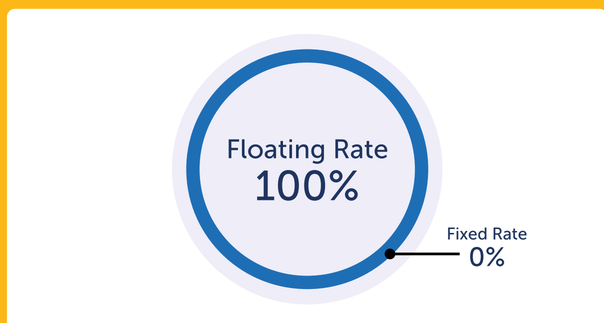
GEARING RATIO

Al-`Aqar's gearing ratio is calculated based on the proportion of total Islamic financing to the total asset value in accordance with the Securities Commission ("SC") Guidelines. The gearing ratio at the end of the reporting period is as follows:

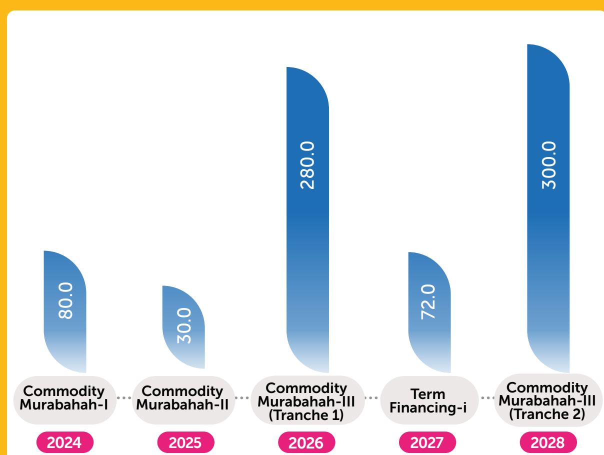
	2022	2023
Total Islamic financings (RM'mil)	855.6	757.7
Total assets value (RM'mil)	1,867.1	1,856.0
Total Islamic financings to total asset value ratio (%)	45.8	40.8

Following the completion of placement in April 2023, Al-`Aqar's gearing ratio dropped to 40.8% as at 31 December 2023. This provides Al-`Aqar plenty of headroom for future asset acquisitions and is also below the threshold limit of 50% set by SC.

FIXED RATE VS FLOATING RATE RATIO



DEBT MATURITY PROFILE (RM'mil)



MANAGEMENT DISCUSSION AND ANALYSIS

Section 4 - RISK MANAGEMENT

The Group is cognisant of the fact that it is exposed to various risks that may have a material impact on its business operations and financial performance. As such, the Manager has identified the following key risks and established mitigation plans:

RISK	RISK DESCRIPTION	MITIGATION PLAN
Business and Market	The Group may face a decline in revenue due to unfavourable market condition, increased competition, changes in tenant's business strategies, changes in government regulations and outbreak of pandemics. However, the competitive pressure is relatively low because KPJ Group holds a dominant market position and has strong presence across all states in Malaysia. Furthermore, hospital business has been resilient throughout the history, with the exception of the COVID-19 pandemic period in 2020-2021.	The Manager monitors the operating environment closely and strategises with its business partners, so that it can implement the mitigation plans swiftly, such as repositioning or divesting the assets, to ensure that the Group's rental income is not affected.

MANAGEMENT DISCUSSION AND ANALYSIS

Section 4 - RISK MANAGEMENT (CONT'D)

RISK	RISK DESCRIPTION	MITIGATION PLAN
Non-Renewal of Leases	The remaining tenures of the current contractual leases are shorter than before, with 6 contractual leases (or 25% of total contractual leases) expiring in 2024 and only 1 contractual lease (or 4% of total contractual leases) expiring in 2025. Given that Al-`Aqar's healthcare assets are highly-specialised, finding a replacement lessee or healthcare operator may take significant amount of time. This could negatively impact the Group's immediate earnings until a new lessee is secured.	The current lease agreements require the tenants to provide a minimum of one year notice prior to renewing the tenancy contracts. Furthermore, our mitigation plan for business and market risk can also serve as an early warning for any potential underperformed or underutilised properties. Should the lessee decide not to renew the lease, the Group needs to identify new joint venture partners, continuously source for a replacement lessee or healthcare operator, re-purpose the building or divest the property to a third party. The factors to decide will mainly depend on the risk assessments of each asset before a certain course of action is undertaken to mitigate this risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Section 4 - RISK MANAGEMENT (CONT'D)

RISK	RISK DESCRIPTION	MITIGATION PLAN
Elevated OPR Rate	The high OPR rate may stay at the elevated level for an extended period if inflation remains persistently high. Given that all of Al-`Aqar's Islamic financing is under the floating rates, a high OPR could exert pressure on its earnings.	The Manager has taken into consideration the possibility of a persistently high OPR in managing both the existing asset portfolio and the future acquisitions. Thus, it is expected that there will be no significant disruption to the earnings of Al-`Aqar.
Inability to Raise Funding	Asset acquisitions have the potential to raise Al-`Aqar's gearing level, posing a hindrance to future asset acquisitions.	As at 31 December 2023, the Group's gearing ratio was at 40.8%, comfortably below the threshold of 50% set by Securities Commission. Additionally, the cash proceeds from the proposed disposal of Damai Wellness Centre and Jeta Gardens will lower the Group's gearing level and provide the financial means for future asset acquisitions. Should Al-`Aqar's gearing level approach the threshold, the Manager does not foresee any risk related to the inability to raise fresh funding. This is attributed to the resilience of Al-`Aqar's portfolio, characterised by stable rental income, a positive growth outlook in both earnings and DPU.
Failure to Adapt to Future Healthcare Trends	With an increasing emphasis on health and well-being, the general public is expected to shift significantly towards preventive maintenance in the long term, whereby the general public will spend more to prevent health issues from occurring in the first place, rather than relying on reactive measures such as seeking medical attention for an illness. This could lead to a higher demand for primary, long-term care, regenerative treatment, wearable healthcare devices, etc. Additionally, digital technology will likely empower consumers to monitor their health through technologies that can detect early signals of disease in asymptomatic patients, and address drivers of health at an early stage. This could result in a need for smaller-scale hospital requirements, as patients have the option to seek consultation or treatment through virtual platforms rather than an in-person hospital visit and there will be a higher demand for specialised hospitals than multi-disciplinary hospitals. As at 31 December 2023, hospitals' rental accounted for 77% of Al-`Aqar's total 24 assets. Failure to adapt to future healthcare trends could result in the Group losing its relevance in the healthcare industry.	The Manager has established clear plans to diversify Al-`Aqar's asset portfolio, which include actively exploring assets related to the future healthcare trend, such as ambulatory care centre, confinement centre, senior living care, warehouse and manufacturing plant for drug or health products. Furthermore, the selection of high-quality tenants that are leaders in innovation and growth industries are expected to provide a more sustainable and more profitable portfolio for a longer time. Therefore, a thorough due diligence process on the business models of the tenants is essential to the Manager before executing the acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS

Section 4 - RISK MANAGEMENT (CONT'D)

RISK	RISK DESCRIPTION	MITIGATION PLAN
Cyber Security Breach	Cybersecurity breaches, for example, can damage a company's reputation, which is difficult to insure against.	The Group implements the Business Continuity Management ("BCM") drill or testing, which focuses on IT infrastructure. No testing was conducted in 2023 and the Manager will get consultation to conduct the BCM drill and Disaster Recovery Programme ("DRP") in 2024.
Lack of Effective Talent Management Strategies	Ineffective succession planning may affect Al-`Aqar's operations if a critical role becomes vacant and cannot be satisfactorily filled before the vacancy has an adverse impact on the organisation. There is also the risk that the Manager will be unable to attract and retain a competent staff force to manage its portfolio and to execute its strategies for sustainable growth.	The Group has a succession planning framework in place, which includes identification of future successors and leadership training for candidates of critical positions. Additionally, the strategic implementation of activities and processes are designed to decrease the likelihood of lengthy vacancies in critical roles and limit the impact of vacancies in critical roles when they do occur. The Manager also conducts climate surveys to gauge employees' preferences, offers competitive reward and compensation, promotes flexible working arrangements, establishes clear career paths and encourages staffs to explore other areas within the Group.