

## KPJ HEALTHCARE BERHAD (“KPJ” OR “COMPANY”)

### PROPOSED LEASE RENEWAL

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#### 1. INTRODUCTION

On behalf of the Board of Directors of KPJ (“**Board**”), Affin Hwang Investment Bank Berhad (“**Affin Hwang IB**”) wishes to announce that the subsidiaries of KPJ (as detailed in Section 2 of this announcement) (“**Subsidiaries**”) propose to enter into 4 separate lease agreements with AmanahRaya Trustees Berhad (“**ART**” or “**Lessor**”), being the trustee for and on behalf of Al-`Aqar Healthcare REIT (“**Al-`Aqar**”), and Damansara REIT Managers Sdn. Bhd. (“**DRMSB**” or “**Manager**”), being the manager of Al-`Aqar (“**Lease Agreements**”), to renew the lease of the Properties (as defined in Section 2 of this announcement) (“**Proposed Lease Renewal**”).

The Proposed Lease Renewal is a related party transaction pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) (“**Listing Requirements**”) by virtue of the interests of the Interested Directors and Interested Major Shareholder as detailed in Section 7 of this announcement.

Further details of the Proposed Lease Renewal are set out in the ensuing sections.

#### 2. DETAILS OF THE PROPOSED LEASE RENEWAL

The Subsidiaries had, on 16 June 2008, entered into lease agreements with the Lessor, being the trustee for and on behalf of Al-`Aqar to lease the properties held by Al-`Aqar in relation to the hospitals and a wellness centre, set out in the table below (“**Principal Lease Agreements**”).

The initial 15-year contractual lease period under the Principal Lease Agreements has expired on 28 February 2023 (“**Initial Contractual Term**”). Subsequently the Subsidiaries, the Lessor, being the trustee for and on behalf of Al-`Aqar, and DRMSB, being the manager of Al-`Aqar, had entered into memorandums of extension in relation to the 4 Principal Lease Agreements on 24 February 2023 to extend each of the lease periods from 1 March 2023 until 30 April 2023 with a right to extend for a further period of 2 months up to 30 June 2023 at the Subsidiaries’ request (“**Memorandums of Extension**”). The monthly rent payable under the Memorandums of Extension is equivalent to the respective rent amount of the final month under the Initial Contractual Term.

The Lessor, had on 20 April 2023, received a letter from KPJ requesting for an extension of the extended contractual term for a further period of 2 months until 30 June 2023 and at the expiry, to extend for a further period of 3 months until 30 September 2023. On 26 June 2023, the Subsidiaries, Lessor and the Manager entered into supplemental Memorandums of Extension to amend and vary the terms of the Memorandums of Extension pending the execution of the Lease Agreements, to extend the lease period for a further period of 2 months until 30 June 2023 with an option to extend for an additional period of 3 months until 30 September 2023 at the Subsidiaries’ request, and to execute the Lease Agreements in escrow (“**Supplemental Memorandums of Extension**”). The monthly rent payable under the Supplemental Memorandums of Extension is equivalent to the respective rent amount of the final month under the Initial Contractual Term.

The following Subsidiaries propose to enter into the Lease Agreements with ART, being the trustee for and on behalf of Al-Aqar and DRMSB, being the manager of Al-Aqar to renew the lease of the following hospitals/wellness centre (collectively referred to as “**Properties**”) for the following lease periods after the expiry of the lease periods as stipulated under the Supplemental Memorandums of Extension.

The Lease Agreements will be dated upon fulfilment of the conditions precedent as stipulated in the Lease Agreements and the date of commencement of the following leases will be 1 October 2023:

<b>Subsidiaries</b>	<b>Properties</b>	<b>Renewed lease period sought (“Contractual Term”)</b>
<b><u>Hospitals</u></b>		
(i) Kajang Specialist Hospital Sdn Bhd	KPJ Kajang Specialist Hospital (“ <b>KJG</b> ”)	15 years with an option to extend for another 15 years
(ii) Perdana Specialist Hospital Sdn Bhd	KPJ Perdana Specialist Hospital (“ <b>PDN</b> ”)	15 years with an option to extend for another 15 years
(iii) Sentosa Medical Centre Sdn Bhd	KPJ Sentosa KL Specialist Hospital (“ <b>SeKL</b> ”)	<sup>(1)</sup> 3 years with an option to extend for another 15 years
<b><u>Wellness Centre</u></b>		
(iv) Kuantan Wellness Center Sdn Bhd	Kuantan Care & Wellness Centre (“ <b>KTN</b> ”)	<sup>(1)</sup> 3 years with an option to extend for another 15 years

Note:

(1) *The management of KPJ is currently deliberating on the future business directions for both SeKL and KTN. In view of this, the management has decided to seek a shorter renewal lease period of 3 years for SeKL and KTN.*

(collectively, the Subsidiaries are referred to as “**Lessees**”, and either one of them is referred to as “**Lessee**”.)

## 2.1 Information on the Properties

The details of the Properties are as follows:

	KJG	PDN	SeKL	KTN						
<b>Description</b>	A 7-storey purpose-built private specialist medical centre together with a lower ground floor which partly accommodates dialysis/haemodialysis area and partly car park area	A 5-storey purpose-built private specialist medical centre with a sub-basement	An 8-storey purpose-built private specialist medical centre together with a lower ground floor accommodating mechanical and equipment area and car park area	A three and a half storey private specialist medical centre (Block A) (Old Wing), a 5-storey private specialist medical centre (Block B) (New Wing), and ancillary buildings. KTN is currently operating as a dialysis, assisted living care, confinement and rehabilitation centres						
<b>Address</b>	Lot No. 53903, Batu 14 3/4, Jalan Cheras, 43000 Kajang, Selangor Darul Ehsan	Lot PT 37 & 600 and Lot 684 (Level 1, 2 & 3), Seksyen 14, Jalan Bayam, 15200 Kota Bharu, Kelantan Darul Naim	36, Jalan Chemur, Kompleks Damai, 50400 Kuala Lumpur	No. 51, Jalan Alor Akar, Taman Kuantan, 25250 Kuantan, Pahang Darul Makmur						
<b>Tenure</b>	Freehold	<table border="1"> <thead> <tr> <th>Lot</th> <th>Tenure</th> </tr> </thead> <tbody> <tr> <td>Lot 657 (formerly PT 37)</td> <td>66-year leasehold interest expiring on 25 May 2064</td> </tr> <tr> <td>PT No. 705 (formerly PT 600)</td> <td>66-year leasehold interest expiring on 8 May 2082</td> </tr> </tbody> </table>	Lot	Tenure	Lot 657 (formerly PT 37)	66-year leasehold interest expiring on 25 May 2064	PT No. 705 (formerly PT 600)	66-year leasehold interest expiring on 8 May 2082	Freehold	Freehold
Lot	Tenure									
Lot 657 (formerly PT 37)	66-year leasehold interest expiring on 25 May 2064									
PT No. 705 (formerly PT 600)	66-year leasehold interest expiring on 8 May 2082									
<b>Gross floor area (sq. ft.)</b>	191,142	147,541	97,876	72,974						
<b>Age of the buildings</b>	17 years	21 years	25 years	<table border="1"> <thead> <tr> <th>Building</th> <th>Age</th> </tr> </thead> <tbody> <tr> <td>Block A (Old Wing)</td> <td>37</td> </tr> <tr> <td>Block B (New Wing)</td> <td>22</td> </tr> </tbody> </table>	Building	Age	Block A (Old Wing)	37	Block B (New Wing)	22
Building	Age									
Block A (Old Wing)	37									
Block B (New Wing)	22									

	<b>KJG</b>	<b>PDN</b>	<b>SeKL</b>	<b>KTN</b>
<b>Net book value</b> <sup>(1)</sup> <b>(RM'000)</b>	52,000	42,000	31,000	16,500
<b>Market value</b> <sup>(2)</sup> <b>(RM'000)</b>	64,000	46,000	30,100	17,000

Notes:

(1) *Based on the fair values of the Properties as reported in Al-`Aqar's Annual Report for the financial year ended 31 December 2022.*

(2) *Based on the valuations conducted on each of the Properties by the Independent Valuer (as defined herein) as at the respective dates of valuation as disclosed in Section 2.3 of this announcement.*

## 2.2 Salient terms of the Lease Agreements

The salient terms of the Lease Agreements are as follows:

### (I) Conditions Precedent

The Lease Agreements are conditional upon the fulfilment of the following conditions:

- (a) the approval of the shareholders of KPJ, as the Lessee's ultimate holding company being obtained in respect of the Proposed Lease Renewal;
- (b) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Lease Renewal; and
- (c) any other regulatory and/or governmental authorities' approval, if required, to be obtained by the Lessee and/or KPJ and the Trustee, on behalf of Al-`Aqar.

### (II) Rental Term

- **KJG and PDN**

The term of the Lease Agreement shall be 15 years.

- **SeKL and KTN**

The term of the Lease Agreement shall be 3 years.

“**Rental Term**” refers to each separate 3-year period within the Contractual Term and “**Open Market Value**” refers to the reasonable and fair market value of the respective Properties as determined by the Independent Valuer (as defined in Section 2.3 below) or as may be varied, subject to mutual agreement by the Lessor, Manager and the Lessee.

### (III) Rent

- (i) The rent shall be denominated in RM and the formula for determination of the rent for the Properties is as follows:

- **KJG and PDN**

- (a) Rent formula

First Rental Term	Rent Formula
1 <sup>st</sup> year	6.25% per annum x Open Market Value of the Property (“ <b>Base Rent</b> ”)
2 <sup>nd</sup> & 3 <sup>rd</sup> year	2.00% incremental increase x rent for the preceding year.

(b) Rent review formula

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

Succeeding Rental Terms	Rent Review Formula
1 <sup>st</sup> year of every succeeding Rental Term (Years 4, 7, 10 and 13)	6.25% per annum x Open Market Value of the Property at the point of review, subject to: (i) a minimum rent of the Base Rent of the 1 <sup>st</sup> year of the previous Rental Term; and (ii) any adjustment to the rent shall not be more than 2.00% incremental increase over the rent for the preceding year.
2 <sup>nd</sup> & 3 <sup>rd</sup> year of every succeeding Rental Term (Years 5, 6, 8, 9, 11, 12, 14, 15)	2.00% incremental increase x rent for the preceding year.

• **SeKL and KTN**

Rent formula

First Rental Term	Rent Formula
1 <sup>st</sup> year	6.00% per annum x Open Market Value of the Property
2 <sup>nd</sup> & 3 <sup>rd</sup> year	2.00% incremental increase x rent for the preceding year.

- (ii) The security deposit to be paid to the Lessor is equivalent to 2 times of the prevailing monthly rent and shall be retained in trust by the Trustee throughout the Contractual Term.

Please refer to Appendix I of this announcement for the other salient terms of the Lease Agreements.

### 2.3 Basis of and justification for the Rental Rate

KPJ had appointed Cheston International (KL) Sdn. Bhd. As the independent valuer for the Proposed Lease Renewal ("**Cheston**" or "**Independent Valuer**"). In arriving at the market value of the Properties:

- (i) for KJG, PDN and SeKL, Cheston had adopted the income approach by profits method (discounted cash flow) as the primary approach, and the cost method comprising the comparison method for land and depreciated replacement cost method for building as the secondary approach for cross-checking; and
- (ii) for KTN, Cheston had adopted the cost approach comprising the comparison method for land and depreciated replacement cost method for building as the sole approach. No secondary approach was used as KTN's current operations as a dialysis, assisted living care, confinement and rehabilitation centre do not reflect the investment characteristics of a purpose-built private medical centre ("**PMC**"). Further, revenue generated from its current operations is inadequate for a purpose-built PMC and therefore it is inappropriate to adopt the income approach by profits method (discounted cash flow) as a suitable valuation methodology and may result in a distorted market value.

The Open Market Value of each Property to be adopted in the Lease Agreements for the calculation of rent payable for the Properties (based on the rent formula as set out in Section 2.2 of this announcement) was arrived at subsequent to negotiations between Lessee, ART and DRMSB.

The market values as ascribed by the Independent Valuer and the Open Market Values of the Properties is as follows:

Property	Date of valuation by Cheston	Market value as ascribed by Cheston	Open Market Value
		RM'mil	RM'mil
KJG	16 February 2023	64.00	64.00
PDN	20 February 2023	46.00	46.00
SeKL	17 February 2023	30.10	30.00
KTN	21 February 2023	17.00	17.00
<b>Total</b>		<b>157.10</b>	<b>157.00</b>

#### Rent Formula for Year 1 of the Contractual Term

The rental rates of the Properties ("**Rental Rates**") for Year 1 of the Contractual Term and the total rent payable for Year 1 are as follows:

Property	Rental Rate	Rent for Year 1 RM'mil
KJG	6.25%	4.00
PDN	6.25%	2.88
SeKL	6.00%	1.80
KTN	6.00%	1.02
<b>Total</b>		<b>9.70</b>

The Rental Rates were negotiated between the parties. For shareholders' information, based on the Rental Rates against the respective Open Market Values of the Properties, the Company, via the Subsidiaries, is expected to pay total gross rent of approximately RM9.70 million for the first year of the Contractual Term. This represents a reduction of RM0.86 million or 8.14% compared to the existing rent of RM10.56 million (for the 2022/2023 rental term).

The Rental Rates for KJG and PDN are higher at 6.25% compared to the Rental Rates for SeKL and KTN at 6.00%. The lower rental rate for SeKL is due to, among others, higher competition among medical centres and hospitals in Kuala Lumpur, the physical building condition of SeKL being a 25-year old building, the lack of facilities thereof and its location along a secondary major road with heavy traffic congestion which affects its accessibility. The lower rental rate has been accorded to the lease of KTN due to its nature of business as a wellness centre offering dialysis, assisted living care, confinement and rehabilitation services, which are comparatively lesser when compared to healthcare services offered at hospitals and medical centres.

After taking into consideration direct expenses of the Properties to be borne by the Lessor such as assessment, takaful, maintenance and quit rent, the net rental yield of the Properties will be between 5.10% to 5.93% per annum.

The Independent Valuer had observed that based on their analysis of net rental yields of the investment properties transacted in 2019 and 2020 comprising UOA Corporate Tower, The Pinnacle Sunway and Menara Guoco, the net rental yields ranged between 4.96% to 6.28% whilst the net rental yields of IGB Commercial REIT which was launched in April 2021 ranged between 3.16% to 5.47%. The analysed net rental yield of the proposed buyback of Sunway Medical Centre by Sunway Medical Centre Sdn Bhd from Sunway Real Estate Investment Trust (which was announced on 29 December 2022) is 6.15%.

Further, the rental rates of the newly renewed 6 medical centres in the mid-2021, between Al-Aqar and KPJ comprising KPJ Ampang Puteri Specialist Hospital, KPJ Damansara Specialist Hospital, KPJ Johor Specialist, KPJ Puteri Specialist Hospital, KPJ Selangor Specialist Hospital and KPJ Ipoh Specialist Hospital, had a net rental yield of about 5.30%. The rental rate of KPJ Pasir Gudang Specialist Hospital via a sale and leaseback arrangement in 2022 had a net rental yield of 5.30%.

Taking into consideration the above and the current state of the Malaysian economy, property market and healthcare industry which have been impacted by the Covid-19 pandemic, fears of a looming global recession, geopolitical risk, current cost of financing as well as interest rates of short and long-term securities, and after making comparisons with a broad spectrum of residential, commercial, industrial and agricultural properties in Malaysia, the Independent Valuer is of the view that the range of fair net rental yields of the Properties are between 5.50% to 6.00%. The net Rental Rates of KJG and PDN for the first rental year are within this range. The net Rental Rates of SeKL and KTN for the first rental year are below the range which is favourable to KPJ.

In addition, the Rental Rates for the first year of the Contractual Term were also arrived at after taking into consideration the following:

- (a) The gross property yield of commercial properties acquired by all Malaysian real estate investment trusts listed on Bursa Securities ("**Listed REITs**") in year 2022 up to 15 June 2023, being the latest practicable date prior to the date of this announcement ("**LPD**"), which ranges from 5.28% to 9.98% (*Source: Listed REITs' announcements on www.bursamalaysia.com*); and
- (b) The performance of the Listed REITs where the gross property yields (excluding foreign properties) ranges from 1.16% to 7.24% in 2021 and 2.20% to 8.37% in 2022.

#### Rent Formula for Years 2 and 3 of each Rental Term

The basis for the 2.00% incremental increase per annum over the rent amount for the preceding year for the subsequent rental years (i.e. Years 2 and 3 of each Rental Term) was arrived at after taking into consideration the average monthly movement of the consumer price index for the past 10 years up to May 2023 of approximately 2.39% (excluding the monthly consumer price index recorded for the year 2020, being the Covid-19 pandemic year). (*Source: Bloomberg*).

#### Rent Review Formula for Years 4, 7, 10 and 13 of the Contractual Term

The rent review formula for the first year of every succeeding Rental Term (i.e. Years 4, 7, 10 and 13) was arrived at to cater for potential revision to the market value of the Properties arising from a revaluation of the Properties by an independent valuer to be appointed jointly or severally and/or mutually agreed to by the parties to the Lease Agreements. The Open Market Value will then be determined by the parties accordingly. In such cases, there may be a potential increase in rent payable by KPJ.

We further wish to highlight that if there are any increase to the gross floor area of the Properties as a result of any expansion or new development as defined in the Lease Agreements, a new lease agreement or supplemental lease agreement will be executed for the lease of such expansion and/or new development. The total rent amount payable will then be revised accordingly to include the rent payable by the Lessee for the expansion and/or new development, subject to the terms and conditions of the new lease agreement or supplemental lease agreement.



For clarification, the rent review formula of 6.25% of the Open Market Value for KJG and PDN and 6.00% of the Open Market Value for SeKL and KTN at the point of review is the basis for determining the rent amount. At each subsequent Rental Term, the lowest rent amount that can be charged is the rent payable for the first year of the preceding Rental Term, assuming that the Open Market Value remains unchanged, and the maximum rent amount is a 2.00% incremental increase over the RM value of the rent for the preceding year.

Premised on the above, the Rental Rates are justified.

## **2.4 Information on Al-`Aqar**

Al-`Aqar is a real estate investment trust with an existing fund size of 839,597,757 units. The investment objective of Al-`Aqar is to own and invest in Shariah-compliant healthcare-related real estate and real estate-related assets, whether directly or indirectly through the ownership of single-purpose companies whose principal assets comprise real estate.

Al-`Aqar was established in Malaysia on 27 June 2006 under the trust deed dated 27 June 2006 entered into between DRMSB and ART. Al-`Aqar was listed on the Main Market of Bursa Securities on 10 August 2006.

The trustee for Al-`Aqar when the Principal Lease Agreements were first entered into was Amanah Raya Berhad and was subsequently replaced by ART, a subsidiary of Amanah Raya Berhad which is wholly owned by the Government of Malaysia. ART entered into the subsequent agreements relating to the Principal Lease Agreements.

For more information on Al-`Aqar, please refer to <http://www.alaqar.com.my>.

## **3. RATIONALE AND BENEFITS OF THE PROPOSED LEASE RENEWAL**

The Proposed Lease Renewal will ensure that there are no disruptions to the ongoing operations of KPJ and its subsidiaries ("**KPJ Group**"), and the Subsidiaries are able to continue operating at their existing locations.

## **4. RISK FACTORS IN RELATION TO THE PROPOSED LEASE RENEWAL**

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

The non-renewal of the lease of the Properties will result in the Subsidiaries not being able to continue its ongoing operations at the Properties and may have an impact on the long-term sustainability of KPJ's business. In such event, KPJ Group would use its best endeavours to identify other properties to carry out its operations. However, as the properties must be purpose-built hospitals, there can be no assurance that KPJ Group would be able to identify suitable properties to continue its operations and that such relocation would not have a material adverse impact on the financial performance and position of KPJ Group.

## **5. EFFECTS OF THE PROPOSED LEASE RENEWAL**

### **5.1 Issued share capital and substantial shareholders' shareholdings**

The Proposed Lease Renewal will not have any effect on KPJ's issued share capital and substantial shareholders' shareholdings as there will be no issuance of new ordinary shares in KPJ ("**KPJ Shares**" or "**Shares**") pursuant to the Proposed Lease Renewal.

## 5.2 Earnings and earnings per share (“EPS”)

Pursuant to the Malaysian Financial Reporting Standard 16, there will continue to be depreciation and finance charges to KPJ Group as a result of the Proposed Lease Renewal. The Lease Agreements are expected to commence and be effective in the 4<sup>th</sup> quarter of 2023. The impact to the earnings and EPS of KPJ Group is not expected to be material for the financial year ending 31 December 2023.

## 5.3 Net assets (“NA”), NA per Share and gearing

Based on KPJ’s latest audited consolidated statements of financial position as at 31 December 2022 and assuming the Proposed Lease Renewal had been effected on that date, there will be no material impact on KPJ’s consolidated NA, NA per Share and gearing.

## 6. APPROVALS REQUIRED AND CONDITIONALITY

The Proposed Lease Renewal is subject to the following approvals being obtained from:

- (i) the shareholders of KPJ at an extraordinary general meeting (“EGM”) to be convened for the Proposed Lease Renewal;
- (ii) the unitholders of Al-`Aqar at its EGM to be convened for the Proposed Lease Renewal; and
- (iii) any other regulatory and/or governmental authorities, if required, to be obtained by the Subsidiaries and/or KPJ and ART, on behalf of Al-`Aqar.

The Proposed Lease Renewal is not conditional upon any other corporate exercise which has been announced but not yet completed and/or any other corporate exercise by KPJ. In addition, the 4 separate Lease Agreements are not inter-conditional upon each other.

## 7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

Save as disclosed below, none of the other Directors, major shareholders of the Company and/or persons connected with them have any interest, either direct or indirect, in the Proposed Lease Renewal.

### 7.1 Interested Major Shareholder’s Interest

Johor Corporation (“JCorp”) is deemed interested in the Proposed Lease Renewal (“Interested Major Shareholder”) by virtue of the following:

- (i) JCorp being a major shareholder of KPJ. JCorp’s shareholdings in KPJ as at the LPD are as follows:

	Direct		Indirect	
	No. of KPJ Shares (‘000)	%	No. of KPJ Shares (‘000)	%
JCorp	1,550,015	35.51	413,660	9.48 <sup>(1)</sup>

Note:

- (1) Deemed interested by virtue of its interests in Kulim (Malaysia) Berhad, Johor Ventures Sdn. Bhd., RHB Nominees (Tempatan) Sdn. Bhd. For JCorp Capital Solutions Sdn. Bhd., Johor Land Berhad and Waqaf An-Nur Corporation Berhad pursuant to Section 8 of the Companies Act 2016 (“Act”).

- (ii) DRMSB, being the manager of Al-`Aqar, is a wholly-owned subsidiary of Damansara Assets Sdn. Bhd., which in turn is a wholly-owned subsidiary of JCorp.

Accordingly, JCorp shall abstain from voting in respect of its direct and indirect shareholdings in KPJ on any resolution pertaining to the Proposed Lease Renewal which will be tabled at the Company's EGM to be convened. In addition, JCorp shall also undertake to ensure that persons connected to JCorp, shall abstain from voting in respect of their direct and indirect shareholdings in KPJ on any resolution pertaining to the Proposed Lease Renewal which will be tabled at the Company's EGM to be convened.

## 7.2 Interested Directors' Interest

- (i) Datuk Md Arif Bin Mahmood is a Non-Independent Non-Executive Chairman of KPJ and also a Board representative of JCorp, a major shareholder of KPJ;
- (ii) Dato' Mohd Redza Shah Bin Abdul Wahid is a Senior Independent Non-Executive Director of KPJ and also an Independent Non-Executive Chairman of DRMSB, the manager of Al-`Aqar;
- (iii) Rozaini Bin Mohd Sani is a Non-Independent Non-Executive Director of KPJ, a senior management of JCorp, and also a Director in Damansara Assets Sdn. Bhd., a subsidiary of JCorp and the holding company of DRMSB;
- (iv) Shamsul Anuar Bin 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
- (v) Mohamed Ridza Bin Mohamed Abdulla is the Independent Non-Executive Director of KPJ and also the Managing Partner of Mohamed Ridza and Co., where the firm is acting as the legal counsel for Al-`Aqar in relation to the Proposed Lease Renewal.

(collectively referred to as "**Interested Directors**")

Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations and voting on any resolution pertaining to the Proposed Lease Renewal at Board meetings. The Interested Directors will also abstain from voting in respect of their direct and indirect shareholdings in KPJ on any resolution pertaining to the Proposed Lease Renewal which will be tabled at the Company's EGM to be convened. They shall also undertake to ensure that persons connected with them shall abstain from voting in respect of their direct and/or indirect shareholdings on any resolution pertaining to the Proposed Lease Renewal which will be tabled at the Company's EGM to be convened.

As at the LPD, save for the following, none of the other Interested Directors have any shareholdings in KPJ:

	Direct		Indirect	
	No. of KPJ Shares	%	No. of KPJ Shares	%
Datuk Md Arif Bin Mahmood	60,000	*	-	-

\* *Negligible*

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

## 8. TRANSACTIONS WITH THE SAME RELATED PARTY FOR THE PRECEDING 12 MONTHS

Save for the following, there were no other transactions (excluding transactions in the ordinary course of business) entered into between KPJ with the same related party during the 12 months preceding the date of this announcement:

- The Memorandums of Extension and Supplemental Memorandums of Extension, details as set out in Section 2 of this announcement;
- The Company had, on 2 September 2022, announced that 3 of its subsidiaries had on the same date, entered into separate sale and purchase agreements with ART, being the trustee for and behalf of Al-`Aqar for the sale of the following land and/or buildings for a total consideration of RM192.00 million ("**Sale**"):

Hospitals		Subsidiaries	Properties disposed	Consideration RM'mil
(i)	KPJ Pasir Gudang Specialist Hospital	Pasir Gudang Specialist Hospital Sdn Bhd	KPJ Pasir Gudang Specialist Hospital land and building	93.00
(ii)	TMC Health Centre	Penang Specialist Hospital Sdn Bhd	TMC Health Centre building	14.30
(iii)	KPJ Seremban Specialist Hospital	Maharani Specialist Hospital Sdn Bhd	A new building forming part of KPJ Seremban Specialist Hospital building	84.70
<b>Total</b>				<b>192.00</b>

As a condition to the Sale, each of the 3 subsidiaries entered into a lease agreement with ART (acting on behalf of Al-`Aqar), and DRMSB, for the lease of the properties back to the respective subsidiaries upon the terms and conditions agreed between the aforesaid parties ("**Leaseback**").

The Sale and Leaseback were approved by both KPJ's shareholders and Al-`Aqar's unitholders at their EGMs held on 12 December 2022 and 13 December 2022 respectively. The lease agreements in relation to the Leaseback commenced on 23 December 2022.

- The Company had, on 13 September 2022, announced the disposal of 2 parcels of vacant freehold development land in Bethania Queensland Australia by Jeta Gardens (Qld) Pty Ltd (A.C.N. 102 975 182) (Jeta) a subsidiary of KPJ to Jland Australia Pty Ltd (A.C.N. 657 536 779) for a total cash consideration of Australian Dollars (AUD) 6.50 million.

The said disposal was approved by KPJ's shareholders in its EGM held on 12 April 2023.

## 9. AUDIT COMMITTEE'S STATEMENT

The Audit Committee (save for Dato' Mohd Redza Shah Bin Abdul Wahid and Rozaini Bin Mohd Sani), after having considered all aspects of the Proposed Lease Renewal, including the rationale and effects of the Proposed Lease Renewal, the basis and justifications for the rental rate and formula, the terms of the Lease Agreements, valuation of the Properties as ascribed by the Independent Valuer as well as the preliminary notation of the Independent Adviser (as defined herein) for the Proposed Lease Renewal, is of the opinion that the Proposed Lease Renewal is:

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

## 10. DIRECTORS' STATEMENT

The Board, save for the Interested Directors, after having considered all aspects of the Proposed Lease Renewal, including the rationale and effects of the Proposed Lease Renewal, the basis and justifications for the rental rate and formula, the terms of the Lease Agreements, valuation of the Properties as ascribed by the Independent Valuer as well as the preliminary notation of the Independent Adviser (as defined herein) for the Proposed Lease Renewal, is of the opinion that the Proposed Lease Renewal is in the best interest of the Company.

## 11. ADVISER

Affin Hwang IB has been appointed as the Principal Adviser for the Proposed Lease Renewal.

## 12. INDEPENDENT ADVISER

The Proposed Lease Renewal is a related party transaction pursuant to the Listing Requirements. In view of the interests of the Interested Parties in relation to the Proposed Lease Renewal as set out in Section 7 of this announcement, and in compliance with Paragraph 10.08(2)(c) of the Listing Requirements, the Company had, on 19 April 2023, appointed BDO Capital Consultants Sdn. Bhd. to act as the independent adviser ("**Independent Adviser**") to undertake the following:

- (i) comment as to whether the Proposed Lease Renewal is:
  - (a) fair and reasonable in so far as KPJ's non-interested shareholders are concerned;
  - (b) to the detriment of KPJ's non-interested shareholders,and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;
- (ii) advise KPJ's non-interested Directors and shareholders on whether they should vote in favour of the resolution pertaining to the Proposed Lease Renewal at the Company's EGM to be convened; and
- (iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to items (i) and (ii) above.

**13. HIGHEST PERCENTAGE RATIO APPLICABLE**

The highest percentage ratio applicable for the Proposed Lease Renewal pursuant to Paragraph 10.02(g) of the Listing Requirements is 5.73%, calculated based on the total rent payable by KPJ throughout the Contractual Term (being 15 years for KJG and PDN, and 3 years for SeKL and KTN), compared with the net assets attributable to the shareholders of the Company.

**14. ESTIMATED TIME FRAME FOR COMPLETION**

Barring any unforeseen circumstances and subject to the required approvals being obtained, the Lease Agreements are expected to commence and be effective in the 4<sup>th</sup> quarter of 2023.

**15. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Memorandums of Extension, Supplemental Memorandums of Extension, Lease Agreements (executed in escrow), valuation reports and valuation certificate on the Properties are available for inspection at the registered office of KPJ at Level 13, Menara KPJ, 238, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia from Monday to Fridays (except public holidays) during business hours for a period of 3 months from the date of this announcement.

This announcement is dated 27 June 2023.

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

1. The Lessees will respectively enter into a Lease Agreement with the Lessor and the Manager as follows:
  - (a) Kajang Specialist Hospital Sdn Bhd for the lease of KJG together with its land for a period of 15 years commencing from 1 October 2023, after the expiry of the Supplemental Memorandum of Extension on 30 September 2023, with an option to renew for another 15 years;
  - (b) Perdana Specialist Hospital Sdn Bhd for the lease of PDN together with its land for a period of 15 years commencing from 1 October 2023, after the expiry of the Supplemental Memorandum of Extension on 30 September 2023, with an option to renew for another 15 years;
  - (c) Sentosa Medical Centre Sdn Bhd for the lease of SeKL together with its land for a period of 3 years commencing from 1 October 2023, after the expiry of the Supplemental Memorandum of Extension on 30 September 2023, with an option to renew for another 15 years; and
  - (d) Kuantan Wellness Center Sdn Bhd for the lease of KTN together with its land for a period of 3 years commencing from 1 October 2023, after the expiry of the Supplemental Memorandum of Extension on 30 September 2023, with an option to renew for another 15 years.
2. The Lessor and the Lessees agree that the Properties shall be used strictly for the purpose of operating a healthcare facility which operation and usage shall not be contrary to Shariah principles.
3. The Lessor shall during the Contractual Term, amongst others:
  - (a) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings in relation to the Properties;
  - (b) pay for quit rent and assessment of the Properties;
  - (c) maintain takaful coverage in respect of the Properties and the Lessor's fixtures and fittings, equipment and machinery in the Properties against fire and allied perils;
  - (d) appoint and pay to the maintenance manager for the maintenance and management services rendered by the maintenance manager in relation to the Properties; and
  - (e) be responsible to make good any major repair or total replacement of the Lessor's fixtures and fittings attached to the Properties.
4. The Lessees shall during the Contractual Term *inter alia* bear and pay or otherwise be responsible for all costs of all services and maintenance charges (where applicable) including without limitation services charges, utility charges, statutory payments (save for quit rent and assessments), and/or any other payments/ costs related to the Properties that the Lessees are responsible for during the Contractual Term.
5. Registration of Lease Instrument
  - (i) Notwithstanding the Rent Commencement Date, if required, the Lessee shall, upon execution of the Lease Agreement, apply to the authorities for consent for the creation of the lease for the Contractual Term in favour of the Lessee pursuant to the Lease Agreement.

**"Rent Commencement Date"** means 1 October 2023 being the date of commencement of the lease and rent of the Property payable by the Lessee.

- (ii) Subject to the prior consent of the Lessor's financier having been obtained by the Lessor (if required), on the Rent Commencement Date:
- (a) the Lessor and the Lessee shall execute the Form 15A of the National Land Code ("**Lease Instrument**") for the registration of the lease with the Registrar of Title or Land Administrator (whichever is applicable); and
  - (b) the Lessor shall forward the original issue document of title to the land on which the Property is located ("**Land**") to the Lessee.

In the event the registration of the lease is not or cannot be effected or perfected for any reason whatsoever not due to any fault of the parties, the parties agree that the Lessor shall grant and the Lessee shall take on a tenancy of the Property on the terms and conditions as stipulated whereupon the Contractual Term shall be for a fixed period of 3 years with an automatic renewal for additional 4 terms of 3 years each for a period. The Lessee shall have the option to procure the said tenancy to be endorsed on the original issue document of title to the Land with the Registrar of Title or Land Administrator (whichever is applicable).

- (iii) In the event the Land is duly charged by the Lessor or any other party having such right to charge the Land, the Lessee shall first obtain the written consent of the chargee by procuring chargee's signature on the Lease Instrument prior to attending to the registration of the Lease with the Registrar of Title or Land Administrator (whichever is applicable) in accordance with Section 226 of National Land Code.
- (iv) The Lessee shall attend to the following:
- (a) to submit the Lease Instrument for adjudication for assessment of stamp duty at the relevant stamp office;
  - (b) to pay the stamp duty of the Lease Instrument;
  - (c) to present the duly stamped Lease Instrument together with other relevant documents to the relevant land registry for registration of the lease in its favour; and
  - (d) upon completion of the registration of the Lease Instrument to extract and forward the original issue document of title to the Land to the Lessor for the Lessor's or its financier's (if any) safekeeping and retention.
- (v) The Lessor and the Lessee agree that they shall work together, as may reasonably be required, to complete and register the Lease Instrument in favour of the Lessee.

The parties acknowledge that the non-registration of the Lease Instrument for any reason whatsoever shall not affect the contractual operation of the lease and that the Lease Agreement will remain valid and enforceable under the law of contract.

## 6. Expansion

- (i) "**Expansion**" means the construction, renovations and/or refurbishment works within building of the Property and/or attached to building of the Property, undertaken by the Lessor or Lessee for the purposes of expansion of its business operations resulting:
- (a) in the increase of the gross floor area of the building of the Property; and
  - (b) in the increase of rent pursuant to the Lease Agreement.



## (ii) Option 1 of the Expansion

In the event the Lessee requests for Expansion and the Lessor and the Manager agree to meet the Expansion request of the Lessee according to Lessee's specification, the Lessor may, subject to the terms and conditions in the Lease Agreement, make the necessary arrangements, coordinate, manage, monitor and supervise any major structural alterations or additions to the building of the Property or work which may affect the:

- (a) structure of the Property (including but not limited to the roof and the foundation);
- (b) mechanical or electrical installations of the Property; or
- (c) provisions of any services in or to the Property.

The Lessor shall bear the development costs and expenses for, and related to the Expansion ("**Expansion Costs**") and shall be solely responsible to procure the financing for the Expansion.

## (iii) Option 2 of the Expansion

Notwithstanding Option 1 above, subject to the agreement between the parties to the Lease Agreement, the Lessee shall have the option to undertake the Expansion and bear the Expansion Costs, and the parties further agree that the Expansion Costs shall be reimbursed by the Lessor to the Lessee ("**Expansion Reimbursement Costs**") in accordance with the terms and conditions in the Lease Agreement.

## (iv) If the expansion results in an increase in the gross floor area of the Property, the increase in the monthly rent shall be computed as follows:

*Formula: (the rental rate to be agreed between the parties to the Lease Agreement x Expansion Reimbursement Costs or Expansion Costs, as the case may be)/12 calendar months.*

## (v) In the event the increase in the rent is incurred during mid of the relevant year of the Contractual Term, such rent shall be prorated to full financial year before applying it in the rent formula for rent increment as set out in the Lease Agreement.

## (vi) For avoidance of doubt, in the event the rent has been increased pursuant to item (iv) above, the Base Rent amount shall be revised accordingly to include the incremental amount and thereafter, the aforesaid Base Rent shall be applied in the rent review formula under the Lease Agreement for determination of the rent for the relevant succeeding rental terms.

## 7. New Development

## (i) New Development means the planning, design, and construction of a new building(s), carpark and/or other structures on the land where the Property is situated or any part thereof complete with inter alia the interior design, the landscape and the infrastructures related thereto.

## (ii) Option 1 of the New Development

The Lessor grants to the Lessee the right to undertake the New Development on the land where the Property is situated for the Lessee's business operations.

Notwithstanding the paragraph above, the Lessor shall have the option to undertake the New Development and bear the development costs and expenses for, and related to the New Development ("**New Development Costs**") and shall be solely responsible to procure the financing for the New Development, subject to the terms and conditions in the Lease Agreement.

## (iii) Option 2 of the New Development

Notwithstanding Option 1 above, subject to the agreement between the parties to the Lease Agreement, the Lessee shall have the option to undertake the New Development and bear the New Development Costs, and the parties to the Lease Agreement further agree that the New Development shall be acquired by the Lessor from the Lessee in accordance with the terms and conditions in the Lease Agreement.

## (iv) The new rent for the New Development shall be governed by the terms and conditions of the new lease agreement or supplemental lease agreement to be entered into between the Lessees, the Lessor and the Manager for the lease of the New Development.

## 8. Events of default and Termination

The following are the events of default by the Lessees and consequences thereof under the Lease Agreements:

- (i) a failure or refusal on the part of the Lessee:
  - (a) to pay the monthly rent for 2 consecutive calendar months under the terms of the Lease Agreement on the day such payment is required to be made under the terms of the Lease Agreement (whether the same shall have been formally demanded or not); or
  - (b) to pay any sum (other than the rent) due under the terms of the Lease Agreement on the day such payment is required to be made under the terms of the Lease Agreement (whether the same shall have been formally demanded or not); or
  - (c) to duly observe or perform any of the covenants and conditions and/or agreements of the Lessee contained in the Lease Agreement of which is not capable of being remedied or if capable of being remedied such breach is not remedied by the Lessee within a period of 30 calendar days from the date after receipt of written notice thereof from the Lessor to the Lessee requesting action to remedy the same; or
- (ii) the Lessee is in breach of any agreement which has a material adverse effect on the business and/or operations of the Lessee and which affects its ability to fulfil its obligations under the Lease Agreement; or
- (iii) the Lessee shall suffer or do any act or thing whereby the Lessor's and/or the Manager's rights shall or may be prejudiced; or
- (iv) a judgment is obtained by the Lessee for the purpose of Section 466 of the Act and as such, the Lessee is deemed to be unable to pay its debts as they fall due or suspends or threatens to suspend making payments (whether of principal or other payments) with respect to all or any class of its debts, or any other event set out in Section 465 of the Act occurs or the Lessee commences negotiations or takes or institutes proceedings whether under law or otherwise with a view to obtaining a restraining order against creditors under any law or for adjustment or deferment or compromise or rescheduling of its indebtedness or any part thereof or enters into or makes a general assignment or arrangement or composition with or for the benefit of its creditors or declares a moratorium on the repayment of its indebtedness or part thereof or any creditor of the Lessee assumes management of the Lessee and in the case of any of the events aforementioned, the financial condition of the Lessee or the ability of the Lessee to perform its obligation under the Lease Agreement is materially and adversely affected; or
- (v) a petition is presented or an order is made or a resolution is passed or any other action or step is taken by the Lessee for the winding up of the Lessee or a liquidator or trustee or receiver or receiver and manager is appointed over the whole or any part of the assets or rights or revenues or undertaking of the Lessee and the same is not discharged, withdrawn, set aside or discontinued within 30 calendar days; or

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- (vi) the Lessee is unable to pay its debt within the meaning of the Act which inability may have a material adverse effect.

In the event that the event of default has occurred and is continuing, the Lessor shall be at liberty to take any one or more of the following remedies without being responsible or liable for any loss, damage or expense caused to the Lessee as a consequence of such action:

- (i) serve a forfeiture notice upon the Lessee pursuant to Section 235 of the National Land Code (Revised 2020) and it is hereby mutually agreed and deemed that the period stipulated in the forfeiture notice shall be 30 calendar days for the occurrence of the event set out in the paragraph above, and where the breach has not been remedied within the stipulated time of 30 calendar days, to re-enter upon the Property or any part thereof in the name of the whole, and thereupon the Lease Agreement shall absolutely terminate;
- (ii) to claim for the monthly rent and all other sums due and payable as stipulated in the Lease Agreement;
- (iii) the Lessor shall be entitled to utilise the security deposits pursuant to the Lease Agreement towards payment or reduction of all sums payable by the Lessee under the Lease Agreement without prejudice to the Lessee's liability for any shortfall;
- (iv) (a) the Lessee shall be liable to pay the Lessor a sum equivalent to the rent for the unexpired period of the Contractual Term as liquidated damages for the loss of rent suffered by the Lessor resulting from termination of the Lease Agreement due to an event of default;
- (b) Notwithstanding the paragraph (iv)(a) above, the Lessee shall have an option to source for a replacement lessee or tenant approved by the Lessor for the unexpired period of the Contractual Term (or any part thereof) at such rental and upon such terms and conditions acceptable to the Lessor, and the Lessor shall take all reasonable efforts to lease or let the Property to any other lessees or tenants.

In the event that the Lessor or the Lessee is able to lease or let the Property to any other lessees and tenants at such rental and upon such terms and conditions acceptable to the Lessor, the Lessee shall compensate the Lessor in lump sum for the deficiency between the originally scheduled rent under the Lease Agreement and the rent received or to be received from the other lessees or tenants of the Property for the unexpired period of the Contractual Term. Upon receipt of the first monthly rental of the Property from such replacement lessees and tenants, and save for any antecedent breach of the Lease Agreement, any balance of sum received pursuant to paragraph (iv)(a) above shall be returned by the Lessor to the Lessee within 60 calendar days or any other period as agreed between the parties in writing; or

- (v) to sue and take any other action that the Lessor deems fit (including remedy of specific performance against the Lessee) to recover all moneys due and owing to the Lessor and the costs and expenses incurred by the Lessor including legal fees (on a solicitor-client basis and on full indemnity basis) of all such actions taken shall be borne by the Lessee.