

KPJ HEALTHCARE BERHAD ("KPJ" OR "COMPANY")

AMENDMENT TO THE LEASE AGREEMENT OF THE PROPERTIES LEASED FROM AL AQAR AUSTRALIA PTY LTD ("AAA") BY JETA GARDENS (QLD) PTY LTD ("JGPL"), A SUBSIDIARY OF KUMPULAN PERUBATAN (JOHOR) SDN BHD ("KPJSB") A WHOLLY-OWNED SUBSIDIARY OF KPJ IN RESPECT OF THE RENTAL REVISION

Unless otherwise stated, the exchange rate of Australian Dollar ("AUD") 1 : RM3.0159, being Bank Negara Malaysia's middle rate as at 5.00 p.m. on 30 September 2021, is used throughout this announcement for purposes of translation of AUD into RM.

1. INTRODUCTION

The Board of Directors of KPJ ("Board") wishes to announce that Jeta Gardens (Qld) Pty Ltd ("JGPL"), a subsidiary of KPJSB, a wholly-owned subsidiary of KPJ, had on 15 October 2021 entered into an amendment to lease with Al Aqar Australia Pty Ltd ("AAA") to vary the existing lease agreement dated 25 October 2011 (including any amendment, supplemental or variation to the existing lease agreement) ("**Lease Agreement**") for the properties owned by AAA ("**Amendment to Lease**"). The Amendment to Lease is to, among others, reflect the terms of the rental rate revision in respect of the lease of the **JG Properties** (as defined below) ("**Rental Revision**").

2. DETAILS OF THE RENTAL REVISION

2.1 Background Information on the proposed properties of the revised rent revision

The properties owned by AAA comprise the Jeta Gardens Aged Care Facility, Jeta Gardens Retirement Village and the development land (collectively, "**JG Properties**"). The JG Properties are located in the suburb of Bethania and situated at the western end of Clarendon Avenue, about 27 kilometres south of the Brisbane Central Business District ("**CBD**"). The JG Properties are located on a land with freehold interest covering an area of 119,580 square metres and are leased to JGPL for a term of 99 years commencing 2 November 2011, with options in favour of both parties to terminate every 15 years.

The JG Properties is an integrated aged care and retirement village containing a 106-bed residential aged care facility ("**RACF**"), 23 independent living units ("**ILUs**"), 32 independent living apartments ("**ILAs**") and community facilities.

The village also contains development land which include plans for an additional 22 ILUs and 57 ILAs plus land for development of a 72-bed RACF (Stage 1) and 96-bed RACF extension site (Stage 2). As at 31 December 2020, JGPL has developed 10 of the 22 ILUs and the 72-bed RACF (Stage 1) ("**New Improvements**").

2.2 Basis and justification for arriving at the Revised Rental Rate

The revised rental rate was arrived at on a negotiated basis and after taking into account the following:

- (i) The valuation of the JG Properties at AUD28.5 million (or RM86.0 million) which was arrived at based on the market rental assessment and adopted capitalisation rate, after reflecting the relevant variables, nature, location and tenancy profile of the JG Properties when compared with current market investment criteria (*Source: Independent valuer appointed by lessor*);
- (ii) The capitalisation rate of 6.5% which was determined after taking into consideration recent investment transactions involving freehold RACF located in Queensland, Victoria and Western Australia with initial yields ranging between 5.50% and 7.56% (*Source: Independent valuer appointed by lessor*);
- (iii) The low current interest rate environment in Australia, whereby the yields on the 10-year Australian Government Bonds have reduced from 5.10% as at 22 September 2010, being the date of announcement by Al-'Aqar Healthcare REIT ("Al-'Aqar") of

the acquisitions of the JG Properties, to 1.49% as at the LPD (Source: Reserve Bank of Australia 2021).

- (iv) Dividend yields of listed aged care companies and listed real estate investment trusts in Australia with a market capitalisation of less than AUD2.0 billion (or RM6.0 billion), which ranges from nil to 7.9% and a median of 5.0%, as follows:

Name	Principal activities	Dividend yield (%)
Estia Health Limited	Provides aged care services and operates a network of retirement homes, providing housing, nursing, food preparation, community building, and related services throughout Victoria, Australia.	0.0
Regis Healthcare Limited	Provides residential aged care services in Australia.	1.0
Japara Healthcare Limited	Operates and develops residential aged care homes in Australia.	0.0
APN Convenience Retail REIT	Operates as a real estate investment trust. The company invests in service stations and convenience retail stores in Australia.	6.2
APN Industria REIT	Operates as a real estate investment trust. The company invests in and owns interest in real estate properties throughout Australia, focusing on industrial, technology park, and business office assets.	5.0
Charter Hall Social Infrastructure REIT	Operates as a real estate investment trust. The company invests in social infrastructure properties, as well as provides assets and capital management services in Australia and New Zealand.	4.4
GARDA Diversified Property Fund	This is a stapled entity whereby shares in GARDA Holdings Limited are stapled to units in GARDA Diversified Property Fund. The company invests in commercial offices and industrial facilities, as well as provides fund management and real estate advisory services in Australia.	5.0
Centuria Office REIT	Operates as a real estate investment trust. The company invests in commercial properties via a listed property trust, as well as owns and manages office assets in Australia.	6.6
Elanor Retail Property Fund	Manages real estate investment fund. The company invests in Australian retail property, focusing on neighbourhood and sub-regional shopping centres. It owns a portfolio of retail shopping centres located in New South Wales, Queensland, and Tasmania.	7.9
Australian Unity Office Fund	Operates as a real estate investment trust. The company owns a diversified portfolio of office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane, and Canberra.	6.4

(Sources: Bloomberg as at the LPD and announcements made by the relevant companies to the Australian Stock Exchange)

2.3 Salient Terms of the Revised Rental Rate

Pursuant to the Amendment to Lease, KPJ and AAA have agreed to reduce the base rental rate to be charged for the lease of the JG Properties from 8.5% per annum to 6.5% per annum ("**Revised Rental Rate**") to be applied on the market value of the JG Properties. The Revised Rental Rate will take effect from 2 October 2021 and end on 1 November 2026.

Under the Amendment to Lease, AAA and JGPL agreed, among others:

- (i) that in respect of the rental period from 2 November 2020 until 1 November 2023 ("**Fourth Rental Period**"), the Revised Rental Rate will be applied from 2 October 2021 until the expiry of the Fourth Rental Period;
- (ii) that the market value of the JG Properties to be adopted to determine the revised base rental for the period from 2 October 2021 until the expiry of the Fourth Rental Period shall be AUD28.5 million;
- (iii) to apply the Revised Rental Rate for the next succeeding rental period from 2 November 2023 until 1 November 2026 ("**Fifth Rental Period**");
- (iv) that an additional rental will be payable by JGPL upon payment by AAA of the consideration amount for the New Improvements developed by JGPL on the JG Properties during either the Fourth Rental Period or the Fifth Rental Period. Such additional rental will be calculated based on 6.5% per annum of the consideration amount (including goods and services tax) paid by AAA and for a period from the date of such payment until the expiry of the relevant rental period during which the payment was made; and
- (v) that the rental payable in respect of the subsequent rental periods after the Fifth Rental Period will be determined in accordance with the original provision in the Lease Agreement and the Revised Rental Rate will not apply.

For the avoidance of doubt, the above terms shall apply from 2 October 2021 until the expiry of the Fifth Rental Period despite anything contained in the Lease Agreement to the contrary and will prevail to the extent of any such inconsistency.

AAA and KPJ have also agreed that the market value of the JG Properties as at 30 June 2021 to be AUD28.5 million (or RM86.0 million) as appraised by the appointed independent valuer, CBRE Valuations Pty Ltd ("**CBRE**").

2.4 Information of the Parties

(a) AAA

AAA, a wholly-owned subsidiary of Al-'Aqar, was incorporated in Australia on 22 December 2010 and is the property owner of Jeta Gardens Retirement Village as follows:

- The Opal (106 bed RAC facility)
- 23 units Independent Living Unit
- 32 units Independent Living Apartment
- Land identified as 2/SP240417, 3/SP240417 and 4/SP240417

The directors of AAA as at the LPD are Wan Azman Ismail and Matthew Shane Zauner. The directors of AAA do not hold any shares in AAA as at the LPD.

(b) Information on JGPL

JGPL was incorporated in Australia on 27 November 2002 and is primarily involved in the operation of Jeta Gardens Retirement Village. JGPL's majority owned subsidiary, Jeta Gardens Aged Care (Qld) Pty Ltd, is primarily involved in the operation of Jeta Gardens Aged Care Facility.

The substantial shareholders of JGPL and their respective shareholdings in JGPL as at 30 September 2021, being the latest practicable date prior to this announcement ("LPD"), are as follows:

	Direct		Indirect	
	No. of shares in in JGPL '000	%	No. of shares in in JGPL '000	%
Kumpulan Perubatan (Johor) Sdn Bhd ("KPJSB")	3,676	57.16	-	-
Chung Brisbane Pty Ltd	766	11.91	-	-
Colemont Pty Ltd	371	5.76	-	-
Five Pty Ltd	360	5.60	-	-
KPJ Healthcare Berhad ("KPJ")			3,676 ⁽¹⁾	57.16
Johor Corporation ("JCorp")			3,676 ⁽²⁾	22.01

Notes:

- (1) Deemed interested by virtue of its shareholdings in KPJSB pursuant to Section 8 of the Companies Act, 2016 ("Act").
- (2) Deemed interested by virtue of its interest in KPJ, JCorp Capital Solutions Sdn. Bhd., Kulim (Malaysia) Berhad, Johor Land Berhad and Johor Ventures Sdn Bhd pursuant to Section 8 of the Act.

The directors of JGPL as at the LPD are Ahmad Shahizam bin Mohd Shariff, Ahmad Nasirrudin bin Harun, Mohd Sahir Rahmat and Gunasingam Retnasabapathy. The directors of JGPL do not hold any shares in JGPL as at the LPD.

3. RATIONALE FOR THE REVISED RENTAL RATE

The rationale for the Rental Revision is to address the following:

- (i) Disparity between the following:
- (a) current rental rate of 8.5% charged to JGPL and the average market rental rate of 6.5% adopted by CBRE; and
 - (b) market value of the JG Properties of AUD45.5 million (or RM137.2 million) as at 7 March 2011 (as set out in the circular to Al-'Aqar's unitholders dated 28 July 2011) and AUD28.5 million (or RM86.0 million) as at 30 June 2021.
- (ii) The uncertainties faced by the aged care industry following the establishment of Royal Commission into Aged Care Quality and Safety ("**Royal Commission**").

On 8 October 2018, the Australian Government established the Royal Commission to inquire into the quality and safety of aged care in Australia. While the aged care industry may have been publicly welcoming of the Royal Commission, its formation created an increased level of uncertainty within the industry. Many providers appeared to be apprehensive as to the

- direction of the reforms, timing and the expectations regarding the level and quality of aged care services.
- (iii) The uncertainties faced by the aged care industry as a result of the on-going COVID-19 pandemic.

The outbreak of COVID-19 pandemic has worsened the Australian aged care industry. About 74% of Australian COVID-19 pandemic deaths in 2020 were reported to occur in aged care facilities. This has impacted the aged care industry as a whole, as there is a general apprehension by new tenants to commit to enter into aged care facilities.

Even though there were no COVID-19-related deaths in the JG Properties, the pandemic has negatively impacted the number of new tenants to JG Properties. As a result of the events as mentioned in Sections 3(i) and (iii) above, the average occupancy rate of JG Properties fell from 95% as at 31 December 2018 to 79% as at 31 December 2020.

(Sources: Australian Government Aged Care Financing Authority: Eighth Report on Funding and Financing in the Aged Care Industry, July 2020, Royal Commission into Aged Care Quality and Safety - Aged care and COVID-19: a special report, September 2020 and JGPL)

4. RISK IN RELATION TO THE REVISED RENTAL RATE

KPJ and its subsidiaries (“**KPJ Group**”) are subject to risks inherent in the real estate and healthcare industries and the senior living/aged-care sector, which include the following risks in respect of the JGPL:

- (i) **Default in Operations:** The non-rental revision will hinder JGPL to continue its on-going operations of the Properties which would adversely affect the financial performance of KPJ Group.
- (ii) **Industry risk:** The Australian Government Response to the Final Report of the Royal Commission into Aged Care Quality and Safety issued in May 2021 led to more uncertainties which could adversely affect the aged-care business model and competitiveness in the aged care industry.
- (iii) **Default risk:** Higher operating costs incurred in order to comply with regulations imposed on aged care providers to combat the spread of COVID-19 or in providing extra medical treatment for the tenants of the JG Properties will affect JGPL’s profitability and ability to continue operations.

5. OVERVIEW OF THE AUSTRALIAN ECONOMY

Australia’s economic recovery had been stronger than earlier expected, prior to the recent outbreaks of COVID-19. Gross domestic product (“**GDP**”) had exceeded its pre-pandemic level and the unemployment rate declined further over the June 2021 quarter to be below its level prior to the pandemic. The broadbased rebound in private domestic demand has been supported by accommodative fiscal and monetary policy, and timely indicators suggest growth in private demand remained strong in the June 2021 quarter. The recent lockdowns in several states will weigh heavily on activity and the labour market in the September 2021 quarter. The Australian Government and state and territory governments have introduced substantial additional fiscal measures to support households and businesses through this period. The near-term outlook is highly uncertain and largely dependent on health outcomes; however, past experience of these events, both in Australia and elsewhere, suggests the negative effects on the economy will be temporary. Beyond the near term, the outlook is a little stronger than expected at the time of the previous Statement on Monetary Policy by the Reserve Bank of Australia. The closure of the international border and other pandemic-related disruptions will continue to have a significant effect on some parts of the economy.

The Australian economy grew by 1.8% in the March 2021 quarter, to be around 1% above its level at the end of 2019. The recent outbreaks of the Delta variant of COVID-19 and accompanying lockdowns will depress economic activity, especially in the September 2021 quarter, and temporarily reverse the

improvement in the labour market. Output in the September 2021 quarter is now expected to contract by at least 1% – instead of rising by a similar amount as expected prior to the lockdowns – with some but not all of the decline recovered in the December 2021 quarter (assuming limited further lockdowns).

The policy measures implemented by the Reserve Bank of Australia since March 2020 continue to underpin very low interest rates in the Australian economy. These measures include the reductions in the cash rate, the use of forward guidance, the yield target, the bond purchase program and the Term Funding Facility (TFF). In recent months, banks’ funding costs and lending rates have declined a little further to new lows. Long-term Australian government bond yields have declined over recent months, returning to be close to levels seen in the early months of the year. This has occurred alongside declines in bond yields globally.

(Source: Reserve Bank of Australia, Statement on Monetary Policy, August 2021)

6. EFFECTS OF THE REVISED RENTAL RATE

6.1 Share capital and substantial shareholder’s shareholdings

The Rental Revision will not have any effect on the share capital as well as substantial shareholders' shareholdings in KPJ as the Proposed Lease Renewal does not involve issuance of shares in KPJ.

6.2 Net assets (“NA”), NA per share and gearing

Based on KPJ’s consolidated audited statement of financial position as at 31 December 2020 and on the assumption that The Rental Revision had been affected on that date, there will be no impact on the consolidated NA per share and gearing of KPJ.

6.3 Earnings and earnings per share (“EPS”)

For illustrative purposes only, based on the audited consolidated financial statements of KPJ for the financial year ended (“FYE”) 31 December 2020 and assuming that the Rental Revision was effected at the beginning of that financial year, the pro forma consolidated earnings and EPS would have been as follows:

	Pro forma consolidated earnings
	RM'000
Audited profit after tax attributable to owners of KPJ	110,443
Add: Reduction in depreciation and finance charge – MFRS 16 (Lease impact)	6,391
Pro forma profit	116,834
<u>Existing</u>	
Basic EPS (sen)	2.58
Diluted EPS (sen)	2.48
<u>Pro forma</u>	
Basic EPS (sen)	2.73
Diluted EPS (sen)	2.62

The financial impact above will be subject to the Company’s auditor confirmation.

7. APPROVALS REQUIRED

The Rental Revision is not subject to the approvals of any regulatory authorities and shareholders of KPJ.

8. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

Save as disclosed below, none of the Directors, major shareholders of the Company and/or persons connected to them have any interest, either direct or indirect, in the Rental Revision, except for:

8.1 Interested Major Shareholders' Interest

The direct and indirect shareholdings of the Major Shareholders in KPJ as at 30 September 2021, being the latest practicable date ("LPD") are as follows:-

	Direct		Indirect	
	No. of Units	%	No. of Units	%
	'000		'000	
JCorp	1,545,916	35.96	109,404	2.54

Note:-

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

The direct and indirect shareholdings of the persons connected to the Interested Major Shareholders in KPJ as at LPD are as follows:-

	Direct		Indirect	
	No. of Units	%	No. of Units	%
	'000		'000	
JCorp Capital Solutions Sdn. Bhd.	88,000	2.04	-	-
Kulim (Malaysia) Berhad	18,939	0.44	-	-
Johor Ventures Sdn Bhd	2,449	0.06	-	-
Johor Land Berhad	16	-	-	-

JCorp is a Major Shareholder of KPJ. JCorp is deemed interested in the Rental Revision ("**Interested Major Shareholder**") in view of JCorp being a major shareholder of KPJ and also the holding company of Damansara REIT Managers Sdn Berhad ("DRMSB"), the manager of Al-'Aqar. DRMSB is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, which in turn is a wholly-owned subsidiary of JCorp.

8.2 Interested Directors' Interest

- (i) Tan Sri Dr. Ali Hamsa is a Non-Independent Non-Executive Chairman of KPJ and also Deputy Chairman of Johor Corporation ("JCorp");
- (ii) Rozaini Mohd Sani is a Non-Independent Non-Executive Director of KPJ and also a senior management of Johor Corporation ("JCorp");
- (iii) Shamsul Anuar Abdul Majid is a Non-Independent Non-Executive Director of KPJ, a Non-Independent Non-Executive Director of DRMSB and also a senior management of JCorp; and
- (iv) Dato' Mohd Redza Shah Abdul Wahid, is an Independent Non-Executive Director of KPJ and also an Independent Non-Executive Chairman of DRMSB (collectively referred to as "**Interested Directors**")

Accordingly, the Interested Directors have abstained from deliberating and voting on the resolution pertaining to the Rental Revision at the relevant Board meetings.

The Interested Directors and Interested Major Shareholder are collectively referred to as “**Interested Parties**”.

9. DIRECTORS’ OPINION

The Board, save for the Interested Directors, after having considered all aspects of the Rental Revision, including the rationale for the Rental Revision, the salient terms of the Amendment to Lease and the independent valuation by CBRE is of the opinion that the Rental Revision is :

- (i) in the best interest of KPJ
- (ii) fair, reasonable and on normal commercial terms; and
- (iii) not detrimental to the interest of the non-interested shareholders of KPJ

10. ESTIMATED TIMEFRAME FOR COMPLETION

The Amendment to Lease is deemed completed on 15 October 2021, being the date of signing of the Amendment to Lease.

11. DOCUMENTS FOR INSPECTION

The Lease Agreement and the Amendment to Lease are available for inspection at the registered office of KPJ at Level 13, Menara KPJ, 238, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia during normal business hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this Announcement.

This Announcement is dated 15 October 2021.