



AL-AQAR HEALTHCARE REIT

# 2018 ANNUAL REPORT



CORPORATE OVERVIEW	<ul style="list-style-type: none"> <li>3 2018 Highlights</li> <li>4 Objective, Policy &amp; Strategies</li> <li>5 Corporate Profile</li> <li>6 Corporate Information</li> <li>8 Letter to Stakeholders</li> <li>10 Salient Features</li> <li>11 5 Years' Financial Performance</li> <li>13 Trading Performance</li> <li>15 Analysis of Unit Holdings</li> <li>18 Trust Structure</li> <li>19 Organisation Structure</li> </ul>
DRIVING FORCE	<ul style="list-style-type: none"> <li>20 The Board of Directors</li> <li>26 The Shariah Committee</li> <li>28 The Management</li> </ul>
STRATEGIC PERFORMANCE	<ul style="list-style-type: none"> <li>31 Management Discussion and Analysis</li> <li>42 Investor &amp; Public Relations</li> <li>44 Market Report Summary</li> <li>48 Portfolio Summary and Details</li> </ul>

# TABLE OF CONTENTS

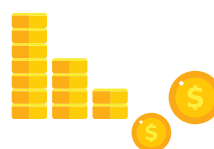
SUSTAINABILITY STATEMENT	<ul style="list-style-type: none"> <li>61 About This Statement</li> <li>61 Our Journey Towards A Sustainable REIT</li> <li>63 Governance And Accountability</li> <li>64 Engaging Stakeholders</li> <li>65 Materiality Assessment</li> <li>67 Sustainability Pillars</li> <li>67 Governance</li> <li>68 People</li> <li>69 Partner</li> </ul>
ESSENCE OF CORPORATE GOVERNANCE	<ul style="list-style-type: none"> <li>71 Board Charter</li> <li>76 Corporate Governance Statement</li> <li>82 Audit Committee Report</li> <li>84 Statement on Risk Management &amp; Internal Control</li> </ul>
FINANCIAL REPORTS	<ul style="list-style-type: none"> <li>89 Manager's Report</li> <li>95 Independent Auditors' Report</li> <li>98 Statements of Comprehensive Income</li> <li>100 Statements of Financial Position</li> <li>101 Statements of Changes in Net Asset Value</li> <li>102 Statements of Cash Flows</li> <li>104 Notes to the Financial Statements</li> <li>153 Statement by the Directors of the Managers</li> <li>154 Declaration by the Director of the Manager</li> <li>155 Shariah Committee Report</li> <li>156 Trustee's Report</li> </ul>

# 1 CORPORATE OVERVIEW

- 3 2018 Highlights
- 4 Objective, Policy & Strategies
- 5 Corporate Profile
- 6 Corporate Information
- 8 Letter to Stakeholders
- 10 Salient Features
  - 11 5 Years' Financial Performance
  - 13 Trading Performance
  - 15 Analysis of Unit Holdings



## 2018 HIGHLIGHTS

**22**NO. OF  
PROPERTIES**5.88%**DISTRIBUTION  
YIELD**100%**OCCUPANCY  
RATE**RM1.48**  
billionPROPERTY  
VALUE**RM102.6**  
millionGROSS  
REVENUE**RM96.6**  
millionNET PROPERTY  
INCOME**RM0.96**  
billionMARKET  
CAPITALISATION**7.70**  
sen

DPU

# OBJECTIVE, POLICY AND STRATEGIES

## Objective

To provide unitholders with stable distributions per unit with the potential for sustainable long-term growth of such distributions and the net asset value per unit

## Policy

To diversify its Shariah-compliant real estate portfolio by property and location, primarily be focused on investing in healthcare related real estates and to look for opportunities that provide attractive returns

## Operating Strategy



To continue enhancing the performance of the properties by increasing yields and returns from the properties through a combination of meeting needs of the tenants, maintaining the quality and physical conditions of the properties and minimising interruptions in rental income and operational costs

## 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

## Acquisition Strategy

To increase cash flow and enhance unit value through selective acquisitions

## CORPORATE PROFILE

**A**l-`Aqar Healthcare REIT (Al-`Aqar or the Fund) was listed on the Main Market of Bursa Malaysia Securities Berhad (Bursa Malaysia) on 10 August 2006. Established with an initial portfolio of 6 properties, Al-`Aqar has grown its portfolio to currently 22 properties comprising 19 hospitals and 3 healthcare related properties in Malaysia and Australia.

Al-`Aqar is managed by Damansara REIT Managers Sdn Berhad (DRMSB or the Manager), a wholly-owned subsidiary of Johor Corporation Group (JCorp Group) and supported by KPJ Healthcare Berhad (KPJ).

As at 31 December 2018, Al-`Aqar's property values stood at RM1.48 billion with a market capitalisation of RM0.96 billion.



# CORPORATE INFORMATION



## MANAGER

**DAMANSARA REIT MANAGERS SDN BERHAD (717704-V)**

### Registered Office:

Level 16, 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

## STOCK EXCHANGE LISTING

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

## WEBSITE

[www.alaqar.com.my](http://www.alaqar.com.my)

## TRUSTEE

**AMANAHRAYA TRUSTEES BERHAD (766894-T)**

Tingkat 2, Wisma AMANAHRAYA II  
No. 21, Jalan Melaka  
50100 Kuala Lumpur  
Tel : (+603) 2036 5000 / 2036 5129  
Fax : (+603) 2072 0320  
Email : [art@arb.com.my](mailto:art@arb.com.my)  
Website : [www.artrustees.com.my](http://www.artrustees.com.my)

## SHARIAH COMMITTEE MEMBERS

Dato' (Dr) Haji Nooh bin Gadot

Professor Madya Dr. Ab. Halim bin Muhammad

Professor Dr. Mohamad @ Md Som bin Sujimon

## REGISTRAR

**Johor Corporation**

Level 16, Menara KOMTAR,  
Johor Bahru City Centre,  
80000 Johor Bahru, Johor  
Tel : (+607) 219 5064  
Fax : (+607) 223 3175

## AUDITOR

**DELOITTE PLT (LLP0010145-LCA)**

Level 16, Menara LGB  
1 Jalan Wan Kadir, Taman Tun Dr. Ismail  
60000 Kuala Lumpur  
Tel : (+603) 7610 8888  
Fax : (+603) 7726 8986  
Website : [www.deloitte.com/my](http://www.deloitte.com/my)

## 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](mailto:arsakl@arsa.com.my)  
Website : [www.arsa.com.my](http://www.arsa.com.my)



## CORPORATE INFORMATION



### MAINTENANCE MANAGER

#### HEALTHCARE TECHNICAL SERVICES SDN BHD (342111-A)

No. 20-1, Jalan 65C  
Pekeliling Business Centre  
Off Jalan Pahang Barat  
53000 Kuala Lumpur  
Tel : (+603) 4021 2331  
Fax : (+603) 4021 2337

#### IM GLOBAL PROPERTY CONSULTANTS SDN BHD (701223-X)

Board Registration No: (VE(1)0253)  
No. 47-2, Second 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

#### HEALTH FACILITY SERVICES PTY LTD (AUSTRALIAN CO. NO. 115 728 384)

25, Clarendon Avenue  
Bethania Qld 4205  
Australia  
Tel : (+617) 3200 7188 / 3299 9256 (Direct)  
Fax : (+617) 3200 7100

### INDEPENDENT PROPERTY VALUER

#### CHESTON INTERNATIONAL (KL) SDN BHD (647245-W)

Suite 2A, 2nd Floor, Plaza Flamingo  
No. 2, Tasik Ampang, Jalan Hulu Kelang  
68000 Ampang, Selangor  
Tel : (+603) 4251 2599  
Fax : (+603) 4251 6599  
Email : cikl@chestonint.com  
Website : www.chestonint.com

#### KNIGHT FRANK MALAYSIA SDN BHD (585479-A)

Suite 10.01, Level 10 Centrepont South  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel : (+603) 2289 9688  
Fax : (+603) 2289 9788

#### HENRY BUTCHER MALAYSIA SDN BHD (160636-P)

25, Jalan Yap Ah Shak,  
50300 Kuala Lumpur  
Tel : (+603) 2694 2212  
Fax : (+603) 2694 5543  
Email : admin@henrybutcher.com.my  
Website : www.henrybutcher.com.my



## LETTER TO **STAKEHOLDERS**



**DATO' KAMARUZZAMAN BIN ABU KASSIM**  
Chairman  
Damansara REIT Managers Sdn Berhad

### Dear Valued Stakeholders,

On behalf of the Board of Directors of the Manager (the Board), I am honoured to present Al-'Aqar Healthcare REIT's Annual Report and Audited Financial Statements for the financial year ended 31 December 2018.



**DPU**

**7.70**  
sen



**DISTRIBUTION** YIELD

**5.88%**



**TOTAL** PAYOUT

**RM56.4**  
million

99% of Al-'Aqar  
Distributable Income

## LETTER TO STAKEHOLDERS

There is no doubt that Malaysian real estate investment trusts (M-REITs) were some of the top performers in the local equity market. However, despite often seen as defensive investments, the M-REITs also did not escape unscathed following the prolonged slowdown in the global economic condition and the moderate Malaysian economy. The dividend yield of the 18 Bursa Malaysia-listed REITs averaged 5.95% currently, rendering the yield spread of M-REITs an unexciting 1.88% over the 10-year Malaysian Government Securities (MGS) yield of 4.07%. MGS is a typical benchmark to compare returns against the riskier REITs. M-REITs had also faced the effect of occupancy risk from the shrinking demand and oversupply in certain property subsectors namely retail, commercial and industrial. However, Al-`Aqar which is less dependent on the cyclical nature of property market has been able to withstand the uncertainties surrounding the industry.

On the healthcare front, Malaysia, as one of Asia's most recognised developing countries, has immense potential in medical tourism. With a score of 95 out of 100, Malaysia ranked first in the Best Healthcare in the World category of the 2019 International Living Annual Global Retirement Index. Demand for healthcare services will continuously expand in the future due to the projected demographic shifts, among which are the increase in aging population, life expectancy and lifestyle diseases. The prospect looks healthy in view of KPJ continuously acquiring and developing its hospitals and therefore – promising the healthy outlook for Al-`Aqar.

Amidst challenging environment, Al-`Aqar remains confident in delivering sustainable returns to the unitholders. We have worked hard towards strengthening our unitholders value by making improvement to key financial metrics that is resulting into improved performance of the overall portfolio. We remain committed to our efforts to conceptualise innovative operating strategies in order to ensure Al-`Aqar's properties continue to operate at optimal levels and to boost rental. Prudent financial, risk management, and proactive asset management will continue to be key priorities.

Year 2018 marked the liberalisation of the M-REIT industry with the amendments of REITs Guidelines and corresponding updates on the Main Market Listing Requirements of Bursa Malaysia particularly to the permissible list of activities. We applaud the moves as M-REIT players stand to benefit by taking the lead in the planning of future assets in the pipeline which in return will deliver a potentially higher return on investment compared to the normal acquisition. The amendments would help the growth of Al-`Aqar particularly on the development of greenfield healthcare assets by KPJ with expectation that the projects are completed within the budget and timeline, allowing quicker injection of the assets into Al-`Aqar.

With such consistency in performance, I am pleased to announce that Al-`Aqar has distributed 7.70 sen per unit for FY2018, maintaining the DPU as in FY2017. This translates into a distribution yield of 5.88% to investors and total payout of RM56.4 million which represents 99% of Al-`Aqar distributable income for the year 2018. This clearly underlines Al-`Aqar's defensive qualities by providing consistent return to unitholders and high-income distribution payment policy.

On this note, I would like to express my heartfelt gratitude to the Board members for their valuable guidance and steering the management team to strive for excellence and to the Shariah committee for their wisdom towards the success of Al-`Aqar. Our achievement will not be attainable without the support and commitments of employees of the Manager who have been tirelessly strive for excellence and breakthrough.

I would also like to extend my appreciation to our valued stakeholders – unitholders, trustee, financiers, business partners and relevant authorities for the continuous support and confidence in Al-`Aqar. Special acknowledgement to KPJ for being Al-`Aqar ever supportive sponsor.

With continuous support and faith from all stakeholders, we look forward to witnessing more milestones from Al-`Aqar in the year to come, and to continue working with the industry as it reaps further growth.



**DATO' KAMARUZZAMAN BIN ABU KASSIM**  
Chairman  
Damansara REIT Managers Sdn Berhad

## SALIENT FEATURES

**NAME OF FUND** Al-Aqar  
Healthcare REIT

**CATEGORY OF FUND** Islamic healthcare  
real estate and  
healthcare related assets

**TYPE OF FUND** Income and growth

**DISTRIBUTION POLICY** At least 95% of distributable income

**FUND SIZE** 735,985,088 units

**OCCUPANCY RATE** 100%

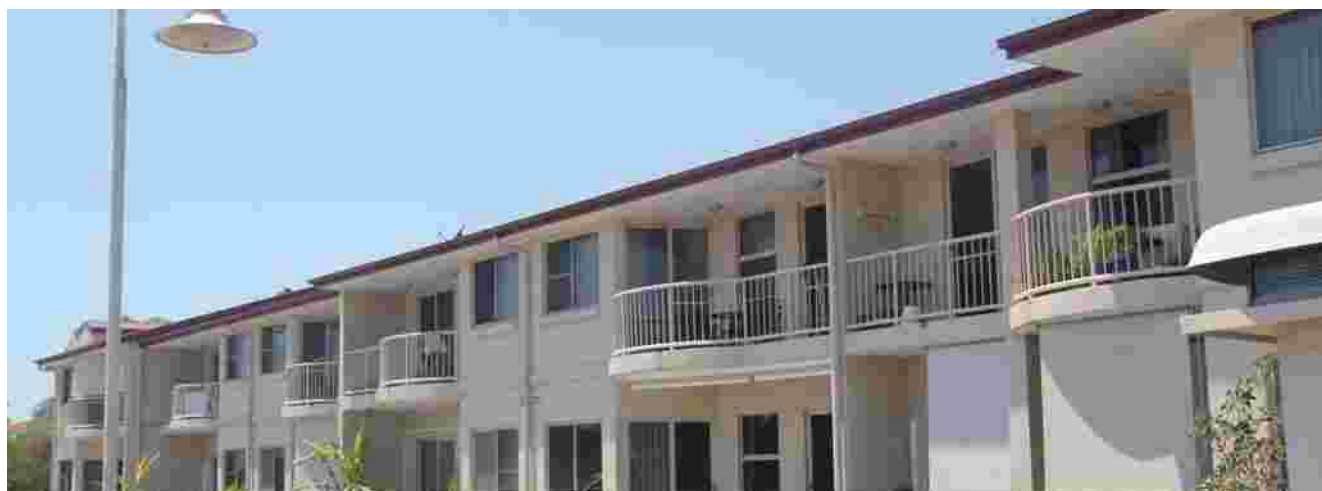
**LISTING DATE** 10 August 2006

**LEASE TERM** 15 years  
renewable for  
another 15 years

**LISTING** Main Market of  
Bursa Malaysia  
Securities Berhad

**RENTAL REVIEW** Every 3 years

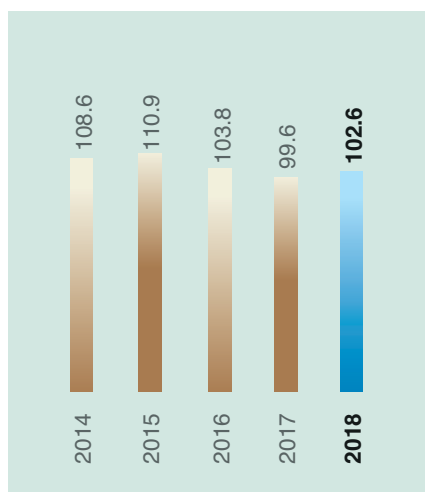
**STOCK NAME & CODE** ALAQAR (5116)



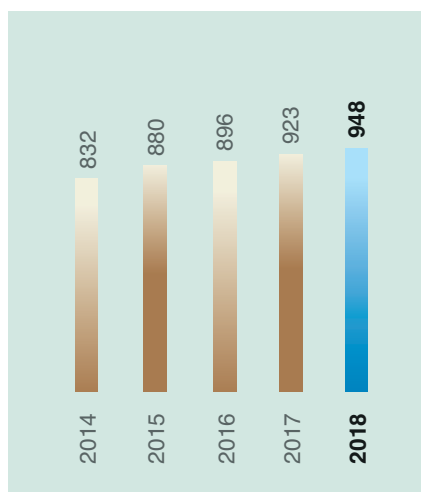
## 5 YEARS' FINANCIAL PERFORMANCE

GROUP	2014	2015	2016	2017	2018
Gross revenue (RM'000)	108,644	110,945	103,839	99,648	102,649
Net property income (RM'000)	102,399	104,565	97,595	93,207	96,609
Income before tax (RM'000)	73,148	67,912	63,986	86,154	92,292
Net income after tax - realised (RM'000)	59,858	55,824	61,540	59,852	61,032
- unrealised (RM'000)	11,445	15,125	1,527	22,350	30,342
Earnings per unit (sen)	10.51	9.69	8.79	11.83	12.66
Investment properties (RM'000)	1,509,996	1,521,523	1,424,360	1,459,703	1,485,727
Total asset value (RM'000)	1,592,422	1,594,382	1,611,213	1,556,425	1,580,468
Net asset value (RM'000)	831,543	879,826	896,068	923,290	947,798
NAV per unit - before distribution (RM)	1.1944	1.2082	1.2305	1.2679	1.2878
- after distribution (RM)	1.1565	1.1829	1.1925	1.2284	1.2671
FUND	2014	2015	2016	2017	2018
Gross revenue (RM'000)	90,080	91,679	92,054	88,550	91,097
Net property income (RM'000)	84,067	85,608	85,931	82,588	85,162
Income before tax (RM'000)	63,561	72,658	61,434	84,511	83,112
Net income after tax - realised (RM'000)	59,626	61,097	59,533	59,367	59,770
- unrealised (RM'000)	3,935	11,562	1,899	24,535	23,342
Earnings per unit (sen)	9.13	10.37	8.44	11.61	11.29
Investment properties (RM'000)	1,287,496	1,378,963	1,281,800	1,320,100	1,353,300
Total asset value (RM'000)	1,561,137	1,564,079	1,579,459	1,525,031	1,551,718
Net asset value (RM'000)	827,519	877,512	892,120	921,041	943,239
NAV per unit - before distribution (RM)	1.1886	1.2050	1.2251	1.2648	1.2816
- after distribution (RM)	1.1507	1.1797	1.1870	1.2255	1.2609
Market Capitalisation (RM'000)	960,793	1,019,517	1,143,316	1,041,364	964,140
Distribution Per Unit (sen)	7.65	7.70	7.70	7.70	7.70
Annualised Distribution Yield (%)	5.54	5.50	4.90	5.38	5.88

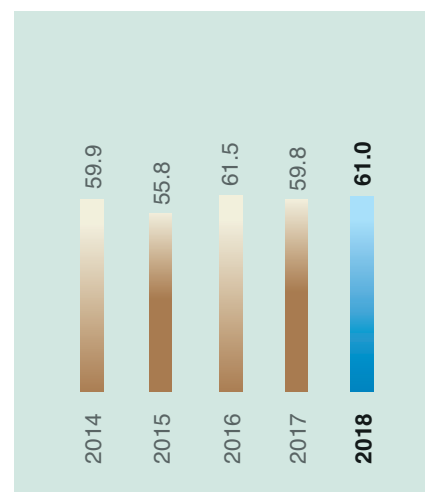
**GROSS REVENUE**  
(RM' mil)



**NET ASSET VALUE**  
(RM' mil)

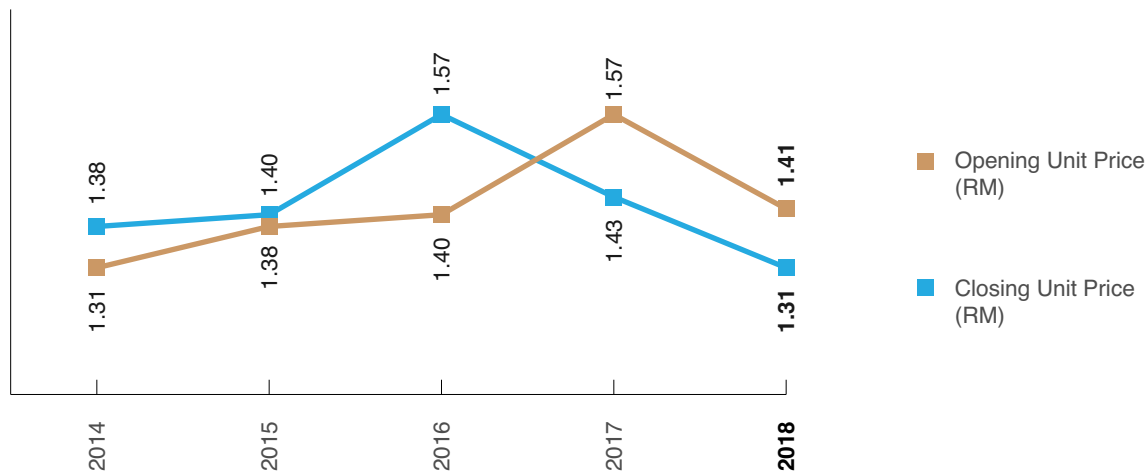


**NET INCOME AFTER TAXATION (REALISED)**  
(RM' mil)

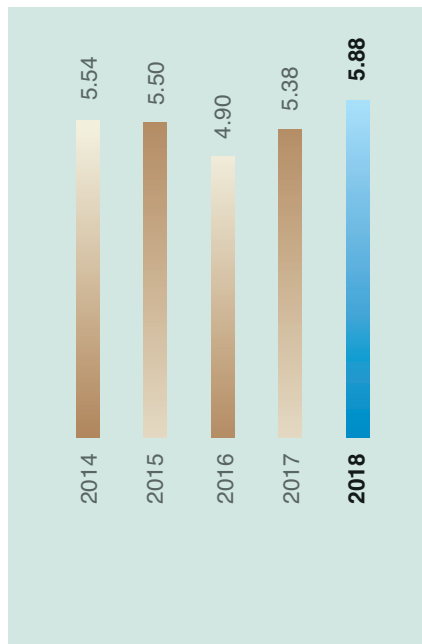


## 5 YEARS' FINANCIAL PERFORMANCE

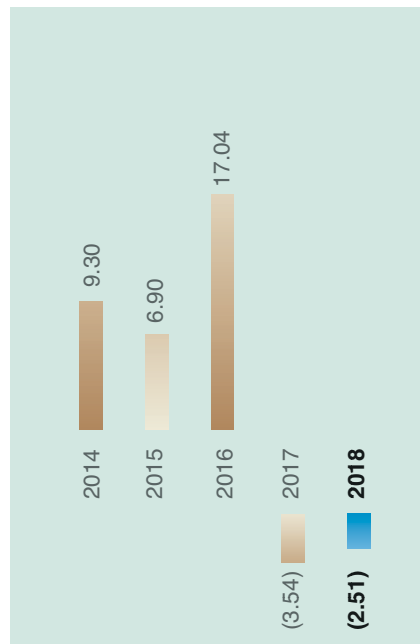
### TRADING PERFORMANCE



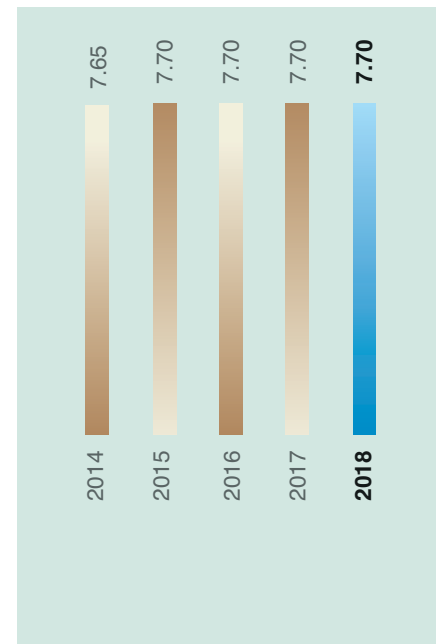
### DISTRIBUTION YIELD (%)



### ANNUAL TOTAL RETURN (%)



### DISTRIBUTION PER UNIT (sen)



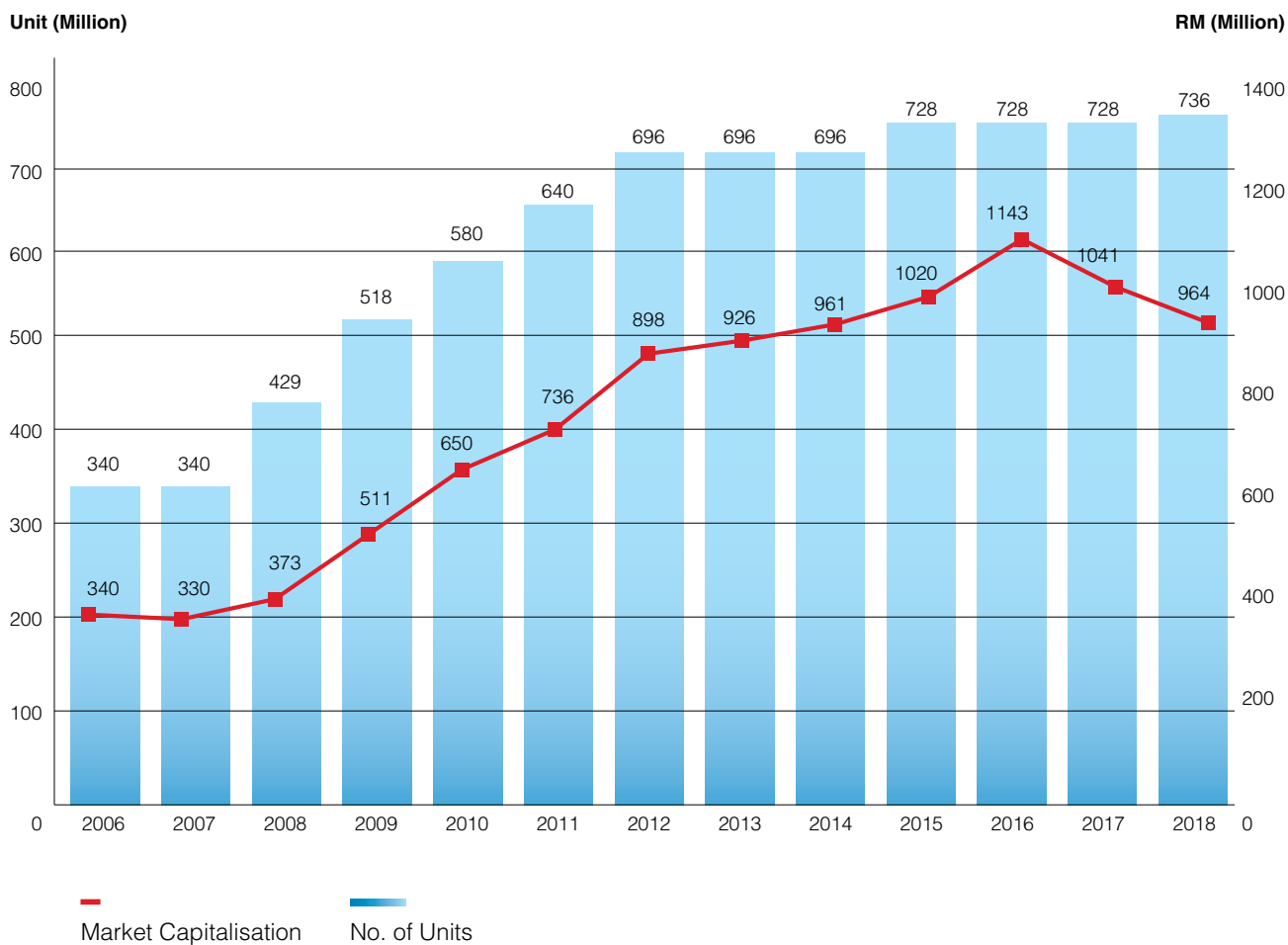
### NAV & TRADED PRICE

Year	Highest NAV (RM)	Lowest NAV (RM)	Highest Traded Price (RM)	Lowest Traded Price (RM)
2014	1.21	1.13	1.55	1.28
2015	1.21	1.17	1.45	1.27
2016	1.23	1.19	1.70	1.32
2017	1.26	1.19	1.67	1.35
2018	1.26	1.23	1.41	1.08

## TRADING PERFORMANCE

Month	Lowest Traded Price (RM per unit)	Highest Traded Price (RM per unit)	Closing Market Price (RM per unit)	Average Trading Volume (‘000 units)	Market Capitalisation (RM'000)
January	1.31	1.41	1.35	9,752,000	983,105,573
February	1.29	1.38	1.31	14,265,000	953,976,673
March	1.12	1.32	1.15	1,656,000	837,460,438
April	1.08	1.25	1.20	4,612	873,871,761
May	1.19	1.27	1.24	2,428	903,000,820
June	1.22	1.32	1.22	1,906	888,436,290
July	1.23	1.30	1.26	10,495	917,565,349
August	1.23	1.31	1.26	17,750	917,565,349
September	1.23	1.30	1.27	11,917	924,847,614
October	1.23	1.29	1.27	32,963	924,847,614
November	1.24	1.29	1.25	134,995	919,981,360
December	1.24	1.31	1.31	58,771	964,140,465

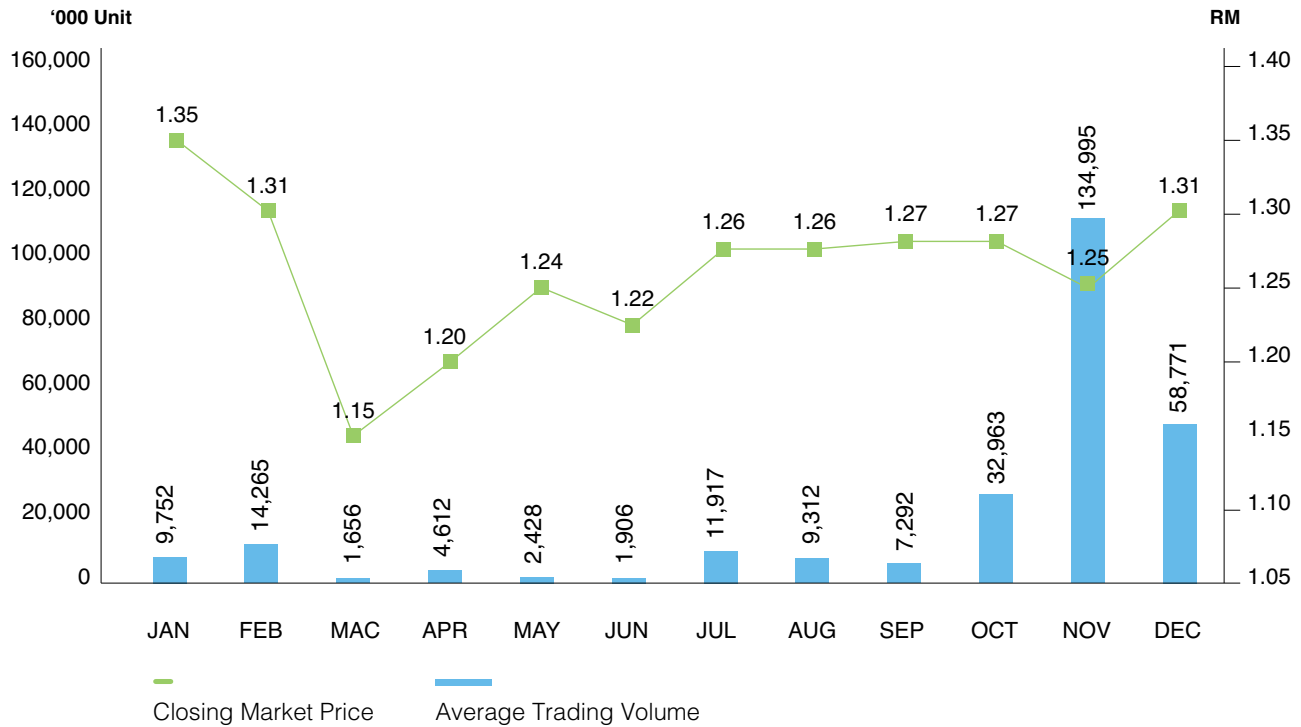
### MARKET CAPITALISATION AND UNIT IN CIRCULATION SINCE INCEPTION





## TRADING PERFORMANCE

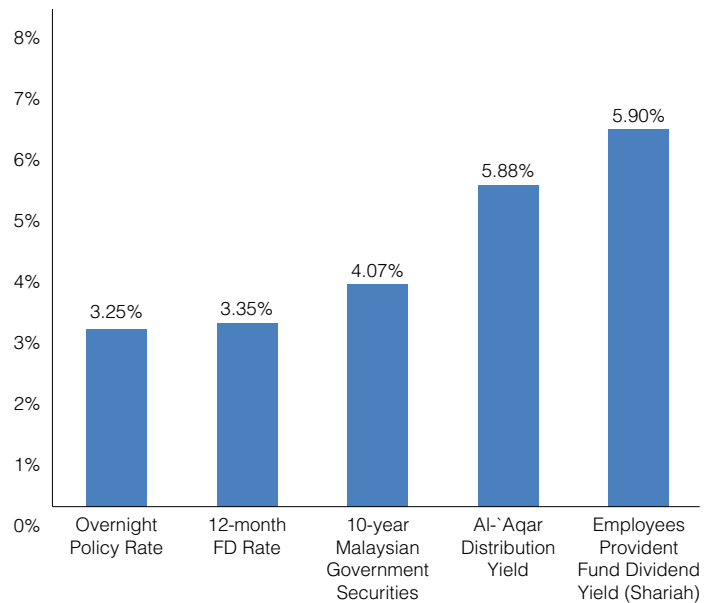
### MONTHLY TRADING PERFORMANCE



### CLOSING UNIT PRICE AND NAV PER UNIT

	Unit Price (RM)	NAV per Unit (RM)
2006	1.00	1.02
2007	0.97	1.03
2008	0.94	1.03
2009	0.99	1.04
2010	1.12	1.07
2011	1.15	1.12
2012	1.29	1.15
2013	1.33	1.18
2014	1.38	1.19
2015	1.40	1.21
2016	1.57	1.23
2017	1.43	1.26
2018	1.31	1.24

### COMPARATIVE YIELD FY2018



Sources : Bank Negara Malaysia, Maybank, DRMSB and Employees Provident Fund

## ANALYSIS OF UNIT HOLDINGS

UNITHOLDINGS STATISTICS AS AT 31 DECEMBER 2018  
(As Per Record of Depositor)

### Break down of Unitholdings

Size of Unitholdings	No. of Unitholders	%	No. of Units	%
Less than 100	349	11.82	14,572	-
100 – 1000	1,086	36.76	524,874	0.07
1,001 – 10,000	962	32.57	4,340,471	0.59
10,001 – 100,000	416	14.08	14,175,768	1.93
100,001 to less than 5% of Issued Capital	136	4.60	403,968,775	54.89
5% and above of Issued Capital	5	0.17	312,960,628	42.52
<b>TOTAL</b>	<b>2,954</b>	<b>100.00</b>	<b>735,985,088</b>	<b>100.00</b>

### Top Thirty Securities Account Holders

(Without aggregating the securities from different securities accounts belonging to the same depositor)

Name	No. of Units	%
1 Lembaga Tabung Haji	102,098,656	13.87
2 Kumpulan Wang Persaraan (Diperbadankan)	64,531,000	8.77
3 Citigroup Noms (T) Sdn Bhd - A/C Employees Provident Fund Board	59,313,438	8.06
4 AmanahRaya Trustees Berhad - A/C Amanah Saham Bumiputera	46,000,000	6.25
5 Pusat Pakar Tawakal Sdn Bhd	41,017,534	5.57
6 Bandar Baru Klang Specialist Hospital Sdn Bhd	36,115,266	4.91
7 HSBC Noms (T) Sdn Bhd - A/C Selangor Specialist Hospital Sdn. Bhd. (355-300641-089)	35,000,000	4.76
8 Seremban Specialist Hospital Sdn Bhd	23,731,000	3.22
9 Ampang Puteri Specialist Hospital Sdn Bhd	21,013,739	2.86
10 Medical Associates Sdn Bhd	19,055,000	2.59
11 Waqaf An-Nur Corporation Berhad	18,199,870	2.47
12 Sentosa Medical Centre Sdn Bhd	15,653,000	2.13
13 Kedah Medical Centre Sdn Bhd	15,000,000	2.04
14 Permodalan Nasional Berhad	14,546,000	1.98
15 Pusat Pakar Tawakal Sdn Bhd	13,631,000	1.85
16 Valuecap Sdn Bhd	13,427,100	1.82
17 AmanahRaya Trustees Berhad - A/C Public Islamic Opportunities Fund	12,248,500	1.66
18 Johor Specialist Hospital Sdn Bhd	12,203,000	1.66
19 Puteri Specialist Hospital (Johor) Sdn Bhd	12,000,000	1.63
20 Perdana Specialist Hospital Sdn Bhd	11,789,000	1.60
21 AmanahRaya Trustees Berhad - A/C Public Islamic Select Treasures Fund	8,414,572	1.14
22 KPJ Healthcare University College Sdn.Bhd.	7,758,620	1.05
23 AmanahRaya Trustees Berhad - A/C Amanah Saham Bumiputera 3 - Didik	7,329,000	1.00
24 Jeta Gardens (QLD) Pty Ltd	7,047,544	0.96
25 AmanahRaya Trustees Berhad - A/C Amanah Saham Malaysia 3	6,405,630	0.87
26 AmanahRaya Trustees Berhad - A/C Public Strategic Smallcap Fund	6,075,500	0.83
27 Citigroup Noms (T) Sdn Bhd - A/C MCIS Insurance Berhad (Life Par FD)	5,553,394	0.75
28 Kuantan Specialist Hospital Sdn Bhd	5,000,000	0.68
29 AmanahRaya Trustees Berhad - A/C PB Smallcap Growth Fund	4,545,700	0.62
30 Kajang Specialist Hospital Sdn. Bhd.	4,487,000	0.61

## ANALYSIS OF UNIT HOLDINGS

UNITHOLDINGS STATISTICS AS AT 31 DECEMBER 2018  
(As Per Record of Depositor)

### Substantial Unitholders (5% and above)

Unitholders	Direct Interest		Deemed Interest	
	No. of Units	%	No. of Units	%
Johor Corporation	-	-	294,496,716 <sup>(i)</sup>	40.01
KPJ Healthcare Berhad	-	-	276,122,627 <sup>(ii)</sup>	37.92
Lembaga Tabung Haji	103,344,456	14.04	-	-
Kumpulan Wang Persaraan (Diperbadankan)	65,727,000	8.93	-	-
Employees Provident Fund	61,565,838	8.37	-	-
Pusat Pakar Tawakal Sdn Bhd	54,648,534	7.43	-	-
Amanah Saham Bumiputera	46,000,000	6.25	-	-

Notes:

(i) Deemed interested by virtue of its interest in KPJ Healthcare Berhad under Section 8 of the Companies Act 2016

(ii) Deemed interested by virtue of its interest as several Unitholders of Al-Aqar are part of the KPJ Group of Companies

### Analysis Of Unitholders

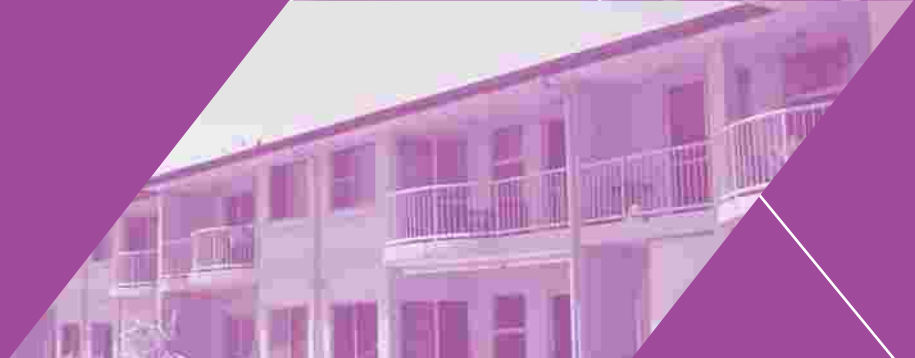
	No. of Unitholders	%	No. of Units	%
Malaysian - Bumiputra	906	30.67	582,185,261	79.10
- Non-Bumiputra	1,968	66.62	143,541,739	19.50
Foreigners	80	2.71	10,258,088	1.40
<b>TOTAL</b>	<b>2,954</b>	<b>100.00</b>	<b>735,985,088</b>	<b>100.00</b>

### Unit Analysis as at 31 December 2018

ROD	TOTAL		BUMIPUTRA		NON - BUMIPUTRA		FOREIGN	
	Holder	No. of Unit	Holder	No. of Unit	Holder	No. of Unit	Holder	No. of Unit
Government Bodies	2	6,000	2	6,000	-	-	-	-
Finance	26	296,485,382	26	296,485,382	-	-	-	-
Investment Trust	5	186,500	4	16,500	1	170,000	-	-
Nominees	520	137,737,402	365	12,332,164	130	124,043,853	25	1,361,385
Companies	82	276,835,912	60	269,156,848	20	546,220	2	7,132,844
Clubs / Association	1	895,400	1	895,400	-	-	-	-
Co - Operatives	7	1,680,250	5	1,500,650	2	179,600	-	-
Individuals	2,311	22,158,242	443	1,792,317	1,815	18,602,066	53	1,763,859
<b>Total</b>	<b>2,954</b>	<b>735,985,088</b>	<b>906</b>	<b>582,185,261</b>	<b>1,968</b>	<b>143,541,739</b>	<b>80</b>	<b>10,258,088</b>
<b>%</b>	<b>100.00</b>	<b>100.00</b>	<b>30.67</b>	<b>79.10</b>	<b>66.62</b>	<b>19.50</b>	<b>2.71</b>	<b>1.40</b>

# 2 DRIVING FORCE

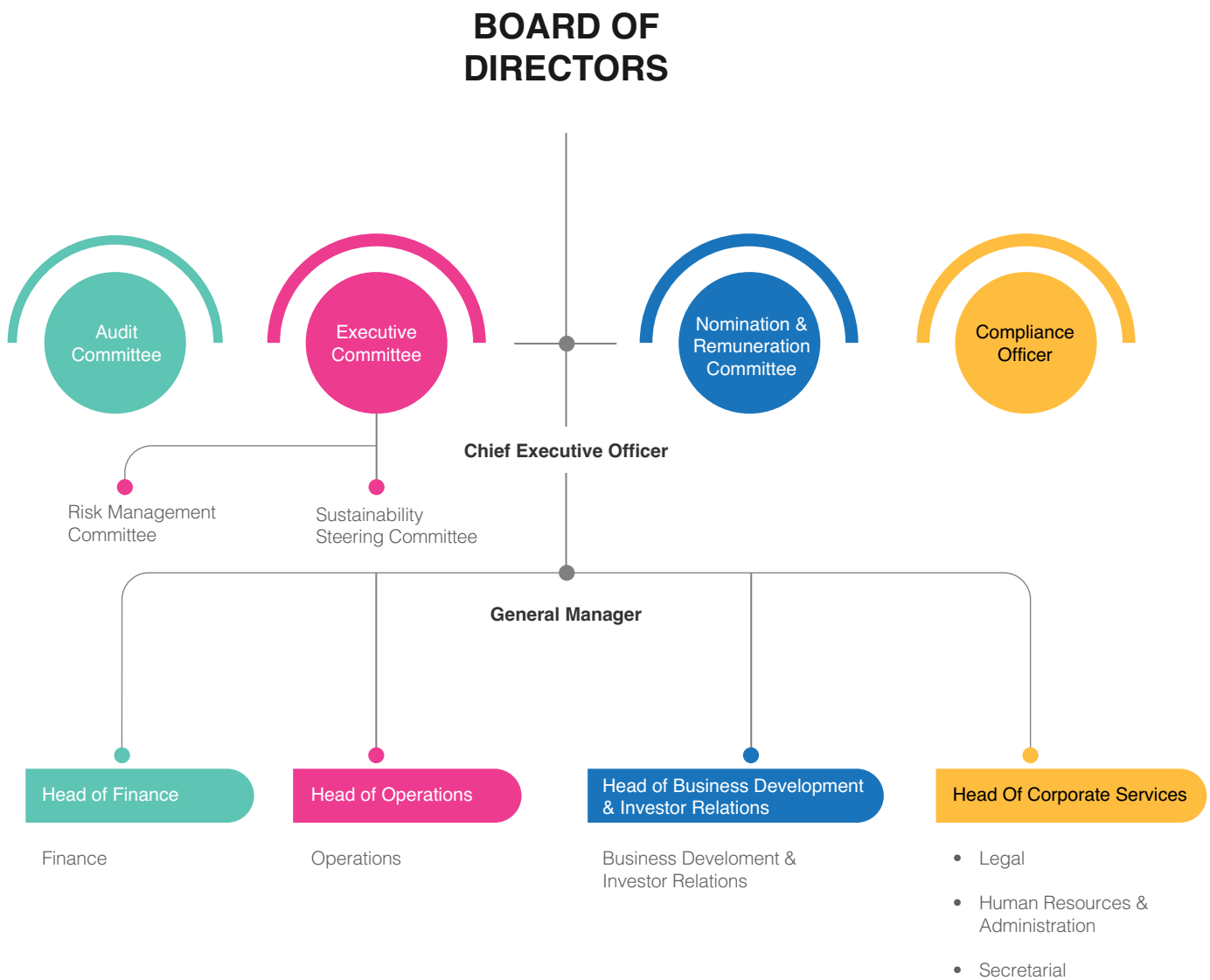
- 18 Trust Structure
- 19 Organisation Structure
- 20 The Board of Directors
- 26 The Shariah Committee
- 28 The Management



# TRUST STRUCTURE



# ORGANISATION STRUCTURE





## THE BOARD OF DIRECTORS PROFILE

1

### DATO' KAMARUZZAMAN BIN ABU KASSIM

Malaysian, Male, Aged 55

Chairman and Non-Independent Non Executive Director

Nomination & Remuneration Committee - Chairman

**Dato' Kamaruzzaman bin Abu Kassim is the Chairman and Non-Independent Non-Executive Director of the Manager. He was appointed to the Board as Director on 12 January 2007 and as Chairman on 12 January 2011. He is currently the President and Chief Executive of JCorp with effect from 1 December 2010.**

He graduated with a Bachelor of Commerce (Accountancy) from University of Wollongong, New South Wales, Australia in 1987.

He embarked his career as an Audit Assistant with Messrs K.E Chan & Associates in May 1988 and later joined Messrs Pricewaterhouse Coopers (formerly known as Messrs Coopers & Lybrand) in 1989. In December 1992, he joined Perbadanan Kemajuan Ekonomi Negeri Johor (currently known as Johor Corporation) as a Executive in the Corporate Finance Department and was later promoted to General Manager in 1999. He then served as the Chief Operating Officer of JCorp beginning 1 August 2006 and was later appointed as Senior Vice President, Corporate Services & Finance of JCorp beginning 1 January 2009 and Acting President & Chief Executive of JCorp beginning 29 July 2010.

He is also the Chairman of KPJ Healthcare Berhad, and E.A. Technique (M) Berhad, companies under JCorp Group listed on the Main Market of Bursa Malaysia Securities Berhad. Further, he is also the Chairman and/or Director of several companies within the JCorp Group, including Kulim (Malaysia) Berhad, Johor Land Berhad (JLand), QSR Brands (M) Holdings Berhad (QSR), Waqaf An-Nur Corporation Berhad, an Islamic endowment institution which spearheads JCorp's corporate social responsibility programmes and Yayasan Johor Corporation, a foundation that manages and administer funds for education and charitable purposes.

He is actively involved in the administration and development of national sports. He is a National Sports Council (MSN), Board Member and the President of the Malaysian Sailing Association and the President of the Johor Sailing Association. In addition, he is also the Patron of the Johor Clay Target Shooting Association and Vice President II of the Johor Football Association.

In education sector, he is the Administrative Board Member of the Malaysian-American Commission on Educational Exchange (MACEE), under the Ministry of Education Malaysia since July 2013. In addition, he is also the Professor of Adjunct at the International Institute of Public Policy & Management (INPUMA), University of Malaya since 2016.

Other than as disclosed, he does not have any family relationship with any directors and/or major Unitholders of Al-Aqar. He has no personal interest in any business arrangement involving Al-Aqar and has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

He attended 4 Board Meetings held during the financial year ended 31 December 2018.

1



## THE BOARD OF DIRECTORS PROFILE

2

### WAN AZMAN BIN ISMAIL

Malaysian, Male, aged 55

Non-Independent Executive Director

**Wan Azman bin Ismail is the Executive Director cum Chief Executive Officer of the Manager. He was appointed to the Board as Non-Independent Non-Executive Director on 15 February 2017 and subsequently assumed his current role since 27 March 2017.**

He graduated with a BA (Hons) in Accounting and Financial Analysis, University of Newcastle upon Tyne, United Kingdom in 1988. He started his career under the Corporate Finance Division of Perwira Affin Merchant Bank Berhad from September 1990 to March 1996. He later joined the Corporate Finance Division of BSN Merchant Bank Berhad on March 1999 to July 1999.

He joined JCorp Group in September 1999 to December 2000 and later joined Damansara Realty Berhad (DBhd) in January 2001. He was appointed as the Managing Director of DBhd on 1 February 2011 and later redesignated as Director. He resigned as a Director of DBhd on 21 September 2018.

Starting June 2014, he served JCorp as Vice President Strategic Development Department prior to joining the Manager. He has obtained a Capital Markets Services Representatives Licence for REIT as a Licensed Director to carry on regulated activities specified under the CMSA.

Other than as disclosed, he does not have any family relationship with any director and/ or major Unitholders of Al-`Aqar. He has no personal interest in any business arrangement involving Al-`Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

He attended all 5 Board Meetings held during the financial year ended 31 December 2018.

3

### ZAINAH BINTI MUSTAFA

Malaysian, Female, aged 64

Independent Non  
Executive Director

Executive Committee  
- Member

Audit Committee  
- Chairman

Nomination & Remuneration  
Committee - Member

**Zainah binti Mustafa is the Independent Non-Executive Director of the Manager. She was appointed to the Board and as the Chairman of the Audit Committee on 16 February 2007.**

She is currently a Fellow Member of the Association of Certified Chartered Accountants (ACCA). She joined JCorp in October 1978 and has held various roles including as its Group Chief Financial Officer before retiring on 31 October 2002. She started her career as an Assistant Senior Auditor in Perbadanan Nasional Berhad in 1997 after graduating from Institut Teknologi MARA (presently Universiti Teknologi MARA).

Other than as disclosed, she does not have any family relationship with any director and/or major Unitholders of Al-`Aqar. She has no personal interest in any business arrangement involving Al-`Aqar. She has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

She attended all 5 Board Meetings held during the financial year ended 31 December 2018.

2



3



## THE BOARD OF DIRECTORS PROFILE

4

### DR. MOHD HAFETZ BIN AHMAD

Malaysian, Male, aged 69

Independent Non  
Executive Director

Executive Committee  
- Member

Audit Committee  
- Member

Nomination & Remuneration  
Committee - Member

**Dr. Mohd Hafetz bin Ahmad is the Independent Non-Executive Director of the Manager. He was appointed to the Board on 22 June 2006 and as the member of the Audit Committee on 25 April 2016.**

He obtained his Medical Degree from University Malaysia in 1975. He did his housemanship in Hospital Sultanah Aminah, Johor Bahru, Johor and continued as Medical Officer in the same hospital. In 1978, he did his specialist training in Obstetrics and Gynaecology at the University Hospital, Kuala Lumpur. Thereafter, he served as a Trainee Lecturer and then as a Lecturer at the Department of Obstetrics and Gynaecology, University Malaya.

He joined Johor Specialist Hospital (JSH) in 1983 as a Consultant Obstetrician and Gynaecologist. Besides his clinical practice, he has been involved in various aspects of hospital management and clinical governance in his capacity as Chairman, JSH Consultant's Advisory Committee (1990-1994) and Medical Director (1994 - 2014). He is now the Medical Director of KPJ Bandar Dato' Onn Specialist Hospital, since 1 January 2019.

He was the President of the Obstetrical and Gynaecological Society of Malaysia (OGSM) from 2004 to 2005 and he also served as a council member of the OGSM from 2003 to 2006. He is a member of the Malaysian Medical Association, Malaysian Menopause Society and Persatuan Perubatan Islam Malaysia. In 2011, he was awarded Johan Mangku Negara (JMN) by DYMM Yang Di Pertuan Agong.

He presently sits on the Board of Directors of Kluang Utama Specialist Hospital and is a member of KPJ Group Medical Advisory Committee. Previously, he was an Independent Non-Executive Director of JLand, Sindora Berhad, Waqaf AnNur Corporation and was a Director of KPJ Johor Specialist Hospital, KPJ Puteri Specialist Hospital and KPJ University College. Dr. Mohd Hafetz has no directorships in other public companies in Malaysia.

Other than as disclosed, he does not have any family relationship with any director and/or major Unitholders of Al-Aqar. He has no personal interest in any business arrangement involving Al-Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

He attended all 5 Board Meetings held during the financial year ended 31 December 2018.

5

### DATO' DR. RAHAH BINTI ISMAIL

Malaysian, Female, aged 62

Independent Non Executive Director

**Dato' Dr. Rahah binti Ismail is the Independent Non-Executive Director of the Manager. She was appointed to the Board on 5 October 2017.**

She is a valuer both by training and profession. She holds a doctoral degree in Housing Development and Finance, a master degree in Urban Land Appraisal and a bachelor degree in Surveying (Property Management).

She had previously served the Department of Valuation and Property Services, Ministry of Finance Malaysia, holding several key positions including Deputy Director General of Valuation (Technical), Director of Valuation and Property Services in the states of Johor and Selangor, Director of Inspen and Head of Research at Inspen and retired from the service on August 2017 as the Director General of Valuation. Currently she is an independent property consultant.

She had also served as the President of the Board of Valuers, Appraisers and Estate Agents. Prior to her appointment as the President of the Board of Valuers, Appraisers and Estate Agents, she is the Chair for the Valuation Practice Committee and the Test of Professional Competency Committee of the Board.

She is also involved in professional bodies like the Royal Institution of Surveyors Malaysia, Royal Institution of Chartered Surveyor where her contributions led to the recognition and award as the Fellow of the Royal Institution of Surveyors Malaysia and Fellow of the Royal Institute of Chartered Surveyors. She has also served ASEAN Valuers Association as the Vice President and President of the AVA Malaysia. Currently she is in the AVA Governing Council.

She is a keen researcher and her main area of interest is the area of property development, property market and housing and has presented locally as well as internationally. Other than as disclosed, she does not have any family relationship with any director and/or major Unitholders of Al-Aqar. She has no personal interest in any business arrangement involving Al-Aqar. She has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

She attended all 5 Board Meeting held during the financial year ended 31 December 2018.

## THE BOARD OF DIRECTORS PROFILE

6

### LUKMAN BIN HJ. ABU BAKAR

Malaysian, Male, aged 60

Non-Independent Executive Committee  
Non Executive Director - Chairman

Audit Committee  
- Member

**Lukman bin Hj. Abu Bakar, is a Non-Independent Non-Executive Director of the Manager. He was appointed to the Board on 12 January 2007 and as a member of the Audit Committee on 18 August 2010.**

He graduated with a Bachelor of Urban and Regional Planning (Hons) from the University Teknologi Malaysia in 1982. He also holds a Post Graduate Diploma (Housing, Building and Planning) from Institute for Housing Studies, Rotterdam, Holland in 1985.

Upon graduation, he joined JCorp as a Town Planning Officer. He had held various positions in the JCorp Group before he was promoted as the Deputy Manager of JCorp in 1989. In 1992, he was appointed as the Manager cum Deputy Secretary of Pasir Gudang Local Authority (currently known as Pasir Gudang Municipal Council). In 1993, he joined Sindora Berhad as the Deputy General Manager and was promoted as the General Manager in 1995. On 1 January 2006, he was appointed as the Senior General Manager of JCorp. On 1 July 2008, the Pasir Gudang Local Authority was upgraded as a full-fledged Municipal Council. Concurrently, he was appointed as its first President and served until 31 August 2009 when the Council was handed over to the administration of the State Government of Johor. Thereafter, he was promoted as a Senior Vice President in JCorp on 1 September 2009.

He presently is the Managing Director of JLand since 1 January 2010 and the Senior Vice President/Chief Executive of Property Division of JCorp since 1 January 2011. He is also Chairman and director of a few other companies within the JCorp Group.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholders of Al-Aqar. He has no personal interest in any business arrangement involving Al-Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

He has attended all 5 Board Meetings held during the financial year ended 31 December 2018.

4



5



6



## THE BOARD OF DIRECTORS PROFILE

7

### YUSAINI BIN HJ. SIDEK

Malaysian, Male, aged 51

Non-Independent Non Executive Director

**Yusaini bin Hj. Sidek is the Non-Independent Non-Executive Director of the Manager. He was appointed to the Board as an Executive Director in 2009 and subsequently assumed his role as Managing Director of the Manager on February 2013 until 19 April 2017.**

Prior thereto, he had served as the Chief Executive Officer of the Manager since 2006. He is also presently the Executive Director of Damansara Assets Sdn Bhd (DASB) having been appointed on 1 December 2012 and the Vice President, Commercial Property, Property Division of JCorp since May 2015.

He graduated with a Master of Business Administration, with specialisation in International Business from University of Southern Queensland, Australia in 2010. He also holds a Bachelor of Business Administration from Universiti Kebangsaan Malaysia in 1999 and a Diploma in Valuation from Universiti Teknologi Malaysia in 1989.

He has approximately 28 years of experience in the Malaysian property industry, particularly in property management and valuations. He gained professional experience via attachment with numerous property-related companies and/or entities in Malaysia, namely, Colliers, Jordan Lee & Jaafar Sdn Bhd, the Valuation and Property Services Department of the Ministry of Finance, Bank Industri Malaysia Berhad, FIMA Corporation Berhad, CSM Corporation Berhad and Empire Tower (M) Sdn Bhd, wholly-owned subsidiary of Low Yatt Group of Companies. During his

tenure with the aforementioned companies, amongst the buildings under his supervision are Bank Industri Building, Airtel Complex, Plaza Damansara, Jaya Shopping Centre, Menara CSM, Empire Tower and City Square Complex. He has vast experience in building management, primarily in the areas of tenancy management, marketing as well as promotion, preparation of business plan for buildings and maintenance management. In 2001, he joined Harta Consult Sdn Bhd, a wholly owned subsidiary of JCorp as a Senior Manager until 2005 managing the properties under DASB in Kuala Lumpur prior to his appointment at DRMSB. He is a Registered Property Manager (PM1207) from The Board of Valuers, Appraisers, Estate Agents and Property Managers (BOVEA). Yusaini has obtained a Capital Markets Services Representatives' Licence for REIT as a Licensed Director to carry on regulated activities specified under the CMSA. In January 2015, he was appointed as the Vice Chairman for year 2015 to 2016 of the Malaysian REIT Managers Association (MRMA), an organisation that act as a platform for the Malaysian REIT managers to engage with the regulatory bodies in proposing changes to the industry to promote its growth.

Other than as disclosed, he does not have any family relationship with any director and/or major Unitholders of Al-'Aqar. He has no personal interest in any business arrangement involving Al-'Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

He attended all 5 Board Meetings held during the financial year ended 31 December 2018.

7



8



9



## THE BOARD OF DIRECTORS PROFILE

8

### DATO' AMIRUDDIN BIN ABDUL SATAR

Malaysian, Male, aged 55

Non-Independent Non Executive Director

**Dato' Amiruddin bin Abdul Satar is the Non-Independent Non-Executive Director of the Manager. He was appointed to the Board on 21 January 2016.**

He is the President & Managing Director of KPJ Healthcare Berhad since 1 January 2013. An alumnus of the Henley Business School, University of Reading, United Kingdom where he obtained his Masters in Business Administration (MBA) in 2010. He is also the Malaysia Advisory Committee Member of the Association of Chartered Certified Accountants.

He gained significant experience in finance and management through his capacity as the Accountant and Finance Manager of several large and reputable organisations in the country.

He contributes actively in the development of the Malaysian healthcare sector through his involvement with the Association of Private Hospitals of Malaysia (APHM) as the Vice President.

Other than as disclosed, he does not have any family relationship with any directors and/or major Unitholders of Al-`Aqar. He has no personal interest in any business arrangements involving Al-`Aqar and has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

He attended all 5 Board Meetings held during the financial year ended 31 December 2018.

9

### MOHD YUSOF BIN AHMAD

Malaysian, Male, aged 51

Non-Independent Non Executive Director

**Mohd Yusof bin Ahmad is the Non-Independent Non-Executive Director of the Manager. He was appointed to the Board on 4 February 2014.**

He graduated with a Bachelor in Surveying (Property Management) from Universiti Teknologi Malaysia in 1992. Upon graduation, he gained experience as a Valuation Executive in Sailan & Co and KGV Lambert Smith Hampton. In 1993, he joined JLand as an Executive and later served as Valuation Executive at the Planning Department in 1995.

Since 2000, he had served several departments in JLand which includes Property Management, Marketing Department, Corporate Office and Planning Department. He is currently the Senior General Manager of Special Projects (JB Urban Redevelopment) of JLand appointed on 3 May 2018. He is also the General Manager, Special Projects (Property Division) of JCorp since 1 May 2015 and also special assistant to JCorp's President and Chief Executive Officer in Yayasan Sultan Ibrahim Johor. He presently sits on the board of various companies within the JCorp Group.

Other than as disclosed, he does not have any family relationship with any director and/or major unitholders of Al-`Aqar. He has no personal interest in any business arrangement involving Al-`Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

He attended 4 Board Meetings held during the financial year ended 31 December 2018.

## COMPANY SECRETARIES



### JAMALLUDIN BIN KALAM

LS 0002710



### ROHAYA BINTI JAAFAR

LS 0008376



## THE SHARIAH COMMITTEE PROFILE

1

**DATO' (DR) HAJI NOOH BIN GADOT**

Malaysian Male, Aged 73

**Dato' (Dr) Haji Nooh bin Gadot, was appointed as the Chairman and Member of Shariah Committee of Al-`Aqar since 22 June 2006.**

He graduated from the Al-Azhar University in Egypt with a Bachelor in Islamic Law and Shariah Islamiah. He obtained his tertiary Islamic education from Maahad Institution in Johor majoring in As-Syahadah Al-Thanawiyah, Arabic Secondary School, Segamat Madrasah Al-Khairiyyah Al-Arabiyyah –AsSyahadah Al-Ibtidaiyyah, Segamat and Islamic Primary School State of Johor Special Class. On 22 April 2012, he obtained the Ijazah Kehormat Sarjana Sastera (Master of Art) from Asia e University.

Currently, he is the Islamic Advisor to DYMM Sultan Johor and Advisor to Johor State Islamic Council. He is a member of the Johor Royal Council and Islamic Religious Council (Johor). He retired as Mufti of Johor in November 2002 and continued his service until 13 November 2008 and now remains as the Advisor to the Islamic Religious Council (Johor). He was appointed as Federal Supreme Committee of Islamic Affairs Strengthening Management on 9 August 2018. His vast experience in Islamic practise and jurisprudence, juristic methodology, hadith and its sciences and spirituality was gained throughout his services as Acting Kadi, Syarie Lawyer Islamic Affair Officer Religious Department (Prime Minister Department), Acting Assistant Examination and Registrar Religious School of Johor State and Religious Teacher of Johor State. He also presently sits on the board and member of various companies within the JCorp Group as well as other companies, council, institutions and organization in Malaysia.

He is currently Director of Universiti Tun Hussein Onn (UTHM), Chairman of The Teaching and Advancement of Islam Studies, a member of various councils including the Johor Royal Congregational Council, Johor Islamic Council's Finance and Investment as well as Planning and Development units. He is also a member of various committees within the Johor Islamic Council including Zakat, Wakaf, Baitulmal, Teaching Certification and Education.

2

**PROFESSOR MADYA DR. AB. HALIM BIN MUHAMMAD**

Malaysian Male, Aged 74

**Professor Madya Dr. Ab. Halim bin Muhammad was appointed on 22 June 2006 as a Shariah Committee Member of Al-`Aqar.**

He obtained his Bachelor in Shariah from Al-Azhar University in Egypt in 1972 and subsequently obtained his PhD in Shariah from St. Andrews, University of Scotland in 1977. He began his career with Universiti Kebangsaan Malaysia as the Head of Department of Quran and Sunnah, Faculty of Islamic Studies and Lecturer at Faculty of Law Universiti Kebangsaan Malaysia.

He has served as Shariah Advisor and Shariah committee member at several corporate organisation such as Tabung Haji, Bank Negara Malaysia, Dewan Bahasa dan Pustaka, Takaful Nasional and Terengganu Trust Fund as well as financial institutions namely, Bank Muamalat Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad, RHB Bank Berhad and Bank Pembangunan Malaysia Berhad.

At present, he is the Shariah committee member of Bank Muamalat Malaysia Berhad, Terengganu Trust Fund, Amanah Saham Darul Iman and Kelantan Ulama Council.

## THE SHARIAH COMMITTEE PROFILE

3

**PROFESSOR DR. MOHAMAD @ MD. SOM BIN SUJIMON**

Malaysian Male, Aged 65

**Professor Dr. Mohamad @ Md. Som bin Sujimon, was appointed on 20 May 2013 as a Shariah Committee Member of Al-`Aqar.**

He graduated from University of Al-Azhar, Egypt with a Bachelor of Honours from the Faculty of Islamic Jurisprudence and Law in 1979. He obtained his Master of Arts in Teaching from Mississippi State University, United States of America in 1982 and completed PhD in Islamic and Middle Eastern Studies at the Faculty of Arts in University of Edinburgh, Scotland, United Kingdom in 1997.

He began his career as a Lecturer at the Faculty of Arts and Social Science, Universiti Malaya from 1983-1986 and later migrated to Brunei Darussalam whereby he was part of the team which founded 3 institutions, namely Universiti Brunei Darussalam (UBD), Universiti Islam Sultan Syarif Ali (UNISSA) and Kolej Universiti Perguruan Ugama Seri Begawan.

In Brunei Darussalam, he was an Associate Professor at the Faculty of Shariah and Law, UNISSA as well as at the UBD and Institute of Islamic Studies Sultan Haji Omar Ali Saifuddien. He was also an Associate Professor at the International Islamic University Malaysia from 1999 to 2005.

He was a Senior Researcher at the International Shariah Research Academy and is currently the Chief Executive Officer of Kolej Pengajian Islam Johor and member of the Shariah committee for HSBC Amanah Takaful and also member of Shariah Committee for Hong Leong Islamic Bank Berhad. In December 2013, he was appointed as the Chairman for the Shariah Board of Brisbane Islamic Investment Fund, an Australian regulated Islamic investment fund and Islamic finance business custodians which deals with manufacturing and services, energy and resources, real estate, solar and clean energy and live stocks. He is then being appointed as Shariah Advisor for Taupo Islamic Centre Auckland, New Zealand since 2016 until present. Recently he was an Associate Research Fellow at International Research Centre of Islamic Economics and Finance (IRCIEF), Kolej Universiti Islam Antarabangsa Selangor (KUIS).

1



2



3



# THE MANAGEMENT

## WAN AZMAN BIN ISMAIL

Malaysian, Male, Aged 55

Wan Azman bin Ismail is currently the Executive Director cum Chief Executive Officer of the Manager. His profile is detailed in the Board of Directors' profile.

## SHAHRLIL ZAIRIS BIN RAMLI

Malaysian, Male, Aged 49

Shahril Zairis bin Ramli, is currently the General Manager of the Manager. He joined the Manager in July 2012.

He started his career with BSN Merchant Bank Berhad in 1997. In 1999, he joined DBhd and subsequently, in 2008 he joined JCorp and was later assigned to a few companies within the JCorp Group. He is the holder of Capital Markets Services Representatives' Licence for REIT from the SC as a Licensed Representative. He has a Bachelor of Arts in Banking and Finance from Bangor University and a Diploma in Investment Analysis from Universiti Teknologi Mara.

Other than as disclosed, he does not hold directorships in other public companies in Malaysia. He does not have any family relationship with any Directors and/or major Unitholders of Al-`Aqar nor does he have any conflict of interests with Al-`Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

## ROZIAH BINTI ABU BAKAR

Malaysian, Female, Aged 51

Roziah Abu Bakar, is currently the Head of Compliance and Risk Management of the Manager. She completed her Masters in Business Administration, Henley Business School, University of Reading in 2008 and has a Degree in International Relations, Faculty of Political Science from The University of British Columbia, Canada. She started her career at JCorp in 1995 and has various experiences in the areas of corporate planning, business development and education. She obtained approval from the SC as the Compliance Officer of the Manager in June 2017. She is a certified Enterprise Risk Advisor from the Institute of Enterprise Risk Practitioners.

Other than as disclosed, she does not hold directorships in other public companies in Malaysia. She does not have any family relationship with any Directors and/or major Unitholders of Al-`Aqar nor does she have any conflict of interests with Al-`Aqar. She has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

## SUHAIMI BIN SAAD

Malaysian, Male, Aged 49

Suhaimi bin Saad, is currently the Head of Operations of the Manager. He joined the Manager in June 2006. He graduated with a Bachelor of Arts (Hons) in Urban Studies and Planning from University of Malaya in 1996. He has numerous experiences in property management and planning and has been working in the property management sector since 1997. In 2001, he joined Damansara Harta Management Sdn Bhd as Property Executive and subsequently, in 2004, he joined Damansara Town Centre Sdn Bhd, which is involved in the management of Pusat Bandar Damansara, Kuala Lumpur. He then joined the Manager in June 2006 primarily to oversee asset management, leasing activities and the implementation of organic growth strategies to enhance the performance of Al-`Aqar's portfolio. He has obtained a Capital Markets Services Representatives' License for REIT from the SC as a Licensed Representative. He is also a Registered Property Manager (PM1311) from The Board of Valuers, Appraisers, Estate Agents and Property Managers (BOVEA).

Other than as disclosed, he does not hold directorships in other public companies in Malaysia. He does not have any family relationship with any Directors and/or major Unitholders of Al-`Aqar nor does he have any conflict of interests with Al-`Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

## THE MANAGEMENT

### HAMIM BIN MOHAMAD

Malaysian, Male, Aged 42

Hamim bin Mohamad, is currently the Head of Corporate Services. He joined the Manager in July 2014. He graduated with a Bachelor's Degree in Engineering from Universiti Kebangsaan Malaysia in 1999. He started his career with Mayban Securities Sdn Bhd in 2000 before joining DBhd in 2002. During his 12 years employment with DBhd, he has been exposed to and gained experience in various legal function including litigation management, conveyance, risk management as well as corporate legal. He was the Compliance Officer of the Manager from September 2014 until June 2017.

Other than as disclosed, he does not hold directorships in other public companies in Malaysia. He does not have any family relationship with any Directors and/or major Unitholders of Al-`Aqar nor does he have any conflict of interests with Al-`Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

### MUHAMMAD IKHWAN BIN MUHAMMAD HANAPI

Malaysian, Male, Aged 33

Muhammad Ikhwan bin Muhammad Hanapi, is currently the Head of Finance of the Manager. He is primarily in charge of the accounting and financial matters of the Manager. He started his career as an Audit Assistant with KPMG Desa Megat & Co. in February 2008 and advanced to Assistant Manager position within 3 years with the Firm. He has audit experience from various industries which includes oil & gas trading, railway transportation, plantations, manufacturing, services and trading. He joined the Manager in October 2011 as an Accountant and was promoted to Senior Accountant on 1 January 2016. He is currently a member of the Malaysian Institute of Accountant (MIA) and a Fellow member of the Association of Chartered Certified Accountants (ACCA).

Other than as disclosed, he does not hold directorships in other public companies in Malaysia. He does not have any family relationship with any Directors and/or major Unitholders of Al-`Aqar nor does he have any conflict of interests with Al-`Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

### AHMAD RIDHWAN BIN AHMAD RADZI, MRICS

Malaysian, Male, Aged 37

Ahmad Ridhwan bin Ahmad Radzi, is currently the Head of Business Development and Investor Relations for Al-`Aqar of the Manager. He earned his postgraduate from Heriot-Watt University in Real Estate Investment & Finance and Bachelor's Degree in Landscape Architecture from University Putra Malaysia. He is a member of the Royal Institute of Chartered Surveyors. He joined the Manager in January 2019. Before joining the Manager, Ridhwan was Investment Manager in Malayan Banking Berhad. Prior to that, he was attached to a number of international real estate consultancy firms including CBRE and JLL, where he gained exposure in real estate valuation, research, transaction management, strategic advisory and investments. He is primarily in charge to develop investment strategies and grow the Fund's portfolio through strategic acquisitions. He is also responsible to implement effective communication strategies with all stakeholders and maintaining continuous engagement with the investment community.

Other than as disclosed, he does not hold directorships in other public companies in Malaysia. He does not have any family relationship with any Directors and/or major Unitholders of Al-`Aqar nor does he have any conflict of interests with Al-`Aqar. He has not been convicted for any offences, other than traffic offences (if any), within the past 5 years.

# 3 STRATEGIC PERFORMANCE

## 31 Management Discussion & Analysis

- Financial Review
- Operations Review
- Capital Management
- Risk Management

## 42 Investor & Public Relations

### 44 Market Report Summary

### 48 Portfolio Summary and Details



# MANAGEMENT DISCUSSION & ANALYSIS

## Financial Review

KEY FINANCIALS	FY2017 RM'000	FY2018 RM'000	GROWTH %
<b>The Group</b>			
Gross revenue	99,648	102,649	3.0
Net Property Income (NPI)	93,207	96,609	3.6
Profit for the year (realised)	59,852	61,032	2.0
EPU (realised) (sen)	8.22	8.37	1.8
<b>The Fund</b>			
Income available for distribution	58,427	56,912	(2.6)
DPU (sen)	7.70	7.70	-

### PROFIT FOR THE YEAR

Profit for the year was RM85.4 million (FY2017: RM82.2 million) comprising realised profit of RM61.0 million (FY2017: RM59.8 million) and unrealised profit of RM24.4 million (FY2017: RM22.3 million).

Realised profit increased 2.0% or RM1.2 million in FY2018 mainly due to new rental income contributed from car park block at KPJ Selangor Specialist Hospital, which was acquired in December 2017 as well as modest rental revision for 2018 but partially offset by higher financing cost due to refinancing exercise.

The unrealised profit of RM24.4 million mainly relates to fair value gains on investment properties, which was higher by RM2.0 million. The higher fair value gain for the year was mainly attributable to those properties namely KPJ Damansara Specialist Hospital, KPJ Tawakkal Specialist Hospital, KPJ Healthcare University College, Nilai, KPJ Johor Specialist Hospital and KPJ Ipoh Specialist Hospital.

**REALISED PROFIT INCREASED 2.0% OR RM1.2 MILLION IN FY2018 MAINLY DUE TO NEW RENTAL INCOME CONTRIBUTED FROM CAR PARK BLOCK AT KPJ SELANGOR SPECIALIST HOSPITAL, WHICH WAS ACQUIRED IN DECEMBER 2017 AS WELL AS MODEST RENTAL REVISION FOR 2018 BUT PARTIALLY OFFSET BY HIGHER FINANCING COST DUE TO REFINANCING EXERCISE.**

### INCOME AVAILABLE FOR DISTRIBUTION

Total income available for distribution for FY2018 of the Fund was RM56.9 million. This was derived from net realised income of RM59.7 million, less capital expenditures incurred during the year of RM2.8 million.

The Fund had distributed interim income distributions of 5.63 sen per unit amounting to approximately RM41.2 million for the period from 1 January to 30 September 2018.

On 30 January 2019, the Fund declared a final income distribution of 2.07 sen per unit totalling RM15.2 million for the period from 1 October to 31 December 2018. The said distribution was paid on 28 February 2019.

Total distribution per unit ("DPU") for FY2018 is 7.70 sen per unit totalling RM56.4 million, which represents 99% of the income available for distribution.

### CONTRIBUTION BY SEGMENT

The Group has a single operating segment. For management purposes, the Group is organised into business units based on the geographical location of customers and assets, and has two reportable segments as follows:

- I. Malaysia
- II. Australia



## MANAGEMENT DISCUSSION & ANALYSIS

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

### REVENUE CONTRIBUTION

	FY2017 RM'000	FY2018 RM'000
Malaysia	88,550	91,097
Australia	11,098	11,552

### NPI CONTRIBUTION

	FY2017 RM'000	FY2018 RM'000
Malaysia	82,588	85,162
Australia	10,619	11,447

#### Malaysian Segment

The Malaysia segment, as the key contributor, contributed 88.7% (FY2017: 88.9%) and 88.1% (FY2017: 88.6%) in terms of revenue and NPI respectively. The Malaysia segment's revenue increased by 2.9% to RM91.1 million in FY2018 from RM88.5 million in FY2017. NPI increased 3.1% from RM82.6 million to RM85.2 million. The increase in revenue and NPI were mainly due to the increment on annual rental income and new rental income contributed from car park block at KPJ Selangor Specialist Hospital, which was acquired in December 2017.

#### Australian Segment

The Australia segment's contribution to Al-Aqar's revenue and NPI remained largely unchanged in FY2018 at 11.3% and 11.9% respectively. Revenue and NPI contribution increased 4.1% (from RM11.1 million to RM11.5 million) and 7.8% (from RM10.6 million to RM11.4 million) respectively.

### STATEMENT OF FINANCIAL POSITION

With regards to its financial position, there is a minimal increase of 1.3% in its total assets from RM1.56 billion to RM1.58 billion.

The settlement of the KPJUC Balance Purchase Consideration was completed on 29 November 2018 following the payment of the RM29.9 million KPJUC Deferred Cash Consideration and allotment of 7,758,620 Al-Aqar Units to KPJUC. This resulted in total unitholders' fund increasing to RM947.8 million or 2.6% higher as compared to the immediate preceding year of RM923.3 million.

### STATEMENT OF CASH FLOW

#### Operating Activities

Net cash generated from operating activities was RM57.9 million in FY2018 which was lower than RM89.9 million in FY2017. Lower amount in FY2018 was mainly due to settlement of deferred consideration owing to KPJUC Nilai amounting to RM38.9 million made during the year.

#### Investing Activities

Al-Aqar used RM0.7 million for investing activities during the financial year mainly due to payment of the land amalgamation fee of RM2.8 million for KPJ Seremban, which converted its land from leasehold to freehold and offset by income received on investment of RM2.1 million.

#### Financing Activities

Al-Aqar utilised RM51.9 million for financing activities during the financial year compared to RM165.8 million in the preceding year. On 4 May 2018, Al-Aqar successfully refinanced the IMTNs Issue 1 via an issuance of RM575 million in nominal value of IMTNs under Issue 2. Total finance costs paid were higher as compared to the preceding year, mainly due to higher rates upon completion of the refinancing exercise.

On 29 November 2018, Al-Aqar obtained an Islamic financing amounting to RM29.9 million and issued 7,758,620 new units at an issue price of RM1.16 per unit amounting to RM9.0 million to settle the KPJUC Balance Purchase Consideration as mentioned earlier.

As at 31 December 2018, cash and cash equivalent was RM72.7 million, an increase of RM3.7 million from RM69.0 million (FY2017).



## MANAGEMENT DISCUSSION & ANALYSIS

### PERFORMANCE BENCHMARK

PERFORMANCE BENCHMARK		FY2017	FY2018	COMMENTARY
i.	Management expense ratio (%)	0.32	0.34	Management expenses ratio of 0.34% increased by 6% due to corporate exercise in FY2018.
ii.	Total return (%)	(3.54)	(2.51)	Total return for the financial year remained negative due to lower closing price of RM1.31 compared to RM1.43 in FY2017.
iii.	Average annual total return (5 years) (%)	7.60	5.44	The 5-year average annual total return decreased due to lower closing price in FY2018.
iv.	Average annual total return (3 years) (%)	6.80	3.66	The 3-year average annual total return decreased due to lower closing price in FY2018.
v.	Distribution yield (%)	5.38	5.88	Distribution yield has increased from 5.38% to 5.88% due to lower closing price of RM1.31 compared to RM1.43 in FY2017, as DPU remained the same at 7.70 sen.
vi.	NAV per Unit	1.2284	1.2878	NAV per unit recorded an increase of 2.6% arising from the profit recorded for the year 2018 (RM85.4 million), issuance of new units (RM9.0 million) and payment of final income distribution FY2017 (RM28.7 million) and interim income distributions FY2018 (RM41.2 million)

#### Notes:

- The ratio of expenses incurred in operating Al-`Aqar of RM3.1 million (FY2017: RM2.8 million) to the weighted average of NAV of Al-`Aqar of RM912.4 million (FY2017: RM887.2 million).
- Total return represents the change in unit price during the year plus distribution yield for the year.
- Average annual total return is the sum of the return rates of Al-`Aqar over a given numbers of years divided by that number of years.
- Average annual total return is the sum of the return rates of Al-`Aqar over a given numbers of years divided by that number of years.
- Based on DPU of 7.70 sen (FY2017: DPU of 7.70 sen) divided by its closing price as at 31 December 2018 of RM1.31 (31 December 2017: RM1.43).
- Net asset value of Al-`Aqar is determined by deducting the value of all Al-`Aqar's liabilities from the total asset value, divided by total issued units.

## MANAGEMENT DISCUSSION & ANALYSIS

### FAIR VALUE OF PORTFOLIO PROPERTIES

As at 31 December 2018, the value of Al-Aqar's properties was RM1.48 billion compared to RM1.46 billion as at 31 December 2017. The fair value gain recorded was RM30.3 million.

	2017 RM'000	2018 RM'000
<b>Investment properties</b>		
At 1 January	1,424,360	1,459,703
Addition	13,259	-
Enhancements	506	2,858
Effect of foreign currency exchange differences	(3,214)	(7,176)
Gain on fair value of investment properties	24,792	30,342
<b>Total portfolio properties as at 31 December</b>	<b>1,459,703</b>	<b>1,485,727</b>

Property	2017 Fair Value RM '000	2018 Fair Value RM '000
<b>Malaysia</b>		
KPJ Ampang Puteri Specialist Hospital	135,000	135,000
KPJ Damansara Specialist Hospital	121,700	131,000
KPJ Johor Specialist Hospital	116,800	120,000
KPJ Selangor Specialist Hospital	80,800	80,000
KPJ Puteri Specialist Hospital	43,000	42,000
KPJ Ipoh Specialist Hospital	73,000	76,100
KPJ Perdana Specialist Hospital	45,000	45,000
Kuantan Wellness Centre	21,700	20,500
KPJ Kajang Specialist Hospital	48,400	50,600
Kedah Medical Centre	51,700	52,000
Sentosa Medical Centre	30,000	30,000
KPJ Seremban Specialist Hospital	66,300	69,500
Taiping Medical Centre	10,000	10,000
KPJ Healthcare University College, Nilai	100,600	105,400
KPJ Tawakkal Specialist Hospital	127,900	135,200
Damai Wellness Centre	15,200	15,100
Tawakkal Health Centre	47,000	48,400
KPJ International College, Penang	16,200	16,200
KPJ Penang Specialist Hospital	64,000	63,000
Kluang Utama Specialist Hospital	4,300	5,000
KPJ Klang Specialist Hospital	101,500	103,300
	1,320,100	1,353,300
<b>Australia</b>		
Jeta Gardens Aged Care and Retirement Village*	139,603	132,427
	139,603	132,427
<b>TOTAL PORTFOLIO</b>	<b>1,459,703</b>	<b>1,485,727</b>

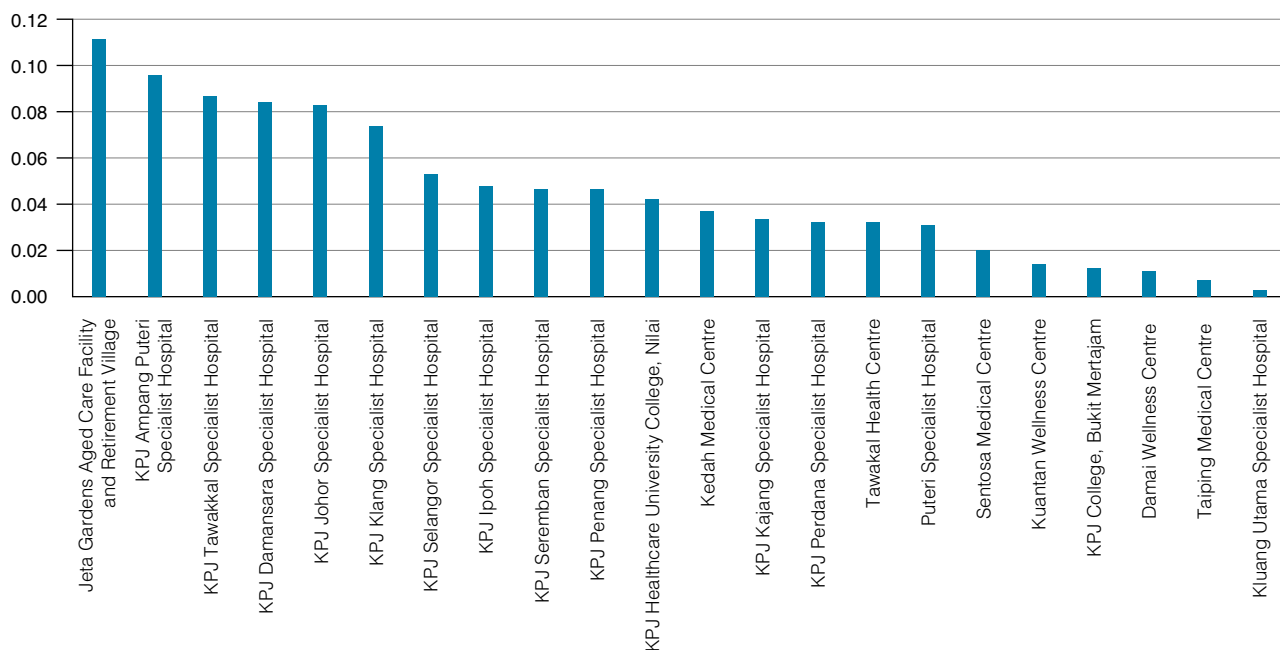
\* The property was valued at AUD44 million in both FY2017 and FY2018, and translated using the exchange rate at the date of valuation.

## MANAGEMENT DISCUSSION & ANALYSIS

### ANNUAL LEASE CONTRIBUTION

Al-Aqar's properties comprise 19 hospitals and 3 healthcare related properties in Malaysia and Australia. Properties with high market value are also the major contributors in terms of lease contributions as depicted in the following chart.

RM 'million



## MANAGEMENT DISCUSSION & ANALYSIS

### Operations Review

## THE PORTFOLIO MAINTAINED 100% COMMITTED OCCUPANCY, WITH A POSITIVE RENTAL INCREMENT.

The Manager is focused on active asset management and acquisition growth strategy in order to provide regular and stable distributions to unitholders and ensure capital growth and improved returns from its property portfolio.

Despite the challenging operating environment, the Manager's active asset management continued the strong operational performance into FY2018. The portfolio maintained 100% committed occupancy, with a positive rental increment.

The Manager constantly strives to maintain the existing properties as attractive operating assets for the business of its tenants and to sustain continuous strong business relationships with the tenants since 2006.

#### ASSET ENHANCEMENT INITIATIVES

Optimisation of stakeholder value is the core focus and prime objective of Al-`Aqar. This is achieved via asset enhancement strategy. We aim to improve our performance through constantly upgrading our properties and services. Since listing, the Manager has devoted substantial efforts to implement asset enhancement initiatives with the aim to develop our properties to their full potential. The Manager expects to implement asset enhancement initiatives worth up to RM9.9 million.

CATEGORY	AMOUNT (RM)
<b>Completed</b>	
- Civil and structural	170,000
- Mechanical and Electrical	398,320
- Repainting	3,113,000
Sub Total	3,681,320
<b>Ongoing</b>	
- Repainting	290,000
- Civil and structural	-
- Mechanical and Electrical	2,630,000
- Expansion	3,307,200
Sub Total	6,227,200
<b>TOTAL</b>	<b>9,908,520</b>

#### RENTAL RENEWALS

Under the lease arrangement, the contractual lease term is 15 years with an option to renew for a further 15 years. The contractual lease term is divided into 5 rental term of 3 years which shall be renewed upon expiry of each rental term. Based on the Manager's records, the lessees have continuously committed to their rental obligations.

#### RENTAL REVIEW

Al-`Aqar has a well-spread rental review as shown in the following table:

Year	No. of Properties	% of Total Properties
FY2019	1	4.55%
FY2020	6	27.27%
FY2021	14	63.63%
FY2024	1	4.55%

## MANAGEMENT DISCUSSION & ANALYSIS

### BUSINESS REVIEW

For the year under review, Al-`Aqar had registered moderate increase in revenue growth of 3% to RM102.6 million from RM 99.6 million in 2017. This was attributable to income derived from the KPJ Selangor Specialist Hospital's car park lease rental of RM0.93 million as well as modest rental revisions for 2018.

As at 31 December 2018, Al-`Aqar has 21 properties in Malaysia comprising 19 hospitals and 2 healthcare-related properties. It represents 91% of the total property value and contributes 88.7% and 88% to the revenue and net rental income of Al-`Aqar respectively.

Jeta Gardens Aged Care & Retirement Village in Australia is the sole foreign asset owned by Al-`Aqar. The property represents 9.0% of the total property value and contributes 11.3% and 12% to the revenue and net rental income of Al-`Aqar respectively.

#### Challenges

The healthcare sector is witnessing continuous rapid technological advancement posing both challenges and opportunities to players within this market segment. Emerging megatrends in healthcare offerings such as mobile health and personalised treatment may shift the way traditional healthcare providers operate within the near future. Additionally, the expectation of continuous improvements in quality and standards of healthcare services is driving the increase in competitive intensity amongst incumbent operators, notwithstanding new entries of more players into the space.

Healthcare providers require technology strategies to adapt to disruptions especially from the e-commerce sector. Given KPJ's track record in ensuring service excellence whilst being one of the largest healthcare companies in Malaysia, the Fund's main tenant continues to commit to adopt new methods and acquiring capabilities to appease changing consumer demands hence being relevant despite the changes in the landscape dynamics.

The Manager is in the opinion that growth prospect for the sector domestically as well as globally over the long term is positive, underpinned by rising affluence and increasing life expectancy. The local private healthcare sector has an added catalyst in form of medical tourism, backed by its highly competitive medical charges and hospitalisation costs (against those in developed countries) and various incentives provided by the government.

Given the set of challenges, the Manager expects that earnings for Al-`Aqar will remain stable and resilient compared to other REITs in the market as the healthcare sector continues to flourish. The fund's performance will mainly be driven by organic growth from rental renewals and annual escalation as well as acquisitions, predominantly from KPJ. Notwithstanding the macroeconomic factors and changes in consumer demands, attractive industry fundamentals will continue to deliver value to Al-`Aqar's immediate and long term outlook.

#### Prospects

Al-`Aqar continues to attract investor interests as the REIT is on track to continue to deliver attractive returns going into the new year. As Malaysians grow in affluence and expectations on quality care becomes more of a necessity, the healthcare industry remains resilient and continues to grow in strength year after year. Increasingly, the growth in healthcare tourism bodes well for KPJ's prospect and brand acknowledgement as a destination for quality healthcare through its unwavering operational and service standards. Apart from this, the REIT is also looking into other segments of the industry to capture assets within growth areas and proven yield performance.

**Additionally, the expectation of continuous improvements in quality and standards of healthcare services is driving the increase in competitive intensity amongst incumbent operators, notwithstanding new entries of more players into the space.**

## MANAGEMENT DISCUSSION & ANALYSIS

### Capital Management

#### GEARING RATIOS

Al-Aqar's gearing ratios are calculated based on the proportion of total borrowings to the total asset value in accordance with the SC Guidelines. The gearing ratios at the end of the reporting period are as follows:-

	2017 RM'000	2018 RM'000
Total borrowings (RM'mil)	573.58	603.70
Total assets value (RM'mil)	1,556,425	1,580,468
Total borrowings to total asset value ratio (%)	36.85	38.19

As at 31 December 2018, our borrowings stood at RM603.7 million, an increase of 5% as a result of the floating rate borrowing obtain by Al-Aqar during the year. The exposure of floating rate borrowing only represent RM29.9 million of the total borrowings. The total gearing correspondingly increased to 38.19%, which was below the 50% limit permitted by the SC's Guideline on REITs.

#### ISLAMIC FINANCING: SUKUK IJARAH

In 2013, the Group via its special purpose vehicle, Al-Aqar Capital Sdn Bhd has established a 15-year Islamic Medium Term Notes Sukuk Ijarah of up to RM1.0 billion in nominal value in FY2013. The RM655 million 5-year Sukuk under Issue 1 was issued via the First Tranche of RM374 million and the Second Tranche of RM281 million. The profit rates for the sukuk are all on fixed rate basis thus insulating Al-Aqar from any adverse movement in the financing rate and volatility in the economy.

In 2017, Al-Aqar Capital Sdn Bhd made a partial early one-off redemption of RM80 million in nominal value of unrated Class C IMTNs of Issue 1. The redemption was made by using the proceeds from the disposal of an investment property.

On 4 May 2018, Al-Aqar redeemed the outstanding IMTNs of Issue 1 of RM575 million together with the outstanding profit due on maturity and refinanced the IMTNs via an issuance of RM575 million in nominal value of IMTNs ("Issue 2"). The maturity period for Sukuk Issue 2 has shortened to 3 year compared to 5 year under Issue 1. Total financing cost paid increased following the increase in Bank Negara Malaysia Overnight Policy Rate (OPR) by 0.25% in January 2018, as well as sukuk refinanced at higher rate during the year.

The respective AAA/Stable and AA2/Stable ratings of RM295 million Class A and RM60 million Class B Sukuk Ijarah had been reaffirmed by RAM Rating Services Berhad in their annual review dated April 2018. The stable rating outlook reflect that the 19 secured properties will perform within sustainable cashflow assumption, backed by the lease agreements with KPJ Group as the hospital operator. Additionally, RAM expects the expiring long-term lease to be renewed, thereby providing adequate credit support for the respective rating assigned to the Sukuk Ijarah.

On 20 December 2018, Al-Aqar re-rated RM112 million in nominal value of unrated Class C IMTNs of Issue 2. The re-rating exercise had led to an early redemption of the Class C IMTNs of Issue 2 and an additional issuance of RM75 million in nominal value of Class A IMTNs of Issue 2 and RM37 million in nominal value of Class B IMTNs of Issue 2. The average profit rate of the Sukuk Issue 2 is about 5.11% per annum.

#### ISLAMIC FINANCING: MURABAHAH TAWARRUQ TERM FINANCING-I

On 30 November 2018, Al-Aqar obtained floating rate borrowing facility ("Murabahah Tawarruq") amounting to RM29.9 million to part finance the outstanding balance in relation to an investment property purchased in prior years amounting to RM38.9 million. The Murabahah Tawarruq is payable over a period of 24 months from the date of first disbursement with bullet repayment of the principal sum on the 24<sup>th</sup> month. The Murabahah Tawarruq bears an effective profit rate of 1.50% per annum above the bank's Cost of Funds ("COF"). The average effective profit rate for the Murabahah Tawarruq during the year is 5.54%.

## MANAGEMENT DISCUSSION & ANALYSIS

### Risk Management

---

THE MANAGER REALISES THE IMPORTANCE OF EFFECTIVE RISK MANAGEMENT AS IT FACILITATES INVESTORS' INVESTMENT DECISIONS-MAKING PROCESS VIA EVALUATION OF THE INFORMATION DISCLOSED BY THE MANAGER IN ORDER TO ESTABLISH LEVELS OF VARIOUS RISKS IT FACES.

Risk management has been part of the Manager's day-to-day operations in managing Al-'Aqar and the Manager is responsible to ensure consistency of operational procedures and practices within the organisation. The commitment to achieve effective risk management is ultimately driven by the Board, which in turn is implemented by the management team and extended to all employees of the Manager.

The Manager revised its Enterprise Risk Management Framework in the third quarter of 2018 with a view to ensure the effective management of potential opportunities while reducing or avoiding adverse effects.

The focus of the revised ERM remain the same as those of last year's, which include: -

- i. continuously identifying, assessing and monitoring the Fund's risks;
- ii. managing and monitoring risks assumed by the Fund's on behalf of its Unitholders; and
- iii. mitigation actions to address such risks.

Where functions are outsourced, the Fund's risk management framework must include:-

- i. performing due diligence on the nature, scope and complexity of the outsourcing to identify key risk areas and risk mitigation strategies;
- ii. conducting review of its outsourcing arrangement and identifying new risks which may arise; and
- iii. analysing the impact of the outsourcing arrangement on the overall risk profile of the Fund, and whether there are adequate measures and resources in place to mitigate the risks identified.



## MANAGEMENT DISCUSSION & ANALYSIS

### KEY RISKS FACTORS

RISK	RISK DESCRIPTION	MITIGATION PLAN
Acquisition & Investment Risk	Risk that assets are not yield accretive and distort existing portfolio which is healthcare focused or difficulty in acquiring quality assets.	<p>All investment proposals will be assessed thoroughly based on the approved investment criteria. The proposals will be evaluated by the Executive Committee prior to recommendation to the Board and subsequently, due diligence will be undertaken by the appointed professionals.</p> <p>In working out a win-win lease arrangement with the lessee, the Manager is aware of the fact that, in a normal industry life-cycle of a hospital, the first three years is a Start-Up period. Profit will start to register during the Growth period where the business will start to turn around and be sustainable in the long run.</p>
Valuation Risk	Risk that assets with lower Valuation will affect the Net Asset Value of the Fund.	The Manager complies with the requirement of the REIT Guidelines to ensure that property valuation is carried out every year by valuers approved by the Trustee and complies with the guidelines under the Listing Requirements. This is to determine the fair and reasonableness of the value of the assets to be acquired.
Financing & Refinancing Risk	Risk that funding will not be available from banks or debt capital market to meet requirements when due.	Given the stable income from the assets portfolio, the Manager does not foresee any risk associated with inability to procure financing. However, the Manager will comply with the requirement to keep gearing level at 50% and take all the steps in ensuring the borrowing rates and any cost related to the financing are kept at optimal level so that the return to unitholders are maximised.
Liquidity Risk	Risk that funds are inadequate to meet obligations.	The Manager will continuously monitor the rental income, operational cost of the assets as well as borrowing cost and related costs are within the annual budgeted plan.
Profit Rate Risk	Risk that adverse movements in floating profit rates will affect financial performance.	Impact of risk is minimal since currently, most of Al-Aqar's borrowing is on fixed basis and as such, will not be materially affected by adverse movement in financing rate.

## MANAGEMENT DISCUSSION & ANALYSIS

RISK	RISK DESCRIPTION	MITIGATION PLAN
Business / Market Risk	Risk that the properties face decline in revenue due to poor market condition, competition and geographical concentration.	Given the established healthcare business of the tenants which is defensive in nature as well as the strategic location of the properties, the Manager is of the view that Al-`Aqar is not highly susceptible to business and market risk.
Tenant Concentration Risk	Risk that revenue of Al-`Aqar is dependent on single tenant. Termination or non-renewal of tenancy by the single tenant will negatively impact the performance of the properties.	The Manager has a designated long-term lease Agreement (15 + 15 years & renewal of tenancy every 3 years) to ensure performance each property is guaranteed.
Insurance, Uninsured Liabilities	High-profile incidents ranging from extreme weather and terrorism to cyber security risk has REITs keenly focused on potential losses. REITs worry not only that their operations will suffer, but also that they may not have adequate insurance and could face potential uninsured losses.	A revision on takaful plan is carried out on an annual basis to ensure sufficient coverage.
Cyber Security Risks	Cyber security breaches, for example, can damage a company's reputation, which is difficult to insure against.	The Manager also is drafting a Disaster Recovery Plan to ensure threats of cyber security breaches are mitigated.
Compliance Risk	Risk that Al-`Aqar fails to comply with applicable laws and regulations.	The Manager has a designated compliance officer who is responsible for ensuring that all relevant laws, guidelines, and regulations are duly complied with.
Human Capital Risk	Risk that the Manager fails to attract and retain competent staff force to manage its portfolio and to execute its strategies for sustainable growth.	The Manager to promote work-life balance with current working hour, to facilitate staff as reasonable as possible and also to provide satisfying benefits by considering the market standard of HR practise.

## INVESTOR AND PUBLIC RELATIONS



*6<sup>th</sup> AGM of Al-`Aqar Healthcare REIT on 19 April 2018 at Puteri Pacific Hotel, Johor Bahru*



At Al-`Aqar, investor relations activities are focused on increasing awareness in the investment community via an open dialogue with all stakeholders, namely unitholders, analysts, media, potential investors and the general public. Our aim is to enable market participants to form a realistic opinion of the company's profitability, strategic positioning and the associated opportunities and risks.

### 6th Annual General Meeting

The Manager convened the 6th Annual General Meeting (AGM) of Al-`Aqar Healthcare REIT on 19 April 2018 to seek the unitholders' approval amongst others, for the following resolutions:

- Proposed To Allot And Issue New Units
- Proposed Increase In The Existing Approved Fund Size

At the Annual General Meeting, the Chairman presented the progress and performance of the business and encouraged Unitholders to participate in the question-and-answer session.

### Accessibility of Information

The accessibility for retail investors to the management of the Manager may not be easily available in comparison to institutions investors. We recognise the growing sophistication of retail investors leading to higher expectation of higher accessibility of information from this group of stakeholder. The existing communication channels for retail investors include the following:

- 1) Corporate Website & Investor Relation Portal ([www.alaqar.com.my](http://www.alaqar.com.my))
- 2) Annual Report
- 3) IR enquiry

## INVESTOR AND PUBLIC RELATIONS



*Analyst briefing on  
Al-Aqar's quarterly  
result*

### Analysts & Investors Briefing

The Manager has always engaged with local and foreign analysts as well as investors and potential investors to keep them abreast of the latest development of Al-Aqar. The briefings were organised periodically either thru one-on-one meetings, conference calls or roadshow. Properties tour was also organised based on request for better appreciation of the quality of our assets.

### Media Relations

Media have an important role in providing information which is the key to an efficient market operation and thus plays a critical role in all aspects of business, commerce and industry. The Manager is aware of the important role played by the media in shaping the present and future image of the Fund and always opens its door to interact with media at all times.

### Exhibition

The Manager is committed to increase awareness on Al-Aqar among public and local investors. Participation in the various exhibitions aimed to expose the variety of investments and include awareness of the public about the legitimate investment products in Malaysia. This is a great channel to communicate with investors as the exhibitions were attended by government institutions and NGOs as well as from the mass public.

### Malaysian REIT Managers Association (MRMA)

The Manager is an active member of the Malaysian REIT Managers Association since 2009. The Manager took the opportunity attending the quarterly meetings and the annual general meeting to exchange views with other members and planning concerted efforts to promote M-REITs industry to both domestic and foreign investors.

# MARKET REPORT SUMMARY

## 1. ECONOMIC OVERVIEW

The global economy is expected to expand 3.7% in 2019, lower than the earlier forecast of 3.9% (IMF, 2018). The downward revision reflects elevating policy uncertainties with several risks stemming to growth from escalating trade tension and outflows of capital from emerging economies. At the same time, global growth has become less synchronized with mixed developments in advanced economies while projection for emerging economies, in particular, developing Asia remains favorable.

The outlook for the Malaysian economy remains resilient in the near term despite considerable external and domestic headwinds. Real GDP is projected to expand 4.9% in 2019, respectively, supported mainly by domestic demand. Private sector expenditure, in particular, household spending will remain as the anchor of growth following a continuous increase in employment and wage amid benign inflation. Meanwhile, private investment will be supported by new and ongoing projects in the services and manufacturing sectors.

In 2019, monetary policy will remain accommodative and considerations for adjustments will depend on risks surrounding the outlook for domestic growth and inflation. At the same time, the domestic financial system remains stable and intact supported by deep and liquid financial market, sound financial institutions and sustained confidence in the system. Meanwhile, the domestic equity market is projected to continue recording gains despite external headwinds. Islamic banking is expected to remain favourable given strong demand from both households and businesses for Shariah-compliant financial products and services. Towards this end, Malaysia is expected to maintain its position as a global leader in Islamic finance.

From the supply side, the services sector is expected to remain as the largest contributor, namely wholesale and retail trade, finance and insurance as well as information and communication subsectors, benefitting from steady consumer spending. The manufacturing sector is projected to register a firm growth primarily driven by continuous demand for Electrical & Electronic. Agriculture and mining sectors are expected to rebound in 2019 after recording a marginal contraction in 2018 following an increase in the production of crude palm oil and liquefied natural gas. Meanwhile, the construction sector is expected to moderate following the near completion of infrastructure projects as well as property overhang, particularly in the non-residential segment.

Malaysia's external position is projected to remain resilient in line with steady global economic and trade performances. However, exports are expected to moderate mainly due to slower global trade and investment activities. At the same time, the current account surplus is expected to narrow following widening deficits in the services and income accounts.

*(Extracted from Economic Outlook 2019, Ministry of Finance Malaysia)*



## MARKET REPORT SUMMARY

### 2. MALAYSIAN REIT

The sector has faced an early dampener of 25bps overnight policy rate (OPR) hike to 3.25% on 25 Jan 2018 which would nudge up near-term's financing costs (for M-REITs with exposure to floating rate borrowings). This was followed by a short-lived, sector-wide unit price easing in Mar-Apr 2018 which believed was partly attributed to the market's expectation of two rate hikes in 2018 (including Jan 2018's).

The M-REIT's growth is estimated to be largely organic in 2019, via positive rental reversions and sustained occupancy rates while there are M-REIT's which would record full year rental income contributions from assets which were acquired/developed in 2018. It is expected 2019's acquisition pipeline to be subdued and only involving smaller size assets as anticipated major pipeline and developments would only take place from 2020 onwards.

Oversupply of retail and office space would remain as major earnings risks to M-REITs as it would generally heighten selected retail malls and office towers' occupancy risks and limiting potential positive rental reversions for expiring leases. Elsewhere, it is believed further rate hike(s) would lower M-REITs profitability (higher finance costs) and deterring acquisitions (more expensive to fund acquisitions via borrowings). Nonetheless, it is expected that the current OPR to remain at 3.25% throughout 2019 to support near-term, economic growth while our sensitivity analysis reveals that a further 25bps increase in finance costs would only lower the sector's CY19/ 20 net profit by 0.5% p.a..

*(Extracted from Research Report 2019: Outlook & Lookouts by Maybank IB Research, 14 December 2018)*





## MARKET REPORT SUMMARY



**ANALYSTS BELIEVE HEALTHCARE PROVIDERS WILL STILL MEET THE MASSES' NEEDS BY EXPANDING THEIR HOSPITAL PORTFOLIOS WHICH WOULD FURTHER ACCELERATE REVENUE GROWTH IN 2019.**

### 3. HEALTHCARE IN MALAYSIA

Private healthcare operators in Malaysia are set to see higher earnings in 2019 on the back of rising demand for their services from medical tourists and the effects of new government policies encouraging health protection.

While growth prospects for the sector globally are positive in the long term, underpinned by an ageing population, rising affluence and increasing life expectancy, analysts noted the local private healthcare sector has added catalysts. These include competitive charges and hospitalisation costs in medical tourism, a generally English-speaking population, and various incentives from the government.

Besides raising the allocation for health services to RM29 billion in Budget 2019, the government said it will introduce a new B40 National Health Protection Fund, on a partnership basis with private insurance companies. Started on Jan 1, 2019, the scheme, among others, provides free coverage for four critical illnesses for up to RM8,000 and a maximum of 14 days of replacement income. Hospitalised patients can get an income replacement at RM50 a day for a maximum of 14 days, or RM700 a year. This announcement focuses on making healthcare services more accessible to the B40 (bottom 40%) income group, which in turn will increase the number of patients seeking treatment in private hospitals. Although there are no full details yet on how the new policy would impact healthcare companies, it could spur them to revise their prices as the scheme is believed will force private healthcare operators to drive down their prices, but the resulting volume will support them to achieve economies of scale with a slight margin compression.

MIDF Research and AmInvestment Bank maintained their "positive" and "neutral" ratings respectively on the healthcare sector for 2019. Private healthcare players may be negatively impacted by a weakening ringgit against the US dollar as costs of key inputs such as drugs, medical supplies and equipment are denominated in the greenback. On the other hand, a cheaper [ringgit] may boost Malaysia's medical tourism volume. Analysts believe healthcare providers will still meet the masses' needs by expanding their hospital portfolios which would further accelerate revenue growth in 2019.

*(Extracted from official website of Malaysia Healthcare Tourism Council, Demand for Private Healthcare Remains Upbeat, 2 January 2019)*

## MARKET REPORT SUMMARY

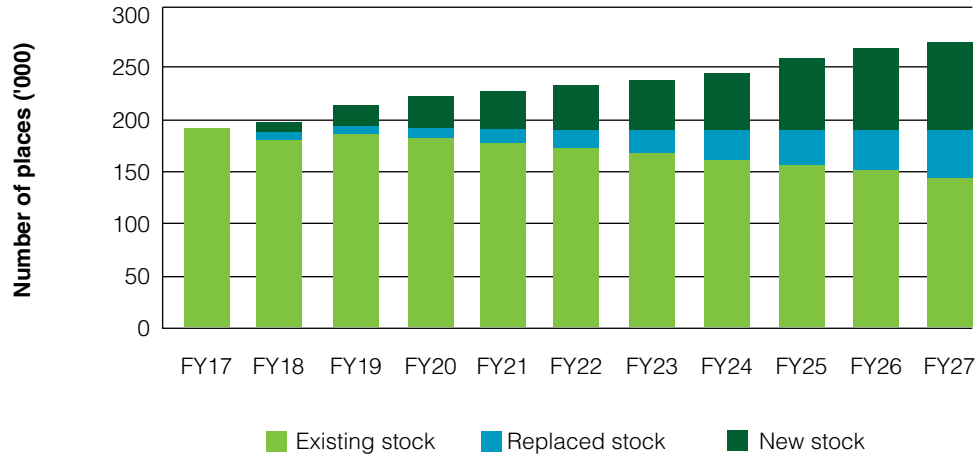
### 4. AUSTRALIA

The aged care sector in Australia provides services to over 1.3 million Australians and generates annual revenues totalling around \$22 billion. The sector makes a significant contribution to the Australian economy, representing 1 per cent of Gross Domestic Product. The aged care system is continuing to undergo reform so that it more effectively and efficiently supports older people to live in their homes and communities for as long as possible, and enables people to make informed decisions about their care, while remaining sustainable for taxpayers and service providers.

The sector remains heavily reliant on taxpayer funding, receiving \$17.1 billion in Commonwealth funding in 2016-17, an increase of 8.1 per cent from 2015-16. Almost 70 per cent of total funding (\$11.9 billion) was for residential care. Given the amount of taxpayer funding, objective and thorough analysis of the funding and financing of the sector is of central importance to the Government, aged care consumers and providers.

It is estimated that the residential care sector will need to build an additional 88,110 places over the next decade in order to meet the target provision ratio of 78 operational places per 1,000 people aged 70 and over. At the same time, the sector will need to rebuild a substantial proportion of its current stock. Assuming that a quarter of the current stock of buildings is rebuilt at an even rate over the next decade, it is estimated that the investment requirement of the sector over the next decade is in the order of \$54.0 billion.

#### Number of operational residential aged care places required in the next decade



(Extracted from Australia Sixth report on the Funding and Financing of the Aged Care Sector July 2018)



## PORTFOLIO SUMMARY AND DETAILS

### 21 PROPERTIES (MALAYSIA)

KPJ AMPANG PUTERI SPECIALIST HOSPITAL  
KPJ DAMANSARA SPECIALIST HOSPITAL  
KPJ JOHOR SPECIALIST HOSPITAL  
KPJ PUTERI SPECIALIST HOSPITAL  
KPJ SELANGOR SPECIALIST HOSPITAL  
KPJ IPOH SPECIALIST HOSPITAL  
KPJ PERDANA SPECIALIST HOSPITAL  
KUANTAN WELLNESS CENTRE  
SENTOSA MEDICAL CENTRE  
KPJ KAJANG SPECIALIST HOSPITAL  
KEDAH MEDICAL CENTRE  
DAMAI WELLNESS CENTRE  
KPJ PENANG SPECIALIST HOSPITAL  
TAWAKKAL HEALTH CENTRE  
KPJ TAWAKKAL SPECIALIST HOSPITAL  
KPJ SEREMBAN SPECIALIST HOSPITAL  
TAIPING MEDICAL CENTRE  
KPJ HEALTHCARE UNIVERSITY COLLEGE, NILAI  
KPJ INTERNATIONAL COLLEGE, PENANG  
KLUANG UTAMA SPECIALIST HOSPITAL  
KPJ KLANG SPECIALIST HOSPITAL

### 1 PROPERTY (AUSTRALIA)

JETA GARDENS AGED CARE & RETIREMENT  
VILLAGE, BRISBANE

## PORTFOLIO SUMMARY AND DETAILS



### KPJ AMPANG PUTERI SPECIALIST HOSPITAL

#### Location

No. 1, Jalan Memanda 9, Taman Dato' Ahmad Razali, 68000 Ampang, Selangor Darul Ehsan.

#### Lessee/Asset Operator

Ampang Puteri Specialist Hospital Sdn. Bhd.

#### Description

A purpose built private hospital comprising a seven (7) storey main building (NCB Block), an annexed five (5) storey specialist centre (PCB Block) both of which are with a common lower ground floor together with a part of the undeveloped portion of land currently under construction with a fifteen (15) storey private hospital building and part of the undeveloped portion of land being used as a car park area.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT

#### Land Area

233,254 sq.ft.

#### Gross Floor Area

390,848 sq.ft.

#### Tenancy/Lease expiry & renewal

Expiry on 29 June 2021 and renewal on 30 June 2021.

#### Title

P.T. No. 25119 held under Title No. H.S. (M) 26550, Mukim Empang, District of Hulu Langat, State of Selangor. Leasehold expiring in year 2089.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### KPJ DAMANSARA SPECIALIST HOSPITAL

#### Location

No 119, Jalan SS 20/10, Damansara Utama, 47400 Petaling Jaya, Selangor.

#### Lessee/Asset Operator

Rawang Specialist Hospital Sdn. Bhd.

#### Description

A six (6) storey purpose- built hospital building with a basement level and an open car park.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

179,860 sq.ft.

#### Gross Floor Area

445,114 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 31 December 2021 and renewal on 1 January 2022.

#### Title

P.T. No. 1856 held under Title No. H.S. (D) 146423, Mukim Sungai Buloh, District of Petaling, State of Selangor. Freehold.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.

## PORTFOLIO SUMMARY AND DETAILS



### KPJ JOHOR SPECIALIST HOSPITAL

#### Location

No. 39-B, Jalan Abdul Samad, 80100 Johor Bahru, Johor Darul Takzim.

#### Lessee/Asset Operator

Johor Specialist Hospital Sdn. Bhd.

#### Description

A purpose-built private hospital comprising a seven (7)-storey main building (Inpatient & Premier Block), a four (4)-storey physician consulting building (Outpatient Block), built atop a (2)-storey basement car park, a five (5)-storey Car Park Block together with a basement, and several other structure which is ancillary to the hospital operations.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

217,800 sq.ft.

#### Gross Floor Area

482,464 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 31 December 2021 and renewal on 1 January 2022.

#### Title

PTB No. 12319 (now Lot 19262) held under Title No. H.S. (D) 420217, Town and District of Johor Bahru, State of Johor. Leasehold expiring in year 2079.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### KPJ PUTERI SPECIALIST HOSPITAL

#### Location

No. 33, Jalan Tun Abdul Razak (Susur 5), 80350 Johor Bahru, Johor Darul Takzim.

#### Lessee/Asset Operator

Puteri Specialist Hospital (Johor) Sdn. Bhd.

#### Description

A six (6) storey purpose built private hospital building.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

104,110 sq.ft.

#### Gross Floor Area

134,100 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 29 June 2021 and renewal on 30 June 2021.

#### Title

Lot No. PTB 24134, held under Title No. HSD 535599, Town and District of Johor Bahru, State of Johor. Leasehold expiring in year 2053.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.

## PORTFOLIO SUMMARY AND DETAILS



### KPJ SELANGOR SPECIALIST HOSPITAL

#### Location

Lot 1, Jalan 20/1, Section 20, 40300 Shah Alam, Selangor Darul Ehsan.

#### Lessee/Asset Operator

Selangor Specialist Hospital Sdn. Bhd.

#### Description

A six (6)-storey purpose -built hospital building with a basement and a six (6)-storey car park block with a basement.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT

#### Land Area

204,341 sq.ft.

#### Gross Floor Area

- i) KPJ Selangor Existing Building - 212,612 sq.ft.
- ii) Car Park Block - 107,615 sq.ft

#### Tenancy/Lease Expiry & Renewal

Existing Building & Car park Building - Expiry on 29 June 2021 and renewal on 30 June 2021.

#### Title

P.T. No. 2 Section 20 held under Title No. H.S. (D) 112884, Town of Shah Alam, District of Petaling, State of Selangor. Leasehold expiring in year 2096.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### KPJ IPOH SPECIALIST HOSPITAL

#### Location

No.26, Jalan Raja Di Hilir, 30350 Ipoh, Perak Darul Ridzuan.

#### Lessee/Asset Operator

Ipoh Specialist Hospital Sdn. Bhd.

#### Description

A purpose built private specialist hospital comprising three (3) to four (4) storey building (Old Wing) annexed to a five (5) storey building with a basement (New Wing).

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

142,117 sq.ft.

#### Gross Floor Area

382,865. Sq.ft

#### Tenancy/Lease Expiry & Renewal

Expiry on 31 December 2021 and renewal on 1 January 2022

#### Title

Lot No. PT 254356 held under Title No. HS (D) 221754, Town of Ipoh (U), in District of Kinta, State of Perak. Freehold.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.

## PORTFOLIO SUMMARY AND DETAILS



### KPJ PERDANA SPECIALIST HOSPITAL

#### Location

No. PT 37 and PT 600, Jalan Bayam, Section 14, 15200 Kota Bharu, Kelantan.

#### Lessee/Asset Operator

Perdana Specialist Hospital Sdn. Bhd.

#### Description

A five (5) storey purpose built private specialist hospital with a sub-basement.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT

#### Land Area

87,802 sq.ft.

#### Gross Floor Area

147,542 sq. ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 29 February 2020 and renewal on 1 March 2020.

#### Title

Lot No. 657 Seksyen 14 held under Title No. PN 4133, Bandar and Jajahan of Kota Bharu, State of Kelantan.  
Leasehold expiring in year 2064.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### KUANTAN WELLNESS CENTER

#### Location

No. 51 Jalan Alor Akar, Taman Kuantan, 25250 Kuantan, Pahang.

#### Lessee/Asset Operator

Kuantan Wellness Center Sdn. Bhd.

#### Description

The building comprise two adjoining three (3) and five (5) storey blocks identified as Blocks A and B, respectively.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT

#### Land Area

72,104 sq.ft.

#### Gross Floor Area

67,559 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 29 February 2020 and renewal on 1 March 2020.

#### Title

Title Nos. GM 3441, GM 3442, GM 3466, GM 2827, GM 2823, GM 3443, GM 1575, GM 6875, Lot Nos. 5885, 5886, 5888, 5889, 5890, 5891, 10747 and 10748 respectively, Mukim of Kuala Kuantan, District of Kuantan in Pahang Darul Makmur.  
Freehold.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



## PORTFOLIO SUMMARY AND DETAILS



### SENTOSA MEDICAL CENTRE

**Location**

No. 36, Jalan Chemur Damai Complex, 50400 Kuala Lumpur.

**Lessee/Asset Operator**

Sentosa Medical Centre Sdn. Bhd.

**Description**

A Nine (9) storey purpose – built building with a basement carpark that is currently operating as a private specialist hospital.

**Registered Proprietor**

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

**Land Area**

23,659 sq.ft.

**Gross Floor Area**

81,213.70 sq.ft.

**Tenancy/Lease expiry & renewal**

Expiry on 29 February 2020 and renewal on 1 March 2020.

**Title**

Lot No. 671, Section 47 held under Title No. GRN 43923, Town of Kuala Lumpur, District of Kuala Lumpur. Freehold.

**Encumbrances**

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### KPJ KAJANG SPECIALIST HOSPITAL

**Location**

Jalan Cheras, 43000 Kajang, Selangor Darul Ehsan.

**Lessee/Asset Operator**

Kajang Specialist Hospital Sdn. Bhd.

**Description**

A seven (7) storey purpose built private specialist hospital with one (1) level of basement Car Park.

**Registered Proprietor**

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

**Land Area**

68,932 sq.ft.

**Gross Floor Area**

191,142 sq.ft.

**Tenancy/Lease Expiry & Renewal**

Expiry on 29 February 2020 and renewal on 1 March 2020.

**Title**

Lot No. 42997, Section 9 held under Title No. GM 2494, Mukim of Kajang, District of Hulu Langat, Selangor. Freehold.

**Encumbrances**

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.

## PORTFOLIO SUMMARY AND DETAILS



### KEDAH MEDICAL CENTRE

#### Location

Nos . 175 & 175A, Jalan Pumpong, 05250 Alor Setar, Kedah Darul Aman.

#### Lessee/Asset Operator

Kedah Medical Centre Sdn. Bhd.

#### Description

A purpose -built private hospital comprising a ten (10) storey building with an annexed three (3) storey building.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

83,194 sq.ft.

#### Gross Floor Area

215,361.19 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 29 February 2020 and renewal on 1 March 2020.

#### Title

P.T. No. 35 (New Lot 9527) held under Title No. H.S. (D) 21030, Bandar Alor Merah and P.T. No. 1280 (New Lot 9425) held under Title No. H.S. (M) 10923, Bandar Alor Setar, all in District of Kota Setar, State of Kedah.  
Freehold.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### DAMAI WELLNESS CENTRE (PREVIOUSLY KNOWN AS KPJ DAMAI SPECIALIST HOSPITAL)

#### Location

Lorong Pokok Tepus 1, Off Jalan Damai, 88300 Kota Kinabalu, Sabah.

#### Lessee/Asset Operator

Kota Kinabalu Wellness Sdn. Bhd.

#### Description

A five (5) storey purpose built hospital which is in the midst of converting into a wellness and care centre.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

33,988 sq.ft.

#### Gross Floor Area

44,639 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 11 June 2021 and renewal on 12 June 2021.

#### Title

Town Lease 017548828 situated at District of Kota Kinabalu, State of Sabah.  
Leasehold expiring in year 2073.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.

## PORTFOLIO SUMMARY AND DETAILS



### KPJ PENANG SPECIALIST HOSPITAL

#### Location

No. 570, Jalan Perda Utama, Bandar Perda, 14000 Bukit Mertajam, Pulau Pinang.

#### Lessee/Asset Operator

Penang Specialist Hospital Sdn. Bhd.

#### Description

A five (5) storey main hospital building.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

217,800 sq.ft.

#### Gross Floor Area

180,109 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 13 October 2021 and renewal on 14 October 2021.

#### Title

P.T. No. 799 held under Title No. H.S. (M) 375, Mukim 07, District of Seberang Perai Tengah, State of Pulau Pinang. Freehold.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### TAWAKKAL HEALTH CENTRE

#### Location

No. 202A, Jalan Pahang, 53000 Kuala Lumpur.

#### Lessee/Asset Operator

Pusat Pakar Tawakal Sdn. Bhd.

#### Description

A 4-storey building renovated from previously adjoining twenty one (21) terrace commercial shop offices to current state of being use a single building for the purpose of a health centre.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

30,438 sq.ft.

#### Gross Floor Area

122,957.53 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 14 May 2021 and renewal on 15 May 2021.

#### Title

- i) Freehold - Lot Nos. 78 to 91, 98 to 102
- ii) Leasehold - Lot 124 and 125 expiring in year 2077

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



## PORTFOLIO SUMMARY AND DETAILS



### KPJ TAWAKKAL SPECIALIST HOSPITAL

#### Location

No-1, Jalan Pahang Barat/ Jalan Sarikei, 53000 Kuala Lumpur.

#### Lessee/Asset Operator

Pusat Pakar Tawakal Sdn. Bhd.

#### Description

A 13-storey purpose – built hospital building

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT

#### Land Area

89,168 sq.ft.

#### Gross Floor Area

344,983.23 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 5 July 2019 and renewal on 6 July 2019.

#### Title

Lot No. 522 Section 85A held under Title No. GRN 68175, Town and District of Kuala Lumpur, Wilayah Persekutuan KL. Freehold.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### KPJ SEREMBAN SPECIALIST HOSPITAL

#### Location

Lot 6219 & 6220, Jalan Toman 1, Kemayan Square, 70200 Seremban, Negeri Sembilan.

#### Lessee/Asset Operator

Seremban Specialist Hospital Sdn. Bhd.

#### Description

A 5 – storey purpose-built with a basement level that is currently operating as a private hospital.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT

#### Land Area

241,834 sq.ft.

#### Gross Floor Area

241,833 sq.ft.

#### Tenancy/Lease Expiry & Renewal

- i Existing Building - Expiry on 13 October 2024 and renewal on 14 October 2024.
- ii Land - Expiry on 13 October 2021 and renewal on 14 October 2021.

#### Title

Lot Nos. 17522, 17523, 50459 and 24007 & PT. No. 2466 held under Titles Nos. GRN 51612, 51630, GRN 263269 and PN 25974 respectively, Pekan Bukit Kepayang, District of Seremban, State of Negeri Sembilan.

Lot 17522, 17523 & 24007 - Freehold.

Lot 24007 – Leasehold expiring in year 2103.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.

## PORTFOLIO SUMMARY AND DETAILS



### TAIPING MEDICAL CENTRE

#### Location

No. 39, 41, 43, 45, 47 & 49, Jalan Medan Taiping 2, Medan Taiping, 34000 Taiping, Perak.

#### Lessee/Asset Operator

Penang Specialist Hospital Sdn. Bhd.

#### Description

A four (4) -storey hospital building and a parcel of commercial land.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

47,845 sq.ft.

#### Gross Floor Area

40,256 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 30 April 2021 and renewal on 1 May 2021.

#### Title

Lot Nos. 3102 to 3107 and Lot 3140 held under Title Nos. PN 235465 to PN 235468 PN, 235470, PN 235471 and PN 361304 respectively all in Bandar Taiping, District of Larut & Matang, State of Perak.

Leasehold expiring in year 2088.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### KPJ HEALTHCARE UNIVERSITY COLLEGE, NILAI

#### Location

PT 17010, Persiaran Seriemas, Kota Seriemas, 71800 Nilai, Negeri Sembilan.

#### Lessee/Asset Operator

KPJ Healthcare University College Sdn. Bhd.

#### Description

A University College offering numerous health science subjects. It is divided into two (2) parcels comprises of commercial and residential area. The academic & administration block, lecture hall and cafeteria are located within the commercial area whilst the apartment block is within residential area of a development known as Kota Seriemas, Nilai.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

983,840 sq.ft.

#### Gross Floor Area

455,191 sq.ft.

#### Tenancy/Lease Expiry & Renewal

- i- KPJUC (Existing Building) - Expiry on 30 April 2021 and renewal on 1 May 2021.
- ii- KPJUC (New Building) - Expiry on 30 November 2021 and renewal 1 December 2021

#### Title

Lot No. 33002, Lot No. 33003, Lot 33652 and Lot 33653 held under Title Nos. GRN 211809, GRN 211810, GRN 267414 and GRN 267415 respectively, Bandar Baru Kota Sri Mas, District of Seremban, State of Negeri Sembilan.

Freehold.

#### Encumbrances

Nil

## PORTFOLIO SUMMARY AND DETAILS



### KPJ INTERNATIONAL COLLEGE, PENANG

#### Location

No. 565, Jalan Sungai Rambai, 14000 Bukit Mertajam, Pulau Pinang.

#### Lessee/Asset Operator

KPJ Healthcare University College Sdn. Bhd.

#### Description

A purpose-built 6 storey building with a basement together with a parcel of vacant development land.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

126,216 sq.ft.

#### Gross Floor Area

42,989 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 13 October 2021 and renewal on 14 October 2021.

#### Title

Lot No.10038, (Amalgamation of former Lots 1417, 54 and 1529) and Lot 55, respectively, all in Seksyen 5, Bandar Bukit Mertajam, District of Seberang Perai Tengah, State of Pulau Pinang. Freehold.

#### Encumbrances

Nil



### KLUANG UTAMA SPECIALIST HOSPITAL

#### Location

No. 1,3,5,7,9,11 Susur 1, Jalan Besar, 86000 Kluang, Johor Darul Takzim.

#### Lessee/Asset Operator

Pusat Pakar Kluang Utama Sdn. Bhd.

#### Description

Six (6) adjoining three (3)-storey terraced shop-offices (a corner and five intermediate units).

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

10,625 sq.ft.

#### Gross Floor Area

31,436 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 5 January 2021 and renewal on 6 January 2021.

#### Title

PTB No. 9468 – PTB No. 9473 held under Title Nos. H.S. (D) 44911 – H.S. (D) 44916, all in Town and District of Kluang, State of Johor. Leasehold expiring in year 2100.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.

## PORTFOLIO SUMMARY AND DETAILS



### KPJ KLANG SPECIALIST HOSPITAL

#### Location

No. 102, Persiaran Rajawati / KU 1, Bandar Baru Klang, 41150 Klang, Selangor Darul Ehsan.

#### Lessee/Asset Operator

KPJ Klang Specialist Hospital Sdn Bhd.

#### Description

A six (6) storey private hospital building with two (2) levels of basement car park.

#### Registered Proprietor

AmanahRaya Trustees Berhad as trustee for Al-'Aqar Healthcare REIT.

#### Land Area

117,392 sq.ft.

#### Gross Floor Area

353,494 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 25 June 2021 and renewal on 26 June 2021.

#### Title

Lot No. 31870 held under Title No. PM 648, Mukim of Kapar, District of Klang, State of Selangor.  
Leasehold expiring in year 2093.

#### Encumbrances

Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad.



### JETA GARDENS AGED CARE & RETIREMENT VILLAGE

#### Location

Jeta Gardens, Aged Care and Retirement Village, 27 Clarendon Avenue, Bethania and 86 Albelt Street, Waterford, Queensland, 4205 Australia.

#### Lessee/Asset Operator

Jeta Gardens (QLD) Pty Ltd.

#### Description

An integrated aged care and retirement village consists of two (2) storey aged care building comprising 106 rooms (108 – beds) with aged care facilities, 23 units of independent living villas, 32 units of independent living apartments and additional developable land.

#### Registered Proprietor

Al-'Aqar Australia Pty Ltd.

#### Land Area

1,287,143.09 sq.ft.

#### Gross Floor Area

121,675.24 sq.ft.

#### Tenancy/Lease Expiry & Renewal

Expiry on 1 November 2020 and renewal on 2 November 2020

#### Title

Lots 2, 3 and 4 held under Title References 50855908, 50855909 and 50855910 respectively, all within Parish of Moffatt, Country of Ward, Local Government of Logan.

#### Encumbrances

Nil

# 4

# SUSTAINABILITY STATEMENT

- 61 About This Report
- 61 Our Journey Towards A Sustainable REIT
- 63 Governance And Accountability
- 64 Engaging Stakeholders
- 65 Materiality Assessment
- 67 Sustainability Pillars
  - 67 Governance
  - 68 People
  - 69 Partner



# SUSTAINABILITY STATEMENT

## About This Report

### Scope and Boundary

This report presents Al-`Aqar Healthcare REIT's sustainability report which has been prepared in accordance with the applicable Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") using the Bursa Malaysia Sustainability Reporting Guide 2015.

The report focuses on Al-`Aqar's core activity as a business space REIT for the period 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018, and features selected sustainability initiatives at its property portfolio.



## Our Journey Towards A Sustainable REIT

The Manager ensures that sustainability values are created economically, environmentally and socially by emphasising their core principles throughout the REIT.

### Vision

To integrate sustainable business practices in the core processes of the business activities.

### Mission

To drive for growth and performance whilst ensuring continuous commitment to balance the concerns of the stakeholders by protecting the environment, health and safety of the employees, customers and the global communities.

### Sustainability Strategy

Ultimately, the journey to have a sustainable REIT is highlighted in a broader perspective to ensure the commitment and focus of the Manager towards a sustainable REIT is balanced with an overall sustainability strategy.



## SUSTAINABILITY STATEMENT

### Corporate Governance

Enhancing Board / management accountability through transparency business decisions and compliance to Malaysian Corporate Governance Codes and financial / non-financial disclosures

#### MANAGEMENT ACCOUNTABILITY

The CEO, management team, executives to business unit and service providers will be explicitly accountable for achieving sustainability goals

#### DISCLOSURES

Disclosure of sustainability risks, opportunities, performance, goals and strategies helps build constructive relationships with key stakeholders, opens up new business opportunities, and enhance a company's social license to operate.

### Economic

Strengthening income streams from all our properties to ensure optimum returns to unit holders/stakeholders

#### SUPPLY CHAIN

Ensure that suppliers meet the social and economic standards set by the Company; whilst ensuring that at least 75% are local companies

#### BUSINESS MODEL INNOVATION

The Fund will innovate its services to enhance tenants' satisfaction and in building collaborative business relationships

### Social

Diversity in gender ratio and employee composition and ensuring equality in compensation package across genders

#### EMPLOYEES

The Fund Manager and core service providers will foster a diverse, inclusive and engaged work environment that holds sustainability considerations as a core part of recruitment, training and benefits

#### EXECUTIVE & EMPLOYMENT COMPENSATION

Sustainability performance results will be a core component of compensation packages and incentives plans for all executives and employees across gender.



## SUSTAINABILITY STATEMENT

### Governance And Accountability

---

As part of the Manager's initiatives to have more sustainable operations for the properties of the REIT, the Manager ensures that the Board of Directors ("BOD") and the Sustainability Steering Committee ("SSC") take ownership of their responsibilities to incorporate sustainable roles and establish a sustainable tone at the top.

#### Responsibilities of the BOD

- Endorses and oversees the implementation of the REIT's sustainable strategy to ensure key targets are met.
- Takes responsibility and accountability for the REIT's communication on sustainability issues to stakeholders.
- Establishes a culture of integrity by placing emphasis on communication about sustainability across the REIT.
- Endorses material sustainability matters and the governance structure.

#### Responsibilities of the SSC

- Develops the overarching sustainability strategy for the REIT based on material sustainability matters identified by the Sustainability Working Committee.
- Provide recommendations and improvements to the BOD on the material sustainability matters related to the REIT.
- Formulates targets and initiatives to achieve sustainability goals pledged by the REIT.
- Assesses the effectiveness of the sustainable initiatives put in place, and monitors and maintains records on these initiatives.

The BOD and SSC discuss highlights of the Fund's sustainability initiatives on a periodic basis to ensure that the goals are met through effective implementation and monitoring.



**THE BOD AND SSC DISCUSS HIGHLIGHTS OF THE FUND'S SUSTAINABILITY INITIATIVES ON A PERIODIC BASIS TO ENSURE THAT THE GOALS ARE MET THROUGH EFFECTIVE IMPLEMENTATION AND MONITORING.**



## SUSTAINABILITY STATEMENT

### Engaging Stakeholders

Engaging with the stakeholders is part of the Manager's key agendas for having a sustainability-focused REIT to understand the concerns of the primary stakeholders and be receptive towards the input received. The table below shows the key stakeholders and the methods of engagement by the Manager on behalf of the REIT.

Stakeholders	Areas of Concern	Methods of Engagement
Employees	<ul style="list-style-type: none"> <li>• Career Development</li> <li>• Staff Safety &amp; Well-being</li> <li>• Employee Benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Performance Appraisal</li> </ul>
Property Managers	<ul style="list-style-type: none"> <li>• Marketing &amp; Financial Performance</li> <li>• Tenants &amp; Occupancy</li> <li>• Facility Management</li> <li>• Administration &amp; Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>• Contract Agreements</li> <li>• Evaluation &amp; Performance Reviews</li> </ul>
Regulatory Agencies & Statutory Bodies	<ul style="list-style-type: none"> <li>• Labour Practices</li> <li>• Environmental Management &amp; Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Regular inspections</li> </ul>
Investors	<ul style="list-style-type: none"> <li>• Corporate Financial Performance</li> <li>• Corporate Governance</li> <li>• Safety &amp; Security</li> <li>• Investor Relationship Management</li> </ul>	<ul style="list-style-type: none"> <li>• Annual General Meeting</li> <li>• Corporate Website</li> <li>• Investor Feedback Management</li> </ul>
Tenants (Hospitals)	<ul style="list-style-type: none"> <li>• Safety &amp; Security</li> <li>• Business Activities &amp; Ethics</li> </ul>	<ul style="list-style-type: none"> <li>• Contract Agreements</li> <li>• Tenant Surveys</li> <li>• Joint Community Programmes</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Transparent Procurement Process</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluation &amp; Performance Reviews</li> </ul>
Non-Governmental Organisations ("NGOs")	<ul style="list-style-type: none"> <li>• Social Contribution</li> <li>• Environmental Impact</li> </ul>	<ul style="list-style-type: none"> <li>• Community Events</li> </ul>

# SUSTAINABILITY STATEMENT

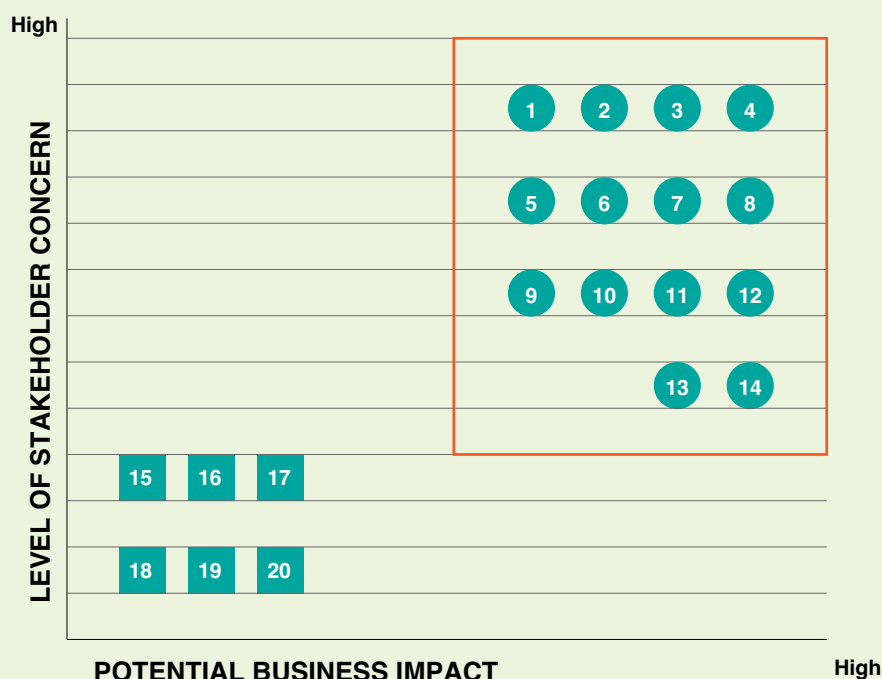
## Materiality Assessment

A materiality assessment is vital in identifying and prioritising sustainability matters that may be influential in determining the direction of REIT operations by the Manager. The sustainability matters are identified from an Environment, Economic, Social and Governance (“EESG”) perspective.

To ensure that the material sustainable matters remain substantial for this financial year, a similar survey consisting of the material issues identified in 2017 was assessed by the team comprising of the key personnel of the Manager and the guidance of an external consultant on behalf of the REIT. Overall, the team re-categorised the sustainability matters to ensure broader coverage and identified new matters to be prioritised. The results of the materiality review are reflected in the matrix below:-

The sustainability matters are identified from an **Environment, Economic, Social and Governance (“EESG”)** perspective.

Overall, the team re-categorised the sustainability matters to ensure broader coverage and identified **new matters to be prioritised**.



High importance to the Manager and Fund.

## SUSTAINABILITY STATEMENT

### Materiality Assessment (Cont'd)

No	Material EESG matters
1	Procurement Practices (Value Chain)
2	Community Investment
3	Occupational Health & Safety
4	Regulatory Compliance
5	Risk Management
6	Corporate Governance
7	Water Management
8	Waste & Effluent Management
9	Energy Management
10	Labour Practices
11	Production & Services Responsibility
12	Supply Chain
13	Human Rights
14	Diversity
15	Financial Performance
16	Indirect Economic Impact
17	Anti-Corruption
18	Anti-Competitive Behaviour
19	Land Remediation, Contaminations or Degradation
20	Emissions

# SUSTAINABILITY STATEMENT

## Sustainability Pillars

To withhold the core principles of the REIT for sustainability, the Manager established three key sustainability pillars. Listed below are the key sustainability pillars that are vital in ensuring that the actions taken by the Manager on behalf of the REIT support the overall sustainability objectives.



## Governance

### Standard Operating Procedures

The Manager has in place standard operating procedures to govern the day-to-day processes to implement the best management practices for the REIT.

### Enterprise-wide Risk Management (“ERM”)

On an annual basis, the Manager regularly reviews the risks that are significant to the operations and takes the necessary actions to mitigate the risks as part of the ERM exercise.

In Quarter 4 of 2018, the Manager conducted a validation exercise on the controls for 3 High impact risks identified that were relevant to the Financial, Operational and Strategic perspectives.

### Whistleblowing Management

Any stakeholders to the Manager may raise their concerns for any inappropriate matters through the Manager’s existing whistleblowing channel.

To date, there were no whistleblowing incidents reported through the available channels to the Manager.

## SUSTAINABILITY STATEMENT

### Governance (Cont'd)

#### Other Committees

Apart from the BOD and SSC, the Manager has in place various committees to ensure continuous governance in the overall operations such as:-

Committee	Objectives
Audit Committee	Review issues on accounting policies and presentation of external financial reporting and ensure an objective and professional relationship is maintained with the appointed auditors.
Executive Committee	Oversees the day-to-day activities of the Board on behalf of the Board and provide the necessary recommendations in relation to the REIT, review management reports and forward summary reports to all Board members.
Remuneration & Nomination Committee	Ensure that remuneration arrangements support the strategic aims of a business and enable the recruitment, motivation and retention of senior executives while also complying with the requirements of regulation.
Risk Management Committee	Ensure that risk management is part of the Manager's day-to-day operations and ensure consistency of operational procedures and practices within the organisation to ensure effective risk management.

The relevant committees discuss matters of the REIT on a periodic basis in relation to the objectives of the establishment of these committees. Ultimately, updates relevant to the REIT will be reviewed by the Executive Committee and reported to the BOD on a timely basis.

### People

#### Employee Profile

The employees of the Manager that assist in managing the Fund consist of qualified individuals with the relevant expertise in the investment practices.

The Manager strives for a culture that respects and balances the diversity of our employees to create equal opportunities for all employees regardless of the demographic status.

To date, the breakdown of employees is as follows:-

Entity	Management	Executive	Non-Executive	Total
DRMSB	9	13	7	29

Entity	Male	Female	Total
DRMSB	17	12	29

The Manager of the REIT strives to ensure that the recruitment of employees are based on their skill sets without any preference on gender or age distribution.

## SUSTAINABILITY STATEMENT

### People (Cont'd)

#### Employee Training

In addition, the Manager emphasises on personal development to enhance the knowledge base of their employees. The table below shows the training hours achieved in 2017 and 2018:-

Entity	2017 (hours)	2018 (hours)
DRMSB	152	703

#### Employee Turnover Rate

The Manager takes strenuous effort to maintain a reasonable turnover rate by keeping the employees contented at all times. The table below shows the turnover rates for the year 2018:-

Entity	2017 Turnover rate (%)	2018 Turnover rate (%)
DRMSB	0	7.27

#### Employee Welfare & Rights

The Manager strives to ensure that the employees maintain a satisfactory physical and mental well-being. The Manager firmly believes in ensuring the physical and mental well-being of the employees to strive for continuous growth. With that, the Manager provides allowances, retirement provisions, healthcare benefits, disability and insurance coverage and medical compensation. The Manager conducts annual employee appraisals and also encourages the employees to provide feedback during the review. Ultimately, the Manager has a Code of Conduct & Business Ethics Policy to ensure the employees are properly guided.

#### Occupational Health & Safety

The Manager aims to provide a safe environment for the employees to work in and protect the health of the stakeholders of the properties. The Manager ensures that KPJ complies with the mandatory legal requirements pertaining to occupational health and safety.

### Partner

#### Tenant Management

As the sole tenant of the REIT is KPJ, the Manager ensures that tenant satisfaction is maintained at a satisfactory level for the respective KPJ hospitals. On a periodic basis, the Manager ensures that the engaged Maintenance Manager conducts a satisfaction survey on behalf of the Manager and the REIT to address any concerns raised by the hospitals.

For 2018, the Manager is pleased to announce that 87% of the hospitals reported that they had a satisfying tenancy to-date.

#### Building Audits & Maintenance

To ensure the assets of the REIT are maintained well at all times, the Manager ensures that the engaged Maintenance Manager conducts periodic audits and provide constructive recommendations to the hospitals where necessary.

On a periodic basis, the hospitals will also perform preventive maintenance to ensure the assets relevant to the properties of the Fund are well-maintained.

# 5

# ESSENCE OF CORPORATE GOVERNANCE

71 Board Charter

76 Corporate Governance Statement

82 Audit Committee Report

84 Statement on Risk Management & Internal Control





# BOARD CHARTER

## 1. INTRODUCTION

The Board of Directors of the Manager (the Board) regards corporate governance as vitally important to the success of Al-`Aqar business and is committed to apply and ensure that the following principles of good governance is practised in all of its business dealings in respect of its unitholders and relevant stakeholders:

- The Board is the focal point of the corporate governance system. It is ultimately accountable and responsible for the performance and affairs of Al-`Aqar.
- All Board members are expected to act in a professional manner, thereby upholding the core values of integrity and enterprise with due regard to their fiduciary duties and responsibilities.
- All Board members are responsible for achieving a high level of good governance.

This Board Charter shall constitute and form an integral part of each Director's duties and responsibilities.

## 2. OBJECTIVE

The objectives of this Board Charter are to ensure that all Board members acting on behalf of the Manager are aware of their duties and responsibilities as Board members and the various legislations and regulations affecting their conduct and to ensure that the principles and practices of good corporate governance are applied in all their dealings in respect, and on behalf of Al-`Aqar.

## 3. THE BOARD

### 3.1 Role

The key roles of the Board are to:

- a) Guide the corporate strategies and directions of the Manager (including acquisition and divestment of Authorised Investment);
- b) Oversee the proper conduct of the Manager (including budgeting approval and all other financial matters);
- c) Set the guidelines for internal controls;
- d) Ensure compliance with the Relevant Laws and Requirements;
- e) Determine and approve the distribution amounts to Unitholders and payment of the Management Fee; and
- f) Evaluate and approve the acquisition and divestment of Authorised Investment.

### 3.2 Composition and Board Balance

The composition of the Board of Directors is as follows:

- 1) 1 Non-Independent Non-Executive Chairman
- 2) 4 Non-Independent Non-Executive Directors
- 3) 3 Independent Non-Executive Directors
- 4) 1 Non-Independent Executive Director

Practice 4.1 of the MCGG 2017 states that at least half of the board comprises independent directors. At present, the Board comprises 30% of independent directors and therefore yet to be in line with Practice 4.1. The Board believes that the interests of Unitholders would be better served by a Chairman and a team of Board members who act collectively in the best overall interests of Unitholders. As the Chairman is representing JCorp which ultimately has substantial interest in the Fund, he is well placed to act on behalf of Unitholders and in their best interests.

Practice 4.5 of the MCGG 2017 also states that for Large Companies (companies on the FTSE Bursa Malaysia Top 100 Index or companies with market capitalisation of RM2 billion and above), the Board must have at least 30% female directors. Based on the current market capitalisation position of RM0.96 billion, Al-`Aqar is not deemed to fall under Large Companies. However, the Board is moving towards to be in line with the Practice 4.5 on gender diversity whereby the current female directors' composition in the Board stands at 22%.

### 3.3 Appointments

The appointment of a new Director is a matter for consideration and decision by the full Board upon appropriate recommendation from the Nomination and Remuneration Committee.

New Directors are expected to have such expertise so as to qualify them to make a positive contribution to the Board performance of its duties and to give sufficient time and attention to the affairs of Al-`Aqar.

The Company Secretary has the responsibility of ensuring that relevant procedures relating to the appointments of new Directors are properly executed.

### 3.4 Directors' Training

In addition to the Mandatory Accreditation Programme (MAP) as required by Bursa Malaysia, Board members are also encouraged to attend seminars and training programmes organised by the relevant regulatory authorities and professional bodies to broaden their knowledge and to keep abreast with the relevant changes in laws, regulations and the business environment. The Board will assess the training needs of the Directors.

## BOARD CHARTER

The Board is also constantly updated by the Company Secretary on changes to the relevant guidelines on the regulatory and statutory requirements.

### 3.5 Board Meetings and Supply of Information

The Board meets regularly at least once every quarter to discuss and approve, among others, the release of the quarterly and annual financial results, review acquisitions or disposals, annual budget, capital expenditure requirements, property reports, investor relations reports, performance of the Manager and Al-`Aqar against the approved budget. When necessary, the Board meets at a special meeting to review and approve acquisitions or disposals for recommendation to the trustee of Al-`Aqar or any other issues requiring the immediate attention of the Board.

Notices and agenda of meetings duly endorsed by the Chairman together with the relevant board papers are normally given at least one (1) week prior to the meetings for the Board to study and evaluate the matters to be discussed.

The board papers provided include inter alia, the financial results, business plan and budget, progress report on the properties' developments, regulatory/statutory updates and other operational and financial issues for the Board's information and/or approval.

## 4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)

### 4.1 Chairman

The Chairman is responsible for leadership of the Board in ensuring the effectiveness of all aspects of its role. The Chairman is responsible for:

- a) Leading the Board in setting the values and standards of Al-`Aqar;
- b) Maintaining a relationship of trust with and between the Executive and Non-Executive Directors;
- c) Ensuring the provision of accurate, timely and clear information to Directors;
- d) Ensuring effective communication with unitholders and relevant stakeholders; and
- e) Ensuring that members of the Board work together with the Management in a constructive manner to address strategies, business operations, financial performance and risk management issues.

### 4.2 Chief Executive Officer (CEO)

- 4.2.1 The CEO is the conduit between the Board and the Management in ensuring the success of the governance and management functions of Al-`Aqar.
- 4.2.2 The CEO has the executive responsibility for the day-to-day operation of business, and the execution of the agreed business policies and directions set by the Board and of all operational decisions in managing Al-`Aqar.
- 4.2.3 All Board authorities conferred on the Management is delegated through the CEO and this will be considered as the CEO's authority and accountability as far as the Board is concerned.

## 5. COMMITTEES

In carrying its functions, the Board is supported by the Audit Committee, Executive Committee and Nomination and Remuneration Committee, all of which operate within defined terms of reference. These committees provide the appropriate checks and balances.

### 5.1 Audit Committee (AC)

#### A. Membership

- (i) The members of the AC shall be appointed by the Board and shall consist of not less than 3 members.
- (ii) All members must be Non-Executive Directors.
- (iii) All members should be financially literate and at least one member must be a member of the Malaysian Institute of Accountants (MIA) or have the relevant qualifications and experience as specified in the Bursa Malaysia Securities Main Market Listing Requirements.
- (iv) The Chairman of the AC, elected from amongst the AC members shall be an Independent Director.
- (v) No alternate Director of the Board shall be appointed as a member of the AC.

## BOARD CHARTER

### B. Purposes

- (i) To ensure transparency, integrity and accountability in the Fund's activities so as to safeguard the rights and interests of the Unitholders;
- (ii) To provide assistance to the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices;
- (iii) To improve the Fund's business efficiency, the quality of the account and audit function and strengthen public confidence in the Fund's reported financial results; and
- (iv) To maintain open lines of communication between the Board and Auditors.

### C. Duties and Responsibilities

The objective of the AC is to assist the Board in fulfilling its fiduciary responsibilities relating to corporate governance, internal controls, financial and accounting records and policies as well as financial reporting practices of Al-`Aqar. The AC's responsibilities include:

- (i) To review the quarterly and year-end financial statements of the Fund prior to the approval by the Board;
- (ii) To provide an independent assessment of the adequacy and effectiveness of risk management functions;
- (iii) To review the internal audit programme, the results of the internal audit undertaken and ensure that appropriate action is taken on any internal audit issues;
- (iv) To review with external auditors the audit plan, scope of audit and audit reports; and
- (v) To review any related party transactions and conflict of interest situation that may arise.

### D. Meetings

A minimum of 4 meetings shall be planned during the financial year and the quorum for the meeting shall be 2 members. In the absence of the Chairman, the members present shall elect a chairman for the meeting from amongst the members present. Reports of the AC meeting shall be tabled by the AC's Chairman at the Board of Directors meeting.

### 5.2 Executive Committee (EC)

The EC meets on a scheduled basis at least 4 times a year. The minutes of the EC meetings are tabled to the Board for notification and further action by the Board, where necessary.

This EC oversees the activities of the Manager and Al-`Aqar on behalf of the Board which includes:

- (a) Making recommendations to the Board on all acquisitions, investments and disposals;
- (b) Making recommendations to the Board on any financing offers, capital management proposals and additional banking facilities;
- (c) Reporting and recommending to the Board any corporate exercise, including the issuance of new Al-`Aqar units;
- (d) Making recommendations to the Board on financial budgets; and
- (e) Forwarding summary reports on activities undertaken by the Manager and minutes of EC meetings to Board members, where applicable.

### 5.3 Nomination and Remuneration Committee (NRC)

#### A. Membership

- (i) The NRC shall have at least 3 members, all of whom shall be non-executive directors with the majority being independent directors.
- (ii) The members and the Chairperson shall be appointed by the Board.
- (iii) The appointment of members terminates when the member ceases to be a director of the Company.
- (iv) The NRC shall have no executive powers.
- (v) In the event of equality of votes, the Chairperson of the NRC shall have a casting vote. In the absence of the Chairperson of the NRC, the members present shall elect one of their members to chair the meeting.

#### B. Purposes

##### • Nomination

- (i) Identify and recommend candidates for Board directorship.
- (ii) Recommend directors to fill the seats on Board Committee.
- (iii) Evaluate the effectiveness of the Board and Board Committee (including the size and composition) and contributions of each individual director.
- (iv) Ensure an appropriate framework and plan for Board succession.
- (v) Assess the quality of performance and training needs are addressed.

## BOARD CHARTER

### • Remuneration

- (i) Provide assistance to the Board in determining the remuneration of Executive Directors, Managing Director and Senior Management. In fulfilling these responsibilities, the NRC is to ensure that executive directors and applicable senior management of the Company:
  - are fairly rewarded for their individual contribution to overall performance;
  - are compensated reasonably in light of the Company's objectives; and
  - are compensated similar to other companies.
- (ii) Review the Executive Director's and/or Managing Director's performance against the goals and objectives set.

## 6. REMUNERATION POLICIES

The remuneration of the Directors is paid by the Manager and not by the Fund. The remuneration of the Executive Director is structured based on linking rewards to corporate and individual performance. For Non-Executive Directors, they receive a basic fee, an additional fee for serving on any of the committees and an attendance fee for participation in meetings of the Board and any of the committee meetings.

## 7. FINANCIAL REPORTING

### 7.1 Compliance Officer

The Manager has a designated compliance officer working towards ensuring the compliance with all legislations, rules and guidelines issued by the Securities Commission and Bursa Securities as well as Al-`Aqar's Deed.

### 7.2 External Auditors

The Board has established formal and transparent arrangements for considering how financial reporting and internal control principles will be applied and for maintaining an appropriate relationship with the External Auditors through its Audit Committee.

The Audit Committee also keeps under review the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the External Auditors. The Board ensures that the External Auditors do not supply a substantial volume of non-audit services.

The appointment of External Auditors, who may be nominated by the Manager, must be approved by the Trustee. The External Auditors appointed must be independent of the Manager and the Trustee. The remuneration of the External Auditors must be approved by the Trustee.

## 8. RISKS MANAGEMENT

### 8.1 Internal Control

The Board is responsible for maintaining a system of internal control that covers financial and operational controls and risk management. The system provides reasonable but not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

### 8.2 Conflict of Interest

The Manager has established the following procedures to deal with potential conflicts of interest and related party transactions which it (including its Directors, executive officers and employees) may encounter in managing Al-`Aqar:-

- a) Any related party transaction must be duly disclosed by the related parties to the Audit Committee and the Board;
- b) The Audit Committee shall review the terms of the related party transaction before recommending to the Board;
- c) The Board shall ensure that at least one-third of its Directors are Independent Directors; and
- d) In circumstances where any Director or officer of the Manager may have a direct or indirect interest in any related party transaction, they will abstain from deliberation and voting at any Board meeting and will require the Trustee's approval prior to entering into any transaction/agreement.

The Manager shall avoid instances of conflict of interest in any transaction and shall ensure that Al-`Aqar is not disadvantaged by the transaction concerned. In addition, the Manager shall ensure that such transactions are undertaken in full compliance with the SC REIT Guidelines, the Trust Deed and the Listing Requirements.

## BOARD CHARTER

### 8.3 Related Party Transactions

In dealing with any related party transaction, all related party transactions carried out by or on behalf of Al-`Aqar should be conducted as follows:-

- a) Carried out in full compliance with the REIT Guidelines and the Trust Deed;
- b) Carried out at arm's length basis;
- c) In the best interest of unitholders;
- d) Adequately disclosed to unitholders;
- e) Consented by the Trustee; and
- f) Consistent with the investment objectives and strategies of Al-`Aqar.

All related party transactions are subject to review by the Audit Committee prior to recommendation to the Board. If a member of the Audit Committee has an interest in a transaction, he is to abstain from participating in the review and recommendation process in relation to that transaction.

### 8.4 Internal Audit

The Internal Audit function is outsourced to and undertaken by Crowe Horwath Governance Sdn Bhd. However, the primary obligation, accountability and responsibility with regards to the scope of internal audit services shall remain with the Board and the Manager at all times.

The Manager communicates information on Al-`Aqar to unitholders and the investing community through announcements that are released to Bursa Securities via Bursa LINK. Such announcements include the quarterly results, material transactions and other developments relating to Al-`Aqar requiring disclosure under the Listing Requirements of Bursa Securities. Communication channels with unitholders are also made accessible via:-

- Press and analysts' briefings
- One-on-one/group meetings, conference calls, investor luncheons, domestic/ overseas roadshows and conferences
- Annual Reports
- Press releases on major developments of Al-`Aqar.
- Al-`Aqar's website at [www.alaqar.com.my](http://www.alaqar.com.my)

With the majority of units in Al-`Aqar held by institutional investors, the Manager considers meetings with local and foreign fund managers as an integral part of investor relations. These meetings and roadshows with investors enabled the Manager to update potential and current unitholders on Al-`Aqar's significant developments and its medium to long term strategies.

In addition to ensuring that the published Annual Report and quarterly results announced to Bursa Securities are available to all unitholders, Al-`Aqar has established a website at [www.alaqar.com.my](http://www.alaqar.com.my) from which investors and unitholders can access for information.

While the Manager endeavours to provide as much information as possible to unitholders and stakeholders, it is mindful of the legal and regulatory framework governing the release of material and price-sensitive information.

## 9. ANNUAL GENERAL MEETING (AGM)

The Board regards the AGM as an important event in the corporate calendar of which all Directors and key personnel should attend. The Board regards the AGM as the principal forum for dialogue with unitholders and aims to ensure that the AGM provides an important opportunity for effective communication with, and constructive feedback from the unitholders.

The Chairman encourages active participation by the unitholders during the AGM. The Chairman and where appropriate, the Chief Executive Officer responds to unitholders' queries during the AGM.

## 10. COMMUNICATION AND INVESTOR RELATIONS

The Board values constant dialogue and is committed to clear communication with unitholders and investors. In this respect, as part of Al-`Aqar's active investor relations programme, discussions and dialogues are held with fund managers, financial analysts, unitholders and the media to convey information about Al-`Aqar's performance, corporate strategy and other matters affecting unitholders' interests.

## 11. COMPANY SECRETARY

The Board appoints the Company Secretary, who plays an important advisory role, and ensures that the Company Secretary fulfils the functions for which he/she has been appointed.

The Company Secretary is accountable to the Board on all governance matters and must keep abreast of, and inform the Board of current governance practices.

The Board members have unlimited access to the professional advice and services of the Company Secretary.

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors of the Manager recognises the value of good corporate governance and prioritises in ensuring that high standards of corporate governance is upheld and practised with the ultimate objective of protecting and enhancing unitholders' value and protecting the interests of all stakeholders. The Board is committed to ensure the continuity of good corporate governance practice that will add value to the business and affairs of the Manager.

The Manager is guided by the measures set out in the Guidelines on Real Estate Investment Trust issued by the Securities Commission (REIT Guidelines), the Listing Requirements of Bursa Malaysia (Listing Requirements) and the principles and guidance of the new Malaysian Code on Corporate Governance 2017.

## THE MANAGER'S ROLE

In accordance with the Deed, the Manager is appointed to manage the assets and administer the Fund. Its primary objective is to provide the unitholders with long-term and stable income distributions with the potential of sustainable growth as well as to enhance the net asset value of Al-`Aqar's units.

The Manager has been issued a Capital Markets Services License (CMSL) by the Securities Commission (SC) on 27 June 2013 as required under the new licensing regime for REIT Managers which took effect from 28 December 2012. Two of the Board members, namely Wan Azman bin Ismail (eCMSRL/B7253/2017) and Yusaini bin Sidek (CMSRL/B3780/2013) as well as two of the employees, namely Shahril Zairis bin Ramli (CMSRL/B3781/2013) and Suhaimi bin Saad (CMSRL/B3782/2013) have respectively been issued with a Capital Markets Services Representatives License (CMSRL).

Al-`Aqar is externally managed by the Manager and as such, it has no employees. The Manager has appointed experienced and qualified personnel to handle its day-to-day operations. All Directors and employees of the Manager are remunerated by the Manager and not by Al-`Aqar.

The Manager is required to ensure that the business and operations of Al-`Aqar are carried and conducted in a proper, diligent and efficient manner, and in accordance with the acceptable business practices in the real estate investment trust industry in Malaysia. Subject to the provisions of the Deed, the Manager has full and complete control in managing the Fund (including all assets and liabilities of Al-`Aqar) for the benefits of the Unitholders.

The Manager's main functions, amongst others, are as follows:

- **Investment Strategy**  
Formulate and implement Al-`Aqar's investment strategy.
- **Acquisition and Divestment**  
Make recommendations and coordinate with the Trustee and implement the acquisition of new assets and divestment of Al-`Aqar's existing investments.
- **Asset Management**  
Supervise and oversee the management of Al-`Aqar's properties including procurement of service providers to carry out specified activities, including but not limited to onsite property management, property maintenance, rent collection and arrears control. The Manager is also responsible for developing a business plan in the short, medium and long term with a view to maximising the income of Al-`Aqar.
- **Risk Management**  
Determine the level of risk tolerance and actively identify, assess and monitor the principal risks of Al-`Aqar and ensuring the implementation of appropriate risk management framework to mitigate and manage these risks.



## CORPORATE GOVERNANCE STATEMENT

- **Financing**  
Formulate plans for equity and debt financing for Al-`Aqar's funding requirements with the objective of optimising the capital structure and cost of capital.
- **Accounting Records**  
Keep books and prepare or cause to be prepared accounts and annual reports, including annual budget for Al-`Aqar.
- **Investor Relations**  
Developing and maintaining investor relations including information coordination and distribution as well as customer service to investors.
- **Compliance Management**  
Supervise all regulatory filings on behalf of Al-`Aqar, and ensure that Al-`Aqar is in compliance with the applicable provisions of the Securities Commission Act, SC REIT Guidelines, Bursa Securities Listing Requirements, Trust Deed and all relevant contracts.

### PRINCIPLES OF THE CORPORATE GOVERNANCE CODE

#### 1. BOARD LEADERSHIP AND EFFECTIVENESS

##### 1.1 Board Responsibilities

In discharging their duties and responsibilities, the Board ensures that all decisions made are in the best interests of the Fund and stakeholders. As prescribed by the MCCG 2017, the Board assumes, inter alia, the following responsibilities:

- **Reviewing and adopting a strategic plan for the Fund**

The strategic and business plan for the period 2019 – 2023 was tabled, discussed and approved by the Board at its meeting on 30 November 2018. Additionally, on an ongoing basis as need arises, the Board will assess whether strategic consideration being proposed at Board meetings during the year are in line with the objectives and broad outline of the adopted strategic plans. The Board will ensure that the strategic plan supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability.

- **Overseeing the conduct and overall management of the Manager and the business of Al-`Aqar**

The Board is responsible to oversee, supervise and review the Fund's annual budget, operational and financial performance on a periodic basis against the budget. At Board meetings, all operational and financial matters will be discussed and appropriate consultation will be sought if necessary. Where and when available, the performance of the Fund will be benchmarked and compared against the performance of its competitors.

- **Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures**

The Board will set the risk appetite within which the Board expects the Manager to operate and ensure there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks. The Risk Management Report will be tabled on a quarterly basis in the Board meeting to review the Fund's risks.

- **Succession planning**

The Board will deliberate on the latest plans and actions taken in respect of the succession planning to ensure that all candidates appointed to the Board and senior management positions are of sufficient calibre.



## CORPORATE GOVERNANCE STATEMENT

- **Effective communication with stakeholders**

The Board will ensure that there is an effective communication with stakeholders. The Manager has introduced many activities with regards to engagement and communication with investors to ensure that they are well informed about the Fund affairs and developments. Details of investors' activities are disclosed on page 42 of this Annual Report.

- **Reviewing the adequacy and the integrity of the management information and internal controls system of the Fund**

The Board's function as regard to fulfilling these responsibilities effectively are supported and reinforced through the various Committees established at both the Board and Manager's level. The active functioning of these Committees through their regular meetings and discussions would provide a strong check and balance and reasonable assurance on the adequacy of the Fund's internal controls.

### **Access to Information and Advice**

Prior to each board meeting, the Board Report will be circulated to all Directors so that each Director has ample time to peruse and review them for further deliberation at the Board meeting. The Board Report includes among others, the following details:

- Minutes of meeting of all Committees of the Board
- Any matters arising from previous meetings
- Business strategies and corporate proposals
- Review of operational matters and financial report of the Group
- Progress report on risk management
- Executive Committee and Audit Committee report

The Board is fully aware of its duties and responsibilities with regards to the above and decisions and deliberation at the Board meetings are recorded and minuted by the Company Secretary.

### **Company Secretary**

The Manager's Joint Company Secretary attend all Board meetings and, together with the Directors are responsible for the proper conduct of the meetings according to applicable rules and regulations. The Company Secretary regularly updated the Board on new regulations and directives issued by regulatory authorities.

## **1.2 Board Composition**

Board composition influences the ability of the board to fulfil its oversight responsibilities. An effective board should include the right group of people with an appropriate mix of skills, knowledge, experience and independent elements that fit the objectives and strategic goals. The right board composition will ensure sufficient diversity and independence to avert groupthink or blind spots in the decision-making processes. It also enables the board to be better equipped to respond to challenges that may arise and deliver value.

The composition of the Board of Directors is as follows:

- 1 Non-Independent Non-Executive Chairman
- 4 Non-Independent Non-Executive Directors
- 3 Independent Non-Executive Directors
- 1 Non-Independent Executive Director

## CORPORATE GOVERNANCE STATEMENT

Practice 4.1 of the MCCG 2017 states that at least half of the board comprises independent directors. At present, the Board comprises 30% of independent directors and therefore yet to be in line with Practice 4.1. The Board believes that the interests of Unitholders would be better served by a Chairman and a team of Board members who act collectively in the best overall interests of Unitholders. As the Chairman is representing JCorp which ultimately has substantial interest in the Fund, he is well placed to act on behalf of Unitholders and in their best interests.

Practice 4.5 of the MCCG 2017 also states that for Large Companies (companies on the FTSE Bursa Malaysia Top 100 Index or companies with market capitalisation of RM2 billion and above), the Board must have at least 30% female directors. Based on the market capitalisation position as at 31 December 2018 of RM0.96 billion, Al-Aqar is not deemed to fall under Large Companies. However, the Board is moving towards to be in line with the Practice 4.5 on gender diversity whereby the current female directors' composition in the Board of Al-Aqar stands at 22%.

During the year ended 31 December 2018, the Board members convened 5 meetings and all Directors have complied with the minimum 50% attendance as required by Para 15.05 of the Listing Requirements. The members of the Board and their attendances at Board meetings in 2018 are set out below:

	47 <sup>th</sup> BOD 21.02.2018	Special BOD 19.04.2018	48 <sup>th</sup> BOD 06.06.2018	49 <sup>th</sup> BOD 13.08.2018	50 <sup>th</sup> BOD 30.11.2018
Dato' Kamaruzzaman bin Abu Kassim	/	/	X	/	/
Wan Azman bin Ismail	/	/	/	/	/
Zainah binti Mustafa	/	/	/	/	/
Dr. Hafetz bin Ahmad	/	/	/	/	/
Lukman bin Abu Bakar	/	/	/	/	/
Yusaini bin Hj. Sidek	/	/	/	/	/
Dato' Amiruddin bin Abdul Satar	/	/	/	/	/
Mohd Yusof bin Ahmad	/	/	/	X	/

### Directors' Training

All Directors have attended and completed the Mandatory Accreditation Programme prescribed by Bursa Securities, and the Board will continue to evaluate and determine the training needs of its Directors on an ongoing basis. Throughout the financial year under review, the Directors attended various conferences, seminars and training programmes covering areas that included corporate governance, leadership, updates on REIT industry and global business developments.

### 1.3 Remuneration

The remuneration of the Directors is paid by the Manager and not by the Fund. The remuneration of the Executive Director is structured based on linking rewards to corporate and individual performance. For Non-Executive Directors, they receive a basic fee, an additional fee for serving on any of the committees and an attendance fee for participation in meetings of the Board and any of the committee meetings.

## 2. EFFECTIVE AUDIT AND RISK MANAGEMENT

### 2.1 Audit Committee

An effective Audit Committee will bring transparency, focus and independent judgment needed to oversee the financial reporting process. The Audit Committee is chaired by Zainah Mustafa and comprises of 2 other members, Lukman Hj. Abu Bakar and Dr. Hafetz Ahmad. The Committee meets on a scheduled basis at least 4 times a year. The composition of the Audit Committee, its terms of reference, attendance of meetings and duties and responsibilities are set out on page 82 of the Annual Report. The minutes of the Audit Committee meetings are tabled to the Board for notification and further action by the Board, where necessary.

## CORPORATE GOVERNANCE STATEMENT

### Compliance with Applicable Financial Reporting Standards

In presenting the annual financial statements, annual report and quarterly announcements to Unitholders, the Board aims to present a balanced and understandable assessment of Al-`Aqar's financial position, performance and prospects.

The Board has taken the necessary steps to ensure that Al-`Aqar had complied with all applicable Financial Reporting Standards and relevant provision of laws and regulations in Malaysia and the respective countries in which the subsidiaries operate, consistently and that the policies are supported by reasonable and prudent judgement and estimates.

The Audit Committee assists the Board in ensuring both annual financial statements and quarterly announcements are accurate and the preparation is consistent with the accounting policies adopted by Al-`Aqar.

### Relationship with the External Auditors

The Board through the Audit Committee has maintained a formal procedure of carrying out an independent review of quarterly reports, annual audited financial statements, External Auditor's audit plan, report, internal control issues and procedures.

The External Auditors are invited to attend Al-`Aqar's general meeting and are available to answer any questions from unitholders on the conduct of the statutory audit and the contents of the Annual Audited Financial Statements.

## 2.2 Risk Management and Internal Control Framework

The Manager is led and overseen by experienced Board of Directors with a wide and varied range of expertise. This broad spectrum of skills and experience gives added strength to the leadership, thus ensuring the Manager is under the guidance of an accountable and competent Board.

There is a clear segregation of roles and responsibilities between the Chairman and the Executive Director to ensure a balance of power and authority. This also provides a healthy professional relationship between the Board and management with clarity of roles and robust deliberation on the business activities of Al-`Aqar.

The Chairman ensures that members of the Board work together with the Management in a constructive manner to address strategies, business operations, financial performance and risk management issues. The Executive Director has full executive responsibilities over the execution of the agreed business policies and directions set by the Board and of all operational decisions in managing Al-`Aqar.

## CORPORATE GOVERNANCE STATEMENT

### 3. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

#### 3.1 Communication with Stakeholders

The Board recognises the importance of timely dissemination of information to the Unitholders and accordingly ensures that they are well informed of any major developments of Al-`Aqar. Such information is communicated through the annual report, the Fund's various disclosures and announcements to Bursa Securities, including quarterly and annual results, and the corporate website.

As part of Al-`Aqar's active investor relations programme, discussions and dialogues are held with fund managers, financial analysts, unitholders and the media to convey information about Al-`Aqar's performance, corporate strategy and other matters affecting Unitholders' interests.

Details of the investor and public relations programs undertaken by the Manager are set out on page 42 of this Annual Report.

#### 3.2 Conduct of General Meeting

The Annual General Meeting is a vital platform for dialogue and interaction between the Board and the Unitholders. The Manager had on 19 April 2018 convened its 6th Annual General Meeting to seek the Unitholders' approval for amongst others:-

- Proposed to allot and issue new units
- Proposed increase in the existing approved fund size

At the Annual General Meeting, the Chairman presented the progress and performance of the business and encouraged Unitholders to participate in the question-and-answer session.

### DIRECTORS' RESPONSIBILITY STATEMENT ON AUDITED FINANCIAL STATEMENTS

The Board is responsible in the preparation of the Audited Financial Statements to give a true and fair view of the state of affairs, results and cash flows of the Manager and Al-`Aqar at the end of each financial year.

In preparing the financial statements, the Board will ensure that suitable accounting policies have been applied consistently, and that reasonable and prudent judgments and estimates have been made.

All applicable approved accounting standards and relevant provisions of laws and regulations have been complied with. The Board is also responsible for ensuring that proper accounting and other records are kept which disclose with reasonable accuracy, the financial position of the Manager and Al-`Aqar and to ensure that the financial statements comply with the relevant statutory requirements. The Board has the overall responsibility for taking such steps that are reasonably open to them to safeguard the assets of Al-`Aqar to prevent and detect fraud and other irregularities.

# AUDIT COMMITTEE REPORT

The audit committee plays a major role in corporate governance regarding the organisation's direction, control, and accountability. As a representative of the board of directors and main part of the corporate governance mechanism, the audit committee is involved in the organisation's both internal and external audits, internal control, accounting and financial reporting, regulatory compliance, and risk management. The audit committee will be ensuring independence to the internal and external auditors which give results to true and fair financial reporting that will meet the expectation of and protect the interests of all the stakeholders and mainly shareholders.

## COMPOSITION

For the financial year ended 31 December 2018, the Audit Committee comprised of 3 (three) Directors, all of whom are also members of the Board of the Manager.

The composition of the Audit Committee is as follows:

1. Zainah binti Mustafa  
*Chairman/Independent Non-Executive Director*
2. Lukman bin Hj. Abu Bakar  
*Member/Non-Independent Non-Executive Director*
3. Dr. Mohd Hafetz bin Ahmad  
*Member/Independent Non-Executive Director*

## MEETINGS AND ATTENDANCE

The Audit Committee held 4 meetings during the financial year and the details of attendance of the Committee Members are as follows:-

Name of Committee Member	No of meetings attended
Zainah binti Mustafa Chairman/Independent Non-Executive Director	4 out of 4
Lukman bin Hj. Abu Bakar Member/Non-Independent Non-Executive Director	4 out of 4
Dr. Mohd Hafetz bin Ahmad Member/Independent Non-Executive Director	4 out of 4

## DISCHARGING OF FUNCTIONS & DUTIES

During the financial year ended 31 December 2018, the Audit Committee has met its responsibilities in discharging its functions and duties in accordance with its terms of reference as follows: -

### 1. Overseeing Financial Reporting

- (a) Reviewed and discussed with Management the quarterly management accounts, taking into consideration that the necessary processes and controls are in place in the preparation of the financial reports.
- (b) Reviewed and discussed the quarterly results with Management. The Committee also reviewed and discussed the annual financial statements and the External Auditors' audit report with the External Auditors, as well as Management. Having satisfied itself that the financial results and reports complied with relevant accounting standards & legal requirement, the Audit Committee duly recommended the same for the Board's approval.
- (c) Minutes of previous Committee meetings were tabled at the subsequent Board meetings by the Audit Committee Chairman. Significant issues were highlighted together with followed up actions to rectify them were reported to the Board.
- (d) The Committee took note of significant changes and amendments to the regulations, accounting standards and other regulatory requirements that could affect the financial reporting of Al-'Aqar.

## AUDIT COMMITTEE REPORT

### 2. Assessing Risks and Control Environment

- (a) The Committee reviewed the adequacy and effectiveness of the risk management framework and the appropriateness of Management's responses to key risk areas and proposed recommendations for improvements to be implemented.
- (b) The Management reported to the Committee on a quarterly basis, all identified risks that were recorded in a risk management scorecard which had facilitated systematic review and monitoring of the risk areas.
- (c) The Committee also reviewed and deliberated on matters relating to internal control highlighted by the External Auditors in the course of their statutory audit of the financial statements.

### 3. Evaluate the Audit Process

#### (i) Internal Audit

- (a) Reviewed the annual internal audit plan with Management to ensure adequate audit coverage of the key risk areas and processes of the business operations activities of Al-`Aqar.
- (b) Reviewed the adequacy and relevance of the scope, functions, resources, risk based internal audit plan and results of the internal audit processes.
- (c) Reviewed the audit activities carried out by the Management and discussed the audit reports, their major findings and recommendations to ensure corrective actions were taken in addressing the risk issues reported.
- (d) Monitored and reviewed the progress of follow-ups on audit findings to ensure remedial / corrective actions have been taken by Management on a timely basis.
- (e) Evaluated the adequacy and effectiveness of Internal Audit Function as well as the performance of the Internal Auditors against the audit plan.

#### (ii) External Audit

- (a) On 13 November 2018, the Audit Committee had reviewed and discussed with the Management and the External Auditors, Deloitte PLT, the Audit Planning Memorandum for 2018. At the aforesaid meeting, the External Auditors explained their audit approach and system of evaluation inclusive of the areas of audit emphasis and scope for the year and their audit strategies as well as the audit procedures prior to the commencement of annual audit.

### 4. Reviewing Related Party Transaction & Conflict of Interest Situations

- (a) The Audit Committee reviewed the potential conflict of interest, related party transactions and recurring related party transactions based on its existing framework which requires that such potential conflict of interest, related party transaction and recurring related party transaction situations be:
  - Carried out in compliance with the REIT Guidelines and the Deed;
  - Carried out on an arms' length basis and under normal commercial terms;
  - Carried out in the best interest of the Unitholders;
  - Abstention from voting at Board Meetings for interested parties;
  - Adequately disclose to the unitholders via Bursa Announcements, Quarterly Reports and Annual Report; and
  - Approved by the Trustee.
- (b) The Committee took note that there were no management conflict of interest situations for operational matters (including any transaction, procedure or course of conduct) as reported by the Chief Executive Officer

## STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

The Board is committed to nurture and preserve a sound system of risk management and internal controls and good corporate governance practises as set out in the Board's Statement on Risk Management and Internal Control made in compliance with the Principle B of Malaysia Code of Corporate Governance 2017 and Chapter 15.09 of the Main Market Listing Requirements and guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

In 2018, the BOD has approved the Enterprise Risk Management ("ERM") Framework, which takes effect starting 1 August 2018.

The ERM Framework outlines the following aspects of Risk Management:-

- ERM Policy Statement of Damansara REIT Managers Sdn Berhad;
- Organisational Structure and Assigned Roles and Responsibilities;
- The Executive Roles and Responsibilities of the Board, Risk Management Committee, Risk Owners of Damansara REIT Managers Sdn Berhad and Internal Audit; and
- Risk Management Approach : Risk Analysis Methods and Risk Appetite.

### ERM POLICY STATEMENT OF DAMANSARA REIT MANAGERS SDN BERHAD

DRMSB recognises that it is obliged to systematically manage and regularly review its risk profile at a strategic, financial, operational and compliance level. DRMSB has done this by developing / adopting risk management framework that determines the process and identifies tools for realising its objectives. Not only does it wish to minimise its risk but also maximises its opportunities. It enhances DRMSB's capability to respond timely to the changing environment and its ability to make better decisions.

Risk Registers are developed and subject to regular review by the Executive Committee and reported to the BOD.

The Board has a stewardship responsibility to understand these risks, provide guidance on dealing with these risks and to ensure risks are managed proactively, in a structured and consistent manner.

The objectives of the policy statement are to ensure:-

- a common and consistent approach for management of risks is adopted within DRMSB;
- the management of risk contributes to the quality of performance and continuous improvement of DRMSB businesses, its operations and delivery of services and products; and
- all significant risks are identified, evaluated, managed and reported in a timely manner to the Executive Committee and the BOD.

The policies of the Board for ERM are:-

- **To integrate risk management into the culture, business activities and decision making processes.**

Risk management concept, thinking and initiatives must be embedded in the day-to-day business operations and decision-making process. Risks that can be managed through embedded, routine systems and processes should be so managed and monitored. Where risks cannot be so managed, they must be subject to individualised risk management techniques appropriate to a particular risk.

- **To anticipate and respond to the changing operational, social, environmental and regulatory requirements proactively.**

As far as reasonably possible, risks must be identified, analysed and dealt with by Management proactively based on their experience, industry knowledge and information available from the market place. DRMSB must not experience any crystallisation of major risk unexpected by the Board. However, this does not mean risk will not transpire, but there are comprehensive plans put in place to respond timely and address the risk impact.

- **To manage risks pragmatically, to an acceptable level given the particular circumstances of each situation.**

In dealing with risks, the Board understands that it is not always possible, cost effective or desirable to manage or eliminate risk all together. A cost-benefit approach is needed where the returns must commensurate with the risks taken and reduce cost of risk controls.



## STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- **Risk assessment reporting**

To require that all papers that are submitted to the Board by Management relating to strategy, key project approval, significant action or investment must include a detailed risk assessment report.

- **To implement a robust and sustainable ERM framework that is aligned with DRMSB's vision and mission, and in accordance with best practices.**

The Board recognises that a structured and consistent ERM framework is instrumental for DRMSB to deploy its operational strategy effectively.

These policies will be achieved via:-

- Periodic reporting to the Board on risk management activities and keep the Board apprised and advised of all aspects of ERM and significant individual risks and risk trends;
- Provision of adequate and suitable resources, including tool(s) and manpower to ensure the ERM framework and system are operating effectively;
- Provision of adequate education and communication to ensure staff comprehend the requirements, benefits, and their role and responsibilities for risk management; and
- Maintaining documented risk information (via risk registers and risk action plans) and procedures for the control of risks.
- Organisational Structure and Assigned Roles and Responsibilities.

### RISK MANAGEMENT STRUCTURE

The Risk Management Structure is designed to ensure effective communication, consultation and education in risk management are necessary to achieve a successful integration of the risk processes into the business and to provide reports, which may be conveyed in full, to the Audit Committee, as part of the half-yearly Risk Report.

*DRMSB's ERM Risk Reporting Structure*



## STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

### THE EXECUTIVE ROLES AND RESPONSIBILITIES OF THE BOARD, RISK MANAGEMENT COMMITTEE, RISK OWNER AND INTERNAL AUDIT

The Board acknowledges its responsibility for maintaining a sound system of risk management and internal control to safeguard the Unitholders' interests and the Fund's assets, as well as to discharge its responsibility in identifying principal risks and ensuring the implementation of an appropriate risk management and internal control system to manage those risks in accordance with Principle B – Effective Audit and Risk Management of the Malaysian Code on Corporate Governance 2017.

Specific roles and responsibilities for risk management are summarised as follows:-

ROLES	PRINCIPAL RESPONSIBILITIES FOR ERM
<b>BOARD OF DIRECTORS</b>	<ol style="list-style-type: none"> <li>1. Adopt the ERM Policy;</li> <li>2. Articulate and provide direction on risk appetite, organisational control environment and risk culture;</li> <li>3. Final decision on risk parameters, risk appetite, risk profiles, risk treatment options, and risk action plans;</li> <li>4. Assess and keep abreast with key risk indicators; and</li> <li>5. Monitor the overall ERM framework's performance and implementation effectiveness.</li> </ol>
<b>EXECUTIVE COMMITTEE (EXCO)</b>	<ol style="list-style-type: none"> <li>1. Provide guidance and advice on appropriateness of risk treatment option selected and risk action plans development;</li> <li>2. Articulate and challenge risk ratings, control effectiveness, risk treatment options and risk action plans identified by risk owners; and</li> <li>3. Provide an independent view on specific risk and control issues, the state of internal controls, trends and events.</li> </ol>
<b>RISK MANAGEMENT COMMITTEE</b>	<ol style="list-style-type: none"> <li>1. Assist the Board in establishing and maintaining effective policies and guidelines to ensure proper management of risks to which the company/Fund is exposed to and to take appropriate and timely action to manage such risks;</li> <li>2. Review and endorse the risk parameters, risk appetite, risk profiles, risk treatment options, risk action plans and key risk indicators; and</li> <li>3. Communicate requirements of the ERM Policy to staff and ensure continuous enhancement of ERM.</li> <li>4. Formulate and implement ERM mechanism to accomplish requirements of the ERM policy;</li> <li>5. Discuss, rank and debate risk ratings, control effectiveness, risk treatment and action plans identified by risk owner; and</li> <li>6. Ensure that the ERM reports prepared are submitted to Board of Directors in a timely manner, and special risk report / flash reports are submitted in the event of any risk(s) that required urgent attention.</li> </ol>
<b>RISK MANAGEMENT DEPARTMENT</b>	<ol style="list-style-type: none"> <li>1. Continuously communicate, evaluate and improve the ERM Policy and ERM mechanism;</li> <li>2. Facilitate the risk assessment, implementation of risk action plan and key risk indicators process;</li> <li>3. Prepare risk parameters, risk appetite, monitoring of risk action plans and provide independent review on key risk indicators;</li> <li>4. Provide independent input on risk assessment (risk types and risk ratings), and action plans comprehensiveness;</li> <li>5. Conduct risk identification, evaluation and review of risk treatment process on a periodic basis to ensure the Group's risk management effectiveness;</li> <li>6. Prepare and report to the RMC in a timely manner, and ensure special risk report / flash report is prepared in the event of any risk(s) that required urgent attention; and</li> <li>7. Lead the ERM educational programmes, and continuous sharing insights into risk and market trends with risk owner.</li> </ol>

## STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

ROLES	PRINCIPAL RESPONSIBILITIES FOR ERM
<b>RISK OWNERS</b>	<ol style="list-style-type: none"> <li>1. Identification and assessment of risks, implementation and monitoring of risk action plans and key risk indicators;</li> <li>2. Prepare and report to the Risk Officer on a timely manner and timely preparation of flash reports in the event of any risk(s) that required urgent attention; and</li> <li>3. Maintain highest alert on both internal and external activities or circumstances that may have adverse risk impacts and consequences.</li> </ol>
<b>RISK CO-OWNERS</b>	<ol style="list-style-type: none"> <li>1. Provide support to Risk Officer on key risks identified and to assist in the implementation of risk action plans and key risk indicators thereof; and</li> <li>2. Engage and discuss with Risk Officer on internal and external activities or circumstances that may give rise to new risks or changes on rating or control effectiveness of existing risks.</li> </ol>
<b>STAFF</b>	<ol style="list-style-type: none"> <li>1. Provide assistance to Risk Officer and / or Risk Co-owners on key risks identified and to support the implementation of risk action plans and key risk indicators; and</li> <li>2. Engage and discuss with Risk Officer and / or Risk Co-owners on internal and external activities or circumstances that may give rise to new risks or changes on rating or control effectiveness of existing risks.</li> </ol>
<b>INTERNAL AUDIT</b>	<ol style="list-style-type: none"> <li>1. Assist the Risk Management Committee and the Audit Committee in reviewing the effectiveness of ERM and internal controls and providing an independent view on specific risks and control issues, the state of internal controls, trends and events.</li> </ol>

### THE MANAGER'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The periodic meetings of the Board, Board Committees and management are the main platform by which the Manager's performance and conduct are monitored. The day-to-day operations of the business are entrusted to the CEO and the management teams. The CEO continuously communicates the Board's expectations and directions to the management at the management meetings where all risks relating to strategy, operational and financial are discussed and dealt with action plans.

The Board is responsible for setting the business direction and strategies as well as overseeing the conduct of the Manager's operations through its Board Committees and management reporting mechanisms. Through these mechanisms, the Board is informed of all major issues pertaining to risks, governance, internal controls and compliance with regulatory requirements.

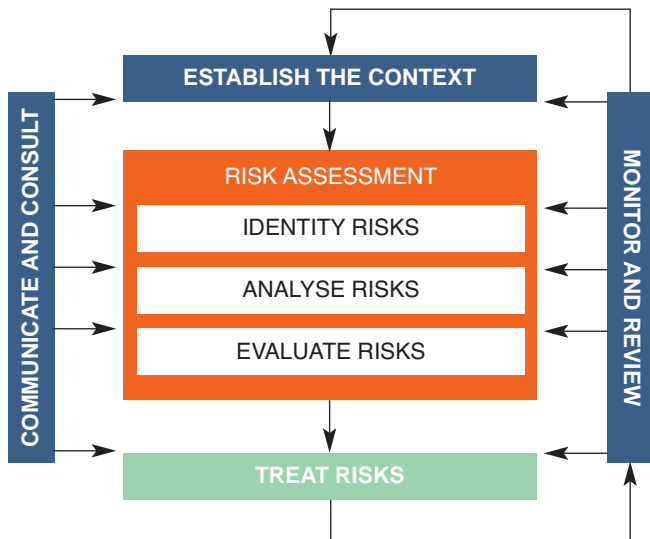
### RISK MANAGEMENT FRAMEWORK APPROACH: RISK ANALYSIS METHODS AND RISK APPETITE

The Manager adopts ERM practices that enable it to continuously identify, assess, treat and manage risks that affect Al-`Aqar in achieving its objectives within defined risk parameters in a timely and effective manner. All identified risks are recorded in a risk register to facilitate systematic review and monitoring.

The ERM practices are embedded into key activities and business processes, enabling proper risk management at the operation level of each property as well as the fund level. Risks identified shall be systematically evaluated with proper mitigating action plans developed to manage the risks to an acceptable level and monitored on a continuous basis.

## STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

The approach is summarised as below:



DRMSB's environment is constantly changing and hence needs to continually monitor and review its risks and the effectiveness of its management of risk over time.

The period of risk review will be determined by the risk rating, with higher rated risks and associated controls/risk mitigation strategies reviewed more often.

Risk monitoring and review will:-

- ensure risks appropriately reflect the reality of the DRMSB's operating environment;
- involve the review of risk ratings (likelihood & Impact);
- involve a review of the adequacy and effectiveness of existing risk controls / treatment plans and recommend changes to treatment priorities & timeframes;
- identify emerging or new risks; and
- include consideration of the appropriate "responsible person(s)" for ongoing monitoring and review of risks.

Additionally, monitoring and measuring includes evaluation of the risk awareness culture and the risk management framework, and assessment of the extent to which risk management tasks are aligned, suitable, adequate, and effective way of achieving established objectives.

This will enable the **internal audit function to periodically review the effectiveness of the risk management function** and providing an independent view on specific risks and control issues, the state of internal controls, trends and events.

When the need arises, the Manager will review the risk management framework and risk management process which involves the review of risk management policy and plans as well as risks, risk categories, risk treatments, controls, residual risks, and risk assessment process.

Based on results of monitoring and reviews, decisions should be made on how the risk management program can be improved. These decisions should lead to improvements in the organisation's management of risk and its risk management culture.

### INTERNAL CONTROL

The following key elements embody the current internal control system adopted by the Manager:-

- a) The Board has put in place its own management reporting mechanisms which enable the Board to review the performance of the Manager and the Fund.
- b) The Board approved annual budgets and business plans prepared by each property.
- c) Investment strategies and criteria which are formulated by the management and agreed by the Executive Committee and/or recommendation on any acquisition or divestment would be presented to the Board for approval before forwarding to the Trustee for final approval.
- d) Comprehensive policies and procedures manual that provide guidelines on, and authority limits over various operations, financial and human resources matters.
- e) Regular management meetings involving the review of the operations and financial performance of each property with Property Managers and the Trustee.
- f) The Audit Committee with formal terms of reference clearly outlining its functions and duties delegated by the Board.
- g) The internal audit reviews carried out by the outsourced internal auditor based on the risk-based internal audit plan approved by the Audit Committee.
- h) A systematic performance appraisal system for all levels of staff.
- i) The Code of Ethics is to be implemented in 2019 to mitigate Integrity Risks
- j) The Management has also reviewed its Standard Operating Procedure ("SOP") for the Manager and the funds, across all departments
- k) Relevant training provided to staff across all functions to maintain a high level of competency and capability.

# 6

## FINANCIAL REPORTS

- 90 Manager's Report
- 95 Independent Auditors' Report
- 98 Statements of Comprehensive Income
- 100 Statements of Financial Position
- 101 Statements of Changes in Net Asset Value
- 102 Statements of Cash Flows
- 104 Notes to the Financial Statements
- 153 Statement by the Directors of the Manager
- 154 Declaration by the Director of the Manager
- 155 Shariah Committee Report
- 156 Trustee's Report



# MANAGER'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Directors of **DAMANSARA REIT MANAGERS SDN BERHAD** (the "Manager"), the Manager of **AL-`AQAR HEALTHCARE REIT** (the "Fund"), have pleasure in submitting their report and the audited financial statements of the Group and of the Fund for the financial year ended 31 December 2018.

## THE FUND AND ITS INVESTMENT OBJECTIVE

The Fund is a Malaysian-based real estate and investment trust, established on 28 June 2006 pursuant to the execution of a Trust Deed dated 27 June 2006 between the Manager and AmanahRaya Trustees Bhd (the "Trustee"). The Fund was listed on the Main Board of Bursa Malaysia Securities Berhad on 10 August 2006.

The key objective of the Fund is to provide unitholders with stable distributions per unit and the potential for sustainable long-term growth of such distributions and net asset value per unit.

The objective is sought to be achieved by optimising the performance and enhancing the overall quality for a large and geographically diversified portfolio of Shariah-compliant real estate assets through various permissible investment and business strategies.

## THE MANAGER AND ITS PRINCIPAL ACTIVITY

The Manager is a company incorporated in Malaysia and is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, a company incorporated in Malaysia. The Directors of the Manager consider Johor Corporation as the ultimate holding entity of the Manager, a body corporate established under the Johor Corporation Enactment No 4, 1968 (as amended by Enactment No. 5, 1995).

The principal activity of the Manager is that of managing real estate investment trusts. There has been no significant change in the nature of the activity during the financial year.

## MANAGER'S INVESTMENT STRATEGIES AND POLICIES

To achieve the Fund's primary objective, the Manager will seek to achieve the following strategies:

### (i) Portfolio Composition

The Fund's investments may be allocated in the following manner, as prescribed by the Guidelines on Real Estate Investment Trust ("Guidelines on REITs") and the Guidelines for Islamic Real Estate Investment Trust ("Guidelines on Islamic REITs"):

- (a) at least 75% of the Fund's total assets shall be invested in Shariah-compliant real estate, single-purpose companies which are Shariah-compliant, Shariah-compliant real estate-related assets or liquid assets;
- (b) at least 50% of the Fund's total assets must be invested in Shariah-compliant real estate or single-purpose companies which are Shariah-compliant; and
- (c) the Fund's investment in other Shariah-compliant assets (such as Shariah-compliant non-real estate-related assets and/or cash deposits and money market instruments) must not exceed 25% of the Fund's total assets value.

### (ii) Diversification

The Fund will seek to diversify its Shariah-compliant real estate portfolio by property and location type. The Fund will primarily be focused on investing in real estates which are primarily used for healthcare purposes and will continue to look for opportunities that will provide attractive returns.

### (iii) Leverage

The Fund will be able to leverage on its financing to make the permitted investments. Leveraging on its financing will enable the returns to unitholders to increase.

## MANAGER'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### DIRECTORS OF THE MANAGER

The Directors who served on the Board of the Manager during the financial year and during the period from the end of the financial year to the date of this report are:

Dato' Kamaruzzaman bin Abu Kassim  
 Wan Azman bin Ismail  
 Yusaini bin Sidek  
 Zainah binti Mustafa  
 Dr Mohd Hafetz bin Ahmad  
 Lukman bin Abu Bakar  
 Mohd Yusof bin Ahmad  
 Dato' Amiruddin bin Abdul Satar  
 Dato' Dr. Rahah binti Ismail

### DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Manager of the Fund is a party, with the object or objects of enabling the Directors of the Manager to acquire benefits by means of the acquisition of units in or debentures of the Fund or any other body corporate.

Since the end of the previous financial year, no Director of the Manager has received or become entitled to receive any benefit (other than benefits which accrue from the fee paid to the Manager or from transactions made with companies related to the Manager) by reason of a contract made by the Manager or the Fund or a related corporation with any Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

### DIRECTORS' INTERESTS

According to the register of Directors' unitholding of the Fund, the interests of Directors of the Manager in office at the end of the financial year are as follows:

	Number of Units of Ordinary Shares in the Fund			
	As of 01.01.2018	Acquired	Disposed	As of 31.12.2018
<b>The Manager's Directors and unitholders</b>				
Dato' Kamaruzzaman bin Abu Kassim				
- Direct	10,000	-	-	10,000
- Indirect	-	40,000	-	40,000
Dr Mohd Hafetz bin Ahmad				
- Direct	2,400	-	-	2,400
- Indirect	230	-	-	230
Dato' Amiruddin bin Abdul Satar				
- Indirect	910	-	-	910



## MANAGER'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

According to the Register of Directors' Shareholdings kept by the Manager under Section 59 of the Companies Act 2016, the interests of the Directors of the Manager in office at the end of the financial year in shares in its related corporations during the financial year were as follows:

	Number of ordinary shares		
	As of 01.01.2018	Acquired	As of 31.12.2018
<b>Related corporations</b>			
<b>- E.A. Technique (M) Berhad</b>			
Dato' Kamaruzzaman bin Abu Kassim	120,000	-	120,000
<b>- KPJ Healthcare Berhad</b>			
Dato' Kamaruzzaman bin Abu Kassim	254,500	-	254,500
Dr Mohd Hafetz bin Ahmad			
- Direct	60,000	-	60,000
- Indirect	18,000	-	18,000
Dato' Amiruddin bin Abdul Satar	25,064	-	25,064
Zainah binti Mustafa	1,000,000	-	1,000,000
	Number of warrants		
	As of 01.01.2018	Acquired	As of 31.12.2018
<b>Related corporations</b>			
<b>- KPJ Healthcare Berhad</b>			
Dato' Kamaruzzaman bin Abu Kassim	223,000	223,000	446,000
Dato' Amiruddin bin Abdul Satar	2,128	-	2,128
	Number of options over ordinary shares		
	As of 01.01.2018	Acquired	As of 31.12.2018
<b>Related corporations</b>			
<b>- KPJ Healthcare Berhad</b>			
Dr Mohd Hafetz bin Ahmad	330,000	-	330,000

Save as disclosed above, none of the other Directors of the Manager in office at the end of the financial year had any interest in units in the Fund or shares in its related corporations during and at the end of the financial year.

### MANAGER'S REMUNERATION

Pursuant to the Restated Trust Deed dated 31 July 2013, the Manager is entitled to receive from the Fund:

- Management fee of 0.1% per annum of the gross assets value of the Fund that is below RM1,000,000,000 and 0.125% of the gross assets value of the Fund that exceeds RM1,000,000,000 calculated based on monthly accrual basis and payable monthly in arrears;
- An acquisition fee of 1% of the acquisition price of any investment property purchased directly or indirectly by the Fund which is payable after the completion of the acquisition; and
- A disposal fee of 0.5% of the disposal price of any investment property to be disposed directly or indirectly by the Fund which is payable upon completion of the disposal.

### SOFT COMMISSION

During the year, the Manager did not receive any soft commission from its broker, by virtue of transactions conducted by the Fund.

## MANAGER'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### RESERVES AND PROVISIONS

There was no material transfer to and from reserves or provisions during the financial year ended 31 December 2018.

### OTHER INFORMATION

- (a) Before the financial statements of the Group and of the Fund were prepared, the Manager took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that there are no known bad debts to be written off and that no allowance for doubtful debts is necessary; and
  - (ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Fund had been written down to an amount which the current assets might be expected so to realise.
- (b) At the date of this report, the Manager is not aware of any circumstances which would render:
  - (i) it necessary to write off of any bad debts or to make any allowance for doubtful debts in respect of the financial statements of the Group and of the Fund; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Fund misleading.
- (c) At the date of this report, the Manager is not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Fund misleading or inappropriate.
- (d) At the date of this report, the Manager is not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Fund which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
  - (i) any charge on the assets of the Group and of the Fund which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group and of the Fund which has arisen since the end of the financial year.
- (f) In the opinion of the Manager:
  - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Fund to meet their obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Fund for the financial year in which this report is made.

## MANAGER'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### SIGNIFICANT EVENT

The details of a significant event during the year is disclosed in Note 27 to the Financial Statements.

### AUDITORS

The auditors, Deloitte PLT, have indicated their willingness to continue in office.

The remuneration of the auditors for the financial year ended 31 December 2018 is as disclosed in the statements of comprehensive income.

Signed on behalf of the Board of the Manager as approved by the Board of the Manager, in accordance with a resolution of the Directors of the Manager dated 31 January 2019.



---

DATO' KAMARUZZAMAN BIN ABU KASSIM



---

WAN AZMAN BIN ISMAIL

Kuala Lumpur,  
31 January 2019

# INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AL-`AQAR HEALTHCARE REIT

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of **AL-`AQAR HEALTHCARE REIT** ("the Fund"), which comprise the statements of financial position of the Group and of the Fund as at 31 December 2018, and the statements of comprehensive income, statements of changes in net asset value and statements of cash flows of the Group and of the Fund for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 98 to 152.

In our opinion, the accompanying financial statements of the Group and of the Fund give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with the applicable provisions of the Restated Trust Deed dated 31 July 2013, Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts ("SC Guidelines").

### Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence and Other Ethical Responsibilities

We are independent of the Group and of the Fund in accordance with the *By-Laws (On Professional Ethics, Conduct and Practice)* issued by the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the said By-Laws and the IESBA Code.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the key audit matter was addressed in our audit
<b>Valuation of investment properties</b>  Investment properties of the Group and of the Fund as at 31 December 2018 amounting to RM1,485.7 million and RM1,353.3 million respectively (2017: RM1,459.7 million and RM1,320.1 million respectively) are the most quantitatively material account balance in the financial statements. Further, the investment properties are measured at fair value and the valuation of the Group's and the Fund's investment properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income for that particular property.  The fair values of the Group's and the Fund's investment properties, as determined by the independent valuers appointed by the management, are primarily based on the capitalisation of net income method with comparison and cost methodologies used as a secondary check.  The accounting policy and key sources of estimation uncertainty for valuation of investment properties are set out in Note 3.4 and Note 4.2(a) to the Financial Statements respectively, and the details of the investment properties of the Fund have been disclosed in Note 11 to the Financial Statements.	Our audit procedures included the following: <ul style="list-style-type: none"> <li>(a) Assessed and discussed with management their process for reviewing the work of the independent valuers.</li> <li>(b) Assessed the competency, independence and integrity of the independent valuers.</li> <li>(c) Obtained the valuation reports and discussed with the independent valuers the results of their work.</li> <li>(d) Tested the integrity of the data provided to the independent valuers to underlying lease agreements.</li> <li>(e) Benchmarked and challenged the key assumptions to external industry data and comparable property transactions, in particular the allowance for void, term yield rates, reversionary yield rates, capitalisation rates and discount rates.</li> <li>(f) We have also assessed the adequacy and appropriateness of the disclosures on valuation methodology and estimation made in the financial statements.</li> </ul>

## INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AL-'AQAR HEALTHCARE REIT (CONTINUED)

### Information Other than the Financial Statements and Auditors' Report Thereon

The Manager of the Fund is responsible for the other information. The other information comprises the information included in the Manager's Report, Shariah Committee Report and contents in the 2018 Annual Report of the Group and of the Fund but does not include the financial statements of the Group and of the Fund and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Fund does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Fund, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Fund or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Manager and Trustee for the Financial Statements

The Manager of the Fund is responsible for the preparation of these financial statements so as to give a true and fair view in accordance with the applicable provisions of the Restated Trust Deed dated 31 July 2013, Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts. The Manager of the Fund is also responsible for such internal controls as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Trustee is responsible for ensuring that the Manager maintains proper accounting and other records as are necessary to enable fair presentation of these financial statements.

In preparing the financial statements of the Group and of the Fund, the Manager of the Fund is responsible for assessing the Group's and Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager of the Fund either intends to liquidate the Group and the Fund or to cease operations, or has no realistic alternative but to do so.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

## INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AL-'AQAR HEALTHCARE REIT (CONTINUED)

- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the Group and the Fund of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Other Matter

This report is made solely to the unitholders of the Fund, as a body, in accordance with the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts and for no other purpose. We do not assume responsibility towards any other person for the contents of this report.



DELOITTE PLT (LLP0010145-LCA)  
Chartered Accountants (AF 0080)



SITI HAJAR BINTI OSMAN  
Partner - 03061/04/2019 J  
Chartered Accountant

31 January 2019  
Kuala Lumpur

# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		The Group		The Fund	
	Note	2018 RM	2017 RM	2018 RM	2017 RM
Revenue	5	102,648,975	99,648,169	91,097,366	88,549,848
Property expenses	6	(6,039,514)	(6,441,291)	(5,934,798)	(5,962,043)
Gross profit		96,609,461	93,206,878	85,162,568	82,587,805
Investment revenue	7	2,031,968	2,272,257	10,927,032	11,167,321
Other income		510,841	1,557	510,841	1,557
Gain on fair value adjustment of investment properties	11	30,341,920	24,791,923	30,341,920	24,534,840
Total income		129,494,190	120,272,615	126,942,361	118,291,523
Expenditure:					
Finance costs:					
Islamic financing		30,129,128	27,033,850	145,182	-
Amounts due to a subsidiary		-	-	31,424,193	27,956,928
Imputed finance cost		1,449,654	923,078	9,407	-
Manager's fees		1,674,718	2,196,079	1,674,718	2,196,079
Professional fees		304,503	707,770	284,503	687,769
Valuation fees		512,358	624,928	512,358	512,830
Trustee's fees		273,226	266,224	273,226	266,224
Maintenance of property		1,160,893	746,391	1,160,893	746,391
Printing expenses		110,833	88,763	99,001	87,750
Secretarial fee		7,873	8,111	-	-
Securities Commission's fees		100	100	100	100
Registrar's fee		65,382	91,686	65,382	91,686
Audit fees		163,061	147,224	100,000	90,000
Tax agent's fee		13,400	23,910	12,600	23,000
Administration expenses		436,893	359,909	168,507	221,539
Allowance for impairment loss in investment in subsidiaries	12	-	-	7,000,000	-
Annual listing fees		5,000	5,000	5,000	5,000
Withholding tax		889,506	889,506	889,506	889,506
Shariah adviser's fee		6,000	6,000	6,000	6,000
Total expenditure		(37,202,528)	(34,118,529)	(43,830,576)	(33,780,802)
Profit before tax		92,291,662	86,154,086	83,111,785	84,510,721



# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Note	The Group 2018 RM	2017 RM	The Fund 2018 RM	2017 RM
Profit before tax		92,291,662	86,154,086	83,111,785	84,510,721
Tax	8	(917,208)	(1,509,552)	347	(608,822)
Profit for the year		91,374,454	84,644,534	83,112,132	83,901,899
<b>Other comprehensive loss, net of tax</b>					
Foreign currency translation		(5,952,492)	(2,442,000)	-	-
<b>Total comprehensive income for the financial year</b>		85,421,962	82,202,534	83,112,132	83,901,899
<b>Profit for the year attributable to:</b>					
Owners of the Fund		91,374,454	84,644,534	83,112,132	83,901,899
<b>Total comprehensive income for the financial year attributable to:</b>					
Owners of the Fund		85,421,962	82,202,534	83,112,132	83,901,899
<b>Profit for the year comprise the following:</b>					
Realised		61,032,534	59,852,611	59,770,212	59,367,059
Unrealised		30,341,920	24,791,923	23,341,920	24,534,840
		91,374,454	84,644,534	83,112,132	83,901,899
<b>Earnings per unit (sen):</b>	9				
Gross		12.66	11.83		
Net		12.54	11.62		
<b>Net income distribution:</b>	10				
Total		69,913,818	54,981,088	69,913,818	54,981,088
Per unit (sen)		9.58	7.55	9.58	7.55

The accompanying Notes form an integral part of the Financial Statements.

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		The Group		The Fund	
	Note	2018 RM	2017 RM	2018 RM	2017 RM
<b>Assets</b>					
<b>Non-current assets</b>					
Investment properties	11	1,485,726,800	1,459,703,200	1,353,300,000	1,320,100,000
Investment in subsidiaries	12	-	-	35,492,186	42,492,186
Amounts due from a subsidiary	20	-	-	99,147,701	99,147,701
<b>Total non-current assets</b>		<b>1,485,726,800</b>	<b>1,459,703,200</b>	<b>1,487,939,887</b>	<b>1,461,739,887</b>
<b>Current assets</b>					
Trade receivables	13	2,246,142	5,312,154	1,216,283	217,714
Other receivables and prepaid expenses	13	1,146,478	4,460,049	1,092,670	4,412,706
Amounts due from a subsidiary	20	-	-	11,780,512	3,774,955
Fixed deposits with licensed banks		45,668,396	51,032,271	27,049,217	33,079,977
Cash and bank balances		45,680,598	35,917,278	22,639,466	21,806,132
<b>Total current assets</b>		<b>94,741,614</b>	<b>96,721,752</b>	<b>63,778,148</b>	<b>63,291,484</b>
<b>Total assets</b>		<b>1,580,468,414</b>	<b>1,556,424,952</b>	<b>1,551,718,035</b>	<b>1,525,031,371</b>
<b>Current liabilities</b>					
Other payables and accrued expenses	15	20,094,569	48,878,667	15,885,378	41,544,189
Amount due to a subsidiary	20	-	-	-	555,538,535
Islamic financing	17	-	573,580,634	-	-
<b>Total current liabilities</b>		<b>20,094,569</b>	<b>622,459,301</b>	<b>15,885,378</b>	<b>597,082,724</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	16	1,963,268	3,768,348	-	-
Other payables	15	6,907,481	6,907,481	6,907,481	6,907,481
Amount due to a subsidiary	20	-	-	556,002,050	-
Islamic financing	17	603,705,130	-	29,683,646	-
<b>Total non-current liabilities</b>		<b>612,575,879</b>	<b>10,675,829</b>	<b>592,593,177</b>	<b>6,907,481</b>
<b>Total liabilities</b>		<b>632,670,448</b>	<b>633,135,130</b>	<b>608,478,555</b>	<b>603,990,205</b>
<b>Net asset value</b>		<b>947,797,966</b>	<b>923,289,822</b>	<b>943,239,480</b>	<b>921,041,166</b>
<b>Unitholders' fund</b>					
Unitholders' capital	18	731,398,126	722,398,126	731,398,126	722,398,126
Undistributed income		225,896,338	204,435,702	211,841,354	198,643,040
Foreign currency translation reserve		(9,496,498)	(3,544,006)	-	-
<b>Total unitholders' fund</b>		<b>947,797,966</b>	<b>923,289,822</b>	<b>943,239,480</b>	<b>921,041,166</b>
<b>Number of units in circulation</b>	18	<b>735,985,088</b>	<b>728,226,468</b>	<b>735,985,088</b>	<b>728,226,468</b>
<b>Net asset value per unit (ex-distribution)</b>		<b>1.29</b>	<b>1.27</b>	<b>1.28</b>	<b>1.26</b>

The accompanying Notes form an integral part of the Financial Statements.

# STATEMENTS OF CHANGES IN NET ASSET VALUE

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Group	Note	Unitholders' Capital RM	Realised RM	Undistributed Income Unrealised RM	Total RM	Foreign Currency Translation Reserve RM	Total Unitholders' Fund RM
<b>At 1 January 2017</b>		722,398,126	34,936,130	139,836,126	174,772,256	(1,102,006)	896,068,376
Total comprehensive income/(loss) for the year		-	59,852,611	24,791,923	84,644,534	(2,442,000)	82,202,534
Realisation of profit from disposal of Selesa Tower		-	12,825,000	(12,825,000)	-	-	-
<b>Unitholders' transactions:</b>							
Distributions to unitholders	10	-	(54,981,088)	-	(54,981,088)	-	(54,981,088)
<b>At 31 December 2017</b>		722,398,126	52,632,653	151,803,049	204,435,702	(3,544,006)	923,289,822
<b>At 1 January 2018</b>		722,398,126	52,632,653	151,803,049	204,435,702	(3,544,006)	923,289,822
Issuance of new units during the year	18	9,000,000	-	-	-	-	9,000,000
Total comprehensive income/(loss) for the year		-	61,032,534	30,341,920	91,374,454	(5,952,492)	85,421,962
<b>Unitholders' transactions:</b>							
Distributions to unitholders	10	-	(69,913,818)	-	(69,913,818)	-	(69,913,818)
<b>At 31 December 2018</b>		731,398,126	43,751,369	182,144,969	225,896,338	(9,496,498)	947,797,966

The Fund	Note	Unitholders' Capital RM	Realised RM	Undistributed Income Unrealised RM	Total RM	Total Unitholders' Fund RM
<b>At 1 January 2017</b>		722,398,126	39,373,161	130,349,068	169,722,229	892,120,355
Total comprehensive income for the year		-	59,367,059	24,534,840	83,901,899	83,901,899
Realisation of profit from disposal of Selesa Tower		-	12,825,000	(12,825,000)	-	-
<b>Unitholders' transactions:</b>						
Distributions to unitholders	10	-	(54,981,088)	-	(54,981,088)	(54,981,088)
<b>At 31 December 2017</b>		722,398,126	56,584,132	142,058,908	198,643,040	921,041,166
<b>At 1 January 2018</b>		722,398,126	56,584,132	142,058,908	198,643,040	921,041,166
Issuance of new units during the year	18	9,000,000	-	-	-	9,000,000
Total comprehensive income for the year		-	59,770,212	23,341,920	83,112,132	83,112,132
<b>Unitholders' transactions:</b>						
Distributions to unitholders	10	-	(69,913,818)	-	(69,913,818)	(69,913,818)
<b>At 31 December 2018</b>		731,398,126	46,440,526	165,400,828	211,841,354	943,239,480

The accompanying Notes form an integral part of the Financial Statements.

# STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax	92,291,662	86,154,086	83,111,785	84,510,721
Adjustments for:				
Finance costs	31,578,782	27,956,928	31,578,782	27,956,928
Investment revenue	(2,031,968)	(2,272,257)	(10,927,032)	(11,167,321)
Allowance for impairment loss in investment in subsidiaries	-	-	7,000,000	-
Gain on fair value adjustment of investment properties	(30,341,920)	(24,791,923)	(30,341,920)	(24,534,840)
Operating income before working capital changes	91,496,556	87,046,834	80,421,615	76,765,488
Changes in working capital:				
Trade receivables	3,066,012	5,937,413	(998,569)	9,484,500
Other receivables and prepaid expenses	842,920	(257,721)	849,385	(254,751)
Other payables and accrued expenses	(39,843,444)	142,959	(39,863,323)	161,753
Net Changes In Working Capital	(35,934,512)	5,822,651	(40,012,507)	9,391,502
Cash Flows Generated From Operating Activities	55,562,044	92,869,485	40,409,108	86,156,990
Real Property Gain Tax refunded/(paid)	2,391,525	(3,000,000)	2,391,525	(3,000,000)
Net Cash From Operating Activities	57,953,569	89,869,485	42,800,633	83,156,990
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from disposal of investment properties	-	100,000,000	-	100,000,000
Income received on investment	2,115,978	2,262,636	2,115,978	2,262,636
Profit sharing from advances to subsidiaries	-	-	889,507	3,585,896
Enhancement to investment properties	(2,858,080)	(506,160)	(2,858,080)	(506,160)
Additions to investment properties (Note)	-	(13,139,000)	-	(13,139,000)
Net Cash (Used In)/From Investing Activities	(742,102)	88,617,476	147,405	92,203,372
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Finance costs paid on Islamic financing	(32,223,403)	(30,238,338)	(149,719)	-
Finance costs paid on amount due to a subsidiary	-	-	(28,064,501)	(29,058,057)
Transaction costs paid	(2,280,586)	-	(225,761)	-
Decrease in amount due to a subsidiary	-	-	(2,896,177)	(80,995,468)
Income distributions	(55,709,306)	(54,981,088)	(55,709,306)	(54,981,088)
Increase in restricted cash	(665,782)	(611,784)	-	-
Proceeds from issuance of units	9,000,000	-	9,000,000	-
Net proceeds/(repayment) from Islamic financing	29,900,000	(80,000,000)	29,900,000	-
Net Cash Used In Financing Activities	(51,979,077)	(165,831,210)	(48,145,464)	(165,034,613)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,232,390	12,655,751	(5,197,426)	10,325,749

## STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

		The Group		The Fund	
	Note	2018 RM	2017 RM	2018 RM	2017 RM
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		5,232,390	12,655,751	(5,197,426)	10,325,749
Effects of changes in exchange rates		(1,498,727)	(119,871)	-	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		68,999,400	56,463,520	54,886,109	44,560,360
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	14	72,733,063	68,999,400	49,688,683	54,886,109

Note: Addition to investment properties by the Group and the Fund during the financial year through the following:

		The Group		The Fund	
		2018 RM	2017 RM	2018 RM	2017 RM
Payment by cash		-	13,139,000	-	13,139,000
Other payable		-	120,000	-	120,000
		-	13,259,000	-	13,259,000

The accompanying Notes form an integral part of the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

## 1. CORPORATE INFORMATION

Al-Aqar Healthcare REIT (the "Fund") is a Malaysian domiciled Islamic Real Estate Investment Trust constituted pursuant to a Trust Deed ("Principal Trust Deed") dated 27 June 2006 between Damansara REIT Managers Sdn Bhd ("the Manager") and Amanah Raya Bhd. Pursuant to the Principal Trust Deed, the Fund entered into a Supplemental Trust Deed dated 14 May 2010 with Amanah Raya Bhd and Amanah Raya Trustees Bhd ("the Trustee") for the retirement of Amanah Raya Bhd from acting as a Trustee and for the appointment of Amanah Raya Trustees Bhd as the new Trustee for the Fund. On 31 July 2013, the Manager and the Trustee entered into a Restated Trust Deed ("the Deed"). The Fund is regulated by the Capital Markets and Services Act 2007, the Securities Commission's Guidelines on Real Estate Investment Trusts ("the SC Guidelines") and Islamic Real Estate Investment Trusts, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), the Rules of the Depository, and taxation laws and rulings of Malaysia. The Fund will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of the Deed.

The Fund was listed on the Main Board of Bursa Malaysia on 10 August 2006 and commenced its business operations on 17 August 2006. Consequent to the new board structure implemented by Bursa Malaysia on 3 August 2010, the Fund is now listed on the Main Market of Bursa Malaysia.

On 26 April 2013, at the Extraordinary General Meeting, the unitholders of The Fund approved the proposed amendments and consolidation of the Trust Deed and Supplemental Trust Deed into a Restated Trust Deed. The Restated Trust Deed was executed on 31 July 2013 and was lodged with the Securities Commission on 11 November 2013. The Fund will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of the Restated Trust Deed.

The principal activity of the Group and the Fund is to invest in Shariah-compliant properties with the primary objective of providing unitholders with stable distribution and potential for sustainable long term growth of such distribution and capital appreciation.

The registered office of the Manager is located at Level 16, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor.

The principal place of business of the Manager is located at Unit 1-19-02, Level 19, Block 1, V SQUARE, Jalan Utara, 46200 Petaling Jaya, Selangor, Malaysia.

The Fund has entered into several service agreements in relation to the management of the Fund and its property operations. The fees structure of these services is as follows:

### (i) Maintenance and management fee

The maintenance manager, Healthcare Technical Services Sdn Bhd, is entitled to an annual maintenance and management fee of up to 0.08% of the gross value of the investment properties in respect of the management of the investment properties owned by the Fund in accordance with the Property Maintenance Agreement. The fee is calculated on a monthly accrual basis.

### (ii) Manager's fee

Pursuant to the Restated Trust Deed dated 31 July 2013, the Manager is entitled to receive the following fees from the Fund:

- (a) Management fee of 0.1% per annum of the gross assets value of the Fund that is below RM1,000,000,000 and 0.125% of the gross assets value of the Fund that exceeds RM1,000,000,000 calculated based on monthly accrual basis and payable monthly in arrears;

The Management fee for the current financial year is RM1,674,718 (2017: RM1,696,079).

- (b) An acquisition fee of 1% of the acquisition price of any investment property purchased directly or indirectly by the Fund which is payable after the completion of the acquisition; and

The acquisition fee to the Manager during the current financial year is RM Nil (2017: RM130,000).

- (c) A disposal fee of 0.5% of the disposal price of any investment property to be disposed directly or indirectly by the Fund which is payable upon completion of the disposal.

The disposal fee to the Manager during the current financial year is RM Nil (2017: RM500,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

## 1. CORPORATE INFORMATION (CONTINUED)

### (iii) Trustee's fee

Pursuant to the Restated Trust Deed dated 31 July 2013, the Trustee is entitled to receive a fee of up to 0.03% per annum of the net asset value of the Fund, calculated based on the monthly accrual basis and payable monthly in arrears. The Trustee's fees for the financial year ended 31 December 2018 of RM273,226 (2017: RM266,224) is determined based on 0.03% (2017: 0.03%) of the monthly net asset value.

The financial statements of the Group and of the Fund were authorised by the Board of Directors of the Manager for issuance on 31 January 2019.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Fund have been prepared in accordance with the applicable provisions of the Restated Trust Deed dated 31 July 2013, Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the SC Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts ("SC Guidelines").

At the beginning of the current financial year, the Group and the Fund adopted new and amended MFRSs which are mandatory for financial periods beginning on or after 1 January 2018 as fully described in Note 2.1.

### 2.1 Adoption of New Malaysian Financial Reporting Standards, Amendments to MFRSs, and Issues Committee Interpretation ("IC Interpretation")

In the current financial year, the Group and the Fund adopted all the new MFRSs, amendments to MFRSs and IC Interpretations issued by the Malaysian Accounting Standards Board ("MASB") that are relevant to their operations and effective for annual financial periods commencing on or after 1 January 2018:

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)
MFRS 15	Revenue from Contracts with Customers (and the related Clarifications)
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 140	Transfers of Investment Property
Amendments to MFRSs	Annual Improvements to MFRSs 2014 - 2016 Cycle
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration

The adoption of these new MFRSs, amendments to MFRSs, and IC Interpretation did not result in significant changes to the accounting policies of the Group and the Fund and had no significant effect on the financial performance or position of the Group and the Fund except for the adoption of MFRS 9 and MFRS 15 as disclosed in Note 28.

### 2.2 Standards, Amendments to MFRSs and IC Interpretation in issue but not yet effective

At the date of the authorisation for issue of these financial statements, the new Standards, Amendments to MFRSs and IC Interpretations that are relevant to the Group and the Fund which were in issue but not yet effective and not early adopted by the Group and the Fund are as listed below:

MFRS 16	Leases <sup>1</sup>
Amendments to MFRS 3	Definition of a Business <sup>2</sup>
Amendments to MFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to MFRS 101 and MFRS 108	Definition of Material <sup>2</sup>
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to MFRSs	Annual Improvements to MFRSs 2015 - 2017 Cycle <sup>1</sup>
IC Interpretation 23	Uncertainty over Income Tax Payments <sup>1</sup>
MFRSs	Amendments to References to the Conceptual Framework in MFRS Standards <sup>2</sup>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

#### 2.2 Standards, Amendments to MFRSs and IC Interpretation in issue but not yet effective (continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2019
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2020
- <sup>3</sup> Effective date deferred to a date to be determined and announced by MASB, with earlier application permitted.

The Manager anticipates that the abovementioned Standards and Amendments will be adopted in the annual financial statements of the Group and of the Fund when they become effective and that the adoption of these Standards and Amendments will have no material impact on the financial statements of the Group and of the Fund in the period of initial application.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of accounting

The financial statements of the Group and of the Fund have been prepared under the historical cost convention except for certain financial assets and financial liabilities which are measured at fair values as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration in exchange for assets.

#### 3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Fund and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting period as the Fund. Consistent accounting policies are applied to like transactions and events in similar circumstances.

The Fund controls an investee if and only if the Fund has all the following:

- (i) Power over the investee (such as existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its involvement with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

When the Fund has less than a majority of the voting rights of an investee, the Fund considers the following in assessing whether or not the Fund's voting rights in an investee are sufficient to give it power over the investee:

- (i) The contractual arrangement with the other vote holders of the investee;
- (ii) Rights arising from other contractual arrangements; and
- (iii) The Fund's voting rights and potential voting rights.

Subsidiaries are consolidated when the Fund obtains control over the subsidiary and ceases when the Fund loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to undistributed income. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Basis of consolidation (continued)

##### Business Combinations

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

In business combinations achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

##### Subsidiaries

A subsidiary is an entity over which the Group has all the following:

- (i) Power over the investee (such as existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its involvement with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

In the Fund's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses if any. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

#### 3.3 Foreign currencies

##### (i) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia, which is also the Group's and the Fund's functional currency.

##### (ii) Foreign currency translations

Transactions in foreign currencies are measured in the respective functional currencies of the Fund and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling as at the end of the reporting period. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.3 Foreign currencies (continued)

##### (iii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling as at the end of the reporting period and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

#### 3.4 Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value which reflects market conditions at the reporting date. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group or the Fund holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

#### 3.5 Non-current assets classified as held-for-sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell.

#### 3.6 Financial instruments

MFRS 9 replaces the provisions of MFRS 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. The adoption of MFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group and Fund have elected to apply the limited exemption in MFRS 9 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a consequence:

- (a) any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings,
- (b) financial assets are not reclassified in the balance sheet for the comparative period,
- (c) provisions for impairment have not been restated in the comparative period.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### Financial assets - classification and measurement

##### Accounting policies applied from 1 January 2018

##### (i) Classification

From 1 January 2018, the Group and the Fund classify their financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, the Group and the Fund have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVTOCI").

The Group and the Fund reclassify debt investments when and only when the business model for managing those assets changes.

##### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group and the Fund commit to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Fund have transferred substantially all the risks and rewards of ownership.

##### (iii) Measurement

At initial recognition, the Group and the Fund measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest ("SPPI").

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Fund's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group and the Fund classify their debt instruments:

(a) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Profit income from these financial assets is included in investment revenue using the effective profit rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(b) Fair Value through Other Comprehensive Income ("FVTOCI")

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, profit income and foreign exchange gains and losses which are recognised in profit or loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other income/(losses). Profit income from these financial assets is included in investment revenue using the effective profit rate method. Foreign exchange gains and losses are presented in other income/(losses) and impairment expenses are presented as separate line item in the statements of comprehensive income.

Changes in the fair value of financial assets at FVTPL are recognised in other income/(losses) in profit or loss as applicable.

(c) Fair Value through Profit or Loss ("FVTPL")

Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. The Group and the Fund may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in profit or loss and presented net within other income/(losses) in the period which it arises.

##### Equity instruments

The Group and the Fund subsequently measure all equity investments at fair value. Where the Group's and the Fund's management have elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's and the Fund's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other income/(losses) in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### (c) Fair Value through Profit or Loss ("FVTPL") (continued)

##### Accounting policies applied until 31 December 2017

##### (i) Classification

Until 31 December 2017, the Group and the Fund classified their financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets ("AFS")

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

##### Financial assets at Fair Value through Profit or Loss ("FVTPL")

The Group and the Fund classified financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets.

If not, they are presented as non-current assets. The Group's and the Fund's loans and receivables comprise 'trade and other receivables', 'fixed deposits with licensed banks', 'cash and bank balances' and 'amounts due from a subsidiary' in the statements of financial position.

##### Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative quoted financial assets with fixed or determinable payments and fixed maturities that the Group's and the Fund's management has the positive intention and ability to hold to maturity. If the Group and the Fund were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as AFS. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

##### Available-for-sale financial assets ("AFS")

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### (c) Fair Value through Profit or Loss ("FVTPL") (continued)

##### Available-for-sale financial assets ("AFS") (continued)

##### (ii) Reclassification

The Group and Fund may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group and the Fund may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or AFS categories if the Group and the Fund have the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective profit rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the effective profit rates prospectively.

##### (iii) Subsequent measurement

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective profit method.

AFS financial assets and financial assets at FVTPL were subsequently carried at fair value.

Changes in the fair values of financial assets at FVTPL, including the effects of currency translation, profit income and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of AFS financial assets are recognised in other comprehensive income, except for impairment losses.

#### **Impairment of financial assets**

##### Accounting policies applied from 1 January 2018

##### Impairment for debt instruments

The Group and the Fund assess at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

##### (i) Impairment for debt instruments

The Group and the Fund assess on a forward-looking basis the ECL associated with its debt instruments carried at amortised cost and at FVTOCI and financial guarantee contracts issued. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group and the Fund have three types of financial instruments that are subject to the ECL model:

- Trade receivables
- Other receivables
- Amount owing from subsidiaries



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### (c) Fair Value through Profit or Loss ("FVTPL") (continued)

###### Accounting policies applied from 1 January 2018 (continued)

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

ECL represent a probability-weighted estimate of the difference between the present value of contractual cash flows and the present value of cash flows the Group and the Fund expect to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

##### (d) General 3-stage approach for other receivables and amount owing from a subsidiary

At the end of each reporting period, the Group and the Fund measure ECL through a loss allowance at an amount equal to the 12-month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required.

Note 23 sets out the measurement details of ECL.

##### (e) Simplified approach for trade receivables

The Group and the Fund apply the MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

Note 23 sets out the measurement details of ECL.

###### Accounting policies applied until 31 December 2017

In the prior year, the Group and the Fund assessed impairment of financial assets based on the incurred loss model.

###### Assets carried at amortised cost

The Group and the Fund assess at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### Assets carried at amortised cost (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract. As a practical expedient, the Group and the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

##### Assets classified as AFS

The Group and the Fund assess at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group and the Fund use criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

##### Accounting policies applied from 1 January 2018

#### (ii) Significant increase in credit risk

The Group and the Fund consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group and the Fund compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

The following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- actual or expected significant changes in the operating results of the debtor
- significant increases in credit risk on other financial instruments of the same debtor
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the group and changes in the operating results of the debtor.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### Accounting policies applied from 1 January 2018 (continued)

##### (ii) Significant increase in credit risk (continued)

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

##### (iii) Definition of default and credit-impaired financial assets

The Group and the Fund define a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

##### Quantitative criteria:

The Group and the Fund define a financial instrument as in default, when the counterparty fails to make contractual payment within 90 days of when they fall due.

##### Qualitative criteria:

The debtor meets unlikelihood to pay criteria, which indicates the debtor is in significant financial difficulty. The Group and the Fund consider the following instances:

- the debtor is in breach of financial covenants
- concessions have been made by the lender relating to the debtor's financial difficulty
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- the debtor is insolvent

Financial instruments that are credit-impaired are assessed on individual basis.

##### (iv) Groupings of instruments for ECL measured on collective basis

##### (a) Collective assessment

To measure ECL, trade receivables from rental receivable from lessees have been grouped based on shared credit risk characteristics, geographical location and the days past due.

##### (b) Individual assessment

Trade and other receivables which are in default or credit-impaired are assessed individually. Amount owing from subsidiaries in the Fund's separate financial statements are assessed on individual basis for ECL measurement, as credit risk information is obtained and monitored based on each amount owing from subsidiary.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### Accounting policies applied from 1 January 2018 (continued)

##### (v) Write off

##### (a) Trade receivables

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and the Fund, and a failure to make contractual payments for a period of greater than 60 days past due.

Impairment losses on trade receivables are presented as net impairment losses within profit before taxes. Subsequent recoveries of amounts previously written off are credited against the same line item.

##### (b) Other receivables and amount owing from a subsidiary

The Group and the Fund write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Group and the Fund may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains.

#### **Financial liabilities**

Financial liabilities are recognised on the statements of financial position when, and only when, the Group and the Fund become a party to the contractual provisions of the financial instrument. Financial liabilities comprise other payables and accrued expenses, Islamic financing, amounts due to subsidiaries and related companies.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transactions costs. As for amount owing to a subsidiary of the Fund, they are recognised initially at fair value. If there are any difference between cash disbursed and fair value on initial recognition, the difference would be accounted as additional investment in the subsidiary as it reflects the substance of the transaction.

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective profit method except for the derivatives in a loss position which are measured at fair value through profit or loss at the end of each reporting period.

For financial liabilities other than the derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Gains or losses arising from changes in fair value of the derivatives that does not qualify for hedge accounting are recognised in profit or loss within other income/(losses), net. Net gains or losses on derivatives include exchange differences.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Financial instruments (continued)

##### Financial liabilities (continued)

Islamic financing are classified as current liabilities unless the Group and the Fund have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Foreign exchange differences are capitalised to the extent of the capitalisation of the related borrowing costs.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Fees paid on the establishment of Islamic financing facilities are recognised as transaction costs of the Islamic financing to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

From 1 January 2018, when Islamic financing measured at amortised cost is modified without this resulting in derecognition, any gains or losses, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective profit rate, shall be recognised immediately in profit or loss in finance cost.

##### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

#### 3.7 Cash and cash equivalents

The Group and the Fund adopt the indirect method in the preparation of the statements of cash flows.

Cash and cash equivalents comprise cash and bank balances and other short-term, highly liquid investments with from the date of acquisition and are readily convertible to cash and with insignificant risk of changes in value and excludes amounts which are restricted for general use.

#### 3.8 Provisions

Provisions are recognised when the Group or the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.9 Leases

##### (i) As lessee

Finance leases, which transfer to the Group or the Fund substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group or the Fund will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

##### (ii) As lessor

Leases where the Group or the Fund retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

#### 3.10 Revenue

Prior to the adoption of MFRS 15, the Group's and the Fund's revenue are recognised at fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's and the Fund's activities. With the adoption of MFRS 15 "Revenue from Contracts with Customers" in the current financial year, the Group's and the Fund's revenue from contracts with customers are recognised by reference to each distinct performance obligation in the contract with customer.

A contract with customer exists when the contract has commercial substance, the Group, the Fund and their customers have approved the contract and intend to perform their respective obligations, the Group's, the Fund's and the customer's rights regarding the goods or services to be transferred and the payment terms can be identified, and it is probable that the Group and the Fund will collect the consideration to which it will be entitled to in exchange of those goods or services.

Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Group and the Fund expect to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties such as sales and service taxes or goods and service tax. If the amount of consideration varies due to discounts, rebates, penalties or other similar items, the Group and the Fund estimate the amount of consideration that it expects to be entitled based on the expected value method or the most likely outcome but the estimation is constrained up to the amount that is highly probable of no significant reversal in the future. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or service promised in the contract. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

##### (i) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.10 Revenue (continued)

##### (ii) Investment revenue

Investment revenue, which comprise income earned from Islamic fixed deposit placements and profit sharing on advances, are recognised using the effective profit method.

From 1 January 2018, profit income is calculated by applying the effective profit rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective profit rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Prior to 1 January 2018 and until 31 December 2017, when a loan and receivable is impaired, the Group and the Fund reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective profit rate of the instrument, and continue unwinding the discount as profit income. Profit income on impaired loans and receivables is recognised using the original effective profit rate.

#### 3.11 Income taxes

##### (i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

##### (ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.11 Income taxes (continued)

##### (ii) Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same tax entity and the same tax authority and the Group and the Fund intend to settle their current tax assets and liabilities on a net basis.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the investment property over time, rather than through sale. The Manager reviewed that the Group's and the Fund's investment property portfolios and concluded that all of the Group's and the Fund's investment properties are held under a business model whose objective is to consume substantially all the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the Manager has determined that the "sale" presumption set out in the amendments to MFRS 112 is rebutted. As a result, the Group and the Fund have recognised deferred taxes on changes in fair value of the investment properties using the tax rates that would apply on the consumption of the economic benefits embodied in the investment properties over time.

In accordance with Section 61A(1) of the Income Tax Act 1967, the total income of the Fund will be exempted from income tax provided that at least 90% of the total taxable income of the Fund is distributed to unit holders within two months from the end of the financial year.

#### 3.12 Segment reporting

For management purposes, the Group is organised into operating segments based on their geographical location which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Fund who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 24, including the factors used to identify the reportable segments and the measurement basis of segment information.

#### 3.13 Unitholders' capital and unit issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Fund are recorded at the proceeds received, net of direct issue costs.

Unitholders' capital are recorded at the proceeds received, net of direct attributable transactions costs and are classified as equity. Distributions on Unitholders' capital are recognised in equity in the period in which they are declared.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.14 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of profit expense and other costs that the Group and the Fund incurred in connection with the borrowing of funds.

#### 3.15 Current versus non-current classification

The Group and the Fund present assets and liabilities in the statements of financial position based on current/non-current classification. An asset is classified as current when it is:

- (i) expected to be realised or intended to be sold or consumed in the normal operating cycle;
- (ii) held primarily for the purpose of trading;
- (iii) expected to be realised within twelve months after the reporting date; or
- (iv) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is classified as current when it is:

- (i) expected to be settled in the normal operating cycle;
- (ii) held primarily for the purpose of trading;
- (iii) it is due to be settled within twelve months after the reporting date; or
- (iv) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

All other liabilities are classified as non-current.

#### 3.16 Fair value measurement

The Group and the Fund measure financial instruments such as derivatives at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability;
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group and the Fund.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.16 Fair value measurement (continued)

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Fund use calculation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Fund determine whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

For the purpose of fair value disclosures, the Group and the Fund have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Group's and of the Fund's financial statements requires the Manager to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### 4.1 Judgements made in applying accounting policies

In the process of applying the Group's and the Fund's accounting policies, the Manager has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

##### Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured at fair value, the Group and the Fund have concluded that certain investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied based in the investment properties over time while others are held for eventual sale. As a result, the Group and the Fund have measured deferred tax on changes in fair values of these investment properties using the income tax rate or the real property gain tax rate, as appropriate.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### 4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### (a) Fair value of investment properties

The fair value of the Group's and of the Fund's investment properties has been arrived at on the basis of a valuation carried out by Messrs. Cheston International (KL) Sdn Bhd, Messrs. Knight Frank Malaysia Sdn Bhd and Messrs. Henry Butcher Malaysia Sdn Bhd, independent valuers not related to the Group and the Fund, in accordance with Malaysia Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The fair value was determined based on capitalisation of net income method ("investment method") as the primary valuation method with comparison and cost methodologies as a secondary check. In estimating the fair value of the investment properties, the highest and best use of the investment properties is their current use. The valuers have considered the results of the above methods in their valuation and applied professional judgement in the determination of the fair value of the Group's and of the Fund's investment properties. Further details are disclosed in Note 11.

##### (b) Impairment of investment in a subsidiary

The Fund reviews the carrying amount of investment in subsidiary at the end of each reporting period. The recoverable amount of the investment in subsidiary has been determined on the basis of its fair value less cost of disposal. The fair value of disposal is determined based on the realisable value of the assets of the subsidiary to the Fund determined using the foreign exchange rate at the end of the reporting period. The net carrying amount of investment in subsidiary as at 31 December 2018 is RM35,492,186 and an impairment loss amounting to RM7,000,000 has been recognised in profit or loss during the current financial year. Further details are disclosed in Note 12.

### 5. REVENUE

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Rental income from:				
KPJ Ampang Puteri Specialist Hospital	9,750,629	9,559,440	9,750,629	9,559,440
KPJ Tawakkal Specialist Hospital	8,774,968	8,602,910	8,774,968	8,602,910
KPJ Damansara Specialist Hospital	8,568,734	8,400,720	8,568,734	8,400,720
KPJ Johor Specialist Hospital	8,420,998	8,255,880	8,420,998	8,255,880
KPJ Klang Specialist Hospital	7,294,165	7,316,432	7,294,165	7,316,432
KPJ Ipoh Specialist Hospital	5,355,459	5,250,450	5,355,459	5,250,450
KPJ Selangor Specialist Hospital	5,687,512	4,683,496	5,687,512	4,683,496
KPJ Penang Specialist Hospital	4,624,162	4,552,991	4,624,162	4,552,991
KPJ Seremban Specialist Hospital	4,746,045	4,672,998	4,746,045	4,672,998
KPJ Healthcare University College, Nilai	4,406,749	4,170,903	4,406,749	4,170,903

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 5. REVENUE (CONTINUED)

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Kedah Medical Centre	3,731,878	3,666,164	3,731,878	3,666,164
KPJ Perdana Specialist Hospital	3,248,250	3,187,208	3,248,250	3,187,208
KPJ Kajang Specialist Hospital	3,334,870	3,272,358	3,334,870	3,272,358
Tawakal Health Centre	3,223,782	3,160,570	3,223,782	3,160,570
Puteri Specialist Hospital	3,176,341	3,114,060	3,176,341	3,114,060
Sentosa Medical Centre	1,992,359	1,959,697	1,992,359	1,959,697
Kuantan Specialist Hospital	1,434,008	1,426,569	1,434,008	1,426,569
KPJ College, Bukit Mertajam	1,196,668	1,178,250	1,196,668	1,178,250
Kota Kinabalu Specialist Hospital	1,122,800	1,112,954	1,122,800	1,112,954
Taiping Medical Centre	714,637	719,179	714,637	719,179
Kluang Utama Specialist Hospital	292,352	286,619	292,352	286,619
Jeta Gardens Aged Care Facility and Retirement Village	11,551,609	11,098,321	-	-
	102,648,975	99,648,169	91,097,366	88,549,848

### 6. PROPERTY EXPENSES

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Assessment	3,134,453	3,328,142	3,134,453	3,328,142
Takaful coverage	1,306,568	1,119,130	1,306,568	1,119,130
Maintenance fee	1,166,556	1,549,881	1,061,840	1,070,633
Quit rent	431,937	444,138	431,937	444,138
	6,039,514	6,441,291	5,934,798	5,962,043

### 7. INVESTMENT REVENUE

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Income from Islamic fixed deposits placements	2,031,968	2,272,257	2,031,968	2,272,257
Profit sharing on advances from Australia	-	-	8,895,064	8,895,064
	2,031,968	2,272,257	10,927,032	11,167,321

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 8. TAX

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Recognised in profit or loss:				
Current tax:				
Real Property Gain Tax ("RPGT")	-	(608,822)	-	(608,822)
Overprovision in previous years	347	9,144	347	-
Deferred tax (Note 16)	(917,555)	(909,874)	-	-
	(917,208)	(1,509,552)	347	(608,822)
Recognised in other comprehensive income:				
Deferred tax arising from translation of a foreign operation (Note 16)	2,491,980	875,763	-	-

#### Reconciliation between tax and accounting profit

A reconciliation of tax applicable to profit before tax at the statutory income tax rate to tax at the effective income tax rate of the Group and of the Fund are as follows:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Profit before tax	92,291,662	86,154,086	83,111,785	84,510,721
Tax at Malaysian statutory tax rate of 24%	(22,149,999)	(20,676,981)	(19,946,828)	(20,282,573)
Different tax rates in other countries	388,105	(587,557)	-	-
Adjustments:				
Non-deductible expenses	(1,025,004)	(1,075,474)	(2,297,445)	(776,901)
Income not subject to tax	10,062,467	6,434,077	10,021,606	8,568,892
Income exempted from tax	11,806,876	14,996,061	12,222,667	12,490,582
RPGT	-	(608,822)	-	(608,822)
Overprovision of current tax in previous years	347	9,144	347	-
Tax recognised in profit or loss	(917,208)	(1,509,552)	347	(608,822)

Pursuant to the Section 61A of the Income Tax Act 1967 (ITA), where 90% or more of the total income of the unit trust is distributed to the unit holder, the total income of the unit trust for that year of assessment shall be exempted from tax. The Manager also expects to distribute the net income within two months from the end of each financial year and accordingly, no estimated current tax payable or deferred tax is required to be provided in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 8. TAX (CONTINUED)

#### Taxation of the Unitholders

Pursuant to Section 109D(2) of the Malaysian Income Tax Act 1967, where 90% or more of the Real Estate Investment Trust's ("REIT") total taxable income is distributed by the REIT, distributions to unitholders (other than resident corporate investors) will be subject to tax based on a withholding tax mechanism at the following rates:

Unitholders	Tax rate
Individuals and all other non-corporate investors such as institutional investors	10%
Non-resident corporate investors	24%

Resident corporate investors are required to report the distributions in their normal corporate tax return and subject to the normal corporate tax rate of 24%.

### 9. EARNINGS PER UNIT

The gross and net earnings per unit, which are calculated based on the profit before tax and profit for the financial year of the Group and of the Fund, respectively, divided by the weighted average number of units in circulation as of 31 December 2018 and 2017, are as follows:

	The Group	
	2018 RM	2017 RM
Earnings attributable to unitholders:		
Profit before tax	92,291,662	86,154,086
Profit for the financial year	91,374,454	84,644,534
Weighted average number of units	728,885,419	728,226,468
Gross earnings per unit (sen)	12.66	11.83
Net earnings per unit (sen)	12.54	11.62



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 10. NET INCOME DISTRIBUTIONS

For the financial year ended 31 December 2018 and 2017, the Manager, with the approval of the Trustee, has declared the following distributions:

	<b>The Group and the Fund</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM</b>	<b>RM</b>
Final distribution 2017 - 3.95 sen per unit (2016: 3.80 sen)	28,764,942	27,672,596
First interim distribution 2018 - 1.75 sen per unit (2017: 3.75 sen)	12,743,963	27,308,492
Second interim distribution 2018 - 1.95 sen per unit	14,200,416	-
Third interim distribution 2018 - 1.93 sen per unit	14,204,497	-
	<b>69,913,818</b>	<b>54,981,088</b>

The Manager had declared a final income distribution of 2.07 sen per unit totaling RM15,234,891 for the financial year ended 31 December 2018 on 30 January 2019 and has not been included as a liability in the financial statements.

The total distributions (including proposed final distribution) for the financial year ended 31 December 2018 amount to RM56,383,767 (2017: RM56,073,438). Total distribution is 7.70 sen per unit (2017: 7.70 sen per unit).

Distribution to unitholders is derived from the following sources:

	<b>The Fund</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM</b>	<b>RM</b>
Net rental income	85,162,568	82,587,805
Investments revenue	10,927,032	11,167,321
Other income	510,841	1,557
	<b>96,600,441</b>	<b>93,756,683</b>
Less: Expenses	(43,830,576)	(33,780,802)
	<b>52,769,865</b>	<b>59,975,881</b>
Less: Undistributed income	(11,620,989)	(32,667,389)
	<b>41,148,876</b>	<b>27,308,492</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 11. INVESTMENT PROPERTIES

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
At 1 January	1,459,703,200	1,424,360,000	1,320,100,000	1,281,800,000
Addition	-	13,259,000	-	13,259,000
Enhancements	2,858,080	506,160	2,858,080	506,160
Gain on fair value of investment properties	30,341,920	24,791,923	30,341,920	24,534,840
Effect of foreign currency exchange differences	(7,176,400)	(3,213,883)	-	-
At 31 December	1,485,726,800	1,459,703,200	1,353,300,000	1,320,100,000
Land and buildings at fair value	1,485,726,800	1,459,703,200	1,353,300,000	1,320,100,000

#### Fair value measurement of the Fund's investment properties

The fair values of the Group's and of the Fund's investment properties have been arrived at on the basis of a valuation carried out by Messrs. Cheston International (KL) Sdn Bhd ("Cheston"), Messrs. Knight Frank Malaysia Sdn Bhd ("Knight Frank"), and Messrs. Henry Butcher Malaysia Sdn Bhd ("Henry Butcher"), independent valuers not related to the Group and the Fund. Messrs. Cheston, Messrs. Knight Frank and Messrs. Henry Butcher are registered members of the Board of Valuers, Appraisers and Estate Agents, Malaysia, and they have appropriate qualifications and recent experience in the valuation of the properties in the relevant locations. The valuation of the Group's and of the Fund's investment properties were performed in accordance with the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The fair values were determined based on the capitalisation of net income method ("investment method") and is premised on the principle that the value of an income-producing property is represented by the "present worth of future rights to income, or utility". The values estimated under this method are derived by ascertaining the market rent of the properties; deducting all reasonable annual operating expenses (as would be experienced under typical management) and then capitalising the resultant net operating income by an appropriate rate of capitalisation to obtain the present value of the income stream. In undertaking their assessment of the value using this approach, the market rental income and expected future rental income are taken into consideration. In arriving at the net income, the outgoings i.e. quit rent, assessment, takaful coverage and repairs and maintenance, are deducted from gross rental income together with allowance for void.

In estimating the fair values of the investment properties, the highest and best use of the investment properties is their current use.

The fair value of the investment properties are classified as Level 3 for fair value hierarchy disclosure purposes. The significant unobservable inputs applied by the independent valuers in applying the investment method above are as follows:

#### **Significant unobservable inputs**

Term yield ranging from 6.00% - 8.25% (2017: 6.00% - 8.25%)  
 Reversionary yield ranging from 6.25% - 8.50% (2017: 6.25% - 8.50%)  
 Allowance for void of 2.50% - 7.50% (2017: 3.00% - 7.50%)

#### **Inter-relationship between significant unobservable inputs and fair value measurement**

- Higher term yield rates, lower fair value  
 - Higher reversionary yield rates, lower fair value  
 - Higher allowance for void rate, lower fair value

The valuers had adopted market corroborated capitalisation rates, which is the most frequently adopted methodology by the property industry in Malaysia and in Australia, based on information pertaining to recent comparable sales which are publicly available, adjusted for the location, quality and characteristics of the investment properties.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

## 11. INVESTMENT PROPERTIES (CONTINUED)

A summary of the investment properties of the Group and the Fund, as required to be disclosed by the SC Guidelines, are as follows:

### The Group and the Fund

Description of property	Tenure of land	Term of lease	Remaining term of lease	Location	Date of valuation	2018 Fair value RM	2017 Fair value RM	Fair value hierarchy
KPJ Ampang Puteri Specialist Hospital #**	Leasehold	99	71	Ampang	31 December 2018	135,000,000	135,000,000	3
KPJ Damansara Specialist Hospital #**	Freehold	-	-	Damansara	31 December 2018	131,000,000	121,700,000	3
KPJ Johor Specialist Hospital #**	Leasehold	99	61	Johor Bahru	31 December 2018	120,000,000	116,800,000	3
KPJ Ipoh Specialist Hospital #*	Leasehold	999	876	Ipoh	31 October 2018	76,100,000	73,000,000	3
Puteri Specialist Hospital #**	Leasehold	99	37	Johor Bahru	31 December 2018	42,000,000	43,000,000	3
KPJ Selangor Specialist Hospital #**	Leasehold	99	78	Shah Alam	31 December 2018	80,000,000	80,800,000	3
Kedah Medical Centre #**	Freehold	-	-	Alor Setar	31 December 2018	52,000,000	51,700,000	3
KPJ Perdana Specialist Hospital #*	Leasehold	66	46	Kota Bharu	29 October 2018	45,000,000	45,000,000	3
Kuantan Specialist Hospital #*	Freehold	-	-	Kuantan	16 November 2018	20,500,000	21,700,000	3
Sentosa Medical Centre #*	Freehold	-	-	Kuala Lumpur	31 October 2018	30,000,000	30,000,000	3
KPJ Kajang Specialist Hospital #*	Freehold	-	-	Kajang	30 October 2018	50,600,000	48,400,000	3
Taiping Medical Centre #**	Leasehold	99	70	Taiping	31 December 2018	10,000,000	10,000,000	3
Damai Specialist Hospital #**	Leasehold	99	55	Kota Kinabalu	31 December 2018	15,100,000	15,200,000	3
KPJ College, Bukit Mertajam #**	Freehold	-	-	Bukit Mertajam	31 December 2018	16,200,000	16,200,000	3
Tawakal Health Centre #*	Leasehold	99	59	Kuala Lumpur	1 November 2018	48,400,000	47,000,000	3
KPJ Healthcare University College, Nilai New Building*	Freehold	-	-	Seremban	1 November 2018	105,400,000	100,600,000	3
KPJ Seremban Specialist Hospital #*	Freehold	-	-	Seremban	15 November 2018	69,500,000	66,300,000	3
KPJ Penang Specialist Hospital #**	Freehold	-	-	Bukit Mertajam	31 December 2018	63,000,000	64,000,000	3
KPJ Tawakkal Specialist Hospital #*	Freehold	-	-	Kuala Lumpur	30 October 2018	135,200,000	127,900,000	3
Kluang Utama Specialist Hospital #**	Leasehold	99	82	Kluang	31 December 2018	5,000,000	4,300,000	3
KPJ Klang Specialist Hospital #*	Leasehold	99	75	Klang	5 November 2018	103,300,000	101,500,000	3
Total for the Fund						1,353,300,000	1,320,100,000	
Jeta Garden Aged Care Facility and Retirement Village***	Freehold	-	-	Queensland	7 December 2018	132,426,800	139,603,200	3
Total for the Group						1,485,726,800	1,459,703,200	

# The investment properties amounting to RM1,231,700,000 (2017: RM1,239,400,000) are used to secure against Islamic Medium Term Notes ("IMTNs") issued by a subsidiary company as disclosed in Note 17.

\* Based on valuation carried out by independent professional valuer, Messrs. Henry Butcher.

\*\* Based on valuation carried out by independent professional valuer, Messrs. Knight Frank.

\*\*\* Based on valuation carried out by independent professional valuer, Messrs. Cheston.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 12. INVESTMENT IN SUBSIDIARIES

	The Fund	
	2018 RM	2017 RM
Unquoted shares, at costs	42,492,186	42,492,186
Less: Accumulated impairment losses	(7,000,000)	-
	35,492,186	42,492,186

The movement in the accumulated impairment losses is as follows:

	The Fund	
	2018 RM	2017 RM
At beginning of year	-	-
Allowance for impairment losses	7,000,000	-
At end of year	7,000,000	-

The details of the subsidiaries are as follows:

Name of Subsidiary	Country of Incorporation	Proportion of ownership interest and voting power held by the Group		Principal Activity
		2018 %	2017 %	
Al-Aqar Capital Sdn Bhd <sup>(i)</sup>	Malaysia	100	100	Special purpose company for the purpose of raising Islamic Financing for the Fund
Al-Aqar Australia Pty Ltd <sup>(ii)</sup>	Australia	100	100	Special purpose company for the purpose of acquisition of Australian property for the Fund

(i) Audited by Deloitte PLT

(ii) Audited by a firm other than Deloitte PLT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 13. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Trade receivables	2,246,142	5,312,154	1,216,283	217,714

Trade receivables comprise rental receivable from lessees.

The credit period granted by the Group and the Fund on rental receivable from lessees ranges from 30 to 60 days (2017: 30 to 60 days).

The ageing analysis of the Group's and of the Fund's trade receivables is as follows:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
0 - 30 days	1,798,072	1,075,314	768,213	13,150
31 - 60 days	448,070	1,057,126	448,070	-
61 - 90 days	-	1,002,780	-	-
More than 90 days	-	2,176,934	-	204,564
	2,246,142	5,312,154	1,216,283	217,714

The Group and the Fund estimate the loss allowance on trade receivables at the end of the reporting period at an amount equal to lifetime expected credit losses. None of the trade receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the trade receivables operate, together with the value of collateral held over these trade receivables as disclosed in Note 15, the Manager considers that no trade receivables is impaired.

The currency exposure profile of the trade receivables of the Group and of the Fund are as follows:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Ringgit Malaysia	1,216,283	217,714	1,216,283	217,714
Australian Dollar	1,029,859	5,094,440	-	-
	2,246,142	5,312,154	1,216,283	217,714

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 13. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES (CONTINUED)

Other receivables and prepaid expenses consist of:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Other receivables	131,893	541,217	78,085	493,874
RPGT recoverable	-	2,391,178	-	2,391,178
Prepaid expenses	1,010,048	1,527,654	1,010,048	1,527,654
Prepaid profit for Murabahah Tawarruq (Note 17)	4,537	-	4,537	-
	1,146,478	4,460,049	1,092,670	4,412,706

All other receivables of the Group and the Fund are denominated in Ringgit Malaysia.

None of the other receivables is past due, and taking into account the historical default experience and the future prospects of the industries in which the other receivables operate, the Manager concludes that no loss allowance is required for the other receivables.

### 14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statements of cash flows comprise the following items:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Cash and bank balances	45,680,598	35,917,278	22,639,466	21,806,132
Fixed deposits with licensed banks	45,668,396	51,032,271	27,049,217	33,079,977
	91,348,994	86,949,549	49,688,683	54,886,109
Less: Restricted cash	(18,615,931)	(17,950,149)	-	-
	72,733,063	68,999,400	49,688,683	54,886,109

Fixed deposits with licensed banks earn profit at rates between 3.35% to 3.84% (2017: 3.10% to 3.60%) per annum and have maturity periods of between 30 to 90 days (2017: 30 to 90 days).

The currency exposure profile of cash and cash equivalents are as follows:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Ringgit Malaysia	51,936,277	61,141,679	49,688,683	54,886,109
Australian Dollar	20,796,786	7,857,721	-	-
	72,733,063	68,999,400	49,688,683	54,886,109

Included in cash and bank balances and fixed deposits with licensed banks of the Group are deposits amounting to RM18,615,931 (2017: RM17,950,149) which are placed as reserve for repayment of finance costs on long-term Islamic financing and hence, are not available for general use as mentioned in Note 17.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 15. OTHER PAYABLES AND ACCRUED EXPENSES

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Non-current:</b>				
Other payables - tenant deposits received	6,907,481	6,907,481	6,907,481	6,907,481
<b>Current:</b>				
Amount owing to the Trustee	23,023	23,029	23,023	23,029
Amount owing to the Manager	141,271	139,955	141,271	139,955
Amounts owing to related companies	346,271	39,680,000	346,271	39,680,000
Other payables	371,845	582,566	102,231	423,035
Third interim income distribution payable (Note 10)	14,204,497	-	14,204,497	-
Accrued financing costs on				
Sukuk Ijarah Programme (Note 17)	3,871,840	7,017,006	-	-
Other accrued expenses	1,135,822	1,436,111	1,068,085	1,278,170
	20,094,569	48,878,667	15,885,378	41,544,189
	27,002,050	55,786,148	22,792,859	48,451,670

Amounts owing to related companies in the current year represents registrar's fee, secretarial fee and maintenance fee payable to related companies. The amounts are non-trade, unsecured, interest-free and repayable on demand.

Amounts owing to related companies in 2017 represents an outstanding balance of RM38,900,000 and RM780,000 in respect of the purchased of investment property in prior years together with its related Goods and Services Tax borne by the Fund, respectively. The amounts were unsecured, interest-free and repayable on demand.

The currency exposure profile of other payables and accrued expenses are as follows:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Ringgit Malaysia	26,703,548	55,502,694	22,792,859	48,451,670
Australian Dollar	298,502	283,454	-	-
	27,002,050	55,786,148	22,792,859	48,451,670

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 16. DEFERRED TAX LIABILITIES

	The Group	
	2018 RM	2017 RM
At beginning of year	3,768,348	3,750,228
Transfer from profit or loss (Note 8)	917,555	909,874
Transfer from other comprehensive income (Note 8)	(2,491,980)	(875,763)
Effect of foreign currency exchange differences	(230,655)	(15,991)
At end of year	1,963,268	3,768,348
<b>Deferred tax liabilities (before offsetting)</b>		
Temporary differences arising from revaluation of investment property	7,543,837	7,313,785
Offsetting	(5,580,569)	(3,545,437)
<b>Deferred tax liabilities (after offsetting)</b>	1,963,268	3,768,348
<b>Deferred tax assets (before offsetting)</b>		
Temporary differences arising from:		
Accrued expenses	12,142	15,251
Unrealised foreign exchange loss	3,197,773	875,763
Unused tax losses	2,370,654	2,654,423
	5,580,569	3,545,437
Offsetting	(5,580,569)	(3,545,437)
<b>Deferred tax assets (after offsetting)</b>	-	-

The availability of the unused tax losses for offsetting against future taxable profit of the Group is subject to agreement with the tax authorities.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 17. ISLAMIC FINANCING

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Sukuk Ijarah - Islamic Medium Term Notes ("IMTNs")				
- Non-current	575,000,000	-	-	-
- Current	-	573,944,572	-	-
Murabahah Tawarruq Term Financing-i ("Murabahah Tawarruq")				
- Non-current	29,900,000	-	29,900,000	-
	604,900,000	573,944,572	29,900,000	-
Less: Transaction costs	(1,194,870)	(363,938)	(216,354)	-
	603,705,130	573,580,634	29,683,646	-

#### *Sukuk Ijarah*

On 29 April 2013, the Group, through a wholly-owned-subsiary, Al-`Aqar Capital Sdn Bhd established a Sukuk Ijarah Programme comprising IMTNs of up to RM1.0 billion in nominal value and issued IMTNs of RM655,000,000 in nominal value ("Issue 1"). The initial transaction costs incurred for the Issue 1 was RM2,373,693 with annual private debt security expenses amounting to RM301,500.

On 20 July 2017, the Group made a partial early one-off redemption of RM80,000,000 in nominal value of unrated Class C IMTNs of Issue 1. The redemption was made by using the proceeds from the disposal of an investment property.

On 4 May 2018, the Group redeemed the outstanding IMTNs of Issue 1 of RM575,000,000 together with the outstanding profit due on maturity and refinanced the IMTNs via an issuance of RM575,000,000 in nominal value of IMTNs ("Issue 2"). The initial transaction costs incurred for the Issue 2 was RM660,520 with annual private debt security expenses amounting to RM1,394,305.

On 20 December 2018, the Group re-rated RM112,000,000 in nominal value of unrated Class C IMTNs of Issue 2. The re-rating exercise had led to an early redemption of the Class C IMTNs of Issue 2 and an additional issuance of RM75,000,000 in nominal value of Class A IMTNs of Issue 2 and RM37,000,000 in nominal value of IMTNs of Issue 2.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 17. ISLAMIC FINANCING (CONTINUED)

As at the end of the reporting period, the Sukuk Ijarah Programme, which is secured against the investment properties totaling RM1,231,700,000 (2017: RM1,239,400,000) as mentioned in Note 11, comprises the following tranches at nominal value:

	Nominal value			
	2018 RM	2017 RM	Rating	Profit rate (%)
<b>Non-current</b>				
<b>Issue II - Tranche 1</b>				
<u>Issued on 4 May 2018</u>				
Class A IMTNs	220,000,000	-	AAA	4.64
Class B IMTNs	23,000,000	-	AA2	4.95
Class C IMTNs	220,000,000	-	Unrated	5.60
Class C IMTNs <sup>(iv)</sup>	112,000,000	-	Unrated	5.60
Total <sup>(iii)</sup>	575,000,000	-		
<b>Issue II - Tranche 2</b>				
<u>Issued on 20 December 2018</u>				
Class A IMTNs	75,000,000	-	AAA	4.68
Class B IMTNs	37,000,000	-	AA2	4.98
Total <sup>(iv)</sup>	112,000,000	-		
<b>Current</b>				
<b>Issue I - Tranche 1</b>				
<u>Issued on 6 May 2013</u>				
Class A IMTNs	-	104,000,000	AAA	4.19
Class B IMTNs	-	21,000,000	AA2	4.53
Class C IMTNs	-	188,268,000	Unrated	5.00 - 5.20
Total <sup>(i)</sup>	-	313,268,000		
<b>Issue I - Tranche 2</b>				
<u>Issued on 5 August 2013</u>				
Class A IMTNs	-	168,000,000	AAA	4.35
Class B IMTNs	-	34,000,000	AA2	4.70
Class C IMTNs	-	59,732,000	Unrated	5.00 - 5.20
Total <sup>(ii)</sup>	-	261,732,000		
	-	575,000,000		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 17. ISLAMIC FINANCING (CONTINUED)

- (i) On 6 May 2013, the Group issued IMTNs of RM374,000,000 in nominal value under a Sukuk Ijarah Programme ("Issue I - Tranche 1"). The facility is repayable in 9 equal semi-annual instalments of RM8,979,450 (cost of financing only) each commencing in November 2013 with a final instalment of RM382,979,450 (principal and last semi-annual cost of financing). On 20 July 2017, the Group made a partial early one-off redemption of RM60,732,000 in nominal value of unrated Class C IMTNs. The facility was then fully redeemed on 4 May 2018.
- (ii) On 5 August 2013, the Group issued IMTNs of RM281,000,000 in nominal value under the Sukuk Ijarah Programme ("Issue I - Tranche 2"). The facility is repayable in 8 equal semi-annual instalments of RM6,459,000 (cost of financing only) each commencing in February 2014 with a final instalment of RM284,238,348 (principal and last semi-annual cost of financing). On 20 July 2017, the Group made a partial early one-off redemption of RM19,268,000 in nominal value of unrated Class C IMTNs. The facility was then fully redeemed on 4 May 2018.
- (iii) On 4 May 2018, the Group redeemed the outstanding IMTNs of RM575,000,000 in nominal value of Issue I together with its outstanding profit due on maturity and refinanced the IMTNs via an issuance of IMTNs of RM575,000,000 in nominal value under the same Sukuk Ijarah Programme ("Issue II - Tranche 1"). The facility is repayable in 6 semi-annual instalments of RM15,174,308 (cost of financing only) each commencing in November 2018 with a final instalment of RM590,174,308 (principal and last semi-annual cost of financing).
- (iv) On 20 December 2018, the Group re-rated unrated Class C IMTNs of RM112,000,000 in nominal value of Issue II, redeemed and re-issued rated Class A IMTNs of RM75,000,000 in nominal value and rated Class B IMTNs of RM37,000,000 in nominal value (collectively "Issue II - Tranche 2"). The facility is repayable in 5 semi-annual instalments of RM2,654,303 (cost of financing only) each commencing in May 2019 with a final instalment of RM114,654,303 (principal and last semi-annual cost of financing).

The Sukuk Ijarah Programme has the following significant covenants:

- The Group has to maintain and build up the Finance Service Reserve Account ("FSRA") an amount equivalent to 6 months periodic payments payable under the relevant tranche of Sukuk Ijarah (12 months period payments upon the occurrence of a Trigger Event defined under the Sukuk Ijarah Trust Deed dated 29 April 2013). The Funds in the FSRA may be invested in permitted investments but are not available for general use.
- The Group shall at all times, maintain the following Finance Service Cover Ratio ("FSCR"):
  - a) FSCR at Issue level of not less than 1.5 times; and
  - b) FSCR at Al-'Aqar Healthcare REIT level of not less than 1.5 times; and
  - c) such other financial covenant(s) as may be determined by RAM Rating Services Berhad ("RAM") and to be mutually agreed to by Al-'Aqar Capital Sdn Bhd.

#### ***Murabahah Tawarruq Term Financing-i***

On 30 November 2018 the Fund obtained an Islamic financing facility ("Murabahah Tawarruq") amounting to RM29,900,000 from Ambank Islamic Berhad ("Ambank") to part finance the outstanding balance in relation to an investment property purchased in prior years amounting to RM38,900,000 as disclosed in Note 15. The transaction costs incurred for the Murabahah Tawarruq was RM225,761.

The Murabahah Tawarruq is payable over a period of 24 months from the date of first disbursement with bullet repayment of the principal sum on the 24th month. The Murabahah Tawarruq bears an effective profit rate of 1.50% per annum above the bank's Cost of Funds ("COF"). The average effective profit rate for the Murabahah Tawarruq during the year is 5.54%. There is no specific financial covenant associated with the Murabahah Tawarruq.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 17. ISLAMIC FINANCING (CONTINUED)

#### Reconciliation of liabilities arising from financing activities

The table below details the changes in the Group's and the Fund's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's and the Fund's statements of cash flows as cash flows from financing activities.

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Islamic Financing</b>				
Islamic Financing	573,580,634	653,802,142	-	-
Accrued financing costs on Sukuk Ijarah Programme (Note 15)	7,017,006	9,076,908	-	-
Total Islamic Financing at beginning of year	580,597,640	662,879,050	-	-
Total financing cash inflows	29,900,000	-	29,900,000	-
Total financing cash outflows	(34,503,989)	(110,238,338)	(375,480)	-
	575,993,651	552,640,712	29,524,520	-
<b>Non-cash changes</b>				
Finance costs on Islamic Financing	30,129,128	27,033,850	145,182	-
Imputed finance cost	1,449,654	923,078	9,407	-
Increase in prepaid profit for Murabahah Tawarruq (Note 13)	4,537	-	4,537	-
At end of year	607,576,970	580,597,640	29,683,646	-
Islamic Financing	603,705,130	573,580,634	29,683,646	-
Accrued financing costs on Sukuk Ijarah Programme (Note 15)	3,871,840	7,017,006	-	-
Total Islamic Financing at end of year	607,576,970	580,597,640	29,683,646	-

	The Fund	
	2018 RM	2017 RM
<b>Amount due to a subsidiary</b>		
At beginning of year	555,538,535	637,635,132
Financing cash flows	(30,960,678)	(110,053,525)
	524,577,857	527,581,607
<b>Non-cash changes</b>		
Finance costs on amount due to a subsidiary	31,424,193	27,956,928
At end of year	556,002,050	555,538,535

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 18. UNITHOLDERS' CAPITAL

	No. of units	2018 RM	No. of units	2017 RM
<b>The Group and the Fund</b>				
At beginning of year	728,226,468	722,398,126	728,226,468	722,398,126
Issue of new units	7,758,620	9,000,000	-	-
At end of year	735,985,088	731,398,126	728,226,468	722,398,126

During the financial year, the Group and the Fund issued 7,758,620 new units at an issue price of RM1.16 per unit amounting to RM9,000,000. The proceeds from the issuance of new units was used to part finance the outstanding balance in relation to an investment property purchased in prior years amounting to RM38,900,000 as disclosed in Note 15.

Details of units held by the Manager's Directors and unitholders, and related parties which comprise companies related to Johor Corporation and KPJ Healthcare Berhad, substantial unitholders of the Fund, and their market value as of 31 December 2018 based on the Record of Depositors are as follows:

	No. of units	2018 RM	No. of units	2017 RM
Related parties:				
Pusat Pakar Tawakal Sdn Bhd	54,648,534	71,589,579	54,648,534	78,147,404
Bandar Baru Klang Specialist Hospital Sdn Bhd	36,115,266	47,310,998	36,115,266	51,644,830
Selangor Medical Centre Sdn Bhd	35,000,000	45,850,000	35,000,000	50,050,000
Jeta Gardens (Qld) Pty Ltd	10,834,468	14,193,153	13,284,468	18,996,789
Seremban Specialist Hospital Sdn Bhd	23,731,000	31,087,610	23,731,000	33,935,330
Ampang Puteri Specialist Hospital Sdn Bhd	21,013,739	27,527,998	21,013,739	30,049,647
Medical Associates Sdn Bhd	19,055,000	24,962,050	19,055,000	27,248,650
Sentosa Medical Centre Sdn Bhd	15,653,000	20,505,430	15,653,000	22,383,790
Kedah Medical Centre Sdn Bhd	15,000,000	19,650,000	15,000,000	21,450,000
Johor Specialist Hospital Sdn Bhd	12,203,000	15,985,930	12,203,000	17,450,290
Puteri Specialist Hospital Sdn Bhd	12,000,000	15,720,000	12,000,000	17,160,000
Pusat Pakar Darul Naim Sdn Bhd	11,789,000	15,443,590	11,789,000	16,858,270
KPJ Healthcare University College Sdn Bhd	7,758,620	10,163,792	-	-
Kuantan Specialist Hospital Sdn Bhd	5,000,000	6,550,000	5,000,000	7,150,000
Kajang Specialist Hospital Sdn Bhd	4,487,000	5,877,970	4,487,000	6,416,410
Kota Kinabalu Specialist Hospital Sdn Bhd	3,500,000	4,585,000	3,500,000	5,005,000
Taiping Medical Centre Sdn Bhd	3,334,000	4,367,540	3,334,000	4,767,620
Johor Ventures Sdn Bhd	173,219	226,917	173,219	247,703

### 19. MANAGEMENT EXPENSE RATIO ("MER")

	2018 %	2017 %
MER	0.34	0.32

The calculation of MER is based on the total fees of the Fund incurred for the year, including the Manager's fees, Trustee's fees, audit fee, tax agent's fee and administration expenses, to the average net asset value of the Fund during the year calculated on a monthly basis. Since the average net asset value is calculated on a monthly basis, comparison of the MER of the Fund with other Real Estate Investment Trusts ("REITs") which use a different basis of calculation may not be an accurate comparison.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 20. SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group and the Fund if the Group and the Fund have the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the Fund and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group and the Fund derive all their rental income as disclosed in Note 5 from related parties.

Significant related party (credits)/charges other than those disclosed in Note 5 are as follows:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Manager's fee	1,674,718	2,196,079	1,674,718	2,196,079
Maintenance fee	162,600	-	162,600	-
Registrar fee	65,382	91,686	65,382	91,686
Secretarial fee	7,100	7,070	-	-
Other income	(487,667)	-	(487,667)	-
Purchase of investment property	-	13,000,000	-	13,000,000
Professional fee	-	400,000	-	400,000

Other income relates to the compensation received from Selangor Medical Centre Sdn Bhd for loss of opportunity and annual loss of potential income due to the deferment for the transfer of a Physician Consultant Building to the Fund.

The related party transactions described above were entered into in the normal course of business and are based on negotiated and mutually agreed terms.

Amounts due from a subsidiary represents unsecured advances given to a subsidiary from the proceeds raised from Islamic financing and issuance of new units in previous years for the purpose of purchase of an investment property in Australia and profit sharing on the advances receivable from the subsidiary.

Amount due to a subsidiary represents unsecured advances received from the proceeds raised from Islamic financing by the subsidiary and expenses. The finance costs and repayment terms of the unsecured advances mirror the finance costs and repayment terms of the Islamic financing of Sukuk Ijarah raised by the said subsidiary as disclosed in Note 17. Also included in the amount due to a subsidiary are cash reserves retained by the subsidiary, the accrued profit from the cash reserves and expenses paid on behalf for the subsidiary totaling RM18,019,434, that are presented as net amount as there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### 21. COMMITMENTS

Operating leases - as lessor

The Group and the Fund lease out their investment properties under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Less than one year	108,123,854	102,075,690	96,687,350	90,639,179
Between one and five years	306,507,852	415,235,842	296,977,432	369,489,800
	414,631,706	517,311,532	393,664,782	460,128,979

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 22. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

Prior to the adoption of MFRS 9 on 1 January 2018, the Group and the Fund measured various categories of financial instruments under MFRS 139 Financial Instruments: Recognition and Measurement.

The adoption of MFRS 9 which is effective on 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements as disclosed in Note 28.

The table below provides an analysis of the various categories of financial instruments:

- (a) Financial assets/(liabilities) at amortised cost;
- (b) Loans and receivables ("L&R"); and
- (c) Other financial liabilities measured at amortised cost ("FL")

	Carrying amount 2018 RM	Financial assets at amortised cost 2018 RM	Carrying amount 2017 RM	L&R 2017 RM
<b>The Group</b>				
<b>Financial assets</b>				
Trade receivables	2,246,142	2,246,142	5,312,154	5,312,154
Other receivables	131,893	131,893	541,217	541,217
Fixed deposits with licensed banks	45,668,396	45,668,396	51,032,271	51,032,271
Cash and bank balances	45,680,598	45,680,598	35,917,278	35,917,278
	93,727,029	93,727,029	92,802,920	92,802,920

	Carrying amount 2018 RM	Financial liabilities at amortised cost 2018 RM	Carrying amount 2017 RM	FL 2017 RM
<b>The Group</b>				
<b>Financial liabilities</b>				
Other payables and accrued expenses	27,002,050	27,002,050	55,786,148	55,786,148
Islamic financing	603,705,130	603,705,130	573,580,634	573,580,634
	630,707,180	630,707,180	629,366,782	629,366,782

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 22. FINANCIAL INSTRUMENTS (CONTINUED)

	Carrying amount 2018 RM	Financial assets at amortised cost 2018 RM	Carrying amount 2017 RM	L&R 2017 RM
<b>The Fund</b>				
<b>Financial assets</b>				
Trade receivables	1,216,283	1,216,283	217,714	217,714
Other receivables	78,085	78,085	493,874	493,874
Amount due from a subsidiary	110,928,213	110,928,213	102,922,656	102,922,656
Fixed deposits with licensed banks	27,049,217	27,049,217	33,079,977	33,079,977
Cash and bank balances	22,639,466	22,639,466	21,806,132	21,806,132
	161,911,264	161,911,264	158,520,353	158,520,353

	Carrying amount 2018 RM	Financial liabilities at amortised cost 2018 RM	Carrying amount 2017 RM	FL 2017 RM
<b>The Fund</b>				
<b>Financial liabilities</b>				
Other payables and accrued expenses	22,792,859	22,792,859	48,451,670	48,451,670
Amount due to a subsidiary	556,002,050	556,002,050	555,538,535	555,538,535
Islamic financing	29,683,646	29,683,646	-	-
	608,478,555	608,478,555	603,990,205	603,990,205

#### Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability;
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group and the Fund.

The Manager considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values and categorised under level 3 of fair value hierarchy.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Fund are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, financing rate risk and foreign currency risk.

The Group and the Fund have taken measures to minimise their exposure to risks associated with their financing, investing and operating activities and operate within clearly defined guidelines as set out in the SC Guidelines.

The following sections provide details regarding the Group's and the Fund's exposure to the above-mentioned financial risks and the objectives, policies and procedures for the management of these risks:

#### (a) Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its contractual obligations. Credit risk arises from cash and cash equivalents, amount due from a subsidiary as well as credit exposures primarily from outstanding trade and other receivables.

The Group and the Fund adopt the policy of dealing with customers with an appropriate credit history, and obtaining sufficient security where appropriate, including tenancy deposits, security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. For other financial assets (including cash and bank balances and fixed deposits with licensed banks), the Group and the Fund minimise credit risks by dealing exclusively with high credit rating counterparties.

The Group and the Fund seek to invest cash assets safely and profitably. The Group and the Fund have no significant concentration of credit risk and it is not the Group's and the Fund's policy to hedge their credit risks. The Group and the Fund have in place, for significant operating subsidiaries, policies to ensure that sales of products and services are made to customers with an appropriate credit history and sets limits on the amount of credit exposure to any one customer. For significant subsidiaries, there were no instances of credit limits being materially exceeded during the reporting periods and management does not expect any material losses from non-performance by counterparties.

#### Exposure to credit risk

At the reporting date, the Group's and the Fund's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Information regarding credit enhancements for trade receivables is disclosed in Note 15.

#### Credit risk concentration profile

Other than the amounts due from the subsidiaries to the Fund, the Group and the Fund are not exposed to any significant concentration of credit risk in the form of receivables due from a single debtor or from groups of debtors.

#### Impairment of financial assets

The Group's and the Fund's financial assets that are subject to the expected credit loss ("ECL") model include trade receivables, other receivables and amount due from a subsidiary. While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the impairment loss is expected to be immaterial.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (a) Credit Risk (continued)

##### *Trade receivables using the simplified approach*

The Group and the Fund apply the MFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before the end of the reporting period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group and the Fund have identified the Gross Domestic Product ("GDP") of Malaysia and Australia to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. No significant changes to estimation techniques or assumptions were made during the reporting period.

##### *Other receivables and amount due from a subsidiary using general 3-stage approach*

The Group and the Fund use three categories for other receivables and amount due from a subsidiary which reflect their credit risk and how the loss allowance is determined for each of those categories. Other receivables and amount due from a subsidiary are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and the Fund, and a failure to make contractual payments for a period of greater than 30 days past due.

Category	Group's definition of category	Basis for recognising ECL
Performing	Debtors have a low risk of default and a strong capacity to meet contractual cash flow	12-month ECL
Underperforming	Debtors for which there is a significant increase in credit risk or significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime ECL
Non-performing	Interest and/or principal repayments are 90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL (credit-impaired)
Write-off	There is evidence indicating that there is no reasonable expectation of recovery based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount	Asset is written off

Based on the above, the loss allowance is measured on either 12-month ECL or lifetime ECL incorporating the methodology below:

- Probability of default ("PD") - the likelihood that the debtor would not be able to repay during the contractual period;
- Loss given default ("LGD") - the percentage of contractual cash flows that will not be collected if default happens; and
- Exposure at default ("EAD") - the outstanding amount that is exposed to default risk.

In deriving the PD and LGD, the Group and the Fund consider historical data by each debtor by category and adjust for forward-looking macroeconomic data. The Group and the Fund have identified the industry and geographical area which the debtor operates in, to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. Loss allowance is measured at a probability-weighted amount that reflects the possibility that a credit loss occurs and the possibility that no credit loss occurs. No significant changes to estimation techniques or assumptions were made during the reporting period. Impairment losses on trade and other receivables are presented as net impairment losses within profit before tax. Subsequent recoveries of amounts previously written off are credited against the same line item.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (b) Liquidity Risk

Liquidity risk is the risk that the Group and the Fund will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Fund's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Fund's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. The Group and the Fund manage their operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of their overall liquidity management, the Group and the Fund maintain sufficient levels of cash and bank balances to meet their working capital requirements.

#### Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Fund's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

2018	Weighted average effective profit rate %	Less than 1 year RM	1 - 5 years RM	More than 5 years RM	Total RM
<b>The Group</b>					
Non-profit bearing:					
Other payables and accrued expenses		20,104,308	-	6,907,481	27,011,789
Profit bearing:					
Sukuk Ijarah	5.11	25,520,907	618,488,898	-	644,009,805
Murabahah Tawarruq	COF + 1.50%	1,655,982	31,419,874	-	33,075,856
<b>Total undiscounted financial liabilities</b>		<b>47,281,197</b>	<b>649,908,772</b>	<b>6,907,481</b>	<b>704,097,450</b>
<b>The Fund</b>					
Non-profit bearing:					
Other payables and accrued expenses		15,885,378	-	6,907,481	22,792,859
Profit bearing:					
Amount due to a subsidiary	5.11	28,414,867	615,594,938	-	644,009,805
Murabahah Tawarruq	COF + 1.50%	1,655,982	31,419,874	-	33,075,856
<b>Total undiscounted financial liabilities</b>		<b>45,956,227</b>	<b>647,014,812</b>	<b>6,907,481</b>	<b>699,878,520</b>
<b>2017</b>					
<b>The Group</b>					
Non-profit bearing:					
Other payables and accrued expenses		48,878,667	-	6,907,481	55,786,148
Profit bearing:					
Islamic financing	4.71	586,481,257	-	-	586,481,257
<b>Total undiscounted financial liabilities</b>		<b>635,359,924</b>	<b>-</b>	<b>6,907,481</b>	<b>642,267,405</b>
<b>The Fund</b>					
Non-profit bearing:					
Other payables and accrued expenses		41,544,189	-	6,907,481	48,451,670
Profit bearing:					
Amount due to a subsidiary	4.71	568,439,158	-	-	568,439,158
<b>Total undiscounted financial liabilities</b>		<b>609,983,347</b>	<b>-</b>	<b>6,907,481</b>	<b>616,890,828</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (c) Financing Rate Risk

Financing rate risk is the risk that the fair value or future cash flows of the Group's and of the Fund's financial instruments will fluctuate because of changes in the market financing rates.

The Group and the Fund manage their financing rate exposure by maintaining a prudent mix of fixed and floating rate of borrowings. The Group and the Fund place cash deposits on short-term basis and therefore this allows the Group and the Fund to respond to significant changes of financing rate promptly.

#### Sensitivity analysis for interest rate risk

At the end of the reporting period, a change of 10 basis points ("bp") in financing rates would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Financing rate:</b>				
- 25 bp increase	(74,209)	-	(74,209)	-
- 25 bp decrease	74,209	-	74,209	-

#### (d) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. It is not the Group's policy to hedge foreign currency translation risk. The Group also maintains bank accounts denominated in foreign currencies, primarily in AUD, as a natural hedge against foreign currency risk.

The Group's exposure to foreign currency risk, based on carrying amounts as at the end of the reporting period was:

	The Group	
	2018 RM	2017 RM
<b>Denominated in AUD</b>		
Trade receivables	1,029,859	5,094,440
Cash and cash equivalents	20,796,786	7,857,721
Other payables and accrued expenses	(308,241)	(283,454)
Net exposure in the statements of financial position	21,518,404	12,668,707

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (d) Foreign Currency Risk (continued)

##### Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit/(loss) net of tax to a reasonably possible change in the AUD exchange rates against the functional currency of the Group, with all other variables held constant.

	Other comprehensive income The Group	
	2018 RM	2017 RM
<b>AUD</b>		
Strengthened 5%	753,144	443,405
Weakened 5%	(753,144)	(443,405)

### 24. SEGMENT REPORTING

The Group has a single operating segment. For management purposes, the Group is organised into business units based on the geographical location of customers and assets, and has two reportable segments 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. Segment performance is evaluated based on operating profit.

The Group's segmental information is as follows:

31 December 2018	Malaysia RM	Australia RM	Total RM
Rental	91,097,366	11,551,609	102,648,975
Property expenses	(5,934,798)	(104,716)	(6,039,514)
Net property income	85,162,568	11,446,893	96,609,461
Investment income	2,031,968	-	2,031,968
Other income	510,841	-	510,841
Gain on fair value	30,341,920	-	30,341,920
Total income	118,047,297	11,446,893	129,494,190
Expenditure	(5,424,523)	(199,223)	(5,623,746)
Operating profit	112,622,774	11,247,670	123,870,444
Financing costs	(31,578,782)	-	(31,578,782)
Profit before tax	81,043,992	11,247,670	92,291,662

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 24. SEGMENT REPORTING (CONTINUED)

31 December 2018	Malaysia RM	Australia RM	Total RM
Profit Before Tax	81,043,992	11,247,670	92,291,662
Tax	347	(917,555)	(917,208)
Profit after tax	81,044,339	10,330,115	91,374,454
Total assets	1,426,214,969	154,253,445	1,580,468,414
Total liabilities	630,408,678	2,261,770	632,670,448
31 December 2017	Malaysia RM	Australia RM	Total RM
Rental	88,549,848	11,098,321	99,648,169
Property expenses	(5,962,043)	(479,248)	(6,441,291)
Net property income	82,587,805	10,619,073	93,206,878
Investment income	2,272,257	-	2,272,257
Other income	1,557	-	1,557
Gain on fair value	24,534,840	257,083	24,791,923
Total income	109,396,459	10,876,156	120,272,615
Expenditure	(5,899,283)	(262,318)	(6,161,601)
Operating profit	103,497,176	10,613,838	114,111,014
Financing costs	(27,956,928)	-	(27,956,928)
Profit before tax	75,540,248	10,613,838	86,154,086
Tax	(599,678)	(909,874)	(1,509,552)
Profit after tax	74,940,570	9,703,964	84,644,534
Total assets	1,403,869,591	152,555,361	1,556,424,952
Total liabilities	629,083,328	4,051,802	633,135,130

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 25. CAPITAL MANAGEMENT

The Group and the Fund manage their capital to ensure that entities in the Group and the Fund will be able to continue as going concerns while maximising the return to unitholders through the optimisation of the debt and equity balance. The Group's and the Fund's overall strategy remain unchanged from 2017.

The capital structure of the Group and of the Fund consists of net debt (borrowings as detailed in Note 17) offset by cash and cash equivalents and unitholders' fund of the Group and of the Fund (comprising unitholders' capital and undistributed income).

The Group and the Fund are required to comply with the financial covenants as disclosed in Note 17 and the SC Guidelines on capital requirements.

As at 31 December 2017, the Group and the Fund had complied with all financial covenants as disclosed in Note 17.

The SC Guidelines require that the total borrowings of a fund (including borrowings through issuance of debt securities) should not exceed 50% of the total asset value of the Fund at the time the borrowings are incurred. Notwithstanding, the Fund's total borrowings may exceed this limit with the sanction of the unit holders by way of an ordinary resolution.

The Manager's risk management committee reviews the capital structure of the Group and of the Fund on a regular basis to ensure that the SC Guidelines are complied with.

#### Gearing ratios

The Group's and the Fund's gearing ratio are calculated based on the proportion of total borrowings to the total asset value in accordance with the SC Guidelines. The gearing ratio at the end of the reporting period is as follow:

	The Group		The Fund	
	2018 RM	2017 RM	2018 RM	2017 RM
Total borrowings	603,705,130	573,580,634	585,685,696	555,538,535
Total assets value	1,580,468,414	1,556,424,952	1,551,718,035	1,525,031,371
Total borrowings to total assets value ratio	38.20%	36.85%	37.74%	36.43%

### 26. PORTFOLIO TURNOVER RATIO ("PTR")

	The Fund	
	2018	2017
PTR (times)	-	0.06

The calculation of PTR is based on the average of total acquisitions and total disposals of investments in the Fund for the year to the average net asset value during the year calculated on a monthly basis.

### 27. SIGNIFICANT EVENT

On 4 May 2018, the Group successfully refinanced its Issue 1 IMTNs that had reached maturity. The refinancing of the Issue 1 IMTNs was effected via the second issuance of IMTNS of RM575,000,000 in nominal value ("Issue 2") under the same Sukuk Ijarah Programme as disclosed in Note 17.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 28. ADOPTION OF MFRS 9 AND MFRS 15

#### Adoption of MFRS 15

With the adoption of MFRS 15, revenue is recognised by reference to each distinct performance obligation in the contract with customer. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or services promised in the contract. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

There were no material financial impacts to the statements of financial position and the statements of comprehensive income of the Group and of the Fund arising from the adoption of MFRS 15.

#### Adoption of MFRS 9

The accounting policies were changed to reflect the application of MFRS 9 from the beginning of the first MFRS reporting period. MFRS 9 replaces the provisions of MFRS 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 'Financial Instruments: Disclosures'. The cumulative effects of the changes are recognised in the statements of financial position as at the beginning of the first MFRS reporting period, which is on 1 January 2018.

The nature of adjustments made to the statements of financial position of the Group and of the Fund as at 1 January 2018 in respect of items within the scope of MFRS 9 are described as follows:

#### (a) Classification and measurement of financial assets

Until 31 December 2017, financial assets were classified in the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale ("AFS") financial assets. Note 3.6 sets out the details of accounting policies for classification and measurement of financial instruments under MFRS 139.

From 1 January 2018, the Group and the Fund adopted the following MFRS 9 classification approach to all types of financial assets:

- Investments in debt instruments: There are 3 subsequent measurement categories: amortised cost, fair value with changes either recognised through other comprehensive income ("FVTOCI") or through profit or loss ("FVTPL").
- Investments in equity instruments: These instruments are always measured at fair value with changes in fair value presented in profit or loss unless the Group and the Fund have made an irrevocable choice to present changes in fair value in other comprehensive income for investments that are not held for trading.
- Embedded derivatives in financial asset host contracts: The Group and the Fund apply the classification and measurement of financial assets to the entire hybrid instrument for financial assets with embedded derivatives.
- The new accounting policies for classification and measurement of financial instruments under MFRS 9 are set out in Note 3.6.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 28. ADOPTION OF MFRS 9 AND MFRS 15 (CONTINUED)

#### Adoption of MFRS 9 (continued)

##### (a) Classification and measurement of financial assets (continued)

The table below illustrates the classification and measurement of financial assets and financial liabilities under MFRS 139 and MFRS 9 at the date of initial application, 1 January 2018.

	Measurement category			Carrying amount	
	Under MFRS 139	Under MFRS 9	Original RM	New RM	Difference RM
The Group					
Financial assets					
Trade receivables	Loans and receivables	Financial assets at amortised cost	5,312,154	5,312,154	
Other receivables	Loans and receivables	Financial assets at amortised cost	541,217	541,217	-
Fixed deposits with licensed banks	Loans and receivables	Financial assets at amortised cost	51,032,271	51,032,271	-
Cash and bank balances	Loans and receivables	Financial assets at amortised cost	35,917,278	35,917,278	-
Financial liabilities					
Other payables and accrued expenses	Other financial liabilities	Financial liabilities at amortised cost	55,786,148	55,786,148	-
Islamic financing	Other financial liabilities	Financial liabilities at amortised cost	573,580,634	573,580,634	-
The Fund					
Financial assets					
Trade receivables	Loans and receivables	Financial assets at amortised cost	217,714	217,714	-
Other receivables	Loans and receivables	Financial assets at amortised cost	493,874	493,874	-
Amount due from a subsidiary	Loans and receivables	Financial assets at amortised cost	102,922,656	102,922,656	-
Fixed deposits with licensed banks	Loans and receivables	Financial assets at amortised cost	33,079,977	33,079,977	-
Cash and bank balances	Loans and receivables	Financial assets at amortised cost	21,806,132	21,806,132	-
Financial liabilities					
Other payables and accrued expenses	Other financial liabilities	Financial liabilities at amortised cost	48,451,670	48,451,670	-
Amount due to a subsidiary	Other financial liabilities	Financial liabilities at amortised cost	555,538,535	555,538,535	-

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### 28. ADOPTION OF MFRS 9 AND MFRS 15 (CONTINUED)

#### Adoption of MFRS 9 (continued)

##### (b) Impairment of financial assets

Until 31 December 2017, the Group and the Fund assessed the impairment of loans and receivables based on the incurred impairment loss model. Note 3.6 sets out the details of accounting policies for impairment of financial assets under MFRS 139.

From 1 January 2018, the Group and the Fund apply the expected credit loss ("ECL") model to determine impairment on investment in debt instruments that are measured at amortised cost and at FVTOCI.

The new accounting policies for impairment under MFRS 9 are set out in Note 3.6.

##### (i) Trade receivables

For all trade receivables that do not contain significant financing components, the Group and the Fund apply the MFRS 9 simplified approach which is to measure the loss allowance at an amount equal to lifetime ECL at initial recognition and throughout its life. No additional loss allowance is recognised on these trade receivables upon application of MFRS 9 after the Manager had considered the days past due, historical default experience and the future prospects of the industries in which the trade receivables operate, together with the value of collateral held over these trade receivables as disclosed in Note 15.

##### (ii) Other receivables

Other receivables are classified as amortised cost in the Group's and the Fund's financial statements because the Group's and the Fund's business model is to hold and collect the contractual cash flows and those cash flows represent SPPI. The Group and the Fund applied the general 3-stage approach when determining ECL for the other receivables.

The Manager concludes that no additional loss allowance is recognised on these other receivables upon application of MFRS 9 after considering the days past due, historical default experience and the future prospects of the industries in which the receivable operates.

##### (iii) Amount due from subsidiaries

Amount due from a subsidiary that is repayable on demand and non-profit bearing is classified as amortised cost in the Fund's financial statements because the Fund's business model is to hold and collect the contractual cash flows and those cash flows represent SPPI. The Fund applied the general 3-stage approach when determining ECL for the amount due from a subsidiary.

No additional loss allowance is recognised on the amount due from a subsidiary upon application of MFRS 9 as all strategies indicate that the Fund could fully recover the outstanding balance of the amount due from a subsidiary.

## STATEMENT BY THE DIRECTORS OF THE MANAGER TO THE UNITHOLDERS OF AL-`AQAR HEALTHCARE REIT

We, **DATO' KAMARUZZAMAN BIN ABU KASSIM** and **WAN AZMAN BIN ISMAIL**, being two of the Directors of **DAMANSARA REIT MANAGERS SDN BERHAD** (the "Manager"), do hereby state that, in the opinion of the Manager, the financial statements of **AL-`AQAR HEALTHCARE REIT** (the "Fund") and of its subsidiaries (the "Group") are drawn up in accordance with applicable provisions of the Restated Trust Deed dated 31 July 2013, Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Securities Commission Malaysia's Guidelines on Real Estate Investment Trusts and Islamic Real Estate Investment Trusts so as to give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2018 and of the results and the cash flows for the year then ended.

Signed on behalf of the Board of the Manager as approved by the Board of the Manager,  
in accordance with a resolution of the Directors of the Manager dated



**DATO' KAMARUZZAMAN BIN ABU KASSIM**



**WAN AZMAN BIN ISMAIL**

Kuala Lumpur,  
31 January 2019

## DECLARATION BY THE DIRECTOR OF THE MANAGER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF THE FUND

I, **WAN AZMAN BIN ISMAIL**, the Executive Director of **DAMANSARA REIT MANAGERS SDN BERHAD** ("the Manager") and primarily responsible for the financial management of **AL-AQAR HEALTHCARE REIT** (the "Group" and the "Fund"), do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.



**WAN AZMAN BIN ISMAIL**

Subscribed and solemnly declared by the abovenamed  
**WAN AZMAN BIN ISMAIL** at **KUALA LUMPUR** on  
31 January 2019.

Before me,



**COMMISSIONER FOR OATHS**

Kuala Lumpur,

Lot 1.08, Tingkat 1  
Bangunan KWSP, Jln Raja Laut  
50350 Kuala Lumpur  
Tel: 019 6680745

## SHARIAH COMMITTEE REPORT TO THE UNITHOLDERS OF AL-`AQAR HEALTHCARE REIT


We have acted as the Shariah Adviser of **AL-`AQAR HEALTHCARE REIT** (the "Group" and the "Fund"). Our responsibility is to ensure that the procedures and processes employed by **DAMANSARA REIT MANAGERS SDN BERHAD** (the "Manager") and that the provisions of the Trust Deed are in accordance with Shariah principles.

In our opinion, the Manager has managed and administered the Fund in accordance with Shariah principles and complied with applicable guidelines, rulings and decisions issued by the Securities Commission pertaining to Shariah matters for the financial year ended 31 December 2018.

In addition, we also confirm that the investment portfolio of the Group and of the Fund are Shariah-compliant, which comprises:

- (a) Rental income from investment properties which complied with the Guidelines for Islamic Real Estate Investment Trust; and
- (b) Cash placement and liquid assets, which are placed in Shariah-compliant investments and/or instruments.

For the Member of Shariah Committee



**DATO' (DR.) HAJI NOOH BIN GADOT**  
**CHAIRMAN, SHARIAH COMMITTEE**

31 January 2019

## TRUSTEE'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

To the Unit Holders of **AL-`AQAR HEALTHCARE REIT**

We, **AMANAHRAYA TRUSTEES BERHAD**, have acted as Trustee of **AL-`AQAR HEALTHCARE REIT** for the financial year ended 31 December 2018. In our opinion, **DAMANSARA REIT MANAGERS SDN BERHAD**, the Manager, has managed **AL-`AQAR HEALTHCARE REIT** in accordance with the limitations imposed on the investment powers of the management company and the Trustee under the Deed, other provisions of the Deed, the applicable Guidelines on Real Estate Investment Trusts, the Capital Markets and Services Act 2007 and other applicable laws during the financial year ended then ended.

We are of the opinion that:

- (a) The procedure and process employed by the Manager to value and/or price the units of **AL-`AQAR HEALTHCARE REIT** are adequate and that such valuation/pricing is carried out in accordance with the Deed and other regulatory requirement;
- (b) creation of units are carried out in accordance with the Deed and other regulatory requirement; and
- (c) the distribution of returns made by **AL-`AQAR HEALTHCARE REIT** as declared by the Manager is in accordance with the investment objective of **AL-`AQAR HEALTHCARE REIT**

Yours faithfully  
**AMANAHRAYA TRUSTEES BERHAD**



**ZAINUDDIN BIN SUHAIMI**  
**GENERAL MANAGER**

Kuala Lumpur, Malaysia  
4 February 2019



Managed By:

**DAMANSARA REIT MANAGERS**  
**SDN BERHAD (717704-V)**

**[www.alaqar.com.my](http://www.alaqar.com.my)**